MKB Bank Nyrt.

Annual report
for the year ending 31.12.2022
(Free translation)

Budapest, 4 April 2023

31 December 2022

M K B B a n k Ny r t.

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MKB Bank Nyrt.

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Consolidated Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 04 April 2023

31 December 2022

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Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2022	31 December 2021	1 January 2021
Assets				
Cash and cash equivalents	4.10	**1,361,315**	**854,970**	**332,625**
Financial assets measured at fair value through profit or loss		**819,718**	**169,155**	**81,130**
Loans and advances to customers mandatorily at fair value through profit or loss	4.11	418,517	53,295	40,798
Securities held for trading	4.12	49,923	3,964	10,820
Securities mandatorily at fair value through profit or loss	4.12	24,869	7,537	6,250
Derivative financial assets	4.13	326,409	104,359	23,262
Hedging derivative assets	4.13	**164,338**	**-**	**-**
Financial assets measured at fair value through other comprehensive income		**630,845**	**187,681**	**607,168**
Securities	4.14	630,845	187,681	607,168
Financial assets measured at amortised cost		**7,377,255**	**2,005,130**	**1,669,338**
Loans and advances to banks	4.15	179,088	36,940	45,116
Loans and advances to customers	4.15	4,342,801	1,143,764	988,781
Repurchase assets	4.15	1,070	18,868	82,751
Securities	4.15	2,781,620	804,569	549,938
Other financial assets	4.15	72,676	989	2,752
Fair value change of hedged items in portfolio hedge of interest rate risk	4.13	**(51,678)**	**-**	**-**
Investments in subsidiaries and associates	4.16	**49,599**	**8,586**	**7,146**
Property, plant and equipment	4.17	**98,345**	**28,004**	**29,515**
Intangible assets	4.17	**70,511**	**31,786**	**28,678**
Income tax assets		**24,981**	**8,115**	**8,448**
Current income tax assets		453	2	1,469
Deferred income tax assets	4.9	24,528	8,113	6,979
Other assets	4.18	**69,039**	**20,557**	**16,025**
Assets held for sale	4.32	**154**	**35**	**1,534**
Assets		**10,614,422**	**3,314,019**	**2,781,607**

The structure of the consolidated primary financial statements has been changed and comparatives have been restated. For further information see note 2.43 Comparative figures in the Change in the presentation of primary financial statements.

Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

	Note	31 December 2022	31 December 2021	1 January 2021
Liabilities				
Financial liabilities measured at fair value through profit or loss		**278,203**	**43,751**	**35,406**
Derivative financial liabilities	4.13	235,877	41,528	35,406
Financial liabilities from short positions	4.19	42,326	2,223	-
Hedging derivative liabilities	4.13	**1,365**	**-**	**-**
Financial liabilities measured at amortised cost		**9,416,275**	**2,991,346**	**2,514,785**
Amounts due to banks	4.20	2,378,471	699,563	572,350
Amounts due to customers	4.20	6,574,357	2,212,841	1,849,826
Repurchase liabilities	4.20	-	1,319	2,732
Issued debt securities	4.21	290,838	-	-
Subordinated debt	4.23	88,887	45,070	44,724
Other financial liabilities	4.20	83,722	32,553	45,153
Provisions	4.24	**22,623**	**3,630**	**2,830**
Income tax liabilities		**15,483**	**1,991**	**91**
Current income tax liabilities		12,378	1,867	3
Deferred income tax liabilities	4.9	3,105	124	88
Other liabilities	4.25	**71,737**	**23,548**	**18,716**
Total liabilities		**9,805,686**	**3,064,266**	**2,571,828**
Equity				
Share capital		**321,699**	**100,000**	**100,000**
Share premium		**313,947**	**21,729**	**21,729**
Retained earnings		**32,592**	**74,570**	**71,739**
Other reserves		**32,552**	**17,040**	**11,448**
Profit for the year		**88,942**	**59,983**	**8,423**
Accumulated other comprehensive income		**(21,357)**	**(23,569)**	**(3,560)**
Non-controlling interest	4.27	**40,361**	**-**	**-**
Total equity		**808,736**	**249,753**	**209,779**
Total liabilities and equity		**10,614,422**	**3,314,019**	**2,781,607**

The structure of the consolidated primary financial statements has been changed and comparatives have been restated. For further information see note 2.43 Comparative figures in the Change in the presentation of primary financial statements.

Budapest, 4 April 2023

Dr. Zsolt Barna
Chairman and CEO

Péter Krizsanovich
Deputy CEO for Finance

Consolidated Financial Statements as at 31 December 2022 | Data in HUF million except stated otherwise

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2022	2021
Interest income	4.1	**678,949**	**86,044**
Interest income using effective interest rate method	4.1	*471,917*	*70,558*
Other interest income	4.1	*207,032*	*15,486*
Interest expense	4.1	**(313,222)**	**32,103**
Interest expense using effective interest rate method	4.1	*(159,870)*	*(12,111)*
Other interest expenses	4.1	*(153,352)*	*(19,992)*
Net interest income		**365,727**	**53,941**
Income from fees and comissions	4.2	142,020	32,609
Expense from fees and comissions	4.2	(37,591)	(6,485)
Net income from fees and commissions		**104,429**	**26,124**
Results from financial instruments, net		**32,146**	**63,328**
Results from financial instruments measured at fair value through profit or loss, net	4.3	118,163	85,510
Results from financial instruments measured at fair value through other comprehensive income, net	4.3	(35,924)	(14,610)
Results from financial instruments measured at amortized cost, net	4.3	1,655	2,719
Results from hedge accounting, net	4.3	(5,288)	-
Exchange differences result	4.3	(46,460)	(10,291)
(Impairment) / Reversal on financial and non-financial instruments		**(93,176)**	**(5,926)**
(Impairment) / Reversal on financial instruments held for credit risk management	4.4	(65,005)	(3,305)
Provision (loss) / gain	4.4	(3,379)	(756)
Modification (loss) / gain on financial instruments	4.4	(23,222)	(1,403)
(Impairment) / Reversal on investments in subsidiaries and associates	4.4	(6)	(316)
(Impairment) / Reversal on other financial and non financial instruments	4.4	(1,564)	(146)
Dividend income	4.5	**728**	**25**
Operating expense	4.6	**(310,056)**	**(77,572)**
Other income	4.7	**13,317**	**19,883**
Other expense	4.7	**(10,536)**	**18,532**
Share of associated companies' and joint ventures' profit	4.16	**2,704**	**4,112**
Result from assets held for sale	4.32	**(1,893)**	**399**
Profit before taxation		**103,390**	**65,782**
Income tax income / (expense)	4.8	**(12,222)**	**(5,799)**
Profit for the year		**91,168**	**59,983**
Of which profit or (loss) of the owners of the parent company		*88,942*	*59,983*
Of which profit or (loss) of the non-controlling interest		*2,226*	-

Other comprehensive income	Note	2022	2021
Items that may be reclassified to profit or loss		**4,972**	**(20,009)**
Hedging instruments (unmarked items)		*457*	*-*
Revaluation on financial assets measured at fair value through other comprehensive income		*3,917*	*(21,985)*
Income tax relating to items that will be reclassfied		*598*	*1,976*
Items that may not be reclassified to profit or loss		**(210)**	**-**
Fair value changes of equity instruments measured at fair value through other comprehensive income		*(210)*	*-*
Income tax relating to items that will not be reclassified		*-*	*-*
Other comprehensive income for the year net of tax		**4,762**	**(20,009)**
Total comprehensive income for the year		**95,930**	**39,974**
Of which total comprehensive income of the owners of the parent company		*93,606*	*39,974*
Of which total comprehensive income of the non-controlling interest		*2,324*	*-*
Profit / (Loss) attributable to:			
Profit/(loss) for the period from continuing operation		91,168	59,983
Profit/(loss) for the period from discontinued operation		-	-
Total comprehensive income attributable to:			
Total comprehensive income from continuing operation		95,930	39,974
Total comprehensive income from discontinued operation		-	-
Net income available to ordinary shareholders		88,942	59,983
Average number of ordinary shares outstanding (thousands)		259,782	100,000
Earnings per Ordinary Share (in HUF)			
Basic, diluted	4.33	342	600

The structure of the consolidated primary financial statements has been changed and comparatives have been restated. For further information see note 2.43 Comparative figures in the Change in the presentation of primary financial statements.

Budapest, 4 April 2023

Dr. Zsolt Barna
Chairman and CEO

Péter Krizsanovich
Deputy CEO for Finance

Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Retained earnings*	Other reserves	Accumulated other comprehensive income	Equity of the owners of the parent company	Non-controlling interest	Total equity
1 January 2021		**100,000**	**21,729**	**80,162**	**11,448**	**(3,560)**	**209,779**	**-**	**209,779**
Profit for the year		-	-	59,983	-	-	**59,983**	-	**59,983**
Other comprehensive income		-	-	-	-	(20,009)	**(20,009)**	-	**(20,009)**
Total comprehensive income		-	-	**59,983**	-	**(20,009)**	39,974	-	39,974
General reserve for the current year		-	-	(5,592)	5,592	-	-	-	-
1 January 2022		**100,000**	**21,729**	**134,553**	**17,040**	**(23,569)**	**249,753**	**-**	**249,753**
Profit for the year		-	-	88,942	-	-	**88,942**	2,226	**91,168**
Other comprehensive income		-	-	-	-	4,664	**4,664**	98	**4,762**
Total comprehensive income		-	-	**88,942**	-	**4,664**	**93,606**	**2,324**	**95,930**
Share issue and share premium	1	85,982	122,239	-	-	-	**208,221**	-	**208,221**
Dividend		-	-	(4,300)	-	-	**(4,300)**	-	**(4,300)**
General reserve for the current year		-	-	(6,463)	6,463	-	-	-	-
Increase/decrease due to the merger of Budapest Bank and Magyar Takarék Bankholding	2.44	135,717	169,979	(88,101)	9,049	(2,452)	**224,192**	37,125	**261,317**
Other increase/decrease due to business combination	2.44	-	-	(3,097)	-	-	**(3,097)**	912	**(2,185)**
31 December 2022		**321,699**	**313,947**	**121,534**	**32,552**	**(21,357)**	**768,375**	**40,361**	**808,736**

The structure of the consolidated primary financial statements has been changed and comparatives have been restated. For further information see note 2.43 Comparative figures in the Change in the presentation of primary financial statements.

* Reorganisation reserves are presented as part of retained earnings.

Budapest, 4 April 2023

Dr. Zsolt Barna
Chairman and CEO

Péter Krizsanovich
Deputy CEO for Finance

Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

CONSOLIDATED CASH FLOW STATEMENT

	Note	2022	2021
Cash flows from operating activities			
Profit/ (Loss) before taxation		**103,390**	**65,782**
Adjustments			
Depreciation, amortisation and impairment	4.6	27,320	2,729
Impairment / (Reversal of impairment) on other assets		231	119
(Reversal of provisions for) / Recognize provisions on off-BS items and settlement for customers	4.29	(5,586)	799
Impairment / (Reversal of impairment) on loans and advances	4.4	58,868	2,339
Reversal of impairment on non-current assets held for sale		-	(2,152)
Impairment on securities and associates	4.4, 4.14, 4.15	582	681
Noncash adjustment on securities		(2,729)	22,900
Net interest income	4.1	(365,727)	(39,579)
Dividends from shares and other non-fixed income securities	4.5	(728)	(26)
Revaluation of issued securities	4.23	(3,817)	-
Other revaluation differencies	4.3	(46,231)	1,684
Foreign exchange movement		(22,024)	1,604
Adjustments		**(256,451)**	**56,880**
Change in loans and advances to banks	4.15	(181,274)	5,152
Change in loans and advances to customers	4.15	233,747	(103,726)
Change in derivative assets	4.13	(350,571)	(81,097)
Change in other assets	4.18	(38,394)	(5,985)
Change in amounts due to banks (short term)	4.20	320,485	25,309
Change in current and deposit accounts	4.20	209,702	356,106
Change in other liabilities and provisions (without provision charge of the year)	4.24, 4.25	(35,872)	(4,074)
Change in derivative liabilities	4.14, 4.19	154,133	6,122
Interest received	4.1	678,949	77,410
Interest paid	4.1	(313,222)	(37,857)
Dividends received	4.5	728	26
Income tax	4.8	(9,129)	(3,567)
		669,282	**233,819**
Net cash (used in)/ generated by operating activities		**412,831**	**290,699**

Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

	Note	2022	2021
Cash flow from investing activities			
Change in cash due to business combination	2.44	441,128	(1,607)
Purchase and disposals of PPEs and intangible assets	4.17	(117,711)	(11,625)
Disposals of PPEs and intangible assets	4.17	87,847	9,528
Purchase of securities	4.12, 4.14, 4.25	(1,738,800)	(1,363,295)
Disposals of securities	4.12, 4.14, 4.15	1,286,506	1,490,323
Non-current assets held for sale and discontinued operations	4.32	5,001	3,650
Net cash (used in)/ generated by investing activities		**(36,029)**	**126,974**
Cash flow from financing activities			
Increase in issued securities	4.21	3,251	-
Decrease in issued securities	4.21	-	-
Increase in subordinated liabilities	4.23	47,634	-
Decrease in subordinated liabilities	4.23	-	-
Cash outflows due to leases	4.26	(8,945)	(2,837)
Change in amounts due to banks (long-term)	4.20	(138,342)	108,768
Issue of new shares and income from share premium	1	208,221	-
Dividends paid	4.36	(4,300)	-
Net cash generated by financing activites		**107,519**	**105,931**
Net increase of cash and cash equivalents		**484,321**	**523,604**
Cash reserves at 1 January		**854,970**	**332,625**
FX change on cash reserve		22,024	(1,259)
Cash reserves at the end of period		**1,361,315**	**854,970**

Budapest, 4 April 2023

Dr. Zsolt Barna
Chairman and CEO

Péter Krizsanovich
Deputy CEO for Finance

1. General information

These consolidated financial statements for the year ended 31 December 2022 were approved by the Group's Board of Directors on 4 April 2023.

MKB Bank Nyrt. (hereinafter: “MKB” or “MKB Bank” or “the Bank”) is a commercial bank registered in Hungary, and operating under the effective laws of Hungary, particularly under Act CCXXXVII of 2013 on credit institutions and financial enterprises. The headquarters of the Bank is at 38 Váci utca Budapest 1056.

From 30 May 2019 MKB pursues its activity as a public limited company, the shares of MKB Bank were added to the product list of the Budapest Stock Exchange (hereinafter: „BSE”), by which the shares of MKB were admitted to the BSE. On 30 May 2019 the type of operation of the Bank changed and as of that date it functions as a public limited company. The company name changed to MKB Bank Nyrt., effective from 30 May 2019. The change of form of operation and the related name change were registered by the court of registration on 30 May 2019. The first trading day of the ordinary shares of MKB Bank admitted to BSE was 17 June 2019 in the Standard category of the equity section of BSE.

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Magyar Bankholding Zrt. (hereinafter: „MBH”) commenced its effective operation as a financial holding company on 15 December 2020, after the bank shares of the key owners of Budapest Bank Zrt. (hereinafter: „Budapest Bank”), MKB Bank and MTB Zrt. (hereinafter: „MTB”) were transferred to the joint holding company in possession of the approval of National Bank of Hungary (hereinafter: „NBH”). The owners transferred their shares to MBH, thereby establishing the second largest banking group in Hungary, with the Hungarian State owning 30.35% of the shares through Corvinus Nemzetközi Befektetési Zrt., the former direct owners of MKB acquiring 31.96% of the shares and the former direct owners of MTB acquiring 37.69% of the shares. All required approvals have been obtained for these changes.

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owns MTB, approved the first step of the merger timetable of Budapest Bank, MKB Bank and MTB. In accordance with the merger schedule, based on the relevant decisions of the supreme bodies and in possession of the necessary regulatory approvals, the merger of the two member banks of MBH, Budapest Bank and MKB Bank, and Magyar Takarék Bankholding Zrt. was completed on 31 March 2022. From 1 April 2022, the merged credit institution continued to operate temporarily under the name of MKB Bank Nyrt. This was another milestone in the triple bank merger led by MBH with the aim to create Hungary's second largest universal major bank in terms of total assets and a leader in digitalisation, by integrating Budapest Bank, MKB Bank and - later, by May 2023, after the relevant decisions have been taken and regulatory approvals have been obtained and other conditions have been met - Takarékbank Zrt.

On 9 December 2022, the supreme bodies of MKB Bank and Takarékbank Zrt. adopted the proposals for the merger of the two member banks as part of the implementation of the second step of the merger schedule of MBH. According to the decisions of the General Meetings, the two member banks of the banking group, MKB Bank Nyrt. and Takarékbank Zrt., will merge on 30 April 2023, and will then continue their operations under the name MBH Bank Nyrt, with a single brand name and image. In January 2023, the NBH approved the merger of Takarékbank Zrt. into MKB Bank Nyrt. with effect from 30 April 2023.

The merger does not imply any change in the ownership structure of the banking group, the dominant shareholder of the banks involved in the merger process will remain MBH.

Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

The shareholder structure of MKB Bank

MBH has a 99.12% direct ownership interest in MKB Bank. The capital increase approved at the Extraordinary General Meeting of the Bank held on 9 December 2022 by Resolution 55/2022 (9 December 2022) was implemented by MBH and registered by the Court of Registration. At the end of the reporting period, KELER Zrt. was in the process of creating 10,378,975 new dematerialised ordinary shares of Series A with a nominal value of HUF 1,000 each, issued within the framework of the capital increase. MBH may exercise its voting rights in respect of the newly issued shares from the date of issue of the new shares and their crediting to the securities account of Magyar Bankholding Zrt.

The shareholder structure of MKB Bank is the following as of 31 December 2022:

Owner	Shares (pieces)	Total nominal value of shares	Ownership share(%)
Magyar Bankholding Zrt.	318 883 966	318 883 966 000	99,12%
Public contribution rate:	0,88%		

The shareholder structure of MKB Bank is the following as of 31 December 2021:

Owner	Shares (pieces)	Total nominal value of shares	Ownership share(%)
Magyar Bankholding Zrt.	97,185,008	97,185,008,000	97,19%
Public contribution rate:	2,81%		

The Group’s authorised, issued, and fully paid share capital comprises 321,699 million at the reporting date (2021: 100 million) ordinary shares of HUF 1,000 (2021: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up. The share capital of the Group until the merger was HUF 100 million. In connection with the merge of Budapest Bank and Magyar Takarék Bankholding, the Share capital of the Group increased by 49,616 million HUF. At the same time the Bank transferred 86,101 million HUF from Capital reserve to Share capital. The shareholders of the Bank increased the Share capital of the Bank by 75,603 million HUF on 2 April 2022 and 10,379 million HUF on 12 December 2022.

Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

The ownership structure of MBH is the following as of 31 December 2022:

Ownership structure of MBH	Ownership share (%)
Corvinus Nemzetközi Befektetési Zrt.	30,35%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25,13%
Magyar Takarék Holding Zrt.	12,56%
METIS Magántőkealap	11,51%
Blue Robin Investments S.C.A.	10,82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4,48%
EIRENE Magántőkealap	3,29%
Pantherinae Pénzügyi Zrt.	1,02%
OPUS FINANCE Future Zrt.	0,84%
Total	**100,00%**

The ownership structure of MBH is the following as of 31 December 2021:

Ownership structure of MBH	Ownership share (%)
Corvinus Nemzetközi Befektetési Zrt.	30,35%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25,13%
Magyar Takarék Holding Zrt.	12,56%
METIS Magántőkealap	11,51%
Blue Robin Investments S.C.A.	10,82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4,48%
EIRENE Magántőkealap	3,29%
Pantherinae Pénzügyi Zrt.	1,02%
PRIME FINANCE Future Zrt.	0,84%
Total	**100,00%**

Ultimate controlling party among the shareholders of MBH can not be identified.

These financial statements are prepared for general purposes as defined in IAS 1; they are prepared for the purposes of users who may not request the MKB to prepare customised reports to suit their specific information needs. Any specific information needs beyond these financial statements may be satisfied with the stock exchange flash report which is prepared for special purposes for the same period based on the key figures of these financial statements.

Subsidiaries

The subsidiaries of the Group are the following as of 31 December 2022:

Company name	Involvement
MITRA Informatikai Zrt.	Subsidiary
Magyar Takarékszövetkezeti Bank Zrt.	Subsidiary
Takarék Jelzálogbank Nyrt.	Subsidiary
Takarék Lízing Zrt.	Subsidiary
Takarék Ingatlan Zrt.	Subsidiary
Takarék INVEST Kft.	Subsidiary
TIFOR Takarék Ingatlanforgalmazó Zrt.	Subsidiary
TIHASZ Takarék Ingatlanhasznosító Zrt.	Subsidiary
Takarék Faktorház Zrt.	Subsidiary
Takinfo Kft.	Subsidiary
Takarék Zártkörű Befektetési Alap	Subsidiary
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Subsidiary
OPUS TM1	Subsidiary
MKB Üzemeltetési Kft.	Subsidiary
Euroleasing Autólízing Szolgáltató Zrt.	Subsidiary
MKB Bank MRP Szervezet	Subsidiary
Retail Prod Zrt.	Subsidiary
Budapest Eszközfinanszírozó Zrt.	Subsidiary
Budapest Lízing Zrt.	Subsidiary
MKB Befektetési Alapkezelő Zrt.	Subsidiary
Takarékbank Zrt.	Subsidiary

The subsidiaries of the Group are the following as of 31 December 2021:

Company name	Involvement
MKB Üzemeltetési Kft.	Subsidiary
Euro-Immat Kft.	Subsidiary
MKB Digital Szolgáltató Zrt.	Subsidiary
MKB Euroleasing Autólízing Szolgáltató Zrt.	Subsidiary
MKB Bank MRP Szervezet	Subsidiary
Retail Prod Zrt.	Subsidiary

MKB and its subsidiaries included in the scope of accounting consolidation (the "Group") maintain their accounting records and prepare their general ledger statements in accordance with the laws in force in Hungary. The functional currency of the menbers of the Group is the Hungarian forint (HUF). In these financial statements, all figures are presented in millions of HUF, and any different amounts are indicated separately.

Chairman of the Board of Directors:
- Dr. Zsolt Barna

Chairman of the Supervisory Board:
- Dr. Andor Nagy

Members of the Board of Directors:
- Levente László Szabó
- Marcell Tamás Takács
- István Sárváry
- Andrea Mager
- Dr. Balázs Vinnai
- Ádám Egerszegi

2. Summary of significant accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the Group in preparing and presenting the consolidated financial statements. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

To ensure data consistency the Group made reclassification in supplementary notes in some relevant cases.

2.1 Compliance with International Financial Reporting Standards

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter: "IFRSs").

IFRSs comprise accounting standards issued by the International Accounting Standards Board (hereinafter: "IASB") and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: "IFRIC") and its predecessor body.

These financial statements are presented in Hungarian Forint ("HUF"), rounded to the nearest million, except if indicated otherwise. The financial statements are authorised for issue by the Board of Directors on 04 April 2023.

2.2 Basis of measurement

The consolidated financial statements have been prepared based on going concern assumption. The management neither intends to liquidate the Group nor to cease trading. The management is not aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. The Group has a history of profitable operations and ready access to financial resources.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 4.36.

2.3 Basis of consolidation, consolidated financial statements

Consolidated financial statements aim at providing information on the financial situation, financial performance and cash flow of the Group that may prove useful for a wide range of users in making their economic decisions. This requirement fulfilled with the preparation of the consolidated financial statements.

The consolidated accounting policy of the Group, in consideration of the above, contains the accounting principles, procedures applied as well as other regulations related to the preparation of consolidated financial statements. The Group prepares its financial statements in accordance with the international financial reporting standards (IFRS) adopted by the European Union.

The consolidated financial statements are composed of the following sections:
- Consolidated Statement of Financial Position
- Statement of Consolidated Profit or Loss and Other Comprehensive Income
- Consolidated Statement of Changes in Equity
- Consolidated Cash Flow Statement
- Notes to consolidated financial statements

Consolidated financial statements present the assets, liabilities, equity, income, expenses and cash flow of the parent company and its subsidiaries in a manner as if they were the financial statements of single economic entity.

The subsidiaries are economic entities controlled by the Group. Control exists when the Group, resulting from its participation in the subsidiaries, is exposed to variable yields or has rights in relation to them and it is able to influence these yields through its power exerted over the subsidiaries. Control is determined by taking into consideration the actual and potential voting rights.

Newly-acquired subsidiaries are involved in the consolidation from the date when the Group acquires control over them. If the subsidiary does not have a financial statement for the date of acquisition, then it will be involved using the data of its financial statement nearest the date of its acquisition.

The income, expenses, assets and liabilities of subsidiaries are shown on the appropriate lines in the consolidated financial statements, and intra-group balances and transactions are eliminated.

2.3.1 Acquisition method

Acquisition of subsidiaries are accounted using the acquisition method. The fair value of the consideration handed over at the sale the costs directly related to the acquisition presented in the profit or loss. The acquired identifiable assets, liabilities and contingent liabilities recognised at their fair value on the day of the acquisition. The part of the cost of acquisition exceeding the fair value of the identifiable assets, liabilities and contingent liabilities belonging to the Group as goodwill.

If the cost of acquisition is less than the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired enterprise belonging to the Group, the difference is recognised in the statement of comprehensive income of the period.

The companies in which MKB has no controlling or significant influence are represented in the consolidated financial statement at cost less impairment, as in the opinion of the management this is the value that most appropriately reflects their fair value.

During comprehensive consolidation, the items of the balance sheet and of the profit or loss statement relating to the balance sheet date of the consolidated financial statements need to be consolidated for the parent company and for the subsidiaries to be fully involved.

If the accounting policies applied by a member of the group to identical transactions or to differing events in similar circumstances that are different from the ones applied in the consolidated financial statements, that particular member of the group modifies its financial statements accordingly when preparing the consolidated financial statements in order to ensure compliance with the accounting policies of the group.

<u>Presenting and measuring goodwill or gain from a bargain purchase</u>

The Group presents goodwill at the time of the acquisition, determined in the following way:

Fair value of consideration transferred
+ the sum of any non-controlling interest in the acquiree
+ fair value of earlier equity participation in the acquiree where a business combination is realized in phases
- net amount of identifiable assets acquired and liabilities assumed for the date of the acquisition.

The Group carried out a profitable bargain if such a business combination took place where the above calculation results in a negative number. The Group records the profit resulting therefrom in the income at the time of the acquisition.

<u>Goodwill impairment</u>

Goodwill is not amortised but tested for impairment in accordance with IAS 36 “Impairment of Assets” standard. For impairment testing purposes, goodwill is allocated to one or more of the Group’s cash-generating units that are expected to benefit from the synergies of the business combination. An impairment test is performed at least annually or whenever there is an indication that a cash-generating unit may be impaired. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is recognized first by reducing the amount of goodwill allocated to the unit and then by reducing the other assets of the unit in proportion to their carrying amount. Goodwill impairment is not reversed in subsequent periods. In the case of derecognition, the value of the cash-generating unit and the goodwill allocated to the unit shall also be taken into account in determining the result of the derecognition.

Deferred tax

The Group presents identifiable assets acquired and liabilities assumed at their fair value valid for the time of the acquisition, provided that the tax base of the identifiable assets acquired or liabilities assumed is not affected, or not differently affected, by the business combination and no temporary difference is created.

The Group recognizes the deferred tax assets created (if they fulfil the recognition criteria) or the deferred tax liabilities as identifiable assets and liabilities at the time of the acquisition. Consequently, these deferred tax assets and deferred tax liabilities affect the amount of the goodwill and the gain from a bargain purchase recognized by the Group.

Non-controlling interest

The initial amount of the non-controlling interest is the fair value of the proportionate share of the acquired entity's identifiable net assets. The Group allocates the result and every item in the other comprehensive income to the owners of the parent company and to the non-controlling interests. In addition to this, the entity allocates the entire comprehensive income to the owners of the parent company and to the non-controlling interests, even if it means that the non-controlling interests will have a negative balance. If a subsidiary has accumulating preference shares that have been classified as shareholders' equity and which are owned by non-controlling interests, the entity, irrespective of whether the dividend has been approved, will calculate the net income related to it after an adjustment with the dividend payable for such shares.

2.3.2 Acquisition under common control

Within the group there can be restructuring transactions, aiming the reorganisation of existing group structure by changing the single legal entities. These transactions can be performed either by the involvement of the parent company and its subsidiaries or by the involvement of any other related company in the group.

The business combination of legal entities and cash generating units under common control has its speciality because each entity and/or cash generating unit involved in the business combination is being controlled by the same parties before and after the business combination is occured, and the control over them is permanent.

The accounting treatment of business combinations under common control is not in scope of IFRS 3.

According to IFRS framework and published interpretations, the following consolidation methods should be applied for transations under common control:
- acquisition method
- book-value method or predecessor accounting

Accounting according to book-value method or predecessor accounting

Assets and liabilities (net assets) of the entities involved in a business combination under common control are included in the consolidated financial statements on their book-value as of the acquisition/merger date, when the contol obtained.

The consideration is eleminated against the total assets and liabilites (net asset), and the difference is realized in the reserves, pratically in the retained earnings of the consolidated equity – on separated accounts within the retained earnings- , as reorganisation reserve. The reorganisation reserve is either reducing or increasing the consolidated retained earnings. By applying the book-value method goodwill can not arrise.

Assumptions, considerations

The following factors are considered when decision is made of the application of accounting method under common control:

1) *Non-contolling interest*
   If in the transaction, material non-controlling interest is involved, the acquisition method is more appropriate to be applied, however, if in the transaction, not material non-controlling interest is involved, and the other factors are met the book-value method is more appropriate to be applied.

2) *Consideration*
   If the consideration is measured at fair value and paid by cash or cash equivalent, the acquisition method is more appropriate to be applied.

3) *The governance, management of entities involved in transaction*
   If the entities involved in the business combination are governed independently from each other, and they are managed by applying different aspects, metrics to measure their performance, the acquisition method is more appropriate to be applied. If the entities involved in the business combination are governed by the same principles before and after the transaction, and they are managed by applying the same aspects, metrics to measure their performance, the book-value method is more appropriate to be applied.

4) *Transitory control*
   Nature of control must be assessed. If control is transitory, book-value method shall not be applied.

The presentation in financial statements:

Either retrospective or prospective presentation of the business combination under common control can be applied, the decision has to be stated in the accounting policy. The Goup has decided to apply the prospective presentation approach.

2.3.3 Accounting for associates

The Group recognizes its associates according to the equity method. Based on this, such investments are recognized at cost at initial recognition and then the carrying value is increased or decreased to account for the investor's share in the profit or loss of the investment generated since gaining significant influence.

2.3.4 Special consolidation rules

The Central Organization of Integrated Credit Institutions is part of the “Prudential” scope of consolidation on the basis of NBH’s decision no. H-EN-I-832/2014. In accordance with this, the Central Organization of Integrated Credit Institutions is recognized as a subsidiary in the “Prudential” scope of consolidation, according to special capital consolidation rules. As the parent company does not control the Central Organization of Integrated Credit Institutions, it is not considered as a subsidiary in the current consolidated financial statements.

2.4 Investments in subsidiaries, jointly controlled entities and associates

Subsidiaries are entities controlled by the MKB Bank. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, substantive potential voting rights are also taken into account.

Where the Group is a party to a contractual arrangement whereby, the parties that have joint control of the arrangement have rights to the net assets of the arrangement, the Group classifies its interest in the venture as a joint venture.

MKB classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates. For the purpose of determining this classification, control is considered to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Please see list of subsidiaries in Note 1. General informations.

Subsidiaries considered not-material are not consolidated.

2.5 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for supply of services, or for administration purposes.

Intangible assets that have a finite useful life are measured initially at costs and subsequently carried at costs less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their estimated useful lives not exceeding 15 years from the date when the asset is available for use, applying the straight-line method. The useful lives are reviewed annually.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. An intangible asset is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Expenditure on internally developed intangible asset (software) is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

Subsequent expenditure related on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

2.6 Property, plant and equipment

Items of property and equipment including leasehold improvements are measured initially at cost, including transaction cost, then subsequently cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The estimated useful lives of property, plant and equipment are as follows:

- components of freehold buildings are depreciated over maximum 100 years,
- equipment, fixtures and fittings (including equipment on operating leases where MKB is the lessor) are depreciated over 5-10 years, but maximum over 20 years.

Depreciation of property, plant and equipment are included in “Operating expense” line in Statement of Profit or Loss and Other Comprehensive Income.

Property, plant and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Net gains and losses on disposal of property and equipment are recognised in “Other income” or „Other expense”, in the year of disposal.

2.7 Investment property

Investment properties are held by the Group to earn rentals and for capital appreciation.

The Group uses the cost model for investment property, according to which the property is accounted in the Group's books at the purchases cost and then depreciated.

The estimated useful lives of investment properties are as follows:

- components of buildings are depreciated over 25-100 years,
- connecting equipment are depreciated over 20 years.

Depreciation of investment property is included in „Other expense” line in Statement of Profit or Loss and Other Comprehensive Income. The fair value of the investment properties shall be supervised yearly by an independent appraiser. Should the fair value be much lower than the carrying amount, impairment loss shall be recognized through profit or losses.

2.8 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.9 Initial recognition and measurement of Financial Instruments

Financial assets are recognized by the Group on settlement date.

All financial instruments measured at fair value at initial recognition. The fair value of a financial instrument at initial recognition is normally the transaction price (the fair value of the consideration given or received).

The modified fair value includes all transaction costs which are directly attributable to the issuance and acquisition of financial instruments. At initial recognition, all financial instruments that are not measured at FVTPL, transactions are recognised.

Financial instruments measured at fair value through profit or loss are recognized at their fair value by the Group. All related transaction costs incurred at their inception, issuance, and / or purchase are accounted as expense through Profit or Loss. If accounts payables do not contain significant financing component, they are recognized at transaction price by the Group.

The Group's financial assets are measured at amortised cost if it is consistent with the business model and meet the criteria of the SPPI test.

Amortised cost is the amount of a financial asset or financial liability at initial recognition, reduced by principal repayments, increased or decreased by the difference between the original amount and amount at maturity cumulative amortization calculated using an effective interest rate method and in case of financial assets adjusted by any loss allowance.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the

- gross carrying amount of the financial asset, or
- amortised cost of the financial liability.

However, in those cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

In case of purchased or originated credit-impaired financial assets (POCI) credit-adjusted effective interest rate should be used. The credit adjusted effective interest rate (CAEIR) is the rate that exactly discounts the estimated expected future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset.

The effective interest rate method is the method used to measure the amortised cost of the Group's financial assets or financial liabilities and the method used to allocate and recognises interest income and interest expense in a given period.

Interest income and interest expense should be determined using the effective interest rate method and then recognized in the Profit or Loss statement.

Simplified approach for financial contract assets and lease receivables

In those cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

In case of future cash flows of financial instruments cannot be estimated reliably due to the specific features of the product, furthermore the contractual cash flows are not available, the effective interest rate of the instrument cannot be determined.

When interests, commissions and other items arise related to such transactions these are accounted through profit or loss for using a simplified method (ie the effective interest rate is the same as the nominal interest rate).

2.10 Classification and subsequent measurement of Financial Instruments

IFRS 9 standard contains three main categories to classify and measure the financial assets: amortised cost (AC), fair value through other comprehensive income (FVTOCI) and fair value through Profit and Loss (FVTPL).

The Group’s business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The Group uses multiple business models to manage its financial instruments.

The following business model categories have been developed in accordance with IFRS 9 standard:

- Held to Collect (HTC): an instrument is held for the collection of contractual cash flows. The intention is to hold to maturity, however sale is permitted especially in case of increase in credit risk, not significant sales (even if frequent), infrequent sales (even if significant) – regardless of the reason behind the sales. Sales could be also consistent with the business model if the credit concentration risks change or if close to maturity.
- Both Held to Collect and For Sale (HTCS): an instrument that is held for the collection of contractual cash flows and for the sale of financial assets at the same time. The purpose of the inception or purchase is to collect contractual cash flows, as well as to realize profit from the increase in the fair value and minimize loss from the decrease in the fair value in medium or long term. Compared to the HTC sales occur more frequently and are higher in value.
- Other trading business model (TRADING): mainly trading financial instruments that are purchased for short-term gain.

The listing in the business model reflects the expectations of the Group, not just the intent, but also the ability. The classification is not based on scenarios that are not reasonably expected ('worst case' or 'stress case' scenario). If the Group sells a particular portfolio or financial asset in a ‘stress case’ scenario, it does not affect the evaluation of the business model. Classification not only depends on the business model but also on the cash flow related characteristics associated with the financial instrument. The Group has to examine the cash flows associated with the financial instrument - regarding those debt instruments that will be measured at amortised cost or fair value through other comprehensive income - whether they comply with the requirements of the principal and interest definitions according to IFRS 9 (SPPI / Cash Flow Test).

By Cash Flow Test the Group examines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Group shall measure a financial asset at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the financial asset's contractual cash flows are solely payments of principal and interest.

The Group shall measure a debt instrument at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the financial asset's contractual cash flows are solely payments of principal and interest.

The Group is able to make an irrevocably election to measure the investments in equity instruments, which are not held for trading at "fair value through other comprehensive income" category at initial recognition, in other case these financial assets should be measured at fair value through profit or loss.

All other financial assets are classified by the Group as the fair value through profit or loss category.

2.11 Classification and subsequent measurement of financial liabilities

The Group classifies its financial liabilities into the following categories:

- Mandatory FVTPL measurement (FVTPL category) measurement if liabilities are held for trading,
- FVTPL option – based on the decision of entity at initial recognition (if qualifying criteria are met),
- Amortised cost – other financial liabilities.

Financial liabilities not mandatory FVTPL and not FVTPL option are initially measured at fair value less transaction cost by the Group. These liabilities are subsequently measured at amortised cost calculated by using the effective interest method.

2.12 Fair Value Option (FVO)

At initial recognition, the Group may irrevocably recognize a financial asset or liability at fair value through profit or loss if it eliminates or significantly decreases any valuation or recognition inconsistencies that would otherwise have arisen because of the valuation of assets and liabilities or the profits or losses generated on them are shown on different bases.

The financial liabilities are measured at fair value through Profit or Loss at initial recognition by the Group, the change in fair value at the subsequent measurement should be recognised as the following:

- changes related to own credit risk is measured through other comprehensive income (OCI),
- all other changes in fair value is measured through Profit or Loss.

The Group does not currently apply fair value option in the presented financial statements.

2.13 Determination and recognition of the Expected Credit Loss

During classification of the Group’s financial instruments the primary collateral is determined as the ability and intention of the client to pay. Except for those transactions that are covered by collateral which is independent of the financial and legal position of the client accordingly the return can be unequivocally ensured.

The Group assigns exposures at each reporting period – in this case monthly – during which the exposures are allocated to the segments and to the so-called ‘stages’ (stage 1, stage 2, stage 3 and / or POCI) in accordance with the principles of IFRS 9 standard.

The Group assesses at each reporting date whether the credit risk of the financial asset has increased significantly since the initial recognition.

The Group recognises lifetime expected credit loss for all financial instruments when the credit risk has increased significantly compared to the credit risk at acquisition or origination – regardless whether assessed on an individual or collective basis - considering all reasonable and supportable information, including that which is foreseeable.

When making the assessment, the Group evaluates the changes in the risk of a default occurring over the expected life of the financial instrument, considering reasonable and supportable information, that is available without undue cost or effort which indicate the changes in credit risk since initial recognition.

The Group determines the significant increase in credit risk based on the examination of the following four conditions:

- changes in the clients’ rating after the issuance,
- PD change in the master scale compared to the initial value,
- default in payment,
- the amount of the client's exposure classified as Stage 2 exceeds a certain proportion of its gross exposure.

The existence of any of these conditions is assessed by the Group as a significant increase in the credit risk. In case there is no evidence of significant increase of credit risk the financial instrument has to be transferred from Stage 2 to Stage 1.

Financial assets whose default risk has increased to such an extent after initial recognition that there is objective evidence of impairment have to be assigned to Stage 3 and a loan loss allowance has to be recognised by calculating the Lifetime Expected Credit Loss (ECL). Group defines materiality threshold, exposure that are below that threshold should be considered as a small amount (below the limit). The impairment of those assets which are above the threshold should be estimated individually.

In order to determine the impairment and allowance for classes of clients, the expected credit loss (ECL) should be calculated according to the relevant principles of IFRS 9 impairment model for classes of clients calculated on monthly basis, automatically.

Factors taken into account when determining expected credit loss:
- remaining lifetime in years,
- exposure at default (EaD),
- loss given default (LGD),
- probability of default (PD),
- credit conversion-factor (CCF),
- discount rate calculated on the remaining lifetime.

The amount of impairment and allowance equals to amount of expected credit loss.

In Stage 1 the impairment is equal to the 12-Month expected credit loss.

In Stage 2 and Stage 3 the impairment is equal to the lifetime expected credit loss.

The applied risk parameters are determined on the basis of statistical models for homogeneous groups and transaction groups. The models are validated at least once a year, and if necessary they will be revised.

The Group calculates lifetime ECL, except for the following financial instruments for which the loss is calculated for 12 months:
- debt securities (mainly government bonds) with low credit risk at the reporting date,
- financial instruments except for lease receivables and trade receivables, which credit risk do not significantly increased compared to initial recognition.

For trade and lease receivables the Group always calculates lifetime expected credit loss.

Expected credit losses are probability-weighted estimates of credit losses during the life expectancy of a financial asset. These are assessed by the Group as follows:
- financial assets not impaired at the reporting date: discounted loss on cash flow (difference between the contractual cash flows and the expected cash flows),
- financial assets impaired at the reporting date: difference between the gross carrying amount and the estimated present value of the expected outstanding amount,
- undrawn loan commitments: present value of the difference between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down the loan and the cash flows that the entity expects to receive if the loan is drawn down,
- financial guarantee contracts: expected payments to the holder, reduced by the amounts that are expected to be recovered.

If the credit risk of the financial instrument has increased significantly since its initial recognition until the reporting date, the Group recognises the loss on the asset at an amount of lifetime expected credit losses.

If the credit risk of the financial instrument has not significantly increased since the initial recognition until the reporting date, the Group recognizes loss on the asset at the same amount of the 12-month expected credit loss.

The impairment / expected credit loss calculated for 12 months is the part of the lifetime expected loss results from potential default events within 12 months of the reporting date.

The Group recognises loss for the expected credit loss on the following financial instruments not measured at fair value through Profit or Loss:

- debt instruments,
- lease receivables,
- accounts receivables,
- financial guarantees, and
- loan commitments.

The expected credit loss should be recognised by the Group as the following:

- deducted amount from the gross carrying value (impairment) – in case of financial assets measured at amortised cost,
- provision – in case of financial guarantees and loan commitments, if the financial instrument includes both a loan and an undrawn components and the Group is unable to distinguish the expected credit loss calculated for the loan and for the undrawn components, the Group will therefore determine the impairment loss on the two components together. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision,
- in case of financial assets measured at fair value through other comprehensive income (OCI), the impairment loss is not recognized in the financial statement as part of the assets' fair value. The recognised impairment modifies the cumulative other comprehensive income and the statement of profit or loss.

For purchased or originated credit-impaired financial assets at the reporting date the Group recognises the accumulated changes in the lifetime expected credit loss since the initial recognition.

The Group assesses provision for loan commitments (i.e. contracted but undrawn loan commitments, issued financial guarantees, letter of credits) as follows:

- in the case of clients / debtors subject to individual valuation, the Group determines the amount of provision individually,
- in other case the Group calculates provision based on the EAD corrected by CCF.

For transactions accounted as commitments showing loss on the reporting date, the calculated provision is based on the negative difference between the expected drawn amount and the gross carrying amount.

Impairment and provision are based on the amount of loss calculated as above.

2.14 Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the initial fair value will be based on other observable current market transactions in the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading gain or loss on inception of the financial instrument. When unavailable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the statement of profit or loss and other comprehensive income but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Group enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The inputs used by the valuation techniques for determining fair values are classified by the fair value level hierarchy as follows:

- level 1: quoted market price in an active market for an identical instrument,
- level 2: valuation techniques based on observable inputs,
- level 3: valuation techniques using significant unobservable inputs.

Transfer from level 1 to level 2 of fair value hierarchy may occur when prices on active market are no longer available. This is the case when the active market cease to be exists, or there are no publicly available quotations, however observable inputs are still available for valuation purposes on the instrument under question. Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Where a portfolio of financial instruments has quoted prices in an active market, the fair value of the instruments are calculated as the product of the number of units and quoted price and no block discounts are made. If the fair value of a financial asset measured at fair value through profit or loss becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset.

The fair values of financial liabilities are measured using quoted market prices, where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the Group's liabilities.

2.15 Derecognition of financial assets

The Group derecognises a financial asset when transfer the contractual rights to receive the cash flows of a financial asset (the ‘original asset’), or retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more recipients (the ‘eventual recipients’), the Group treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
- The Group is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- The Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When the Group transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The Group examines the following before derecognition:

- if the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
- if the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group shall continue to recognize the financial asset,
- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group shall determine whether it has retained control of the financial asset. In this case:
    - if the Group has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
    - if the Group has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

The extent of the Group's continuing involvement in the transferred asset is the extent to which the Group is exposed to changes in the value of the transferred asset.

The transfer of risks and rewards is evaluated by comparing the Group’s exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The computation and comparison are made using the current market interest rate as discount rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.

The Group has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer.

An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

Asset transfers holding all or substantially all of the risks and rewards could be for example repo transactions (for repo transactions, the Group considers whether the risks and rewards incurred in the transaction are substantially transferred or not).

Derecognition due to significant changes in contractual cash flows of financial instruments

The terms are substantially different if under the new terms the present value discounted at the original effective interest rate of the cash flows – including fees received and paid – is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset. If the exchange of debt instruments or the modification of the terms is treated as derecognition, the Group will recognize any costs or fees incurred as a gain or loss related to the termination of the asset. If the exchange or modification is not accounted for as derecognition, the costs or fees incurred will modify the carrying amount of the asset and will be amortised over the remaining maturity of the modified loan.

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

The Group considers it a significant change if the contractual currency is modified, or if the contractual interest rate is changed from variable to fix, or inversely.

When this condition is met management may consider the specific characteristics of the financial instrument and make a formal decision to derecognize and recognize. The fulfilment of the condition does not necessarily result derecognition of the financial instrument.

Write-off of financial assets under legal proceeding

Loans which are under legal proceeding (bankruptcy, liquidation and final proceedings) and in case of enforcement collateral transactions:

- the Group's contractual right to receive cash flows from the financial asset does not expire,
- the Group did not transfer the right of collecting cash flows from the financial asset,
- the Group did not assume any obligation to pay the cash flows from the financial asset,

therefore the Group does not derecognize such items entirely from its books, but may partially derecognize them.

When the Group can reasonably not expect to recover part of the financial asset while maintaining the legal claim it is considered as a partial derecognition. In such cases, the Group directly derecognises the gross carrying amount of the financial asset.

After the legal waiver of the claim, the Group may write down the total gross carrying amount of the financial asset if it is not able to be recovered and void according to the relevant internal rules (in this case there is no legal claim).

2.16 Derecognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – when the obligation specified in the contract is fulfilled or cancelled or expires.

Exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if under the new terms the present value discounted at the original effective interest rate of the cash flows – including fees received and paid – is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If the exchange of debt instruments or the modification of the terms is treated as cancellation, the Group will recognize any costs or fees incurred as a gain or loss related to the termination of the liability. If the exchange or modification is not accounted for as cancellation, the costs or fees incurred will modify the current amount of the liability and will be depreciated over the remaining maturity of the modified loan.

2.17 Financial guarantee contracts

After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of – unless, in case of financial liabilities at fair value through profit or loss and in case of financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies:

- the amount of the loss allowance and in accordance with IFRS 9 and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

There are no significant non-financial guarantee contracts.

2.18 Non-current assets held for sale and discontinued operations

Financial instruments that meet the IFRS 5 standard criteria's are recognized as held for sale by the Group. The Group classifies a non-current asset as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.

A disposal group is a group of assets that are intended to be disposed by sale or in another way, collectively, as a single group, in a single transaction and the liabilities directly attributable to those assets that are transferred during the transaction.

To meet the criteria for classification as held for sale:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable,
- for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated,
- the plan or decision to sell must be approved in accordance with the relevant rules of the Group in order for the sale to be considered as highly probable and it is also necessary to include it in the report,
- the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value or the Group advertise it at the appropriate forum,
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification,
- actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets held for sale or disposal groups should be recognized separately in the statement of financial position.

A disposal group classified as held for sale may qualify for the definition of the discontinued operations.

Discontinued operations are a part of the Group that has been disposed of or classified as held for sale and embody a distinct, major industry or geographical area of activity and are part of a coordinated plan for disposing a separate business or geographical area of activity.

The result of the discontinued operation and the gains or losses at sale should be recognized in a separate line in the Statement of Profit or Loss and Other Comprehensive Income by the Group.

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount or fair value less cost to sell.

If the fair value less cost to sell is less than the carrying amount of the non-current assets or assets or liabilities part of the disposal group at the date of classification as held for sale an impairment loss shall be recognized.

Fair value less cost to sell must be re-determined at each reporting date and, if higher than the carrying amount, the impairment loss should be reversed up to the amount of impairment loss recognized previously.

Find further details on non-current financial assets and liabilities held for sale in Note 4.32.

2.19 Financial assets and liabilities held for trading

Treasury bills, debt securities, equity shares are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. These financial assets or financial liabilities are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs recognized in the Statement of Profit or Loss and Other Comprehensive Income. Subsequently, their fair values are remeasured, and all gains and losses from changes therein should be recognised in the Statement of Profit or Loss and Other Comprehensive Income in "Results from financial instruments" as they arise.

Interest earned on trading debt securities is reported as other interest income among the interest and similar to interest income. The dividends earned on trading equity instruments are disclosed separately among the dividend income when received. Interest payable on financial liabilities acquired for trading purposes is reported as other interest expenses.

2.20 Securities measured at FVTOCI

Securities are classified as held to collect and sell if there was a decision made previously about possible disposal in case of the changes in market conditions. By these assets the objective is to achieve both collecting contractual cash flows and selling financial assets. Financial investments are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities and are derecognised when either the securities are sold or the borrowers repay their obligations.

The liquid securities are initially measured at fair value modified by direct and incremental transaction costs. Securities measured at FVTOCI are subsequently remeasured at fair value, and changes therein are recognised in the Other comprehensive income. Relating to these assets impairment gains / losses, interest income and foreign exchange differences should be accounted in Statement of Profit or Loss. When these securities are sold, cumulative gains or losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income as "Results from financial instruments measured at FVTOCI, net".

2.21 Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments if they are closely related according to IFRS9. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis. Interest income on derivatives are recognized in Other interest income/expenses. Fair value differences related to derivatives are recognized in Results from financial instruments measured at FVTPL.

2.22 Hedging transactions

The Group offsets the fluctuating net income effects of the fair value and the cash flow changes of certain financial instruments through hedge transactions and related hedge accounting. Based on the used hedge methodology there are two types of hedge in the Group: macro hedge and micro hedge.

Macro hedge transaction

As allowed per IFRS 9.6.1.3 the Group applies the hedge accounting requirements in IAS 39 instead of IFRS9 for the fair value hedge of the interest rate exposure of a portfolio of financial assets. The Group macro hedges the changes in the fair value of multiple products valued at amortised cost (at present: mortgage, corporate loans, automobile loans and leases with fixed interest) through interest rate swaps (pay fixed receive variable IRS). In each product type, the reference interest rate of the credit products bearing variable interest is the BUBOR, while in the long term the BUBOR also affect the pricing of products bearing fixed interest.

The fair value of the loans included in the hedging is measured by discounting the cash flows of the transactions. For the calculation of this value the Group uses the average fixed interest rate of the IRSs assigned as hedging instruments. For assessing the loan instalment’s maturity the earlier of contractual maturity or the repricing date is used. Upon the valuation at fair value of the instruments included in the hedge relationship, the Group only considers the impacts attributable to interest risk, while excluding the effect of credit risk of customers.

The Group prepares hedging documentation containing the purpose of the hedge relationship, the ID codes, the terms and conditions of the hedged and hedge transactions, the risk intended to be hedged and the method for measuring hedging efficiency. The Group assesses hedging efficiency on the day of the creation of the hedge and monthly thereafter, at the end of the month. Assessment methods used: dollar offset and scenario analysis (parallel changing the interest rates of the transactions under the terms and conditions by +/-250 basis points). The Group regards a hedge relationship as effective if there is an economic relationship between the hedged and the hedge items (interest rates move between the hedging transaction and the underlying transaction in the same way in the opposite directions) and the hedge effectiveness is at a pre fixed required level. In accordance with the IAS 39 carve out rules, the Group measures efficiency both retrospectively and prospectively. For portfolio hedging, there is effectiveness between the hedging and the underlying transactions if, according to the scenario analysis, upon shifting the interest curve in either direction the relative percentage of changes in the fair values of the hedged and hedging transactions falls between 80 and 125%.

In the Statement of Profit or Loss the following lines contain the gains and losses in connection with the hedging instruments (including the ineffective part):

I. Other interest income / expense
II. Results from hedge accounting

Changes in the fair value of derivatives classified as a hedge, which, according to the definition of the hedging transaction is presented in “Results from hedge accounting”.

In the Statement of Financial Position the fair value change of hedging instruments recorded in Hedging Derivative assets/liabilities. The fair value change of the hedged item in portfolio hedge of interest rate risk is recorded in the „Fair Value Change of Hedged item in portfolio hedge of interest rate risk”.

Micro hedge transaction

Along the macro hedge the Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. These transactions fall under IFRS 9. In order to manage particular risks, the Group applies hedge accounting for transactions which meet specified criteria.

The Group prepares hedging documentation containing the purpose of the hedge relationship, the ID codes, the terms and conditions of the hedged and hedge transactions, the risk intended to be hedged and the method for measuring hedging efficiency. The Group assesses hedging efficiency on the day of the creation of the hedge and monthly thereafter, at the end of the month. Assessment methods used: dollar offset. The Group regards a hedge relationship as effective if there is an economic relationship between the hedged and the hedge items (interest rates move between the hedging transaction and the underlying transaction in the same way in the opposite directions) For the calculation of fair value change of the hedged instruments the Group uses a so called hypothetical transaction; each parameter of this transaction is identical to that of the original transaction. Upon the valuation at fair value of the instruments included in the hedge relationship, the Group only considers the impacts attributable to interest rate risk, while excluding the effect of credit risk of customers.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Statement of Financial Position along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

The gains or losses on effective cash flow hedges recognized initially in other comprehensive income are either transferred to the statement of profit or loss in the period in which the hedged transaction affects the statement in the profit or loss, or are included in the initial measurement of the cost of the non-financial related asset or liability. The ineffective portion is recognized in the Statement of Profit or Loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income re-mains in other comprehensive income until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the net profit/loss for the period.

In the Statement of Profit or Loss the following lines contain the gains and losses in connection with the hedging instruments (including the ineffective part):

I. Other interest income / expense
II. Results from hedge accounting

Changes in the fair value of derivatives classified as a hedge, which, according to the definition of the hedging transaction is presented in “Results from hedge accounting”.

In the Statement of Financial Position the fair value change of hedging instruments recorded in Hedging Derivative assets/liabilities. The fair value change of hedged item is recorded in the same Statement of Financial Position line as the underlying transaction.

For hedges, which do not qualify for hedge accounting (economic hedges), any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of profit or loss for the period.

2.23 Leases

In accordance with the requirements of IFRS 16, the Group, as lessee, introduces a single model to recognise right-of-use asset and lease liability on balance sheet. In this case, the Group presents separately the interest expense for the lease liability and the depreciation charge for the right-of-use asset. In some cases (e.g when there is a change in the lease term or in future lease payments arising from a change in an index or rate) the Group as lessee remeasures the lease liability.

At the commencement date, the Group assesses whether the lessee is reasonably certain to exercise an option to extend or not to exercise an option to terminate the lease. The Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option.

The Group recognises the right-of-use asset and the lease liability as at the commencement date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability, adjusted for lease payments incurred on or before the commencement date, increased initial direct costs and costs for dismantling, removing and restoring the underlying asset and for site restoration and less any leasing incentives.

The Group, as lessor, classifies its leasing contracts as finance or operating leases based on decision tree according to the requirements of the standard. Initially, the Group recognises the lease liability at the present value of the lease payments outstanding at the commencement date, discounted at the implicit interest rate of the lease. On subsequent measurement, the Group recognises depreciation on the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

After the commencement date of the lease term, the Group depreciates the asset on a straight-line basis, from the commencement date to the earlier of the useful life or the end of the lease term.

After the commencement date, the Group measures the lease liability at amortised cost using the effective interest rate method. The Group uses the revised interest rate at the date of the revaluation as the revised discount rate. In contrast, the Group reassesses the lease liability by discounting the revised lease payments if future lease payments are changed due to changes in an index or rate.

Presentation in the financial statements

During the lease term, the Group recognises lease payments for short-term leases and low value leases (HUF 1,5 million) as an expense in Statement of Profit or Loss and Other Comprehensive Income. The right-of-use assets are included in “Intangibles, property and equipment” and lease liabilities in “Other financial liabilities” in the Statement of Profit or Loss and Other Comprehensive Income. After the commencement date the Group recognises the related costs in Statement of Profit or Loss and Other Comprehensive Income, if these are not recognised as part of the cost of the right-of-use asset. Interest on lease liabilities is included in “Other interest expenses”. The depreciation of a right-of-use asset is recognised as “Operating expense”.

The Group classifies the right-of-use assets arising from operating leases that are leased or subleased in the Statement of Financial Position by reference to the nature of the underlying asset.

2.24 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except for the items which at initial recognition are designated by the Group to fair value through profit or loss category.

2.25 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group, and present obligation that arises from past events but is not recognised, because it is not probable that an outflow of resources embodying economic benefits will be require to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements but are disclosed in the additional notes.

2.26 Income tax

Income tax comprises of current tax and deferred tax.

By accounting treatment for current and future income tax, the Group recognises the tax consequences of the future recovery / settlement of the carrying amount of assets, liabilities, transactions and other events of the current period that are recognised in the statement of financial position. The Group applies the corporate income tax, local business tax and innovation contribution as income tax.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group recognises deferred tax asset for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred tax assets and liabilities are offset when they arise in the same entity and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity. Deferred tax relating to fair value re-measurement of financial assets measured at fair value through other comprehensive income, which are charged or credited directly to other comprehensive income.

2.27 Interest and similar to interest income and expense

Interest income and interest expense (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. The Group has recorded the modification loss of stage 1 financial asset among the interest income.

Interest income and expenses related to financial instruments are separated by the Group based on each financial instruments category. Interest income and interest expenses are accounted on a gross basis by the Group. “Interest income using effective interest rate method" includes interest income on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. In addition, "Other interest income" includes interest income on financial assets held for trading, financial assets not held for trading that are required to be measured at fair value through profit or loss, derivatives, other assets and financial liabilities. "Interest expense using effective interest rate method" includes interest expense on financial liabilities measured at amortised cost, while "Other interest expense" includes interest expense on financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss, derivatives, other liabilities and financial receivables.

2.28 Net income from commissions and fees

Fee and commission income, that is not part of the EIR calculation is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example the arrangement for the acquisition of shares or other securities) and
- income earned from the provision of services is recognised as revenue as the services are provided (for example asset management and service fees).

2.29 Results from financial instruments

„Results from financial instruments" comprises gains less losses related to trading and investment assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

2.30 Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

2.31 Employee benefits

Short-term employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service. Under the Group's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Group and its subsidiaries, but this cost is recognized only if it is material.

Long-term employee benefits

The Group has a defined jubilee benefit plan for all employees of the Group. The employees receive jubilee benefit only if they remain with the entity for a specified period and benefits are determined by the length of their service. The authority for jubilee benefit, its condition and the benefit are regulated in the Group's policy. In the normal course of business, the Group pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contribu-tions and which cannot be considered as employee benefit plan. The Group itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

Termination benefits

In case of termination benefits the obligation is not triggered by the employee's service however if the employer initiates the termination of the employment relationship regardless of its legal form (e.g. by mutual agreement or redundancy). The Group recognizes termination benefits as a liability and an expense when it has a demonstrable obligation to terminate the employment of an employee or a group of employees before the normal retirement date or to offer termination benefits as an incentive to encourage employees to voluntarily leave the Group. In case of redundancy, obligation can be recognized when the employee's contract of employment is terminated. In the case of a reorganisation, the group has unavoidable obligation to pay termination benefits when it has a detailed formal plan and no possibility of withdrawal. The detailed plan includes, as a minimum, the following elements: the job, function and number of employees whose employment will be terminated; the termination benefits for each group; and the date of implementation.

2.32 Bank tax

The Hungarian credit institutions are obliged to pay bank tax from the year 2010. From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total according to Hungarian Accounting Standards at the actual calendar year minus two years. The bank tax is presented as other operating expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income because it does not meet the definition of income tax according to IFRS.

Extra profit tax

Credit institutions and financial enterprises are liable to pay extra profit tax on the basis of their net turnover under the Local Tax Act for the years 2022 and 2023. The base of the tax liability is the net turnover under the Local Tax Act calculated on the basis of the annual fi-nancial statments of the previous tax year, i.e. the extra profit tax liability for 2022 is based on the net turnover of 2021. The tax liability had to be paid in two equal installments during the year. The extra profit tax liability is presented among the operating expense.

2.33 Segment reporting

The Group formed its reporting segments in line with IFRS 8 “Operating Segments”. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; furthermore for which discrete financial information is available. The Group determines operating segments on nature of the business (business segment) or geographically (geographical segment).

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Group allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm’s length terms and conditions. Find further details on segment reporting in Note 4.34.

The Group does not have any foreign segments.

2.34 Foreign currencies

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the official exchange rate of the NBH at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the official exchange rate of the NBH at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. The Group currently does not apply this accounting policy.

2.35 Share capital

Shares are classified as share capital when there is no contractual obligation to deliver cash or other financial assets to the holders. Incremental costs directly attributable to the issue of equity instruments are presented in equity as a deduction from the proceeds, net of tax.

2.36 Treasury shares

The cost of the Group’s repurchased equity instruments ('treasury shares') is deducted from equity. Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares. Treasury shares may be acquired by any members of the Group. Consideration paid or received is recognised directly in equity.

2.37 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. For further information about basic and diluted EPS, please see Note 4.33.

2.38 Changes in the legal and regulatory environment and its effect on the separate financial statements

Due to the Russian-Ukrainian armed conflict in the territory of Ukraine and the resulting humanitarian catastrophe, the below government decrees and other legal instruments adopted in the state of emergency declared with Act XLII of 2022 influenced the Group’s activity:

- Gov. Decree 151/2022. (IV.14.) on the different application of the provisions of CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and certain related legislative provisions;
- Gov. Decree 197/2022. (VI.4.) on extra profit taxes;
- Gov. Decree 292/2022. (VIII.8.) on the introduction of specific rules on the credit moratorium related to the state of emergency;
- NBH Decree 22/2022. (VI.11.) regulating the maturity match of the mortgage-backed assets and liabilities of credit institutions (JMM Decree).
- Client effected by payment relief program

Further information in 3. Note Risk management, Credit risk.

2.39 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2022

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework** – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- **Amendments to IFRS 16 "Leases"** Covid-19 Related Rent Concessions beyond 30 June 2021 - adopted by EU on 30 August 2021 (effective for annual periods beginning on or after 1 April 2021).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

2.40 New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January, 2023, and have not been early adopted by the Company.

- **IFRS 17 "Insurance Contracts"** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).

- **Amendments to IFRS 17 and an amendment to IFRS 4** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies.

- **Amendments to IAS 8: Definition of Accounting Estimates** (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

- Deferred tax related to assets and liabilities arising from a single transaction – **Amendments to IAS 12** (effective for annual periods beginning on or after 1 January 2023).

- **Transition option to insurers applying IFRS 17 – Amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023).

The Group is currently assessing the impact of these new standard amendments on the Group's financial statements.

2.41 Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements:

- **Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current** (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (effective for annual periods beginning on or after 1 January 2024).

The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

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2.42 Availability of consolidated financial statements and annual report

Consolidated financial statements do not include a consolidated business report but the Group prepares one every year and provides access to it for those interested at its registered seat and its website.

Registred office: 38 Váci utca Budapest 1056.
Website: https://www.mkb.hu

Auditing company:

Deloitte Könyvvizsgáló és Tanácsadó Kft. (until 31st May 2022)
PricewaterhouseCoopers Könyvvizsgáló Kft. (from 1st June 2022)

Auditor personally responsible:

Zoltán Mádi-Szabó (until 31st May 2022)
Árpád Balázs (from 1st June 2022)

Person responsible for managing and controlling the accounting services tasks:

Péter Darazsacz, managing director of finance and riporting
Róbert Winkler, registration number 206532

Fee of services provided by the auditor:

2022	Amount in HUF
Annual fee of audit services	460,960,000 + VAT
Other audit services provided by the auditor	234,800,000 + VAT
Non-audit services provided by the auditor	33,900,000 + VAT
Total fee of services provided by the auditor	**729,660,000+ VAT**

2.43 Comparative figures

In connection with the merge, the Group modified the structure of it's primary financial statements. In accordance with the new structure, the Group has amended its respective disclosure notes. In the comparative figures, the Group has restated the previously disclosed primary statements.

The Group changed its accounting policy in connection with the presentation of:

- the modification loss/gain of stage 1 financial instruments, further information in Note 2 Derecognition due to significant changes in contractual cash flows of financial instruments. In 2021 the amount of modification result for stage 1 financial instruments was not material, therefore the Group did not restate its profit or loss for 2021.
- the income tax. The Group applies the corporate income tax, local business tax and innovation contribution as income tax. Find further details in Note 4.8.

The following tables presents the reclassifications in the consolidated statement of financial position and in the consolidated statement of profit or loss, where the columns presents the structure of the consolidated financial statements presented in 2021 and the rows shows the modified structure of the separate financial statements in the current financial year.

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Comparative figures – Assets	Cash	Loans and advances to banks	Derivative financial assets	Securities	Loans and advances to customers	Non-current assets held for sale and discont-inued operations	Other assets	Current income tax assets	Deferred tax assets	Invest-ments in jointly controlled entities and associates	Intangible assets	Tangible assets	Assets
Cash and cash-equivalents	**831,434**	**23,536**	-	-	-	-	-	-	-	-	-	-	**854,970**
Financial assets measured at fair value through profit or loss	-	-	**104,359**	**11,501**	**53,295**	-	-	-	-	-	-	-	**169,155**
Loans and advances to customers mandatorily at fair value through profit or loss	-	-	-	-	*53,295*	-	-	-	-	-	-	-	*53,295*
Securities held for trading	-	-	-	*3,964*	-	-	-	-	-	-	-	-	*3,964*
Securities mandatorily at fair value through profit or loss	-	-	-	*7,537*	-	-	-	-	-	-	-	-	*7,537*
Derivative financial assets	-	-	*104,359*	-	-	-	-	-	-	-	-	-	*104,359*
Hedging derivative assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	**187,681**	-	-	-	-	-	-	-	-	**187,681**
Securities	-	-	-	*187,681*	-	-	-	-	-	-	-	-	*187,681*
Financial assets measured at amortised cost	-	**38,282**	-	**804,569**	**1,162,052**	-	**227**	-	-	-	-	-	**2,005,130**
Loans and advances to banks	-	*36,940*	-	-	-	-	-	-	-	-	-	-	*36,940*
Loans and advances to customers	-	-	-	-	*1,143,764*	-	-	-	-	-	-	-	*1,143,764*
Repurchase assets	-	-	-	-	*18,868*	-	-	-	-	-	-	-	*18,868*
Securities	-	-	-	*804,569*		-	-	-	-	-	-	-	*804,569*
Other financial assets	-	*1,342*	-	-	*(580)*	-	*227*	-	-	-	-	-	*989*
Fair value change of hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments in subsidiaries and associates	-	-	-	-	-	-	-	-	-	**8,586**	-		**8,586**
Property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	**28,004**	**28,004**
Intangible assets	-	-	-	-	-	-	-	-	-	-	**31,786**	-	**31,786**
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-
Income tax assets	-	-	-	-	-	-	-	**2**	**8,113**	-	-	-	**8,115**
Current income tax assets	-	-	-	-	-	-	-	*2*	-	-	-	-	*2*
Deferred income tax assets	-	-	-	-	-	-	-	-	*8,113*	-	-	-	*8,113*
Other assets	-	-	-	-	-	-	**20,557**	-	-	-	-	-	**20,557**
Assets held for sale	-	-	-	-	-	**35**	-	-	-	-	-	-	**35**
			-										
Assets	**831,434**	**61,818**	**104,359**	**1,003,751**	**1,215,347**	**35**	**20,784**	**2**	**8,113**	**8,586**	**31,786**	**28,004**	**3,314,019**

'* the columns presents the structure of the consolidated financial statements presented in 2021 and the rows shows the modified structure of the separate financial statements in the current financial year.

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Comparative figures – Equity and liabilities	Amounts due to banks	Deposits and current accounts	Derivative financial liabilities	Other liabilities and provisions	Current income tax liabilities	Deferred tax liabilities	Subordinated debt	Share capital	Share premium	Non-controlling interest	Total liabilities and equity
Financial liabilities measured at fair value through profit or loss	**-**	**2,223**	**41,528**	**-**	**-**	**-**	**-**	**-**	**-**	**43,751**	**-**
Derivative financial liabilities	-	-	*41,528*	-	-	-	-	-	-	*41,528*	-
Financial liabilities from short positions	-	*2,223*	-	-	-	-	-	-	-	*2,223*	-
Hedging derivative liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities measured at amortised cost	**709,174**	**2,216,144**	**-**	**20,958**	**-**	**-**	**45,070**	**-**	**-**	**2,991,346**	**709,174**
Amounts due to banks	*699,563*	-	-	-	-	-	-	-	-	*699,563*	*699,563*
Amounts due to customers	-	*2,212,841*	-	-	-	-	-	-	-	*2,212,841*	-
Repurchase liabilities	*1,319*	-	-	-	-	-	-	-	-	*1,319*	*1,319*
Issued debt securities	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	*45,070*	-	-	*45,070*	-
Other financial liabilities	*8,292*	*3,303*	-	*20,958*	-	-	-	-	-	*32,553*	*8,292*
Provisions	**-**	**-**	**-**	**3,630**	**-**	**-**	**-**	**-**	**-**	**3,630**	**-**
Income tax liabilities	**-**	**-**	**-**	**-**	**1,867**	**124**	**-**	**-**	**-**	**1,991**	**-**
Current income tax liabilities	-	-	-	-	*1,867*	-	-	-	-	*1,867*	-
Deferred income tax liabilities	-	-	-	-	-	*124*	-	-	-	*124*	-
Other liabilities	**-**	**-**	**-**	**23,548**	**-**	**-**	**-**	**-**	**-**	**23,548**	**-**
Total liabilities	**709,174**	**2,218,367**	**41,528**	**48,136**	**1,867**	**124**	**45,070**	**-**	**-**	**3,064,266**	**709,174**
Share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100,000**	**-**	**100,000**	**-**
Share premium	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,729**	**21,729**	**-**
Retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74,570**	**74,570**	**-**
Other reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,040**	**17,040**	**-**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**59,983**	**59,983**	**-**
Accumulated other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,569)**	**(23,569)**	**-**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100,000**	**149,753**	**249,753**	**-**
Total liabilities and equity	**709,174**	**2,218,367**	**41,528**	**48,136**	**1,867**	**124**	**45,070**	**100,000**	**149,753**	**3,314,019**	**709,174**

'* the columns presents the structure of the consolidated financial statements presented in 2021 and the rows shows the modified structure of the separate financial statements in the current financial year.

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Comparative figures – Profit or loss for the year	Interest and similar to interest income	Interest expense	Net income from commissions and fees	Other operating income / (expense), net	Impairment / (Reversal) and provision for losses	Operating expense	Share of jointly controlled and associated companies' profit	Income tax (income) / expense
Interest and similar to interest income								
Interest income using effective interest rate method	70,558	-	-	-	-	-	-	-
Other interest income	15,486	-	-	-	-	-	-	-
Interest and similar to interest expense								
Interest expense using effective interest rate method	-	(12,111)	-	-	-	-	-	-
Other interest expenses	-	(19,992)	-	-	-	-	-	-
Income from fees and comissions	-	-	32,649	-	-	(40)	-	-
Expense from fees and comissions	-	-	(7,831)	-	-	1,346	-	-
Results from financial instruments, net								
Results from financial instruments measured at fair value through profit or loss, net	(9)	6	-	85,525	-	-	-	-
Results from financial instruments measured at fair value through other comprehensive income, net	-	-	-	(14,610)	-	-	-	-
Results from financial instruments measured at amortized cost, net	-	-	-	2,719	-	-	-	-
Results from hedge accounting, net	-	-	-	-	-	-	-	-
Exchange differences result, net	-	-	-	(10,291)	-	-	-	-
(Impairment) / Reversal on financial and non-financial instruments								
(Impairment) / Reversal on financial instruments held for credit risk management	-	-	-	-	(4,281)	-	-	-
Provision (loss) / gain	-	-	-	220	-	-	-	-
Modification (loss) / gain on financial instruments	-	-	-	(1,403)	-	-	-	-
(Impairment) / Reversal on investments in subsidiaries and associates	-	-	-	(316)	-	-	-	-
(Impairment) / Reversal on other financial and non financial instruments	-	-	-	(347)	201	-	-	-
Dividend income	25	-	-	-	-	-	-	-
Operating expense	-	-	-	(19,700)		(57,872)	-	-
Other income	-	-	-	19,883	-	-	-	-
Other expense	-	-	-	(18,532)	-	-	-	-
Share of associated companies' and joint ventures' profit	-	-	-	-	-	-	4,112	-
Result from assets held for sale	-	-	-	-	-	399	-	-
Income tax income / (expense)	-	-	-	(2,330)	-	-	.	(3,469)

'* the columns presents the structure of the consolidated financial statements presented in 2021 and the rows shows the modified structure of the separate financial statements in the current financial year.

2.44 Business combinations during the reporting period

2.44.1 Merger of Budapest Bank and Magyar Takarék Bankholding Zrt.

In accordance with the merger schedule, based on the relevant decisions of the governing body and after obtaining the necessary regulatory approvals, the merger of the following members of MBH - Budapest Bank, MKB Bank and Magyar Takarék Bankholding Zrt. was completed on 31 March 2022. As a result of the merger, the merged MKB Bank acquired control over the subsidiaries of Budapest Bank and through Magyar Takarék Bankholding Zrt., over the MTB Group.

Through this acquisition MKB obtained controll over the following legal entities:

Legal entities
MTB Zrt.
Takarékbank Zrt.
Takarék Jelzálogbank Nyrt.
Takarék Lízing Zrt.
Takarék Ingatlan Zrt.
Takarék INVEST Kft.
TIFOR Takarék Ingatlanforgalmazó Zrt.
TIHASZ Takarék Ingatlanhasznosító Zrt.
Takarék Faktorház Zrt.
Takinfo Kft.
Takarék Zártkörű Befektetési Alap
Takarék Mezőgazdasági és Fejlesztési Magántőkealap
OPUS TM-1 Befektetési Alap
DBH Investment Zrt.
Budapest Eszközfinanszírozó Zrt.
Budapest Lízing Zrt.
Budapest Alapkezelő Zrt.

The business acquistion was accounted using the method described in paragraph 2.3.2 as an acquistion under common control. In accordance with the Groups accounting policy the merger was considered a common control trancsction since:

- the ultimate controlling parent of the merged entities is the same
- the consideration in the business acquisition was determined at book value
- the manegement reviews the performance of the entities prior and after the merge as a whole.

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The assets and liabilities acquired through business combination as of 1 April 2022 are shown in the following table:

Balance sheet lines as of 31 March 2022	**BB Group**	**MTB Group**
Cash and cash-equivalents	289,758	147,759
Financial assets measured at fair value through profit or loss	86,593	336,733
Hedging derivative assets	35,812	694
Financial assets measured at fair value through other comprehensive income	169,361	247,590
Financial assets measured at amortised cost	1,975,414	3,134,925
Fair value change of hedged items in portfolio hedge of interest rate risk	(37,361)	-
Investments in subsidiaries and associates	-	5,290
Property, plant and equipment	21,755	39,449
Intangible assets	18,824	3,462
Goodwill	-	-
Income tax assets	665	7,575
Other assets	19,342	14,069
Assets held for sale	-	5,931
Total assets	**2,580,163**	**3,943,477**
Financial liabilities measured at fair value through profit or loss	26,058	57,910
Hedging derivative liabilities	3	2,459
Financial liabilities measured at amortised cost	2,330,180	3,770,866
Provisions	3,398	6,429
Income tax liabilities	128	1,821
Other liabilities	38,483	24,276
Total liabilities	**2,398,250**	**3,863,761**

37,125 million HUF was recognized as non-controlling interest in connection with the business combination and no goodwill arose, since the predecessor accounting. The difference between the net assets and the consideration transferred was recognised as a reserve in equity, presented as retained earning in the statement of financial position as a negative reserve in an amount of HUF 59,338 million.

The net income of MTB Group and Budapest Bank and its subsidiaries from 1 April 2022 are included in consolidated financial statements. If MTB and BB groups had been part of the Group for the full financial year, the consolidated total comprehensive income would have been HUF 105,953 million.

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2.44.2 Merger of Takarékinfo Zrt.; Euro-Immat Kft and MKB Digital Szolgáltató Zrt.

From august 2022 the IT subsidiaries of MKB and MTB Group's continue to operate in one company: MKB Digital Zrt. and Euro Immat Kft. merged into Takarékinfo Adatfeldolgozó Zrt., as MITRA Informatikai Zrt. The merger resulted in an unified IT subsidiary and organization providing infrastructure, operation, development and consulting services for the Group.
Prior the merger Euro-Immat Kft. and MKB Digital Szolgáltató Kft. were 100% subsidiaries of the Group, however Takarékinfo Zrt. was an associate accounted for using the equity method.

The business acquistion was accounted using the method described in paragraph 2.3.2 as an acquistion under common control. In accordance with the Groups accounting policy the merger was considered a common control trancsction since:

- the ultimate controlling parent of the merged entities is the same
- the consideration in the business acquisition was determined at book value
- the manegement reviews the performance of the entities prior and after the merge as a whole.

The assets and liabilities acquired through business combination are shown in the following table.

MITRA Zrt.

Balance sheet lines as of 31 August 2022	
Cash and cash-equivalents	8,705
Financial assets measured at fair value through profit or loss	-
Hedging derivative assets	-
Financial assets measured at fair value through other comprehensive income	-
Financial assets measured at amortised cost	-
Fair value change of hedged items in portfolio hedge of interest rate risk	-
Investments in subsidiaries and associates	-
Property, plant and equipment	655
Intangible assets	17,830
Goodwill	-
Income tax assets	-
Other assets	3,359
Assets held for sale	
Total assets	**30,549**
Financial liabilities measured at fair value through profit or loss	-
Hedging derivative liabilities	-
Financial liabilities measured at amortised cost	9,501
Provisions	-
Income tax liabilities	
Other liabilities	19,949
Total liabilities	**29,450**

648 million HUF was recognized as non-controlling interest in connection with the business combination and no goodwill arose, since the predecessor accounting. The difference between the net assets and the consideration transferred was recognised as a reserve in equity, presented as retained earning in the statement of financial position.

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2.44.3 Merger of BB Alapkezelő Zrt. and Pannónia Alapkezelő Zrt.

As of 1 September 2022 Pannónia Alapkezelő Zrt. merged into BB Alapkezelő Zrt., and continued its operation under the name MKB Alapkezlő Zrt. As a result of the merger, a wide range of investment fund products has been created for retail and corporate clients, which covers the entire spectrum of money and capital markets.

Through the merger the Group obtained control over the assets of Pannónia Alapkezelő. As of of the merger the Group has 75.54% ownership of the legal predecessor, resulting 1,703 million HUF as non-controlling interest. The fair value of idetifiable assets acquired and liabilities assumed are considered to be their carrying value.

The assets and liabilities acquired through business combination are shown in the following table.

Balance sheet lines as of 31 August 2022	
Cash and cash-equivalents	183
Financial assets measured at fair value through profit or loss	-
Hedging derivative assets	-
Financial assets measured at fair value through other comprehensive income	1,028
Financial assets measured at amortised cost	773
Fair value change of hedged items in portfolio hedge of interest rate risk	-
Investments in subsidiaries and associates	169
Property, plant and equipment	413
Intangible assets	671
Goodwill	-
Income tax assets	134
Other assets	510
Assets held for sale	-
Total assets	**3,881**
Financial liabilities measured at fair value through profit or loss	-
Hedging derivative liabilities	-
Financial liabilities measured at amortised cost	370
Provisions	-
Income tax liabilities	10
Other liabilities	640
Total liabilities	**1,020**

3. Risk management

3.1 Introduction and overview

The Group activities involve a certain degree of risk assumption. The measurement, evaluation, acceptance and management of these risks are integral parts of the Group's daily operative activity.

Risk management is an integral part of the Group's operations and a crucial component of its business and overall financial performance. The Groups risk management framework has been designed to support the continuous monitoring of the changes of the risk environment and is supported by the strong commitment to a prudent risk management culture both on the strategy and business line levels. The main principles and priorities of the risk management function include the ultimate oversight by the Board of Directors (the approval of the Supervisory Board is also required for some specifically defined risk decisions), the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, limitation, monitoring and reporting of all risks. Decisions in respect of major risk principles are approved at group level, and are implemented individually by the own decision making boards of the Group members.

The effective communication on risk and risk appetite, the on-going initiatives to better identify, measure, monitor and manage risks, the improvement of efficiency, user-friendliness and awareness of key risk processes and practices, and the employment of highly-skilled staff are the bases of running an effective risk management function in the Group.

The Group has exposure to the following risks typically from its use of financial instruments. The following risks are the main risks that will be analysed in more details in the following sections:

- credit risk:
  The risk of lending comprises the potential risk of the business partner failing to fulfil its payment obligations or failing to do so on time as well as the risk of the value of the receivable diminishing because the business partner's credit rating decreases. Risks originated from loans or other loan type commitments extended to associated enterprises are also included in the Group's credit risk managing mechanism.

- market risk (including foreign exchange and interest rate risks):
  Market price risk comprises potential losses from changes in market prices in both the trading and banking books.

- liquidity risk:
  The Group defines liquidity as the ability to serve its payment obligations entirely as they fall due and to fund new business at all times without having to accept unplanned liquidation losses on the asset side or increased refinancing rates on the funding side.

Other risks:

- country risk:
  The country risk generally refers to a potential loss triggered by economic, political or other event which takes place in the particular country and cannot be controlled by the Group, as creditor or investor. As a result of such event(s), the obligor cannot fulfil its obligation in time or at all, or the Group is unable to enforce its rights against the obligor. The components of the country risk are transfer risk, sovereign risk and collective debtor risk.

- participations risk:
  The participations risk is defined as the risk related to the following events:

- potential losses from providing equity / equity instruments or subordinated loan capital. This involves potential losses realised during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment,
- potential losses from a possible commitment / liability extended in addition to equity investment (i.e. profit / loss transfer agreements), letters of comfort, capital contribution commitments, additional funding obligations),
- potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.

- operational risk:
  Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, conduct risk, reputational risk, modelling risk and information and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

- legal risk:
  Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law, a delay in reacting to changes in legal framework conditions, unexpected or ex post facto changes in legal framework respectively courts diverse legal judgements from the Group's side.

- conduct risk:
  The conduct risk is classified among the operational risks and reflects any risk in the supply of financial services originated from an inadequate supply of services or deliberately exhibited impermissible conduct. This includes risks arising from fraud and unfair, unethical or aggressive trading practices harmful to consumers.

- reputational risk:
  Reputational risk is defined as risks have indirect effect on liquidity, capital or profitability based on unfavourable consumer, partnership, shareholder, investor or official sentiment, which is cancelled from the Group's expected assessment level.

- model risk:
  Model is the risk of loss resulting from decisions based on using insufficiently accurate models. Mistakes in models are not necessarily, or not primarily occur from negligence instead limitations of knowledge, not enough data, or changes that cannot be read from past data: simply the fact that the models are never perfect.

- information and communication technology (ICT) risk:
  ICT risk means the current or prospective risk of losses due to the inappropriateness or failure of the hardware and software of technical infrastructures, which can compromise the availability, integrity, accessibility and security of such infrastructures and of data. ICT risk also includes risks occur from outsourcing of ICT relevant systems

- real estate risk:
  Real estate risk covers potential losses that could result from fluctuations in the market value of real estate owned by MKB Bank. Real estate risks arising from collateral provided for real estate loans are covered under credit risk.

- strategic risk:
  Strategic risk is defined as the negative impact on capital and income of business policy decisions, deficient or unsatisfactory implementation of decisions, or slow adjustment to changes in the economic environment.

- business risk:
  Business risk is defined as unexpected changes in the economic environment that cause negative changes in business volume or margins and are not attributable to other types of risk. It quantifies the difference between planned and actual costs and income.

Below information is presented about the Groups's exposure to each of the above risks, the Groups's objectives, policies and processes for measuring and managing risk, and the Groups's management of capital.

Risk management governance

The Group's Risk Strategy was set up in consistence with the Business Strategy and the regulations of the NBH. The tasks incorporated in the Risk Strategy aiming at ensure a balanced risk / return relationship, development of a disciplined and constructive control environment, defining the Groups's risk assumption willingness, risk appetite and the on-going ability of the Group to manage its risks and the maintenance of its funds to cover risk exposures in long-term. This will also ensure the capital preservation and guarantee the solvency of the Group at any time.

Committees	Main responsibilities
Supervisory Board	Control the management of the Company in order to protect the interests of the Company Control of the harmonized and prudent operation of the Company and the credit institutions, financial enterprises and investment companies under its controlling influence; Steers the company's internal audit organization; Analyzing of the regular and ad-hoc reports prepared by the Board of Directors; Decision on matters conferred to its competence by the Civil Code, Credit Instituions Act or the Articles of Association.
Audit Committee	The Audit Committee assists the Supervisory Board in the audit of the financial reporting system and in the selection of the auditor and in cooperation with the auditor.
Risk Assumption, Risk Management Committee	As part of its ongoing monitoring of the Group's risk-taking strategy and risk appetite, the Committee reviews the risk strategy, remuneration policy and quarterly risk report in advance. The Committee supports the Board of Directors in supervising the implementation of the risk strategy.
Remuneration Committee	The Remuneration Committee oversees the remuneration of the manager responsible for risk management and legal compliance - including employees performing internal control duties - and prepares decisions regarding remuneration taking into account the long-term interests of shareholders, investors and other stakeholders in the company.
Nomination Committee	The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees. It is furthermore responsible for determining the skills and tasks required for membership of the management bodies, evaluating the composition and performance of the management bodies and its members. Determining the gender ratio within the management body and developing the strategy necessary to achieve this. It regularly reviews the Company's policy on the selection and appointment of managing directors.
Board of Directors	- As the company's operative managing body it carries out management-related tasks and ensures the keeping of the company's business books in compliance with the regulations; - Tasks related to the shares and dividend; - Tasks related to the company's organization and scope of activities; - Tasks related to strategic planning (preparation of the business policy and financial plan, and approval of the risk strategy); - Approves the policies related to risk assumptions; - Evaluation of regular and ad-hoc risk reports.
Management Committee (MC)	- The MC is the operative decision-making and decision-preparation body covering the entire operation of MKB. The MC decides on general and strategic issues submitted to it, on business-related matters concerning the operation of the Entire MKB Group, the organization of the company, the management and development of human resources, as well as business related matters. The MC regularly reviews and discusses current issues affecting the operation of the Entire MKB Group and prescribes measures if necessary.
Credit and Debt Management Committee	- According to the relevant regulations, it makes decisions related to credit and partner risk assumptions referred to its competence, and discusses in advance proposals related to credit and partner risk assumption within the competence of the Board of Directors. - The Committee also functions as debt management committee, its task is to make risk assumption decisions, which fall within its decision-making authority based on the provisions of the risk decision competence rules.
Asset and Liability Committee (ALCO)	- The ALCO has primary responsibility for asset and liability management, and exercises competencies in liquidity and market risk management, capital management;

	- It develops the principles, measurement methodology for managing liquidity risk, interest rate risk, foreign currency risk (foreign currency and securities) and capital adequacy risk and the related limit system, monitors the utilisation of limits, and determines the necessary measures in case of overruns; - It sets internal settlement prices and risk price levels within its pricing powers; - It approves securities issuance schemes and individual issuances
Group Banking Operations Committee (GBOC)	- GBOC is responsible for the holding and group member level banking operations, with a focus on profitability, cost, investment and resource management. - It decides on the launch, amendment and closure of projects and developments, prioritisation, development and operational decisions regarding digital/online channels. - It sets and monitors product profitability expectations, targets and changes in market position, decides on budget utilisation, investments and commitments within defined limits.
Internal Defence Lines Committee	- The Internal Defence Lines Committee is primarily a consultative forum between the lines of defence. It is responsible for the integration of communication among the various defence lines and making it regular and systemic and for the improvement and establishment of communication channels where appropriate. - With its preventive, proactive activities, it identifies and effectively manages, or orders the management of, in a timely and effective manner, the risks affecting the MKB Group that may lead to non-compliance with laws, external regulatory investigations or adverse decisions by the authorities supervising banking operations, and ensures that any necessary corrective actions are taken promptly.
Transformation and Operations Committee	The purpose of operation of the Transformation and Operations Committee is to set the strategic direction of the merger, approve the detailed strategy and take operational decisions on the merger process, including the operating model, technology, transformation, corporate culture, merger communication, etc. It monitors the progress of the merger process and milestone plan, deciding on intervention if necessary.
Methodology Committee (MC)	It controls the implementation of the group-wide risk strategy and risk strategy limit system. It approves all methodological, modelling, limit setting and monitoring, supervisory, regulatory and reporting proposals related to credit risk, concentration risk and country risk, counterparty risk, operational risk under Pillar 1, risks under Pillar 2, and the ICAAP-SREP methodology and the exercise of supervision/control, the Recovery Plan and the resolution framework. Its responsibilities include the discussion of the NPL strategy, related methodological, modelling, internal portfolio setting and monitoring, supervisory, regulatory and reporting proposals, including individual and portfolio-level decisions on impairment and provisioning.
Product Sales and Pricing Committee (PSPC)	It is the forum for making management decisions on product development, pricing and sales at individual bank and group level. It develops the features and processes for existing products and new products to be introduced. It decides on the pricing of products, taking into account the profitability of the product; takes decisions on pricing issues within the framework of the rules set by the Asset and Liability Committee.

3.2 Risk factors

3.2.1 Liquidity risk

Liquidity risk is the risk that the Group's cash flows may not be adequate to fund operations and meet commitments on a timely and cost-effective basis. This risk arises from mismatches in the timing of cash flows.

Liquidity risks can fundamentally be divided into two categories, and their subcategories:

- funding liquidity risk, including:
  - maturity (maturity mismatch) liquidity risk arising from the fact that the cashflows of assets and liabilities are not properly matched and maturing liabilities in certain periods exceed the amount of receivables due. The nearer the period of the mismatch, the more significant the risk.
  - withdrawal (massive withdrawal of funds before maturity) liquidity risk - funds are withdrawn prior to the contractual expiry.
  - structural liquidity risk - the risk of funds being renewed with difficulty and only at higher cost;
- market liquidity risk - the risk that a market position cannot be closed at the market price in the short term, only at a less favorable price, therefore the position will need to be maintained so that the proper market price can be realized, and this may require committing/using liquid assets.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to approval by the Board of Directors following the prior review and approval by the Asset-Liability Committee (hereinafter: "ALCO")

Liquidity risk means the Group does not possess the necessary amount of cash and cash equivalents to pay due and legitimate obligations.

Liquidity risks are curtailed by the following Group-level limits:

- Liquidity coverage ratio (LCR)
- Net stable funding ratio (NSFR)
- Mortgage funding adequacy ratio (MFAR)
- Foreign Exchange Funding Adequacy Ratio (FFAR)
- Foreign exchange balance indicator (FEBI)
- Interbank Funding Ratio (IFR)
- 30-day changes in client money deposits
- Liquidity stress test
- Limits specified in the early warning system

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The decisions by the management of the Group are, however, also based on the liquidity gap between contractual inward and outward flows (net position), and therefore both financial asset and financial liabilities are rated in liquidity categories.

The following table shows the distribution of financial instruments according to contractual maturity:

31.12.2022	Book value	Total capital and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Cash and cash equivalents	**1,361,315**	**1,361,315**	**1,361,315**	-	-	-	-
Loans and advances	418,517	499,357	107,272	14,695	76,696	157,910	142,782
Securities	74,792	80,087	1,127	420	6,475	37,059	35,007
Financial assetes measured at FVTPL	**493,309**	**579,444**	**108,399**	**15,115**	**83,171**	**194,969**	**177,789**
Securities	630,845	672,567	9,465	3,523	54,376	311,215	293,987
Financial assets measured at FVTOCI	**630,845**	**672,567**	**9,465**	**3,523**	**54,376**	**311,215**	**293,987**
Loans and advances	4,595,635	5,544,673	951,904	172,138	898,398	1,849,719	1,672,514
Securities	2,781,620	2,965,585	41,734	15,535	239,764	1,372,259	1,296,294
Financial asstes measured at amortised cost	**7,377,255**	**8,510,259**	**993,639**	**187,673**	**1,138,162**	**3,221,977**	**2,968,808**
Total assets	**9,862,724**	**11,123,584**	**2,472,818**	**206,311**	**1,275,710**	**3,728,161**	**3,440,584**

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31.12.2021	Book value	Total capital and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Cash and cash equivalents	**854,970**	**854,970**	**854,970**	-	-	-	-
Loans and advances	53,295	57,272	25,573	1,210	3,885	15,101	11,503
Securities	11,501	11,451	-	75	3	1,660	9,713
Financial assetes measured at FVTPL	**64,796**	**68,723**	**25,573**	**1,285**	**3,888**	**16,761**	**21,216**
Securities	187,681	186,869	-	1,218	55	27,095	158,501
Financial assets measured at FVTOCI	**187,681**	**186,869**	**-**	**1,218**	**55**	**27,095**	**158,501**
Loans and advances	1,180,704	1,760,824	786,248	37,202	119,444	464,271	353,659
Securities	804,569	801,086	1	5,222	237	116,152	679,474
Financial asstes measured at amortised cost	**1,985,273**	**2,561,910**	**786,249**	**42,424**	**119,681**	**580,423**	**1,033,133**
Total assets	**3,092,721**	**3,672,472**	**1,666,792**	**44,927**	**123,624**	**624,279**	**1,212,850**

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The following table shows the breakdown of financial liabilities by contractual maturity:

31.12.2022	Book value	Total capital and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Deposits	(6,574,357)	(6,797,944)	(5,951,973)	(280,390)	(172,241)	(247,865)	(145,475)
Loans and other liabilities	(2,462,193)	(2,572,439)	(328,352)	(17,848)	(300,420)	(1,370,452)	(555,366)
Debt securities of own issue	(290,838)	(321,140)	(28,337)	(295)	(41,471)	(168,472)	(82,565)
Subordinated liabilities	(88,887)	(88,887)	-	-	-	(88,887)	-
Total liabilities	**(9,416,275)**	**(9,780,410)**	**(6,308,662)**	**(298,533)**	**(514,132)**	**(1,875,676)**	**(783,406)**
Credit limits	(1,151,238)	(1,151,238)	(1,151,238)	-	-	-	-
Guarantees	(107,237)	(107,237)	(107,237)	-	-	-	-
Other commitments	(255,330)	(255,330)	(255,330)	-	-	-	-
Off balance sheet items	**(1,513,805)**	**(1,513,805)**	**(1,513,805)**	**-**	**-**	**-**	**-**

31.12.2021	Book value	Total capital and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Deposits	(2,218,367)	(2,219,787)	(2,071,432)	(124,072)	(24,209)	(48)	(26)
Loans and other liabilities	(709,174)	(731,679)	(38,190)	(8,220)	(43,854)	(490,007)	(151,408)
Debt securities of own issue	-	-	-	-	-	-	-
subordinated liabilities	(45,070)	(49,304)	(1,085)	-	(1,411)	(46,808)	-
Total liabilities	**(2,972,611)**	**(3,000,770)**	**(2,110,707)**	**(132,292)**	**(69,474)**	**(536,863)**	**(151,434)**
Credit limits	(381,316)	(381,316)	(381,316)	-	-	-	-
Guarantees	(35,109)	(35,109)	(35,109)	-	-	-	-
Other commitments	(94,311)	(94,311)	(94,311)	-	-	-	-
Off balance sheet items	**(510,736)**	**(510,736)**	**(510,736)**	**-**	**-**	**-**	**-**

During the contractual maturity gap analysis - to adequately determine liquidity risk - the fundamental aspect that needs to be considered is that the overwhelming portion of liabilities recorded in the liabilities column need to be regarded as continually renewing liabilities.

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The following table shows the breakdown of financial liabilities by expected maturity:

31.12.2022	Book value	Total capital and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Deposits*	(6,574,357)	(6,797,944)	(488,661)	(19,090)	(41,034)	(9,267)	(6,239,893)
Loans and other liabilities	(2,462,193)	(2,572,439)	(328,352)	(17,848)	(300,420)	(1,370,452)	(555,366)
Debt securities of own issue	(290,838)	(321,140)	(28,337)	(295)	(41,471)	(168,472)	(82,565)
Subordinated liabilities	(88,887)	(88,887)	-	-	-	(88,887)	-
Total liabilities	**(9,416,273)**	**(9,780,410)**	**(845,350)**	**(37,234)**	**(382,925)**	**(1,637,078)**	**(6,877,824)**
Credit limits	(1,151,238)	(1,151,238)	(1,151,238)	-	-	-	-
Guarantees	(107,237)	(107,237)	(107,237)	-	-	-	-
Other commitments	(255,330)	(255,330)	(255,330)	-	-	-	-
Off balance sheet items	**(1,513,805)**	**(1,513,805)**	**(1,513,805)**	**-**	**-**	**-**	**-**

31.12.2021	Book value	Total capital and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Deposits*	(2,218,367)	(2,219,787)	(138,643)	(22,327)	(2,268)	(6)	(2,056,543)
Loans and other liabilities	(709,174)	(731,679)	(38,190)	(8,220)	(43,854)	(490,007)	(151,408)
Debt securities of own issue	-	-	-	-	-	-	-
subordinated liabilities	(45,070)	(49,304)	(1,085)	-	(1,411)	(46,808)	-
Total liabilities	**(2,972,611)**	**(3,000,770)**	**(177,918)**	**(30,547)**	**(47,533)**	**(536,821)**	**(2,207,951)**
Credit limits	(381,316)	(381,316)	(381,316)	-	-	-	-
Guarantees	(35,109)	(35,109)	(35,109)	-	-	-	-
Other commitments	(94,311)	(94,311)	(94,311)	-	-	-	-
Off balance sheet items	**(510,736)**	**(510,736)**	**(510,736)**	**-**	**-**	**-**	**-**

*The expected outflow of customer deposits differs from contractual maturities because – based on historical data – the majority of depositors do not withdraw their deposit at maturity but roll it over or leave it on the account as sight deposit. The undrawn part of the deposit can thus be considered as stable stock, which is aggregated in the last time bucket.

The Group is able to maintain its liquidity and fulfil its due payment obligations.

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	2022	
	Up to 1 year	Over 1 year
Financial assets held for trade	**9,587**	**531,083**
Securities	1,579	48,344
Derivative financial instruments	8,008	482,739
Financial assets held not for trade mandatorily measured at FVTPL	**210**	**443,176**
Loans and advances to customers	210	418,307
Securities	-	24,869
Revaluation on financial assets measured at FVTOCI	**19,971**	**610,874**
Securities	19,971	610,874
Financial asstes measured at amortised cost	**766,138**	**6,537,371**
Loans and advances to banks	77,975	101,113
Loans and advances to customers	445,859	3,896,942
Securities	242,304	2,539,316

The Group analyzes the consequences of any potential severe liquidity stress.

The following are viewed by the Group as liquidity stress positions:

- sudden and large-scale withdrawal of clients' deposits, and this needs to be hedged by selling or borrowing againts liquid assets.

The stress impact assumed by the Group consists of two parts:

- in case of debt securities: the interest expense of securities-backed loans received from NBH;
- in case of shares: sales haircut.

A stress position may arise due to a fault attributable to the Group (reputational risk) or due to a fault beyond its control (general market influence).
The Group, in part, prepares for liquidity stress positions by:

- creating liquidity reserves;
- entering long-term cross-currency interest rates swaps (CCIRS) for currency refinancing.

The Group has in place a contingency plan to manage any critical situations arising from liquidity disturbances/crises, which the affected business lines and functions comply with so that they can take prudent and optimal measures in due time under the given circumstances.

3.2.2 Market risks

Market risk is the risk that changes in market prices, such as interest rate (interest rate risk), equity prices (equity risk), and foreign exchange rates (foreign exchange risk) will affect the Group’s income or the value of its holdings of financial instruments.

Management of market risks

As part of the Risk strategy, the Board of Directors approves the maximum amount and scope of market risks incurable by the Group, ensured by a comprehensive limit structure broken down by relevant portfolios. The main market risk limit is arising from the annual capital allocation process based on ICAAP requirements.

ALCO is responsible for developing and monitoring the Groups’s market risk management policies. ALCO has the overall responsibility for establishing and managing market risk policies for the Group, within the framework of internal policies, covering risk management, assessment of risk and related limits, competence and decision-making mechanism, and regulation for breaches of limits, approved by the Board of Directors. The members of the ALCO are senior executives who have principal decision-making responsibilities for businesses throughout the whole Group. At the operational level, market risk is managed by the Money and Capital Markets Managing Directorate on a bank-wide basis.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios include those positions arising from market-making, customer business driven proprietary position-taking and other marked-to-market positions as designated. According to the risk strategy of the Group there is no own account activity (proprietary trading) with the purpose of short term profit arising from market changes. Trading activities include transactions with debt and equity securities, foreign currencies, and derivative financial instruments.

Non-trading portfolios include positions that arise from the Group’s retail and commercial banking activity and the interest rate management of the Group’s retail and commercial banking assets and liabilities. The Group's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments.

Exposure to market risks – trading portfolios

The Group manages exposure to market risk by establishing and monitoring various limits on trading activities. These limits include:

- Product volume limits define maximum aggregate amounts of trading products and contracts that the Group may hold at any time.
- FX position limits restrict the long and short position for each currency and the total net amounts of FX positions that can be held in the trading and banking books.
- VaR limits: The VaR limit of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). the Group applies historical and parametric VaR method with 1-day holding period at 99% confidence level.
- PLA (Potential Loss Amounts) limits define maximum amount of loss that the Group is willing to assume.

The VaR model used is based mainly on historical data. Taking account of market data from the previous one year (250 business days in case of historical VaR and and 100 business days in case of parametric VaR), and observed relationships between different markets and prices, the model calculates both diversified and undiversified total VaR, and VaR by risk factors such as interest rate, equity and currency VaR.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- VAR only covers “normal” market conditions.
- The VaR measure is dependent upon the Group’s position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured on a daily basis. Daily reports of utilisation of VaR limits are prepared by the Group’s Risk Unit and regular summaries are submitted to ALCO.

The Group's VaR position of trading portfolio on 31 December 2022 and during the business year

Tables below show the VaR status at 99% confidence level with a one-day holding period:

2022	Average	Maximum	Minimum	15% stress
Currency risk	168	616	7	239
Interest risk	225	684	75	-
Equity risk	8	58	2	-
Total	**401**	**1,358**	**84**	**239**

2021	Average	Maximum	Minimum	15% stress
Currency risk	17	52	2	275
Interest risk	111	215	46	-
Equity risk	4	19	1	-
Total	**132**	**286**	**49**	**275**

Important notes in connection with the table above:

- MKB applies historical and parametric VaR for general market risk:
  - Historical VaR: (1 day holding period; 99% confidence level, number of observation: 250 business days),
  - Parametric VaR: Risk metrics methodology (1 day holding period; 99% confidence level, 0.94 decay factor, number of observation: 100 business days).
- Bank calculates VaR only on trading-book position.
- There is no commodity in MKB position.
- MKB does not have a significant open position from options therefore there is no volatility VaR calculation.

A potential adverse 15% change in the FX rates (HUF appreciation for long position and HUF depreciation for short position) would cause HUF 239 million losses based on the year-end FX open position.

The following table presents the sensitivity of the net present value of the Group’s trading and banking book position in case of a parallel 1 bp movement in market conditions.

2022				in HUF million
Book type	HUF	EUR	USD	Other
Trading	4	(3)	0	(0)
Banking	(18)	32	19	(0)

2021				in HUF million
Book type	HUF	EUR	USD	Other
Trading	4	(3)	(1)	(0)
Banking	(84)	9	7	1

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Exposure to other martker risks – non trading portfolio

Currency risk means the risk of having the profit or the capital of the Group decreasing or being totally lost due to changes in the levels and proportions of the currency exchanges.
The Group is exposed to currency risks because of collecting deposits denominated in different currencies, providing loans, the sale and purchase of securities and various derivative transactions.
The Group manages currency risks uniformly at the level of the member banks. The Group curtails currency risks with limits, which it measures on a daily basis.

Currency risks are limited by the following limits for the banks belonging to the group:

- VaR limit;
- open position limit;
- stop-loss limits.

The financial position of the Group in foreign exchange at the end of the reporting period was the following:

31.12.2022	In functional currency	In foreign currency				Total
		EUR	USD	CHF	Other currency	
Net assets	9,383,727	363	-	14	19,474	9,403,578
Net liabilities	(8,877,587)	(324,492)	(207,629)	(13,588)	(9,687)	(9,432,983)
Net derivatives and spot (short)/long position	(505,914)	324,116	207,480	13,571	(9,848)	29,405
Total net foreign currency position	**226**	**(13)**	**(149)**	**(3)**	**(61)**	**-**

31.12.2021	In functional currency	In foreign currency				Total
		EUR	USD	CHF	Other currency	
Net assets	2,364,808	352,452	46,657	2,108	15,582	2,781,607
Net liabilities	(2,243,762)	(435,629)	(84,587)	(5,496)	(12,133)	(2,781,607)
Net derivatives and spot (short)/long position	(121,139)	83,282	37,884	3,432	(3,459)	-
Total net foreign currency position	**(93)**	**105**	**(46)**	**44**	**(10)**	**-**

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3.2.3 Interest risk

Interest rate risk means the risk of having the profit or the capital of the Group decreasing or being totally lost due to changes in the levels and proportions of the interest rates in the market.

Interest rate risk registered in the non-trading book

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows of financial instrument because of a change in market interest rates.

The management of interest rate risk is supplemented by monitoring the sensitivity of the financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point parallel fall or rise in all yield curves worldwide.

At the end of the reporting period, the interest rate structure of the interest-bearing financial instruments of the Group was the following:

Interest rate structure of financial instruments*	31.12.2022				
	HUF	EUR	USD	Other currency	Total
Fixed rate assets	5,417,509	629,207	71,779	39,944	6,158,439
Variable rate assets	3,215,923	694,667	758	434	3,911,782
Total assets	**8,633,432**	**1,323,874**	**72,537**	**40,378**	**10,070,221**
Fixed rate liabilities	(7,359,647)	(1,541,246)	(237,669)	(27,557)	(9,166,119)
Variable rate liabilities	(354,507)	(47,040)	(79)	(9)	(401,635)
Total liabilities	**(7,714,154)**	**(1,588,286)**	**(237,748)**	**(27,566)**	**(9,567,754)**

** the table does not include derivative transactions*

Interest rate structure of financial instruments*	31.12.2021				
	HUF	EUR	USD	Other currency	Total
Fixed rate assets	1,984,083	214,793	2,508	23,764	2,225,148
Variable rate assets	982,564	170,794	597	465	1,154,420
Total assets	**2,966,647**	**385,587**	**3,104**	**24,230**	**3,379,568**
Fixed rate liabilities	(2,481,299)	(491,384)	(84,046)	(13,839)	(3,070,570)
Variable rate liabilities	(122,745)	(5,232)	-	(2)	(127,979)
Total liabilities	**(2,604,045)**	**(496,616)**	**(84,046)**	**(13,841)**	**(3,198,548)**

** the table does not include derivative transactions*

The interest rate risk modelling of sight deposits has changed in 2022. In the framework of methodological harmonisation within the group, MKB switched to the model of one of its member banks in April 2022. By decomposing the cyclical and trend components, the core stock is determined on the basis of historical data, and its separation into a fixed and an interest rate sensitive floating part can be quantified from the correlation between bank interest rates and market interest rates. In the interest rate risk calculation the Group used expected cash-flows in the case of baby-expecting- loans which contained the prepayments during the fair value calculations. The effect of the cap of floating interest rates of retail mortgage loans to P / L was considered in the downturn stress test scenario.

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Sensitivity tests

	31.12.2022.		31.12.2021.	
	Effect on Equity	**Effect on P/L**	**Effect on Equity**	**Effect on P/L**
HUF				
200 bp increase	(2,514)	5,722	(13,690)	817
200 bp decrease	1,602	(23,093)	18,779	(12,070)
EUR				
200 bp increase	5,527	(2,540)	2,748	(192)
200 bp decrease	(7,318)	(8,190)	(744)	(445)
USD				
200 bp increase	3,567	2,225	1,049	487
200 bp decrease	(4,148)	(2,643)	(1,098)	(553)
Other				
200 bp increase	(36)	139	15	(173)
200 bp decrease	38	(159)	(10)	50

31.12.2022			
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	5,527	(7,318)	(7,318)
USD	3,567	(4,148)	(4,148)
Other	(36)	38	-
Total	**9,058**	**(11,428)**	**(11,466)**

31.12.2021			
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	2,748	(744)	(744)
USD	1,049	(1,098)	(1,098)
CHF	1	-	-
GBP	10	(7)	(7)
JPY	1	-	-
Other	(13,687)	18,776	(13,693)
Total	**(9,878)**	**16,927**	**(15,542)**

IBOR reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform interbank offered rates (‘IBORs’) with alternative nearly risk-free rates (referred to as ‘IBOR reform’).

As part of the IBOR reform, CHF, JPY, GBP and EUR LIBOR reference rates were phased out as of 1 January 2022. In case of USD LIBOR synthetic quotes will be available for a few maturities until 2023 and these rates can be used only for existing transactions. New deals cannot reference these benchmarks. Apart from the London based LIBOR benchmarks, EONIA, the overnight EUR interest rate was discontinued as well. It was replaced by ESTER. So far, the changes do not affect EURIBOR rates.

The replacement rates for these benchmarks will be SARON in case of CHF, TONAR in JPY, SONIA in GBP and SOFR in case of USD. The Group will use these overnight new risk-free rates or historical averages or market term rates based on these risk free rates. In case of EONIA, the Group will use ESTR or modified ESTER. After the changes, the Group will not make any new loan, deposit or derivative transaction where the reference rate is the discontinued LIBOR or EONIA rate. The Group will use only the new reference rates in all new tailor made deals and in the general terms and conditions.

Two groups of accounting issues arising from IBOR reform could affect financial reporting which was addressed by the standard-setter through amending the relevant IFRSs. Accordingly, the standard-setter divided those amendments into two phases:

- amendments addressing the situation where uncertainty could arise in the run-up to transition: Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (Phase 1 amendments) are issued in September 2019 are effective from 1 January 2020; and
- amendments addressing the situation when that uncertainty will not be present but companies update the rates in their contracts and the details of their hedging relationships: Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Phase 2 amendments) are issued in August 2020 are effective from 1 January 2021.

The Group assessed the significance of the IBOR reform to its operation and financial reporting.

The impact of the IBOR reform and the discontinued reference benchmarks on the Group is not material. The implications for the Group’s risk profile are negligible. The overall interest rate risk of the Group is not affected. The Group does not have any involved construction products and does not hold any securities on its own account which is influenced by the LIBOR reform. There is no on-balance or off-balance items linked to GBP, JPY or EUR LIBOR rates.

Other implications

The Group has several partner contracts (ISDA VMCSA, GMRA) for over-the-counter derivatives with reference to LIBORs and EONIA. In all these contracts benchmark rates are used for the interest rate calculation on bilateral initial and variation margin. In order to smoothen the transition, the Group joined the ISDA 2021 EONIA Collateral Agreement Fallbacks Protocol and ISDA 2020 IBOR Fallbacks Protocol. Banks joining the protocol do not need to modify their bilateral contracts, adherence is equivalent to it. In case of OTC derivative transactions cleared via a central clearing counterparty (LCH) and its full clearing member, the changes were affected unilaterally already earlier.

Operational implications

The Group needs to buy the real time data of these new reference rates and set up new yield curve for the present value calculations. For this, an ongoing system development is in place.

3.2.4 Share price risk

Share price risk means the risk of having the profit or the capital of the Group decreasing or being totally lost due to changes in the levels and proportions of the stock prices in the market.

We distinguish between individual and general stock price risks. "*Individual foreign exchange risk*" arises when the value of a single share position or a complex position or a derivative transaction in the portfolio of the Group decreases due to the risks associated with the special characteristics of an underlying share of a transaction compared to cost, which may generate a loss.

"*General price risk*" arises when the value of a single share position or a complex position or a derivative transaction in the portfolio of the Group decreases due to general market changes compared to cost, independently of the risks associated with the special characteristics of an underlying share of a transaction.

Stock risk registered in the trading book

Of the transactions posing a stock risk, the Group predominantly deals in hedging transactions during which it seeks to realize interest rate margins in the futures stock transactions so that the stock risk is completely covered.

In addition to the hedging-type stock transactions, the Group also takes speculative stock positions by dealing in shares, stock index and share futures transactions.

The member banks of the Group curtail their stock risks registered in the trading book with limits and measure it on a daily basis.

The stock risks that may be accepted in the trading book are limited by the following limits:

- VaR limit;
- quantitative and stop-loss limits;
- individual stock limit;
- issuer's limit.

3.2.5 Credit risk

Credit risk is the risk of financial loss if a customer or a counterparty fails to meet an obligation under a contract. It arises principally from the Group's lending, trade finance and leasing business, but also from certain off-balance products such as guarantees, and from assets held in the form of debt securities.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk management

The members of the Group have standards, policies and procedures dedicated to the effective monitoring and managing risk from lending (including debt securities) activities. The Group sets a requirement for the Group members to elaborate and publish their own regulations that comply with the Group-level rules approved by it. The risk management of the members of the Group control and manage credit risks at high standards, in a centralised manner. Its responsibilities include:

- Formulating the Group member's credit policy in consultation with business units by establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk.
- Establishing the authorisation structure for the approval and renewal of credit facilities. In order to establish an adequate credit decision-making system in which decisions are made on time, the limit amounts are established differently according to the customer segment, the customer quality and the business line, for the delegated credit decision authorities and the boards and individual decision-makers of the Business and Risk Units.
- Monitoring the performance and management of retail and wholesale portfolios across the Group.
- Supervising the management of exposures to debt securities by establishing controls in respect of securities held for trading purposes.
- Establishing and maintaining the Group members' concentration risk management policies ensuring that the concentration of exposure does not exceed the limits stated in the internal and regulatory limit systems and concentration risks are effectively managed without any need for additional capital requirements if possible.
- Developing and maintaining the Group members' risk assessment systems in order to categorise the exposures according to the degree of the risk of financial loss faced and to manage the existing risks adequately. The purpose of the credit (deal) classification system is to define when impairment may be required against specific credit exposures. The risk categorisation system consists of several grades which reflect sufficiently the varying degrees of risk of default and the availability of collateral or other credit risk mitigation options with regard to a specific exposure.
- Providing position statements, guidance and professional support to the business units of the Group members in credit risk management.

Each group member must implement and apply the credit policy, harmonised at group level, with credit approval authorities delegated by the authorised decision maker bodies. Each Group member must prepare regular and ad hoc reports to the local management and, in certain cases, to the Group leader covering the major cases and events of lending. Each group member is responsible for the quality and results of its credit portfolio and for monitoring and controlling all credit risks in its portfolios. This includes managing its own risk concentrations by market sector, geography and product. The control systems applied by the Group enable the Group members to control and monitor exposures by customer and retail product segment.

In order to comply with the prudential requirements, Group developed and operates its borrower group forming concept. As part of that, the borrower group-level monitoring concept is to be highlighted. According to the processes, the complete risk assumption process must be executed at the level of borrower groups: in the case of the individual groups the limit proposal and monitoring process for each individual group members takes place at the same time based on the collective analysis and consideration of risks.

With regards to the management of concentration risks, Group implemented the global concept of concentration risk limits. As part of the concept, the Group set up bank and sector level KPI’s (key performance indicator) set and product limits, in order to restrain the assumption of further risks arising from the characteristics / risks rooted in different sectors and the assumption of risks of products representing high or special risk. Aiming at avoid high risk concentration within the portfolio, the concentration risk limit value has been established for the total bank portfolio, with the stipulation that the limits of the individual customers / customer groups may exceed this target value only in extraordinary and justified cases, based exclusively on the strategic guidelines approved by the relevant Committee.

The disclosure tables required by CRR, but not presented in this Note are available in the Disclosure according to Regulation (EU) No. 575/2013 prepared by the Group, available on our website www.mkb.hu.

Until the end of reporting period ESG aspects have not been taken into consideration in the risk models. After the merger is completed the Group will collect and oraganise the ESG data and will examine the possibilities to use it in the models.

The macroeconomic scenarios will be updated and used in the bank processes the same time the new inflation report from NBH is recieved. Based on the forcasts the Group will use the currenct marcoeconimical PD forcast models to calculate the new parameters required for macroeconomic adjustments (Macro overlay factor – MOF) on a segment level. Using these new parameters the IFRS PD (without macro correction) values will be adjusted to reflect the expectations of the macroeconomic scenarios. The weighting of the macroeconomic scenarios is calculated in accoredance with the recommendations of the (internal use only) management letter from NBH. At the end of the year 2022 the weights used are the following: 25% - stress scenario, 70% - base scenario, 5% - optimistic scenario. The resulting IFRS PD values adjusted to the new macroeconomic environment and expectations will be implemented after the approval of the Methodology Committee. The Group’s macroeconomic models will be validated with every update both with statistical methods and business side validation - thus ensuring the applicability of the model.

A detailed report on the changes of impairment and provisioning related to credit risks is presented quarterly to the Methodology Committee and, also quarterly, a report is prepared about changes and the utilization of limits related to different divisions and types of transaction. The management receives weekly information on receivables past their due date, and daily on the changes to major risks.

Collateral

To ensure prudent operation, the Group decides on the necessary rate of risk mitigation and the tools applied for credit risk mitigation by taking into consideration the transaction and the rating of the client. In the meantime, and prior to each risk-related decision, the Group ensures that the necessary securities and collateral exist and verifies their fair value and enforceability.

The Group specifies in a separate policy the collateral it finds acceptable, the classification thereof, the acceptance criteria of the collateral, it lays down the rules for evaluating the collateral and for determining the acceptable loan-to-value figure, and for the monitoring of the collateral.

Prior credit risk protection accepted by the Group includes assets that are liquid and value-preserving. Therefore, accepted financial collateral are especially:

- cash or deposit placed with the Group as collateral or deposit
- debt securities issued by central governments, central banks
- property

When accepting mortgage collateral, the Group engages third party experts to determine market value. The Group, as credit risk collateral not provided in advance, recognizes a credit risk measurement process whose provider is reliable and in the case of which the agreement on the credit risk collateral is valid and enforceable before a competent authority, and which fulfils the conditions stipulated in Hungarian legislation and in the internal policies of the Group.

Therefore, the Group predominantly accepts guarantees and on-demand credit default guarantees for credit risk collateral not provided in advance which are provided by:

- central governments or central banks;
- public sector institutions;
- credit institutions or investment firms.

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In performing its activities, the Group engages the services of Rural Credit Guarantee Foundation and Garantiqa Hitelgarancia Zrt. providing on-demand credit default guarantees in addition to the state-backed counter guarantee, and the Group entered into a cooperation agreement with the two organizations.

Face value of collateral received	Loan commitments received	31.12.2022 Financial guarantees received	Other commitments received
Central banks	-	79	-
General governments	-	766,938	-
Banks	35,218	184,766	-
Other financial companies	-	254,852	-
Non-fianacial companies	-	1,775,768	-
Households	-	529,669	-
Total face value of collateral received	**35,218**	**3,512,072**	**-**

Face value of collateral received	Loan commitments received	31.12.2021 Financial guarantees received	Loan commitments received
Central banks	-	-	-
General governments	-	-	-
Banks	3,245	114,333	-
Other financial companies	-	-	-
Non-fianacial companies	-	-	-
Households	-	-	-
Total face value of collateral received	**3,245**	**114,333**	**-**

The Group received the following assets by taking possession of the collateral provided to it as security or by exercising other credit quality improvement possibilities:

Total assets acquired for loans	31.12.2022
Residential property	771
Commercial property	116
Personal assets	-
Equity and debt securities	-
Other	-
Total	**887**

Total assets acquired for loans	31.12.2021
Residential property	8
Commercial property	-
Personal assets	-
Equity and debt securities	-
Other	-
Total	**8**

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The following tables show a breakdown of performing and non-performing financial assets by arrears as at 31 December 2022:

	Performing			Non-performing						
	Performing	0-30 days overdue	31-90 day overdue	Non-performing	Not overdued or not more than 90 days overdue	91-180 days overdue	181-365 days overdue	1-5 years overdue	5+ years overdue	Collateral received to cover non-performing exposures
Debt securities	2,781,181	2,781,181	-	439	439	-	-	-	-	-
Loans and advances	4,410,026	4,374,220	35,806	111,863	71,181	16,992	11,306	8,127	4,257	101,335
Financial instruments measured at amortised cost	**7,191,207**	**7,155,401**	**35,806**	**112,302**	**71,620**	**16,992**	**11,306**	**8,127**	**4,257**	**101,335**
Debt securities	621,762	621,762	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-	-	-
Debt instruments subject to impairment loss provision measured at FVTOCI or Equity	**621,762**	**621,762**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	20	20	-	-	-	-	-	-	-	-
Loans and advances	411,618	407,774	3,844	6,899	3,746	1,239	1,265	613	36	6,854
Debt instruments NOT subject to impairment loss provision measured through P/L or Equity in accordance with LOCOM method	**411,638**	**407,794**	**3,844**	**6,899**	**3,746**	**1,239**	**1,265**	**613**	**36**	**6,854**
Debt instruments not held for trade	**8,224,607**	**8,184,957**	**39,650**	**119,201**	**75,366**	**18,231**	**12,571**	**8,740**	**4,293**	**108,189**
Given lending commitments	1,141,304	-	-	13,209	-	-	-	-	-	5,364
Financial guarantees given	106,294	-	-	945	-	-	-	-	-	386
Other commitments given	281,298	-	-	153	-	-	-	-	-	42
Off-B/S exposures	**1,528,896**	**-**	**-**	**14,307**	**-**	**-**	**-**	**-**	**-**	**5,792**

Definition of non-performing (default):

In the context of internal credit risk management objectives, the Group considers the following to be events of default, the occurrence of which, based on past experience, would be likely to result in the non-recovery of the financial asset:

- breach of financial covenants by the debtor; or
- based on information from an internal or external source, the debtor is likely to default on its debt service (e.g. the debtor is more than 90 days in arrears).

The Group, in accordance with the provisions of its risk management policy, continuously monitors the changes in the quality of its credit portfolio. The business fields and the management are informed on a weekly basis on past due receivables and the registered risk-mitigating assets underlying these receivables. The risk classification of loans is carried out by the Group quarterly, in the framework of risk monitoring. Decisions related to individual impairment losses of exposures are made during the monitoring.

Impairment accounted for loans to be assessed individually and collectively

On the balance sheet date, and during the quarterly monitoring, an assessment is made for each loan whether it is justified to account for impairment losses. If it is justified, the estimated recoverable amount of a particular loan and the impairment is recognized in the statement of profit or loss on the basis of the estimated cash flows discounted with the effective interest rate.

In addition to individual impairment accounted for problematic loans and advances, the Group accounts for portfolio-based impairment for the impairment that emerged in the amount of loans and advances but which is not determined individually. Impairment of loans to be assessed collectively is determined in accordance with the provisions of IFRS 9. Group impairment is calculated on a monthly basis and the risk parameters used are determined on the basis of statistical models developed for homogeneous groups or groups of transactions. The models will be validated at least once a year and revised if necessary.

For Stage 1 loans, the expected credit loss is determined on the basis of the 12-month expected credit loss. For Stage 2 and Stage 3 loans, the expected lending loss is determined with the lifetime expected credit loss.

The aim of the IFRS 9 credit risk scoring system is to assign a PiT (point-in-time) PD to each relevant customer. The IRB rating system for Pillar II. capital requirement calculation was modified according to IFRS 9 requirements. Both of rating systems use the same default definition and model structure, including the quantitative and qualitative sub-models and the explicative variables. The calibration processes are different. In the case of IFRS 9 it depends on the stage of a given customer. In the stage 1, the time horizon is one year, in the stage 2 the lifetime PiT PD's are estimated. The stage 3 contains the defaulted customers, where the PD equals to 1.

In the stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used.

The Group classified its retail portfolio in homogenous credit risk clusters, and allocates PD, LGD and CCF parameters. The internal rating based models calculate the risk parameters which determine the level of impairment. Further information about the transfer are disclosed in Note 6.

In case of individually not significant wholesale customers the calculation of impairment and provision has been changed to internal rating based method. The required provisioning rates are calculated based on the credit conversion factor, the statistical analysis of default and the loss given default. Individually assessed items where no specific provision has been set aside the impairment and provision have to be calculated based on the above method.

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Individual and collective impairment:

31.12.2022	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Securities repurchase agreements and other financial receivables	Derivative financial instruments	Off-B/S exposures
Individually assessed items							
Non-default	-	-	*14,337*	-	-	-	-
Default	-	-	*53,135*	-	*102*	-	*4,870*
Total individually assessed gross amount	-	-	67,472	-	102	-	4,870
Total individually assessed allowance for impairment	-	-	(26,707)	-	(68)	-	(1,299)
Total individually assessed carrying amount	**-**	**-**	**40,765**	**-**	**34**	**-**	**3,571**
Collectively assessed							
Non-default	*1,361,489*	*179,207*	*4,327,987*	*2,816,517*	*80,575*	-	*1,243,882*
Default	-	-	*162,641*	*461*	*1,014*	-	*9,280*
Total collectively assessed gross amount	1,361,489	179,207	4,490,628	2,816,978	81,589	-	1,253,162
Total collectively assessed allowance for impairment	(174)	(119)	(188,552)	(4,888)	(7,877)	-	(12,647)
Total collectively assessed carrying amount	**1,361,315**	**179,088**	**4,302,076**	**2,812,090**	**73,712**	**-**	**1,240,515**
Total assets measured at fair value	**-**	**-**	**418,477**	**675,167**	**-**	**490,747**	**3,719**
Total gross amount	**1,361,489**	**179,207**	**4,976,577**	**3,492,145**	**81,691**	**490,747**	**1,261,751**
Total allowance for impairment	**(174)**	**(119)**	**(215,259)**	**(4,888)**	**(7,945)**	**-**	**(13,946)**
Total carrying amount	**1,361,315**	**179,088**	**4,761,318**	**3,487,257**	**73,746**	**490,747**	**1,247,805**

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The tables below show the breakdown of the gross value and impairment of Loans and advances to customers measured at amortised cost, by stages:

31.12.2022	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	256,204	-	-	7
Medium risk	823,352	70,148	-	2,398
High risk	14,183	350,237	-	1,015
Default	-	-	73,940	2,670
Total retail loans	***1,093,739***	***420,385***	***73,940***	***6,090***
Wholesale loans				
Low risk	395,753	-	-	-
Medium risk	1,701,621	138,048	-	354
High risk	43,359	536,037	-	395
Default	-	-	82,672	2,810
Total wholesale loans	***2,140,733***	***674,085***	***82,672***	***3,559***
Total	**3,234,472**	**1,094,470**	**156,612**	**9,649**

31.12.2022	Impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	(781)	-	-	(1)
Medium risk	(7,832)	(2,892)	-	(107)
High risk	(1,320)	(18,576)	-	(87)
Default	-	-	(44,694)	(632)
Total retail loans	***(9,933)***	***(21,468)***	***(44,694)***	***(828)***
Wholesale loans				
Low risk	(430)	-	-	-
Medium risk	(14,749)	(4,195)	-	(4)
High risk	(1,465)	(30,286)	-	(7)
Default	(102)	-	(23,819)	(423)
Total wholesale loans	***(16,745)***	***(34,481)***	***(23,819)***	***(433)***
Total	**(26,678)**	**(55,950)**	**(68,513)**	**(1,261)**

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31.12.2021	Gross amount			
	Stage 1	Stage 2	Stage 1	POCI
Retail loans				
Low risk	50,433	875	-	-
Medium risk	145,596	99,494	-	2,380
High risk	446	10,533	-	648
Default	-	-	16,082	2,700
Total retail loans	***196,475***	***110,902***	***16,082***	***5,728***
Wholesale loans				
Low risk	112,879	13	-	-
Medium risk	634,911	35,062	-	-
High risk	8,719	70,698	-	17
Default	-	-	18,848	19
Total wholesale loans	***756,509***	***105,773***	***18,848***	***36***
Total	**952,984**	**216,675**	**34,930**	**5,764**

31.12.2021	Impairment			
	Stage 1	Stage 2	Stage 1	POCI
Retail loans				
Low risk	(136)	(39)	-	-
Medium risk	(616)	(4,462)	-	(440)
High risk	(5)	(527)	-	(225)
Default	-	-	(9,763)	(1,443)
Total retail loans	***(757)***	***(5,028)***	***(9,763)***	***(2,108)***
Wholesale loans				
Low risk	(175)	-	-	-
Medium risk	(3,830)	(1,561)	-	-
High risk	(339)	(12,916)	-	-
Default	-	-	(11,820)	(4)
Total wholesale loans	***(4,344)***	***(14,477)***	***(11,820)***	***(4)***
Total	**(5,101)**	**(19,505)**	**(21,583)**	**(2,112)**

3.2.6 Moratorium portfolio

The effect of pandemic on the Credit risk management

In line with NBH's expectations and in accordance with the Group's unified impairment methodology the stage classification rules of moratorium related opt-in and opt-out clients were harmonized such a way, that normal processes were extended with the following:

- in case of retail portfolio where the clients were in the moratorium1 / moratorium2, and was not declared that they had extended the moratorium or were not entitled to do so, at least stage 2 classification is reasonable for minimum 6 months after the termination of moratorium, unless any stage 3 indicators exist,
- in case of retail portfolio where the client is in the moratorium3 or moratorium 4, the stage 3 classification is reasonable for the whole period of moratorium if any deterioration of financial situation of the client is probable based on declaration,
- in case of wholesale portfolio where the clients were in the moratorium1 / moratorium2, and was not declared that they had extended the moratorium or were not entitled to do so, at least stage 2 classification is reasonable for minimum 24 months after the termination of moratorium, unless any stage 3 indicators exist,
- in case of wholesale portfolio where the client is in the moratorium3 or moratorium4, the stage 3 classification is reasonable for the whole period of moratorium, the deviation of this is only allowed by very detailed reasoning confirmed with objective evidences, but the stage 2 classification is still expected.
- the client who enter an agricultural moratorium will be classified as at least stage2, but if the client has been in moratorium for at least 9 months, they will be classified as stage3. They may be placed in stage 1 only on the basis of individual monitoring after a declaration has been made and taken into account. The use of Stage 3 and Stage 2 triggers allows for individual derogations, which must in all cases be supported by detailed, objective and evidence-based justification.

For those retail customers who did not opt-in or opted-out from moratorium, the Group uses traditional assessment tools to measure payment behaviour arising from normal repayment. In case of private customers the Group returned to normal ECL calculation. In case of wholesale clients the changes in the risks include in the potential effects of pandemic are measured at individual level for each customer, which is reflected in the rating and also in the monitoring process.

Given that no new information on the solvency of customers was generated during the time spent in the moratorium, and the repayment of the customers affected by the cap of floating interest rates are lower than the contractual rates, so it is also necessary to take into account the uncertainties in the ability and willingness of the debtors to pay. In addition, the NBH expects that the risk arising from modelling uncertainty needs to be mitigated.

The Group has taken the following aspects into account when determining management overlays:

- the income deterioration of the individuals who opted in the moratorium 4 compared to 18 March, 2020. Where this decrease in real terms exceeded the value before the start of the moratorium, it was included in the proportion of the decrease in real income,
- in case of the client who enter an agricultural moratorium, the models do not know the agricultural moratorium, so the willingness and ability to pay may contain a hidden high probability of default. In order to compensate for the risk, in the case of deals classified as stage 2, the Group increased the missing coverage for the stage 3 coverage level on an expert basis.
- the application of transitional staging rules on its own does not always reflect a full increase in lifetime loss, even when macro parameters are updated. Therefore, in the case of corporate customers with a specific customer rating who do not improve compared to the initial rating, the default probability of stage 1 was increased on an expert basis.

The breakdown of the management overlay on 31.12.2022 is as follows:

- overlay for income reduction: HUF 5,103 million
- overlay for agricultural moratorium: HUF 6,001 million
- overlay for corporate customers with specific ratings: HUF 2,735 million

In summary, the Group's current modelling methodology is capable of creating a new risk measure on the basis of the above information. It allows to create well-defined customer profiles for customer management. The management overlays were constituted by the Group because of the uncertainty arisen from the current economic situation, the expected regulatory expectations and the future variability of the economic climate.

The effect of client relief acts of pandemic on the loan portfolio of the Group

Due to the first moratorium on repayment set out in Act LVIII of 2020 on transitional rules and epidemiological preparedness (hereinafter: “moratorium”) related to the cessation of emergency, it is not necessary to pay instalments for all corporate and retail loan agreements from 19 March 2020.
The next piece of legislation is Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties, supplementing in Act 637/2020 (XII.22.), (second moratorium) entered into force on 1 January 2021, according to which the repayment moratorium can be used until 30 June 2021. This legislation was extended until 31 July 2022 but the concept changed from an opt-out to an opt-in type of moratorium, and then, according to a further statement, until 31 December 2022. Based on Government Decree No 292/2022 (VIII.8) on transitional rules and epidemiological preparedness related to the cessation of emergency, it is not necessary to pay instalments for all agricultural loan agreements (so called agricultural moratorium).

Unpaid interest accrued during the moratorium, together with the instalment due for the remaining term, and shall be paid in equal annual instalments after the expiration of the moratorium. The monthly instalment cannot increase due to unpaid interest and principal. The term is extended accordingly.

Based on Government Decree No. 782/2021 (XII.24.) (second modification No. 390/2022 (X.14.) Government Decree, third modification No 415/2022 (X.26.) Government Decree) (hereinafter: “interest rate cap”) in case of mortgage, SME, loans or leases on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the re-pricing date is before or between 1 January 2022 and 30 June 2023 the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.

The modification loss due to the program was calculated based on the expected cash flow, which ones are estimated under this legislations.

The Group modified the expected credit loss calculation in accordance with the legislation and regulatory recommendations, after the onset of the emergency. Credit risk monitoring is a key element in the methodology for measuring the significant increase in credit risk since its initial publication. During the pandemic period, the Group placed even more emphasis by introducing overlays.

The effect of moratorium was not significant in 2021 and 2022 on the statement of financial position and the statement of profit or loss. The interest rate cap effected significantly the loan portfolio of the Group.

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The net exposure of the Group's customers under moratorium was as follows (percentage of the portfolio is based on the total amount of the Group's net exposure):

12.31.2022	Book value	% of portfolio
Wholesale loans	*283,720*	*9,78%*
Retail loans	*251,526*	*15,78%*
Total	**535,246**	

12.31.2021	Book value	% of portfolio
Wholesale loans	*9,675*	*1.14%*
Retail loans	*13,497*	*3.70%*
Total	**23,172**	

12.31.2022	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	24,665	95,243	-	-
Medium risk	2,518	88,127	-	-
High risk	73	92,814	-	-
Default	-	31,817	23,476	4,211
Total retail loans	***27,256***	***308,001***	***23,476***	***4,211***
Wholesale loans				
Low risk	60,253	-	-	-
Medium risk	48,362	85,189	-	-
High risk	2,306	48,504	-	13
Default	-	-	50,706	455
Total wholesale loans	***110,921***	***133,693***	***50,706***	***468***
Total	**138,177**	**441,694**	**74,182**	**4,679**

12.31.2022	Impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	168	-	-	-
Medium risk	351	2,778	-	-
High risk	40	4,054	-	-
Default	-	3	16,114	727
Total retail loans	***559***	***6,835***	***16,114***	***727***
Wholesale loans				
Low risk	1,027	-	-	-
Medium risk	714	4,119	-	-
High risk	374	3,888	-	-
Default	-	-	20,844	120
Total wholesale loans	***2,115***	***8,007***	***20,844***	***120***
Total	**2,674**	**14,842**	**36,958**	**847**

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12.31.2021	Gross amount Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	-	-	-	-
Medium risk	-	7,979	-	250
High risk	-	671	-	125
Default	-	-	5,984	478
Total retail loans	***-***	***8,650***	***5,984***	***853***
Wholesale loans				
Low risk	-	-	-	-
Medium risk	129	6,827	-	-
High risk	-	741	-	-
Default	-	-	3,310	10
Total wholesale loans	***129***	***7,568***	***3,310***	***10***
Total	**129**	**16,218**	**9,294**	**863**

12.31.2021	Impairment Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	-	-	-	-
Medium risk	-	369	-	50
High risk	-	33	-	41
Default	-	-	2,267	243
Total retail loans	***-***	***402***	***2,267***	***334***
Wholesale loans				
Low risk	-	-	-	-
Medium risk	1	196	-	-
High risk	-	55	-	-
Default	-	-	1,090	2
Total wholesale loans	***1***	***251***	***1,090***	***2***
Total	**1**	**653**	**3,357**	**336**

Financial assets modified during the period	31st December 2022	31st December 2021
Gross carrying amount before modification	4,525,644	1,121,755
Loss allowance before modification	(152,403)	(48,301)
Net amortised cost before modification	4,373,241	1,164,455
Net modification gain/(loss)	(30,440)	(2,403)
Net amortised cost after modification	**4,342,801**	**1,162,052**

The initial modification loss in connection with modified contractual cashflows was HUF 33,881 million in 2022. For stage 2, stage 3 loans HUF 22,138 million has recognised in Modification (loss) /gain on financial instruments and for stage 1 loans HUF 11,743 million in Interest income using effective interest rate method in the statement of profit or loss.

At the reporting date in the statement of financial position the Group recognised HUF 24,518 million modification on contractual cashflows. Interest income using effective interest rate method in the statement of profit or loss HUF 9,330 million is recognised in connection with the modified cash-flows of financial instruments of the previous years.

3.3 Concentration of risks

The Group distinguishes the following subcategories of concentration risk.

- regulatory concentration towards the client/client group;
- other, non-regulatory concentration towards the client/client group;
- portfolio-level concentration of clients;
- investment concentration;
- sectoral concentration;
- product concentration.

The Group measures geographical concentration through the concentration of exposures by country.

The Group manages the concentration of credit risk mitigating assets, including the concentration of the issuer of credit risk mitigating assets, by defining and setting up a “collateral limit”. The collateral limit is included in the limit group outside of regulatory control.

In addition to the above, the Group distinguishes between market and liquidity concentration risks, which are detailed at market risks and liquidity risks.

Regulatory concentration towards a client/client group and other, non-regulatory concentration towards a client/client group

The Group curtails the concentration towards a client/client group in terms of exposures under regulatory limitation and exposures not under regulatory limitation through the use of limits.

The total amount of the regulatory concentration exposure towards a client or a client group, taking into consideration the effects of credit risk mitigation, cannot exceed

- 25% of the solvency margin of the credit institution, or
- if the client is a credit institution, investment firm, or if the client group includes one or more credit institutions, investment firms, 100% of the solvency margin of the credit institution, with the proviso that the sum of exposure value towards the member of the client group that is not a credit institution or an investment firm - taking into consideration the effect of the credit risk mitigation - cannot exceed 25% of the solvency margin of the credit institution.

The Group, to collectively curtail the exposures falling under regulatory limitation and the exposures not falling under regulatory limitation, also applies an “ultimate risk limit”.

Portfolio-level concentration of clients

The Group, to calculate the internal capital requirement of concentration risk, continuously monitors the portfolio-level concentration of the clients. The following methods are applied:

- monitoring, limiting the aggregate sum of large exposures towards the 20 largest non-credit institutions and non-investment firm clients/client groups measured according to the legislation and taking them into consideration in stress tests, the amount of limit is 400% of the solvency margin at the time;
- Calculating the Hirschmann-Herfindahl index (HHI) for the exposures towards companies and credit institutions outside the trading book and determining the internal capital requirement of the concentration risk by adjusting the measured index with the rate of HHI presumed as average.

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Investment concentration

The Group applies investment concentration to the investment limitations regulated in Hpt. *[Credit Institutions Act]*, the legal limitations for the affected investments are the following:

- no investment classified as qualified influence - calculated at carrying amount - can exceed 15% of the solvency margin;
- the sum of qualified influence in companies measured at the total net value cannot exceed 60% of the solvency margin;
- the direct and indirect share of the credit institution - measured at net value - cannot exceed 51% of the share capital of the enterprise.

It is a special regulation in Hungarian law that total investment measured at net value cannot exceed 100% of the solvency margin. With the exception of the items deducted from the solvency margin, subject to the limitation are

- investments in tangible assets,
- with the exception of government securities and debt securities, any other securities, except a share in GARANTIQA Hitelgarancia Zrt.,
- investments realized in the course of loss-mitigating activities if it has been in the possession of the credit institution for a term exceeding 3 years.

Sectoral concentration

Calculation of the sectoral concentration applies to items outside the trading book (banking book), with the exception of the composite bond portfolio. The sectoral limit is determined based on the principle that the Group cannot not suffer a loss exceeding 25% of its solvency margin if solvency problems emerge in any sector, assuming that 10% of the existing net exposure to concentration will not be recovered due to the problems of the sector. Based on the above-mentioned considerations, the sectoral limit cannot be higher in any of the sectors than 250% of the solvency margin.

Sectoral breakdown - 31 December 2022	**Gross amount**	**Loss allowance**
Agriculture, forestry and fishing	176,799	(14,670)
Mining and quarrying	1,430	(107)
Manufacturing	475,211	(24,341)
Electricity, gas, steam and air conditioning supply	127,082	(1,628)
Water supply	8,882	(238)
Construction	196,579	(7,392)
Wholesale and retail trade	518,861	(13,080)
Transport and storage	152,220	(4,306)
Accommodation and food service activities	70,974	(3,931)
Information and communication	86,239	(2,178)
Financial and insurance activities	139,082	(1,914)
Real estate activities	413,789	(23,831)
Professional, scientific and technical activities	130,942	(4,697)
Administrative and support service activities	77,737	(1,980)
Public administration and defence, compulsory social security	192	(8)
Education	2,700	(86)
Human health services and social work activities	12,993	(434)
Arts, entertainment and recreation	9,814	(706)
Other services	97,174	(11,957)

Product concentration

In order to avoid that a product/product family leads to excessive exposure, the Group applies product limits. The necessity to establish product limits is decided while a product is being developed or during the launch of a new product, or it may become necessary to set up or remove limits while the product is on sale.

Country concentration

The Group manages country risk through limits. The maximum value of a country limit is determined in a manner that no additional capital requirement is generated when adhered to. For country risks, during the internal capital adequacy assessment, an internal capital requirement is to be determined for exposure to countries having a rating that corresponds to or is lower than a “BBB+” rating by the S&P credit rating agency, and to the enterprises, institutions and persons within that country.

The largest exposure in the consolidated financial statement of the Group in both years is towards Germany.

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3.4 Encumbered assets

According to implementation regulation (EU) 680/2014, the following encumbered assets existed at the end of the reporting period:

Encumbered assets	31.12.2022 Book value	31.12.2022 Fair value	31.12.2021 Book value	31.12.2021 Fair value
Loans on demand	156	156	263	263
Equity instruments	-	-	-	-
Debt securities	1,581,894	1,339,570	603,681	564,721
Loans and advances other than loans on demand	963,603	963,603	119,631	119,631
Total encumbered assets	**2,545,653**	**2,303,329**	**723,575**	**684,615**

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of collateral received or own debt securities issued non available for encumbrance
12.31.2022			
Loans on demand	-	15,874	-
Equity instruments	-	22,862	-
Debt securities	-	152,011	25,475
Loans and advances other than loans on demand	883,934	5,436,675	2,217,638
Total assets, collaterals received or own debt securities issued	**883,934**	**5,627,422**	**2,243,113**
12.31.2021			
Current receivables	-	2,369	-
Equity instruments	-	-	-
Debt securities	-	8,789	-
Loans and advances other than current receivables	-	-	291,702
Total assets, collaterals received or own debt securities issued	**-**	**11,158**	**291,702**

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	12.31.2022		12.31.2021	
	Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities	*1,031,038*	*2,450,811*	*246,030*	*723,575*
Derivatives	37,265	27,244	6,325	6,427
Deposits	641,143	2,423,567	239,705	717,148
Repurchase agreements	-	8,837	1,319	1,319
Collateralised deposits other than repurchase agreements	641,143	2,414,730	238,386	715,829
Debt securities issued	352,630	-	-	-
Other sources of encumbrance	978,775	978,775	-	-
Other	978,775	978,775	-	-
Total sources of encumbrance	**2,009,813**	**3,429,586**	**246,030**	**723,575**

The main sources and types of encumbrance were arising from having corporate loans covered by NBH, secured refinancing, from collaterals of mortgage loans, money market deposits as well as collateralized derivative transactions and repo transactions, furthermore the Group took the opportunity to borrow unconditional fixed-rate secured loan granted by NBH. Encumbrance due to collateral requirement of used clearing systems and central counterparties was not significant. The Group did not have covered bonds issued or securitization.

The most significant secured refinancing facilities were participating in the “Funding for Growth Scheme” refinancing loan program of the NBH. The majority of collateralized derivative transactions were concluded to hedge on balance sheet FX position and interest rate.

3.5 Capital management

The Group’s lead regulator, the NBH sets and monitors capital requirements for the Group as a whole.The Group measures the pillar 1 and pillar 2 risks and the Group's Asset and Liability Management Committee (ALCO) monitors the results using a monthly reporting framework.

Basel IV

The calculations are Basel IV/CRR (575/2013/EU regulation) compliant.

The supervisory objectives of Basel IV are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel IV is structured around three ‘pillars’: minimum capital requirements, supervisory review process and market discipline. The Capital Requirements Regulation (CRR) is directly effective in Hungary.

Basel IV provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The Group uses the standardised approach, which requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Basel IV also introduces capital requirements for operational. For the capital requirement calculation, the Group currently has adopted the standardized approach to the determination of Group operational risk capital requirements.

The second pillar of Basel IV (Supervisory Review and Evaluation Process - SREP) involves both the Group and the Supervisory regulators taking a view on whether a Bank should hold additional capital and how much against risks not covered or not entirely covered in pillar 1. In framework of the pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) the Group introduced policies and processes for measuring capital requirement of risks not captured by pillar 1 and to measure pillar 1 risks with more sophisticated methodology. Under pillar 2 the materiality of the following risks is to be analysed:

- Credit risk,
- Market risk,
- Liquidity risk,
- Risk estate risk and risk derived from other assets,
- Participation risk,
- Operational risk,
- Modell risk,
- Business and strategic risk.

Pillar 3 of Basel IV is related to market discipline and aims to make firms more transparent by requiring them to publish specific, prescribed details of their risks, capital and risk management under the Basel IV framework.

The capital requirement is limited by a complex limit system, which contains the limits of the material risk types by institutions and business lines.

The solvency capital of the Group, in accordance with the Hungarian laws, must exceed 8% of the risk-weighted balance sheet total, the Group is in compliance with this rule at all times. The Group discloses its capital adequacy situation to the Assets and Liabilities Committee, and quarterly, in the form of a regular report, to the Central Bank of Hungary and the Supervisory Board.

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In 2022, the Group complied with prudential regulations at all times, no limits were breached. Based on NBH's decision no. H-EN-I-267/2022. Regulatory capital includes reserves of the Central Organization of Integrated Credit Institutions, therefore the table of regulatory capital shows the capital adequacy of the entire scope of prudential consolidation.

The Group calculated the solvency capital according to the regulations of CRR, therefore it contains no transitional adjustments. The following table shows the breakdown of the capital adequacy ratio of the Group:

	31.12.2022	31.12.2021
Share capital	323,088	100,000
Outstanding share capital	*323,088*	*100,000*
Reserves	631,933	151,179
Deferred tax	(20,157)	(8,113)
Intangible Assets	(70,512)	(31,786)
AVA - additional valuation adjustments	(1,781)	(399)
Regulatory adjustments to core Tier 1 capital	(119,582)	-
Additional Tier 1	-	-
Tier 1: Net core capital	**742,989**	**210,881**
Subordinated debt	72,989	35,418
Tier 2: Supplementary capital	**72,989**	**35,418**
Regulatory capital	**815,978**	**246,299**
Risk-weighted assets (RWA)	3,280,901	906,883
Large loan limit	742,988	210,881
Operational risk (OR)	838,925	200,408
Market risk positions (MR)	12,891	11,354
Total risk weighted assets	**4,132,717**	**1,118,645**
Capital adequacy ratio	**19,74%**	**22,02%**

As at 31 December 2022, as an actual figure of the Group regulatory capital was HUF 743 billion based on Basel IV IFRS under Supervisory Regulation. The increase of regulatory capital was due to the merger and capital increase during the year.

Risk-weighted assets including operational and market risk increased from HUF 1,118.6 billion in 2021 to HUF 4,132.7 billion besides approximately 8,5% weakening of domestic currency. The main part of the increase derived from the merger, the increase of business volumes and increase of operational risk, which was compensated by the decrease of market risk.

By application of capital management as a tool, the capital is a first priority decision making factor; therefore, the Group monitors the changes of the capital elements continuously.

Planning and limitation of capital requirements

The owner of MKB with strong capital background contributes to its safety, promotes customer confidence, and helps the Group to manage the negative effects on its profitability which come from macroeconomic turbulences.

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4. NOTES

4.1 Net interest income

Interest income	**2022**	**2021**
Interest income from debt securities measured at amortised cost	104,482	14,425
Interest income from loans and advances measured at amortised cost	330,195	48,963
Interest income from debt securities measured at FVTOCI	37,240	7,170
Interest income calculated using the effective interest method	***471,917***	***70,558***
Interest income from derivatives for trading	146,153	14,947
Interest income from debt securities for trading	1,296	324
Interest income from loans and advances mandatorily measured at FVTPL	15,038	215
Interest income from derivatives (hedge accounting, interest rate risk)	29,366	-
Interest income from other assets and liabilities	15,179	-
Other interest income	***207,032***	***15,486***
Total interest income and income similar to interest income	**678,949**	**86,044**

Interest expense	**2022**	**2021**
Interest expense from loans and advances measured at amortised cost	(23,565)	(30)
Interest expense from deposits measured at amortised cost	(125,900)	(9,609)
Interest expense from debt securities measured at amortised cost	(10,363)	(1,966)
Interest expense from other financial liabilities measured at amortised cost	(42)	(506)
Interest expense calculated using the effective interest method	***(159,870)***	***(12,111)***
Interest expense from derivatives for trading	(139,593)	(18,883)
Interest expense from derivatives (hedge accounting, interest rate risk)	(12,641)	-
Interest expense from other liabilities	(1,118)	(1,109)
Other interest expense	***(153,352)***	***(19,992)***
Total interest expense and expenses similar to interest expense	**(313,222)**	**(32,103)**
Net interest income	**365,727**	**53,941**

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4.2 Net income from fees and commission

	2022	2021
Fee and commission income from payment services	104,389	22,577
Fee and commission income from credit service activity	6,138	-
Fee and commission income on other securities	1,267	3,446
Fee and commission income on issue of securities	404	482
Other asset management fee and commission income	12,060	518
Fee and commission income on clearing and settlement	99	-
Fee and commission income from securities transfers	9,883	-
Fee and commission income on financial guarantees given	2,813	2,500
Other custodian fee and commission income	2	620
Other fee and commission income	4,965	2,466
Total fee and commission income	***142,020***	***32,609***
Fee and commission expense on clearing and settlement	(2,889)	(373)
Fee and commission expense from credit service activity	(4,859)	(1,597)
Fee and commission expense on financial guarantees received	(13,124)	(2,106)
Fee and commission expenses on payment services	(6,392)	(312)
Other custodian fee and commission expense	-	(392)
Other fee and commission expense	(10,327)	(1,705)
Total fee and commission expense	***(37,591)***	***(6,485)***
Net income from commissions and fees	**104,429**	**26,124**

The below income from commissions and fees are accounted for in accordance with IFRS 15 standard:

Fee income related to account management:

The Group provides its retail and corporate clients with account management services. Main types of services: account opening, balance monitoring, conducting intra and inter bank transactions based on client authorization/ order, conducting deposit transactions relating to the account, payments, account statements. Fees and commissions for these services are charged to clients' accounts daily, monthly (or less frequently), or on ad hoc basis, depending on the regularity of services.

In the case of continuous services (e.g. monthly account management, monthly SMS-service, etc.) income is accounted for monthly, on the last day of the month. These fees are most commonly of fixed amount.

In the case of transaction-based services (e.g. transfer order, direct debit, cash payment, etc.) transaction fees are recognized at the time of the transaction or monthly, retrospectively, in bulk. Fees are determined as a percentage of the amount of the transaction or as a combination of a fixed amount and a percentage rate.

Income from fees and commission related to bank cards:

Fees relating to bank cards are typically of a fixed amount as card transactions are free of charge. Fixed fees are applied for events linked to card holding (annual card fee), card reproduction and replacement.

Fee income related to lending:

Non-interest fee income relating to lending transactions, regular monitoring fees, notification, verification fees and supervisory, administrative fees. These fees are recognized at the occurrence of the service or, in the case of continuous service, monthly, retrospectively.

Agent fees:

The Group carries out agency services for other banks, insurers, investment service providers and factoring companies. Fees of these services are accounted for monthly, in an amount depending on the number of clients served, volume and value of deals and transactions conducted out of the order.

The following fee and commission expenses were typical during the current year:

Fee expenses related to account management:

Fees paid for ancillary services linked to account management provided to clients are typically: account management fees paid to other banks (nostro), expenses incurred by the Group for the purpose of granting account management to clients relating to account statement sending, cash logistics, cash processing, sending cash via post and postal processing. These fees tend to occur monthly, in line with continuous account management.

Fee expenses related to bank card:

The Group pays transaction, production and distribution fees to the bank card service provider in connection with the provision of bank card services. The fee for these services is fixed, but depends on the volume and value of card transactions. These fees are recognized monthly.

Fees related to lending:

Fees and commissions paid to other banks and refinancing entities in relation to lending to the Group's clients (one-time transfer fee of refinancing loans, verification fees, etc.) are recognized. These fees are accounted for regularly, their amount varies depending on the refinancing volume and the transactions, however they can be fixed as well. These fees are recognized monthly, in the case of one-time fees, on ad-hoc basis.

In relation to client loans, fees paid to other organizations are incurred too in case they are not part of effective interest calculation, e.g. public notary fees, value assessment fees, national or other central database usage fees, if they are invoiced to the client. These are recognized monthly in the case of ad-hoc or continuous service usage.

Agent fees:

The Group sells its products through agents as well, thus payments for agency services are typically incurred monthly, their amount varies depending on sales volume. Usual agency services used: currency exchange carried out by currency exchange offices, etc.

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4.3 Gains/(losses) on financial instruments

	2022	2021
Gains on derivative instruments	147,458	89,384
Gains on securities held for trade	1,309	(2,087)
Gains on other financial instruments held for trade	16	16
Changes in fair value of loans mandatorily measured at FVTPL	(30,326)	(1,803)
Changes in fair value of securities mandatorily measured at FVTPL	(294)	-
Changes in fair value of financial liabilitites mandatorily measured at FVTPL	-	-
Gains/(losses) on financial instruments measured at FVTPL	***118,163***	***85,510***
Securities measured at FVTOCI	(35,924)	(14,610)
Gains/(losses) on financial instruments measured at FVTOCI	***(35,924)***	***(14,610)***
Gains/(losses) on loans and advances measured at amortised cost	(321)	(8)
Gains/(losses) on securities measured at amortised cost	1,976	2,727
Gains/(losses) on financial instruments measured at amortised cost	***1,655***	***2,719***
Gains/(losses) on foreign exchange revaluation	***(46,460)***	***(10,291)***
Gains/(losses) on hedge accounting	***(5,288)***	***-***
Gains/(losses) on financial instruments	**32,146**	**63,328**

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4.4 Impairment losses (reversals) on financial and non-financial instruments

	2022	2021
Loans and advances to banks and customers	(55,911)	(2,848)
Provision for commitments and guarantees	(5,586)	(976)
Investment in securities	(3,508)	(457)
Impairment (loss)/reversal of financial instruments related to credit risk	***(65,005)***	***(4,281)***
Provision for litigation	315	39
Provision for restructuring	(3,791)	-
Pension for employee benefits	(782)	-
Other provision	559	(19)
Provision for staff costs	320	200
Provision (loss) / gain	***(3,379)***	***220***
Modification (loss) / gain on financial instruments	***(23,222)***	***(1,403)***
(Impairment) / Reversal on investments in subsidiaries and associates	***(6)***	***(316)***
(Impairment) / Reversal on other financial and non-financial assets	***(1,564)***	***(146)***
Impairment loss and provision/reversal	**(93,176)**	**(5,926)**

4.5 Dividend income

	2022	2021
Dividend income	618	25
Total	**618**	**25**

Dividend income is recognized from securities measured mandatorily at fair value through profit or loss.

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4.6 Operating expenses

	2022	2021
General and administration expense	(129,022)	(25,874)
Legal and advisory services	(15,078)	(4,488)
Wages and salaries	(96,433)	(23,209)
Severance pay	(3,092)	(72)
Compulsory social security obligations	(487)	(3,964)
Occupancy costs	(32,626)	(7,775)
Marketing and public relations	(4,027)	(2,246)
Communication and data processing	(3,303)	(1)
Administrative costs	***(284,068)***	***(67,629)***
Depreciation	***(25,988)***	***(9,540)***
Operating expenses	**(310,056)**	**(77,169)**

In 2022, the Group's average statistical employee number was 9,747 (2021: 2,092).

The main operating expenses were as follows:

- Social contribution tax: HUF 9,805 million (2021: HUF 2,796 million)
- Extra profit tax: HUF 31,910 million
- Bank tax: HUF 8,492 million (2021: HUF 1,824 million)
- National Deposit Insurance Fund fee payment obligation in connection with the liquidation of Sberbank: HUF 5,226 million

4.7 Other income/(expenses), net

	2022	2021
Income from related shares' disposal	3,736	-
Other operating income	9,581	19,809
Other income	***13,317***	***19,809***
Expense from related shares' disposal	(3,241)	-
Expense from non-financial assets' disposal	(3,658)	(52)
Other operating expenses	(3,637)	(18,406)
Other expenses	***(10,536)***	***(18,458)***
Other income/expenses (net)	**2,781**	**1,351**

4.8 Income tax income/(expense)

	2022	2021
Corporate income tax expense		
Corporate income tax expense on current year's profit	(2,517)	(2,591)
Corporate income tax expense - effect of self-monitoring in previous years	-	-
Deferred tax (income) / expense	7,276	(878)
Local business tax	(14,534)	(2,025)
Innovation contribution	(2,447)	(305)
Income tax income / (expense)	**(12,222)**	**(5,799)**

Both in the reporting period and in the comparative period, the corporate income tax rate was 9% levied on the taxable profit in Hungary. Due to this, 9% nominal income tax rate was applied both for current income tax and deferred tax purposes. In addition to the corporate income tax, the Group classifies the local business tax and innovation contribution also as income taxes as of 2022.

A reconciliation of corporate tax payable for pre-tax profit or loss, calculated with the tax rate determined by law, and the Group's current rate of tax, applicable to the balance sheet date, is the following:

Determination of the effective tax rate	2022		2021	
	%	HUF million	%	HUF million
Profit before income tax		***103,390***		***65,782***
Income tax using the domestic corporation tax rate	9,00%	(9,305)	9,00%	(5,711)
Local business tax	14,06%	(14,534)	3,08%	(2,025)
Innovation contribution	2,37%	(2,447)	0,46%	(305)
Effect of tax rates in foreign jurisdictions	-	-	0,01%	(4)
Movement of unrecognized temporary differences	-	-	0,10%	(68)
Unrecognized tax losses for the reporting period	0,81%	(836)	-	-
Non-deductible expense	0,20%	(207)	0,52%	(341)
Tax exempt income	-2,16%	2,231	-0,55%	360
Revaluation of unrecognised tax losses carryforwards	-11,63%	12,026	-3,24%	2,134
Effect of tax credits	-0,69%	710	0,13%	84
Effect of corporate tax group	-0,90%	933	-	-
Tax effect derived from consolidation and other effects	0,77%	(793)	-0,12%	77
Income tax (income) / expense	**11,82%**	**(12,222)**	**9,13%**	**(5,799)**

MKB is a member of a corporate income tax group. Therefore, corporate income tax is not assessed on a standalone basis, rather it is impacted by the overall tax position of the corporate income tax group.

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The Group relied on its available business plans for calculating the amount of tax losses that can be offset against future tax bases. The Group completed a sensitivity analysis in connection with the feasibility of the profit before tax for the next five years set out in the Group's strategy. In the analysis the Group concluded that the realisation of the Deferred Tax Assets presented in financial statements is secured even if during the next five years, the profit before tax of the Group disclosed in its strategy will be reduced by 10%.

Tax losses can be offset against up to 50% of future tax bases. On 31 December 2022, the Group had unused tax losses amounting to HUF 315,784 million (2021: HUF 256,552 million) with the following maturity:

	2022	2021
Maturity between 1 and 5 years	58,340	9,844
Maturity between 5 and 10 years	257,444	246,708
Accrued negative corporate tax base	**315,784**	**256,552**

The deadline for the use of tax losses generated before 2015 is 2030.

4.9 Deferred tax assets and liabilities

Deferred tax assets and liabilities arise under the following grounds:

	2022			2021		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Provisions	642	-	642	158	-	158
Intangible assets	156	(16)	140	142	-	142
Property, plant and equipment	71	(307)	(236)	-	(124)	(124)
Allowances for loan losses	11	-	11	95	-	95
Other items	-	(2,756)	(2,756)	-	-	-
Tax-loss carry-forward	20,339	-	20,339	5,363	-	5,363
Securities	3,309	(26)	3,283	2,355	-	2,355
Net deferred tax asset / (liability)	**24,528**	**(3,105)**	**21,423**	**8,113**	**(124)**	**7,989**

During 2022 the Group recognised deferred tax income HUF 598 million in other comprehensive income and HUF 7,276 million in profit or loss.

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4.10 Cash and cash equivalents

	31.12.2022	31.12.2021
Cash	78,070	23,107
Receivables against central bank	1,172,983	796,337
Other current receivables from banks	110,262	35,526
Cash and cash equivalents	**1,361,315**	**854,970**

Cash and cash equivalents balance sheet line shows the cash assets of the Group and the balance of its accounts managed at the Central Bank of Hungary and at other credit institutions. The Bank is required to maintain an appropriate reserve with the NBH equivalent to 7% of certain deposits for December 2022. The daily required limit was set at 5% in the current regulatory reserve.

4.11 Loans manadorily measured at FVTPL

During the reporting period, the Group has implemented the following activities to further develop the fair value measurement model in order to increase the confidence level of the model.

- Updating statistical data in the cash flow run-off model
- Change in the calculation methodology of the cost of capital
- Incorporate a risk premium in the discount calculation by shifting the yield curve
- Revision of the operating expenses and liquidity premium

Considering the above, the Group has identified the following effect in the P/L:

- The increase in the discount rate for operating expenses from 1.1% to 1.2% increased the fair value by HUF 3.02 billion.
- The reduction of the cost of capital by 8bp decreased the fair value by HUF 2.41 billion.
- By shifting the SWAP yield curve by 3.6bp, the net fair value increased by HUF 0.78 billion.
- The 1% reduction in the KSH rate for unborn children increased the fair value by HUF 0.6 billion.
- Overall, the four effects increased the fair value by HUF 2 billion.

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Loans to customers mandatorily measured at FVTPL	**Total**
Opening fair value at 1st January 2022	***53,295***
Increase from business combination	285,163
FV and other movements	(38,836)
Unwritten financial assets derecognised during the current year	(5,844)
Financial assets acquired or created	124,739
Closing fair value value at 31st December 2022	***418,517***

Loans to customers mandatorily measured at FVTPL	**Total**
Opening fair value at 1st January 2022	***40,798***
FV and other movements	(2,055)
Unwritten financial assets derecognised during the current year	1,028
Financial assets acquired or created impaired	13,524
Closing fair value value at 31st December 2022	**53,295**

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4.12 Securities held for trade and securities mandatorily measured at FVTPL

Securities held for sale	31.12.2022	31.12.2021
Debt securities	49,612	3,017
Equity instruments	311	947
Total	**49,923**	**3,964**

Securities mandatorily measured at FVTPL	31.12.2022	31.12.2021
Debt securities	20	-
Equity instruments	24,849	7,537
Total	**24,869**	**7,537**

Composition of securities	31.12.2022	31.12.2021
Treasury bills	1,581	8
Hungarian government bonds	47,886	2,967
Corporate bonds	165	185
Domestic shares	16,851	947
Foreign shares	3,305	1,679
Investment units	5,004	5,715
Securities measured at FVTPL	**74,792**	**11,501**

4.13 Derivative financial instruments

The Group records derivative financial instruments in its books for trading. In the case of instruments listed on a stock exchange, fair value recorded in the balance sheet was determined on the basis of the market value valid on the balance sheet date. The Group uses the discounted cash-flow method to determine the fair value of over-the-counter transactions.

	31.12.2022		31.12.2021	
	Asset	Liability	Asset	Liability
Derivative instruments by type				
Interest rate swap	290,769	193,872	92,867	29,391
Forward transactions	5,504	9,799	7,802	3,394
Cross-currency interest rate swap	26,801	8,827	-	-
Foreign exchange swap	1,885	21,589	2,137	1,653
Options	1,408	1,019	342	196
Futures transactions	1	4	-	-
Other	41	767	1,211	6,894
Total	**326,409**	**235,877**	**104,359**	**41,528**

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Hedging derivatives

The fair value of micro hedge transaction on the record date is shown in the following table:

Micro-fair value hedge transactions	12.31.2022 Asset	12.31.2022 Liability	12.31.2021 Asset	12.31.2021 Liability
Interest rate swap	164,338	166	-	-
Cross-currency interest rate swaps	-	-	-	-
Fair value hedge transactions	***164,338***	***166***	***-***	***-***
Interest rate swap	-	-	-	-
Cross-currency interest rate swaps	-	1,199	-	-
Cash flow hedge transactions	***-***	***1,199***	***-***	***-***
Total	**164,338**	**1,365**	**-**	**-**

The maturity breakdown of hedges by face value is shown in the table below:

Maturity breakdown of hedge transactions - face value	up to 1 month	1 month to 3 months	Maturity 3 months to 12 months	1 year to 5 years	5 years and over
Interest rate swap	-	-	-	148,900	222,788
Cross-currency interest rate swaps	-	-	-	45	1,828
Micro hedges	***-***	***-***	***-***	***148,945***	***224,616***
Interest rate swap	220	3,959	33,121	123,499	105,099
Cross-currency interest rate swaps	-	-	-	-	-
Macro hedges	***220***	***3,959***	***33,121***	***123,499***	***105,099***
Total	**220**	**3,959**	**33,121**	**272,444**	**329,715**

The table below shows the breakdown of micro and macro hedging interest rate swaps at the balance sheet date:

31.12.2022	Face value of interest rate swaps	Fair value differences on IRSs designated as hedges
Macro hedge - Asset	265,898	75,522
Macro hedge - Liability	-	-
Micro hedge - Asset	354,688	86,599
Micro hedge - Liability	18,874	(1,365)
Total	**639,460**	**160,756**

31.12.2022	Fix-interest loans	Interest rate swap	Net profit/loss
Macro hedge – Positive fair value change	31,633	45,393	
Macro hedge – Negativ fair value change	(45,950)	(20,851)	
Total	**(14,317)**	**24,542)**	**10,225**

In 2022 the Group accounted for a profit of HUF 10,2 billion on interest swaps in macrohedging relationships. During the last three quarters of 2022 the terms of hedging relationships, the Group accounted for a loss of HUF 14.3 billion on changes in interest risks related to the hedged fixed interest bearing loans which are stated in the balance sheet line “Loans and advances to customers”. The HUF 14.3 billion loss on loans is the sum of HUF +8.8 billion amortisation of the previous years' losses and 23.1 billion loss on the fixed rate interest loans during the last 9 months. An unamortised sum of HUF 51.7 billion arising from closed hedging relationships is recorded in the balance sheet line “Fair value change of hedged items in portfolio hedge of interest rate risk”. At the date of the merge was HUF -37.4 billion negative fair value difference was recognised in the line of Fair value change of hedged items in portfolio hedge of interest rate risk in the statement of financial position.

Offsetting of financial assets and liabilities according to IFRS7.13 A-F

This disclosure represents the financial instruments that are set off or that are subject to an enforceable master netting agreement or similar agreement, irrespective whether they are set off or not.

As of reporting date the Group had no enforceable master netting agreement or similar agreement which should be set off in accordance with IAS 32.42.

The below table presents all the amounts that could potentially have been subject to an enforceable master netting agreement or similar agreement that are recognized financial instruments. As these agreements and the amounts related to them as financial collateral do not meet some or all offsetting criteria in IAS 32.42., the Bank does not apply offsetting to either of them. This is because the agreements constitute rights for an offset that is enforceable only in case of default, insolvency or bankruptcy of the Group or its counterparties. In addition the Group or the counterparties do not intend to settle on a net basis or realize the assets and settle the liabilities simultaneously.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

The Group receives and gives collateral in the form of cash and marketable securities in respect of following transactions:

- derivatives,
- sale and repurchase agreements, reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms, including an ISDA Credit Support Annex.

The table below presents the potential effect of the not implemented offsetting as well.

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31.12.2022 Offsetting financial assets	IAS 32.42			similar netting arrangement			Net amount of financial assets after offsetting / similar agreement / collaterals
	Gross carrying amount before offsetting	Gross amounts of offsetting	Recognized net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivative financial assets	386,052	-	386,052	179,999	89,369	269,368	116,684
Receivables concerning repos							
Loans and advances to customers	1,070	-	1,070	-	1,070	1,070	-
Financial assets under netting agreements	**387,122**	**-**	**387,122**	**179,999**	**90,439**	**270,438**	**116,684**

31.12.2022 Offsetting financial liabilities	IAS 32.42			similar netting arrangement			Net amount of financial assets after offsetting / similar agreement / collaterals
	Gross carrying amount before offsetting	Gross amounts of offsetting	Recognized net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivative financial liabilities	219,910	-	219,910	179,945	14,732	194,677	25,233
Liabilities concerning repos							
Amounts due to customers	-	-	-	-	-	-	-
Financial liabilities under netting agreements	**219,910**	**-**	**219,910**	**179,945**	**14,732**	**194,677**	**25,233**

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31.12.2021	IAS 32.42			similar netting arrangement			Net amount of financial assets after offsetting / similar agreement / collaterals
Offsetting financial assets	Gross carrying amount before offsetting	Gross amounts of offsetting	Recognized net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit	credit		tartozik	debit	credit	
Derivatives							
Derivative financial assets	61,738	-	61,738	29,441	6,746	36,187	25,551
Receivables concerning repos							
Loans and advances to customers	20,263	-	20,263	-	20,263	20,263	-
Financial assets under netting agreements	**82,001**	**-**	**82,001**	**29,441**	**27,009**	**56,450**	**25,551**

31.12.2021	IAS 32.42			similar netting arrangement			Net amount of financial assets after offsetting / similar agreement / collaterals
Offsetting financial liabilities	Gross carrying amount before offsetting	Gross amounts of offsetting	Recognized net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivative financial liabilities	33,505	-	33,505	29,441	3,807	33,248	257
Liabilities concerning repos							
Amounts due to customers	1,319	-	1,319	-	1,319	1,319	-
Financial liabilities under netting agreements	**34,824**	**-**	**34,824**	**29,441**	**5,126**	**34,567**	**257**

The gross amounts of financial assets and liabilities presented in the table above measured in the financial statements on the following bases:

- Financial assets measured at FVTPL – fair value,
- Derivative financial instruments – fair value,
- Loans and advances to customers – amortised cost, pledged collateral – fair value,
- Deposits and current accounts – amortised cost, pledged collateral – fair value.

The table below reconciles the Net amount after offsetting to the related individual line items of the Statement of Financial position.

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Reconciliation of net amount to the financial statement line items

12.31.2022 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Net amount after offsetting / similar agreement / collaterals	Financial assets not in scope of offsetting disclosure
Derivative financial assets	386,052	490,747	104,695
Loans and advances to customers and Repurchase assets	1,070	4,343,871	4,343,801

12.31.2022 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Net amount after offsetting / similar agreement / collaterals	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	219,910	237,242	17,173
Loans and advances from customers	-	6,574,357	6,574,357

12.31.2021 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Net amount after offsetting / similar agreement / collaterals	Financial assets not in scope of offsetting disclosure
Derivative financial assets	61,738	104,402	42,664
Loans and advances to customers	20,263	1,148,411	1,128,148

12.31.2021 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Net amount after offsetting / similar agreement / collaterals	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	33,505	41,528	8,023
Loans and advances from customers	1,319	2,218,367	2,217,048

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4.14 Financial assets measured at fair value through other comprehensive income

	31.12.2022	31.12.2021
Debt securities	621,762	187,681
Equity instruments	9,083	-
Assets measured at FVTOCI	**630,845**	**187,681**

Debt securities of the Group fulfilling the SPPI requirements, obtained for the purpose of holding and selling, are measured at fair value through other comprehensive income. Of equity securities, non-trading securities in the case of which the Group irreversibly applies the FVTOCI option are recorded in the category measured through other comprehensive income.

The below table shows the composition of equity instruments and debt instruments measured at fair value through other comprehensive income:

	31.12.2022	31.12.2021
Hungarian Government bonds	510,223	118,625
Hungarian corporate bonds	50,758	69,056
Bonds issued by Hungarian banks	42,555	-
Bonds issued by foreign banks	18,226	-
Domestic sheres	5,721	-
Foreign shares	75	-
Investment funds	3,287	-
Impairment losses	***(136)***	***(238)***
Securities measured at FVOCI	**630,845**	**187,681**

The amount of impairment of the FVTOCI financial assets, which is accounted for between other comprehensive income reserve and profit or loss, does not decrease the carrying amount of the financial assets.

The amount of debt securities measured at FVTOCI was HUF 621,762 million at the end of the reporting period. The Group's equity instruments measured at FVTOCI on 31 December 2022 was HUF 9,083 million.

In connection to the increase of the prevailing interest rate the revaluation on financial assets measured at FVTOCI changed to HUF 3,605 million from HUF -20,009 million. The effect on deferred tax is disclosed in Note 4.9.

As at 31 December 2022 the total amount of revaluation reserve comprises HUF -21,357- million (2021: HUF -23,569- million).

In 2022, HUF -35,924 million loss on sale (2021: HUF 14,610 million gain) was recognized in the profit or loss relating to securities measured at FVTOCI, which is a reclassification from other comprehensive income into profit or loss.

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4.15 Financial assets measured at amortized cost

Financial assets measured at amortised cost include loans to customers and credit institutions, deposits with other banks and debt securities whose cash flows represent only principal and interest payments.

Financial assets measured at amortised cost	31.12.2022	31.12.2021
Loans and advances to customers	4,342,801	1,143,764
Loans and advances to banks	179,088	36,940
Repurchase assets	1,070	18,868
Debt securities	2,781,620	804,569
Other financial assets	72,676	989
Total	**7,377,255**	**2,005,130**

During Q3 2022, the Group took over the outstanding loan agreements between Sberbank Magyarország Zrt. (under liquidation) and its customers, based on the authorisation received from NHB. The transfer of the portfolio took place with effect from 1 August 2022, under which HUF 246,189 million legal claim of retail and corporate loan portfolio was transferred to MKB Bank, as a result of which the Group has achieved a significant expansion in the strategically important retail and corporate lending.

For a consideration of HUF 211,179 million, which was the fair value of the acquired loans, the Group acquired a loan portfolio of HUF 246,189 million legal claim, of which 32% wholesale, 68% retail loans. The best estimate at the date of transfer for the contractual cash flows from acquired loans not expected to be collected amounts to HUF 7,103 million.

The migration of Sberbank's loan portfolio to the Group’s core system was successfully completed in the last quarter of 2022.

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4.15.1 Securities measured at amortized cost

Securities measured at amortised cost	31.12.2022	31.12.2021
Hungarian Government bonds	2,312,424	706,519
Hungarian corporate bonds	229,626	98,583
Bonds issued by Hungarian banks	217,189	-
Bonds issued by foreign banks	27,269	-
Impairment loss	***(4,888)***	***(533)***
Total	**2,781,620**	**804,569**

The following tables show the composition of debt instruments measured at amortised cost by stage:

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Hungarian Government bonds	2,312,424	-	-	2,312,424
Hungarian corporate bonds	228,417	1,209	-	229,626
Bonds issued by Hungarian banks	210,620	6,569	-	217,189
Bonds issued by foreign banks	27,269	-	-	27,269
Impairment loss	***(2,630)***	***(2,258)***	-	***(4,888)***
Securities measured at amortised cost	**2,776,100**	**5,520**	**-**	**2,781,620**

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Hungarian Government bonds	706,519	-	-	706,519
Hungarian corporate bonds	98,583	-	-	98,583
Bonds issued by Hungarian banks	-	-	-	-
Bonds issued by foreign banks	-	-	-	-
Impairment loss	***(533)***	-	-	***(533)***
Securities measured at amortised cost	**804,569**	**-**	**-**	**804,569**

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4.15.2 Presentation of loans measured at amortised cost by stage

31 December 2022.	Gross value	Impairment Stage1	Impairment Stage2	Impairment Stage3	POCI	Total Impairment	Book value
Loans and advances to banks	179,207	(119)	-	-	-	(119)	179,088
Loans and advances to customers	4,558,061	(37,435)	(75,036)	(101,525)	(1,318)	(215,314)	4,342,801
Total	**4,737,322**	**(37,554)**	**(75,036)**	**(101,525)**	**(1,318)**	**(215,433)**	**4,521,889**

31 December 2021.	Gross value	Impairment Stage1	Impairment Stage2	Impairment Stage3	POCI	Total Impairment	Book value
Loans and advances to banks	36,978	(38)	-	-	-	(38)	36,940
Loans and advances to customers	1,192,065	(5,101)	(19,505)	(21,583)	(2,112)	(48,301)	1,143,764
Total	**1,229,043**	**(5,139)**	**(19,505)**	**(21,583)**	**(2,112)**	**(48,339)**	**1,180,704**

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4.15.3 Movement of loans measured at amortised cost

Gross book value	Stage 1	Stage 2	Stage 3	POCI	Total
Opening gross book value on 01.01.2022	***952,984***	***216,675***	***34,930***	***5,764***	***1,210,353***
Reclassifications					
from Stage 1 to Stage 2	(606,210)	606,210	-	-	-
from Stage 1 to Stage 3	(36,929)	-	36,929	-	-
from Stage 2 to Stage 1	221,463	(221,463)	-	-	-
from Stage 2 to Stage 3	-	(29,859)	29,859	-	-
from Stage 3 to Stage 1	8,523	-	(8,523)	-	-
from Stage 3 to Stage 2	-	9,287	(9,287)	-	-
Increase from business combination*	2,276,989	513,579	128,485	1,243	2,920,296
Change in EAD	(483,851)	(117,267)	(16,489)	4,496	(613,111)
Unwritten financial assets derecognized during the current year	(182,440)	(63,759)	(12,962)	(6,238)	(265,399)
Financial assets written off in current year	-	-	(7)	-	(7)
Derecognition and reclassification during the current year due to classification as held for sale	(472)	-	(12,169)	-	(12,641)
Financial assets originated or purchased**	1,167,045	122,736	32,661	4,558	1,327,000
FX and other movements	(247)	(1,634)	(6,287)	(208)	(8,376)
Closing gross book value on 31.12.2022	***3,316,855***	***1,034,505***	***197,140***	***9,615***	***4,558,115***

* business combination under common control
** line includes the subsequent measurement (reclassification to stage 2 or stage 3) of pruchased financial assets as well

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Impairment of assets	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**POCI** **Financial assets acquired or created impaired**	**Total**
Opening cumulated impairment at 1st January 2022	***5,101***	***19,505***	***21,583***	***2,112***	***48,301***
Reclassifications					
from Stage 1 to Stage 2	(6,915)	6,915	-	-	-
from Stage 1 to Stage 3	(353)	-	353	-	-
from Stage 2 to Stage 1	10,193	(10,193)	-	-	-
from Stage 2 to Stage 3	-	(2,489)	2,489	-	-
from Stage 3 to Stage 1	3,780	-	(3,780)	-	-
from Stage 3 to Stage 2	-	4,424	(4,424)	-	-
Increase from business combination*	25,464	27,805	63,340	642	117,251
Change in EAD	(6,305)	18,968	20,046	417	33,126
Unwritten financial assets derecognised during the current year	(1,226)	(2,150)	(5,172)	(1,710)	(10,258)
Financial assets written off in current year	-	-	(5)	-	(5)
Derecognition and reclassification during the current year due to classification as held for sale	(2)	-	(8,949)	-	(8,951)
Financial assets originated or purchased**	12,517	14,841	12,119	329	39,806
FX and other movements	(4,819)	(2,590)	3,925	(472)	(3,956)
Closing cumulated impairment at 31st December 2022	***37,435***	***75,036***	***101,525***	***1,318***	***215,314***

** business combination under common control*

*** line includes the subsequent measurement (reclassification to stage 2 or stage 3) of pruchased financial assets as well*

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Gross book value	Stage 1	Stage 2	Stage 3	POCI	Total
Opening gross book value at 1st January 2021	***986,115***	***97,125***	***29,098***	***6,441***	***1,118,779***
Reclassifications					
from Stage 1 to Stage 2	(209,376)	209,376	-	-	-
from Stage 1 to Stage 3	(2,573)	-	2,573	-	-
from Stage 2 to Stage 1	40,685	(40,685)	-	-	-
from Stage 2 to Stage 3	-	(12,135)	12,135	-	-
from Stage 3 to Stage 1	504	-	(504)	-	-
from Stage 3 to Stage 2	-	1,926	(1,926)	-	-
Change in EAD	(16)	3,035	297	111	3,427
Unwritten financial assets derecognised during the current year	-	-	-	-	-
Financial assets written off in current year	-	-	-	-	-
Derecognition and reclassification during the current year due to classification as held for sale	-	-	(1,056)	-	(1,056)
Financial assets originated or purchased	263,691	13,056	495	29	277,271
FX and other movements	(126,019)	(55,050)	(6,182)	(817)	(188,068)
Closing gross book value at 31st December 2021	***953,011***	***216,648***	***34,930***	***5,764***	***1,210,353***

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Impairment of assets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Financial assets acquired or created impaired	Total
Opening cumulated impairment at 1st January 2021	***8,454***	***14,387***	***20,649***	***2,124***	***45,614***
Reclassifications					
from Stage 1 to Stage 2	(3,254)	3,254	-	-	-
from Stage 1 to Stage 3	(37)	-	37	-	-
from Stage 2 to Stage 1	479	(479)	-	-	-
from Stage 2 to Stage 3	-	(531)	531	-	-
from Stage 3 to Stage 1	32	-	(32)	-	-
from Stage 3 to Stage 2	-	194	(194)	-	-
Change in EAD	3,357	5,318	400	14	9,089
Unwritten financial assets derecognised during the current year	-	-	-	-	-
Financial assets written off in current year	-	-	-	-	-
Derecognition and reclassification during the current year due to classification as held for sale	-	-	(931)	-	(931)
Financial assets originated or purchased	(623)	(4,570)	5,231	296	334
FX and other movements	(3,307)	1,932	(4,108)	(322)	(5,805)
Closing cumulated impairment at 31st December 2021	***5,101***	***19,505***	***21,583***	***2,112***	***48,301***

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4.16 Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures	31.12.2022	31.12.2021
Cost	44,381	8,586
Share of post acquisition reserves	1,535	-
Investment in associates	***45,916***	***8,586***
Investments in other subsidiaries and associates	3,683	-
Total	**49,599**	**8 586**

The Group does not recognise Goodwill in the financial statements.

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Financial data of associates and joint ventures

General and financial data of associates and joint enterprises are shown below:

Magyar Strat-Alfa Zrt.

General information	
Activity	Sale of own property
Country of incorporation	Hungary
Ownership % (direct & non-direct)	50%
Proportion of the voting rights held	50%
Relation	Associate
Involvement	Equity method
Financial data	**31.12.2022**
Cash and cash equivalents	620
Other current assets	*4*
Current assets	624
Non-current assets (investments)	67,986
Other assets	-
Total assets	***68,610***
Amounts due to banks	21,043
Liabilities from customers	132
Other liabilities	-
Total liabilities	***21,175***
Equity	47,435
Total Equity and liabilities	***68,610***
Revenue	-
Other income	-
Total revenue	***-***
Other expenses	(117)
Depreciation	-
Total expenses	***(117)***
Financial result	(130)
Income tax expense	-
Profit after tax	***(247)***
Dividend paid	

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MKB Magántőkealap

General information	
Activity	Fund management
Country of incorporation	Hungary
Ownership % (direct & non-direct)	30%
Proportion of the voting rights held	30%
Relation	Associate
Involvement	Equity method
Financial data	**31.12.2022**
Cash and cash equivalents	*25,536*
Other current assets	-
Current assets	25,536
Non-current assets (investments)	46,893
Other assets	502
Total assets	***72,931***
Amounts due to banks	-
Liabilities from customers	-
Other liabilities	23
Total liabilities	***23***
Equity	72,908
Total Equity and liabilities	***72,931***
Revenue	-
Other income	-
Total revenue	***-***
Other expenses	(496)
Depreciation	-
Total expenses	***(496)***
Financial result	2,159
Income tax expense	-
Profit after tax	***1,663***
Dividend paid	-

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Takarék Kockázati Tőkealap

General information	
Activity	Investment fund management activity
Country of incorporation	Hungary
Ownership % (direct & non-direct)	23,08%
Proportion of the voting rights held	23,08%
Relation	Associate
Involvement	Equity method
Financial data	**31.12.2022**
Cash and cash equivalents	*933*
Other current assets	*110*
Current assets	1,043
Non-current assets (investments)	10,584
Other assets	309
Total assets	***11,936***
Amounts due to banks	-
Liabilities from customers	-
Other liabilities	109
Total liabilities	***109***
Equity	11,827
Total Equity and liabilities	***11,936***
Revenue	-
Other income	-
Total revenue	***-***
Other expenses	(175)
Depreciation	-
Total expenses	***(175)***
Financial result	345
Income tax expense	-
Profit after tax	***170***
Dividend paid	-

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4.17 Tangible assets and intangible assets

Movements in the Group's tangible and intangible assets recognized in the consolidated financial position for the current and previous years are shown in the two tables below. Current year depreciation is recorded in the statement of profit or loss among operating expenses. Movement table for 2022 do not include right-of-use assets, disclosures in connection to them are included in note 4.26.

31st December 2022	Intangible assets	Freehold property	Owned equipments	Total
Cost				
Opening balance at 01.01.2022	***85,766***	***25,558***	***20,069***	***131,393***
Additions – including internally developed	69,378	18,843	30,269	118,490
Additions from business combination	33,235	36,251	6,370	75,856
Other modification	-	511	415	926
Disposals	(2,385)	(5,326)	(10,800)	(18,511)
Closing balance at 31st December 2022	**185,994**	**75,837**	**46,323**	**308,154**
Depreciation and impairment losses				
Opening balance at 01.01.2022.	***53,980***	***9,609***	***14,618***	***78,207***
Depreciation charged for the year	49,912	10,240	16,742	76,894
Additions from business combition	12,304	3,140	3,884	19,329
Impairment loss	-	240	113	353
Other modification	527	-	-	527
Disposals	(1,240)	(2,011)	(9,620)	(12,871)
Closing balance at 31.12.2022	**115,483**	**21,218**	**25,737**	**162,438**
Book value				
01.01.2022	31,786	15,949	5,451	53,186
31.12.2022.	70,511	54,619	20,586	145,716

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31 December 2021.	Tangible assets	Freehold property	Owned equipments	Total
Cost				
Opening balance at 01.01.2021	***84,629***	***35,274***	***22,193***	***142,096***
Additions – including internally developed	17,521	1,311	1,565	20,397
Other modification	(96)	1,054	(107)	851
Disposals	(16,289)	(297)	(2,309)	(18,895)
Closing balance at 31.12.2021	**85,765**	**37,342**	**21,342**	**144,449**
Depreciation and impairment losses				
Opening balance at 01.01.2021	***55,950***	***12,670***	***15,282***	***83,902***
Depreciation charged for the year	4,776	2,740	2,024	9,540
Impairment loss	-	16	115	131
Other modification	(6,710)	(254)	(2,129)	(9,093)
Disposals	(37)	364	(148)	179
Closing balance at 31.12.2021	**53,979**	**15,536**	**15,144**	**84,659,**
Book value				
01.01.2021	28,679	22,604	6,911	58,194
31.12.2021.	31,786	21,806	6,198	59,790

Note: Leased assets are included in the movement table for the year 2021.

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4.18 Other assets

Other assets	31.12.2022	31.12.2021
Taxes, duties and other fiscal items	11,017	3,905
Intermediary services	481	496
Assets received against receivable	386	-
Other prepaymants and receivables	57,155	16,156
Total	**69,039**	**20,557**

4.19 Financial liabilities designated as measured at fair value through profit or loss

Financial liabilities at FVTPL	31.12.2022	31.12.2021
Derivative financial liabilities	235,877	41,528
Short positions	42,326	2,223
Total	**278,203**	**43,751**

The Group recognised short positions due to government bond trasactions.

4.20 Financial liabilities at amortized cost

Financial liabilities measured at amortised cost	31.12.2022	31.12.2021
Deposits	6,848,768	2,239,207
Loans	2,104,060	674,516
Issued debt securities	290,838	-
Subordinated debt	88,887	45,070
Other financial liabilities	83,722	32,553
Total	**9,416,275**	**2,993,346**

Financial liabilities measured at amortised cost	31.12.2022	31.12.2021
Amounts due to banks	2,378,471	699,563
Deposit and current accounts	6,574,357	2,212,841
Total	**8,952,828**	**2,912,404**

Deposits, loans received, debt securities issued within the Group measured at amortised cost and other financial liabilities are recognized among financial liabilities at amortised cost. In Deposits, the accounts, deposits of clients and deposits of other credit institutions placed with the Group are recognized. Loans received shows the liabilities related to the Funding for Growth Scheme (FGS) loans refinanced by the Hungarian National Bank and liabilities towards Hungarian Development Bank.

Note 4.21 describes in detail the debt securities issued. Other financial liabilities typically include liabilities related to the investment accounts of clients and accounts payable.

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4.21 Debt securities issued

The stock of debt securities issued by the Group is related to the Takarék Jelzálogbank, which generates most of the funds necessary for its operation by issuing mortgage bonds.

The following table represents the amount of issued mortgage bonds measured at amortised cost:

Mortgage bonds issued	31.12.2022		31.12.2021	
	Face value	Book value	Face value	Book value
Variable rate bonds	30,326	30,859	-	-
Fixed rate bonds	267,635	259,979	-	-
Total bonds	**297,961**	**290,838**	**-**	**-**

Book value of securities issued Maturity	31.12.2022	31.12.2021
Up to 1 year	53,151	-
1 year to 5 years	127,139	-
Over 5 years	110,548	-
Total	**290,838**	**-**

Mortgage bonds

Mortgage bonds are registered or transferable bearer securities, which can only be issued by mortgage credit institutions under Act XXX of 1997 (hereinafter referred to as Mortgage Loan Act). Prior to their issue, an asset controller mandatorily reviews whether the Group possesses adequate collateral for the planned issue. Such collateral may be (i) ordinary collateral such as the principal and interest receivables from mortgage loans provided by the Group in accordance with the standard collateral requirements (including interest subsidies), the repurchase price of an independent lien and the related refinancing interest, and (ii) additional collateral such as, typically, government securities and related interest and any principal and interest receivables guaranteed by the government. According to the Mortgage Loan Act, if the amount of principal receivable exceeds 60% of the collateral value of related property offered, only the receivable corresponding to 60% of the collateral value and the proportionate amount of interest can be considered as an ordinary collateral. The Act governs the proportion between ordinary and additional collaterals backing the mortgage bonds: at least 80% of all collateral must be ordinary collateral.

In addition to the requirements under the Mortgage Loan Act, the Group must at all times maintain the following:

- cover for the nominal value: the nominal value of the ordinary collateral (the underlying principal excluding the provision for any impairment loss and interest) should exceed 100% of the not yet repaid nominal value of the mortgage bonds outstanding,
- if the requirement in clause (i) is not fulfilled, the Group has to acquire additional collateral to the extent that the sum of the nominal values of the ordinary and additional collaterals always exceed 100% of the not yet repaid nominal value of the mortgage bonds outstanding,
- cover for the interest: the interest on the principal of the ordinary and additional collaterals should exceed 100% of the interest on the not yet repaid nominal value of the mortgage bonds outstanding.

In addition to assessing the nominal value of the cover of mortgage bonds and the underlying collaterals, the Mortgage Loan Act stipulates that collateral for mortgage bonds should also be assessed at present value. The present value of collateral exceeded the present value of mortgage bonds outstanding not yet repaid throughout the period.

The Group fullfills the requirements of the Mortgage Funding Adequacy Ratio (JMM) introduced by NBH.

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4.22 Forborne assets

31.12.2022	Performing forborne assets	Non-performing forborne assets	Total forborne assets (gross amount)
Government-held owner	-	16	16
Other financial companies	128	1,284	1,412
Non-fianacial companies	72,332	37,882	110,214
Households	117,554	55,311	172,865
Total	**190,014**	**94,493**	**284,507**

31.12.2021	Performing forborne assets	Non-performing forborne assets	Total forborne assets (gross amount)
Government-held owner	-	-	-
Other financial companies	65	41	106
Non-fianacial companies	53,951	13,429	67,380
Households	88,316	15,606	103,922
Total	**142,332**	**29,076**	**171,408**

Forborne assets	31.12.2022			31.12.2021		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Government-held owner	16	(8)	8	-	-	-
Other financial companies	1,412	(354)	1,058	106	(23)	83
Non-fianacial companies	110,214	(24,571)	85,643	67,380	(16,001)	51,379
Households	172,865	(33,552)	139,313	103,922	(11,374)	92,548
Total forborne assets	**284,507**	**58,485**	**226,022**	**171,408**	**(27,398)**	**144,010**

4.23 Subordinated liabilities

Subordinated liabilities represent the Group’s direct, unconditional and unsecured subordinated bonds issued, which has subordinated status in relation to the Group’s liabilities to other depositors and creditors.

31.12.2022	Interest	Date of issue	Maturity date	Amount in original currency	Original currency	Book value
Subordinated debt	Fixed rate	26.05.2017	14.06.2024	36,900,000	EUR	15,134
Subordinated debt	Fixed rate	28.03.2019	15.04.2026	31,000,000	EUR	12,714
Subordinated debt	Fixed rate	26.05.2020	20.07.2028	51,300,000	EUR	21,039
Subordinated debt	Fixed rate	23.11.2020	23.11.2030	40,000,000,000	HUF	40,000
Total						**88,887**

31.12.2021	Interest	Date of issue	Maturity date	Amount in original currency	Original currency	Book value
Subordinated debt	Fixed rate	26.05.2017	14.06.2024	36,900,000	EUR	13,952
Subordinated debt	Fixed rate	28.03.2019	15.04.2026	31,000,000	EUR	11,721
Subordinated debt	Fixed rate	26.05.2020	20.07.2028	51,300,000	EUR	19,397
Total						**45,070**

The subordinated debts of HUF 40.000 million was recognized through the merger of Budapest Bank.

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4.24 Provision

Following table shows the movement of provision:

Provisions	Opening at 01.01.2022	Increase from business combination	Provisions made during the year	Release of provisions	Closing at 31.12.2022
Risk provision	3,134	6,643	27,006	(21,472)	15,311
Pension and severance pay	-	486	550	-	1,036
Provision for litigation	45	886	477	(789)	619
Provision for restructuring	-	25	4,511	(720)	3,816
Other provisions	451	1,954	-	(564)	1,841
Total provisions	**3,630**	**9,994**	**32,544**	**(23,545)**	**22,623**

Provisions	Opening at 01.01.2021	Provisions made during the year	Release of provisions	Closing at 31.12.2021
Risk provision	2,134	2608	(1,608)	3,134
Pension and severance pay	200	0	(200)	-
Provision for litigation	26	39	(20)	45
Provision for restructuring	-	-	-	-
Other provisions	470	29	(48)	451
Total provisions	**2,830**	**2,676**	**(1,876)**	**3,630**

Risk reserves are made in particular for existing commitments and contractual obligations. Changes in provisions are recognized under “Impairment and provision (loss)/income for credit risk” and “Other income/(expenses), net”.

Provisions for litigation are made for those contingent liabilities of the Group in relation to which the third parties involved may pursue claims against the Group. The outcome and schedule of litigations is uncertain.

Provision for other purposes includes the recognition of liabilities arising from a past event (legal or assumed) for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4.25 Other liabilities

	31.12.2022	31.12.2021
Other accrued expenses	39,600	14,488
Taxes, duties and other fiscal receivables	14,772	1,716
Initial fair value difference	11,902	5,077
Other liabilities	5,463	2,267
Total	**71,737**	**23,548**

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4.26 Leases

The Group, as lessee, mainly possesses lease contract for properties and vehicles. The following tables show the right-of-use assets and lease liabilities recorded because of these lease contracts:

	31.12.2022	31.12.2021
Own property, machinery and equipment	75,206	21,402
Right-of use assets	23,139	6,602
Total property, machinery and equipment	**98,345**	**28,004**

Lease liabilities reported in row of Other financial liabilities in statement of financial position:

Lease liabilities	31.12.2022	31.12.2021
Short-term	5,243	1,998
Long-term	27,869	12,117
Total lease liabilities	**33,112**	**14,115**

Maturity analysis - undiscounted contractual cash-flows	31.12.2022	31.12.2021
Up to 1 year	5,831	2 097
1 year to 5 years	16,565	4 897
Over 5 years	12,262	7 323
Total undiscounted lease liabilities	**34,657**	**14 317**

Right-of use assets	Property	Vehicles and other equipment	Total
Balance at 01.01.2022	***11,783***	***1,273***	***13,056***
Additions	12,991	739	13,730
Increase from business combination	14,482	1,618	16,100
Depreciation for the current year	6,593	1,104	7,697
Decrease	5,500	96	5,596
Balance at 31.12.2022	***27,163***	***2,430***	***29,593***

Total cash outflows related to leases	2022	2021
Total cash outflows related to leases	7,862	2,023

Items recognized in profit or loss relating to leased assets	2022	2021
Interest expense on lease liabilities	1,083	1,108

Items presented in the cash flow statement	2022	2021
Interest expense on lease liabilities	1,083	1,108
Payments related to the capital component of a lease liability	7,862	2,023

The Group, as lessee, did not apply the practical expedient of the lease payment modifications to their leases from COVID-19-related rent concessions. The value of contracts for which the Group does not expect to exercise the extension and / or exercise option is immaterial. The Group elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets (e.g including printers, IT equipment). The Group did not recognise any expense relating to leases of low-value assets and short-term leases for the reporting period (2021: HUF 26 million).

The relevant rules on measurement, recognition and presentation are disclosed in Note 2.

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4.27 Share of non-controlling owners

31st December 2022	Proportion of non-controlling interest	Proportion of votes on non-controlling interest	Primary place of activity	Total comprehensive income on non-controlling interest over the current period	Cumulative non-controlling interest
Takarék Jelzálogbank Nyrt.	47,95%	47,95%	1117 Budapest, Magyar Tudósok körútja 9. G. ép.	26	34,061
Takarékbank Zrt.	1,17%	1,17%	1117 Budapest, Magyar Tudósok körútja 9. G. ép.	1,612	2,682
MITRA Informatikai Zrt.	10,53%	10,53%	1138 Budapest, Váci út 193.	(82)	566
TIFOR Takarék Ingatlanforgalmazó Zrt.	0,65%	0,65%	1117 Budapest, Magyar Tudósok körútja 9. G. ép.	8	41
TIHASZ Takarék Ingatlanhasznosító Zrt.	0,46%	0,46%	1117 Budapest, Magyar Tudósok körútja 9. G. ép.	(3)	120
Takinfo Kft.	47,62%	47,62%	1125 Budapest, Fogaskerekű utca 4-6.	(5)	803
OPUS TM1	0,28%	0,28%	1056 Budapest, Váci utca 38.	1	(31)
DBH Invest Zrt.	0,50%	0,50%	1027 Budapest, Kacsa utca 15-23. 5. emelet	-	-
MKB Befektetési Alapkezelő Zrt.	24,46%	24,46%	1068 Budapest, Benczúr utca 11.	669	2,119
Total				**2,226**	**40,361**

In subsidiaries not included in the above table, there is no minority interest.

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4.28 Financial data of subsidiaries

The financial data of subsidiaries on the record date are summarized in the following table:

Company name	Total assets	Total liabilities	Total equity	Net income from interest, fees and commissions	After-tax profit or loss	Total comprehensive income	Total cash flow (net)
MITRA Informatikai Zrt.	29,772	24,390	5,382	(205)	(770)	(770)	4,735
Takarékbank Zrt.	3,511,717	3,284,849	226,869	174,188	18,329	19,491	17,289
Magyar Takarékszövetkezeti Bank Zrt.	1,742,900	1,713,647	29,253	(2,316)	(5,590)	(5,078)	121,210
Takarék Jelzálogbank Nyrt.	813,923	742,885	71,039	5,149	1,786	2,193	113
Takarék Lízing Zrt.	46,836	46,286	550	1,017	(701)	(701)	(1,191)
Takarék Ingatlan Zrt.	727	126	600	562	25	25	(521)
Takarék INVEST Kft.	16,388	64	16,324	13	(221)	(221)	1,558
TIFOR Takarék Ingatlanforgalmazó Zrt.	6,476	94	6,382	229	203	203	(2,960)
TIHASZ Takarék Ingatlanhasznosító Zrt.	26,679	534	26,145	52	(159)	(159)	(71)
Takarék Faktorház Zrt.	9,647	8,752	895	532	207	207	1
Takinfo Kft.	1,692	7	1,685	-	(11)	(11)	9
Takarék Zártkörű Befektetési Alap	10,715	6	10,709	162	126	(90)	(1,864)
Takarék Mezőgazdasági és Fejlesztési Magántőkealapd	24,119	14	24,105	768	750	750	(1,464)
OPUS TM1	2,297	3	2,293	8	42	51	25
MKB Üzemeltetési Kft.	37,863	1,844	36,019	573	1,543	1,543	(3,057)
Euroleasing Autólízing Szolgáltató Zrt.	276,361	270,266	6,095	6,063	(1,851)	(1,851)	(137)
MKB Bank MRP Szervezet	13,010	40	12,970	360	588	588	17
Retail Prod Zrt.	905	16	889	71	93	93	(70)
Budapest Eszközfinanszírozó Zrt.	2,442	1,408	1,034	75	(250)	(250)	-
Budapest Lízing Zrt.	107,058	101,663	5,396	1,837	(1,482)	(1,482)	-
MKB Befektetési Alapkezelő Zrt.	9,632	949	8,682	5,360	4,017	3,877	1,150

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4.29 Contingent liabilities

Commitments related to loans

Commitments related to loans include commitments to extend credit lines and guarantees, the purpose of which is to meet the demands of the clients of the Group.

Commitments to extend loans refer to contractual commitments to provide credit line and revolving loans.

Commitments typically have fixed expiry dates or have other provisions regarding its termination and typically generate an obligation for the client to pay a fee.

Guarantees comprising an irrevocable commitment for the Group to make payments if the client fails to fulfil its obligation to a third party bear a risk similar to that of loans.

Since the majority of commitments related to loans expire without being enforced or is terminated, the full contractual amount does not necessarily correspond to the future cash requirement.

31st December 2022	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Loan commitments provided	1,150,795	(5,456)	(3,153)	(2,930)	-	1,139,256
Financial guarantees provided	107,237	(896)	(1,086)	(424)	-	104,831
Other commitments provided	281,451	(771)	(520)	(71)	-	280,089
Total contingent liabilities	**1,539,483**	**(7,123)**	**(4,759)**	**(3,425)**	**-**	**1,524,176**

31st December 2021	Gross amount	Provision				Net amount Stage 1
		Stage 1	Stage 2	Stage 3	IAS 37	
Loan commitments provided	17,983	(34)	-	-	-	17,949
Financial guarantees provided	129,122	(289)	(279)	(43)	-	128,511
Other commitments provided	11,042	-	(14)	(5)	(496)	10,527
Total contingent liabilities	**158,147**	**(323)**	**(293)**	**(48)**	**(496)**	**156,987**

Other contingent liabilities include the sum of liabilities resulting from legal cases and other, probable future events the settlement of which will probably require the use of resources representing economic benefit.

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4.30 Related party transactions

For the purpose of the financial statements, the Group identified the related parties using the definition of IAS 24, therefore every enterprise that is directly or indirectly, through one or more intermediaries, controlled by the Group and key management personnel, including the members of the Board of Directors and the Supervisory Board, qualify as a related party.

All of the transactions concluded with related companies were concluded according to regular business procedures. The transactions include credit and deposit transactions, and off-balance sheet transactions. All of the transactions were carried out under the regular commercial conditions and by applying market interest rates, should there be any transactions that does not fulfil the conditions for normal course of business, the effect of that transaction is taken into consideration by the Group in its corporate tax base.

Key management personnel compensation for the period comprised:

31 December 2022	2022	2021
Short-term employee benefits	864	769
Other long-term benefits	50	-
Termination benefits	23	11
Share-based payment transactions	184	875
Total	**1,121**	**1,655**

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	Parent company and its group*		Non-consolidated subsidiaries		Associates		Key Management Personnel		Other related parties	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Assets										
Amounts due from banks	-	1,268	-	-	-	-	-	-	-	-
Loans and advances to customers	216,412	55,329	1,909	2,153	20,530	269	2,060	430	7,308	8,100
Derivative financial assets	271	3,342	-	-	1,036	-	-	-	-	141
Securities and equity instruments	42,813	455	3,423	1,793	20,682	614	-	-	280	1,336
Other assets	117	48	-	-	-	-	-	-	-	-
Liabilities										
Amounts due to banks	-	2,385	-	-	-	-	-	-	-	-
Current and deposit accounts	246,990	54,329	1,154	997	1,617	339	1,548	889	12,828	8,819
Derivative financial liabilities	-	1,128	-	-	-	-	-	-	-	1
Other liabilities	469	636	-	-	-	-	-	-	-	-
Profit or Loss										
Interest income	15,205	1,625	220	57	356	1	144	16	842	301
Interest expense	(10,791)	(549)	(48)	(5)	37	-	(3)	-	(1,442)	(44)
Net income from commissions and fees	713	414	14	14	111	47	20	47	235	94
Other income / (expense)	219	(237)	(12)	(11)	45	(4)	(1,368)	(1,660)	(126)	(82)
Contingencies and commitments	*163,486*	*80,978*	*1,937*	*1,990*	*477*	*113*	*550*	*30*	*5,837*	*86*
Undrawn commitments to extend credit	159,222	80,514	1,937	1,990	477	113	236	30	-	-
Guarantees	4,264	464	-	-	-	-	315	-	5,837	86
Expected credit loss / Impairment	*9,541*	*6,265*	*4,508*	*4,326*	*651*	*2*	*(9)*	*13*	*187*	*62*

*parties under the control of MBH shareholders

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4.31 Fair value of financial instruments

Information related to the fair value of financial assets and liabilities measured at fair value are as follows:

31st December 2022	Quoted prices available on the active market	Valuation techniques - with observable parameters	Valuation techniques - with significant non-observable parameters	Total
Financial assetes measured at fair value through profit or loss	6,221	559,318	418,517	984,056
Financial assets measured at FVTOCI	305,686	325,159	-	630,845
Total	**311,907**	**884,477**	**418,517**	**1,614,901**

31st December 2021	Quoted prices available on the active market	Valuation techniques - with observable parameters	Valuation techniques - with significant non-observable parameters	Total
Financial assetes measured at fair value through profit or loss	3,320	112,539	53,295	169,154
Financial assets measured at FVTOCI	116,195	71,487	-	187,682
Total	**119,515**	**184,026**	**53,295**	**356,836**

The Group measures fair values using the following measurement hierarchy:

- Level 1 (quoted prices available on the active market): Fair values of financial instruments traded in active markets are based on quoted market prices or dealers' price quotations. This category includes treasury bills, government bonds, other bonds, investment units, capital instruments and currency derivatives and stock futures transactions listed on a stock exchange or having an active market.

- Level 2 (valuation techniques - with observable parameters): this category includes instruments measured with the application of the following: quoted market prices in an active market of similar instruments; quoted prices of similar instruments in a market considered inactive; or other valuation techniques where every significant input originates from directly or indirectly observable market data. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments with observable market prices, and other valuation models. Assumptions and inputs applied in the valuation techniques include risk-free rates and benchmark rates, credit risk premiums and other premiums used to estimate discount rates, bond and share prices, foreign exchange rates, share indices, and the projected price volatilities. The majority of derivative transactions belong to this category, for example currency forwards and swaps, currency and interest rate swaps, and bonds whose market is active with limitations.

- Level 3 (valuation techniques - with significant non-observable parameters): valuation techniques applying a significant amount of unobservable inputs. This category contains all the instruments in the case of which the valuation techniques apply inputs that are based on unobservable data and where the unobservable inputs may have a significant impact on the valuation of the instrument. This category contains instruments which we value based on quoted prices of similar instruments, and in the case of which significant unobservable modifications or assumptions are necessary to reflect the differences between the instruments.

No reclassification was carried out between the levels of the fair value hierarchy in the fiscal year.

The methods and the assumptions applied in determining fair values of financial instruments when a valuation technique is used were as follows:

Cash and cash equivalents

Due to the short term nature, the carrying amount of Cash and cash equivalents is a reasonable approximation of their fair value.

Derivative financial instruments

Fair values of derivative financial instruments are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Securities

The fair values of instruments grouped into securities are based on quoted market prices, when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar securities. For further information, please refer to Note 4.12, 4.13, 4.15.1.

Loans to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. For the valuation of the loans to banks and customers, please refer to Note 4.15.

Amounts due to other banks and current and deposit accounts

For the purposes of estimating fair value, Amounts due to other banks and current and deposit accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities plus Group's own credit risk. For determining own credit risk (DVA – Debit Value Adjustment) the Group uses the own PD and LGD used also for risk purposes which is also in line with the DVA calculation method for negative fair value derivatives. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the end of the reporting period.

Issued debt securities and Subordinated debt

Fair values are determined using quoted market prices at the end of the reporting period where available, or by reference to quoted market prices for similar instruments plus own credit risk.

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The fair values of financial assets and liabilities are as follows:

31st December 2022	Total carrying amount	Total fair value
Financial assets		
Cash and cash equivalents	1,361,315	1,361,315
Financial assetes measured at fair value through profit or loss	984,056	984,056
Financial assets measured at FVTOCI	630,845	630,845
Financial assets measured at amortised cost	7,377,255	6,770,767
Total financial assets	***10,353,471***	***9,747,137***
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	278,203	278,203
Financial liabilities measured at amortised cost	9,416,275	9,416,275
Total financial liabilities	***9,694,478***	***9,694,478***

31st December 2021	Total carrying amount	Total fair value
Financial assets		
Cash and cash equivalents	854,970	854,970
Financial assetes measured at fair value through profit or loss	169,155	169,155
Revaluation on financial assets measured at FVTOCI	187,681	187,681
Financial assets measured at amortised cost	2,005,130	1,882,439
Non-current assets classified as held-for-sale	35	35
Total financial assets	***3,216,971***	***3,094,280***
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	43,751	43,751
Financial liabilities measured at amortised cost	2,991,346	2,991,486
Liabilities classified as held-for-sale	-	-
Total financial liabilities	***3,035,097***	***3,035,237***

The non-fair value measured instruments of the Group are Level 3 instruments, except the securities, that are Level 1,2 instruments in the fair value hierarchy.

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4.32 Non-current asset classified as held for sale

Carrying amount of non-current assets classified as held for sale	31.12.2022	31.12.2021
Loans for sales purposes	-	35
Other assets held for sale	154	-
Total	**154**	**35**

Other assets held for sale presents properties on the sale of which a decision has already been brought and the sale is expected to be concluded within 12 months.

Due to the merge of Magyar Takarék Bankholding the Group acquired the assets and liabilities of TKK Zrt., which were presented as assets and liabilities held for sale. During 2022 assets and liabilities were disposed. The Group recognised HUF 1,893 million loss as result from assets held for sale.

4.33 Earings per share

Basic earnings

Basic earnings per share as at 31 December 2022 was calculated based on the net income available to ordinary shareholders of HUF 88,942 million (2021: HUF 59,983 million) and the weighted average number of ordinary shares outstanding of 321,699 thousand (2021: 100,000 thousand).

31st December 2022

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{88{,}942}{259{,}782} = 342 \text{ Ft}$$

31st December 2021

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{59{,}983}{100{,}000} = 600 \text{ Ft}$$

The diluted earnings per share is calculated based on the net income available to ordinary shareholders and the weighted avarage number of ordinary shares outstanding, adjusted for the effect of all dilutive potential ordinary shares. There was no dilution factor in the periods presented.

31st December 2022

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors (thousands)}} = \frac{88{,}942}{259{,}782} = 342 \text{ Ft}$$

31st December 2021

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors (thousands)}} = \frac{59{,}983}{100{,}000} = 600 \text{ Ft}$$

4.34 Segment report

The following segment information has been prepared in accordance with IFRS 8, “Operating Segments,” which defines requirements for the disclosure of financial information of an entity’s operating segments. It follows the “management approach”, which requires presentation of the segments on the basis of the internal reports about components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance. Management reporting for the Group is based on IFRS presenting the following segments.

The business segments identified by the Group represent the organizational structure as reflected in its internal management reporting systems. The Group is organized into four business lines, each with its own distinct market and products. Each business line has its own set of objectives and targets broken down by operating units, which are consistent with the Group's overall strategic direction.

As of 31 December 2022, the Group's business segments and their main products were:

Corporate Banking

The Group provides trade finance, a wide array of credit, account and deposit products, forfeiting and factoring, letters of credit, guarantees, international payments, project and structured finance, investment and financial advisory services to large entities through branches and electronic delivery channels.

Institutional Banking

MKB Bank serves financial institutions, financial service companies and other entities with financial services, as well as international and domestic payments, the Treasury department deals with investments in securities, hedging transactions and correspondent banking services, the Group participates in bank-to-bank finance.

Retail and Private Banking

The Group provides a wide range of deposit and savings instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through more than 500 full-service branches and sub-branches (2021: 51 branches), ATMs, telephone and electronic channels.

Leasing

The scope of activities has been extended to include the financing of agricultural machinery, large commercial vehicles, buses and general machinery.

Other

Residual items which cannot be directly allocated to business segments (mainly general administration expense) are included in the Other category.

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12.31.2022	Note	Corporate Banking	Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Assets							
Cash and cash-equivalents	4.10	**-**	**-**	**-**	**1,361,315**	**-**	**1,361,315**
Financial assets measured at fair value through profit or loss		**-**	**-**	**418,517**	**401,201**	**-**	**819,718**
Loans and advances to customers mandatorily at fair value through profit or loss	4.11	-	-	418,517	-	-	418,517
Securities held for trading	4.12	-	-	-	49,923	-	49,923
Securities mandatorily at fair value through profit or loss	4.12	-	-	-	24,869	-	24,869
Derivative financial assets	4.13	-	-	-	326,409	-	326,409
Hedging derivative assets	4.13	-	-	-	164,338	**-**	**164,338**
Financial assets measured at fair value through other comprehensive income		**-**	**-**	**-**	**630,845**	**-**	**630,845**
Securities	4.14	-	-	-	630,845	-	630,845
Financial assets measured at amortised cost		**2,414,510**	**508,303**	**1,389,402**	**2,961,778**	**103,262**	**7,377,255**
Loans and advances to banks	4.15	-	-	-	179,088	-	179,088
Loans and advances to customers	4.15	2,414,510	508,303	1,389,402	-	30,586	4,342,801
Repurchase assets	4.15	-	-	-	1,070	-	1,070
Securities	4.15	-	-	-	2,781,620	-	2,781,620
Other financial assets	4.15	-	-	-	-	72,676	72,676
Fair value change of hedged items in portfolio hedge of interest rate risk	4.13	**-**	**-**	**-**	**(51,678)**	**-**	**(51,678)**
Investments in subsidiaries and associates	4.16	-	-	-	**-**	**49,599**	**49,599**
Property, plant and equipment	4.17	-	-	-	**-**	**98,345**	**98,345**
Intangible assets	4.17	-	-	-	**-**	**70,511**	**70,511**
Income tax assets		-	-	-	**-**	**24,981**	**24,981**
Current income tax assets		-	-	-	-	453	453
Deferred income tax assets	4.9	-	-	-	-	24,528	24,528
Other assets	4.18	-	-	-	**-**	**69,039**	**69,039**
Assets held for sale	4.32	-	-	-	**-**	**154**	**154**
Assets		**2,414,510**	**508,303**	**1,807,919**	**5,467,799**	**415,891**	**10,614,422**

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12.31.2022	Note	Corporate Banking	Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Liabilities							
Financial liabilities measured at fair value through profit or loss		**-**	**-**	**-**	**278,203**	**-**	**278,203**
Derivative financial liabilities	4.13	-	-	-	235,877	-	235,877
Financial liabilities from short positions	4.19	-	-	-	42,326	-	42,326
Hedging derivative liabilities	4.13	-	-	-	**1,365**	-	**1,365**
Financial liabilities measured at amortised cost		**3,699,649**	**-**	**2,816,340**	**2,758,196**	**142,090**	**9,416,275**
Amounts due to banks	4.20	-	-	-	2,378,471	-	2,378,471
Amounts due to customers	4.20	3,699,649	-	2,816,340	-	58,368	6,574,357
Repurchase liabilities	4.20	-	-	-	-	-	-
Issued debt securities	4.21	-	-	-	290,838	-	290,838
Subordinated debt	4.23	-	-	-	88,887	-	88,887
Other financial liabilities	4.23	-	-	-	-	83,722	83,722
Provisions	4.24	**11,482**	**-**	**7,431**	**108**	**3,602**	**22,623**
Income tax liabilities		**-**	**-**	**-**	**-**	**15,483**	**15,483**
Current income tax liabilities		-	-	-	-	12,378	12,378
Deferred income tax liabilities	4.9	-	-	-	-	3,105	3,105
Other liabilities	4.25	**-**	**-**	**-**	**-**	**71,737**	**71,737**
Equity		**-**	**-**	**-**	**-**	**808,736**	**808,736**
Total liabilities and equity		**3,711,131**	**-**	**2,823,771**	**3,036,507**	**1,041,648**	**10,614,422**

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12.31.2022	Note	Corporate Banking	Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Income statement							
Interest and similar income	4.1	124,859	29,836	93,478	438,872	(8,096)	678,949
Interest expense	4.1	(108,571)	-	(9,360)	(186,455)	(8,835)	(313,222)
Net interest income		**16,288**	**29,836**	**84,118**	**252,417**	**(16,931)**	**365,727**
Net income from commissions and fees	4.2	**47,022**	**(389)**	**80,430**	**(657)**	**(21,977)**	**104,429**
Results from financial instruments, net	4.3	10,918	-	5,698	15,530	-	32,146
(Impairment) / Reversal on financial and non-financial instruments	4.4	(52,339)	(804)	(25,623)	-	(14,410)	(93,176)
Dividend income	4.5	-	-	-	-	728	728
Operating expense	4.6	(78,108)	(10,610)	(151,718)	(2,590)	(67,030)	(310,056)
Other Income	4.7	191	254	818	586	932	2,781
Share of associated companies' and joint ventures' profit	4.16	-	-	-	-	2,704	2,704
Result from assets held for sale		-	-	-	-	(1,893)	(1,893)
Profit before taxation		**(56,028)**	**18,287**	**(6,277)**	**265,286**	**(117,878)**	**103,390**
Income tax income / (expense)	4.8	-	-	-	-	(12,222)	(12,222)
Segment result		**(56,028)**	**18,287**	**(6,277)**	**265,286**	**(130,100)**	**91,168**

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31.12.2021	Corporate Banking	Euroleasing Group / Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Assets						
Cash and cash equivalents	-	3	-	831,434	-	831,434
Loans and advances to banks	-	-	-	61,815	-	61,818
Derivative financial instruments	-	-	-	104,359	-	104,359
Derivative assets held for risk management	-	-	-	-	-	-
Securities	149,019	-	-	854,732	-	1,003,751
Loans and advances to customers	763,848	194,775	256,724	-	-	1,215,347
Non-current assets held for sale and discontinued operations	-	-	35	-		35
Other assets	-	-	-	-	20,784	20,784
Goodwill	-	-	-	-	-	-
Current income tax assets	-	-	-	-	2	2
Deferred tax assets	-	-	-	-	8,113	8,113
Investments in jointly controlled entities and associates	-	-	-	-	8,586	8,586
Intangibles, property and equipment	-	-	-	-	59,790	59,790
Total	**912,867**	**194,778**	**256,759**	**1,852,340**	**97,275**	**3,314,019**

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31.12.2021	Corporate Banking	Euroleasing Group / Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Liabilities						
Amounts due to banks	-	-	-	709,174	-	709,174
Deposits and current accounts	1,773,819	-	444,548	-	-	2,218,367
Derivative financial liabilities	-	43	-	41,485	-	41,528
Derivative liabilities held for risk anagement	-	-	-	-	-	-
Liabilities held for sale and discontinued operations	-	-	-	-	-	-
Other liabilities and provisions	44,725	-	3	-	3,408	48,136
Current income tax liabilities	-	-	-	-	1,867	1,867
Deferred tax liabilities	-	-	-	-	124	124
Debt securities issued	-	-	-	-	-	-
Subordinated debt	-	-	-	45,070	-	45,070
Shareholders' equity	-	-	-	-	249,753	249,753
Total	**1,818,544**	**43**	**444,551**	**795,729**	**255,152**	**3,314,019**

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31.12.2021	Corporate Banking	Euroleasing Group / Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Income statement						
Interest and similar income	15,599	6,709	11,569	45,082	7,101	86,060
Interest expense	(3,328)	(4)	(48)	(23,604)	(5,113)	(32,097)
Net income from commissions and fees	18,108	(191)	6,936	(35)	-	24,818
Other Income	(5,089)	218	2,102	66,829	(17,840)	46,220
(Impairment) / Reversal and provision for losses	97	(375)	(3,805)	110	(107)	(4,080)
Restructuring cost	-	-	-	-	-	-
Operating expenses	(21,305)	(3,651)	(19,503)	(6,156)	(8,962)	(59,577)
Expense related to bank levies	-	-	-	-	(2,005)	(2,005)
Result from discontinued opeartion	-	-	-	-	-	-
Share of associates' profit	-	-	-	-	4,113	4,113
Segment result	**4,082**	**2,706**	**(2,749)**	**82,226**	**(22,813)**	**63,452**

The Group does not changed the structure of the segment report of 2021 in line with management’s expectations.

Measurement of segment profit or loss

Segment reporting under IFRS 8 requires a presentation of the segment results based on management reporting methods with reconciliation between the results of the business segments and the separate financial statements. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information which are regularly reviewed by the management.

Calculation of intersegment revenue

Intersegment revenues and expenses are calculated on market interest method. In the case of refinanced loans, as well as those linked to a deposit, are evaluated against the connected transaction. Revenues and expenses on refinanced loans and loans linked to deposit are calculated with reference to the interest of the underlying transaction.

Since the Group’s business activities are diverse in nature and its operations are integrated, certain estimates and judgments have been made to apportion revenue and expense items among the business segments.

Both revenues and non-current assets can be connected to domestic activities based on geographical location.

4.35 Information on employee share system

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. MKB Bank was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016. The launch of the ESOP was closely linked to MKB Bank's reorganisation efforts, as it created ownership interest among its employees. The establishment of the ESOP was strongly linked to the reorganisation efforts of the Group as it founded the framework of the employee share ownership.

Since 2017 MKB manages the settlements of the variable cash settled share based payments as they are regulated by ESOP’s Remuneration Policy. Eligible employees submit a participation declaration, to become participants of the ESOP and subject to the regulations of the Remuneration Policy. In order to settle the variable cash settled share based payments, the ESOP exercises MKB’s bonds and buys purchase options. The maturity of the bonds and the quotation of the purchase options cover the variable cash settled payments are aligned with the cycles of the deferred payments. The participants of the ESOP will not become owners of MKB shares, the owner will be the ESOP Organization. Participants of the ESOP will have shares in the ESOP Organization. Participants will be entitled for the financial settlement of cash settle share based payments, as it is regulated by the ESOP Remuneration Policy, during the periods of the deferred payments. The payments of the cash settled shared based payments will be managed after the recognition of the bonds and the purchase options in line with the deferral periods.

The share based payments of the purchase options are accounted based on the principles of IFRS 2 standard, while the share based payments of the bonds are accounted as of IAS 19 standard.

4.36 Use of estimates and judgements

Management discusses with the Group's Supervisory Board the development, selection and disclosure of the Groups's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 3).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see Note 2).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's use of scenarios of the present value of the cash flows that are expected to be received. Further information in Note 3.

In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Uncertain or unanticipated future events could result in material adjustments to provisions or additional allowances. The accounting values determined are not fair values or market prices that might be determined if the underlying assets are sold to a third party.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument (see also Note 4.31).

Impairment of non-financial assets

On the balance sheet date the Group assesses if there is any indication of impairment. If there is, or in cases where an annual impairment test is required the Group estimates the recoverable amount of the asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Group recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.
When determining value in use the estimated future cash flows are discounted to their present value considering current market assessment of the time value of money and the risks specific to the asset. The appropriate valuation method is applied for the determining fair value net of cost of sales. Several assessments are used to underpin these calculations such as listed share prices or other available fair value indicators.

Each impaired asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Group estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment.
The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

For further information about the impairment of non-financial assets, please refer to Note 4.4.

Deferred tax on tax loss carryforward

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

For further information about the deferred tax on tax loss carryforward, please refer to Note 4.8.

4.37 Events after the reporting period

Change in the management of MKB Bank Nyrt.

MKB Bank Nyrt. has announced that the position of Mr Antal Martzy as Deputy Chief Executive Officer for Finances at the Company, at Magyar Bankholding Zrt., and at the members of the MKB Bank group, Takarékbank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt. will be terminated by mutual consent as of 31 December 2022. The MKB Bank Nyrt. furthermore has informed the capital market participants that Mr Péter Krizsanovich will take up the position of Deputy Chief Executive Officer for Finances of the Company and the MKB Bank group as of 1 January 2023, but at the latest upon receipt of the relevant approval of the National Bank of Hungary. Mr Péter Krizsanovich has held various management positions in OTP Bank's Strategy and Finance Division for 17 years, including 5 years as Managing Director of the the Strategy, Planning and Controlling Directorate. He has international experience in regional expansion and he has participated as a board member in the management of several leading foreign banks, and has achieved significant innovations and results in all areas of finance, especially in IT.

Merge of MKB Bank and Takarékbank

On 9 December 2022, the supreme bodies of MKB Bank Nyrt. and Takarékbank Zrt. adopted the proposals for the merger of the two member banks as part of the implementation of the second step of the merger schedule of Magyar Bankholding. According to the decisions of the General Meetings, the two member banks of the banking group, MKB Bank Nyrt. and Takarékbank Zrt., will merge on 30 April 2023 or, if the merger is not registered at the Court of Registration by then, on the date of registration, and will then continue their operations under the name MBH Bank Nyrt, with a single brand name and image. On 6 February 2023, the MNB approved the merger of Takarékbank Zrt into MKB Bank Nyrt. with effect from 30 April 2023.

Dividend proposal

The Board of Directors proposes a dividend of HUF 25,092.5 million, the remaining part of the Profit attributable to the shareholders of the Bank for the reporting period will increase the Retained earnings. HUF 13.075 million interim dividend was proposed and paid on 12th August 2022 based on the decision Nr. 165/2022. (29 July) of the General Meeting. Therefore, only the additional accepted dividend will be paid to the shareholders.

Sberbank compensation

On 13 March 2023, the Board of Directors of National Deposit Insurance Fund determined to refund the surplus of the remaining part of the extraordinary payment obligation charged to credit institutions to compensate the customers of Sberbank Hungary Zrt. (under liquidation) until 31 March 2023. The Group expects to receive a refund of HUF 5,336 million in the financial statements of 2023 after the financial settlement of the refund.

The impact of significant events in the European and American banking sectors

The Group's management is closely monitoring the material events in the European and US banking sectors, as a consequence of which the management does not expect any direct negative impact on the Group. The liquidity and capital position of the Group is stable and strongly excess the regulatory requirements.

Consolidated Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

CONSOLIDATED MANAGEMENT REPORT

to the consolidated 2022 financial statements of MKB Bank Nyrt. (Prepared under IFRS)

In 2022, the scope of activities of MKB Bank Nyrt. and subsidiaries comprised the following sectors

- banking services
- finance and operating leases
- financial and investment services
- valuation and sales tasks related to work-out activities
- maintenance of buildings and fixed asset investments
- property investment
- other loans (motor, car and other vehicle loans)
- renting vehicles, trade and repair
- management of investment funds

The activities of subsidiary companies and jointly controlled entities were tightly fit to the core credit institutional feature and, moreover, to MKB Bank Nyrt's own business strategy and business policies.

The Group's profit after taxation for 2022 under IFRS amounted to HUF 91,168 million gain.

Consolidated shareholders' equity was HUF 808,736 million at 2022 year-end.

As at 31 December 2022, the Group did not hold repurchased own shares in its portfolio (2021: HUF Null million).

Budapest, 4 April 2023

Dr. Zsolt Barna Chairman and CEO	Péter Krizsanovich Deputy CEO for Finance

MANAGEMENT REVIEW AND ANALYSIS[1]

1. HISTORY OF MKB BANK Nyrt.

MKB Bank Nyrt. is one of the oldest members of the Hungarian banking system, having started its operations in 1950. The purpose of its creation was to take part in international payments, mainly by performing banking functions related to foreign trade. During the 1987 banking reform, when the two-tier banking system was established, MKB Bank was granted comprehensive commercial banking powers, which strengthened its traditional banking activities and successfully launched and expanded its new business lines.

Complex services for domestic companies became the bank's core business in a short period of time. In the first successful privatisation of a large domestic bank, the internationally renowned German financial institution BayernLB, a significant player in its home country, acquired a majority stake in the bank. Since the late 1980s, the bank has further developed its retail banking services, its money and foreign currency market activities and its capital market activities. By the end of 2001, with the integration of its securities trading activities, MKB Bank became a universal bank, offering unique and complex services to its customers through its strategic interests.

Under the terms of the agreement with the European Commission, BayernLB had to divest certain stakes in exchange for receiving state financial aid. For this reason. From 30 September 2014, the Hungarian state became the owner of MKB Bank Zrt. At the end of this year, the bank's EU-supervised reorganisation process was launched, putting the institution on a sustainable path through reorganisation and rationalisation measures. On 29 June 2016, the sale process launched in the autumn of 2015 was successfully completed, with the new owners of MKB Bank Zrt. being the METIS Private Equity Fund (45%), the consortium of Blue Robin Investments S.C.A. (30%), the Pannónia Pension Fund (10%) and the ESOP organisation (15%).

Even after the successful reorganisation of MKB Bank, the number one core value is to continue to serve customers professionally, with the most important elements being customer relationship and experience, value preservation and creation, and innovative banking solutions. The knowledge and expert base as well as the embedded system of relations built over the fifty years of operation, made MKB a major operator in the Hungarian corporate trade financing, cash and liquidity management and investment market. The bank's exceptional professional prestige helps it create value for its customers.

Budapest Bank was established in 1987, at the time of the emergence of the two-tier banking system, as one of the first three Hungarian commercial banks.

Following the privatisation of the banking group after the regime change, it was acquired by the US General Electric Capital Group in 1995 and then by the Hungarian state in July 2015.

During its period of state ownership, Budapest Bank continued to perform at a high level, doubling its balance sheet total and becoming a market leader in several segments, both retail and corporate. It entered the merger process of Magyar Bankholding, launched in May 2020, as a well-capitalised bank with an outstanding position in the market.

[1] In the next chapter of the Consolidated Financial Statements, we assess and analyze the financial position and the results of the activities for 2022 of the Group in order to give an overview to the reader. The following analyses are based on the Consolidated Financial Statements of MKB Group prepared in accordance with the International Financial Reporting Standards ("IFRS") for 2022 to the accounting date of 31 December 2022, audited by the registered auditors of the PwC Könyvvizsgáló és Tanácsadó Kft. Accordingly, the following analysis focuses on the performance of the Group. Consolidated Financial Statements prepared in accordance with the IFRS requirements will be presented separately.

In 2006, Budapest Bank was the first bank in the Hungarian banking market to open an operational centre in Békéscsaba. With this investment, the bank has created around 800 jobs in a region with one of the highest unemployment rates in Hungary.

On 15 May 2020, MTB Magyar Takarékszövetkezeti Bank and MKB Bank signed a Memorandum of Understanding to establish a joint financial holding company, in which the two financial institutions entered with equal ownership shares. On 26 May, Budapest Bank Zrt. also joined the strategic cooperation.

Magyar Bankholding Zrt. is a domestically owned financial holding company, which aims to implement the merger of Budapest Bank Zrt., MKB Bank Nyrt. and the Takarék Group. The company became operational on 15 December 2020 when, after obtaining the approval of the National Bank of Hungary, the major shareholders of the three credit institutions transferred their bank shares to the joint holding company, creating Hungary's second largest bank group.

On 15 December 2021, the General Meeting of MKB Bank and the highest decision-making bodies of Budapest Bank and Magyar Takarék Bankholding Zrt., which owns the Takarék Group, approved the merger timetable for the merger of Budapest Bank, MKB Bank and Magyar Takarék Bankholding.

As a first step, the two member banks of the bank group, Budapest Bank and MKB Bank, merged on 31 March 2022, during which Budapest Bank was merged into MKB Bank. The merged bank will temporarily continue to operate under the name MKB Bank Nyrt. the launch of the single financial institution brand will be completed in the second quarter of 2023, simultaneously with the Takarékbank.

Upon request of Magyar Bankholding the National Bank of Hungary with its decision nr. H-EN-I-119/2022. dated on 8 March 2022, revoked the licence issued to Magyar Bankholding by decision nr. H-EN-I-358/2020. dated 12 June 2020 for operating as a financial holding company with effect from 29 April 2022, and MKB Bank took over the group management function over the banking group after 29 April 2022, based on a new group resolution issued by the National Bank.

The bank group aims to introduce customer-centred, competitively priced, internationally leading digital solutions, products and services, building on the combined strengths, values and best practices of the three strong domestic commercial banks. The integration of the three member banks is unique not only in Hungary, but also in the financial market of the region, mainly due to its complexity and scale.

MKB Group is a very stable, strong and dominant player in the Hungarian financial sector. Currently, it is the second largest bank group in Hungary in terms of balance sheet total and also has the largest branch and ATM network. The bankgroup is a market leader in a number of areas, including lending to corporate customers and the micro, small and medium-sized enterprise sector, which is of key importance to the national economy, serving agricultural and private banking clients, and in the leasing market.

2. OPERATIONAL ENVIRONMENT

International and domestic economic processes in 2022 were significantly influenced by the military conflict between Russia and Ukraine that started in February. Due to the elevated risks concerning the energy supply of Europe – partly secured from imported Russian gas and oil – energy prices effectively exploded. This thoroughly amplified inflationary processes, which already unfolded in the wake of a demand-supply mismatch created by the pandemic restrictions in 2020 and 2021. Accelerating inflation, sanctions imposed on Russia and measures to markedly reduce energy consumption clearly increased the danger of the Euro Area's economy turning into recession in the second half of last year. Yet, towards the end of the year a significant correction took place in energy prices, adjustment processes also proved to be mostly successful, hence the Euro Area's economy, which is imperative from the viewpoint of Hungary's growth opportunities, finally avoided recession. Compared to its European peers Hungary's economy was impacted more severely by the war in its neighbourhood, since it is more reliant on Russian gas and oil and the Forint experienced exceptionally heavy downward pressures partly owing to the war itself, partly to disputes with the EU over the rule of law and hence financing issues.

Although GDP-growth remained fairly dynamic in the first quarter supported by expansionary fiscal policies, the aforementioned negative developments gradually started to weigh on performance, besides, an unusually severe drought led to a marked contraction in agricultural output. In the last two quarters of 2022 the quarterly growth rate of GDP (adjusted for seasonal effects) was already negative, hence Hungary slipped into a technical recession, and following 7.1% growth back in 2021, it finally realized an average annual growth rate of below 5% in 2022.

Inflation has already been on an upward trajectory before the Russian-Ukrainian war broke out, core inflation, which captures underlying inflation processes, was continuously above the upper edge of the central bank's tolerance band from the second half of 2021. The rate of inflation gained speed with the outbreak of the Russian-Ukrainian war through the fast increase of energy prices, while the Hungarian Forint's sharp depreciation, the inferior growth rate of supply to that of demand and direct supply shortages also played a decisive role. By introducing caps on the price of fuel and certain key food items the government made efforts to slow the speed of CPI-growth. Yet, this partly resulted in speculative purchases and supply problems, while some retailers, who sell a wide range of foodstuff, were able to raise the prices of food items, not subject to the fixed caps, to an extent, which cannot be explained on pure cost basis. These problems eventually led to the termination of price caps in the case of fuel by December. As a consequence, inflation was pushed even higher by year-end and stood at 24.5% year-on-year, while on annual average it amounted to 14.5%.

The National Bank of Hungary implemented one of the strictest tightening of interest rate conditions throughout 2022: it raised its base rate from 2.4% prevailing at the end of 2021 to 13% by September last year, also declaring that the rate hike cycle that began in June 2021, came to its end. However, the base rate acted as the effective policy rate for only a short, transitional period, since up to June's rate setting meeting the interest rate on the one-week deposit facility was the decisive policy rate, and it was only between June and October that the base rate was equal to that rate. In the middle of October the central bank had to react to strong pressures on Hungarian financial asset prices (most notably to the downward pressure on the Forint's exchange rate) by transforming its monetary policy tools, at the end of which the 18% interest paid on the daily quick deposit tenders becoming the effective policy rate. Besides tightening interest rate conditions the central bank made efforts to alleviate the pressure on Hungarian financial asset prices by markedly raising the mandatory reserves ratio and introducing measures that limited the volume of instant liquidity of the banking system (like holding tenders for longer term deposits, more frequently auctioning the discount bill etc.). In its statements towards the end of 2022 the central bank emphasized that a gradual cutting of the effective policy rate becomes realistic only after marked improvements in Hungary's risk perception take place, in which reaching an agreement with the EU over development and cohesion funds should be vital.

After first quarter of 2022 the central government implemented massive corrective measures (imposing new sector specific taxes, delaying investment projects), which were necessitated by rising energy prices that became a heavy burden on the expenditure side of the budget, but interest payments on public debt also increased sharply. Whereas higher than expected inflation led to significant overperformance in some income items (like consumption related tax revenues), the annual cash-flow based deficit finally amounted to HUF 4,750 billion, almost 50% above the original budget plan. Taking into account the impact of an exceptional natural gas purchase to fill up gas reservoirs this translates into a 6% of GDP accruals based deficit for 2022, thus only a modest improvement following a 6.8% deficit back in 2021. Yet, as nominal GDP growth was outstanding due to high inflation, public debt relative to GDP declined quite considerably, down by close to 4 percentage points from the preceding year's 76.8%.

Due to adverse terms of trade changes reflecting mainly the impact of rising energy prices the deficit of the current account widened further in 2022: following 4.2% of GDP back in 2021 it likely deteriorated to 7.5% of GDP. Taken together with the capital account, which mostly includes transactions related to the EU budget, Hungary's net external financing need rose above 4% of GDP as opposed to 1.6% a year before. This, of course, resulted in an increase of net external debt, albeit only in nominal terms. Relative to GDP neither gross, nor net external debt exhibits actual growth, due to the strong increase of nominal GDP. Compared to end-2021 their levels are approximately the same at 84% and 15% respectively.

Credit institutions were also subject to diverse impacts in 2022. While the marked increase in the yield environment led to spectacular growth in net interest income, operating costs were driven up by soaring inflation, net impairment and provisioning on loans multiplied due to a marked deterioration in the economic outlook, new levies were imposed on the banking sector and the largest credit institution suffered a heavy loss on its Russian and Ukrainian exposures. In the second half of the year the previously dynamic lending activity markedly slowed due to rising interest rates especially in the household segment, meanwhile, in the corporate segment demand for credit was diverted towards relatively less expensive foreign exchange denominated loans. Overall, following the year 2021's HUF 500 billion profit that was realized on the banking sector's domestic operations and translates into a 10% return on equity, last year's after-tax profit was less than HUF 400 billion, which implies only 7% return on equity.

3. MKB'S CONSOLIDATED RESULTS FOR 2022

The merger of Budapest Bank on 31 March 2022 and the expansion of the group of consolidation of MKB Bank had a significant impact on MKB Group's 2022 figures, both in the items of profit and in the financial situation. The consolidated total assets of the Bank increased by HUF 7,300.4 billion to HUF 10,614.4 billion by the end of 2022. The stock of customer loans measured at amortised cost amounted to HUF 4,342.8 billion, while the stock of customer deposits reached HUF 6,574.4 billion. Profit after tax increased by HUF 31.2 billion to HUF 91.2 billion.

The Bank's financial and business fundamentals strengthened further, including capitalization, liquidity, funding structure, balance sheet structure and the performance of its business lines.

Main figures *in HUF million*	**31.12.2022**	**31.12.2021**	***Change***
Total assets	**10,614,422**	**3,314,019**	***7,300,403***
Financial assets measured at amortised cost	***7,377,255***	***2,005,130***	***5,372,125***
o/w net client loans	4,342,801	1,143,764	*3,199,037*
Financial liabilities valued at amortized costs	**9,416,275**	**2,991,346**	***6,424,929***
o/w client deposits	6,574,357	2,212,841	*4,361,516*
Equity	**808,736**	**249,753**	***558,983***
Profit/Loss before tax	**103,390**	**65,783**	***37,607***
Profit/loss for the year	**91,168**	**59,984**	***31,184***
Total comprehensive income	**95,930**	**39,974**	***55,956***

4. PERFORMANCE OF THE INDIVIDUAL BUSINESS LINES[2]

Retail clients

In preparation for the merger of MKB Bank and Takarékbank in May 2023, a process of unification of products and the harmonisation of processes has started. The merger of MKB Bank and Budapest Bank took place on 1 April 2022. From then onwards, new account packages with uniform pricing were launched not only in the two former, already merged, member banks, but also in Takarékbank, the third member bank of Bank Group, paving the way for full integration. The new account packages cover a wide range of customer needs and are in line with Bank Group's future strategy.

To facilitate the delivery of the business plans, a retail bank account acquisition promotion was launched with a number of other promotions to encourage the use of bank cards and increase the number of account openings. There have been a number of developments and measures relating to bank cards to support the use of digital channels and to improve customer convenience. As of 1 April 2022, customers of MKB Bank and former Budapest Bank with retail and corporate debit cards have been able to withdraw cash at nearly 1,000 ATMs (MKB Bank, former Budapest Bank and Takarékbank ATMs) nationwide at the same rate as their own bank cash withdrawal. In December 2022, the Google Pay service became available for Takarékbank Visa retail and corporate debit cardholders.

Among savings and investment solutions, investment funds were particularly popular in 2022. The Bank primarily met client needs with the wide range of products offered by MKB Fund Manager, which was merged as a result of the merger of Budapest Fund Manager and MKB-Pannónia Fund Manager in 2022. Among investment funds, short bond funds combining high return potential with flexible investment horizons were particularly popular, with their assets multiplying over the year. Total assets under managed in the investment funds increased further by 6.8% compared to 2021. Demand for retail government bonds in 2022 was more subdued than previously for most of the year, but new retail government bonds issued in the last quarter of the year have re-emerged as a favorable savings alternative in customers' individual portfolios.

To strengthen its market position, the Group launched a Childbirth Incentive Loan promotion and priced the 10-year interest period mortgage loan in TOP3. At the end of the year home loans had a 15% market share (MKB: 7.9%, Takarékbank: 7.1%) while the market share of all general purpose mortgage loans increased from 23.2% to 24.4% (MKB: 13.4%, Takarékbank: 11%).

As of January 2022, the government's capping of lending rates has provided further relief for customers in payment difficulties. A government decree of 14 October 2022 extended the interest rate freeze until 30 June 2023 and extended it to non-interest-subsidised mortgage loan aqreements with fixed interest rates for interest periods of up to five years from 1 January 2022.

In the Q3 2022, MKB Bank Nyrt. took over the outstanding loan agreements between Sberbank Magyarország and its customers, based on the authorisation received from the National Bank of Hungary. The transfer of the portfolio took place with effect from 1 August 2022, under which HUF 330 billion of high-quality, stable retail and corporate loan portfolio was transferred to MKB Bank, which has achieved a significant expansion in the strategically important retail and corporate lending.

For personal loans, Bank Group's market share increased steadily from the second quarter and exceeded 15% by the end of the year. Although volumes declined as a result of the rise in interest rates that peaked in the last quarter, this was less pronounced in the member banks thanks to intensive campaigning activity, strict competitor monitoring and a competitive pricing strategy. Product and risk conditions, marketing activities and segment-based targeting have also been harmonised. The share of online E2E (end to end)

[2] The source of individual market data: MNB (Central Bank of Hungary), KAVOSZ, BAMOSZ (Association of Hungarian Investment Funds and Asset Management Companies), Eximbank, MFB (Hungarian Development Bank), MKB's own calculation

claims is steadily increasing within the total claims and cycle times have also been improved. All in all, the new disbursed volume of HUF 62.7 billion (MKB: HUF 34 billion, Takarékbank: HUF 28.6 billion) exceeded the performance of the previous years. This gave the Bank a stable market position at a high level.

The performance of the intermediary sales channel in 2022 on the unsecured loan side was 8.1% higher than the previous year, while for mortgage loans it was down by 19.3%.

The Credit Card range was further expanded in 2022. GO! was introduced for credit cards in July. The Bank tailored the Platinum Credit Card primarily to the banking habits of Premium and Private Banking customers, in order to meet the everyday financial needs of this segment as widely as possible. The number of strategic partners involved in the sale of Credit Cards and Commodity Loans also increased last year. In addition to the Tesco Shopping Card and the Euronics Credit Card, from May 2022 the Bank launched the sale of the ÉnPostám (MyPost) co-branded credit card in 200 post offices in cooperation with the Hungarian Post. This new co-branded credit card combines the benefits of shopping with a credit card and the benefits of the ÉnPostám Loyalty Programme. In eight months, 475 credit cards were sold. The physical sale of the commodity credit product with Media Markt, which has been in place for several years, has increasingly shifted towards online sales.

The average amount of unsecured loans offered by each of the Bank's strategic partners has increased compared to 2021. The average loan amount requested under the Media Markt Online commodity loan increased the most, by 19.4%. The trust of not only the strategic partners, but also hundreds of small partners have been gained by promoting the Commodity Loan scheme.

The member banks of Bank Group signed a strategic cooperation agreement with CIG Pannónia Group in Q1 2022. As part of this, the merged banks have developed a range of insurance products for sale, which is made up of products from CIG Pannónia Insurers, in order to provide a uniform service to customers.

As the first stage of the cooperation, a change was made in housing insurance, with the introduction of CIG Pannónia LakóTárs housing insurance, which replaced Aegon Biztosító's OKÉ housing insurance product, from 16 March 2022.

Starting from the second quarter, insurance products that were previously unavailable in the merged MKB's branch network were made available to a wide range of customers by exploiting the synergies of the two separate entities, for both individual life insurance and group insurance policies. For our new customers, group life, accident, income and asset insurance is available for accounts, credit cards and investment cards, and credit protection insurance for credit cards and commodity loans, in addition to mortgage loan and personal loan protection insurance, which are of strategic significance.

As a further step of the strategic cooperation, the travel insurance products related to bank cards and credit cards previously issued by MKB Bank have been modified. The group insurance agreement for foreign travel with Allianz Hungária Zrt. has been terminated by the bank with effect from 30 June 2022 for both the built-in and optional insurance, after which the travel insurance will be provided by CIG Pannónia Biztosító Nyrt.

In the third quarter of 2022, the Best Doctors Smart product was no longer sold through the banking channel and will no longer be available in the bank's branch network.

CIG Pannónia Biztosító Nyrt. has agreed with BNP Paribas Cardif Életbiztosító Zrt. and BNP Paribas Cardif Biztosító Zrt. to transfer the group insurance agreements concluded with BNP Cardif Biztosító Zrt., the predecessor of MKB Bank, to CIG Pannónia Biztosító as of 1 September 2022. The portfolio transfer between insurers was approved by the National Bank of Hungary, and MKB notified the affected customers of the changes.

All the member banks of Bank Group launched the sale of the CIG LakóTárs Extra Qualified Consumer Friendly Home Insurance product in mid-October.

Also in October, CIG Pannónia's corporate property insurance products were added to the range of products available for sale, to be followed by other products that can be offered to businesses. In the first round, corporate property insurance, machinery breakdown, electrical equipment all-risk insurance, general liability, professional liability and contractor's all-risk insurance products have been added to the range of products available.

In November 2022, a new single-premium life insurance product was introduced under the name of Pannónia Amethyst with premium payment options in HUF and EUR. At the same time as the launch, the insurance company discontinued the Pannónia Gravis product, but the Pannónia Gravis Pension product can still be taken out.

In the premium segment, the Bank decided to introduce a new unified value proposition and at the same time launched a new service model in MKB to enhance the customer experience and work more efficiently. Due to the focused acquisition, the portfolio clean-up was carried out without reducing the size of the portfolio.

In February 2023, MKB Bank was awarded 1st place in the '*Premium Banking Activity of the Year 2022'* category, announced by MasterCard on 16 February 2023.

Branch network

Following the merger of Budapest Bank and MKB Bank, in the second half of the year the focus was on branch modernisation, a unified sales approach, harmonisation of tools and processes, with the aim of providing a higher quality of customer service. The branch network continues to place a strong emphasis on providing information and full disclosure of information. In addition to the extensive and continuously expanding online services, the Bank has ensured a nationwide coverage of face-to-face customer service.

During the year, the quality of customer service across the entire branch network was further improved, based on regular customer experience surveys, including interviews and mystery shopping.

The transfer of Sberbank's loan portfolio to MKB Bank was successfully completed in the last quarter. The Bank has paid particular attention to informing and preparing the branch network, facilitating the proper handling of the takeover tasks and providing a high level of service to Sberbank's customers. As part of the takeover of Sberbank's loan portfolio, MKB Bank offers new customers the opportunity to benefit from new services within the framework of various campaigns.

Micro and small enterprise clients

The Micro and Small Corporate business line achieved a high result in 2022 owing to a favourable interest rate environment.

Demand among Micro and Small Corporate customers for government-backed loans to stimulate the economy remained strong in 2022. The GO and MAX schemes of the Széchenyi Card programme were the most popular in this segment. The vast majority of outsourced loans were channelled to businesses through these schemes, and they were the driving force behind lending in this segment throughout the year.

In the second half of the year, the practice of recent years was somewhat reversed, and the demand for Széchenyi Card investment loans applied for through the programme decreased. Presumably, the macroeconomic changes are not favourable to business development and investment. Simultaneously, the MAX programme has seen an increase in demand for liquidity loans, which is expected to continue into 2023.

The competitiveness of own-bank loans continued to weaken in the rising interest rate environment, further widening the cost differential between fixed subsidised and variable market rate loans.

In addition to the merger work, there was also a strong focus on quality service to existing customers and new customer acquisitions. During 2022, several lending and account management product developments were prepared and launched.

MFB Points

In 2022, a total of nearly HUF 175 billion worth loan applications were accepted in 474 branches dedicated as MFB Points across the entire MKB Group. A significant part of the portfolio came from the sale of the working capital loans, reopened at the end of the year, on 8 December 2022, and which will be processed and disbursed in year of 2023.

In addition to the processing of the outstanding portfolio and the inclusion of new transactions, more than HUF 41 billion of loans were disbursed during the year. At the end of the year, MFB Point loans exceeded HUF 341 billion.

Digital products and channels

The implementation of the digital strategy and the digital transformation of customer experience also continued in 2022, the primary goal being to enhance customer experience, to introduce new digital products and expand cooperation with partners.

The Bank deployed new functions in several channels (introduction of a corporate mobile application and stabilization developments were conducted in every channel for the sake of more stable and higher quality services). After the pandemic situation, which diverted customers previously less inclined to the digital channel, it further increased the number of active users of the channels and also accelerated digital developments. The Bank makes an effort to harmonize the channels, to develop service packages that create real value and to integrate these into the life of its customers.

During the past year, the number of the users of the mobile application continues to show a rising trend, the number of active users increased by 15%, number of Apple Pay users increased by 46% while the number of cards digitized for Android payment shows a 64% rise. Customers actively use electronic channels for daily banking.

In 2022, the group's website was moved to a platform in the CMS system running in AWS, which greatly facilitates the integration and timely completion of the rebranding. At the same time, a new brand architecture and a completely new brand were created, which will debut in May 2023. The number of visitors to the website also shows the importance of technological renewal. The number of monthly visitors increased by 30% last year, reaching 820,000 monthly visitors by the end of the year.

As a result of the developments, the digital capability of the Bank significantly increased, and a lot of experience was accumulated in design thinking, UX design and agile product development too. These methodologies and capabilities are essential for the Bank to engage its customers during the research, design and market launch of the related products and services, and to swiftly react to the increasing challenges of the digital world.

During the year 2022, the Bank's teams was dealing with the digital image and channels were fully united and consolidated, preparing for the challenges of the new year. After the organisational transformation, the area works together to unify the channels and continuously follows market trends.

Contact Center

On 1 May 2022, the Contact Center organisation of 3 member banks (former Budapest Bank, former MKB Bank, Takarékbank) was established with 4 main areas: Service area for incoming calls, TeleSales for campaign challenges, and for managing transactions via VideoBank, and a new area within the Contact Centre, the Support and Development Group, was established, who support the Contact Center organisation with training, quality assurance, coordination, process and background development. The new MKB central phone number (+36-80-350-350) has been introduced, the 7/24 uninterrupted customer service for Hungarian and foreign language customers has been emphasized, and the Premium priority customers have been served with priority on the 1444 number from the second half of the year.

In 2022, 1,221,147 incoming calls were handled by the call centers of the three member banks. In 2022, the TeleSales team launched outbound campaigns for Takarékbank in addition to the MKB campaign challenges and exceeded expectations. VideoBank handled an average of 2,500 incoming enquiries per month and the email group handled an average of 4,800 incoming enquiries per month. KPIs for SZÉP card servicing show an outstanding performance in the second half of the year, thanks to efficiency measures. Recruitment and staff stabilisation have also played an important role in the efficient operation of the Contact Centre, with staff churn down by a third compared to 2021.

MKB SZÉP Card

In the 2022 operation of the MKB SZÉP Card, the return to the pre-pandemic period on the benefits side was the determining factor. The annual limit of the SZÉP Card benefit, which is considered an extra-wage benefit, was again set at HUF 450,000 and for benefits within the annual limit, employers are no longer exempt from paying social contribution tax. Simplifications on using SZÉP Card have remained unchanged, so the balance of any SZÉP Card service could be paid from the balance on any sub-account of the SZÉP Card. Between February 1 and July 1, 2022, it was also possible to buy food with a SZÉP card at merchants whose main activity was food retailing, which further expanded spending options.

The MKB SZÉP Card achieved good results in 2022. By the end of the year, the number of SZÉP Card customers had already approached 250,000. In 2022, they received nearly HUF 28.5 billion in employer contributions via 1.4 million transactions. SZÉP Card owners spent approximately HUF 31.9 billion through 5.7 million transactions in 2022. Between February 1 and July 1, 2022, the Bank's customers bought HUF 3.5 billion worth of food and accounted for 23% of MKB SZÉP Card spending during this period. Assets held in MKB SZÉP Card accounts were HUF 11.7 billion on annual average in 2022. Card holders can currently use their SZÉP Cards for payment at 35,000 card acceptance locations.

Preparations had to be made for two significant SZÉP Card legislative changes at the end of 2022:

- From January 9, 2023, accommodation, hospitality and leisure sub-accounts were merged into the accommodation sub-account, and from this date onwards the accommodation sub-account continues to function as the sole account of the SZÉP Card;
- A one-time fee of 15%, minimum HUF 100, will be charged on June 1, 2023, to the extent and burden of cash transferred to SZÉP Card accounts as benefits until October 15, 2022 and not used until May 31, 2023. In accordance with its legal obligation, the Bank informed MKB SZÉP Card owners by January 15, 2023 about their balance received until October 15, 2022 and not used by the date of the notification, and the amount of the 15% fee for the unused cash, calculated in advance.

Corporate and institutional customers

Relying on its traditional strengths, MKB Bank’s strategic goal is to further develop and build a strong corporate business line. The business line focuses on local knowledge, professional service, consulting-based sales and the provision of innovative solutions.

MKB Bank provides comprehensive business solutions and advice to its customers, sets up comprehensive loan schemes if necessary and satisfies special financial customer needs. MKB Bank is able to provide efficient and unique solutions to all players in the corporate segment.

In 2022, the primary goal was to ensure the uninterrupted operation of customer relations and central support areas, in addition to the creation of new organizational units and the implementation of segmentation processes.

In line with its strategy, MKB Bank continued to play a key role in the introduction of economic stimulus programs and their delivery to customers. The significantly rising interest rate environment generated more demand in Széchenyi Card Programs than ever before. There was particularly high demand for working capital and current account loans due to rising wages and rising energy and raw material prices.

The Bank provided information and processes concerning the repayment moratorium to its customers on a regular basis, facilitating a temporary solution to any potential liquidity problem.

In 2022, the Bank continued to regard customers among small and medium-sized enterprises (SMEs) as a key segment and increasing product penetration played a central role here.

MKB Bank Group remained an active participant in the continually renewed Széchenyi Program. Together with the merged Budapest Bank, it achieved a 15% market share in GO products and a 13% share in SZKP MAX products by the end of the year in terms of the contracted amount. Together with Takarékbank, the two values are 32 and 30%.

MKB Bank has traditionally maintained close ties with Eximbank to enable customers to benefit from EXIM financing sources. In terms of the performance of the Hungarian economy, foreign trade is a top priority, to which not only exporters contribute, but also suppliers organized around export activity and companies only now appearing on the export market. MKB Bank is particularly proud to have received EXIM's recognition as the Most Innovative Bank in 2022 and its leasing company, the merged entity of Euroleasing Zrt. and Budapest Lízing Zrt., also won prizes in two categories: the Leasing Company of the Year and the Leasing Company Providing the Highest Volume of Financing under the Damage Mitigation Leasing Scheme.

All in all, it can be concluded that in 2022 the stock of loans and deposits both increased significantly when compared to the previous year, the new organizational operation of Bank Group was created alongside it, a successful merger was realized, the purchased portfolio of Sberbank was integrated, and preparations continued for the planned merger with Takarékbank in 2023.

Private banking

The first phase of the merger of the Private Banking segment was successfully completed. The consolidated national network was established, as a result of which the Bank established dedicated private banking service centers in several locations in Budapest and in nearly twenty locations nationwide. In addition to easier personal contact, the segment continues to provide telephone administration covering all of its services.

Services provided to customers were further expanded: investment funds of a new, internationally recognized market operator became available in the MKB Private Banking network, while the Bank's structured product program offers the opportunity to subscribe to more and more capital-guaranteed solutions. In 2022, MKB Private Banking won the title of "Hungarian private banking service provider of the year in the succession planning category" awarded by the prestigious Euromoney for the development of services related to family wealth planning. At the Private Banking Hungary award ceremony, the business took second place in the "Private Banking Service Provider of the Year" category.

Despite the unfavorable market trends and the notable fall in market value, we were able to significantly increase the volume of private bank portfolios. The number of clients with private banking contracts also increased, even though - mainly for ex-BB and MTB clients - hundreds of clients had to be reclassified to premium or into the mass segment due to the HUF 50 million limit. The new customer contracts not only managed to countervail this change, but also minimally increased the number of private bank customers.

Agricultural clients

In Takarékbank, which belongs to the MKB Bank Group, the implementation of the sector-specific service model for the agricultural and food industry, which was already developed earlier, will be launched in 2022 for the entire Bank Group. Within this framework, the agri-food business line was established in the merged

MKB Bank at the same time as the legal merger of Budapest Bank and MKB Bank, with a unified management structure. This created an independent agri-food business line of the bank group, which serves almost 40,000 agri-businesses, from the smallest farmers to large food companies and agri-integrators, has a market share of around 25 per cent in financing the agri-food industry, and has disbursed almost a third of agricultural loans, approximately 30 per cent.

In Takarékbank, the customers segmented to the Business Unit (farmers, food processing companies and other customers belonging to the agri-business) continued to be served in 2022 within the previously established organisational structure, which has been integrated into the integrated management and organisational structure of Magyar Bankholding.

A unique feature of the branch's service model is that for livestock sectors with a farm size of 200 hectares or more, or equivalent, the branch assigns a dedicated agricultural contact person to its customers, who can also meet with customers at their premises as required.

The business line is organised into a separate organisational structure within a horizontal organisation, with a small central governing body, its main organisational unit is the agricultural region. MKB Bank Group's agri-food business line is represented by the Agri Centres in more than 40 locations in 8 regions across the country. In addition, the large corporate agri-business customers are served by a specialised central unit. In addition, leasing and factor financing, advisory services on tenders and insurance activities play an important role in serving the agri-food customers, which the Bank provides to its customers through our cooperation partners.

In order to strengthen direct customer relationships and attract new customers, MKB Bank Group continued to hold regular regional agricultural meetings for customers in 2022. It has also maintained and strengthened its public professional presence, in particular in the following forums:

- participation in professional conferences, publication of articles and interviews;
- the Agrárláz 2022 yearbook was published, which provides detailed information on global market trends and domestic product trajectory analysis;
- continued measuring and publishing the quarterly AgrárTrend Index, launched in 2020, which, as an indicator of confidence in the agri-food industry, can give an indication of where a particular product sector is heading months before the statistics are released.

MKB Bank Group continues to be a major financing partner for agricultural and food businesses, with some aspects of annual activity broken down by aggregate and product level as follows:

- In 2022, the loan portfolio managed by Bank Group's agri-food business increased by more than HUF 90 billion, reaching HUF 540 billion by the end of the year;
- the greater part of the increment was realised on the portfolio managed in Takarékbank;
- growth was not limited to plant size segments; small, medium, large and agri-business and agri-business and large corporate food customers were all affected;
- the business line grew mainly in disbursing working capital loans to large corporates, while maintaining its clear leadership in financing small and large agricultural businesses.

5. TREASURY AND INVESTMENT SERVICES (MARKETS)

The 2022 business year posed a number of challenges for market players. Following the economic expansion that followed the end of the coronavirus, inflationary pressures emerged not only in domestic but also in international economies, due to supply chain constraints and a surge in demand. Central banks have reacted with small delays, but typically with interest rate hikes. The MNB also continued the tightening cycle started last year, with the pace accelerating significantly in the second half of the year.

At the end of February a new armed conflict shook Europe after more than 20 years. The primary impact of the Russia-Ukraine war was a sharp rise in the price of energy resources (mainly natural gas), and consequently a sharp depreciation of the currencies of the economies most exposed to Russian gas dependence. The depreciation of the forint exchange rate led to a new local peak during the year, which also led to significant price movements in other markets.

Thus, last year was the most volatile year in decades, not only in terms of foreign currency and equity prices, but also in terms of interest rate products and government bond yields.

Treasury

Treasury Trading

Significant changes in almost all fundamental segments tested the adaptability of treasury trading in 2022. The area made good use of the market opportunities provided by the main exchange rate movements during the year, and had a very successful year from a business perspective, while keeping risk exposures relatively low.

The Treasury trading effectively managed short-term interest rate positions arising from customer positions, and made good use of the business opportunities offered by the monetary policy instruments.

In the foreign currency market, the trading was mainly active in EURHUF and USDHUF, as a large part of the client turnover is also realised in these currency pairs. The trading has also had a successful year in a highly volatile market, taking mainly short-term spot positions and pursuing a more active and proactive options portfolio management. In addition to profitability, it continued to strive for a high level of service to institutional customers and sales areas.

Treasury Sales

The year 2022 was characterised by above-average volatility, which encouraged corporate customers to manage exchange rate risk, and was treated as an attractive option by premium and private bank customers with a higher risk appetite. Dealers were able to generate strong turnover in options and structured products, which require deeper market knowledge. On the interest rate front, accelerating inflation and rising yields have made companies borrowing long-term debt hesitant and postponing projects or hedging the interest rate risk on related loans, which could come to the fore as yield curves shift downwards as early as this year.

ALM & Liquidity service

The ALM Service & Liquidity Management was created during the year with the aim of serving the capital markets transaction needs of the ALM area in the most professional way possible. It met this requirement to the maximum extent possible for both bond, interest rate derivatives and money market products.

In terms of operational liquidity management, it has continuously adapted to the changing monetary environment and has fully executed the money market transactions necessary for the smooth functioning of the bank payment flows.

Capital market and institutional customers

Institutional sales

2022 posed considerable excitement not only for retail customers but also for institutional investors. The tightening monetary policy of the Federal Reserve and the world's leading central banks in the external international environment has posed a significant challenge to institutional clients with a ‘buy & hold’ approach. The new more volatile market environment required a much more active investment behaviour, generating significantly higher turnover across all asset classes compared to previous years. This is particularly true for Hungarian assets, where the significant fall in equity prices, the stress of the war and the rise in yields caused by the MNB's interest rate hikes, as well as the weakening forint, have resulted in a surge in the number of contracts and turnover. Among the wide range of products accessed by institutional customers, foreign exchange (spot, forward, futures, swaps, options and warrants) was clearly the most popular, due to the extreme movements in the forint market. The rapid pace of monetary tightening by the National Bank of Hungary has generated interest in deposit-fixing, which is expected to continue to play a prominent role in the decisions of institutional investors due to very high interest rates.

Banking relations

The focus in financial institution relations in 2022 remained unchanged on serving the needs of the Bank Group's customers in the areas of international payments and foreign trade, market risk hedging, liquidity management, treasury cooperation and fund raising, as well as on outstanding banking relationships. In 2022, the area successfully expanded the range of partner banks involved in the central clearing of the Bank Group's derivatives transactions. In addition, the Banking Relations area was actively involved in communicating with financial institution partners on the merger process of the bank group and in the necessary contract amendments

Corporate Finance

In 2022, the Corporate Finance area continued to be active in several capital market transactions, such as bond issues and stock market listings. The MNB did not announce a new programme to support corporate bond issuance after the NKP (Bond Funding for Growh) programme had reached its limit, and the increasingly high interest rate environment during the year did not encourage businesses to issue fixed-rate bonds. However, there have been several examples of floating rate bonds. Lower debt securities issuance activity than in previous years was offset by the fact that Corporate Finance was an active player in managing the listing of several companies during the year.

Corporate Finance will continue to provide a high level of support to MBH member banks and market participants in order to make their capital market transactions as simple and quick as possible.

Investment services

Investment services - sales

The rising yield environment brought about a major portfolio rebalancing, typically within retail government bonds. Foreign exchange products generated significantly higher turnover and revenues than in previous years due to high volatility. Towards the end of the year, investor attention focused on fixed income assets, in line with expectations for a peak in yields. In all product areas, the volatile market led to more intense investor activity than in previous years, resulting in higher revenues.

Investment services business operation

Over the year, MKB Bank successfully maintained its position as **one of the largest securities distribution networks in the country**. By the end of 2022, in addition to MBH's network of intermediaries, securities brokerage activities were performed in nearly 40 additional branches operated by companies and banks. MKB has maintained its sub-distribution agreements for the distribution of retail government securities, which are used by a number of Investment Service Providers, such as SPB Befektetési Zrt. or Concorde Értékpapír Zrt. In line with the investment services strategy, several major projects and tasks were implemented in the Bank, and the war situation that started at the beginning of the year and the inflationary effects resulted in a portfolio restructuring of the investment portfolio.

- As of 31 March 2022, MKB Bank and Budapest Bank merged, unifying the Investment Services product range and pricing of the two Banks, and customers will be served under the operating model of one Bank.
- As a result of the merger, customers of the former Budapest Bank have access to a number of new investment products, such as share trading or certificate quotation, and for corporate customers, e.g., several new foreign currency hedging products will be available.
- In August 2022, MKB-Pannónia Fund Manager and Budapest Fund Manager merged under the name of MKB Fund Manager, from which date the Bank will provide MKB Investment Fund product portfolios to its customers under a unified Fund Manager operation.

Compared to the beginning of the year, the stock of retail government bonds fell, reflecting overall market movements, but the stock of investment fund shares and other forms of investment, such as shares and certificates, increased significantly.

Depositary services, sales

While maintaining its existing mandates, the institutional depositary area smoothly serviced new portfolio and investment fund depositary requests from existing customers during the year, and provided ongoing expert support on deposit-related solution and execution issues for a wide range of investment fund customers in less common types of transactions.

Intermediary currency exchange

With the pandemic over, new companies have emerged on the market intending to exchange money. Temporarily closed exchange offices reopened and new locations were opened among the Bank's partners: 81 licensed active intermediaries serve customers from around 172 locations. Due to above-average exchange rate fluctuations during the year, the area recorded a significant turnover in intermediaries' dealings with banks.

6. SUBSIDIARIES/STRATEGIC COOPERATION AND PARTNERS

In addition to its own range of banking products and services, MKB provides the services of its subsidiaries and partners too. The objective of the Bank is to preserve, increase the market position of its subsidiaries, to deepen cooperation within the group, and to continually strengthen ancillary financial services.

SUBSIDIARIES[3]

Euroleasing

The consolidated MKB Group includes the dominant operators of the domestic leasing market, Euroleasing Zrt., Budapest Lízing Zrt. and Takarék Lízing Zrt.

As an important step in the merger process, from the first day of 2022, Euroleasing Zrt., Budapest Lízing Zrt., Takarék Lízing Zrt., and Budapest Bank's (from April 2022 MKB Bank) car financing segment continue to operate in the same management structure, in a coordinated and integrated manner.

The leasing group has a national network, around 110,000 customers and a market share of more than 20 percent based on the newly placed, aggregated leasing stock – all showing the importance of this step. After the integration, new loan and leasing services will primarily be provided by Euroleasing Nyrt., while contracts concluded before January 1, 2022 will continue to be managed by the original leasing companies or their legal successors.

The professional recognition of the corporate group is indicated by the fact that in 2022 Budapest Lízing, integrated into Euroleasing, won three of the eight categories of the EXIM Awards, which reward the work of domestic credit institutions.

Car financing activity

The leasing group has become a key operator in the vehicle financing segment of the leasing market. From the third quarter of 2021, the international trends - primarily the shortage of chips holding back production and the slowdown of supply chains - became noticable in the Hungarian car sales market, and through it also in the vehicle financing market, which had a strong negative impact on the sales and financing markets as well. However, starting from the fourth quarter of 2021, the introduction of the subsidized Széchenyi Leasing GO! and then Széchenyi Leasing MAX products had a stimulating effect on the financing market, which in 2022 drove a significant number of buyers towards the financing market in the affected segments. In addition to previous unfavorable factors, the Russo-Ukrainian war also had a negative impact on the production and sale of new vehicles, and at the same time on the financing market. An important factor is that the general trend of rising interest rates reduced the demand for financing last year, while rising prices had a negative effect on the sales market.

Asset financing activity

The leasing group has a dominant market position in the asset financing leasing market and is the market leader in its two most significant segments, the financing of agricultural equipment and commercial vehicles.

State support programs (EXIM, KAVOSZ) had a significant impact on the asset financing market segment, while the leasing group played a prominent role in bringing these subsidized products to market in 2022.

[3] Source: Hungarian Leasing Association, BAMOSZ

The deterioration of the economic environment has had an effect on the asset financing market in the past period through the narrowing of investment desire and demand, as well as investment opportunities, which will hopefully be mitigated adequately in the future by state economic stimulus programs.

Changes in the economic environment affecting the leasing group

In 2022 the management of the leasing group's members was significantly influenced by several regulatory factors. These are the extra-profit tax extended to financial enterprises, the interest stop measures extended to real estate leasing contracts, and then to the SME sector in the second half of the year, and the Government's Decree No. 292/2022 issued on August 8, 2022. (VIII.8.) payment moratorium for the period between September 1, 2022 and December 31, 2023 for agricultural farmers' credit and loan contracts, as well as financial leasing contracts.

The group has devoted considerable attention to the follow-up and monitoring of the portfolios of customers who have exited previous moratoriums or are in moratorium in order to reduce potential losses.

The considerable diversification of the group's financing portfolio played an important role in countervailing the negative external effects, the development of which is an important pillar of the company's strategy.

MKB Alapkezelő Zrt.

As of 31 August 2022, MKB-Pannónia Alapkezelő Zrt. was merged into Budapest Alapkezelő Zrt. and will continue to operate under the name MKB Alapkezelő Zrt. as of 1 September 2022.

There were no new fund launches during the year due to the merger of the two fund managers. The aim for the coming period is to consolidate and rationalise the product portfolios of the two Fund Managers following the merger.

As of 31 December 2022, the MKB Alapkezelő Zrt. managed a total of HUF 1,324 billion in net asset value investments, representing a market share[4] of 9.6%. Within this, it invests HUF 820 billion in 67 investment funds and 2 private equity funds, and manages assets totalling HUF 504 billion for 10 funds, 3 insurance companies and 5 other customers in the context of portfolio management. MKB Alapkezelő Zrt. is ranked second among pension fund asset managers (in terms of assets under management).

MKB Fintechlab

For MKB Fintechlab, the year 2022 was all about adaptation to a changing environment and development. The MKB Fintechlab makes a major contribution to the establishment of digital capabilities in banking, the conscious development of innovation maturity and the exploitation of its business potential. The core pillar of MKB Fintechlab's strategy is investment and the ability to manage innovation.

During the year, MKB Fintechlab made 6 new investments in an incubator tender. In addition, the portfolio companies have had a number of successes in terms of growth. Furthermore, MKB Fintechlab successfully closed two full and one partial exit during the year.

Continuing from the previous year, the subsidiary again organised several events. Within the Fintech Factory, we organised monthly mentor meetings, where the founders of our portfolio companies had the opportunity to get to know each other and share their experiences, discuss their questions with each other and with the mentors.

Hackathon was also held at Corvinus University where finance students had the opportunity to develop a financial innovation idea with the help of our mentors. Prizes were awarded to the best ideas.

The first School of Innovation financial innovation apprenticeship programme was launched in 2022, with 229 applicants. During the five-month programme, participants were able to learn about financial innovation trends and methodologies, participate in hands-on workshops and professional community events, divided into six professional topics. The training covered topics such as the technological trends shaping the future of banking, how fintech giants work and design thinking.

Similarly successful is the Partnership Programme of the subsidiary, where a total of 8 external fintech solutions have been validated according to the needs of the bank, among which it is worth highlighting the solution of Péntech B2B BNPL, one of the start-ups in our investment portfolio, with which MKB Fintechlab launched a test project. The Programme team prepared 22 research papers and supported the implementation of the KYC system, commissioned by the Bank Group Foundation, as an integrated part of the agile teams.

Solus Capital Venture Capital Fund Management

Solus Capital Venture Capital Fund Management Zrt. continued its investment activity in the start-up ecosystem in 2022 too.

The Solus I Venture Capital Fund is a fund jointly financed by the Specialization Venture Capital Program (GINOP 8.1.3/B-17) and MKB Group and its strategic partners as private investors. The Solus I Venture Capital Fund is expected to disburse HUF 12 billion venture capital to SMEs applying innovative and smart technologies by the end of 2023. At the end of 2022, the portfolio consisted of 28 companies, and investment decisions had already been made on HUF 12,032 million. In 2022, the Fund invested a total of HUF 1,291 million in 12 of its portfolio items.

Solus II Venture Capital Fund was realized within the framework of the Digital Welfare Venture Capital Program (GINOP 8.2.7-18). By the end of 2023, the Fund will invest a venture capital of more than HUF 7 billion in micro-, small- and mid-sized enterprises that focus on digitalization. At the end of 2022, the portfolio consisted of 17 companies, and investment decisions had already been made on HUF 5,935 million. In 2022, 1 new investment decision was made and a total of HUF 1,750 million was disbursed, including the existing elements in the portfolio.

On the growth side, the biggest challenges for portfolio companies were entering domestic and foreign markets, product validation and finding the next round of capital, while on the resource side, financing energy and raw material costs and labour shortages due to increased inflationary pressures. Mitigating the negative economic impact and providing capital to potent companies shifted the Fund Manager's focus to the existing portfolio.

A review of the book value of failing companies began and, where necessary, a write-down undertook by the Fund Manager twice a year. Over the past year, in the context of industry difficulties, a pool of financially stable companies, close to break even and with growth potential, has emerged, which the Fund Manager intends to support in the hope of future returns.

Takarékbank Zrt.

Takarékbank Zrt. is the universal commercial bank of Bank Group.

Takarékbank was formed through the fusion of three savings cooperatives, with Pannon Takarék Bank Zrt. and B3 Takarék Szövetkezet merging into Mohácsi Takarék Bank Zrt. on 30 April 2019, which then changed its name to Takarékbank Zrt. On the same date, the central bank of Takarék Group, MTB Magyar Takarékszövetkezeti Bank Zrt. (“MTB”), transferred its corporate and retail account, deposit, loan and guarantee portfolio to the new Takarékbank.

On 31 October 2019, with further 11 savings cooperatives and 2 banks legally merging, the nearly 5-year process ended, in the course of which almost 120 former savings cooperatives merged to create a single, universal commercial bank with nationwide coverage.

In October, 2021, Magyar Bankholding transferred MTB to Magyar Takarék Bankholding Zrt., which is merged with Budapest Bank and MKB on 31 March, 2022. After this point, the MTB Group became a subsidiary of the merged bank under the name MKB.

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owns MTB, approved the first step of the merger timetable of Budapest Bank, MKB Bank and the MTB. According to the merger schedule, based on the relevant decisions of the supreme bodies and subject to the necessary regulatory permits, the two member banks of Magyar Bankholding Zrt., Budapest Bank Zrt. and MKB Bank Nyrt., as well as Magyar Takarék Bankholding Zrt. merged on 31 March 2022. As a result of the merger, Budapest Bank was merged into MKB Bank and MTB Bank Zrt. continues to operate as a subsidiary bank of the merged bank. The merged bank, created on 31 March, became the group leader and temporarily operates under the name MKB Bank Nyrt. In the second quarter of 2023 Takarékbank will join the bank merged in the spring of 2022.

Having obtained the necessary preliminary approvals exercised the option provided by law, on 1 April 2022 Takarékbank, withdrew from the Integration Organisation, the mandatory institution protection organisation of integrated credit institutions.

On 9 December 2022, the supreme bodies of MKB Bank and Takarékbank Zrt. adopted the proposals for the merger of the two member banks as part of the implementation of the second step of merger timetable. According to the decision of the General Meetings, the two member banks of the banking group, MKB Bank Nyrt. and Takarékbank Zrt. will merge on 30 April 2023, or, if the merger is not registered with the Court of Registration by then, on the date of registration, and will then continue to operate under the name MBH Bank Nyrt. with a single brand name and image. On 6 February 2023, the MNB approved the merger of Takarékbank Zrt. into MKB Bank Nyrt. as of 30 April 2023.

MTB Magyar Takarékszövetkezeti Bank Zrt.

MTB Magyar Takarékszövetkezeti Bank Zrt. (formerly known as Takarékbank) was founded in 1989 to serve as an umbrella bank and correspondent bank for 236 integrated savings cooperatives (later cooperative credit institutions). The Bank has supported the business activities of the savings cooperatives by providing access to banking permissions previously unavailable to the savings cooperatives (drawing on refinancing sources, account management by central bank, foreign exchange transactions).

Things turned the corner with Act CXXXV of 2013 on the integration of credit institutions and on the amendment of certain regulations relating to economy, the purpose of which was to modernise the sector, mitigate its risks and establish an efficient savings cooperative group. MTB became the central bank for the Integration Organisation, with the SZHISZ (Integration Organization of Cooperative Credit Institutions or IOCCI) as its supervisory body.

In 2019, MTB was actively involved in the integrational fusion process that led to Takarék Group performing its commercial banking business activities in a unified, single bank, Takarékbank.

In October 2021, Magyar Bankholding transferred MTB to Magyar Takarék Bankholding Zrt., which is scheduled to merge with Budapest Bank and MKB on 31 March 2022. After this point, the bank, named MKB after the merger, shall own MTB (Takarék Group) as a subsidiary. At the same time, MTB sold its shares in Takarékbank Zrt. to MKB Bank Nyrt., thus Takarékbank left the Takarék Group and MKB Bank Nyrt. became the majority shareholder.

Takarék Jelzálogbank Nyrt.

Takarék Jelzálogbank Nyrt. as FHB Land Credit and Mortgage Bank started its operation in 1998. As the first specialized mortgage credit institution created the basis of mortgage lending business operating with mortgage bank background in the Hungarian banking market, actively participated in the establishing the legal environment of mortgage banking operations, developed its strategy and built up its customer base, and made mortgage-based financing available with mortgage bonds available in the country. On both the asset and liability side, the Bank has developed a gradually refining product range, in line with the changing market environment, which is well adapted to both capital market conditions and client needs.

The Bank's profile has been clarified since 2018, which is in line with the long-term goals of Takarék Group, it operates as a refinancing mortgage bank, consequently its main activities are refinancing mortgage loans for members of Takarék Group and third-party partner banks outside the group, as well as issuing mortgage bonds.

The main owner of the Bank is MTB.

Takarék Faktorház Zrt.

Takarék Faktorház Zrt. is a fully-owned subsidiary of MTB, its primary activity is business factoring.

Takinfo Kft.

Takinfo Kft. is a subsidiary of MTB, in which it holds 52.38% of shares, its primary activities were the development and management of information technology systems, the trade of information technology assets and software and service activity. The Company transferred its activities and clients to Takarékinfo, its assets consist of real estate property.

MITRA Informatikai Zrt.

MITRA Informatikai Zrt. (formerly: Takarékinfo Központi Adatfeldolgozó Zrt.) is a company majority-owned by MKB Bank Nyrt., in which MTB holds a direct 2.453% stake, the main activity of which is the provision of IT services (primarily to the Bank Group, the members of Integration and Takarékbank) and the operation and development of systems. The Company was established on 1 September 2022 by the merger of Takarékinfo, MKB Digital Zrt. and Euro-Immat Kft.

Takarék Ingatlan Zrt.

Takarék Ingatlan Zrt. is a wholly-owned direct subsidiary of MTB, whose main task is to develop and continuously provide real estate valuation, real estate brokerage, real estate marketing and real estate management activities, as well as real estate energy certification and real estate services for MTB Group members and non-Group members (credit institutions, companies and natural persons), in line with the strategy and business interests of the MTB Group and Takarékbank, which is no longer part of the Group.

TIHASZ Takarék Ingatlanhasznosító Zrt.

Takarékbank established TIHASZ Takarék Ingatlanhasznosító Zrt. on 4 October 2019 with a share capital of HUF 50 million with the purpose of allocating the real estate properties of the cooperative integration related to banking into this company, which, as its core function, would manage these real properties and lease them to Takarékbank Zrt.

As a result of multiple capital increases by way of transfers (of real estate), the share capital of TIHASZ Takarék Zrt. reached approximately HUF 25.8 billion during 2020, while by the end of 2022 it reached HUF 26.1 billion.

On 25 September 2020, MTB Zrt. purchased from Takarékbank 23,419 pieces of series "A" ordinary shares in TIHASZ Takarék Ingatlanforgalmazó Zrt. (for a total bidding price of HUF 23,419 million).

During 2022, the liquidation of the former property management company Hajdú-Rent Kft. va, fully owned by Takarékbank (acquired after the merger of the savings cooperatives), was completed, as a result of which the ownership share Takarékbank Zrt. in the company stands at 9.21%.

TIFOR Zrt. was merged with TIHASZ Zrt. on 31 December 2022, along with two other MKB subsidiaries with real estate profiles.

TIFOR Takarék Ingatlanforgalmazó Zrt.

TIFOR Takarék Ingatlanforgalmazó Zrt. was established by Takarékbank Zrt. on 4 October 2019 with a share capital of HUF 50 million, with the purpose of allocating the real properties of the cooperative integration not related to banking into this company, which, as its core function, would manage and sell these real properties to buyers outside the integration.

As result of multiple capital increases by way of transfers (of real estate), the share capital of TIFOR Takarék Zrt. reached approximately HUF 5.9 billion during 2020, and by the end of 2022 it reached HUF 6.45 billion.

On 25 September 2020, MTB Zrt. purchased from Takarékbank 5,186 pieces of series "A" ordinary shares in TIFOR Takarék Ingatlanforgalmazó Zrt. (for a total bidding price of HUF 4,931.05 million).

During 2022, the liquidation of the former property management company Hajdú-Rent Kft. va, fully owned by Takarékbank (acquired after the merger of the savings cooperatives), was completed, as a result of which the ownership share Takarékbank Zrt. in the company stands at 22.52%.

TIFOR Zrt. was merged with TIHASZ Zrt. on 31 December 2022.

STRATEGIC COOPERATION AND PARTNERS[5]

MKB Pension Fund

MKB Pension Fund is one of Hungary's leading pension funds. The Voluntary segment of the Fund, offers a decades-long, efficient savings instrument to nearly 72,000 customers within the MKB Group's comprehensive investment solutions. As of 31 December 2022, the voluntary branch closed the year with an asset of HUF 132 billion. Owing to the continuous communication and financial awareness education in recent years, the individual's willingness to save is increasingly outweighed by the employer's commitment.

The private branch of MKB Pension Fund closed 2022 with near 3,500 members and HUF 18.7 billion in assets, while the proportion of members paying membership fees remained well above the 70% statutory requirement.

The uninterrupted, stable and prudent operation of the Fund for more than 25 years has been facilitated by a well-prepared fund and asset management professional support and the desire for continual development.

[5] Source: National Association of Voluntary Funds

The simple, interest tax-free product, which can be used in many ways even in the active years, can be tailored to the return expectations and risk-bearing capacity of the customers. To more fully satisfy the needs of the members, the fund continuously expands its services portfolio to allow product benefits to be used. The implementation of distributing customer savings between diverse portfolios as well as the introduction of a new, fifth fund portfolio was prepared in the voluntary branch of the fund in 2022. Customers investing in their future with the MKB Pension Fund can take advantage of the combined benefits of impressive balanced yields even over 10 and 15 years and low cost levels due to expert asset management. The funds can be used through a flexible range of services.

In the framework of the digital renewal of the MKB Pension Fund, the development of the Member Portal supporting customer service and electronic administration was also started, in line with the already modernised web interface. The new, streamlined and more transparent interface is expected to be available to members to manage their savings as early as 2023. In addition to digital improvements, the focus of business development has been on continuous activation, customer outreach, and the search for new and innovative solutions and their incorporation into daily operations to continuously increase customer satisfaction.

MKB-Pannónia Health and Mutual Benefit Fund

MKB-Pannónia Health and Mutual Benefit Fund is a market leading health fund in Hungary, which provides a wide range of services to more than 202 thousand members and had HUF 16.2 billion in assets as of 31 December, 2022. For nearly 25 years, the name of the Fund has been synonymous for its customers with the widest possible range of health-supporting and cost-reducing services available. The assets of the health fund, which can be spent on the needs of the whole family in almost every life situation and can be supplemented with a 20% tax allowance, can be widely used, from maternity through private health care expenses to supporting elderly care. In the case of preventive expenses and a two-year fixed-term deposit, the state provides an additional 10% tax allowance to customers, which can be used for a wide variety of products and services at its more than 16,600 partners using conventional payment methods or at nearly 9,600 contracted card acceptance service providers.

During 2022, the Fund also upgraded and launched a modernised version of the Member Portal and the mobile app as part of a complex process in line with the redesign of its website last year. One important result of the Portal redesign is that the previously outdated interface can now be accessed from any device, such as a mobile phone or tablet, with full functionality and a high user experience.

It is a novelty that the mobile application of the Fund, in contrast to the previously limited usability, now includes almost all the functions and data display of the Member Portal and almost all online administration options.

The positive result of 2022 is that the Fund closed the year with an increasingly dynamic member contribution activity as a result of a strengthened business approach. It has also successfully developed products with an external partner in response to growing health awareness. By the end of the year, the Pension Fund, in partnership with CIG Pannónia Biztosító, added new versatile packages to its health insurance product range, offering a complete solution from diagnostic tests to hospitalisation cover.

Health insurance is thus available from January 2023 as a tax-advantaged corporate benefit option - financed through the Fund - to serve not only individual customers but also employers.

In 2022, in addition to the above steps, easier subscription management for electronic administration has been implemented, and the modernisation of the account processing process continued in a complex project, which can contribute to making account settlement smoother. This move should also lead to organisational efficiency gains in the medium term.

The Fund's business development has worked to support stable, predictable operations and in 2022 continued to explore a number of new and innovative solutions to continuously increase customer satisfaction. Alongside an active marketing presence, effective customer advocacy and deposit incentives.

Budapest Voluntary Pension Fund

The Budapest Voluntary Pension Fund manages the pension savings of more than 20 thousand members, amounting to HUF 38 billion. Individual contributions from members exceeded HUF 2 billion in 2022, and a number of employers also supported their employees, mostly through cafeteria payments. The web-based customer service system helps members to find their way around efficiently, while the online login interface provides a fast and convenient service for new customers. The low-cost investment, backed by tax relief and interest tax exemption, offers flexible savings for which MKB Fund Manager provides the investor expertise as a professional asset manager.

Budapest Private Pension Fund

Budapest Private Pension Fund has a membership of nearly 6,500 people, the assets under management amounted to HUF 35 billion on 31 December 2022. Members' willingness to pay membership fees is high, so in 2022, the proportion of paying members was still well above the statutory 70%. As a result of early payments, this legal condition is already met for the full calendar year 2023. The Fund now operates on a voluntary basis, with the aim of significantly increasing its members' pension savings in the long term at a low cost.

7. FINANCIAL PERFORMANCE OF THE GROUP

Consolidated Statement of Financial Position

Statement of Financial Position (in HUF million)	31.12.2022	31.12.2021	Change
Assets			
Cash and cash equivalents	**1,361,315**	**854,970**	**506,345**
Financial assets measured at fair value through profit or loss	**819,718**	**169,155**	**650,563**
Loans and advances to customers mandatorily at fair value through profit or loss	418,517	53,295	365,222
Securities held for trading	49,923	3,964	45,959
Securities mandatorily at fair value through profit or loss	24,869	7,537	17,332
Derivative financial assets	326,409	104,359	222,050
Hedging derivative assets	**164,338**	**-**	**164,338**
Financial assets measured at fair value through other comprehensive income	**630,845**	**187,681**	**443,164**
Securities	630,845	187,681	443,164
Financial assets measured at amortised cost	**7,377,255**	**2,005,129**	**5,372,126**
Loans and advances to banks	179,088	36,940	142,148
Loans and advances to customers	4,342,801	1,143,764	3,199,037
Repurchase assets	1,070	18,868	(17,798)
Securities	2,781,620	804,568	1,977,052
Other financial assets	72,676	989	71,687
Fair value change of hedged items in portfolio hedge of interest rate risk	**(51,678)**	**-**	**(51,678)**
Investments in subsidiaries and associates	**49,599**	**8,586**	**41,013**
Property, plant and equipment	**98,345**	**28,004**	**70,341**
Intangible assets	**70,511**	**31,786**	**38,725**
Goodwill	**-**	**-**	**-**
Income tax assets	**24,981**	**8,115**	**16,866**
Current income tax assets	453	2	451
Deferred income tax assets	24,528	8,113	16,415
Other assets	**69,039**	**20,557**	**48,482**
Assets held for sale	**154**	**35**	**119**
Total assets	**10,614,422**	**3,314,019**	**7,300,403**

Statement of Financial Position (in HUF million)	31.12.2022	31.12.2021	Change
Liabilities			
Financial liabilities measured at fair value through profit or loss	**278,203**	**43,751**	**234,452**
Derivative financial liabilities	235,877	41,528	194,349
Financial liabilities from short positions	42,326	2,223	40,103
Hedging derivative liabilities	**1,365**	**-**	**1,365**
Financial liabilities measured at amortised cost	**9,416,275**	**2,991,346**	**6,424,929**
Amounts due to banks	2,378,471	699,563	1,678,908
Amounts due to customers	6,574,357	2,212,841	4,361,516
Repurchase liabilities	-	1,319	(1,319)
Issued debt securities	290,838	-	290,838
Subordinated debt	88,887	45,070	43,817
Other financial liabilities	83,722	32,553	51,169
Provisions	**22,623**	**3,630**	**18,993**
Income tax liabilities	**15,483**	**1,991**	**13,492**
Current income tax liabilities	12,378	1,867	10,511
Deferred income tax liabilities	3,105	124	2,981
Other liabilities	**71,737**	**23,548**	**48,189**
Total liabilities	**9,805,686**	**3,064,266**	**6,741,420**
Equity			
Share capital	**321,699**	**100,000**	**221,699**
Share premium	**313,947**	**21,729**	**292,218**
Retained earnings	**32,592**	**74,570**	**(40,776)**
Other reserve	**32,552**	**17,040**	**14,310**
Profit for the year	**88,942**	**59,983**	**28,959**
Accumulated other comprehensive income	**(21,357)**	**(23,569)**	**2,212**
Non-controlling interest	**40,361**	**-**	**40,361**
Total equity	**808,736**	**249,753**	**558,983**
Total liabilities and equity	**10,614,422**	**3,314,019**	**7,300,403**

Based on 2022 year-end data, the total assets of the Group increased by HUF 7,300.4 billion compared to 2021 year-end and amounted to HUF 10,614.4 billion as of December 31, 2022. The significant increase is largely due to the merger of Budapest Bank and the consolidation of Takarék Group.

Cash and cash-equivalent assets amounted to HUF 1,361.3 billion, showing an increase of HUF 506.3 billion compared to the end of the previous year. Of this, cash on hand amounted to HUF 78.1 billion, while the balance of the deposit account held at the central bank reached HUF 868.3 billion.

Loans and advances to credit institutions increased HUF 142.1 billion compared to the end of the previous year.

The stock of securities measured at amortised cost increased by HUF 1,977.1.3 billion compared to the end of the preceding year, reaching HUF 2,781.6 billion. By the end of 2022, the stock of loans and advances to customers amounted to HUF 4,342.8 billion at the end of the period.

The amount of assets qualified as held for sale and that of discontinued operations increased by HUF 119 million compared to end-2021.

Other assets increased by HUF 48.3 billion by the end of 2022.

Compared to the end of 2021, investments in subsidiaries, jointly controlled entities and associates increased to HUF 49.6 billion, a multiple of the two periods, mainly due to the result of merger.

During the reporting period, the stock of liabilities to credit institutions increased by HUF 1,678.9 billion. The aggregate sum of client deposits and current accounts were HUF 6,574.4 billion, increased by HUF 4,361.5 billion compared to the end of the previous year due to change of consolidation scope.

HUF 235.9 billion in derivative financial liabilities recorded among liabilities was primarily due to the fair value change of derivative transactions related to interest- and currency risks.

The stock of other liabilities increased by HUF 48.0 billion and provisions also increased by HUF 19.0 billion during the year.

Consolidated Statement of profit or loss and other comprehensive income

Statement of profit or loss (in HUF million)	2022	2021	Change %*	Change
Interest and similar to interest income	**678,949**	**86,044**	**-**	**592,905**
Interest income using effective interest rate method	*471,917*	*70,558*	-	*401,359*
Other interest income	*207,032*	*15,486*	-	*191,546*
Interest and similar to interest expense	**(313,222)**	**(32,103)**	**-**	**(281,119)**
Interest expense using effective interest rate method	*(159,870)*	*(12,111)*	-	*(147,759)*
Other interest expenses	*(153,352)*	*(19,992)*	-	*(133,360)*
Net interest income	**365,727**	**53,941**	**-**	**311,786**
Income from fees and comissions	**142,020**	**32,609**	**-**	**109,411**
Expense from fees and comissions	**(37,591)**	**(6,485)**	**-**	**(31,106)**
Net income from commissions and fees	**104,429**	**26,124**	**299,7%**	**78,305**
Results from financial instruments	**32,146**	**63,328**	**-49,2%**	**(31,182)**
Results from financial instruments measured at fair value through profit or loss, net	*118,163*	*85,510*	*38,2%*	*32,653*
Results from financial instruments measured at fair value through other comprehensive income, net	*(35,924)*	*(14,610)*	*145,9%*	*(21,314)*
Results from financial instruments measured at amortized cost, net	*1,655*	*2,719*	*39,1%*	*(1,064)*
Results from hedge accounting, net	*(5,288)*	-	-	*(5,288)*
Exchange differences result, net	*(46,460)*	*(10,291)*	-	*(36,169)*
(Impairment) / Reversal on financial and non-financial instruments	**(93,176)**	**(5,926)**	**-**	**(87,250)**
(Impairment) / Reversal on financial instruments held for credit risk management	*(65,005)*	*(4,281)*	-	*(60,724)*
Provision (loss) / gain	*(3,379)*	*220*	-	*(3,599)*
Modification (loss) / gain on financial instruments	*(23,222)*	*(1,403)*	-	*(21,819)*
(Impairment) / Reversal on investments in subsidiaries and associates	*(6)*	*(316)*	*98,1%*	*310*
(Impairment) / Reversal on other financial and non financial instruments	*(1,564)*	*(146)*	-	*(1,418)*
Dividend income	**728**	**25**	**-**	**703**
Operating expense	**(310,056)**	**(77,572)**	**299,7%**	**(232,484)**
Other income	**13,317**	**19,883**	**-33.0%**	**(6,566)**
Other expense	**(10,536)**	**(18,532)**	**43.1%**	**7,996**
Investments in jointly controlled entities and associates	**2,704**	**4,112**	**-34,3%**	**(1,408)**
Result from assets held for sale	**(1,893)**	**399**	**-**	**(2,292)**
Profit before taxation	**103,390**	**65,782**	**57,2%**	**37,608**
Income tax income / (expense)	**(12,222)**	**(5,799)**	**110,8%**	**(6,423)**
PROFIT FOR THE YEAR	**91,168**	**59,983**	**52,0%**	**31,185**
Of which profit or (loss) of the owners of the parent company	*88,942*	*59,983*	*48,3%*	*28,959*
Of which profit or (loss) of the non-controlling interest	*2,226*	-	-	*2,226*
Other comprehensive income for the year net of tax	**4,762**	**(20,009)**	**-123,8%**	**24,771**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**95,930**	**39,974**	**140,0%**	**55,956**

*A change of more than +/- 300% compared to the previous year cannot be interpreted, marked with "-".

In 2022, net interest income showed a HUF 311.8 billion increase compared to the previous year mainly caused by increased interest revenues.

Net income from fees and commissions increased by HUF 78.3 billion in 2022 compared to the previous year, mainly due to the increase of commission income earned from payment transactions.

Despite a HUF 32.2 billion decrease in the results from financial instruments, resulting in HUF 91.2 billion profit for the year under review.

Impairment and provisioning showed a total of HUF 93.2 billion in the relevant period, increased by HUF 87.3 billion in the financial year compared to the previous year. The largest part of this is the impairment of financial instruments held for credit risk management due to moratorium and stage reclassifications.

Major items leading to the HUF 232.9 billion increase of operating expenses are the increased wages and IT costs and the paid extraprofit tax.

8. THE RISK MANAGEMENT OF MKB BANK

MKB’s risk management is governed by the Hungarian and EU legislation in force and additional supervisory regulations. MKB Bank performs the governance functions of the MKB banking group and defines for its members the mandatory internal rules and guidelines related to prudent risk taking and risk management.

The Bank considers prudent risk-taking to be a core value, and its risk management and risk control activities are performed in accordance with the principles laid down in the Risk Strategy. The Bank’s risk management is subject to several levels of control, the most important of which are ultimate control at the level of the Board of Directors (some specific and identified risk decisions require the approval of the Supervisory Board), independent control separate from the risk-taking areas, and appropriate measurement, diversification, monitoring and reporting of risks. The Bank continued to comply with the regulatory requirements throughout 2022.

The merger processes in the banking group had a significant impact on the risk situation of MKB Bank Nyrt. in 2022. After the merger with Budapest Bank Zrt., the volume of risks of MKB Bank Nyrt. increased during the year in line with the change in business volume.

Risk Strategy

MKB's Group level Risk Strategy defines the scope of risks that can take and the risk management and measurement tools to be applied, as well as the general risk-taking principles and rules to be followed by the Bank.

In its operations, MKB Bank strives to maintain a risk culture that ensures the identification, measurement and management of emerging risks in accordance with the risk appetite. Internal policies, strategies, regulations and guidelines, communication and employee training are the primary means of ensuring a corresponding risk culture.

The primary objectives of MKB Bank’s risk management activities are to protect the Bank's and MKB Banking Group’s financial strength and reputation and to contribute to the use of capital for competitive business activities that enhance shareholder value.

The Bank's risk appetite should be consistent with the financial resources available to cover potential losses. In order to ensure this, the Group calculates on standalone and group level the current and future economic capital requirements for the quantifiable types of risk, as well as the capital requirements under Pillar 1.

MKB Bank is primarily exposed to credit, liquidity, market and operational risks.

Credit risk

In 2022, in addition to the merger with Budapest Bank Zrt. and the integration of the portfolios of Sberbank Hungary Zrt., the main factor influencing the change in credit risk was the pandemic period, the geopolitical and economic situation, the change in methodologies due to the modification of the payment moratorium and the introduction of the agricultural moratorium, both for the corporate and retail portfolios.

In line with the MNB's expectations and the uniform impairment calculation methodology at MKB banking group level, the staging logic for customers in the moratorium and leaving the moratorium was standardised.

For customers exiting the moratorium or not on a contracted repayment schedule, the measurement of traditional credit behaviour continues to be implemented. For retail customers, the Bank Group has reverted to the standard lifetime ECL calculation.

For corporate customers, the Bank continues to determine the level of impairment based on the rating and the monitoring result.

In addition to the above, the Bank has updated the macro parameters for the entire portfolio, using the latest parameters available in the MNB Inflation Report. The updated risk parameters have also been implemented in the ECL calculation.

Given that no new information on the paying capacity of customers has emerged during the moratorium period and that the repayment rates of customers affected by the interest rate freeze are lower than those in the contracts, it is necessary to take into account the uncertainties about the capacity and willingness of debtors to pay. In addition, MNB expects that the risk arising from modelling uncertainty needs to be mitigated.

The Bank has considered the following aspects in determining the year end management overlays:

- the rate at which the income of retail customers entering the moratorium4 has decreased compared to 18.03.2020,
- the credit risk models are not aware of the agricultural moratorium and therefore the willingness and capacity to pay for customers entering the agricultural moratorium may contain a hidden high probability of default,
- the application of corporate ratings and transitional staging rules alone does not always reflect the full increase in lifetime loss, even when macro parameters are updated.

In summary, the Bank's current modelling methodology, using the above information, provides the opportunity to develop risk profiles that are well-defined from a customer management perspective. The management overlays have been formed due to the uncertainties arising from the current economic situation, the expectations of the regulatory environment and the future volatility of the economic situation.

At the end of 2022, there was an increase in both the portfolio of impaired receivables and the portfolio of impairment, driven in part by the volume-increasing impact of the loan portfolio acquired from Sberbank and the merger with Budapest Bank in April 2022. During 2022, the quality of the portfolio improved somewhat due to the sale of receivables. Non-performing receivables as a percentage of gross receivables increased during 2022.

Market risk

Market risks include interest rate risk and foreign exchange risk arising from all banking activities. Bank keeps its market risks low by means of an appropriate limit system and in-process controls.

Interest rate risk:

Interest rate risk arises from the fact that changes in interest rates affect the value of a financial instrument. A credit institution is also exposed to interest rate risk if the amounts of its maturing or repricing assets, liabilities and off-balance sheet instruments are not consistent with each other in a given period. Bank measures interest rate risk by performing sensitivity tests on an ongoing basis. In addition, the impact of adverse interest rate scenarios is continuously measured and limited through the application of stress tests. Interest rate risks are managed through an appropriate composition of the securities and derivatives portfolio and through the consistency of other assets and liabilities in the bank's books.

Management of currency risk

The Group aims to keep its exposure to foreign exchange risk low by maintaining open foreign exchange positions up to the limit set in the banking book.

Foreign exchange risk arising in the course of core banking activities is managed by the Bank in the course of its operations, depending on market conditions. The Bank also performs VAR calculations and stress tests to measure foreign exchange risk.

Liquidity and solvency risks

The Group analyses liquidity risks with a number of indicators and mitigates them with limits, the most important of which are based on regulatory indicators (LCR, NSFR, required reserve ratio) and stress tests relevant to liquidity. In addition, the Group operates an early warning system for the timely detection of liquidity disturbances, which is presented to the Asset and Liability Committee and to management without delay in the case of an alert and on a regular basis during normal operations.

Operational risk

The Group continues to manage operational risk primarily through internal policies, rules of procedure and the operation of built-in control mechanisms in line with defined supervisory requirements. MKB's Group Level Operational Risk Management Policy and Operational Risk Management Rules set out the methodology for the operational risk management framework tools used by the Bank.

The operational risk loss data collection is based on uniform definitions and limits. The Bank promotes the recognition and identification of operational risks with internal training.

The adequacy of key risk indicators (KRIs) is reviewed by the Bank every year, several KRIs were modified in 2022 and new group level KRIs defined by MKB were introduced.

The Group conducts operational risk self-assessments for its key activities, and uses scenario analysis to assess the impact of events that occur infrequently but could result in severe losses if they were to occur.

The Group’s operational risk events and the results of operational risk monitoring are reported on a quarterly basis.

With regard to operational risk, the Bank's management attaches great importance to feedback. An essential aspect is the implementation and monitoring of the effectiveness of the measures taken to eliminate operational risks.

9. DEVELOPMENT PROSPECTS, EXPECTATIONS AND PLANS FOR 2023

On 31 March 2022, the two member banks of Magyar Bankholding Zrt., Budapest Bank Zrt. and MKB Bank Nyrt., and Magyar Takarék Bankholding Zrt. merged. During the merger, Budapest Bank was merged into MKB Bank and Takarékbank Zrt. will continue to operate as a subsidiary bank of the merged bank. In the second quarter of 2023, Takarékbank will join the bank merged in the spring of 2022. The merged bank, created on 31 March, became the group leader and temporarily operates under the name MKB Bank Nyrt.

On 27 September 2022, MKB Group announced to the public that MKB Bank Nyrt. and Takarékbank Zrt., which will merge in May 2023, will operate under a single brand name and image, hereinafter referred to as MBH Bank Nyrt. The new brand name signals that an entirely new bank is being built, taking the customer experience to a new level, combining the strengths and heritage of the three banks. The Bank intends to continue building with a fresh, clean and modern image to become a successful bank by international standards and create value for its customers.

The Board of Directors adopted the Bank's Strategic Plan for 2023-2027 on 14 September 2022. It confirmed the intention to merge MKB and Takarékbank, emphasised the solution-oriented digital IT system and process improvements, the merger process, and the further development of service quality and value proposition. The new strategy also took into account the rapidly changing economic and regulatory environment. For the period 2024-2025, the Strategy set as a priority the possibility of active trading in MKB shares, based on the Bank's renewed business capabilities, with an expected steady increase in the bank's ability to generate profits.

The priority is for the Bank Group to offer its customers customer-focused, competitively priced, internationally leading digital solutions, products and services, building on the strengths, values and best practices of its member banks.

The objective of the Bank Group is to play a leading role in the domestic financial services market, in line with its announced strategy, through its professional experience, product range and quality of service, thus:

- To become the most customer-centric bank in Hungary, offering value to all Hungarian citizens and businesses.
- Active contribution to the development of the Hungarian economy by supporting segments of national economic significance, such as young people, SMEs and the agricultural sector, while remaining committed to local communities.
- A key priority of the strategy is digital orientation, which means introducing internationally leading fintech solutions. The aim is to radically change the customer experience of financial services by introducing flexible, fast solutions and products that can be combined with each other.
- In the retail business, the key objectives are to provide quality customer service, enhance the customer experience, strengthen lending and the premium segment. Partnerships play an important role and the Bank plans to further develop them in order to further increase its market share in the intermediary market.
- The Bank's ongoing strategic objective is to maintain and build a strong corporate business. The corporate business line is focused on local knowledge, professional service provision, advice-based sales and the provision of innovative solutions.
- The MKB Bank Group provides a wide range of investment banking type services: Private Banking, Fund Management and Treasury
- Building an innovative organisation and corporate culture, with a focus on people, continuous capability development and a cutting-edge corporate culture.

It offers a uniquely broad range of services to its customers, in addition to its own banking products and services provided by its subsidiaries and partners: Euroleasing, MKB Alapkezelő, MKB Pension Fund, MKB-Pannónia Health and Self-Assistance Fund, Budapest Voluntary Pension Fund, Budapest Private Pension Fund.

The economic environment and the financial sector

Taking into account both upside and downside risks, we expect GDP to expand by 0.8% in real terms in 2023. The protracted war in the neighbourhood, the negative impacts of energy price rises, the partial termination of preferential energy prices for households and losses associated with the severe drought led to a marked deterioration in last year's economic performance and continue to exert an impact in 2023 as well. Given the low basis last year, agriculture has a good chance to contribute to growth positively in 2023, provided the severe drought does not repeat itself. Still, the growth outlook continues to be blurred by the partial termination of preferential household energy prices, the high energy bills of the economy's other sectors like companies, state institutions and municipalities. Some sectors may experience transitional, but some also enduring reductions in production levels or even halts in production. These can partly be offset by subsidies and preferential loan schemes by the government, especially for actors in the most energy-intensive industrial branches. Further risks to growth are posed by supply chain disruptions caused either directly by the war in Ukraine or indirectly through the resulting sanctions, which culminate in a lack of or insufficient availability of base and raw materials and steeply rising costs. Purchasing power may be hit by lastingly strong inflation and the high costs of credit. External demand may also get weaker as purchasing power is also undermined in Hungary's main export destinations. The most severe risk would be the complete stop of Russian gas and oil deliveries, but apart from minor incidences this has not yet taken place and there is small probability for such an event in the future. On the other hand, upside risks are also present in the form of new industrial capacities entering production phase, the easing of the lack or insufficient supply of electronic chips, semiconductors and other appliances, the outstanding level of the order book in the industrial sector, which may help the sector to overachieve current expectations. The recovery in international tourism may give a further boost to growth especially with the termination of Covid-related travel restrictions in China. Large scale investment projects announced more recently will also help economic growth accelerate to its previous pace on medium term; from the middle of this decade Hungary's GDP-growth may lastingly exceed 4%.

The termination of the price cap for fuels was only partially reflected in inflation figures in December, the full impact will emerge in January's figures, hence inflation may still accelerate slightly further in the first month of 2023. However, due to base effects we expect at first gradual, but later quite substantial moderations in inflation figures in the coming months. These base effects will be reinforced by a recent fall in international commodity and energy prices, hence no new piece hikes are on the horizon, and the Forint's expected correction (appreciation) should also dampen inflationary pressures. As for food prices, weaker demand will likely drive prices somewhat down, or at least prevent them from rising further. In the course of the last year higher excise taxes pushed tobacco and alcoholic beverage prices up, and the same was true for many processed food items that were subject to the rising of the public health product tax. These effects will, however, disappear from the annual rate of inflation this year. Yet, a wage-price spiral may be forming in some sectors, which can slightly reduce the pace of disinflation. This still won't prevent from inflation declining to below 10% by year-end, however, it will still be as high as 17.5% on annual average in 2023.

The current 18% effective policy rate (the rate on the quick deposit tender) is expected to be gradually cut from the middle of 2023, but from then on it may quite rapidly close the gap with the base rate at 13%. As the disinflation process speeds up, the last quarter may bring especially steep rate cuts from the central bank, hence the base rate may sink to as low as 9% by the end of the year. In the still high inflation environment the growth of budget revenues will definitely exceed that of expenditures, hence on accruals basis the budget deficit may improve by at least 2 percentage points compared to 2022, i.e. it may decline to 4% of GDP, while public debt may sink below 70% of GDP by year-end. Since improvements are likely in the terms of trade, the deficit of the current account may considerably narrow, and improved external balances may lend support to the Forint's exchange rate.

With respect to net interest revenues the banking system may experience a further improvement to last year's figures, but a marked slowdown in lending activity (mainly the disbursement of new housing loans will suffer a dramatic setback compared to 2022 figures) will curb the opportunities for improvement in net fee and commission revenues. As for operating and risk costs, a continued deterioration is well on the cards.

The preceding years' fast growth in total assets as well as last year's sharp increase in fundamental operating revenues means that the tax base will be higher both for the special sectoral tax and the so-called extra profit tax, which will still be imposed upon the banking system in 2023, hence the tax burden continues to become even stricter. In addition, interest rate caps introduced in 2022 will involve substantial losses in the form of foregone revenues. All in all, the entire banking system may expect HUF 80 to 100 billion lower after-tax profit than it realized last year, while the return on equity ratio may moderate to as low as 5 to 5.5% following the previous year's 7%.

10. ENVIRONMENTAL PROTECTION

Although the Group does not pursue business or non-profit activities related to environmental protection, it strives to ensure an environmentally conscious workplace, maintains and cares for the natural vegetation and ornamental plants in its direct environment. It pursues to apply energy-saving solutions during its operation. In its internal trainings it emphasizes the importance of energy and environmentally conscious corporate and employee behavior.

11. HUMAN RESOURCES POLICY

The full-time equivalent employment of MKB Bank Group at the end of 2022 was 9.474, below the same figure in 2021 (2021: 9.877).

Talent management at MKB Group

The MKB Group places great emphasis on training employees and nurturing talent, supporting the development of professional knowledge and skills through a wide range of educational programs. The following programs were launched in 2022:

Digitised and gamified pre-boarding program

The program focuses on our colleagues who are in the pre-entry period after accepting our offer. The solution, available online, supports new talent engagement in the pre-joining period; we not only accompany prospective employees on their journey until their onboarding day, but also maintain a positive experience while providing them with ongoing engagement.

Fusion program

The next step in our talent retention activities in 2022 was the award-winning Fusion programme. Fusion is one of Hungary's largest internship programmes, currently hosting nearly 300 talented students aged 19-25 from across the country. We are usually the first milestone for our trainees at the start of their careers. During the programme they gain relevant work experience, which provides us with a solid pool of young talent. The internship programme is designed to give more than just work experience: we support them through our own onboarding processes, with dedicated HR colleagues to guide university students through their professional work and development.

Ambassador Academy

An innovative tool was called for to introduce new values, associated behaviour patterns and leadership tools, a new culture roadmap and to retain talent and maintain engagement. We therefore developed the Ambassador Academy of around 100 people. It is a change management initiative, with members working together to ensure engagement between different talent, teams and the delivery of information to all colleagues. With high-profile on- and offline sessions focusing on different change-related topics, the initiative has been very well received. They work together on elements of the workplace culture programme in joint workshops, for example they created the questions for the organisation-wide pulse check survey, which was thus relevant and customised to truly pertain to actual colleagues.

Leadership Academy

Our Leadership Academy is an integral part of preparing managers for the transition to the new way of banking. Our leadership training program is modular and supports the continuous development of talented leaders through a variety of solutions and topics (inspiring leadership, heterogeneous cross-generational teams, transparent leadership, motivating leadership, etc.). A specific program supports the training of newly appointed managers.

We created the Change Management Academy, which more than 1,500 of our management and non-management colleagues attended in 2022. Within the framework of the Academy, we not only provide the re-skilling needed for change management, but we also introduced the communication of corporate values in an interactive form, working with colleagues through workshops to help them understand and accept these values.

Our retention programs focus on colleagues with specialist skills, as retention is key (Key Employee Programme), and equally focus on those with a consistently high performance and excellent attitude (High Performer Retention Programme).

MKB Group's 2022 talent management program was recognised with a special award by the Joint Ventures Association on 4 February 2023.

Work-life balance at MKB group:

At MKB Group, flexible working is a core element of the HR strategy and an important component of improving the employee experience.

As part of its HR strategy, MKB Bank aims to increase the share of atypical employment. In addition, the company aims to make working from home available to as many employees as possible, which is why it is also continuously improving its equipment. Working from home reduces workplace stress, improves work-life balance and thus increases employee satisfaction, morale, efficiency and loyalty.

MKB Group and health:

Health promotion and health maintenance is an important area for MKB Bank, which is emphasised in various sports and health campaigns, such as the #20minutehealth programme mentioned above. Providing sporting opportunities for employees in a variety of ways and promoting healthy lifestyles is being implemented on multiple fronts. In 2020 and 2021, due to the pandemic, programmes to support sport were also organised in an online format. Ensuring a healthy working environment for employees is a priority. In the spirit of the Year of Health programme announced in 2018, screening tests for employees have been organised from 2020

Employees have access to preferential health insurance, including diagnostic services and extended occupational health services within the Bank, seven days a week. The teleworking rules referred to in the previous point were also designed to ensure a work-life balance for our employees and to safeguard their health, while also aiming to increase work efficiency.

MKB Bank also offers hobby and recreation rooms in its buildings. Fitness menus and other special dietary meals are available in the canteens at the workplace, and restaurant services were also made available through delivery during the pandemic.

MKB Group and sports:

MKB provides significant support to its sports association, where effective professional and recreational sports work is carried out. In 2022, the association has a membership of between 400 and 450 people, including 200-250 members in the various sports sections.
Our sports sections are: squash, volleyball, fishing, go-kart, dragon boat, cycling, running, table tennis, men's and women's football, hiking, bowling, boxing, basketball, throwing sports, swimming, wall climbing, spartan/crossfit, kayak-canoe and SUP, target shooting, dodgeball. We organise in-house championships in a number of sports several times a year.

In addition to sports sections support, the association also provides its members with sports equipment, logoed sportswear, sports accessories, and even individual support to sports section members on request.
The Sports Association prepares our competitors in 9 sports for the annual Hungarian Banks Sports Tournament, where we achieved 3rd place for the fourth time in a row in 2022.

Our runners regularly take part in large numbers in races such as the Wizzair Half Marathon and the SPAR Marathon. In team sports, our men's football, basketball and bowling teams are top finishers in the Business Leagues. Our dragon boaters have won medals in several national competitions, our anglers also regularly place well, our table tennis team is supported by the training methods of two excellent NB/1 colleagues, and our go-kart teams always have successful monthly meets.

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Our cycling section has been running a joint programme with BKK BUBI for several years, 150 colleagues received annual discounted BUBI passes

We are proud of our spring and autumn round of the 'MKB MOVE' competition, where registered colleagues were able to collect kilometres in walking, running and cycling.

At the same time as the merger on 01 April 2022, we also took over the membership of the Budapest Bank General Sports Circle, with 85 people joining to the MKB SE.

Safe working environment:

MKB Group complies with its legal obligations by carrying out a workplace risk assessment of its headquarters and premises, including all bank branches. As the Group is an office working environment, the risk of accidents is fortunately low. The incidence of accidents at work is therefore low and on a downward trend.

Every year, employees are required to attend mandatory training on health and safety and fire prevention. Special training material has been prepared for bank branch staff on what to do in the event of an attack on the branch. The personnel, material and organisational conditions for safe work are laid down in the Bank's Health and Safety at Work Manual in accordance with the legal requirements.

The Bank also employs a safety and health representative on behalf of the Works Council, who is entitled to check that the requirements for safe and healthy working conditions are met.

12. SERVICES OF THE AUDIT COMPANY

Fee of services provided by the auditor:

2022	Amount in HUF
Annual fee of audit services	460,960,000 + VAT
Other audit services provided by the auditor	234,800,000 + VAT
Non-audit services provided by the auditor	33,900,000 + VAT
Total fee of services provided by the auditor	**729,660,000+ VAT**

13. POST BALANCE SHEET DATE EVENTS

Change in the management

MKB Bank Plc. has announced that the position of Mr Antal Martzy as Deputy Chief Executive Officer for Finances at the Company, at Magyar Bankholding Zrt., and at the members of the MKB Bank group, Takarékbank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt. will be terminated by mutual consent as of 31 December 2022. The MKB Bank Nyrt. furthermore has informed the capital market participants that Mr Péter Krizsanovich will take up the position of Deputy Chief Executive Officer for Finances of the Company and the MKB Bank group as of 1 January 2023, but at the latest upon receipt of the relevant approval of the National Bank of Hungary. Mr Péter Krizsanovich has held various management positions in OTP Bank's Strategy and Finance Division for 17 years, including 5 years as Managing Director of the the Strategy, Planning and Controlling Directorate. He has international experience in regional expansion and he has participated as a board member in the management of several leading foreign banks, and has achieved significant innovations and results in all areas of finance, especially in IT.

MNB licence

On 9 December 2022, the supreme bodies of MKB Bank Nyrt. and Takarékbank Zrt. adopted the proposals for the merger of the two member banks as part of the implementation of the second step of the merger schedule of Magyar Bankholding. According to the decisions of the General Meetings, the two member banks of the banking group, MKB Bank Nyrt. and Takarékbank Zrt., will merge on 30 April 2023 or, if the merger is not registered at the Court of Registration by then, on the date of registration, and will then continue their operations under the name MBH Bank Nyrt, with a single brand name and image. On 6 February 2023, the MNB approved the merger of Takarékbank Zrt. into MKB Bank Nyrt. with effect from 30 April 2023.

Dividend proposal

The Board of Directors proposes a dividend of HUF 25,092.5 million, the remaining part of the Profit attributable to the shareholders of the Bank for the reporting period will increase the Retained earnings. HUF 13.075 million interim dividend was proposed and paid on 12th August 2022 based on the decision Nr. 165/2022. (29 July) of the General Meeting. Therefore, only the additional accepted dividend will be paid to the shareholders.

Sberbank compensation

On 13 March 2023, the Board of Directors of National Deposit Insurance Fund determined to refund the surplus of the remaining part of the extraordinary payment obligation charged to credit institutions to compensate the customers of Sberbank Hungary Zrt. (under liquidation) until 31 March 2023. The Group expects to receive a refund of HUF 5,336 million in the financial statements of 2023 after the financial settlement of the refund.

The impact of significant events in the European and American banking sectors

The Group's management is closely monitoring the material events in the European and US banking sectors, as a consequence of which the management does not expect any direct negative impact on the Group. The liquidity and capital position of the Group is stable and strongly excess the regulatory requirements.

14. CAPITAL MANAGEMENT

The Capital position of the Group was sufficient at the end of 2022. As a result of the 2022YE profit (and therefore core capital accumulation) the available core capital increased significantly. The owner of the MKB Bank is committed to maintain the bank's capital adequacy and implement all the necessary measures.

Domestic and international guidelines require the Bank to maintain certain minimum capital-to-asset ratios. These risk-based ratios are determined by allocating assets and specified off-balance sheet instruments into different weighted categories, with higher levels of capital being required for categories perceived as representing higher risk. Regulatory capital is divided into Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Bank may raise regulatory capital by issuing several types of financial instruments to the public. These financial instruments are then classified as either Tier 1 or Tier 2, depending on the types of conditions or covenants they place upon the issuer.

As at 31 December 2022, as an actual figure of the Group regulatory capital was HUF 815.9 billion based on Basel IV IFRS under Supervisory Regulation. The increase of regulatory capital was mainly due to the merger and capital increase of HUF 188.3 billion during the year.

Risk-weighted assets including operational and market risk increased by 269.4% from HUF 1,118.6 billion in 2021 to HUF 4,132.7 billion besides approximately 8.5% weakening of domestic currency. The main part of the increase derived from the increase of business volumes, and increase of operational risk, and increase of market risk.

By application of capital management as a tool, the appropriate capital safety is a first priority decision making factor; therefore the bank monitors the changes of the capital elements continuously.

Legal limits defined by the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act), Regulation (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT on prudential requirements for credit institutions and investment firms and amending Regulation (CRR):

- CRR 395-400.§, Banking Act 302.§ large loan limit -> no excess
- Banking Act 101-102.§ total investment limit -> no excess

INFORMATION RELATED TO SHARES AND OWNERS

The share capital (subscribed capital) of MKB Bank Nyrt. is HUF 321,698,958,000, that is, three hundred and twenty one billion six hundred ninety eight million nine hundred and fifty eight thousand forints , representing a cash contribution made available in total amount. The share capital is divided into 321,698,958, that is, three hundred twenty one million six hundred ninety eight thousand nine hundred and fifty eight registered, dematerialized, series "A", ordinary shares with a nominal value of HUF 1,000 i.e. one thousand forints each. providing that the capital increase approved by General Meeting Resolution No. 55/2022. (9 December) adopted by the Extraordinary General Meeting on 9 December 2022 has been executed by Magyar Bankholding Zrt. and entered by the Court of Registration in the trade register, however, the origination of the 10,378,975 series “A” dematerialised ordinary shares, newly issued by way of the capital increase is under way at KELER Zrt.. Magyar Bankholding Zrt. can exercise its rights relating to the newly issued shares as of the day of the issuance, and crediting to the securities account of Magyar Bankholding Zrt., of the new shares. All Series “A” Ordinary Shares (“Ordinary Shares”) bear the same rights. Each shareholder holds solely ordinary shares.
MKB Bank’s shares were added to the product list of the Budapest Stock Exchange (hereinafter: “BSE”) on 30 May 2019, whereby the MKB shares got listed on the BSE.
The first trading date of MKB Bank’s ordinary shares listed on the BSE was – in the BSE shares section’s Standard category – was 17 June 2019.

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Magyar Bankholding Zrt. (hereinafter: Hungarian Bankholding) commenced its effective operation as a financial bankholding on 15 December 2020, after the bank shares of the key owners of Budapest Bank Zrt. (hereinafter: Budapest Bank), MKB Bank Nyrt. and MTB Zrt. (hereinafter: MTB) were transferred to the joint holding company in possession of the approval of National Bank of Hungary (hereinafter: NBH). The owners transferred their shares to Magyar Bankholding Zrt. as a result the second largest banking group in Hungary has been established, in which the Hungarian State owned 30.35% of the shares through Corvinus Nemzetközi Befektetési Zrt., the earlier direct owners of MKB acquired 31.96% of the shares and the earlier direct owners of MTB acquired 37.69% of the shares. All required approval has been obtained for these changes.

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owns MTB, approved the first step of the merger timetable of Budapest Bank, MKB Bank and MTB. The merger of two member banks, that is Budapest Bank and MKB Bank, as well as Magyar Takarék Bankholding Zrt. took place on 31 March 2022 in accordance with the fusion schedule, based on the relevant decisions adopted by the supreme decision making body and in possession of the necessary official permits and authorisations. From 1 April 2022 the merged credit institution operated temporarily under the name of MKB Bank Nyrt. This brought the triple bank fusion – managed by Hungarian Bankholding – to yet another milestone, the ultimate aim of which is to create Hungary’s second largest universal large bank in terms of its expected balance sheet total, through the merger of Budapest Bank, MKB Bank and later – by May 2023 after the adoption of the relevant decisions, the obtaining of the necessary official permits and authorisations and the fulfilment of other conditions – the integration of Takarékbank Zrt., a leader of its segment in digitalisation as well.

On 9 December 2022 the supreme bodies of MKB Bank and Takarékbank Zrt. adopted – as part of the execution of the second step Hungarian Bankholding’s fusion schedule – the proposed decisions regarding the merger of the two member banks. Under the decisions of the respective general meetings two member banks – MKB Bank Nyrt. and Takarékbank Zrt. – merge with effect from 30 April 2023 – or, in case the merger is not registered by the Court of Registration, as of the day of registration – to continue operating under the name of MBH Bank Nyrt., with a single uniform brand name and image. In February 2023 the MNB authorised Takarékbank Zrt's merger into MKB Bank Nyrt.

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The merger does not imply any change in the ownership structure of the banking group, the dominant shareholder of the banks involved in the merger process will remain Magyar Bankholding Zrt.

MBH has a 99.12% direct ownership interest in MKB Bank. The capital increase approved at the Extraordinary General Meeting of the Bank held on 9 December 2022 by Resolution 55/2022 (9 December 2022) was implemented by MBH and registered by the Court of Registration. At the end of the reporting period, KELER Zrt. was in the process of creating 10,378,975 new dematerialised ordinary shares of Series A with a nominal value of HUF 1,000 each, issued within the framework of the capital increase. MBH may exercise its voting rights in respect of the newly issued shares from the date of issue of the new shares and their crediting to the securities account of Magyar Bankholding Zrt.

The shareholder structure of MKB Bank is the following as of 31 December 2022:

Owner	Shares (pieces)	Total nominal value of shares	Ownership share(%)
Magyar Bankholding Zrt.	318 883 966	318 883 966 000	99,12%
Public contribution rate:	0,88%		

The shareholder structure of MKB Bank is the following as of 31 December 2021:

Owner	Shares (pieces)	Total nominal value of shares	Ownership share(%)
Magyar Bankholding Zrt.	97,185,008	97,185,008,000	97,19%
Public contribution rate:	2,81%		

The parties having more than 10% indirect influence in MKB Bank Nyrt. are presented below, in line with the decisions of the National Bank of Hungary H-EN-I-15/2020., H-EN-I-704/2020., H-EN-I-705/2020., H-EN-I-295/2021. and H-EN-I-423/2021.

Magyar Bankholding's ownership structure is as follows as at 31 December 2022:

The shareholders of Magyar Bankholding	Ownership share (%)
Corvinus Nemzetközi Befektetési Zrt.	30.35%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25.13%
Magyar Takarék Holding Zrt.	12.56%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
EIRENE Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
OPUS FINANCE Future Zrt.	0.84%
Total	**100%**

The following organisations have more than 10% indirect influence in MKB Bank Nyrt:

- Corvinus Nemzetközi Befektetési Zrt., Hungarian State
- METIS Magántőkealap, Opus Global Befektetési Alapkezelő Zrt.
- Blue Robin Investments SCA, Blue Robin Management S.à r.l., Uncia Finance Zrt., Uncia Alpha Kft., Uncia Private Equity Fund, QUARTZ Alapkezelő Zrt., Bremdal Private Equity Fund
- Magyar Takarék Befektetési és Vagyongazdálkodási Zrt., GLOBAL ALFA Private Equity Fund
- Magyar Takarék Holding Zrt., Aurum Private Equity Fund

The Articles of Association of the Company do not restrict the transfer of shares representing the subscribed capital of MKB Bank Nyrt. The Company has no issued shares representing special controlling rights. Voting rights are not restricted at MKB Bank Nyrt.

Rights and obligations of the shareholders

Rights of the shareholders at the General Meeting

a) The shareholder is entitled to attend the General Meeting. The Company's General Meeting may be attended by the shareholder or the shareholder's proxy specified in Sections 151-155 of the Capital Market Act, who was registered in the Register of Shares at the Closing of the Register of Shares by the General Meeting in accordance with the result of the shareholder matching. The day of closing the Register of Shares is the second business day preceding the starting day of the General Meeting.

b) The shareholder may also exercise his / her rights at the General Meeting by way of proxy. Member of the Board of Directors, member of the Supervisory Board and the auditor cannot be persons authorised by proxy. Shareholders may authorise an executive employee of the Company as well to exercise their rights relating to the Shareholders' Meeting. The proxy authorisation of the authorised representative shall be valid for one Shareholders' Meeting or for the period of time defined therein, but in any case not more than 12 months. The proxy authorisation shall also be valid for the continuation of the suspended Shareholders' Meeting and for the repeated Shareholders' Meeting convoked due to the lack of quorum. The authorisation shall be issued in the form of a private document with full probative force and submitted to the Company at the place and time indicated in the General Meeting announcement. The proxy shall be drawn up in the form of a public document or a private document providing full evidence and it shall be submitted to the Company.

c) The shareholder has the right to be informed about cases on the agenda of the General Meeting In line with which right, in reply to the written request of the shareholder submitted at least eight days before the day of the General Meeting the Board of Directors shall provide information necessary to discuss the agenda item of the General Meeting three days before the day of the General Meeting, the latest. The Board of Directors may make the exercise of the right to information as described above conditional on the submission of a written confidentiality statement by the shareholder requesting the information. The Board of Directors may refuse to disclose information and access to documents if it violated the Company's business, banking, securities or other similar secrets, if the person requesting the information abuses their right or fails to make a confidentiality statement even if requested. If the party requesting information considers the refusal of information unjustified, they may request the Court of Registration to order the Company to provide the information.

d) The Company ensures that the rights to be informed, to comment and to suggest at the General Meeting are granted to every shareholder attending the General Meeting, on the condition that the exercising of these rights shall not hinder the lawful and proper operation of the General Meeting. In the interest of exercising the shareholder's rights specified in this present point the Chairman of the General Meeting shall grant the right of speech to the shareholder at the General Meeting, on the condition that the Chairman of the General Meeting may specify the duration of the speech, may withdraw the right to speak, especially in case the shareholder is off the point, furthermore he / she can specify the sequence of the speeches, if there are several speeches at the same time, in order to ensure the lawful and proper operation of the General Meeting.

e) Voting rights attached to shares are determined by the nominal value of such shares. The shareholder cannot exercise his / her right to vote until he / she has performed his / her due cash contribution

Minority rights

a) Shareholders jointly representing at least 1% of the voting rights may request the convocation of the General Meeting at any time without specifying the reason or the purpose. If the Board of Directors fails to take action to convene the General Meeting for the earliest possible date within eight days after the receipt of the request, the registering court shall convene the meeting in reply to the application of the shareholders suggesting the meeting or the registering court shall authorise the suggesting shareholders to convene the meeting. The expected costs shall be advanced by the suggesting shareholders.

b) If shareholders jointly representing at least 1% of the votes communicate a proposal to the Board of Directors to supplement the agenda in line with the rules of the levels of detail or a draft resolution concerning an item on the agenda or an item to be added to the agenda within eight days after the announcement of the convocation of the General Meeting is published, the Board of Directors shall publish an announcement about the supplemented agenda, the draft resolutions proposed by the shareholders after the communication of the proposal pursuant to THE Articles of Association. The issue specified in the announcement shall be deemed added to the agenda.

c) If the General Meeting rejected or did not allow the submission to enforce a claim of the Company from any member, managing officer, member of the Supervisory Board or the auditor for a resolution to be adopted, shareholders representing at least 1% of the voting rights may enforce the claim themselves for the benefit of the Company and representing the Company within a thirty-day limitation period.

d) If the General Meeting rejected or did not allow the submission to have the last report or an economic event or commitment related to the activity of the Board of Directors in the last two years audited by a specially commissioned auditor for a resolution, the registering court shall order the audit and appoint an auditor at the cost of the Company in reply to the application of the shareholders jointly representing at least 1% of the voting rights submitted within the thirty-day limitation period following the General Meeting. The registering court shall reject the fulfilment of the application if the submitting shareholders abuse the minority rights.

Right to dividend

The shareholder shall be entitled to a dividend from the profit of the Company, which can be shared and which was ordered to be shared by the General Meeting in the proportion of the nominal value of his / her share.

Obligations of the shareholders

a) The shareholder shall provide cash contribution to the Company in amount corresponding to the nominal or issue value of the shares received or quoted by his / her person. The shareholder may not be validly exempted from his / her obligation - excepting the case of share capital decrease.

b) The shareholder with at least 51% share or the shareholder acquiring such share shall report his / her indirect share and its changes to the Company providing his / her details suitable for identification at the same time. The National Bank of Hungary shall suspend the exercising of the voting right of a member failing to perform his / her reporting obligation.

MKB Bank Nyrt. is not aware any agreement concluded between its owners that may result in restrictions on the transfer of issued securities and / or voting rights.

MKB Bank Nyrt. is not aware of any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is not obliged to disclose such information on the basis of other legal requirements.

Employee share scheme

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. MKB Bank was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016. The launch of the ESOP was closely linked to MKB Bank's reorganisation efforts, as it created ownership interest among its employees. As of 2017, MKB Bank will perform the settlement of performance-related remuneration through its own ESOP Organisation, in accordance with the up to date ESOP Performance Remuneration Policy. The Investment ESOP is where the ESOP Organisation purchases issued ordinary shares for investment purposes on behalf of participating employees or managing officers. The employees who declared their participation to the ESOP Organization did not become owners of the shares, the shares were owned by the ESOP Organization. The ESOP Organization is still the owner of the shares. The participating employees have become members of the ESOP Organisation. The ESOP Organisation's shareholding was initially 15% of the Issuer's share capital, which has been eliminated due to the continued implementation of the Investment ESOP Remuneration Policy, i.e. the sale of shares by the ESOP Organisation.Upon the fulfilment of a specified objective or condition in respect of the Investment ESOP, participating employees or executive officers may claim a share price gain on the shares.

* * *

As a public limited company, in accordance with market practice and the BSE Corporate Governance Recommendations (Recommendations), MKB Bank Nyrt. prepares a Corporate Governance Report, which shall be published on the website of the Company (www.mkb.hu). In its Corporate Governance Report, the Company presents its corporate governance practices for the financial year and, on the other hand, details its compliance with each section of the Recommendations.

SUPREME, EXECUTIVE AND MANAGEMENT ORGANS, SUPERVISORY BODY, COMPOSITION AND OPERATION OF COMMITTEES

General Meeting

The supreme body of the Company is the General Meeting. The General Meeting has, inter alia, the exclusive competence to approve and amend the Articles of Association, except for the modification of the Company's headquarters, premises, branches and, except for the core activity of the Company, the activities of the Company as the Board of Directors is entitled to amend the Articles of Association in that regard, make decisions on the Company’s transformation, merger and demerger, termination without legal successor, on increasing or decreasing the share capital authorisation of the Board of Directors to increase the share capital, appoint and remove the chair and members of the Board of Directors, appoint and remove the Supervisory Board and Audit Committee members, determine their remuneration, appoint the auditor, approve the annual report and make decisions on the utilisation of the profit after taxes and the payment of dividend advance. Pursuant to the Articles of Association of MKB Bank Nyrt., the General Meeting of the Company has the exclusive competence to recall and elect the Chairman and members of the Board of Directors. Members of the Board of Directors shall be elected by the General Meeting for a definite term of maximum five years. The members of the Board of Directors may be re-elected and may be recalled at any time by the General Meeting without giving reasons, in accordance with the provisions of the Articles of Association.

Board of Directors:	Supervisory Board:	Audit Committee:
Chairman:	**Chair person:**	**Chairman:**
dr. Zsolt Barna	dr. Andor Nagy	Rita Feodor
Members:	**Members:**	**Members:**
Andrea Mager	Zsigmond Járai	Miklós Vaszily
István Sárváry	Miklós Vaszily	dr. Péter Magyar
dr. Balázs Vinnai	Rita Feodor	
Marcell Tamás Takács	dr. Péter Magyar	
Ádám Egerszegi	dr. Géza Károly Láng	
Levente László Szabó	dr. Ilona Török	
	Kitti Dobi	
	Balázs Bechtold	

Board of Directors

The Board of Directors is the executive body of the Company. The members of the Board of Directors represent the Company vis-a-vis third parties and before court and other authorities. The Board of Directors shall develop and manage the work organisation of the Company.

The scope of authority of the Board of Directors is included in the Articles of Association of the Company with the proviso that within the framework of effective laws and resolutions adopted by the General Meeting, the Board of Directors shall be entitled to take any actions and make any decisions that do not form part of the exclusive powers of the General Meeting or the Supervisory Board. The decision on the acquisition or the sale of own shares, as well as the increase of the registered capital through the issue of shares belongs to the competence of the General Meeting subject to the condition that the General Meeting may authorize the Board of Directors to decide on registered capital increase. The tasks of the Board of Directors include working out and adopting the Company’s business policy, strategy and business plan. Moreover, the powers of the Board of Directors include decision making – with the Supervisory Board’s prior approval – on the approval of the Company’s interim balance sheet and on the payment of dividend advance based on the General Meeting’s authorisation.

Supervisory Board

The Supervisory Board shall control the management of the Company in order to protect the interests of the Company. The board of directors makes sure, inter alia, that the Company has a comprehensive controlling system which is suitable for efficient and effective operation, mmages the internal audit organisation, checks the Company's annual and interim financial reports, makes proposals to the General Meeting for the auditor to be appointed, and for the auditor's remuneration, and performs other tasks assigned to it by the Company's Articles of Association. The General Meeting may only adopt its resolutions on the report prepared in accordance with the Accounting Act and on the utilisation of the profit after taxes in possession of the Supervisory Board's written report. It may adopt its resolution on the payment of dividend advance only with the Supervisory Board's approval.

Audit Committee

The Audit Committee provide assistance to the Supervisory Board in supervising the financial report regime, in selecting an auditor, and in working with the auditor.

Risk Assumption, Risk Management Committee:	Remuneration Committee:	Nomination Committee:
Chair person:	**Chair person:**	**Chair person:**
Marcell Tamás Takács	István Sárváry	Zsigmond Járai
Members:	**Members:**	**Members:**
Andrea Mager	dr. Balázs Vinnai	dr. Andor Nagy
István Sárváry	Marcell Tamás Takács	Miklós Vaszily

Risk Assumption and Risk Management Committee

As part of its ongoing monitoring of the Bank's risk-taking strategy and risk appetite, the Risk Assumtion and Risk Management reviews the risk strategy, remuneration policy and quarterly risk report in advance. It supports the Board of Directors in monitoring the implementation of the risk taking strategy.

Remuneration Committee

The Committee supervises the remuneration of the manager in charge of risk management and legal compliance – including employees performing the internal control function – and prepares proposals for decisions to be made by the shareholders regarding remuneration, in view of the long term interests of investors and other stakeholders.

Nomination Committee

The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees, for specifying the capabilities required for membership in management bodies as well as their tasks, along with the evaluation of the composition and performance of the managing bodies and their members. Determining the ratios of the sexes within the managing bodies and the strategy for achieving it. It is also in charge of the regular revision of the Company's policy concerning selection and appoiontment of its executive director.

The Committees operate in accordance with the rules laid down in their rules of procedure. Bodies shall meet as often as necessary to carry out their functions and shall take their decisions in the form of a meeting or in writing and without a meeting. The work of the bodies is organized by the chairman of the body.

In accordance with the recruitment policy for the selection of members of the management bodies of MKB Bank Nyrt. and the Diversity Policy (Nomination Policy) applicable to the selection, members of the management boards of the members of the Bank Group, individuals with different professional skills, versatile regional and industry experience are elected into the managing bodies of the Bank Group and they also take advantage of these differences in their operations in the operation of those bodies, which the members of the Bank Group consider as a key consideration in determining the optimal composition of their bodies. Board appointments are based on the pool of expertise, experience, independence and knowledge represented by the candidates, taking into account what the body as a whole needs to function effectively. The members of the Bank Group pay particular attention to the representation of both genders in executive bodies which is why they strive to reach 15% female members in executive bodies. To this end, they commit themselves to favouring the member of the under-represented gender of the same management body among two candidates of the same capacity who are otherwise suitable, unless otherwise justified by professional judgment.

There is no agreement with an executive officer or an employee that provides for compensation in the event of a manager's resignation or termination by the employee or unlawful termination of the executive officer's or employee's relationship, or termination of the relationship due to a public takeover bid.

MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM OF THE COMPANY

The provisions regarding the operation, management and functions of the internal control system of the Company are set out in the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Hpt.), the provisions of the Civil Code (Act V of 2013, hereinafter referred to as “the Civil Code”) on business companies, Act CXX of 2001 on the Capital Markets; the applicable recommendations of the NBH (primarily Recommendation NBH 27/2018. (10 December) on the establishment and operation of internal lines of defence, the management and control functions of financial organisations), the Bank’s Memorandum of Association and the Bank’s effective rules of organisation and operation.

Section 154 (1) of the Hpt. requires banks to operate an internal control system. The elements of the internal control system include the management information system, in-process and management controls, and the independent internal audit organisation.

The concept of a management information system encompasses all information technology based or manual systems that transform data into useful information for decision-makers. Its main tasks are to produce ad hoc and regular reports and to support (in general) decision making.

In-process and management controls are forms of control directly or indirectly integrated into business processes. These controls are performed by persons who are functionally involved in the processes or by those responsible for the final outcome of the audited activities.

Independent internal audit is part of the internal control (monitoring) system independent of the process. Internal audits should be performed by persons who are not involved in the Bank's workflows and are therefore independent of the entities and workflows being audited. Accordingly, MKB Bank operates an independent organisational unit, that is, Internal Audit.

Also in view of the NBH recommendation 27/2018. (10 December) referred to above, the system of lines of defence is interpreted in the Bank's monitoring framework system. The above control mechanisms, which are also stressed in the Hpt as the elements of the Bank's internal monitoring system (distinguished from the external monitoring independent of the Bank (e.g. customers, NBH, other authorities) and the external monitoring system elements (e.g., auditor) related to the Bank) can be classified as follows:

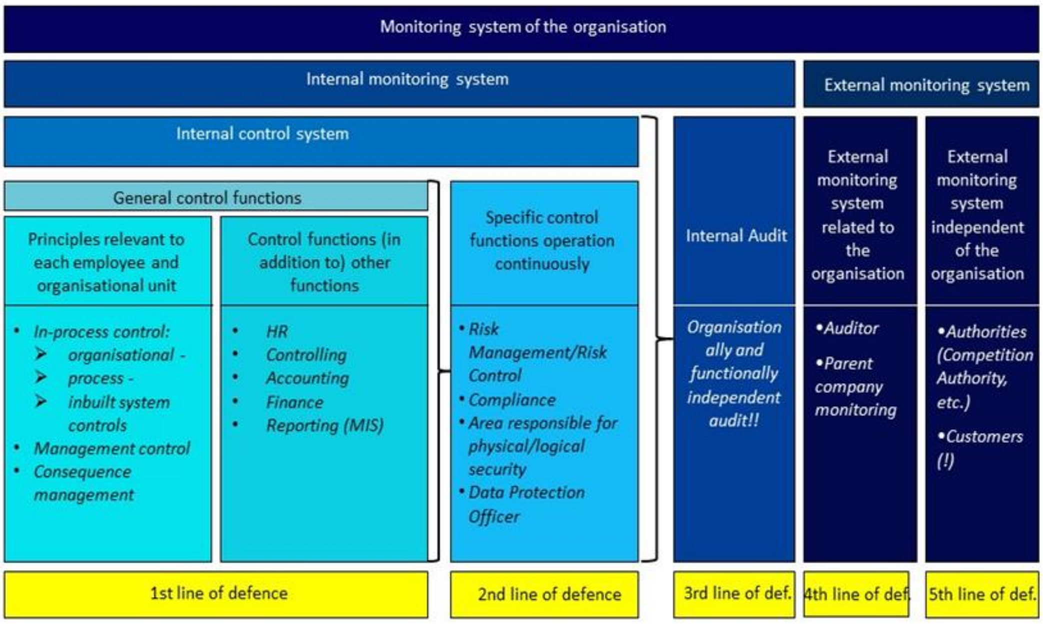
The Bank's internal monitoring system consists of an internal control system and independent internal audit.

Within the Bank's internal control system, we can distinguish between general principles (e.g. consistent responsibility management), practices (e.g. management control), organisational solutions (e.g. in-process controls), and areas with a control function (e.g. Controlling) and activities (e.g. management information system), which together form the first line of defence of the Bank's internal monitoring system. In fact, this line of defence includes all employees and managers who, through their prudent work, protect the Bank's interests and values.

Another element of the Bank's internal control system is all those organisations, activities and persons responsible for performing dedicated operational functions, activities and control functions (e.g., Risk Control, Compliance, Bank Security, Data Protection Officer), which together constitute the Bank's second line of defence. The function of the second line of defence can also be formulated by overseeing and supporting the activities of the first line of defence.

Independent internal audit, as another element of the internal monitoring system alongside the internal control system, is the Bank's third line of defence. Internal audit is an independent, objective assurance tool and consulting activity that adds value to the Bank's operations and improves its quality. It is responsible for examining the Bank's risk management, governance processes and the internal control system (or the Bank's first and second lines of defence) in a systematic and regulatory manner, evaluating and improving its operation, thereby contributing to the achievement of organisational goals.

The model of the Bank's monitoring system, including the place and role of independent internal audit, is illustrated in the figure below.



BRIEF DESCRIPTION OF THE COMPANY'S RISK MANAGEMENT SYSTEM AND PRINCIPLES APPLIED IN RISK MANAGEMENT

MKB Bank's Risk Control reviews the risk strategy of the MKB Group every year with the involvement of the relevant areas. In line with the current economic environment and in accordance with the Bank's and Magyar Bankholding Zrt.'s business strategy and capital plan, the Risk Strategy sets out the risk strategy principles and objectives of the Bank Group for each risk type and risk appetite. The approval of the risk strategy falls within the scope of competence of the Board of Directors.

In line with the basic regulatory requirements, a concept for the Group's comprehensive risk-taking processes has been developed and is constantly being fine-tuned.

The main elements of the concept are:

- Group-wide application of risk management principles;
- Applying the Unified Segmentation to the entire clientele of the group;
- A decision-making system that depends on customer quality and risk-taking;
- The use of Basel conform rating tools, in compliance with IRBF and analytical and behavioural scorecards, as well as a corresponding client rating regime, which adequately supports the decision-making activities of the bank management;
- Internal, group-level model validation methodology with annual frequency (rating and scoring tools, validation of related processes);
- Monitoring activities with IT support;
- Establishment of a comprehensive system of criteria that includes and takes into account relevant indicators enabling the detection of threatened loans in order to identify loans at risk as quickly as possible and, based on this, to determine the various types of customer / exposure management, the related tasks and order of procedure.
- IFRS 9 provisioning system;
- Pillar 1 and Pillar 2 capital accounting systems based on IFRS;
- Regular group level management reports, backtesting measurements (Risk Reports, Capital Management Reports, Rating Quality, Rating Monitoring Reports, etc.);
- Definition of a revised recovery plan and its evaluation on a monthly basis.

The key risk management principles include ultimate control at board level, independent control separate from risk areas, and appropriate measurement, diversification, monitoring and reporting of risks.

The effective risk management function of the Bank is ensured by the effective communication of risks and the willingness to assume risks within the organisation, continuous development for recognising, measuring, monitoring and managing risks, turning the key risk management processes and procedures up-to-date and user friendly and improving their efficiency, as well as employing adequately trained work force.

NON-FINANCIAL STATEMENT

STRATEGIC OBJECTIVES AND A BRIEF DESCRIPTION OF THE BUSINESS MODEL

MKB Bank Nyrt. is one of the oldest members of the Hungarian banking system. Combining 70 years of experience with modern digital banking solutions, it provides professional service to both retail and corporate customers at a high level. As Hungary's leading universal bank, MKB Bank creates lasting value for its customers through reliable and stable partnerships. The Bank is on a dynamic growth trajectory, with an advanced digital foundation and strategy, a traditionally strong corporate, premium and private banking client base, and advisory and analytical capabilities. The core value of the financial institution is professional customer service in the digital age, founded on dedicated, supportive and honest professionalism. Through its members the MKB Financial Group provides a full range of financial services in Hungary.

MKB Group's activities combine respect for traditional banking values with openness to innovative financial solutions, especially digitalisation. As a result, by 2022, MKB Group became a leader in the field of innovative financial solutions in Hungary.

In addition to digitalisation, MKB also pays special attention to the requirements of the domestic corporate trade finance, money and liquidity management and investment market, so that thanks to its highly experienced and recognised colleagues, MKB Group is also at the forefront in this area.

In the corporate sector, the ability to react quickly and professionally to changing trends is a key requirement. MKB Group experts are dedicated to meeting these high demands in a stable and predictable way, choosing optimal financing methods adapted to the opportunities.

MKB seeks to develop partnerships with key market players through strategic cooperation agreements that create a win-win situation capable of promoting sustainable growth.

One of the ways in which this is achieved, in particular, is the contribution of the MKB Group to the growth of economic productivity through its financing activities.

Fair banking values are paramount in the Bank's day-to-day operations and its vision for the future, it thus strives for a sustainable business model, with manageable risks and efficient and profitable operations.

On 15 December 2020 Magyar Bankholding Zrt. acquired a 97.19% majority controlling stake in MKB through a non-cash contribution in the form of a capital increase. At the same time, Magyar Bankholding Zrt. also acquired a controlling stake in Budapest Bank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt.

With this move, Hungary's second largest banking group was created. The new Bank Group serves 1.9 million customers, operates more than 500 branches, has a combined balance sheet total of nearly HUF 11,000 billion, gross loans of more than HUF 5,000 billion and deposits of nearly HUF 6,500 billion. It serves 200,000 micro-enterprises, 30,000 SMEs, 6,000 private banking partners and is a market leader in many areas.

In line with the plans, Magyar Bankholding Zrt. developed a detailed merger roadmap for the three banks in 2021 and a detailed business strategy, under which the bank holding intends to preserve and build on the values and experience of the 70-year-old MKB Bank Nyrt.
The merger of the two member banks of Magyar Bankholding Zrt., Budapest Bank Zrt. and MKB Bank Nyrt., with Magyar Takarék Bankholding Zrt. took effect on 31 March 2022.

As a result of the merger, Budapest Bank was absorbed by MKB Bank and MTB Bank Zrt. will continue to operate as a subsidiary bank of the merged bank. Takarékbank will join the combined bank formed in spring 2022 in the second quarter of 2023. The merged bank, created on 31 March, became the group leader and will temporarily operate under the name MKB Bank Nyrt.

The MKB Group announced to the public on 27 September 2022 that MKB Bank Nyrt. and Takarékbank Zrt., to be merged in May 2023, will operate under the name MBH Bank Nyrt., with a unified brand name and image. The new brand name marks the building of a completely new bank, taking the customer experience to a new level, combining the strengths and heritage of the three banks. The Bank intends to continue building with a fresh, clean, modern image to become a successful bank by international standards and create value for its clients.

The Board of Directors adopted the Bank's 2023-27 Strategic Plan on 14 September 2022. This confirmed the intention to merge MKB and Takarékbank, emphasised solution-oriented digital IT system and process improvements, the merger process and the enhancement of service quality and value proposition. The new strategy also took into account the rapidly changing economic and regulatory environment. For the period 2024-2025, the Strategy sets the possibility of active trading in MKB shares as a key objective, with the Bank's profitability expected to grow steadily.

The focus is for the Bank Group to offer customer-centric, competitively priced, internationally leading digital solutions, products and services to its customers, building on the strengths, values and best practices of its member banks.

In line with its announced strategy, the Bank Group aims to play a leading role in the domestic financial services market through its professional experience, product range and service quality, thus:

- The creation of the most customer-focused bank in Hungary, offering value to all Hungarian citizens and businesses.
- Active contribution to the development of the Hungarian economy by supporting segments of national economic importance, such as the youth, SMEs and the agricultural sector, while maintaining a commitment to local communities.
- A key priority of the strategy is digital orientation, which means introducing internationally leading fintech solutions. The aim is to radically change the customer experience of financial services by introducing flexible, fast solutions and interoperable products.
- In the retail business, the key priorities are to deliver quality customer service, enhance the customer experience and strengthen the lending and premium segments. Partnerships play an important role and the Bank plans to further develop them in order to further increase its market share in the intermediary market.
- The Bank's ongoing strategic objective is to maintain and build a strong corporate division The focus of the division is on local knowledge, professional service, consultancy-based sales and ensuring innovative solutions.
- MKB Bank Group provides a wide range of investment banking services: Private Banking, Fund Management and Treasury.
- In the long term, maintaining the largest and most widely accessible branch network in the country, providing nationwide coverage, while contributing to quality, value-based customer service through efficient operations.
- Building an innovative organisation and corporate culture, where the Bank focuses on its people, continuous skills development and a cutting-edge corporate culture.

In addition to its own banking products and services, it offers its customers a uniquely wide range of services provided by its subsidiaries and partners: Euroleasing, MKB Investment Fund Management Ltd, MKB Pension Fund, MKB-Pannónia Health and Self-Care Fund, BB Voluntary Pension Fund, BB Private Pension Fund.

THE POLICIES PURSUED, THEIR RESULTS AND THE DUE DILIGENCE PROCEDURES APPLIED IN RELATION TO SOCIAL, EMPLOYMENT, HUMAN RIGHTS, ENVIRONMENTAL PROTECTION ISSUES AND THE FIGHT AGAINST CORRUPTION

MKB Bank considers it of the utmost importance to contribute to the development of the community through its wide-ranging involvement, commensurate with its economic strength. As a result of the triple bank merger launched earlier and continuing in 2022, Magyar Bankholding Zrt. acquired a majority controlling stake in MKB in December 2020. Following the merger, by the end of 2022 an integrated, group-wide strategy for corporate social responsibility was in place, so while during the year the programmes were implemented under the auspices of MKB Bank and Magyar Bankholding, by the end of the year integrated, group-wide initiatives were underway.

The forms of cooperation have included: financial literacy, support for various educational programmes, health protection, support for disadvantaged people through inclusion, and targeted sponsorships and support activities.

The Bank does not carry out a risk assessment in relation to its social and community engagement activities, but operates in accordance with the Bank’s internal policies and procedures.

Through its donation and sponsorship activities, MKB Bank aims to provide real help by supporting programmes and causes that serve the interests of society as a whole, thus the development of financial literacy, the shaping of attitudes, the creation and preservation of value and the creation of opportunities are of particular importance.

Activities to improve financial literacy and awareness as well as education

In February 2022, Széchenyi István University organised **the 20th National Financial Case Study Competition** with the support of Magyar Bankholding. It was the twentieth time that talented students competed in Széchenyi István University's own quiz. Magyar Bankholding is the main sponsor of one of Hungary's most prestigious university competitions. Magyar Bankholding aims to play an active role in the education of the next generation of students through its extensive network of professional contacts and its teams of experts in banking, finance, agriculture and other fields. To this end, in November 2021 the Bank Group signed a strategic agreement with Széchenyi István University. Under the agreement, the Bank Group will strengthen and support university research, digitalisation and robotisation development efforts, as well as agricultural and practice-oriented student training. It will also assist the University in the development of existing and emerging courses, curricula and accreditation processes relevant to the banking sector.

2022 saw the re-launch of Money Week (Pénz7), the Financial and Entrepreneurship Week: Organised by the Financial Compass (Pénziránytű) Foundation, more than 100 colleagues from our member banks participated as mentors in developing financial awareness among primary and secondary school students.

MKB Bank supported the universities participating in **the Let's Teach for Hungary programme** (University of Szeged, University of Pécs, University of Miskolc) in the year 2022. The motivation behind the Let's Teach for Hungary programme initiative is to create opportunities for people living in the more disadvantaged small villages in the country to thrive in life and in the labour market. The Bank contributed to the purchase of minibuses for the transport of mentors from the 3 universities participating in the programme and for the travel of the mentored students.

The main motivation behind supporting the concept of E-lab at **Eötvös József Secondary School** was to establish a creative pedagogical learning space to complement traditional learning with the development of competences that evolving social and economic demands require schools to prepare students for. A space was created in which pupils could carry out different learning stages in small groups without direct teacher guidance.

An initiative to improve the quality of education was the donation of the Bank's scrapped computers to the IT department of the **József Attila Secondary School in Monor,** to help them prepare for their school-leaving exams.

Health preservation

MKB Group provides a wide range of sporting opportunities for its employees. The MKB Sports Association, founded in 2016, organises the sporting life of the Bank by running 23 sports sections. The headquarters on Váci Street and the office building on Kassák Lajos Street house a total of almost 400 m2 of gym facilities.

MKB Bank is a key sponsor of the Hungarian sports scene, especially with regard to the young generation and to helping to adopt a healthy lifestyle. In 2022, the Bank became the official bank of the Hungarian Olympic Team, contributed to the financial support of the Ferencváros Torna Club for young talents in need, and continued to sponsor Prospex Team, an up-and-coming young sailing team in Hungary.

Social responsibility, charity and cultural activities to promote equal opportunities:

In March 2022, Magyar Bankholding Group committed to help refugees from Ukraine. In response to the war, the Bank Group donated HUF 1,000 on behalf of each of its employees, totalling HUF 10,500,000, through the Bridge for Transcarpathia relief programme.

In June 2022, following a three-year tradition, we took to the water in the 3rd Lake Tisza PET Cup, representing Magyar Bankholding. 12 of our volunteers took up the challenge and the fight against waste, contributing to the overall success of the waste collection competition: in 4 days, the teams cleared the floodplain of Lake Tisza of 1500 bags of waste.

In September 2022, five young artists were awarded the **Junior Prima Prize** in theatre, film and dance. The award and the prize money were presented by Levente Szabó, the Bank Group's Deputy CEO for Individual Business Services, the sponsor of the award, the Chairman and CEO of Takarékbank, on 20 September in Budapest. At the invitation of Takarékbank, theatres, professional and advocacy organisations nominated 49 candidates this year. The five young talents who were awarded the Junior Prima title were selected by a six-member jury, consisting of Gabriella Balogh, member of the Prima Primissima Foundation's Board of Trustees, Csaba Káel, director, CEO of Müpa Budapest, Government Commissioner for Film, Gábor Máté, actor-director, director of Katona József Theatre, Pál Oberfrank, actor-director and director of the Petőfi Theatre in Veszprém, Tibor Orlai, theatre producer and Péter Rudolf, actor and director of Vígszínház. (The award winners are Ágnes Barta, Dániel Benedek, Gergely Csiky, Petra Hartai, Balázs Koltai-Nagy, Benett Vilmányi)

Also in September, we joined the Bank Blood Donors' Week organised by the Hungarian Banking Association for the third time. The member banks of Magyar Bankholding participated in 4 locations, with a total of 248 employees rolling up their sleeves for this noble cause. In connection with the programme series, Magyar Bankholding joined forces with the Hungarian Banking Association to launch a blood donation poster competition among the students of the Moholy-Nagy University of Art and Design. The aim of the competition was to draw the attention of Hungarian society and young people to the social obligation of blood donation through the works of young, contemporary artists. Ten students took part in the closed competition, submitting their individual poster designs in two categories. The poster design competition was presented at a ceremony on 24 November at the Hungarian National Museum.

The Dobbantó Programme was launched again **in October 2022**. Our award-winning programme to support female entrepreneurs with competences and mentoring, where 20 participants will take part in a multi-week course to learn the key skills needed to run a business through experience, and leave with a business plan ready to go, evaluated by the training professionals.

The aim of the Dobbantó Programme is to equip female entrepreneurs with the knowledge they need to launch and develop their businesses in a planned and conscious way.

The entrepreneurship skills development training provides participants with the marketing, management, tax, and resource generation know-how they need to succeed in business. The training, which takes place over 12 days in a group of 20 people over six weeks and 90 hours in total, gives participants the opportunity to learn the key skills needed to run a business through experience and to leave with a business plan, assessed by the training experts. Elements of the programme reflect on the difficulties of the current economic situation, suggest operational options and highlight the sustainability of entrepreneurship and the beauty of the profession.

In November 2022, thanks to MKB Bank's 25-year scholarship programme, the number of young people earning a degree grew yet again. MKB Bank and the International Children's Safety Service bid them farewell, while the current scholarship holders received their usual certificates at the event, which was also attended by Dr. László Kövér, President of the Hungarian Association of the International Children's Safety Service. The International Children's Safety Service and MKB Bank have a long and successful history of cooperation in helping children in difficult circumstances. Thanks to this partnership, for 25 years now, children and young people who are excelling in their studies every school year but are socially disadvantaged have been able to benefit from the exceptional opportunities provided by the MKB Scholarship Programme. The number of applications received year after year by the Children's Safety Service proves the need for initiatives such as these. The number of applications is 110 times higher than the number of scholarships. MKB Bank supports the work of the Children's Safety Service with an annual amount of around HUF 50 million under a three-year contract.

In December **2022**, we partnered with Hungarian Interchurch Aid for a Group-wide charity programme involving colleagues in our Advent collaboration. In a charity programme launched in early December, our staff granted the Christmas wishes of needy children in the form of Christmas gift boxes. Almost 300 gifts were thus collected and delivered to the children of Boldogkőfalu and Vizsoly with the involvement of senior executives and Bankholding Employer Branding Ambassadors. In the few days immediately preceding Christmas, staff also joined in food distributions with the help of Hungarian Interchurch Aid.
Families living in poor social conditions and people without shelter were hosted by volunteers in Csepel. On 21 and 22 December, more than 50 of our colleagues, including Dr. Ilona Török, Ádám Egerszegi, Levente Szabó, Roland Pecsenye and Kitti Dobi from senior management, helped distribute 1000 meals each day. The two food distributions were sponsored by Magyar Bankholding.

Support and sponsorship

Support and sponsorship activities are a distinctive part of MKB Bank's social responsibility strategy, in which we support such important causes as social awareness, knowledge development, helping children in need and their families, and supporting the domestic sports scene.

MKB Bank also supported the work of other foundations and organisations in 2022, such as the **Kováts Ferenc Foundation and the Red Noses Clowndoctors Foundation**, which used the funds to help our fellow citizens in Covid wards and sick children.

Magyar Bankholding's social responsibility strategy for the future

Magyar Bankholding's Group-wide corporate social responsibility strategy, adopted at the end of 2022, aims to rank among the leaders of the Hungarian banking sector in terms of corporate social responsibility as a market-dominant group, and to make a real difference in the issues it supports. The objectives of the strategy for the next three years are set out under the following four pillars:

Pillar 1: Social inclusion by supporting disadvantaged people:
Magyar Bankholding has defined social inclusion as the first pillar of its strategy, with the aim of building a group of companies that pays special attention to local communities and values.

Pillar 2: Increasing financial awareness and digital literacy in Hungarian society
One objective included in Magyar Bankholding's business strategy is to help people get ahead in their finances. The company also feels responsible for and aims at the second pillar of the strategy, which is to raise the level of financial awareness in the local community where it operates, i.e. in Hungarian society, and to increase digital literacy, which has become topical recently, thus reducing inequalities and contributing to responsible economic activity.

Pillar 3: Addressing sustainability and ESG considerations
In addition to this, Magyar Bankholding is committed to playing a key role in creating a sustainable economy in Hungary. Along the Group's ESG strategy the common points of intersection with the corporate social responsibility strategy include the inclusion of employees and the launch of internal programmes to increase their engagement.

Pillar 4: Support and development of Hungarian art
The fourth pillar of Magyar Bankholding's social responsibility strategy is the support of art and related activities, as part of which MKB Bank has established the Foundation for the Support and Development of Art, which will focus on the identification and fostering of emerging talents, making the Bank's art collection accessible to a wide audience and art patronage in the coming years.

Employment-related policies and their results, due diligence procedures applied

MKB Bank has carried out a risk assessment in the area of employment and has identified the risks relevant to its operations, which are also taken into account in its human resources policy. Human resources actions focused on targeted areas such as talent and career management, supportive environment and work processes, based on global trends, as well as domestic and MKB specific concerns. The Bank organises an orientation day for new colleagues joining the Bank. The aim of this is to integrate new joiners, provide them with the basic training they need to do their job and introduce them to the organisation globally.

The HR strategy focuses on improving the employee experience by promoting flexible working and the use of available digital tools, through a collaborative corporate strategy.

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Breakdown of employees employed by MKB Group by job function (FTE):

Breakdown by job	Staff member	Head of department	Director	CEO + managing director	Total
Member banks	**8,248**	**213**	**63**	**41**	**8,565**
MKB Bank Nyrt.	4,446	189	63	40	4,738
Takarékbank Zrt.	3,387	11	-	0.2	3,399
MTB Magyar Takarékszövetkezeti Bank Zrt.	402	12	-	0.2	414
Takarék Jelzálogbank Nyrt.	12	1	-	1.0	14
Subsidiaries	**855**	**30**	**16**	**9**	**909**
MKB Euroleasing Autólízing Zrt.	329	13	5	1	348
MKB Alapkezelő	33	2	6	2	43
Mitra	390	10	2	1	402
Other	103	5	4	6	117
Total	**9,102**	**243**	**79**	**50**	**9,474**

Average age of employees of the MKB Group, by length of service and group member (years):

MKB Group	0-2 years	10+ years	2-5 years	5-10 years	Average
MKB Bank Nyrt.	38,0	40,7	39,8	46,9	42
MKB Euroleasing Group	34,5	39,6	41,0	45,2	40
Other subsidiaries	39,3	44,5	48,1	52,6	43
MKB Digital Zrt.	38,3	44,1			42
MKB Üzemeltetési Kft.	45,4	47,5	48,1	52,6	49
MKB Bank MRP Organisation		46,0			45
Average	**38**	**41**	**40**	**47**	**42**

The number of employees of the MKB Group by length of service and group member (FTE):

Field	0-2 years	2-5 years	5-10 years	10+ years	Total
Member banks	**2,102**	**1,886**	**1,706**	**2,870**	**8,565**
MKB Bank Nyrt.	1,359	1,075	869	1,435	4,738
Takarékbank Zrt.	686	681	749	1,283	3,399
MTB Magyar Takarékszövetkezeti Bank Zrt.	58	128	84	145	414
Takarék Jelzálogbank Nyrt.	0	3	4	7	14
Subsidiaries	**188**	**229**	**187**	**305**	**909**
MKB Euroleasing Autólízing Zrt.	68	71	81	128	348
MKB Alapkezelő	11	6	12	14	43
Mitra	86	117	77	123	402
Other	24	35	18	40	117
Total	**2,291**	**2,115**	**1,893**	**3,175**	**9,474**

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Employees employed by MKB Group by gender (FTE):

Breakdown by gender	Total staff			Director+		
Field	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Member banks	**2,461**	**6,104**	**8,565**	**78**	**26**	**104**
MKB Bank Nyrt.	1,694	3,043	4,738	76	26	102
Takarékbank Zrt.	593	2,806	3,399	-	-	-
MTB Magyar Takarékszövetkezeti Bank Zrt.	166	248	414	-	-	-
Takarék Jelzálogbank Nyrt.	7	7	14	1	-	1
Subsidiaries	**522**	**388**	**910**	**20**	**5**	**25**
MKB Euroleasing Autólízing Zrt.	138	210	348	5	1	6
MKB Alapkezelő	23	20	43	5	3	8
Mitra	304	98	402	2	1	3
Other	57	60	117	8	1	9
Total	**2,982**	**6,493**	**9,475**	**98**	**31**	**129**

MKB Bank provides its employees with a fringe benefit package consisting of several elements. The employee package does not only consist of cash benefits. It includes a number of components aimed at improving the working environment, maintaining a healthy lifestyle and fostering motivation and a sense of belonging to the team. These benefits are governed by the Fringe Benefit Policy.

Talent management at MKB Bank:

In 2018, a company-wide calibration process and uniform performance assessment were introduced. A talent management programme covering all subsidiaries was also introduced and launched in December 2019. Participants in the programme have been involved in developing projects that have an impact on the life of the entire organisation. The MKB Group places great emphasis on training employees and nurturing talent, supporting the development of professional knowledge and skills through a wide range of educational programmes. The following programmes were launched in 2022:

Digitised and gamified pre-boarding programme:

The programme focuses on our colleagues who are in the pre-entry period after accepting our offer. The solution, available online, supports new talent engagement in the pre-joining period; we not only accompany prospective employees on their journey until their onboarding day, but also maintain a positive experience while providing them with ongoing engagement.

Fusion programme:

The next step in our talent retention activities in 2022 was the award-winning Fusion programme. Fusion is one of Hungary’s largest internship programmes, currently hosting nearly 300 talented students aged 19-25 from across the country. We are usually the first milestone for our trainees at the start of their careers. During the programme they gain relevant work experience, which provides us with a solid pool of young talent. The internship programme is designed to give more than just work experience: we support them through our own onboarding processes, with dedicated HR colleagues to guide university students through their professional work and development. This reinforces our commitment to our corporate value: We give more.

Ambassador Academy:

An innovative tool was called for to introduce new values, associated behaviour patterns and leadership tools, a new culture roadmap and to retain talent and maintain engagement. We therefore developed the Ambassador Academy of around 100 people. It is a change management initiative, with members working together to ensure engagement between different talent, teams and the delivery of information to all colleagues. With high-profile on- and offline sessions focusing on different change-related topics, the initiative has been very well received. They work together on elements of the workplace culture programme in joint workshops, for example they created the questions for the organisation-wide pulse check survey, which was thus relevant and customised to truly pertain to actual colleagues.

Leadership Academy:

Our Leadership Academy is an integral part of preparing managers for the transition to the new way of banking. Our leadership training programme is modular and supports the continuous development of talented leaders through a variety of solutions and topics (inspiring leadership, heterogeneous cross-generational teams, transparent leadership, motivating leadership, etc.). A specific programme supports the training of newly appointed managers.

We created the Change Management Academy, which more than 1,500 of our management and non-management colleagues attended in 2022. Within the framework of the Academy, we not only provide the re-skilling needed for change management, but we also introduced the communication of corporate values in an interactive form, working with colleagues through workshops to help them understand and accept these values.

Our retention programmes focus on colleagues with specialist skills, as retention is key (Key Employee Programme), and equally focus on those with a consistently high performance and excellent attitude (High Performer Retention Programme).

MKB Bank’s 2022 talent management programme was recognised with a special award by the Joint Ventures Association on 4 February 2023.

Work-life balance at MKB Bank:

At MKB Bank, flexible working is a core element of the HR strategy and an important component of improving the employee experience.

As part of its HR strategy, MKB Bank aims to increase the share of atypical employment. In addition, the company aims to make working from home available to as many employees as possible, which is why it is also continuously improving its equipment. Working from home reduces workplace stress, improves work-life balance and thus increases employee satisfaction, morale, efficiency and loyalty.

From 2020, home office working in jobs that do not require personal presence is 100% implemented and flexible work arrangements are widespread. The regulation of teleworking has become perhaps one of the most discussed labour law issues of the last year and a half.

During the period of the pandemic emergency regime, the rules for teleworking were laid down in Government Decree 487/2020, whose rules were incorporated into Act I of 2012 on the Labour Code and Act XCIII of 1993 on Occupational Safety and Health with effect from 1 June 2022, the date when the pandemic emergency regime ended. The management of MKB Group reviewed the working schedule implemented so far and decided to change it.

As of the above date, under the provisions of the Labour Code, teleworking is not only work carried out with IT equipment, but also any work carried out at a place other than the employer’s premises for part or all of the working time. We believe that in this merger period, the new working arrangements will help teams to work more efficiently and improve personal collaboration, while giving managers the flexibility to handle the needs of individual teams and colleagues.

MKB Bank and health:

Health promotion and health maintenance is an important area for MKB Bank, which is emphasised in various sports and health campaigns, such as the #20minutehealth programme mentioned above. Providing sporting opportunities for employees in a variety of ways and promoting healthy lifestyles is being implemented on multiple fronts. In 2020 and 2021, due to the pandemic, programmes to support sport were also organised in an online format. Ensuring a healthy working environment for employees is a priority. In the spirit of the Year of Health programme announced in 2018, screening tests for employees have been organised from 2020

Employees have access to preferential health insurance, including diagnostic services and extended occupational health services within the Bank, seven days a week. The teleworking rules referred to in the previous point were also designed to ensure a work-life balance for our employees and to safeguard their health, while also aiming to increase work efficiency.

MKB Bank also offers hobby and recreation rooms in its buildings. Fitness menus and other special dietary meals are available in the canteens at the workplace, and restaurant services were also made available through delivery during the pandemic.

MKB Bank and sports:

MKB Bank provides a wide range of sporting opportunities for its employees. The headquarters on Váci Street and the office building on Kassák Lajos Street house a total of almost 400 m2 of gym facilities. In 2020 and 2021, online sporting events and training sessions were also made available, so as to enable the Bank to support the health of its employees in their home environment. MKB Group also supports sport in other ways: the MKB Sports Association runs several sports sections depending on the interests and activities of its employees.

MKB provides significant support to its sports association (HUF 45M per year), where effective professional and recreational sports work is carried out. In 2022, the association has a membership of between 400 and 450 people, including 200-250 members in the various sports sections.

The association operates 2 fitness rooms with a total of 780 sqm in the MKB Headquarters and in the office building in Kassák Lajos Street, where TRX, Kettlebell, Yoga, Pilates, Bodyart strength group classes and a fleet of cardio and strengthening machines are available for members. During the pandemic in 2022, we acquired 7 new cardio machines.

Our sports sections are: squash, volleyball, fishing, go-kart, dragon boat, cycling, running, table tennis, men’s and women’s football, hiking, bowling, boxing, basketball, throwing sports, swimming, wall climbing, spartan/crossfit, kayak-canoe and SUP, target shooting, dodgeball.

We organise in-house championships in a number of sports several times a year.

In addition to sports sections support, the association also provides its members with sports equipment, logoed sportswear, sports accessories, and even individual support to sports section members on request.

The Sports Association prepares our competitors in 9 sports for the annual Hungarian Banks Sports Tournament, where we achieved 3rd place for the fourth time in a row in 2022.

Our runners regularly take part in large numbers in races such as the Wizzair Half Marathon and the SPAR Marathon. In team sports, our men’s football, basketball and bowling teams are top finishers in the Business Leagues. Our dragon boaters have won medals in several national competitions, our anglers also regularly place well, our table tennis team is supported by the training methods of two excellent NB/1 colleagues, and our go-kart teams always have successful monthly meets.

Our cycling section has been running a joint programme with BKK BUBI for several years, 150 colleagues received annual discounted BUBI passes

We are proud of our spring and autumn round of the ‘MKB MOVE’ competition, where registered colleagues were able to collect kilometres in walking, running and cycling.

At the same time as the merger on 01 April 2022, we also took over the membership of the Budapest Bank General Sports Circle, with 85 people joining the Sports Association.

We created a FB group called MKBSE which now has over 500 members.

We have a close working relationship with the Marketing Department, as many newsletters are produced and sent out to colleagues, logoed sportswear and sports products are purchased throughout the year.

Safe working environment:

MKB Bank complies with its legal obligations by carrying out a workplace risk assessment of its headquarters and premises, including all bank branches. As the Bank is an office working environment, the risk of accidents is fortunately low. The incidence of accidents at work is therefore low and on a downward trend.

Every year, employees are required to attend mandatory training on health and safety and fire prevention. Special training material has been prepared for bank branch staff on what to do in the event of an attack on the branch. The personnel, material and organisational conditions for safe work are laid down in the Bank’s Health and Safety at Work Manual in accordance with the legal requirements.

The Bank also employs a safety and health representative on behalf of the Works Council, who is entitled to check that the requirements for safe and healthy working conditions are met.

Responsible corporate governance:

MKB Bank, as a publicly traded company whose shares are listed on the Budapest Stock Exchange, has prepared and published its Corporate Governance Report based on the BSE’s Corporate Governance Recommendations.

MKB Bank attaches great importance to the development and operation of a corporate governance system that is in line with best market practices and ensures effective and efficient operation, and to responsible corporate governance.

The governance structure of MKB Bank takes into account the legal, supervisory and stock exchange requirements, as well as the specificities of the business. MKB Bank aims to comply as fully as possible with BSE’s Responsible Corporate Governance Recommendations.

Regulations related to the respective policy and applied due diligence and risk management procedures:

- the Regulations of the Performance Remuneration Policy of MKB Bank pursuant to the Banking Act (Hpt).
- Performance Review Process Policy
- Human Resources Management Policy
- Cafeteria Benefit Scheme Policy
- Policy on the allocation and delegation of employer's rights in the employment relationship
- Group Incentive Policy
- Operational Rules for the Single Internship Programme
- MBH Bank’s training system, processes for training MBH Bank’s internal and external employees (Training Policy)
- Recruitment and Selection Process Policy
- Staff Recommendation Policy
- Policy on Recording Working Time and Absence from Work
- Remuneration Policy Regulations
- Teleworking Policy
- Employee Recognition Program Policy
- Health and Safety Policy

Policies adopted for the protection of human rights and their results, due diligence procedures followed

In accordance with the standards set out in the Bank’s Code of Ethics, the interests of employees are taken into account on a fair and equitable basis, their right to privacy is recognised and in return the Bank expects its employees to take responsibility for their health.

It is of paramount importance for the Bank that its staff can combine family life with work and career development. To enable this, the Bank provides a healthy, non-discriminatory working environment. The Bank does not carry out risk assessments with regard to human rights, but operates on the basis of its Equal Access Strategy and the Bank's internal rules of procedure.

MKB Bank’s Procedural Rules on Promoting Equal Access have been prepared on the basis of Section 283 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Decree 22/2016 (VI. 29.) NGM on the rules for equal access to financial services for disabled persons in credit institutions and MNB Recommendation 4/2017 (III.13.) on the treatment of disabled customers. The Rules contain the implementation and detailed rules of MKB Bank’s strategy to promote equal access and form an integral part thereof.

The Bank’s equal access strategy was developed in the spirit of the Bank’s social responsibility as the Bank pays particular attention to the specific needs of disabled customers and to special treatments promoting their equal access to services. It is essential that the strategic vision is integrated into the day-to-day operations of the Bank and forms an integral part of the approach of senior management and all staff. The aim of the policy is to ensure that the Bank’s disabled customers receive the same quality of service as non-disabled customers, where possible, but adapted to their specific needs.

The Bank will treat all its stakeholders fairly, with respect and dignity. It rejects all forms of discrimination, including exclusionary behaviour based on differences of gender, age, ethnic origin, religion, political opinion, membership of a particular interest group, sexual orientation, mother tongue or any other direct or indirect discrimination.

MKB Bank operates a whistleblowing system (e-mail address: anonimbox@mkb.hu), which allows anyone to report, even anonymously, any violations of the law, internal violations and other ethical standards that they have encountered.

MKB Bank also has a Works Council in accordance with the labour legislation in force. The Works Council is the primary interest representation forum, representing the interests of employees. Employees may be involved in the discussion of issues and taking decisions affecting them and can learn about any change therein through the Works Council. The Ethics and Conciliation Committee of the Works Council has the power to resolve conflicts between employees and conflicts between managers and employees.

MKB Bank does not employ child labour or forced labour.

Data protection and data security:

The right to the protection of personal data is one of the personal rights provided for in the Civil Code, and the protection of personal data is also constitutionally protected by the Fundamental Law, and MKB Bank has been paying special attention to this area for a long time. MKB Bank is committed to the highest level of protection of personal data of natural persons processed by it and, in this context, it has implemented and continues to implement appropriate technical and organisational measures, taking into account the risks of varying likelihood and severity, in relation to the nature, scope, context and purposes of the processing and the rights and freedoms of data subjects, and it continuously monitors the measures taken and their effects in order to ensure compliance with the applicable legislation on the protection of personal data.

MKB Bank has established an appropriate data protection framework to comply with the requirements of the GDPR, the primary legislation governing the processing of personal data of natural persons, and has incorporated data protection controls into its business processes and IT development processes.

MKB Bank operates and maintains its data protection framework in accordance with applicable law and the guidelines of the Hungarian Authority for Data Protection and Freedom of Information, the European Data Protection Board as supervisory authorities, and the European Union’s guidance authorities, such as the CNIL (Commission Nationale de l’Informatique et des Libertés, the French data protection authority, and the ICO (Information Commissioner’s Office, the UK data protection authority), as well as best market practices.

In line with industry practices and MNB regulations, MKB Bank continuously updates its security preparedness by updating and replacing its IT protection systems.

The Bank also prioritises the security of its digital channels, with regular external vulnerability scans and penetration tests to ensure that the level of security is adequate.

MKB Bank, also in full compliance with the MNB’s recommendations, has continuously warned its customers on its own platforms and in several notices issued during the year about the actions to be taken in connection with cyber fraud and phishing and the requirements of prevention and vigilance.

MKB Bank’s employees are highly experienced in preventing phishing incidents, identifying those that have occurred and implementing mitigation measures. Potentially affected customers are contacted by the MKB Fraud Management department to verify whether the customer is aware of the transactions in question and whether they were initiated by the customer. In addition to informing customers, MKB Bank takes the necessary security and legal measures.

Sustainability and climate strategy:

The MKB Financial Group is committed to being a key player in creating sustainable economic operations. As a Hungarian financial institution, it has a key role and responsibility in supporting and financing sustainable and climate-smart investments. MKB Group wants to set an example to market players and partners by reducing its ecological footprint and operating responsibly, while at the same time it feels obligated to protect the environment.

To translate this commitment into action, MKB has revised its previous sustainability and climate strategy and from 2022 has developed and adopted a Group-wide ESG strategy, which includes the Bank's carbon neutrality ambitions. A dedicated ESG function has been created and is directly supervised by senior management.

The strategic directions set out the future vision and actions for the MKB Group on the one hand, due to its role as a financial institution, and on the other hand, for the MKB Group as a group of companies.

- *"MKB, a partner in green finance"*: as part of the strategy, the aim is to create an infrastructure, product and service range for retail and corporate customers that will help them achieve their own sustainability and climate goals. MKB attaches great importance to investing in renewable energy and supports the implementation of these projects. MKB is committed to ESG-based resource mobilisation both in its own operations and towards its customers. MKB's sustainability and climate strategy includes a gradual review of the risk framework and the integration of an ESG approach therein. This involves both the full adoption of European Union requirements and the examination of additional specific elements that may be tailored to the Hungarian market.

- *"MKB is a responsible group of companies":* As a responsible group of companies, the MKB Group aims to fully comply with climate neutrality and sustainability objectives in its own functioning, in particular the widest possible application of paperless and contactless methods and ESG aspects in operations. The Group aims to achieve these objectives through its daily operations, internal processes and the way it shapes its employee community.

The Sustainability Strategy Framework of Magyar Bankholding, which will also be the strategy of the MKB Financial Group in the future, sets out two strategic objectives:

1. "Magyar Bankholding, a partner in sustainable finance" – a strategic goal to create an infrastructure, product and service offering for both retail and corporate customers that will help them achieve their own sustainability and climate goals. In this context, the tools to implement the strategy are:
    a. the development of products and services that promote sustainability (e.g. the Green Home Program already available at member banks, or the Green Capital Requirement Allowance Program to be adopted in the future);
    b. raising funds and financing to promote sustainability (green bonds, green mortgages).
    c. establish an ESG-based risk framework, where MBH aims to expand the process of identifying risks from climate change and environmental degradation and incorporate sustainability and climate objectives into its risk management. In this context, it will, for example, integrate ESG considerations into its credit risk processes and quantify its operational risks, thus becoming an integral part of its Risk Strategy.

2. “Magyar Bankholding, the responsible group of companies” - the strategic goal of MBH is to adopt sustainability principles in its own operations. As part of this:
    a. From an environmental perspective, it aims to reduce its carbon footprint, for example by reducing energy consumption, further promoting digital banking to radically reduce paper use, and taking steps to promote responsible waste management by extending separate waste collection.
    b. On the social side, it is important for the Bank to be a fair and supportive partner to its employees and customers, and it places a high priority on awareness-raising, training and charitable giving. To this end, it will, for example, provide ESG training to its employees and strive to create a healthy working environment, non-discrimination and equal opportunities within its operations.
    c. In terms of governance, MHB continuously ensures that it operates in an ethical, transparent, compliant and sustainable manner. It has therefore, for example, raised the advocacy of sustainability (ESG) to the level of Deputy CEO and created a dedicated area within the Bank; and in 2022, it published its first GRI Sustainability Report, which is externally auditable by an independent third party, and in October 2022, it joined the UN Principles for Responsible Banking.

In 2021, MKB Bank won the ‘Green Bank Award’ established by the Hungarian National Bank. In February 2019, the MNB launched its Green Programme to support financial services in Hungary aimed at protecting the environment and further reducing the ecological footprint of its market participants and its own ecological footprint. In judging the award, the MNB looked at the extent of green lending by financial institutions, the green bond portfolio held by the institutions, and the institutions’ exposure to climate change impacts. MKB Bank’s conscious, step-by-step sustainability strategy, its consistently implemented green products and services, and its numerous socially relevant commitments played a major role in its recognition.

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Measures to optimise energy use:

A large part of MKB Bank's energy consumption comes from utility consumption in its buildings, combined with the fuel consumption of its fleet of vehicles. The consumption of buildings is partly of communal and partly of technology origin. Energy consumption is constantly monitored and supervised in each building. The national centre of the system is located in the office building on Kassák Lajos Street.

No significant energy efficiency investments were made at MKB Bank in 2022.

The annual energy consumption indicators of the MKB Group buildings were as follows[6].

Annual consumption	2020	2021	2022
Electricity (kWh)	11,084,110	10,797,666	16,371,405
Natural gas (gnm3)	932,862	998,098	1,008,169
Thermal energy (MJ)	2,141,367	2,301,308	18,131,000
Water (m3)	24,340	21,734	33,016

The Bank's environmental risk assessment took into account annual energy consumption and annual carbon emissions. MKB Bank was last audited in 2019 by NKM Optimum Zrt. for full energy efficiency, which complies with the requirements of EU Directive 27/2012, Act LVII of 2015 and Government Decree 122/2015 (V.26). In addition, monthly energy desk officer reports are also prepared with energy consumption analyses on the basis of Decree 2/2017 (II. 16.) of the Hungarian Energy and Public Utility Regulatory Authority (MEKH).

Separate waste collection and management:

MKB Bank is committed to sustainable development. One of the pillars of this is separate waste collection, which is promoted by the installation of separate collection bins in the Bank branches and office buildings, where paper waste, metal beverage cans, plastics, PET bottles, batteries, caps and electronic waste (ink cartridges, toners, etc.) can be collected separately. Separately collected waste can be recycled and reused as raw material after proper treatment – reducing the impact on the environment.

MKB Bank strives to operate in an environmentally friendly manner, and to this end, it pays special attention to the management of electrical waste. Digitalisation strategy also has a positive impact on the Bank's paper consumption.

Waste management is regulated by a number of regulations, and MKB Bank complies with the legal requirements. The Bank prepares an annual waste management report, which includes the classification of waste generated and the quantities of waste disposed of. In 2022, MKB Bank generated 103,860 kg of paper and cardboard waste and 15,177 kg of waste from discarded electrical and electronic equipment.

Environmental awareness measures for MKB Bank's fleet:

MKB BANK currently owns 796 vehicles. All of these are modern, state-of-the-art vehicles, with a fuel consumption that is almost equally divided between diesel (407) and petrol (370), as well as 5 electric and 14 hybrid petrol vehicles. As a result of the scheduled replacement of the fleet, the average age of the vehicles has been reduced to 3.5 years. Due to the worldwide chip shortage, the ordering time for new vehicles has increased manifold, but the vast majority of the cars needed were successfully purchased before the end of the year, with a view to green energy in the choice of vehicles.

[6] Note: At the time of writing, energy consumption data for the month of December 2022 were not yet fully available. The missing data were based on the previous year's consumption.

In 2022, 67% of newly purchased vehicles were petrol models and 10% were hybrids.
MKB Bank also uses taxi services for its employees. A crucial factor in the selection of the contracted service provider was that the company should have the largest fleet of electric cars on the Budapest market. At the end of 2019, the Bank also signed a contract with MOL Limo, which aims to replace the future petrol taxi service, mainly within Budapest, and to provide more environmentally friendly transport.
MKB BANK will continue to promote the possibility of electric community car sharing.
In 2022, we added electric charging at MOL petrol stations as an extended service to the MOL fuel cards of all our hybrid vehicles.

Anti-corruption and anti-bribery policies and their results, due diligence procedures applied

In compliance with its statutory obligations, MKB Bank has set out its anti-fraud and anti-corruption measures primarily in the Group Anti-Corruption Policy and in other policies and regulations as necessary. MKB Bank's management is committed to the principle of 'zero tolerance' of corruption and seeks to ensure a legal and ethical climate through internal policies that encourages reporting of suspected corruption, thus protecting MKB Bank and its stakeholders. The anti-corruption processes are designed and resourced to ensure that investigations are fully conducted at all times.

Measures against money laundering and terrorist financing:

MKB Bank established a group-wide policy against money laundering and terrorist financing, as it is actively involved in the prevention, suppression and detection of money laundering, terrorist financing and economic crime, both at the domestic and international level, using the means at its disposal. In order to carry out these tasks effectively, it applies the following principles:

- The Bank Group consistently complies with international and domestic embargo rules, money laundering regulations and related national and international legislation.
- The Bank Group does not finance illegal arms deals, drug trafficking, child labour, slave trade, prostitution or corruption.
- The Bank Group does not finance persons or companies controlled by persons or companies that have been proven to be unreliable, e.g. because of a related criminal conviction.
- The Bank Group takes into account the FATF recommendations and conducts its activities with them in mind.

The anti-money laundering procedures apply to all employees of the Bank and are in full compliance with FATF Recommendation 40+9, Directive 2015/849 and Regulation 2015/847 of the European Parliament and of the Council. MKB Bank makes every effort to ensure that the services offered by the Bank cannot be used for money laundering or terrorist financing. MKB Bank operates a Compliance organisation, within which a special department works on the prevention of money laundering and terrorist financing. The Bank cooperates fully with the authorities in identifying any suspicious cases, in particular those with a potential for money laundering and terrorist financing. The declarations required by international regulations are available on the Bank's website.

In order to reduce the risk of money laundering and terrorist financing, the Bank needs to be aware of its customers' activities, the nature of business relationships, business partners, financial habits, Hungarian and business practices, the economic background of debits and credits to the account, the expected turnover (amount, currency) and therefore maintains regular and active contact with its customers. In accordance with the legal requirements, the Bank's staff carry out due diligence of customers, and in the case of natural persons as legal entities, the representatives must also declare the status of the beneficial owner as a prominent public figure, which is then verified by the Bank's staff in public sources

MKB Bank prepared its internal risk assessment in compliance with the provisions of Act LIII of 2017 on the prevention and combating of money laundering and terrorist financing, taking into account the Hungarian and international economic conditions and habits and the known risk factors. The Bank is also required to apply adequate risk classification on the basis of the nature and volume of the business relationship or a transaction order or the conditions related to the customer, product, service or the applied instrument.

MKB Bank identified its major risks in its risk assessment policy and reserves the right to refuse any customer relationship, transaction or transaction order if it is not in accordance with its risk appetite. The Bank monitors unusual activities and has identified cash transactions as a high risk, in particular in the case of extremely large or highly intensive cash turnover, thus verifying it continuously controls such turnover.

MKB Bank does not maintain business relations with customers who carry reputational risk, only with customers who use its products exclusively for legitimate purposes and whose identity can be established and verified beyond reasonable doubt. The Bank does not provide services to natural persons or legal entities who/which are subject to any sanction or are included in any restricted list, such as the restricted list of the United Nations Security Council (UN), the EU Consolidated Financial Sanctions list (EU), the Restricted List handled by the United States Office of Foreign Assets Control (OFAC), which also includes the Specially Designated Nationals (SDNs) and Blocked Persons List. The Bank has also identified industries, products and countries that pose a high risk to the Bank.

MKB Bank does not only strive to prevent and detect fraud in its customer relations.

The Bank has detailed internal regulations covering actual and potential insider dealers, which fully comply with the limits and prohibitions detailed in the current Capital Markets Act (Tpt).

All partners in supplier contracts must undertake to comply with the regulatory environment in force. The Bank's internal regulations also require the Bank's compliance area to screen counterparties before concluding new supplier contracts or contracts that have not been reviewed for more than one year. The Bank will not contract with any supplier that does not meet the minimum requirements set by law or the Bank's compliance policies.

The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the legislation in force and with the Bank's internal rules is a fundamental requirement for all employees of the Bank Group. The MKB Group also expects its business and other contractual partners to comply with the provisions of its Code of Conduct.

Regulations on gifts and conflicts of interest:

To ensure transparent operation and prevent corruption, the Bank applies strict rules on conflict of interest and gifts to business partners. The Regulations on Conflicts of Interest of Employees and Gifts set out the rules of accepting and giving gifts for employees, the rules on conflicts of interest for employees and executive officers, as well as the conditions for holding an executive officer position according to the conflict of interest criteria, and the restrictions on influential roles, obtaining a controlling interest and a majority interest in the business entity for persons holding executive positions and the rules of authorisation.

Regulations related to the respective policy and applied due diligence procedures:

- MKB Bank Group Code of Ethics
- MKB Bank's Group-wide policy against money laundering and terrorist financing
- MKB Bank Group Regulations on Conflicts of Interest and Gifts MKB Bank Group Policy on the Prevention and Combating of Money Laundering and Terrorist Financing and on the Implementation of Financial and Asset Restriction Measures by the European Union and the United Nations Security Council
- on the whistleblowing system operated by MKB Bank Plc.
- MKB Bank Group Anti-Corruption Policy
- Rules on the treatment of insider information, insider trading, the prohibition of unauthorised disclosure of insider information and market manipulation

A SUMMARY OF THE MAIN RESULTS OF THE POLICIES PURSUED IN RELATION TO SOCIAL AND EMPLOYMENT ISSUES, RESPECT FOR HUMAN RIGHTS, ENVIRONMENTAL PROTECTION AND THE FIGHT AGAINST CORRUPTION

The MKB Group continued its broad community involvement in 2022 by supporting a number of health promotion, education and equal opportunities programmes.

It is important to note that, due to the pandemic, in 2022, 100% home office work was implemented in jobs that do not require presence and flexible working is still prevalent.

The health promotion programmes launched by the MKB Group have been a continuing success for five years now. The online sporting events and training sessions continued to be accessible and popular among employees in 2022, enabling them to contribute to the health promotion of bank employees.

In 2022, MKB Bank continued to follow its anti-corruption, anti-money laundering policies and dedicated anti-corruption policy managed by the compliance area and applied them effectively in practice.

ADDRESSING AND MANAGING THE MATERIAL RISKS RELATED TO SOCIAL AND EMPLOYMENT ISSUES, RESPECT FOR HUMAN RIGHTS, ENVIRONMENTAL PROTECTION AND THE FIGHT AGAINST CORRUPTION IN THE CONTEXT OF BUSINESS RELATIONS, PRODUCTS AND SERVICES

MKB Bank has identified its most significant risks in its underwriting policy. The Bank is exposed to operational risk by the very nature of its activities. Operational risk is the risk of loss arising from human error, system failures, inadequate or faulty internal processes, possible fraud or abuse by Bank employees, customers or third parties, or external events, and includes legal risk, business risk, modelling risk, information and communication technology risk, and reputational risk. The Bank's key strategic objective is to minimise operational risk and to this end it applies risk mitigating controls in its core business processes.

The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the prevailing legal regulations and the Bank's internal regulations is a fundamental requirement for all employees of the Bank and the Bank expects its business partners and other contractual partners to comply with the Code of Conduct. MKB Bank does not do business with customers who pose a reputational risk, but only maintains relations with customers who use its products for legitimate purposes. MKB Bank also carried out a risk assessment in the area of employment and identified the risks relevant to its operations, which it takes into account in its human resources policy.

KEY NON-FINANCIAL PERFORMANCE INDICATORS

- Breakdown of employees by job, age and gender (see the section 'Employment-related policies and their results, due diligence procedures applied')
- Energy use (see the section 'Environmental policy and results, due diligence procedures applied')

Budapest, 4 April 2023

Dr. Zsolt Barna	Péter Krizsanovich
Chairman and CEO	Deputy CEO for Finance

M K B B a n k Ny r t.

10 011 922 641 911 401
statistic code

Separate Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 04 April 2023

31 December 2022

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Data in HUF million except stated otherwise

MKB Bank Nyrt.
Separate Statement of Financial Position as at 31 December 2022

	Note	31 December 2022	31 December 2021	1 January 2021
Assets				
Cash and cash equivalents	**7**	**1 081 158**	**866 957**	**332 625**
Financial assets measured at fair value through profit or loss		**476 909**	**169 198**	**81 129**
Loans and advances to customers mandatorily at fair value through profit or loss	**11**	*182 875*	*53 295*	*40 797*
Securities held for trading	**10**	*8 434*	*3 964*	*10 820*
Securities mandatorily at fair value through profit or loss	**10**	*18 017*	*7 537*	*6 250*
Derivative financial assets	**9**	*267 583*	*104 402*	*23 262*
Hedging derivative assets	**9**	**142 874**	**-**	**-**
Financial assets measured at fair value through other comprehensive income		**428 520**	**187 681**	**607 168**
Securities	**10**	*428 520*	*187 681*	*607 168*
Financial assets measured at amortised cost		**4 823 478**	**1 979 687**	**1 661 619**
Loans and advances to banks	**8**	*448 627*	*25 024*	*45 116*
Loans and advances to customers	**11**	*2 565 343*	*1 128 148*	*981 062*
Repurchase assets	**8, 11**	*9 080*	*20 263*	*82 751*
Securities	**10**	*1 772 915*	*804 568*	*549 938*
Other financial assets	**12**	*27 513*	*1 684*	*2 752*
Fair value change of hedged items in portfolio hedge of interest rate risk	**9**	**(51 678)**	**-**	**-**
Investments in subsidiaries and associates	**13**	**424 367**	**49 563**	**48 224**
Property, plant and equipment	**14**	**37 725**	**14 020**	**14 734**
Intangible assets	**14**	**44 206**	**27 388**	**24 478**
Income tax assets		**17 668**	**7 756**	**8 125**
Current income tax assets		*49*	*-*	*1 418*
Deferred income tax assets	**23**	*17 619*	*7 756*	*6 707*
Other assets	**12**	**43 551**	**17 897**	**14 028**
Assets held for sale	**39**	**-**	**35**	**506**
Total assets		**7 468 778**	**3 320 182**	**2 792 636**
Liabilities				
Financial liabilities measured at fair value through profit or loss		**196 728**	**43 751**	**35 406**
Derivative financial liabilities	**9**	*188 493*	*41 528*	*35 406*
Financial liabilities from short positions	**9**	*8 235*	*2 223*	*0*
Financial liabilities measured at amortised cost		**6 417 607**	**3 007 813**	**2 537 593**
Amounts due to banks	**15**	*1 965 931*	*703 041*	*572 078*
Amounts due to customers	**16**	*4 207 025*	*2 222 353*	*1 865 019*
Repurchase liabilities		*73 429*	*1 319*	*2 732*
Issued debt securities	**19**	*12 906*	*3 394*	*2 343*
Subordinated debt	**20**	*88 887*	*45 070*	*44 724*
Other financial liabilities	**17**	*69 429*	*32 636*	*50 697*
Hedging derivative liabilities	**9**	**158**	**-**	**-**
Provisions	**18**	**13 977**	**3 407**	**2 560**
Income tax liabilities		**5 496**	**2 800**	**-**
Current income tax liabilities		*5 496*	*2 800*	*-*
Other liabilities	**18**	**41 800**	**23 530**	**14 103**
Total liabilities		**6 675 766**	**3 081 301**	**2 589 662**
Equity				
Share capital	**21**	**321 699**	**100 000**	**100 000**
Share premium	**22**	**313 947**	**21 729**	**21 729**
Retained earnings	**22**	**84 155**	**67 765**	**67 125**
Other reserve	**22**	**32 552**	**17 040**	**11 448**
Profit for the year		**64 637**	**55 916**	**6 232**
Accumulated other comprehensive income		**(23 978)**	**(23 569)**	**(3 560)**
Total equity		**793 012**	**238 881**	**202 974**
Total liabilities and equity		**7 468 778**	**3 320 182**	**2 792 636**

The structure of the separate primary financial statements has been changed, and comparatives have been restated. For further information see note 4 Comparative figures in the Change in the presentation of primary financial statements.

Budapest, 04 April 2023

dr. Zsolt Barna
Chairman and Chief Executive Officer

Péter Krizsanovich
Deputy Chief Executive Officer

MKB Bank Nyrt.
Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2022

	Note	2022	2021
Interest and similar to interest income		**497 677**	**79 335**
Interest income using effective interest rate method	24	*336 591*	*63 795*
Other interest income	24	*161 086*	*15 540*
Interest and similar to interest expense		**(282 000)**	**(32 470)**
Interest expense using effective interest rate method	25	*(153 317)*	*(12 222)*
Other interest expenses	25	*(128 683)*	*(20 248)*
Net interest income		**215 677**	**46 865**
Income from fees and comissions	26	**77 431**	**33 205**
Expense from fees and comissions	26	**(18 955)**	**(6 462)**
Net income from commissions and fees		**58 476**	**26 743**
Results from financial instruments	27	**33 752**	**63 436**
Results from financial instruments measured at fair value through profit or loss, net		*97 845*	*85 526*
Results from financial instruments measured at fair value through other comprehensive income, net		*(36 106)*	*(14 582)*
Results from financial instruments measured at amortized cost, net		*1 412*	*2 731*
Results from hedge accounting, net		*9 479*	-
Exchange differences result		*(38 878)*	*(10 239)*
(Impairment) / Reversal on financial and non-financial instruments	28	**(56 974)**	**(5 417)**
Expected credit (loss) on financial instruments held for credit risk management		*(34 707)*	*(3 659)*
Provision (loss) / gain		*(1 891)*	*152*
Modification (loss) / gain on financial instruments		*(10 607)*	*(1 343)*
(Impairment) / Reversal on investments in subsidiaries and associates		*(9 527)*	*(316)*
(Impairment) / Reversal on other financial and non financial instruments		*(242)*	*(251)*
Dividend income	29	**4 023**	**2 995**
Operating expense	30	**(190 307)**	**(72 808)**
Other income	31	**6 311**	**4 555**
Other expense	31	**(6 828)**	**(4 656)**
Profit before taxation		**64 130**	**61 713**
Income tax income / (expense)	32	**507**	**(5 797)**
PROFIT FOR THE YEAR		**64 637**	**55 916**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Revaluation on financial assets measured at fair value through other comprehensive income		4 025	(21 985)
Income tax relating to items that will be reclassfied		(332)	1 976
Other comprehensive income for the year net of tax		**3 693**	**(20 009)**
TOTAL COMPREHENSIVE INCOME		**68 330**	**35 907**
Profit / (Loss) attributable to:			
Profit / (loss) for the period from continuing operation		**64 637**	**55 916**
Total comprehensive income attributable to:			
Total comprehensive income from continuing operation		**68 330**	**35 907**
Net income available to ordinary shareholders		**64 637**	**55 916**
Average number of ordinary shares outstanding (thousands)		**259 782**	**100 000**
Earnings per Ordinary Share (in HUF)	34		
Basic, Diluted		**249**	**559**

The structure of the separate primary financial statements has been changed, and comparatives have been restated. For further information see note 4 Comparative figures in the Change in the presentation of primary financial statements.

Budapest, 04 April 2023

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Separate Statement of Changes in Equity for the year ended 31 December 2022

	Share capital	Share premium	Retained earnings	Other reserve	Accumulated other comprehensive income	Total equity
At 1 January 2021	**100 000**	**21 729**	**73 357**	**11 448**	**(3 560)**	**202 974**
Profit for the year			55 916			55 916
Other comprehensive income for the year					(20 009)	(20 009)
Total comprehensive income			**55 916**		**(20 009)**	**35 907**
General reserve for the year			(5 592)	5 592		-
At 31 December 2021	**100 000**	**21 729**	**123 681**	**17 040**	**(23 569)**	**238 881**
Profit for the year			64 637			64 637
Other comprehensive income for the year					3 693	3 693
Total comprehensive income			**64 637**	**-**	**3 693**	**68 330**
Issue of share capital and share premium	85 982	122 239				208 221
Dividend			(4 300)			(4 300)
General reserve for the year			(6 463)	6 463		-
Increase / decrease due to the merger	135 717	169 979	(28 763)	9 049	(4 102)	281 880
At 31 December 2022	**321 699**	**313 947**	**148 792**	**32 552**	**(23 978)**	**793 012**

The structure of the separate primary financial statements has been changed, and comparatives have been restated. For further information see note 4 Comparative figures in the Change in the presentation of primary financial statements.

Budapest, 04 April 2023

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Separate Statement of Cash Flows for the year ended 31 December 2022

	Note	2022	2021
Cash flows from operating activities			
Profit/ (Loss) before taxation		**64 130**	**61 713**
Adjustments for:			
Depreciation, amortisation and impairment	**14, 33**	16 455	6 955
Impairment / (Reversal of impairment) on other assets	**12**	244	119
(Reversal of provisions for) / Recognise provisions on off-BS items and settlement for customers	**18**	6 427	847
Impairment / (Reversal of impairment) on loans and advances	**8, 11**	28 198	2 426
Impairement / (Reversal of impairment) on non-current assets held for sale	**39**	-	(2 152)
Impairment / (Reversal of impairment) on securities, subsidiaries and associates	**10, 13**	11 045	297
Noncash adjustment on securities	**10**	6 809	23 284
Net interest income	**24, 25**	(215 678)	(35 474)
Dividends from shares and other non-fixed income securities		-	(45)
Other valuation differences		24 477	1 684
Foreign Exchange movement		(16 974)	1 604
Cash flows from operating activities		(74 867)	61 258
Change in loans and advances to banks	**8**	(209 074)	17 143
Change in loans and advances to customers	**11, 35, 36, 38**	(385 296)	(97 395)
Change in derivative assets	**9**	(244 711)	(81 140)
Change in other assets	**12**	(19 764)	(6 008)
Change in amounts due to banks (short term)	**15**	617 885	25 330
Change in current and deposit accounts	**16**	521 192	356 240
Change in other liabilities and provisions (without provision charge of the year)	**18**	(66 811)	(2 732)
Change in derivative liabilities	**9**	122 687	6 122
Interest received	**24**	461 910	73 706
Interest paid	**25**	(268 655)	(38 232)
Income tax	**32**	(6 126)	(3 566)
		523 237	249 468
Net cash used in operating activities		**448 370**	**310 726**
Cash flow from investing activities			
Increase of investment of group companies	**13**	(278 601)	(1 506)
Disposals of group companies	**13**	44	-
Cash change due to merge	**5**	293 820	-
Purchase of PPEs and intangible assets	**14, 33**	(17 372)	(16 450)
Disposals of PPEs and intangible assets	**14, 33**	88	9 528
Purchase of securities	**10**	(1 738 801)	(1 363 276)
Disposals of securities	**10**	1 286 506	1 490 323
Change in non-current assets held for sale and discontinued operations	**39**	-	2 621
Net cash (used in) / generated by investing activities		**(454 316)**	**121 240**
Cash flow from financing activities			
Increase in issued securities	**19**	12 028	2 054
Decrease in issued securities	**19**	(1 317)	(1 003)
Cash outflow for leases	**33**	(7 848)	(2 837)
Change in amounts due to banks (Borrowings)	**15**	(3 825)	105 410
Issuance of new shares andproceeds from share premium		208 221	-
Dividends paid		(4 300)	-
Net cash generated by financing activites		**202 959**	**103 624**
Net increase of cash and cash equivalents		**197 013**	**535 590**
Cash reserves at 1 January		**866 957**	**332 625**
FX change on cash reserve		17 188	(1 258)
Cash reserves at the end of period		**1 081 158**	**866 957**

Budapest, 04 April 2023

Notes to the Separate Financial Statements

(from page 9 to 124)

1. General information

MKB Bank Nyrt. (former MKB Bank Zrt., hereinafter: “MKB” or “MKB Bank” or “the Bank”) is a commercial bank registered in Hungary, and operating under the effective laws of Hungary, particularly under Act CCXXXVII of 2013 on credit institutions and financial enterprises. The headquarters of the Bank is at 38 Váci utca Budapest 1056.

The separate financial statements of the Bank are prepared for the year ended 31 December 2022. The Bank prepares its consolidated financial statement under IFRS that is published and available on the following website:
https://www.mkb.hu/az-mkb-bankrol/szamok-tukreben/eves-es-evkozi-jelentesek

From 30 May 2019 MKB pursues its activity as a public limited company, the shares of MKB Bank were added to the product list of the Budapest Stock Exchange (hereinafter: BSE), by which the shares of MKB were admitted to the BSE. On 30 May 2019 the type of operation of the Bank changed and as of that date it functions as a public limited company. The company name changed to MKB Bank Nyrt., effective from 30 May 2019. The change of form of operation and the related name change were registered by the court of registration on 30 May 2019. The first trading day of the ordinary shares of MKB Bank admitted to BSE was 17 June 2019 in the Standard category of the equity section of BSE.

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Magyar Bankholding Zrt. (hereinafter: Magyar Bankholding or MBH) commenced its effective operation as a financial holding company on 15 December 2020, after the bank shares of the key owners of Budapest Bank Zrt. (hereinafter: Budapest Bank), MKB Bank and MTB Zrt. (hereinafter: MTB) were transferred to the joint holding company in possession of the approval of National Bank of Hungary (hereinafter: NBH). The owners transferred their shares to. Magyar Bankholding Zrt., thereby establishing the second largest banking group in Hungary, with the Hungarian State owning 30.35% of the shares through Corvinus Nemzetközi Befektetési Zrt., the former direct owners of MKB acquiring 31.96% of the shares and the former direct owners of MTB acquiring 37.69% of the shares. All required approvals have been obtained for these changes.

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owns MTB, approved the first step of the merger timetable of Budapest Bank, MKB Bank and MTB. In accordance with the merger schedule, based on the relevant decisions of the supreme bodies and in possession of the necessary regulatory approvals, the merger of the two member banks of Magyar Bankholding, Budapest Bank and MKB Bank, and Magyar Takarék Bankholding Zrt. was completed on 31 March 2022. From 1 April 2022, the merged credit institution continued to operate temporarily under the name of MKB Bank Nyrt. This was another milestone in the triple bank merger led by Magyar Bankholding with the aim to create Hungary's second largest universal major bank in terms of total assets and a leader in digitalisation, by integrating Budapest Bank, MKB Bank and - later, by May 2023, after the relevant decisions have been taken and regulatory approvals have been obtained and other conditions have been met - Takarékbank Zrt.

Data in HUF million except stated otherwise

According to the decision No. H-EN-I-119/2022 dated 8 March 2022, the MNB, based on the Magyar Bankholding's request, has withdrawn its authorisation to operate as a financial holding company granted to Magyar Bankholding by on the Decision No. H-EN-I-358/2020 dated 12 June 2020, with effect from 29 April 2022. On the basis of the new group decision, MKB Bank took over the group management function of the banking group as of 29 April 2022.

On 9 December 2022, the supreme bodies of MKB Bank and Takarékbank Zrt. adopted the proposals for the merger of the two member banks as part of the implementation of the second step of the merger schedule of Magyar Bankholding. According to the decisions of the General Meetings, the two member banks of the banking group, MKB Bank Nyrt. and Takarékbank Zrt., will merge on 30 April 2023 or, if the merger is not registered at the Court of Registration by then, on the date of registration, and will then continue their operations under the name MBH Bank Nyrt, with a single brand name and image. In January 2023, the MNB approved the merger of Takarékbank Zrt. into MKB Bank Nyrt. with effect from 30 April 2023. Please find further information in connection with the merger in Note 4. ll)

The merger does not imply any change in the ownership structure of the banking group, the dominant shareholder of the banks involved in the merger process will remain Magyar Bankholding Zrt.

The shareholder structure of MKB Bank is the following as of 31 December 2022:

1.1

Shareholder structure of MKB as of 31 December 2022	Number of shares (pieces)	Total nominal value of shares (HUF)	Ownership share (%)
Magyar Bankholding Zrt.	318 883 966	318 883 966 000	99.12%
Free float ratio: 0.88%			

Magyar Bankholding Zrt. has a 99.12% direct ownership interest in MKB Bank. The capital increase approved at the Extraordinary General Meeting of the Bank held on 9 December 2022 by Resolution 55/2022 (9 December 2022) was implemented by Magyar Bankholding Zrt. and registered by the Court of Registration. At the end of the reporting period, KELER Zrt. was in the process of creating 10,378,975 new dematerialised ordinary shares of Series A with a nominal value of HUF 1,000 each, issued within the framework of the capital increase. Magyar Bankholding Zrt. may exercise its voting rights in respect of the newly issued shares from the date of issue of the new shares and their crediting to the securities account of Magyar Bankholding Zrt.

The ownership structure of Magyar Bankholding is the following as of 31 December 2022:

1.2

Data in HUF million except stated otherwise

The shareholders of Magyar Bankholding	Ownership share (%)
Corvinus Nemzetközi Befektetési Zrt.	30.35%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25.13%
Magyar Takarék Holding Zrt.	12.56%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
EIRENE Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
OPUS FINANCE Future Zrt.	0.84%
Total	**100%**

Ultimate controlling party among the shareholders of MBH cannot be identified.

2. Compliance with International Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter: "IFRSs").

IFRSs comprise accounting standards issued by the International Accounting Standards Board (hereinafter: "IASB") and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: "IFRIC") and its predecessor body.

These financial statements are presented in Hungarian Forint ("HUF"), rounded to the nearest million, except if indicated otherwise. The financial statements are authorised for issue by the Board of Directors on 04 April 2023.

3. Basis of measurement

The separate financial statements have been prepared based on going concern assumption. The management neither intends to liquidate the Bank nor to cease trading. The management is not aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Bank's ability to continue as a going concern. The Bank has a history of profitable operations and ready access to financial resources.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 35.

4. Summary of significant accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the Bank in preparing and presenting the separate financial statements. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

To ensure data consistency the Bank made reclassification in supplementary notes in some relevant cases.

a) Financial statement presentation

These separate financial statements include the accounts of MKB Bank Nyrt. The presentation and functional currency of the Bank was determined as Hungarian Forint ("HUF").

b) Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are measured at cost by the Bank.

Subsidiaries are entities controlled by the MKB Bank. Control exists when the Bank is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, substantive potential voting rights are also taken into account.

Where the Bank is a party to a contractual arrangement whereby, the parties that have joint control of the arrangement have rights to the net assets of the arrangement, the Bank classifies its interest in the venture as a joint venture.

MKB classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates. For the purpose of determining this classification, control is considered to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

c) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for supply of services, or for administration purposes.

Intangible assets that have a finite useful life are measured initially at costs and subsequently carried at costs less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their estimated useful lives not exceeding 15 years from the date when the asset is available for use, applying the straight-line method. The useful lives are reviewed annually.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. An intangible asset is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Expenditure on internally developed intangible asset (software) is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

Subsequent expenditure related on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

d) Property, plant and equipment

Items of property and equipment including leasehold improvements are measured initially at cost, including transaction cost, then subsequently cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The estimated useful lives of property, plant and equipment are as follows:

- components of freehold buildings are depreciated over maximum 100 years,
- equipment, fixtures and fittings (including equipment on operating leases where MKB is the lessor) are depreciated over 5-10 years, but maximum over 20 years.

Depreciation of property, plant and equipment are included in “Operating expense” line in Statement of Profit or Loss and Other Comprehensive Income.

Property, plant and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Net gains and losses on disposal of property and equipment are recognised in “Other income / Other expense”, in the year of disposal.

e) Investment property

Investment properties are held by the Bank to earn rentals and for capital appreciation.

The Bank uses the cost model for investment property, according to which the property is accounted in the Bank's books at the purchases cost and then depreciated.

The estimated useful lives of investment properties are as follows:

- components of buildings are depreciated over 25-100 years,
- connecting equipment are depreciated over 20 years.

Depreciation of investment property is included in „Other income / Other expense” line in Statement of Profit or Loss and Other Comprehensive Income.

The fair value of the investment properties shall be supervised yearly by an independent appraiser. Should the fair value be much lower than the carrying amount, impairment loss shall be recognized through profit or losses.

f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

g) Initial recognition and measurement of Financial Instruments

Financial assets are recognized by the Bank on settlement date.

All financial instruments measured at fair value at initial recognition. The fair value of a financial instrument at initial recognition is normally the transaction price (the fair value of the consideration given or received).

At initial recognition, all financial instruments that are not measured at FVTPL. The modified fair value includes all transaction costs which are directly attributable to the issuance and acquisition of financial instruments.

Financial instruments measured at fair value through profit or loss are recognized at their fair value by the Bank. All related transaction costs incurred at their inception, issuance, and / or purchase are accounted as expense through Profit or Loss. If accounts payables do not contain significant financing component, they are recognized at transaction price by the Bank.

The Bank's financial assets are measured at amortised cost if it is consistent with the business model and meet the criteria of the SPPI test.

Amortised cost is the amount of a financial asset or financial liability at initial recognition, reduced by principal repayments, increased or decreased by the difference between the original amount and amount at maturity cumulative amortisation calculated using an effective interest rate method and in case of financial assets adjusted by any loss allowance.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the

- gross carrying amount of the financial asset, or
- amortised cost of the financial liability.

In case of purchased or originated credit-impaired financial assets (POCI) credit-adjusted effective interest rate should be used. The credit adjusted effective interest rate (CAEIR) is the rate that exactly discounts the estimated expected future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset.

The effective interest rate method is the method used to measure the amortised cost of the Bank's financial assets or financial liabilities and the method used to allocate and recognises interest income and interest expense in a given period.

Interest income and interest expense should be determined using the effective interest rate method and then recognized in the Profit or Loss statement.

Simplified approach for financial contract assets and lease receivables

In those cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the Bank uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

In case of future cash flows of financial instruments cannot be estimated reliably due to the specific features of the product, furthermore the contractual cash flows are not available, the effective interest rate of the instrument cannot be determined.

When interests, commissions and other items arise related to such transactions these are accounted through profit or loss for using a simplified method (ie the effective interest rate is the same as the nominal interest rate).

h) Classification and subsequent measurement of Financial Instruments

IFRS 9 standard contains three main categories to classify and measure the financial assets: amortised cost (AC), fair value through other comprehensive income (FVTOCI) and fair value through Profit and Loss (FVTPL).

The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The Bank uses multiple business models to manage its financial instruments.

The following business model categories have been developed in accordance with IFRS 9 standard:

- Held to Collect (HTC): an instrument is held for the collection of contractual cash flows. The intention is to hold to maturity; however sale is permitted especially in case of increase in credit risk, not significant sales (even if frequent), infrequent sales (even if significant) – regardless of the reason behind the sales. Sales could be also consistent with the business model if the credit concentration risks change or if close to maturity.
- Both Held to Collect and For Sale (HTCS): an instrument that is held for the collection of contractual cash flows and for the sale of financial assets at the same time. The purpose of the inception or purchase is to collect contractual cash flows, as well as to realize profit from the increase in the fair value and minimize loss from the decrease in the fair value in medium or long term. Compared to the HTC sales occur more frequently and are higher in value.
- Other trading business model (TRADING): mainly trading financial instruments that are purchased for short-term gain.

The listing in the business model reflects the expectations of the Bank, not just the intent, but also the ability. The classification is not based on scenarios that are not reasonably expected ('worst case' or 'stress case' scenario). If the Bank sells a particular portfolio or financial asset in a 'stress case' scenario, it does not affect the evaluation of the business model.

Classification not only depends on the business model but also on the cash flow related characteristics associated with the financial instrument. The Bank has to examine the cash flows associated with the financial instrument - regarding those debt instruments that will be measured at amortised cost or fair value through other comprehensive income - whether they comply with the requirements of the principal and interest definitions according to IFRS 9 (SPPI / Cash Flow Test).

By Cash Flow Test the Bank examines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example: liquidity risk) and costs (for example: administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Bank shall measure a financial asset at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the financial asset’s contractual cash flows are solely payments of principal and interest.

The Bank shall measure a debt instrument at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the financial asset’s contractual cash flows are solely payments of principal and interest.

The Bank is able to make an irrevocably election to measure the investments in equity instruments, which are not held for trading at “fair value through other comprehensive income” category at initial recognition, in other case these financial assets should be measured at fair value through profit or loss.

All other financial assets are classified by the Bank as the fair value through profit or loss category.

i) Classification and subsequent measurement of financial liabilities

The Bank classifies its financial liabilities into the following categories:

- Mandatory FVTPL measurement (FVTPL category) measurement if liabilities are held for trading,
- FVTPL option – based on the decision of entity at initial recognition (if qualifying criteria are met),
- Amortised cost – other financial liabilities.

Financial liabilities not mandatory FVTPL and not FVTPL option are initially measured at fair value less transaction cost by the Bank. These liabilities are subsequently measured at amortised cost calculated by using the effective interest method.

j) Fair Value Option (FVO)

At initial recognition, the Bank may irrevocably recognize a financial asset or liability at fair value through profit or loss if it eliminates or significantly decreases any valuation or recognition inconsistencies that would otherwise have arisen because of the valuation of assets and liabilities or the profits or losses generated on them are shown on different bases.

The financial liabilities are measured at fair value through Profit or Loss at initial recognition by the Bank, the change in fair value at the subsequent measurement should be recognised as the following:

- changes related to own credit risk is measured through other comprehensive income (OCI),
- all other changes in fair value is measured through Profit or Loss.

The Bank does not currently apply fair value option in the presented financial statements.

k) Determination and recognition of the Expected Credit Loss

During classification of the Bank's financial instruments the primary collateral is determined as the ability and intention of the client to pay. Except for those transactions that are covered by collateral which is independent of the financial and legal position of the client accordingly the return can be unequivocally ensured.

The Bank assigns exposures at each reporting period – in this case monthly – during which the exposures are allocated to the segments and to the so-called 'Stages' (Stage 1, Stage 2, Stage 3 and / or POCI) in accordance with the principles of IFRS 9 standard.

The Bank assesses at each reporting date whether the credit risk of the financial asset has increased significantly since the initial recognition.

The Bank recognises lifetime expected credit loss for all financial instruments when the credit risk has increased significantly compared to the credit risk at acquisition or origination – regardless whether assessed on an individual or collective basis - considering all reasonable and supportable information, including that which is foreseeable.

When making the assessment, the Bank evaluates the changes in the risk of a default occurring over the expected life of the financial instrument, considering reasonable and supportable information, that is available without undue cost or effort which indicate the changes in credit risk since initial recognition.

The Bank determines the significant increase in credit risk based on the examination of the following four conditions:

- changes in the clients' rating after the issuance,
- PD change in the master scale compared to the initial value,
- default in payment,
- the amount of the client's exposure classified as Stage 2 exceeds a certain proportion of its gross exposure.

The existence of any of these conditions is assessed by the Bank as a significant increase in the credit risk. There is no evidence of significant increase of credit risk the financial instrument has to be transferred from Stage 2 to Stage 1.

Financial assets whose default risk has increased to such an extent after initial recognition that there is objective evidence of impairment have to be assigned to Stage 3 and a loan loss allowance has to be recognised by calculating the Lifetime Expected Credit Loss (ECL). Bank defines materiality threshold, exposure that are below that threshold should be considered as a small amount (below the limit). The impairment of those assets which are above the threshold should be estimated individually.

In order to determine the impairment and allowance for classes of clients, the expected credit loss (ECL) should be calculated according to the relevant principles of IFRS 9 impairment model for classes of clients calculated on monthly basis, automatically.

Factors taken into account when determining expected credit loss:

- remaining lifetime in years,
- exposure at default (EaD),
- loss given default (LGD),
- probability of default (PD),
- credit conversion-factor (CCF),
- discount rate calculated on the remaining lifetime.

The amount of impairment and allowance equals to amount of expected credit loss.

In Stage 1 the impairment is equal to the 12-Month expected credit loss.

In Stage 2 and Stage 3 the impairment is equal to the lifetime expected credit loss.

The applied risk parameters are determined on the basis of statistical models for homogeneous groups and transaction groups. The models are validated at least once a year, and if necessary they will be revised.

The Bank calculates lifetime ECL, except for the following financial instruments for which the loss is calculated for 12 months:

- debt securities (mainly government bonds) with low credit risk at the reporting date,
- financial instruments except for lease receivables and trade receivables, which credit risk do not significantly increased compared to initial recognition.

For trade and lease receivables the Bank always calculates lifetime expected credit loss.

Expected credit losses are probability-weighted estimates of credit losses during the life expectancy of a financial asset. These are assessed by the Bank as follows:

- financial assets not impaired at the reporting date: discounted loss on cash flow (difference between the contractual cash flows and the expected cash flows),
- financial assets impaired at the reporting date: difference between the gross carrying amount and the estimated present value of the expected outstanding amount,
- undrawn loan commitments: present value of the difference between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down the loan and the cash flows that the entity expects to receive if the loan is drawn down,
- financial guarantee contracts: expected payments to the holder, reduced by the amounts that are expected to be recovered.

If the credit risk of the financial instrument has increased significantly since its initial recognition until the reporting date, the Bank recognises the loss on the asset at an amount of lifetime expected credit losses.

If the credit risk of the financial instrument has not significantly increased since the initial recognition until the reporting date, the Bank recognizes loss on the asset at the same amount of the 12-month expected credit loss.

The impairment / expected credit loss calculated for 12 months is the part of the lifetime expected loss results from potential default events within 12 months of the reporting date.

The Bank recognises loss for the expected credit loss on the following financial instruments not measured at fair value through profit or loss:

- debt instruments,
- lease receivables,
- accounts receivables,
- financial guarantees, and
- loan commitments.

The expected credit loss should be recognised by the Bank as the following:

- deducted amount from the gross carrying value (impairment) – in case of financial assets measured at amortised cost,
- provision – in case of financial guarantees and loan commitments, if the financial instrument includes both a loan and an undrawn components and the Bank is unable to distinguish the expected credit loss calculated for the loan and for the undrawn components, the Bank will therefore determine the impairment loss on the two components together. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision,
- in case of financial assets measured at fair value through other comprehensive income (FVTOCI), the impairment loss is not recognized in the carrying value of the financial instruments as part of the assets' fair value. The recognised impairment modifies the cumulative other comprehensive income and the statement of profit or loss.

For purchased or originated credit-impaired financial assets at the reporting date the Bank recognises the accumulated changes in the lifetime expected credit loss since the initial recognition.

The Bank assesses provision for loan commitments (i.e. contracted but undrawn loan commitments, issued financial guarantees, letter of credits) as follows:

- in the case of clients / debtors subject to individual valuation, the Bank determines the amount of provision individually,
- in other case the Bank calculates provision based on the EAD corrected by CCF.

For transactions accounted as commitments showing loss on the reporting date, the calculated provision is based on the negative difference between the expected drawn amount and the gross carrying amount.

Impairment and provision are based on the amount of loss calculated as above.

l) Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the initial fair value will be based on other observable current market transactions in the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates.

When such evidence exists, the Bank recognises a trading gain or loss on inception of the financial instrument.

When unavailable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the statement of profit or loss and other comprehensive income but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Bank enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For financial instruments, fair values may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

The inputs used by the valuation techniques for determining fair values are classified by the fair value level hierarchy as follows:

- level 1: quoted market price in an active market for an identical instrument,
- level 2: valuation techniques based on observable inputs,
- level 3: valuation techniques using significant unobservable inputs.

Transfer from level 1 to level 2 of fair value hierarchy may occur when prices on active market are no longer available. This is the case when the active market cease to be exists, or there are no publicly available quotations, however observable inputs are still available for valuation purposes on the instrument under question.

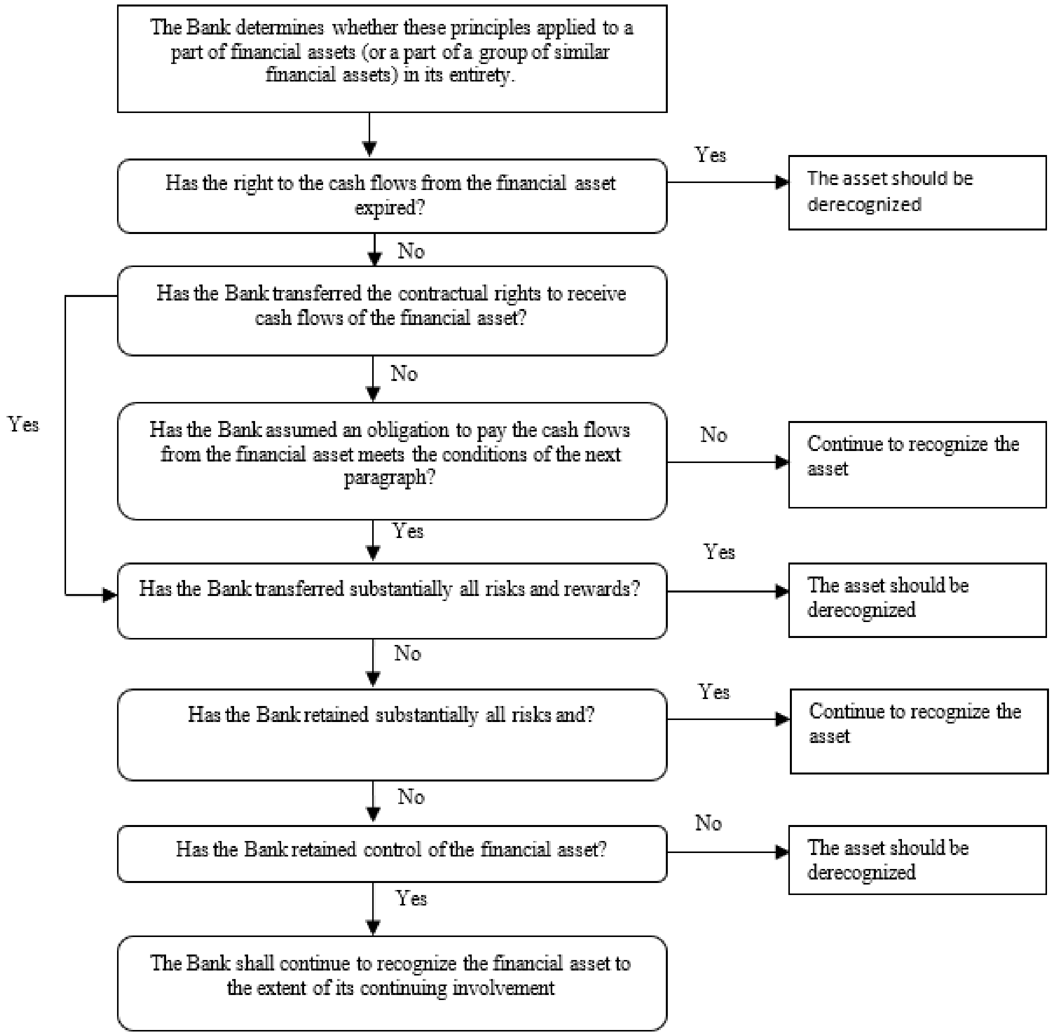
Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Where a portfolio of financial instruments has quoted prices in an active market, the fair value of the instruments are calculated as the product of the number of units and quoted price and no block discounts are made.

If the fair value of a financial asset measured at fair value through profit or loss becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset.

The fair values of financial liabilities are measured using quoted market prices, where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the Bank's liabilities.

m) Derecognition of Financial Assets

The following decision tree illustrates the principles of derecognition of financial instruments by the Bank:



The Bank derecognises a financial asset when transfer the contractual rights to receive the cash flows of a financial asset (the 'original asset'), or retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more recipients (the 'eventual recipients'), the Bank treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When the Bank transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The Bank examines the following before derecognition:

- if the Bank transfers substantially all the risks and rewards of ownership of the financial asset, the Bank shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
- if the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall continue to recognize the financial asset,
- if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall determine whether it has retained control of the financial asset. In this case:
    - o if the Bank has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
    - o if the Bank has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

The extent of the Bank's continuing involvement in the transferred asset is the extent to which the Bank is exposed to changes in the value of the transferred asset.

The transfer of risks and rewards is evaluated by comparing the Bank’s exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The computation and comparison are made using the current market interest rate as discount rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.

The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer.

An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

Asset transfers holding all or substantially all of the risks and rewards could be for example repo transactions (for repo transactions, the Bank considers whether the risks and rewards incurred in the transaction are substantially transferred or not).

Derecognition due to significant changes in contractual cash flows of financial instruments

The terms are substantially different if under the new terms the present value discounted at the original effective interest rate of the cash flows – including fees received and paid – is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset. If the exchange of debt instruments or the modification of the terms is treated as derecognition, the Bank will recognize any costs or fees incurred as a gain or loss related to the termination of the asset. If the exchange or modification is not accounted for as derecognition, the costs or fees incurred will modify the carrying amount of the asset and will be amortised over the remaining maturity of the modified loan.

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

The Bank considers it a significant change if the contractual currency is modified, or if the contractual interest rate is changed from variable to fix, or inversely.

When this condition is met management may consider the specific characteristics of the financial instrument and make a formal decision to derecognize and recognize. The fulfilment of the condition does not necessarily result derecognition of the financial instrument.

Write-off of financial assets under legal proceeding

Loans which are under legal proceeding (bankruptcy, liquidation and final proceedings) and in case of enforcement collateral transactions:

- the Bank’s contractual right to receive cash flows from the financial asset does not expire,
- the Bank did not transfer the right of collecting cash flows from the financial asset,
- the Bank did not assume any obligation to pay the cash flows from the financial asset,

therefore the Bank does not derecognize such items entirely from its books, but may partially derecognize them.

When the Bank can reasonably not expect to recover part of the financial asset while maintaining the legal claim it is considered as a partial derecognition. In such cases, the Bank directly derecognises the gross carrying amount of the financial asset.

After the legal waiver of the claim, the Bank may write down the total gross carrying amount of the financial asset if it is not able to be recovered and void according to the relevant internal rules (in this case there is no legal claim).

n) Derecognition of financial liabilities

The Bank removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – when the obligation specified in the contract is fulfilled or cancelled or expires.

Exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if under the new terms the present value discounted at the original effective interest rate of the cash flows – including fees received and paid – is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If the exchange of debt instruments or the modification of the terms is treated as cancellation, the Bank will recognize any costs or fees incurred as a gain or loss related to the termination of the liability. If the exchange or modification is not accounted for as cancellation, the costs or fees incurred will modify the current amount of the liability and will be depreciated over the remaining maturity of the modified loan.

o) Financial guarantee contracts

After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of – unless, in case of financial liabilities at fair value through profit or loss and in case of financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies – :

- the amount of the loss allowance and in accordance with IFRS 9 and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

There are no significant non-financial guarantee contract.

p) Non-current assets held for sale and discontinued operations

Financial instruments that meet the IFRS 5 standard criteria's are recognized as held for sale by the Bank. The Bank classifies a non-current asset as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.

A disposal group is a group of assets that are intended to be disposed by sale or in another way, collectively, as a single group, in a single transaction and the liabilities directly attributable to those assets that are transferred during the transaction.

To meet the criteria for classification as held for sale:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable,
- for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated,
- the plan or decision to sell must be approved in accordance with the relevant rules of the Bank in order for the sale to be considered as highly probable and it is also necessary to include it in the report,
- the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value or the Bank advertise it at the appropriate forum,
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification,
- actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets held for sale or disposal groups should be recognized separately in the Statement of Financial Position.

A disposal group classified as held for sale may qualify for the definition of the discontinued operations.

Discontinued operations are a part of the Bank that has been disposed of or classified as held for sale and embody a distinct, major industry or geographical area of activity and are part of a coordinated plan for disposing a separate business or geographical area of activity.

The result of the discontinued operation and the gains or losses at sale should be recognized in a separate line in the Statement of Profit or Loss and Other Comprehensive Income by the Bank.

The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount or fair value less cost to sell.

If the fair value less cost to sell is less than the carrying amount of the non-current assets or assets or liabilities part of the disposal group at the date of classification as held for sale an impairment loss shall be recognized.

Fair value less cost to sell must be re-determined at each reporting date and, if higher than the carrying amount, the impairment loss should be reversed up to the amount of impairment loss recognized previously.

Find further details on non-current financial assets and liabilities held for sale in Note 39.

q) Financial assets and liabilities held for trading

Treasury bills, debt securities, equity shares are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. These financial assets or financial liabilities are recognised on trade date, when the Bank enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs recognized in the Statement of Profit or Loss and Other Comprehensive Income. Subsequently, their fair values are remeasured, and all gains and losses from changes therein should be recognised in the Statement of Profit or Loss and Other Comprehensive Income in “Results from financial instruments” as they arise.

Interest earned on trading debt securities is reported as Other interest income among the “Interest and similar to interest income”. The dividends earned on trading equity instruments are disclosed separately among the “Dividend income” when received. Interest payable on financial liabilities acquired for trading purposes is reported as “Other interest expenses”.

r) Securities measured at FVTOCI

Securities are classified as held to collect and sell if there was a decision made previously about possible disposal in case of the changes in market conditions. By these assets the objective is to achieve both collecting contractual cash flows and selling financial assets. Financial investments are recognised on trade date, when the Bank enters into contractual arrangements with counterparties to purchase securities and are derecognised when either the securities are sold or the borrowers repay their obligations.

The liquid securities are initially measured at fair value modified by direct and incremental transaction costs. Securities measured at FVTOCI are subsequently remeasured at fair value, and changes therein are recognised in the Other comprehensive income. Relating to these assets impairment gains / losses, interest income and foreign exchange differences should be accounted in Statement of Profit or Loss. When these securities are sold, cumulative gains or losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income as “Results from financial instruments measured at FVTOCI”.

s) Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments if they are closely related according to IFRS9.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis. Interest income on derivatives are recognized in "Other interest income/expenses". Fair value differences related to derivatives are recognized in "Results from financial instruments measured at FVTPL".

t) Hedging transactions

The Bank offsets the fluctuating net income effects of the fair value and the cash flow changes of certain financial instruments through hedge transactions and related hedge accounting. Based on the used hedge methodology there are two types of hedge in MKB Bank: macro hedge and micro hedge. The Bank has recorded only fair value hedge during 2022.

Macro hedge transaction

As allowed per IFRS 9.6.1.3 the Bank applies the hedge accounting requirements in IAS 39 instead of IFRS 9 for the fair value hedge of the interest rate exposure of a portfolio of financial assets. The Bank macro hedges the changes in the fair value of multiple products valued at amortised cost (at present: mortgage, corporate loans, automobile loans and leases with fixed interest) through interest rate swaps (pay fixed receive variable IRS). In each product type, the reference interest rate of the credit products bearing variable interest is the BUBOR, while in the long term the BUBOR also affect the pricing of products bearing fixed interest.
The fair value of the loans included in the hedging is measured by discounting the cash flows of the transactions. For the calculation of this value the Bank uses the average fixed interest rate of the IRSs assigned as hedging instruments. For assessing the loan instalment's maturity the earlier of contractual maturity or the repricing date is used. Upon the valuation at fair value of the instruments included in the hedge relationship, the Bank only considers the impacts attributable to interest risk, while excluding the effect of credit risk of customers.

The Bank prepares hedging documentation containing the purpose of the hedge relationship, the ID codes, the terms and conditions of the hedged and hedge transactions, the risk intended to be hedged and the method for measuring hedging efficiency. The Bank assesses hedging efficiency on the day of the creation of the hedge and monthly thereafter, at the end of the month. Assessment methods used: dollar offset and scenario analysis (parallel changing the interest rates of the transactions under the terms and conditions by +/-250 basis points). The Bank regards a hedge relationship as effective if there is an economic relationship between the hedged and the hedge items (interest rates move between the hedging transaction and the underlying transaction in the same way in the opposite directions) and the hedge effectiveness is at a pre fixed required level. In accordance with the IAS 39 carve out rules, the Bank measures efficiency both retrospectively and prospectively. For portfolio hedging, there is effectiveness between the hedging and the underlying transactions if, according to the scenario analysis, upon shifting the interest curve in either direction the relative percentage of changes in the fair values of the hedged and hedging transactions falls between 80 and 125%.

In the Statement of Profit or Loss the following lines contain the gains and losses in connection with the hedging instruments (including the ineffective part):

i. Other interest income / expense
ii. Results from hedge accounting

Changes in the fair value of derivatives classified as a hedge, which, according to the definition of the hedging transaction is presented in "Results from hedge accounting".

In the Statement of Financial Position the fair value change of hedging instruments recorded in Hedging Derivative assets/liabilities. The fair value change of the hedged item in portfolio hedge of interest rate risk is recorded in the „Fair Value Change of Hedged item in portfolio hedge of interest rate risk".

Micro hedge transaction

Along the macro hedge the Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. These transactions fall under IFRS 9. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

The Bank prepares hedging documentation containing the purpose of the hedge relationship, the ID codes, the terms and conditions of the hedged and hedge transactions, the risk intended to be hedged and the method for measuring hedging efficiency. The Bank assesses hedging efficiency on the day of the creation of the hedge and monthly thereafter, at the end of the month. Assessment methods used: dollar offset. The Bank regards a hedge relationship as effective if there is an economic relationship between the hedged and the hedge items (interest rates move between the hedging transaction and the underlying transaction in the same way in the opposite directions) For the calculation of fair value change of the hedged instruments the Bank uses a so called hypothetical transaction; each parameter of this transaction is identical to that of the original transaction. Upon the valuation at fair value of the instruments included in the hedge relationship, the Bank only considers the impacts attributable to interest rate risk, while excluding the effect of credit risk of customers.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Statement of Financial Position along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

The gains or losses on effective cash flow hedges recognized initially in other comprehensive income are either transferred to the statement of profit or loss in the period in which the hedged transaction affects the statement in the profit or loss, or are included in the initial measurement of the cost of the non-financial related asset or liability. The ineffective portion is recognized in the Statement of Profit or Loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income remains in other comprehensive income until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the net Profit or Loss for the period.

In the Statement of Profit or Loss the following lines contain the gains and losses in connection with the hedging instruments (including the ineffective part):

i. Other interest income / expense
ii. Results from hedge accounting

Changes in the fair value of derivatives classified as a hedge, which, according to the definition of the hedging transaction is presented in “Results from hedge accounting”.

In the Statement of Financial Position the fair value change of hedging instruments recorded in Hedging Derivative assets/liabilities. The fair value change of hedged item is recorded in the same Statement of Financial Position line as the underlying transaction.

For hedges, which do not qualify for hedge accounting (economic hedges), any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the Statement of Profit or Loss for the period.

u) Leases

In accordance with the requirements of IFRS 16, the Bank, as lessee, introduces a single model to recognise right-of-use asset and lease liability on balance sheet. In this case, the Bank presents separately the interest expense for the lease liability and the depreciation charge for the right-of-use asset. In some cases (e.g when there is a change in the lease term or in future lease payments arising from a change in an index or rate) the Bank as lessee remeasures the lease liability.

At the commencement date, the Bank assesses whether the lessee is reasonably certain to exercise an option to extend or not to exercise an option to terminate the lease. The Bank considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option.

The Bank recognises the right-of-use asset and the lease liability as at the commencement date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability, adjusted for lease payments incurred on or before the commencement date, increased initial direct costs and costs for dismantling, removing and restoring the underlying asset and for site restoration and less any leasing incentives.

The Bank, as lessor, classifies its leasing contracts as finance or operating leases based on decision tree according to the requirements of the standard. Initially, the Bank recognises the lease liability at the present value of the lease payments outstanding at the commencement date, discounted at the implicit interest rate of the lease. On subsequent measurement, the Bank recognises depreciation on the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

After the commencement date of the lease term, the Bank depreciates the asset on a straight-line basis, from the commencement date to the earlier of the useful life or the end of the lease term.

After the commencement date, the Bank measures the lease liability at amortised cost using the effective interest rate method. The Bank uses the revised interest rate at the date of the revaluation as the revised discount rate. In contrast, the Bank reassesses the lease liability by discounting the revised lease payments if future lease payments are changed due to changes in an index or rate.

Presentation in the financial statements

During the lease term, the Bank recognises lease payments for short-term leases and low value (HUF 1.5 million) leases as an expense in Statement of Profit or Loss and Other Comprehensive Income.

The right-of-use assets are included in “Intangibles, property and equipment” and lease liabilities in “Other financial liabilities” in the Statement of Financial Position.

After the commencement date the Bank recognises the related costs in Statement of Profit or Loss and Other Comprehensive Income, if these are not recognised as part of the cost of the right-of-use asset. Interest on lease liabilities is included in “Other interest expenses”. The depreciation of a right-of-use asset is recognised as “Operating expense”.

The Bank classifies the right-of-use assets arising from operating leases that are leased or subleased in the Statement of Financial Position by reference to the nature of the underlying asset.

v) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank’s sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into a “repo” or “stock lending” agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank’s financial statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except for the items which at initial recognition are designated by the Bank to fair value through profit or loss category.

w) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank, and present obligation that arises from past events but is not recognised, because it is not probable that an outflow of resources embodying economic benefits will be require to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements but are disclosed in the additional notes.

x) Income tax

Income tax comprises of current tax and deferred tax.

By accounting treatment for current and future income tax, the Bank recognises the tax consequences of the future recovery / settlement of the carrying amount of assets, liabilities, transactions and other events of the current period that are recognised in the Statement of Financial Position.

The Bank applies the corporate income tax, local business tax and innovation contribution as income tax from 2022.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A Bank recognises deferred tax asset for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are offset when they arise in the same entity and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

Deferred tax relating to fair value re-measurement of financial assets measured at fair value through other comprehensive income, which are charged or credited directly to other comprehensive income.

y) Interest and similar to interest income and expense

Interest income and interest expense (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example: prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Bank has recorded the modification loss of Stage 1 financial asset among the “Interest and similar to interest income”.

Interest income and expenses related to financial instruments are separated by the Bank based on each financial instruments category.

Interest income and interest expenses are accounted on a gross basis by the Bank.

“Interest income using effective interest rate method" includes interest income on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. In addition, "Other interest income" includes interest income on financial assets held for trading, financial assets not held for trading that are required to be measured at fair value through profit or loss, derivatives, other assets and financial liabilities.
"Interest expense using effective interest rate method" includes interest expense on financial liabilities measured at amortised cost, while "Other interest expense" includes interest expense on financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss, derivatives, other liabilities and financial receivables.

z) Net income from commissions and fees

Fee and commission income, that is not part of the EIR calculation is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example: the arrangement for the acquisition of shares or other securities) and
- income earned from the provision of services is recognised as revenue as the services are provided (for example: asset management and service fees).

aa) Results from financial instruments

“Results from financial instruments” comprises gains less losses related to trading and investment assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

bb) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

cc) Employee benefits

Short-term employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service. Under the Bank’s policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

Long-term employee benefits

The Bank has a defined jubilee benefit plan for all employees of the Group. The employees receive jubilee benefit only if they remain with the entity for a specified period and benefits are determined by the length of their service. The authority for jubilee benefit, its condition and the benefit are regulated in the Bank's policy.

In the normal course of business, the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions and which cannot be considered as employee benefit plan. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

dd) Bank tax

The Hungarian credit institutions are obliged to pay Bank tax from the year 2010.
From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total according to Hungarian Accounting Standards at the actual calendar year minus two years. The Bank tax is presented as operating expense in the Separate Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.

Extra profit tax

Credit institutions and financial enterprises are liable to pay extra profit tax on the basis of their net turnover under the Local Tax Act for the years 2022 and 2023. The base of the tax liability is the net turnover under the Local Tax Act calculated on the basis of the annual financial statements of the previous tax year, i.e. the extra profit tax liability for 2022 is based on the net turnover of 2021. The tax liability had to be paid in two equal instalments during the year. The extra profit tax liability is presented among the "Operating expense".

ee) Segment reporting

MKB formed its reporting segments in line with IFRS 8 "Operating Segments". An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; furthermore for which discrete financial information is available. The Bank determines operating segments on nature of the business (business segment) or geographically (geographical segment).

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Bank allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm's length terms and conditions. Find further details on segment reporting in Note 38.

The Bank does not have any foreign segments.

ff) Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions in foreign currencies are translated to the respective functional currencies of Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the official exchange rate of the NBH at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the official exchange rate of the NBH at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. The Bank currently does not apply this accounting policy.

gg) Share capital

Shares are classified as share capital when there is no contractual obligation to deliver cash or other financial assets to the holders. Incremental costs directly attributable to the issue of equity instruments are presented in equity as a deduction from the proceeds, net of tax.

hh) Treasury shares

The cost of the Bank's repurchased equity instruments ('treasury shares') is deducted from equity. Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares. Treasury shares may be acquired and held by the entity or by other members of the consolidated Group. Consideration paid or received is recognised directly in equity.

ii) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. For further information about basic and diluted EPS, please see Note 34.

jj) Changes in the legal and regulatory environment and its effect on the separate financial statements

Due to the Russian-Ukrainian armed conflict in the territory of Ukraine and the resulting humanitarian catastrophe, the below government decrees and other legal instruments adopted in the state of emergency declared with Act XLII of 2022 influenced the Bank's activity:

- Gov. Decree 151/2022. (IV.14.) on the different application of the provisions of CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and certain related legislative provisions;

- Gov. Decree 197/2022. (VI.4.) on extra profit taxes;
- Gov. Decree 292/2022. (VIII.8.) on the introduction of specific rules on the credit moratorium related to the state of emergency;
- MNB Decree 22/2022. (VI.11.) regulating the maturity match of the mortgage-backed assets and liabilities of credit institutions (JMM Decree).
- Client effected by payment relief program

Further information in 6. Note Risk management, Credit risk.

kk) The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2022

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework** – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- **Amendments to IFRS 16 “Leases”** Covid-19 Related Rent Concessions beyond 30 June 2021 - adopted by EU on 30 August 2021 (effective for annual periods beginning on or after 1 April 2021).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank’s financial statements.

ll) New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January, 2023, and have not been early adopted by the Company.

- **IFRS 17 "Insurance Contracts"** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).

- **Amendments to IFRS 17 and an amendment to IFRS 4** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies.

- **Amendments to IAS 8: Definition of Accounting Estimates** (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

- Deferred tax related to assets and liabilities arising from a single transaction – **Amendments to IAS 12** (effective for annual periods beginning on or after 1 January 2023).

- **Transition option to insurers applying IFRS 17 and early application of IFRS 9 Amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023).

The Bank is currently assessing the impact of these new standard amendments on the Bank's financial statements.

mm) Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements:

- **Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current** (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)
- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (effective for annual periods beginning on or after 1 January 2024).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

nn) Comparative figures

Change in the presentation of primary financial statements

In connection with the merge, MKB Bank and group modified the structure of its primary financial statements to be able to compare its financial data in the MKB Group.

In accordance with the new structure, the Bank has amended its respective disclosure notes. In the comparative figures, the Bank has restated the previously disclosed primary statements.

The Bank changed its accounting policy in connection with the presentation of:
- the modification loss/gain of Stage 1 financial instruments, further information in Note 4 Derecognition due to significant changes in contractual cash flows of financial

instruments. In 2021 the amount of modification result for Stage 1 financial instruments was not material, therefore the Bank did not restate its profit or loss for 2021.

- the income tax. The Bank applies the corporate income tax, local business tax and innovation contribution as income tax. In connection with the modification of the accounting policy the Bank restate its Statement of Financial Position and Statement of Profit or Loss as the table below presents. Find further details in Note 4 Income taxes.

The following tables presents the reclassifications in the separate statement of financial position and in the Separate Statement of Profit or Loss, where the columns presents the structure of the Separate Financial Statements presented in 2021 and the rows shows the modified structure of the Separate Financial Statements in the current financial year:

Data in HUF million except stated otherwise

4.1

31 December 2021 Assets	Cash and cash equivalents	Loans and advances to banks	Derivative financial assets	Securities	Loans and advances to customers	Non-current assets held for sale and discontinued operations	Other assets	Deferred tax assets	Investments in subsidiaries, jointly controlled entities and associates	Intangibles	Property and equipment
Cash and cash equivalents	831 433	35 523									
Financial assets measured at fair value through profit or loss											
Loans and advances to customers mandatorily at fair value through profit or loss					53 295						
Securities held for trading				3 964							
Securities mandatorily at fair value through profit or loss				7 537							
Derivative financial assets			104 402								
Financial assets measured at fair value through other comprehensive income											
Securities				187 681							
Financial assets measured at amortised cost											
Loans and advances to banks	1	25 023									
Loans and advances to customers					1 128 148						
Repurchase assets		1 268			18 995						
Securities				804 568							
Other financial assets					771		913				
Investments in subsidiaries and associates									49 563		
Property, plant and equipment											14 020
Intangible assets										27 388	
Income tax assets											
Deferred income tax assets								7 756			
Other assets							17 897				
Assets held for sale						35					

Data in HUF million except stated otherwise

4.2

31 December 2021 **Liabilities and equity**	**Amounts due to other banks**	**Deposits and current accounts**	**Derivative financial liabilities**	**Other liabilities and provisions**	**Current income tax liabilities**	**Issued debt securities**	**Subordinated debt**	**Share capital**	**Reserves**
Financial liabilities measured at fair value through profit or loss									
Derivative financial liabilities			41 528						
Financial liabilities from short positions		2 223							
Financial liabilities measured at amortised cost									
Amounts due to banks	703 041								
Amounts due to customers		2 222 353							
Repurchase liabilities	1 319								
Issued debt securities						3 394			
Subordinated debt							45 070		
Other financial liabilities	453	9 118		23 065					
Provisions				3 407					
Income tax liabilities									
Current income tax liabilities				938	1 862				
Other liabilities	752			22 778					
Share capital								100 000	
Share premium									21 729
Retained earnings									67 765
Other reserve									17 040
Profit for the year									55 916
Accumulated other comprehensive income									(23 569)

Data in HUF million except stated otherwise

4.3

2021 **Profit or loss for the year**	**Interest and similar to interest income**	**Interest and similar to interest expense**	**Net income from commissions and fees**	**Other operating income / (expense), net**	**Impairment / (Reversal) and provision for losses**	**Operating expense**	**Income tax income / (expense)**
Interest and similar to interest income							
Interest income using effective interest rate method	63 795						
Other interest income	15 540						
Interest and similar to interest expense							
Interest expense using effective interest rate method		(12 222)					
Other interest expenses		(20 248)					
Income from fees and comissions			32 639	566			
Expense from fees and comissions			(6 241)	(221)			
Results from financial instruments							
Results from financial instruments measured at fair value through profit or loss, net		(2)		85 528			
Results from financial instruments measured at fair value through other comprehensive income, net				(14 582)			
Results from financial instruments measured at amortized cost, net				2 726	5		
Results from hedge accounting, net							
Exchange differences result, net				(10 239)			
(Impairment) / Reversal on financial and non-financial instruments							
Expected credit (loss) on financial instruments held for credit risk management					(3 659)		
Modification (loss) / gain on financial instruments				(1 343)			
(Impairment) / Reversal on investments in subsidiaries and associates				(316)			
(Impairment) / Reversal on other financial and non financial instruments					(251)		
Dividend income	2 995						
Operating expense			(1 347)	(17 129)		(54 332)	
Other income				4 544		11	
Other expense				(3 436)		(1 220)	
Result from assets held for sale							
Income tax income / (expense)				(2 330)			(3 467)

5. Merger

On 15 December 2021, the main bodies of MKB Bank Plc (hereinafter "MKB Bank", the "Acquiring Company"), Budapest Bank Zrt. (hereinafter "Budapest Bank", the "Merging Companies") and Magyar Takarék Bankholding Zrt. (hereinafter "MTBH", the "Merging Companies"), which owns the Takarék Group, approved the merger of Budapest Bank, MKB Bank and MTBH. The merger was approved by the MNB in January 2022.

The two-step merger was implemented in the first step, with the merging of Budapest Bank and MKB Bank on 31 March 2022. Budapest Bank and MTBH as the Merging Companies ceased to operate as separate legal entities. The merged company will temporarily operate under the name of MKB Bank Plc. from 1 April 2022. The merger does not mean a change in the ownership structure of the banking group, Magyar Bankholding Zrt will continue to be dominant owner of the banks participating in the merger process.

As the second step in the merger process, the merger of Takarék Bank Zrt. and MKB Bank is expected to be completed by the end of the second quarter of 2023.

At the extraordinary general meeting of MKB Bank held on 23 June 2022, the final statement of assets and liabilities and the final inventory of holdings, including the financial data of the merger, were approved. The documents of the extraordinary general meeting available on the web page of MKB Bank under Announcements, including the financial statement of assets and liabilities of the acquiring and the merging companies:

https://www.mkb.hu/sw/static/file/0_MKB_Bank_Nyrt_Rendkivuli_Kozgyulesi_Dokumentumok_2022_06_23.pdf

Applying the predecessor accounting method the predecessor carrying amount is to be used, where the management considered that the amounts in the separate statement of financial position presents a true and fair view. This is applicable both for MKB Bank separate and consolidated financial statements.

In presenting the merger, the Bank applied the prospective presenting method. The acquired entity's results and statement of financial position items are incorporated prospectively from the date on which the business combination between entities under common control occurred.

This means in the current Statement of Profit or Loss and Other Comprehensive Income, the whole results of the Acquiring Company are recognised in accordance with the accounting standards, and the result of the Merging Companies is recognised from the date of the merger, i.e. from 1 April 2022. The comparatives include only the financial data of the Acquiring Company.

In order to ensure comparability of the basic data of the Acquiring Company, in Tables 4.4 and 4.5, the financial data of the Companies have been presented as if the merger had taken place on 31 December 2021. The statement of financial position shows the financial data of the Acquiring and Merging Companies as at 31 December 2021 and the statement of profit or loss and other comprehensive income shows the financial result of 2021 of both the Acquiring Company and the Merging Companies.

Data in HUF million except stated otherwise

5.1

	31 December 2022 Total	31 December 2021 Total	31 December 2021 Acquirer	31 December 2021 Acquirees
Assets				
Cash and cash equivalents	**1 081 158**	**1 165 872**	**866 957**	**298 915**
Financial assets measured at fair value through profit or loss	**476 909**	**244 328**	**169 198**	**75 130**
Loans and advances to customers mandatorily at fair value through profit or loss	*182 875*	*110 467*	*53 295*	*57 172*
Securities held for trading	*8 434*	*3 999*	*3 964*	*35*
Securities mandatorily at fair value through profit or loss	*18 017*	*7 537*	*7 537*	*-*
Derivative financial assets	*267 583*	*122 325*	*104 402*	*17 923*
Hedging derivative assets	**142 874**	**23 324**	**-**	**23 324**
Financial assets measured at fair value through other comprehensive income	**428 520**	**352 660**	**187 681**	**164 979**
Securities	*428 520*	*352 660*	*187 681*	*164 979*
Financial assets measured at amortised cost	**4 823 478**	**3 873 778**	**1 979 687**	**1 894 091**
Loans and advances to banks	*448 627*	*412 020*	*25 024*	*386 996*
Loans and advances to customers	*2 565 343*	*2 232 305*	*1 128 148*	*1 104 157*
Repurchase assets	*9 080*	*20 263*	*20 263*	*-*
Securities	*1 772 915*	*1 204 769*	*804 568*	*400 201*
Other financial assets	*27 513*	*4 421*	*1 684*	*2 737*
Fair value change of hedged items in portfolio hedge of interest rate risk	**(51 678)**	**(25 542)**	**-**	**(25 542)**
Investments in subsidiaries and associates	**424 367**	**155 297**	**49 563**	**105 734**
Property, plant and equipment	**37 725**	**36 581**	**14 020**	**22 561**
Intangible assets	**44 206**	**46 622**	**27 388**	**19 234**
Income tax assets	**17 668**	**8 302**	**7 756**	**546**
Current income tax assets	*49*	*172*	*-*	*172*
Deferred income tax assets	*17 619*	*8 130*	*7 756*	*374*
Other assets	**43 551**	**31 322**	**17 897**	**13 425**
Assets held for sale	**-**	**35**	**35**	**-**
Total assets	**7 468 778**	**5 912 579**	**3 320 182**	**2 592 397**
Liabilities				
Financial liabilities measured at fair value through profit or loss	**196 728**	**61 754**	**43 751**	**18 003**
Derivative financial liabilities	*188 493*	*59 531*	*41 528*	*18 003*
Financial liabilities from short positions	*8 235*	*2 223*	*2 223*	*-*
Financial liabilities measured at amortised cost	**6 417 607**	**5 282 469**	**3 007 813**	**2 274 656**
Amounts due to banks	*1 965 931*	*1 333 653*	*703 041*	*630 612*
Amounts due to customers	*4 207 025*	*3 778 348*	*2 222 353*	*1 555 995*
Repurchase liabilities	*73 429*	*1 319*	*1 319*	*-*
Issued debt securities	*12 906*	*3 394*	*3 394*	*-*
Subordinated debt	*88 887*	*65 070*	*45 070*	*20 000*
Other financial liabilities	*69 429*	*100 685*	*32 636*	*68 049*
Hedging derivative liabilities	**158**	**13**	**-**	**13**
Provisions	**13 977**	**6 732**	**3 407**	**3 325**
Income tax liabilities	**5 496**	**3 211**	**2 800**	**411**
Current income tax liabilities	*5 496*	*3 211*	*2 800*	*411*
Other liabilities	**41 800**	**47 010**	**23 530**	**23 480**
Total liabilities	**6 675 766**	**5 401 189**	**3 081 301**	**2 319 888**
Equity				
Share capital	**321 699**	**149 616**	**100 000**	**49 616**
Share premium	**313 947**	**277 809**	**21 729**	**256 080**
Retained earnings	**84 155**	**203 655**	**67 765**	**135 890**
Other reserve	**32 552**	**25 001**	**17 040**	**7 961**
Profit for the year	**64 637**	**(118 572)**	**55 916**	**(174 488)**
Accumulated other comprehensive income	**(23 978)**	**(26 119)**	**(23 569)**	**(2 550)**
Total equity	**793 012**	**511 390**	**238 881**	**272 509**
Total liabilities and equity	**7 468 778**	**5 912 579**	**3 320 182**	**2 592 397**

Data in HUF million except stated otherwise

5.2

	2022 Total	2021 Total	2021 Acquirer	2021 Acquirees
Interest and similar to interest income	**497 677**	**129 002**	**79 335**	**49 667**
Interest income using effective interest rate method	*336 591*	*107 956*	*63 795*	*44 161*
Other interest income	*161 086*	*21 046*	*15 540*	*5 506*
Interest and similar to interest expense	**(282 000)**	**(39 694)**	**(32 470)**	**(7 224)**
Interest expense using effective interest rate method	*(153 317)*	*(19 446)*	*(12 222)*	*(7 224)*
Other interest expenses	*(128 683)*	*(20 248)*	*(20 248)*	*-*
Net interest income	**215 677**	**89 308**	**46 865**	**42 443**
Income from fees and comissions	**77 431**	**69 540**	**33 205**	**36 335**
Expense from fees and comissions	**(18 955)**	**(14 165)**	**(6 462)**	**(7 703)**
Net income from commissions and fees	**58 476**	**55 375**	**26 743**	**28 632**
Results from financial instruments	**33 752**	**69 070**	**63 436**	**5 634**
Results from financial instruments measured at fair value through profit or loss, net	*97 845*	*86 999*	*85 526*	*1 473*
Results from financial instruments measured at fair value through other comprehensive income, net	*(36 106)*	*(14 593)*	*(14 582)*	*(11)*
Results from financial instruments measured at amortized cost, net	*1 412*	*3 736*	*2 731*	*1 005*
Results from hedge accounting, net	*9 479*	*(1 676)*	*-*	*(1 676)*
Exchange differences result	*(38 878)*	*(5 396)*	*(10 239)*	*4 843*
(Impairment) / Reversal on financial and non-financial instruments	**(56 974)**	**(14 024)**	**(5 417)**	**(8 607)**
Expected credit (loss) on financial instruments held for credit risk management	*(34 707)*	*(11 037)*	*(3 659)*	*(7 378)*
Provision (loss) / gain	*(1 891)*	*473*	*152*	*321*
Modification (loss) / gain on financial instruments	*(10 607)*	*(2 377)*	*(1 343)*	*(1 034)*
(Impairment) / Reversal on investments in subsidiaries and associates	*(9 527)*	*(458)*	*(316)*	*(142)*
(Impairment) / Reversal on other financial and non financial instruments	*(242)*	*(625)*	*(251)*	*(374)*
Dividend income	**4 023**	**5 195**	**2 995**	**2 200**
Operating expense	**(190 307)**	**(129 037)**	**(72 808)**	**(56 229)**
Other income	**6 311**	**7 301**	**4 555**	**2 746**
Other expense	**(6 828)**	**(12 879)**	**(4 656)**	**(8 223)**
Profit before taxation	**64 130**	**70 309**	**61 713**	**8 596**
Income tax income / (expense)	**507**	**(7 731)**	**(5 797)**	**(1 934)**
PROFIT FOR THE YEAR	**64 637**	**62 578**	**55 916**	**6 662**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Revaluation on financial assets measured at fair value through other comprehensive income	4 025	(26 141)	(21 985)	(4 156)
Income tax relating to items that will be reclassfied	(332)	2 350	1 976	374
Other comprehensive income for the year net of tax	**3 693**	**(23 791)**	**(20 009)**	**(3 782)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**68 330**	**38 787**	**35 907**	**2 880**

6. Risk management

a) Introduction and overview

All the Bank's activities involve a certain degree of risk assumption. The measurement, evaluation, acceptance and management of these risks are integral parts of the Bank's daily operative activity.

Risk management is an integral part of the Bank's operations and a crucial component of its business and overall financial performance. The MKB Bank's risk management framework has been designed to support the continuous monitoring of the changes of the risk environment and is supported by the strong commitment to a prudent risk management culture both on the strategy and business line levels.

The main principles and priorities of the Bank's risk management function include the ultimate oversight by the Board of Directors (the approval of the Supervisory Board is also required for some specifically defined risk decisions), the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, limitation, monitoring and reporting of all risks. Decisions in respect of major risk principles are approved at group level, and are implemented individually by the own decision making boards of the Bank members.

The effective communication on risk and risk appetite, the on-going initiatives to better identify, measure, monitor and manage risks, the improvement of efficiency, user-friendliness and awareness of key risk processes and practices, and the employment of highly-skilled staff are the bases of running an effective risk management function in the Bank.

The following risks are the main risks that will be analysed in more details in the following sections:

- credit risk:
  The risk of lending comprises the potential risk of the business partner failing to fulfil its payment obligations or failing to do so on time as well as the risk of the value of the receivable diminishing because the business partner's credit rating decreases. Risks originated from loans or other loan type commitments extended to associated enterprises are also included in the Bank's credit risk managing mechanism.

- market risk (including foreign exchange and interest rate risks):
  Market price risk comprises potential losses from changes in market prices in both the trading and banking books.

- liquidity risk:
  MKB defines liquidity as the ability to serve its payment obligations entirely as they fall due and to fund new business at all times without having to accept unplanned liquidation losses on the asset side or increased refinancing rates on the funding side.

Other risks:

- country risk:
  The country risk generally refers to a potential loss triggered by economic, political or other event which takes place in the particular country and cannot be controlled by MKB, as creditor or investor. As a result of such event(s), the obligor cannot fulfil its obligation in time or at all, or the Bank is unable to enforce its rights against the

obligor. The components of the country risk are transfer risk, sovereign risk and collective debtor risk.

- participations risk:
  The participations risk is defined as the risk related to the following events:
  - potential losses from providing equity / equity instruments or subordinated loan capital. This involves potential losses realised during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment,
  - potential losses from a possible commitment / liability extended in addition to equity investment (i.e. profit / loss transfer agreements), letters of comfort, capital contribution commitments, additional funding obligations),
  - potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.

- operational risk:
  Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, conduct risk, reputational risk, modelling risk and information and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

- legal risk:
  Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law, a delay in reacting to changes in legal framework conditions, unexpected or ex post facto changes in legal framework respectively courts diverse legal judgements from the Bank's side.

- conduct risk:
  The conduct risk is classified among the operational risks and reflects any risk in the supply of financial services originated from an inadequate supply of services or deliberately exhibited impermissible conduct. This includes risks arising from fraud and unfair, unethical or aggressive trading practices harmful to consumers.

- reputational risk:
  Reputational risk is defined as risks have indirect effect on liquidity, capital or profitability based on unfavourable consumer, partnership, shareholder, investor or official sentiment, which is cancelled from the Bank's expected assessment level.

- model risk:
  Model is the risk of loss resulting from decisions based on using insufficiently accurate models. Mistakes in models are not necessarily, or not primarily occur from negligence instead limitations of knowledge, not enough data, or changes that cannot be read from past data: simply the fact that the models are never perfect.

- information and communication technology (ICT) risk:
  ICT risk means the current or prospective risk of losses due to the inappropriateness or failure of the hardware and software of technical infrastructures, which can compromise the availability, integrity, accessibility and security of such infrastructures and of data. ICT risk also includes risks occur from outsourcing of ICT relevant systems.

- real estate risk:
  Real estate risk covers potential losses that could result from fluctuations in the market value of real estate owned by MKB Bank. Real estate risks arising from collateral provided for real estate loans are covered under credit risk.

- strategic risk:
  Strategic risk is defined as the negative impact on capital and income of business policy decisions, deficient or unsatisfactory implementation of decisions, or slow adjustment to changes in the economic environment.

- business risk:
  Business risk is defined as unexpected changes in the economic environment that cause negative changes in business volume or margins and are not attributable to other types of risk. It quantifies the difference between planned and actual costs and income.

Below information is presented about the Bank's exposure to the main of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

b) Risk management governance

The Bank's Risk Strategy was set up in consistence with the Business Strategy, the Business Strategy of the Magyar Bankholding and the regulations of the NBH. The tasks incorporated in the Risk Strategy aiming at ensure a balanced risk / return relationship, development of a disciplined and constructive control environment, defining the Bank's risk assumption willingness, risk appetite and the on-going ability of the Bank to manage its risks and the maintenance of its funds to cover risk exposures in long-term. This will also ensure the capital preservation and guarantee the solvency of the Bank at any time.

Committees	Main responsibilities
Supervisory Board	- Control the management of the Company in order to protect the interests of the Company - Control of the harmonized and prudent operation of the Company and the credit institutions, financial enterprises and investment companies under its controlling influence; - Steers the company's internal audit organization; - Analyzing of the regular and ad-hoc reports prepared by the Board of Directors; - Decision on matters conferred to its competence by the Civil Code, Credit Instituions Act or the Articles of Association.
Audit Committee	- The Audit Committee assists the Supervisory Board in the audit of the financial reporting system and in the selection of the auditor and in cooperation with the auditor.
Risk Assumption, Risk Management Committee	- As part of its ongoing monitoring of the Bank's risk-taking strategy and risk appetite, the Committee reviews the risk strategy, remuneration policy and quarterly risk report in advance. The Committee supports the Board of Directors in supervising the implementation of the risk strategy.
Remuneration Committee	The Remuneration Committee oversees the remuneration of the manager responsible for risk management and legal compliance - including employees performing internal control duties - and prepares decisions regarding remuneration taking into account the long-term interests of shareholders, investors and other stakeholders in the company.
Nomination Committee	The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees. It is furthermore responsible for determining the skills and tasks required for membership of the management bodies, evaluating the composition and performance of the management bodies and its members. Determining the gender ratio within the management body and developing the strategy necessary to achieve this. It regularly reviews the Company's policy on the selection and appointment of managing directors.
Board of Directors	- As the company's operative managing body it carries out management-related tasks and ensures the keeping of the company's business books in compliance with the regulations; - Tasks related to the shares and dividend; - Tasks related to the company's organization and scope of activities; - Tasks related to strategic planning (preparation of the business policy and financial plan, and approval of the risk strategy); - Approves the policies related to risk assumptions; - Evaluation of regular and ad-hoc risk reports.
Managing Committee (MC)	- The MC is the operative decision-making and decision-preparation body covering the entire operation of - MKB. The MC decides on general and strategic issues submitted to it, on business-related matters concerning the operation of the Entire MKB Group, the organization of the company, the management and development of human resources, as well as business related matters. The MC regularly reviews and discusses current issues affecting the operation of the Entire MKB Group and prescribes measures if necessary.
Credit and Debt Management Committee	- According to the relevant regulations, it makes decisions related to credit and partner risk assumptions referred to its competence, and discusses in advance proposals related to credit and partner risk assumption within the competence of the Board of Directors. - The Committee also functions as debt management committee, its task is to make risk assumption decisions, which fall within its decision-making authority based on the provisions of the risk decision competence rules.
Asset and Liability Committee (ALCO)	- The ALCO has primary responsibility for asset and liability management, and exercises competencies in liquidity and market risk management, capital management - It develops the principles, measurement methodology for managing liquidity risk, interest rate risk, foreign currency risk (foreign currency and securities) and capital adequacy risk and the related limit system, monitors the utilisation of limits, and determines the necessary measures in case of overruns. It sets internal settlement prices and risk price levels within its pricing powers It approves securities issuance schemes and individual issuances
Group Banking Operations Committee (GBOC)	- GBOC is responsible for the holding and group member level banking operations, with a focus on profitability, cost, investment and resource management. - It decides on the launch, amendment and closure of projects and developments, prioritisation, development and operational decisions regarding digital/online channels. - It sets and monitors product profitability expectations, targets and changes in market position, decides on budget utilisation, investments and commitments within defined limits.
Internal Defence Lines Committee	- The Internal Defence Lines Committee is primarily a consultative forum between the lines of defence. It is responsible for the integration of communication among the various defence lines and making it regular and systemic and for the improvement and establishment of communication channels where appropriate. - with its preventive, proactive activities, it identifies and effectively manages, or orders the management of, in a timely and effective manner, the risks affecting the MKB Group that may lead to non-compliance with laws, external regulatory investigations or adverse decisions by the authorities supervising banking operations, and ensures that any necessary corrective actions are taken promptly.
Transformation and Operations Committee	The purpose of operation of the Transformation and Operations Committee is to set the strategic direction of the merger, approve the detailed strategy and take operational decisions on the merger process, including the operating model, technology, transformation, corporate culture, merger communication, etc. It monitors the progress of the merger process and milestone plan, deciding on intervention if necessary.
Methodology Committee (MC)	It controls the implementation of the group-wide risk strategy and risk strategy limit system. It approves all methodological, modelling, limit setting and monitoring, supervisory, regulatory and reporting proposals related to credit risk, concentration risk and country risk, counterparty risk, operational risk under Pillar 1, risks under Pillar 2, and the ICAAP-SREP methodology and the exercise of supervision/control, the Recovery Plan and the resolution framework. Its responsibilities include the discussion of the NPL strategy, related methodological, modelling, internal portfolio setting and monitoring, supervisory, regulatory and reporting proposals, including individual and portfolio-level decisions on impairment and provisioning.
Product Sales and Pricing Committee (PSPC)	It is the forum for making management decisions on product development, pricing and sales at individual bank and group level. It develops the features and processes for existing products and new products to be introduced. It decides on the pricing of products, taking into account the profitability of the product; takes decisions on pricing issues within the framework of the rules set by the Asset and Liability Committee.

c) Credit risk

Credit risk is the risk of financial loss if a customer or a counterparty fails to meet an obligation under a contract. It arises principally from the Bank's lending, trade finance and leasing business, but also from certain off-balance products such as guarantees, and from assets held in the form of debt securities.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk management

The Bank has standards, policies and procedures dedicated to the effective monitoring and managing risk from lending (including debt securities) activities. The risk management of the Bank controls and manages credit risks in a centralised manner. Its responsibilities include:

- Formulating the Bank's credit policy in consultation with business units by establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk.

- Establishing the authorisation structure for the approval and renewal of credit facilities. In order to establish an adequate credit decision-making system in which decisions are made on time, the limit amounts are established differently according to the customer segment, the customer quality and the business line, for the delegated credit decision authorities and the boards and individual decision-makers of the Business and Risk Units.

- Monitoring the performance and management of retail and wholesale portfolios across the Bank.

- Supervising the management of exposures to debt securities by establishing controls in respect of securities held for trading purposes.

- Establishing and maintaining the Bank's concentration risk management policies ensuring that the concentration of exposure does not exceed the limits stated in the internal and regulatory limit systems and concentration risks are effectively managed without any need for additional capital requirements if possible.

- Developing and maintaining the Bank's risk assessment systems in order to categorise the exposures according to the degree of the risk of financial loss faced and to manage the existing risks adequately. The purpose of the credit (deal) classification system is to define when impairment may be required against specific credit exposures. The risk categorisation system consists of several grades which reflect sufficiently the varying degrees of risk of default and the availability of collateral or other credit risk mitigation options with regard to a specific exposure.

- Providing position statements, guidance and professional support to the business units of the Bank members in credit risk management.

The control systems applied by the Bank enable to control and monitor exposures by customer and retail product segment.

In order to comply with the prudential requirements, the Bank developed and operates its borrower group forming concept. As part of that, the borrower group-level monitoring concept is to be highlighted. According to the processes, the complete risk assumption process must be executed at the level of borrower groups: in the case of the individual groups the limit proposal and monitoring process for each individual group members takes place at the same time based on the collective analysis and consideration of risks.

With regards to the management of concentration risks, the Bank implemented the global concept of concentration risk limits. As part of the concept, the Bank set up bank and sector level KPI's (key performance indicator) set and product limits, in order to restrain the assumption of further risks arising from the characteristics / risks rooted in different sectors and the assumption of risks of products representing high or special risk. Aiming at avoid high risk concentration within the portfolio, the concentration risk limit value has been established for the total bank portfolio, with the stipulation that the limits of the individual customers / customer groups may exceed this target value only in extraordinary and justified cases, based exclusively on the strategic guidelines approved by the relevant Committee.

The disclosure tables required by CRR, but not presented in this Note are available in the Disclosure according to Regulation (EU) No. 575/2013 prepared by the Bank, available on our website www.mkb.hu.

Until the end of reporting period ESG aspects have not been taken into consideration in the models. In the second half of 2023 The Bank will collect and organise the ESG data and will examine the possibilities to use it in the models.

The macroeconomic scenarios will be updated and used in the bank processes the same time the new inflation report from the NBH is received. Based on the forecasts the Bank will use the current macroeconomic PD forecast models to calculate the new parameters required for macroeconomic adjustments (Macro overlay factor – MOF) on a segment level. Using these new parameters, the IFRS PD (without macro correction) values will be adjusted to reflect the expectations of the macroeconomic scenarios. The weighting of the macroeconomic scenarios is calculated in accordance with the recommendations of the (internal use only) management letter from the National Bank of Hungary. At the end of the year 2022 the weights used are the following: 25% - stress scenario, 70% - base scenario, 5% - optimistic scenario. The resulting IFRS PD values adjusted to the new macroeconomic environment and expectations will be implemented after the approval of the Methodology Committee. The Banks macroeconomic models will be validated with every update both with statistical methods and business side validation - thus ensuring the applicability of the model.

The table below shows the Bank's maximum exposure to credit risk at the end of the reporting period:

6.1

Data in HUF million except stated otherwise

31 December 2022	Cash and cash equivalents	Loans and advances and repurchase agreements to banks	Loans and advances and repurchase agreements to customers	Securities	Other financial assets	Derivative financial assets and Derivative assets held for risk management	OFF B/S exposures
Individually assessed							
Non-default	-	-	-	-	-	-	-
Default	-	-	11 384	-	32	-	448
Total individually assessed gross amount	-	-	11 384	-	32	-	448
Total individually assessed allowance for impairment	-	-	(6 112)	-	(32)	-	(118)
Total individually assessed carrying amount	**-**	**-**	**5 272**	**-**	**-**	**-**	**330**
Collectively assessed							
Non-default	1 081 283	456 782	2 588 533	1 774 712	30 700	-	1 275 102
Default	-	-	84 345	461	99	-	5 923
Total collectively assessed gross amount	1 081 283	456 782	2 672 878	1 775 173	30 799	-	1 281 025
Total collectively assessed allowance for impairment	(125)	(145)	(111 737)	(2 258)	(3 286)	-	(10 068)
Total collectively assessed carrying amount	**1 081 158**	**456 637**	**2 561 141**	**1 772 915**	**27 513**	**-**	**1 270 957**
Total assets measured at fair value (FVTPL&FVTOCI)	**-**	**-**	**182 875**	**454 971**	**-**	**410 457**	**-**
Other contingent liablities							
Gross amount of other contingent liablities	-	-	-	-	-	-	**4 841**
Provision for other contingent liablities	-	-	-	-	-	-	**(3 791)**
Total gross amount	**1 081 283**	**456 782**	**2 867 137**	**2 230 144**	**30 831**	**410 457**	**1 281 473**
Total allowance for impairment	**(125)**	**(145)**	**(117 849)**	**(2 258)**	**(3 318)**	**-**	**(13 977)**
Total carrying amount	**1 081 158**	**456 637**	**2 749 288**	**2 227 886**	**27 513**	**410 457**	**1 267 496**

31 December 2021	Cash and cash equivalents	Loans and advances and repurchase agreements to banks	Loans and advances and repurchase agreements to customers	Securities	Other financial assets	Derivative financial assets and Derivative assets held for risk management	OFF B/S exposures
Individually assessed							
Non-default	-	-	-	-	-	-	-
Default	-	-	11 319	-	-	-	903
Total individually assessed gross amount	-	-	11 319	-	-	-	903
Total individually assessed allowance for impairment	-	-	(8 130)	-	-	-	(385)
Total individually assessed carrying amount	**-**	**-**	**3 189**	**-**	**-**	**-**	**518**
Collectively assessed							
Non-default	867 005	26 314	1 158 436	805 244	3 395	-	547 183
Default	-	-	19 162	-	-	-	5 755
Total collectively assessed gross amount	867 005	26 314	1 177 598	805 244	3 395	-	552 938
Total collectively assessed allowance for impairment	(48)	(22)	(33 643)	(533)	(1 711)	-	(2 748)
Total collectively assessed carrying amount	**866 957**	**26 292**	**1 143 955**	**804 711**	**1 684**	**-**	**550 190**
Total assets measured at fair value (FVTPL&FVTOCI)	**-**	**-**	**53 295**	**199 039**	**-**	**104 402**	**-**
Other contingent liablities							
Gross amount of other contingent liablities	-	-	-	-	-	-	**10 557**
Provision for other contingent liablities	-	-	-	-	-	-	**(274)**
Total gross amount	**867 005**	**26 314**	**1 242 212**	**1 004 283**	**3 395**	**104 402**	**553 841**
Total allowance for impairment	**(48)**	**(22)**	**(41 773)**	**(533)**	**(1 711)**	**-**	**(3 407)**
Total carrying amount	**866 957**	**26 292**	**1 200 439**	**1 003 750**	**1 684**	**104 402**	**550 434**

The effect of pandemic on the Credit risk management

In line with NBH's expectations and in accordance with Magyar Bankholding's unified impairment methodology the stage classification rules of moratorium related opt-in and opt-out clients were harmonized such a way, that normal processes were extended with the following:

- in case of retail portfolio where the clients were in the moratorium1 / moratorium2, was not moratorium3 and or moratorium4 to be affected and was not declared that they had extended the moratorium or were not entitled to do so, at least Stage 2 classification is reasonable for minimum 6 months after the termination of moratorium, unless any Stage 3 indicators exist,
- in case of retail portfolio where the client was in the moratorium3 or moratorium4, the Stage 3 classification is reasonable for the whole period of moratorium if any deterioration of financial situation of the client is probable based on declaration,
- in case of wholesale portfolio where the clients were in the moratorium1 / moratorium2 and was not affected by moratorium3 and or moratorium4 and was not declared that they had extended the moratorium or were not entitled to do so, at least Stage 2 classification is reasonable for minimum 24 months after the termination of moratorium, unless any stage 3 indicators exist,
- in case of wholesale portfolio where the client is in the moratorium3 or moratorium4, the Stage 3 classification is reasonable for the whole period of moratorium, the deviation of this is only allowed by very detailed reasoning confirmed with objective evidences, but the Stage 2 classification is still expected.

- the client who enter an agricultural moratorium will be classified as at least Stage 2, but if the client has been in moratorium for at least 9 months, they will be classified as Stage 3. They may be placed in Stage 1 only on the basis of individual monitoring after a declaration has been made and taken into account. The use of Stage 3 and Stage 2 triggers allows for individual derogations, which must in all cases be supported by detailed, objective and evidence-based justification.

For those retail customers who did not opt-in or opted-out from moratorium, the Bank uses traditional assessment tools to measure payment behaviour arising from normal repayment.

In case of private customers the Bank returned to normal ECL calculation.

In case of wholesale clients the changes in the risks include in the potential effects of pandemic are measured at individual level for each customer, which is reflected in the rating and also in the monitoring process.

Given that no new information on the solvency of customers was generated during the time spent in the moratorium, and the repayment of the customers affected by the cap of floating interest rates are lower than the contractual rates, so it is also necessary to take into account the uncertainties in the ability and willingness of the debtors to pay. In addition, the NHB expects that the risk arising from modelling uncertainty needs to be mitigated.

The Bank has taken the following aspects into account when determining management overlays:

- the income deterioration of the individuals who opted in the moratorium4 compared to 18 March, 2020. Where this decrease in real terms exceeded the value before the start of the moratorium, it was included in the proportion of the decrease in real income,
- in case of the client who enter an agricultural moratorium, the models do not know the agricultural moratorium, so the willingness and ability to pay may contain a hidden high probability of default. In order to compensate for the risk, in the case of deals classified as Stage 2, the Bank increased the missing coverage for the Stage 3 coverage level on an expert basis.
- the application of transitional staging rules on its own does not always reflect a full increase in lifetime loss, even when macro parameters are updated. Therefore, in the case of corporate customers with a specific customer rating who do not improve compared to the initial rating, the default probability of Stage 1 was increased on an expert basis.

The breakdown of the management overlay on 31 December 2022 is as follows:

- overlay for income reduction: HUF 3,386 million
- overlay for agricultural moratorium: HUF 2,765 million
- overlay for corporate customers with specific ratings: HUF 1,738 million

In summary, the Bank's current modelling methodology is capable of creating a new risk measure on the basis of the above information. It allows to create well-defined customer profiles for customer management. The management overlays were constituted by the Bank because of the uncertainty arisen from the current economic situation, the expected regulatory expectations and the future variability of the economic climate.

The effect of client relief acts of pandemic on the loan portfolio of the Bank

Due to the first moratorium on repayment set out in Act LVIII of 2020 on transitional rules and epidemiological preparedness (hereinafter: “moratorium”) related to the cessation of emergency, it is not necessary to pay instalments for all corporate and retail loan agreements from 19 March 2020.The next piece of legislation is Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties, supplementing in Act 637/2020 (XII.22.), entered into force on 1 January 2021, according to which the repayment moratorium can be used until 30 June 2021. This legislation was extended until 31 July 2022 but the concept changed from an opt-out to an opt-in type of moratorium, and then, according to a further statement, until 31 December 2022. Based on Government Decree No 292/2022 (VIII.8) on transitional rules and epidemiological preparedness related to the cessation of emergency, it is not necessary to pay instalments for all agricultural loan agreements (so called agricultural moratorium).

Data in HUF million except stated otherwise

Unpaid interest accrued during the moratorium, together with the instalment due for the remaining term, and shall be paid in equal annual instalments after the expiration of the moratorium. The monthly instalment cannot increase due to unpaid interest and principal. The term is extended accordingly.

Based on Government Decree No. 782/2021 (XII.24.) (second modification No. 390/2022 (X.14.) Government Decree, third modification No 415/2022 (X.26.) Government Decree) (hereinafter: “interest rate cap”) in case of mortgage, SME, loans or leases on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the re-pricing date is before or between 1 January 2022 and 30 June 2023 the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.

The modification loss due to the program was calculated based on the expected cash flow, which ones are estimated under this legislations. The Bank modified the expected credit loss calculation in accordance with the legislation and regulatory recommendations, after the onset of the emergency. Credit risk monitoring is a key element in the methodology for measuring the significant increase in credit risk since its initial publication. During the pandemic period, the Bank placed even more emphasis by introducing overlays.

The effect of moratorium was not significant in 2021 and 2022 on the statement of financial position and the Statement of Profit or Loss. The interest rate cap effected significantly the loan portfolio of the Bank.

The net exposure of the Bank’s customers under interest rate cap and moratorium was as follows (percentage of the portfolio is based on the total amount of the Bank’s net exposure):

6.1.1

31 December 2022	Outstanding balance	% of portfolio
Wholesale	*114 511*	*6.31%*
Retail	*155 429*	*20.69%*
Total	**269 940**	**10.52%**

Data in HUF million except stated otherwise

31 December 2021	Outstanding balance	% of portfolio
Wholesale	*9 072*	*0.96%*
Retail	*12 961*	*5.05%*
Total	**22 033**	**1.83%**

Data in HUF million except stated otherwise

The exposure of Bank's customers under moratorium was as follows:

6.1.2
As at 31 December 2022:

Gross amount*	Non-impaired loans		Impaired loans	POCI	Loans at FVTPL
	Stage 1	Stage 2	Stage 3		
Retail					
Low risk	19 073	-	-	-	-
Medium risk	37 374	34	-	-	-
High risk	553	87 882	-	-	-
Default	-	-	22 543	4 141	1
Total Retail	***57 000***	***87 916***	***22 543***	***4 141***	***1***
Wholesale					
Low risk	5 898	-	-	-	-
Medium risk	48 295	9 144	-	-	67
High risk	2 306	44 285	-	13	-
Default	-	-	16 461	112	-
Total Wholesale	***56 499***	***53 429***	***16 461***	***125***	***67***

*Gross amount of loans measured at FVTPL represents the fair value of loans

Impairment	Non-impaired loans		Impaired loans	POCI
	Stage 1	Stage 2	Stage 3	
Retail				
Low risk	88	-	-	-
Medium risk	351	2	-	-
High risk	40	3 737	-	-
Default	-	-	11 260	694
Total Retail	***479***	***3 739***	***11 260***	***694***
Wholesale				
Low risk	14	-	-	-
Medium risk	714	306	-	-
High risk	374	2 919	-	-
Default	-	-	7 738	5
Total Wholesale	***1 102***	***3 225***	***7 738***	***5***

As at 31 December 2021:

Gross amount*	Non-impaired loans		Impaired loans	POCI	Loans at FVTPL
	Stage 1	Stage 2	Stage 3		
Retail					
Low risk	-	-	-	-	-
Medium risk	-	7 913	-	250	1 093
High risk	-	671	-	125	43
Default	-	-	5 088	478	301
Total Retail	***-***	***8 584***	***5 088***	***853***	***1 437***
Wholesale					
Low risk	-	-	-	-	-
Medium risk	129	6 607	-	-	-
High risk	-	638	-	-	-
Default	-	-	2 794	10	-
Total Wholesale	***129***	***7 245***	***2 794***	***10***	***-***

*Gross amount of loans measured at FVTPL represents the fair value of loans

Data in HUF million except stated otherwise

Impairment	Non-impaired loans		Impaired loans	POCI
	Stage 1	Stage 2	Stage 3	
Retail				
Low risk	-	-	-	-
Medium risk	-	367	-	50
High risk	-	33	-	41
Default	-	-	2 267	243
Total Retail	***-***	***400***	***2 267***	***334***
Wholesale				
Low risk	-	-	-	-
Medium risk	1	191	-	-
High risk	-	45	-	-
Default	-	-	867	2
Total Wholesale	***1***	***236***	***867***	***2***

The modified cash flows of Bank's customers under interest rate cap and moratorium were as follows:

6.1.3

Financial assets modified during the period	31 December 2022	31 December 2021
Gross carrying amount before modification	2 700 218	1 192 170
Loss allowance before modification	(117 849)	(41 844)
Net amortised cost before modification	2 582 369	1 150 326
Effect of the modification of future cash-flows	(15 956)	(2 412)
Net amortised cost after modification	**2 566 413**	**1 147 914**

The initial modification loss in connection with modified contractual cashflows was HUF 17,600 million in 2022. For Stage 2, Stage 3 loans HUF 10,600 million was recognised in Modification (loss) /gain on financial instruments and for Stage 1 loans HUF (7,000) million in Interest income using effective interest rate method in the statement of profit or loss.

At the reporting date in the statement of financial position the Bank recognised HUF 15,956 million modification on contractual cashflows.

Interest income using effective interest rate method in the statement of profit or loss HUF 1,600 million is recognised for unwinding in connection with the modified cash-flows of financial instruments of the previous years.

Offsetting of financial assets and liabilities

This disclosure represents the financial instruments that are set off or that are subject to an enforceable master netting agreement or similar agreement, irrespective whether they are set off or not.

As of 31 December 2022 the Bank had no enforceable master netting agreement or similar agreement which should be set off in accordance with IAS 32.42.

The below table presents all the amounts that could potentially have been subject to an enforceable master netting agreement or similar agreement that are recognized financial instruments. As these agreements and the amounts related to them as financial collateral do not meet some or all offsetting criteria in IAS 32.42., the Bank does not apply offsetting to either of them. This is because the agreements constitute rights for an offset that is enforceable only in case of default, insolvency or bankruptcy of the Bank or its counterparties. In addition the Bank or the counterparties do not intend to settle on a net basis or realize the assets and settle the liabilities simultaneously.

MKB Bank Nyrt. Data in HUF million except stated otherwise

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the Statement of Financial Position.

The Bank receives and gives collateral in the form of cash and marketable securities in respect of following transactions:

- derivatives,
- sale and repurchase agreements, reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms, including an ISDA Credit Support Annex.

The table below presents the potential effect of the not implemented offsetting as well.

6.2

31 December 2022 Offsetting financial assets	IAS 32.42		netting arrangement			Net amount of financial assets after offsetting/ agreement /collaterals
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit		debit	credit		
Derivatives						
Derivative financial assets	341 504	341 504	135 451	89 369	224 820	116 684
Receivables concerning repos						
Loans and advances to customers and Repurchase assets	9 080	9 080	-	9 080	9 080	-
Financial assets under netting agreements	**350 584**	**350 584**	**135 451**	**98 449**	**233 900**	**116 684**

31 December 2022 Offsetting financial liabilities	IAS 32.42		netting arrangement			Net amount of financial assets after offsetting/ agreement /collaterals
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit		debit	credit		
Derivatives						
Derivative financial liabilities	171 320	171 320	135 451	14 732	150 183	21 137
Liabilities concerning repos						
Amounts due to customers and Repurchase liabilities	73 429	73 429	-	73 429	73 429	-
Financial liabilities under netting agreements	**244 749**	**244 749**	**135 451**	**88 161**	**223 612**	**21 137**

31 December 2021 Offsetting financial assets	IAS 32.42		netting arrangement			Net amount of financial assets after offsetting/ agreement /collaterals
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit		debit	credit		
Derivatives						
Derivative financial assets	61 738	61 738	29 441	6 746	36 187	25 551
Receivables concerning repos						
Loans and advances to customers and Repurchase assets	20 263	20 263	-	20 263	20 263	-
Financial assets under netting agreements	**82 001**	**82 001**	**29 441**	**27 009**	**56 450**	**25 551**

31 December 2021 Offsetting financial liabilities	IAS 32.42		netting arrangement			Net amount of financial assets after offsetting/ agreement /collaterals
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	
	debit		debit	credit		
Derivatives						
Derivative financial liabilities	33 505	33 505	29 441	3 807	33 248	257
Liabilities concerning repos						
Amounts due to customers and Repurchase liabilities	1 319	1 319	-	1 319	1 319	-
Financial liabilities under netting agreements	**34 824**	**34 824**	**29 441**	**5 126**	**34 567**	**257**

The gross amounts of financial assets and liabilities presented in the table above measured in the financial statements on the following bases:

- Financial assets measured at FVTPL – fair value,
- Derivative financial instruments – fair value,
- Loans and advances to customers – amortised cost, pledged collateral – fair value,
- Deposits and current accounts – amortised cost, pledged collateral – fair value.

The table below reconciles the Net amount after offsetting to the related individual line items of the Statement of Financial position.

Data in HUF million except stated otherwise

6.3

31 December 2022 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial assets	341 504	267 583	(73 921)
Loans and advances to customers and Repurchase assets	9 080	2 574 423	2 565 343

31 December 2022 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	171 320	188 493	17 173
Amounts due to customers and Repurchase liabilities	73 429	4 280 454	4 207 025

31 December 2021 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial assets	61 738	104 402	42 664
Loans and advances to customers and Repurchase assets	20 263	1 148 411	1 128 148

31 December 2021 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	33 505	41 528	8 023
Amounts due to customers and Repurchase liabilities	1 319	2 223 672	2 222 353

Credit risk classification system

The Bank's credit risk classification systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss.

For individually significant wholesale financial assets, the classifications are reviewed regularly and amendments, where necessary, are implemented at least monthly in terms of provisions and exposure classification.

Exposures below specific amounts are assessed on a collective basis, in relation to which the credit risk parameters are reviewed at least yearly or, more frequently if required, in line with the changes of the main economic conditions.

The Bank for each balance sheet closing date (the last day of the month) evaluates the changes in the credit risk that have occurred since the initial recognition of the financial assets and allocate the appropriate stage categories.

During the valuation the Bank assesses the change in the risk of default over the life of the financial instrument using all reasonable and supportable information, which is available without undue cost or effort and without exhaustive search of information. The Bank represents lifetime credit losses in the case where credit risk increased significantly.

The financial assets are initially in the Stage 1 category, and they can be returned from Stage 2 or from Stage 3 if the necessary conditions are performed.

The credit risk of the deals are determined by the extent of change between the initial and the actual PD level, the duration of the delay, the client rating and the client handling method. In case of significant credit risk increase the deal is reclassified to Stage 2 and lifetime credit losses are recognised on these financial assets.

If the credit risk of a financial asset increases to the point that it is considered credit-impaired (defaulted), the financial asset is transferred to Stage 3.

In the stage 1, the time horizon is one year, in the Stage 2 the lifetime PiT PD's are estimated. The Stage 3 contains the defaulted customers, where the PD equals to 1. In the Stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used.

Collective valuation

According to the credit risk characteristics, similar (homogeneous) financial assets are subject to collective valuation. The basis for the formation of homogeneous groups is the client segmentation and the credit risk product type.

The collectively allocated impairment and provisioning methodology is applied to all retail clients, to the wholesale customers in Stage 1 and Stage 2 and to the wholesale customer in Stage 3 below the client exposure limit.

Determining the collective loss allowance the expected credit loss (ECL) method is applied according to the IFRS 9.

The expected credit loss is determined on the basis of the probability of default (PD), actual losses realized on non-performing transactions the actual losses realized on non-performing deals (LGD) and the credit conversion factor (CCF) probability of becoming a balance sheet item.

The risk parameters are determined based on statistical models. The models are validated at least once a year and reviewed if necessary.

The expected credit loss for financial assets in Stage 1 is determined on the basis of a 12-month expected credit loss. Lifetime expected credit losses are recognised on the financial assets in Stage 2 and Stage 3.

The purchased or originated credit-impaired (POCI) financial assets at the reporting date represent the cumulative changes in lifetime credit risk from the initial recognition. In the Bank's practice, the loans originally disbursed in foreign currency have been converted to forint, and therefore present as POCI assets. Typically mortgage loans were involved.

In the case of financial assets recorded at fair value, the Bank calculates the credit risk component of the discount factor on the basis of the principles used in determining the expected credit loss.

Individual-based valuation

Financial assets in the Stage 3 are assessed individually over the exposure limit level.

In determining the level of allowances on individually significant financial assets in Stage 3, the Bank applies the scenario-based discounted cash flow method. The amount and timing of expected receipts and recoveries, the value of collateral and the probability of realization are considered in estimating the allowance in each scenario. The scenario weights are used in the calculation of the loss allowance.

The credit conversion factor is taken into account in loss allowance calculation for contingent liabilities.

In case of financial assets are measured individually at fair value the expected loss calculation uses the cash-flow scenarios.

Write-off policy

The Bank, in compliance with the stipulations of legal regulations, writes off a loan / security balance (and any related allowances for impairment losses) when there is documented evidence that no further recovery can be expected. This determination is reached on the basis of a final statement in case of liquidation or upon establishment that after ceasing the debtor and / or collateral provider to exist, and / or after using all proceeds from collaterals there is still unrecovered exposure remaining.

Collateral structure

The Bank applies the basic principle, whereby it extends loans primarily in relation to and based on the customer's repayment capacity, instead of relying too much on the available collateral. Depending on the customer's paying capacity and rating, as well as the product type, unsecured loans may be extended only in strictly regulated and controlled cases. Nevertheless, collateral could mitigate the credit risk.

The main collateral types are as follows:

- primarily mortgages on residential properties in the retail sector;
- pledge on business assets, such as real estates, stock and debtors, in the commercial and industrial sector;
- mortgages on the financed properties in the commercial real estate sector; and
- securities, guarantees,
- money, securities deposited as collateral.

The Bank establishes the coverage ratio required for individual exposures and makes its decisions on the basis of the so-called collateral value of the collateral items instead of their market value. This value is adjusted by conservative estimation, which assists the prudent management of occurring risks, taking into consideration the relevant order of accountability and resolution making during the action. In case of collaterals of non-performing clients the Bank applies so-called liquidation value, which is established by the revaluation of the collateral, involving additional costs arising during the forced sale in relatively short period.

Taking into account the EU and Hungarian regulatory environment and legal practices, and relying on its own experiences and known Hungarian experiences in the enforcement of the collateral items, the Bank restricted, as much as possible (within the limits of the economies of scale) the rules of acceptability of the various collateral items and the calculation of the collateral and liquidation values assigned to them. The regular monitoring and revaluation of the collateral items securing the individual exposures is an important pillar in the Bank's monitoring system.

Valuation methods

The aim of collateral valuation is to conduct advisable and stable evaluation of value, taking into consideration the fluctuation of market prices. The basis of the collateral valuation is provided by the collateral value (reflecting the value that can be realized on its own, independently from the course of business).

Cash deposits:
In case of bails, if the type of the currency of commitments and collaterals is the same, the amount of bail can be taken into account in 100%.

Securities:
The value of securities equals with the latest accessible market value. Revaluation is done in every sixth month.

Mortgage:
In case of real estates the calculation of the collateral value is done on the basis of individual evaluation of the real estate on the occasion of reception, taking into account minimum correction factors determined by the Bank.

The Bank applies 3 main revaluation methods:

- evaluation by experts involved in the list,
- evaluation by the Bank's own experts involving relevant information provided by the 'list' experts,
- statistical method mostly in case of residential real estate.

Guarantees:
In course of definition of collateral value, the probability of non-performance of the guarantee (depending on the quality of the guarantor), the Bank's outstanding relevant to guarantee and the empirical value on possibility of calling in guarantees are taken into considerations. The Bank didn't obtain any assets by taking possession of collateral held as security, or exercising other credit enhancement options. The management and processes of such assets obtained are regulated in the Bank's Wholesale and Retail Debt to Asset / Debt to Equity Policy.

Concentrations

The Bank monitors and analyses the concentration of credit risk in term of economic activities and risk classification.

d) Liquidity risk

Liquidity risk is the risk that the Bank's cash flows may not be adequate to fund operations and meet commitments on a timely and cost-effective basis. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the MKB's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to approval by the Board of Directors following the prior review and approval by the Asset-Liability Committee (hereinafter: "ALCO")

Contractual maturity of liabilities

6.4

Data in HUF million except stated otherwise

2022	Carrying amount	Cash-flow	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Financial liabilities from short positions	(8 235)	(8 235)	(8 235)	-	-	-	-
Amounts due to other banks	(1 965 931)	(2 025 439)	(580 835)	(126 606)	(176 509)	(805 519)	(335 970)
Deposits and current accounts	(4 207 025)	(4 304 165)	(3 669 125)	(188 048)	(88 905)	(215 630)	(142 457)
Repurchase agreement	(73 429)	(73 429)	(73 429)	-	-	-	-
Issued debt securities	(12 906)	(12 906)	-	-	(6 188)	(6 500)	(218)
Subordinated debt	(88 887)	(105 918)	(1 177)	(490)	(2 135)	(56 214)	(45 902)
Other liabilities	(69 429)	(69 429)	(69 429)	-	-	-	-
	(6 425 842)	**(6 599 521)**	**(4 402 230)**	**(315 144)**	**(273 737)**	**(1 083 863)**	**(524 547)**
Derivative financial liabilities							
Trading: outflow	(979 797)	(979 797)	(438 734)	(234 933)	(153 909)	(125 779)	(26 442)
Trading: inflow	858 947	858 947	404 702	207 102	95 519	124 253	27 371
Hedge accounting: outflow	(6 522)	(6 522)	-	-	(2 168)	(4 354)	-
Hedge accounting: inflow	6 224	6 224	-	1 115	1 245	3 864	-
	(121 148)	**(121 148)**	**(34 032)**	**(26 716)**	**(59 313)**	**(2 016)**	**929**
Guarantees and loan commitments		(742 925)	(742 925)				

2021	Carrying amount	Cash-flow	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Financial liabilities from short positions	(2 223)	(2 223)	(2 223)	-	-	-	-
Amounts due to other banks	(703 041)	(725 547)	(36 860)	(8 220)	(42 650)	(486 409)	(151 408)
Deposits and current accounts	(2 222 353)	(2 223 746)	(2 068 628)	(125 866)	(29 106)	(119)	(27)
Repurchase agreement	(1 319)	(1 319)	(1 319)	-	-	-	-
Issued debt securities	(3 394)	(3 393)	-	-	(1 258)	(1 994)	(141)
Subordinated debt	(45 070)	(49 304)	(1 085)	-	(1 411)	(46 808)	-
Other liabilities	(32 636)	(32 636)	(32 636)	-	-	-	-
	(3 010 036)	**(3 038 168)**	**(2 142 751)**	**(134 086)**	**(74 425)**	**(535 330)**	**(151 576)**
Derivative financial liabilities							
Trading: outflow	(416 964)	(416 964)	(81 276)	(61 821)	(194 507)	(33 688)	(45 672)
Trading: inflow	399 464	399 464	75 426	60 119	176 843	38 119	48 957
	(17 500)	**(17 500)**	**(5 850)**	**(1 702)**	**(17 664)**	**4 431**	**3 285**
Guarantees and loan commitments		(532 515)	(532 515)				

The above table shows the undiscounted contractual cash flows of the Bank’s financial liabilities and loan commitments based on their earliest possible date of maturity. The disclosure for derivatives shows the gross inflow and outflow amount for derivatives (for example: forward exchange contracts and currency swaps).

The Bank’s expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and loan commitments are not all expected to be drawn down immediately. Due to the significant difference between the expected and the contractual cash flows, the Bank’s risk management department use both analyses to manage liquidity risk.

Data in HUF million except stated otherwise

The expected, undiscounted cash flows of the Bank's financial liabilities were as follows:

Expected maturity of liabilities

6.5

2022	Carrying amount	Cash-flow	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Financial liabilities from short positions	(8 235)	(8 235)	(8 235)	-	-	-	-
Amounts due to other banks	(1 965 931)	(2 025 439)	(580 835)	(126 606)	(176 509)	(805 519)	(335 970)
Deposits and current accounts	(4 207 025)	(4 304 165)	(270 315)	(12 275)	(6 693)	(6 447)	(4 008 435)
Repurchase agreement	(73 429)	(73 429)	(73 429)	-	-	-	-
Issued debt securities	(12 906)	(12 906)	-	-	(6 188)	(6 500)	(218)
Subordinated debt	(88 887)	(105 918)	(1 177)	(490)	(2 135)	(56 214)	(45 902)
Other liabilities	(69 429)	(69 429)	(69 429)	-	-	-	-
	(6 425 842)	**(6 599 521)**	**(1 003 420)**	**(139 371)**	**(191 525)**	**(874 680)**	**(4 390 525)**
Derivative financial liabilities							
Trading: outflow	(979 797)	(979 797)	(438 734)	(234 933)	(153 909)	(125 779)	(26 442)
Trading: inflow	858 947	858 947	404 702	207 102	95 519	124 253	27 371
Hedge accounting: outflow	(6 522)	(6 522)	-	-	(2 168)	(4 354)	-
Hedge accounting: inflow	6 224	6 224	-	1 115	1 245	3 864	-
	(121 148)	**(121 148)**	**(34 032)**	**(26 716)**	**(59 313)**	**(2 016)**	**929**
Guarantees and loan commitments		(29 681)	(9 739)	(19 942)	-	-	-

2021	Carrying amount	Cash-flow	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Financial liabilities from short positions	(2 223)	(2 223)	(2 223)	-	-	-	-
Amounts due to other banks	(703 041)	(725 547)	(36 860)	(8 220)	(42 650)	(486 409)	(151 408)
Deposits and current accounts	(2 222 353)	(2 223 746)	(97 489)	(22 465)	(2 268)	(6)	(2 101 518)
Repurchase agreement	(1 319)	(1 319)	(1 319)	-	-	-	-
Issued debt securities	(3 394)	(3 393)	-	-	(1 258)	(1 994)	(141)
Subordinated debt	(45 070)	(49 304)	(1 085)	-	(1 411)	(46 808)	-
Other liabilities	(32 636)	(32 636)	(32 636)	-	-	-	-
	(3 010 036)	**(3 038 168)**	**(171 612)**	**(30 685)**	**(47 587)**	**(535 217)**	**(2 253 067)**
Derivative financial liabilities							
Trading: outflow	(416 964)	(416 964)	(81 276)	(61 821)	(194 507)	(33 688)	(45 672)
Trading: inflow	399 464	399 464	75 426	60 119	176 843	38 119	48 957
	(17 500)	**(17 500)**	**(5 850)**	**(1 702)**	**(17 664)**	**4 431**	**3 285**
Guarantees and loan commitments		(25 284)	(8 027)	(17 257)	-	-	-

The expected outflow of customer deposits differs from contractual maturities because – based on historical data – the majority of depositors do not withdraw their deposit at maturity but roll it over or leave it on the account as sight deposit. The undrawn part of the deposit can thus be considered as stable stock, which is aggregated in the last time bucket.

The decision of the Management of the Bank, however, is also based on the liquidity gap (net position) between contractual expected in- and outflows, therefore both financial assets and liabilities are grouped into liquidity buckets.

Data in HUF million except stated otherwise

The following table shows the gross amounts of financial current and non-current assets:

6.6

	2022		2021	
	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year
Financial assets measured at FVTPL	*9 712*	*610 072*	*12 870*	*156 328*
Loans and advances to customers	131	182 744	-	53 295
Securities	2 446	24 005	2 777	8 724
Derivative financial assets	*7 135*	*403 323*	*10 093*	*94 309*
Financial assets measured at FVTOCI	-	*428 520*	*4 521*	*183 160*
Securities	-	428 520	4 521	183 160
Financial assets measured at AC	*767 898*	*4 055 580*	*67 044*	*1 912 643*
Loans and advances to banks	335 124	113 503	2 913	22 111
Loans and advances to customers	377 633	2 187 710	40 168	1 087 980
Repurchase agreements	9 080	-	20 263	-
Securities	18 548	1 754 367	2 016	802 552
Other financial assets	27 513	-	1 684	-

The table above represents the gross amounts expected to be recovered or settled within time categories. Impairment on loans and advances to customers has an amount of HUF 117,849 million (2021: HUF 41,773 million).

c) Market risk

Market risk is the risk that changes in market prices, such as interest rate (interest rate risk), equity prices (equity risk), and foreign exchange rates (foreign exchange risk) will affect the Bank’s income or the value of its holdings of financial instruments.

Management of market risks

As part of the Risk strategy, the Board of Directors approves the maximum amount and scope of market risks incurable by the Bank, ensured by a comprehensive limit structure broken down by relevant portfolios. The main market risk limit is arising from the annual capital allocation process based on ICAAP requirements.

ALCO is responsible for developing and monitoring the Bank’s market risk management policies. ALCO has the overall responsibility for establishing and managing market risk policies for the Bank, within the framework of internal policies, covering risk management, assessment of risk and related limits, competence and decision-making mechanism, and regulation for breaches of limits, approved by the Board of Directors. The members of the ALCO are senior executives who have principal decision-making responsibilities for businesses throughout the whole Bank. At the operational level, market risk is managed by the Money and Capital Markets Managing Directorate on a bank-wide basis.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios include those positions arising from market-making, customer business driven proprietary position-taking and other marked-to-market positions as designated. According to the risk strategy of the Bank there is no own account activity (proprietary trading) with the purpose of short term profit arising from market changes. Trading activities include transactions with debt and equity securities, foreign currencies, and derivative financial instruments.

Non-trading portfolios include positions that arise from the Bank’s retail and commercial banking activity and the interest rate management of the Bank’s retail and commercial banking assets and liabilities. The Bank's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments.

Exposure to market risks – trading portfolios

The Bank manages exposure to market risk by establishing and monitoring various limits on trading activities. These limits include:

- Product volume limits define maximum aggregate amounts of trading products and contracts that the Bank may hold at any time.
- FX position limits restrict the long and short position for each currency and the total net amounts of FX positions that can be held in the trading and banking books.
- VaR limits: The VaR limit of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). MKB Bank applies historical and parametric VaR method with 1-day holding period at 99% confidence level.
- PLA (Potential Loss Amounts) limits define maximum amount of loss that the Bank is willing to assume.

The VaR model used is based mainly on historical data. Taking account of market data from the previous one year (250 business days in case of historical VaR and and 100 business days in case of parametric VaR), and observed relationships between different markets and prices, the model calculates both diversified and undiversified total VaR, and VaR by risk factors such as interest rate, equity and currency VaR.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- VAR only covers “normal” market conditions.
- The VaR measure is dependent upon the Bank’s position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured on a daily basis. Daily reports of utilisation of VaR limits are prepared by the Bank’s Risk Unit and regular summaries are submitted to ALCO.

Data in HUF million except stated otherwise

A summary of the VaR position of the Bank's trading portfolios (i.e. only its trading book) as at 31 December and during the period is as follows:

6.7

2022	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	126	563	2	170
Interest rate risk	157	493	72	-
Equity risk	5	58	2	-
Overall market risk of trading book	**288**	**1 114**	**76**	**170**
Credit spread risk of trading book				

2021	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	17	52	2	275
Interest rate risk	111	215	46	-
Equity risk	4	19	1	-
Overall market risk of trading book	**132**	**286**	**49**	**275**
Credit spread risk of trading book	40	103	(25)	-

Important notes in connection with the table above:

- MKB applies historical and parametric VaR for general market risk:
  - Historical VaR: (1 day holding period; 99% confidence level, number of observation: 250 business days),
  - Parametric VaR: Risk metrics methodology (1 day holding period; 99% confidence level, 0.94 decay factor, number of observation: 100 business days).
- Bank calculates VaR only on trading-book position.
- There is no commodity in MKB position.
- MKB does not have a significant open position from options therefore there is no volatility VaR calculation.

A potential adverse 15% change in the FX rates (HUF appreciation for long position and HUF depreciation for short position) would cause HUF 170 million losses based on the year-end FX open position.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows of financial instrument because of a change in market interest rates.

The management of interest rate risk is supplemented by monitoring the sensitivity of the financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point parallel fall or rise in all yield curves worldwide.

ALCO is the monitoring body for compliance with approved limits and is assisted by Risk Controlling in its monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

Separate Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

At the end of the reporting period the interest rate profile of the Bank's interest-bearing financial instruments was:

6.8

Interest rate structure on financial instruments*	31 December 2022				Total
	HUF	EUR	USD	Other currencies	
Fixed rate assets	3 612 778	491 599	69 849	39 944	4 214 170
Variable rate assets	2 161 282	457 000	758	434	2 619 474
Total assets	**5 774 060**	**948 599**	**70 607**	**40 378**	**6 833 644**
Fixed rate liabilities	(4 773 801)	(1 185 348)	(214 708)	(27 557)	(6 201 414)
Variable rate liabilities	(233 889)	(9 211)	(70)	(9)	(243 179)
Total liabilities	**(5 007 690)**	**(1 194 559)**	**(214 778)**	**(27 566)**	**(6 444 593)**

*derivatives and not relevant for interest items are not included in the table

Interest rate structure on financial instruments*	31 December 2021				Total
	HUF	EUR	USD	Other currencies	
Fixed rate assets	1 267 498	102 757	262	20 276	1 390 793
Variable rate assets	667 814	239 705	5 503	4 604	917 626
Total assets	**1 935 312**	**342 462**	**5 765**	**24 880**	**2 308 419**
Fixed rate liabilities	(1 078 149)	(97 638)	(11 205)	(3 002)	(1 189 994)
Variable rate liabilities	(1 346 953)	(390 506)	(74 577)	(10 860)	(1 822 896)
Total liabilities	**(2 425 102)**	**(488 144)**	**(85 782)**	**(13 862)**	**(3 012 890)**

*derivatives and not relevant for interest items are not included in the table

The interest rate risk modelling of sight deposits has changed in 2022. In the framework of methodological harmonisation within the group, MKB switched to the model of one of its member banks in April 2022. By decomposing the cyclical and trend components, the core stock is determined on the basis of historical data, and its separation into a fixed and an interest rate sensitive floating part can be quantified from the correlation between bank interest rates and market interest rates. In the interest rate risk calculation the Bank used expected cash-flows in the case of baby-expecting loans which contained the prepayments during the fair value calculations. The effect of the cap of floating interest rates of retail mortgage loans to Profit or Loss was considered in the downturn stress test scenario.

IBOR reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform interbank offered rates ('IBORs') with alternative nearly risk-free rates (referred to as 'IBOR reform').
As part of the IBOR reform, CHF, JPY, GBP and EUR LIBOR reference rates were phased out as of 1 January 2022. In case of USD LIBOR synthetic quotes will be available for a few maturities until 2023 and these rates can be used only for existing transactions. New deals cannot reference these benchmarks. Apart from the London based LIBOR benchmarks, EONIA, the overnight EUR interest rate was discontinued as well. It was replaced by ESTER. So far, the changes do not affect EURIBOR rates.
The replacement rates for these benchmarks will be SARON in case of CHF, TONAR in JPY, SONIA in GBP and SOFR in case of USD. The Bank will use these overnight new risk-free rates or historical averages or market term rates based on these risk free rates. In case of EONIA, the Bank will use ESTR or modified ESTER. After the changes, the Bank will not make any new loan, deposit or derivative transaction where the reference rate is the discontinued LIBOR or EONIA rate. The Bank will use only the new reference rates in all new tailor made deals and in the general terms and conditions.
Two groups of accounting issues arising from IBOR reform could affect financial reporting which was addressed by the standard-setter through amending the relevant IFRSs. Accordingly, the standard-setter divided those amendments into two phases:

- amendments addressing the situation where uncertainty could arise in the run-up to transition: Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and

IFRS 7 (Phase 1 amendments) are issued in September 2019 are effective from 1 January 2020; and

- amendments addressing the situation when that uncertainty will not be present but companies update the rates in their contracts and the details of their hedging relationships: Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Phase 2 amendments) are issued in August 2020 are effective from 1 January 2021.

The Bank assessed the significance of the IBOR reform to its operation and financial reporting.
The impact of the IBOR reform and the discontinued reference benchmarks on the Bank is not material. The implications for the Bank’s risk profile are negligible. The overall interest rate risk of the Bank is not affected. The Bank does not have any involved construction products and does not hold any securities on its own account which is influenced by the LIBOR reform. There is no on-balance or off-balance items linked to GBP, JPY or EUR LIBOR rates.

Exposure to USD and CHF LIBOR:

- There were seven interest rate derivatives transactions with a total notional value of 100.6 million USD (37,726 million HUF) with reference to USD LIBOR.
- There were five USD denominated corporate loans referencing USD LIBOR with a total notional of 1 million USD (375 million HUF). The reference rates of these loans will be gradually replaced by SOFR until 2023.
- In CHF there were only one 0.05 million CHF (20 million HUF) loan transaction which uses the CHF LIBOR reference rate in which case the new SARON benchmark was communicated to our client.

Under the detailed rules of IFRS 9 Financial Instruments, modifying a financial contract can require recognition of a significant gain or loss in the income statement. The Bank uses the practical expedient for modifications of financial contracts provided by the amendment, as the change results directly from IBOR reform and occurs on an ‘economically equivalent’ basis. In these cases, changes will be accounted for by updating the effective interest rate.

Other implications

The Bank has several partner contracts (ISDA VMCSA, GMRA) for over-the-counter derivatives with reference to LIBORs and EONIA. In all these contracts benchmark rates are used for the interest rate calculation on bilateral initial and variation margin. In order to smoothen the transition, the Bank joined the ISDA 2021 EONIA Collateral Agreement Fallbacks Protocol and ISDA 2020 IBOR Fallbacks Protocol. Banks joining the protocol do not need to modify their bilateral contracts, adherence is equivalent to it.
In case of OTC derivative transactions cleared via a central clearing counterparty (LCH) and its full clearing member, the changes were affected unilaterally already earlier.

Operational implications

The Bank needs to buy the real time data of these new reference rates and set up new yield curve for the present value calculations. For this, an ongoing system development is in place.

An analysis of the Bank’s sensitivity to an increase or decrease in market interest rates by foreign currencies is as follows:

Data in HUF million except stated otherwise

6.9

2022	Effect on equity	Effect on P/L
HUF		
200 bp increase	3 951	5 551
200 bp decrease	(5 338)	(13 557)
CHF		
200 bp increase	(36)	(53)
200 bp decrease	38	(86)
EUR		
200 bp increase	5 534	(1 991)
200 bp decrease	(7 257)	(5 673)
USD		
200 bp increase	3 550	2 299
200 bp decrease	(4 131)	(2 385)
Other currencies		
200 bp increase	-	192
200 bp decrease	-	(73)

2021	Effect on equity	Effect on P/L
HUF		
200 bp increase	(13 326)	843
200 bp decrease	18 389	(11 849)
CHF		
200 bp increase	1	(64)
200 bp decrease	-	(5)
EUR		
200 bp increase	2 739	(191)
200 bp decrease	(741)	(374)
USD		
200 bp increase	1 049	487
200 bp decrease	(1 098)	(553)
Other currencies		
200 bp increase	14	(109)
200 bp decrease	(10)	55

6.10.1

2022			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	5 534	(7 257)	(7 257)
USD	3 550	(4 131)	(4 131)
CHF	(36)	38	(36)
GBP	(7)	7	(7)
JPY	-	-	-
Others	3 958	(5 345)	(5 345)
Total	**12 999**	**(16 688)**	**(16 776)**

2021			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	2 739	(741)	(741)
USD	1 049	(1 098)	(1 098)
CHF	1	-	-
GBP	10	(7)	(7)
JPY	1	-	-
Others	(13 323)	18 386	(13 329)
Total	**(9 523)**	**16 540**	**(15 175)**

6.10.2

The following table presents the sensitivity of the net present value (hereinafter: "NPV") of the Bank's trading and banking book position in case of a parallel 1 bp movement in market conditions.

31 December 2022				in HUF millions
Book type	**HUF**	**EUR**	**USD**	**Other**
Trading	2	(3)	-	-
Banking	15	32	19	-

31 December 2021				in HUF millions
Book type	**HUF**	**EUR**	**USD**	**Other**
Trading	2	(3)	(1)	-
Banking	(30)	10	7	1

Data in HUF million except stated otherwise

Exposure to other market risks – non-trading portfolios

The Bank is exposed to foreign exchange risk through its holdings of financial instruments denominated in foreign currencies. Exchange risk management aims to reduce the adverse impact of potential changes in the market value of foreign currency financial instruments induced by exchange rate fluctuations.

The Bank's financial position in foreign currencies at the end of the reporting periods was as follows:

6.11

2022	In functional currencies	In foreign currencies				Total
		USD	EUR	CHF	Other	
Net assets	6 472 649	22 682	922 785	7 711	29 398	6 025 907
Net liabilities	6 018 733	209 992	1 188 035	19 137	19 328	6 025 907
Net derivative and spot instruments (short) / long position	(454 267)	187 147	265 813	11 412	(10 105)	-
Total net currency positions	**(351)**	**(163)**	**563**	**(14)**	**(35)**	**-**

2021	In functional currencies	In foreign currencies				Total
		USD	EUR	CHF	Other	
Net assets	2 895 213	8 556	390 990	1 556	24 007	3 320 322
Net liabilities	2 712 840	85 876	507 721	6 555	7 330	3 320 322
Net derivative and spot instruments (short) / long position	(180 626)	77 199	115 731	5 006	(17 310)	-
Total net currency positions	**1 747**	**(121)**	**(1 000)**	**7**	**(633)**	**-**

f) Encumbered assets

Encumbered assets according to 680/2014/EU Commission Implementing Regulation at the end of the periods were the following:

6.12

	31 December 2022		31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution				
Loans on demand	156	156	263	263
Debt securities	849 604	640 297	603 681	564 721
Loans and advances other than loans on demand	250 465	250 464	119 631	119 631
Total encumbered assets	**1 100 225**	**890 917**	**723 575**	**684 615**

Data in HUF million except stated otherwise

6.13

	Fair value of encumbered collateral received or own debt securities issued	Non-encumbered: Fair value of collateral received or own debt securities issued available for encumbrance	Non-encumbered: Nominal value of collateral received or own debt securities issued non available for encumbrance
31 December 2022			
Collateral received by the reporting institution			
Loans on demand	-	15 874	-
Equity instruments	-	22 862	-
Debt securities	-	160 036	2 281
Loans and advances other than loans on demand	-	-	105 634
Other collateral received	883 934	5 436 674	1 067 787
Collateral received and own debt securities issued	**883 934**	**5 635 446**	**1 175 702**
31 December 2021			
Collateral received by the reporting institution			
Debt securities	-	2 369	-
Loans and advances other than loans on demand	-	8 789	-
Other collateral received	-	-	291 702
Collateral received and own debt securities issued	**-**	**11 158**	**291 702**

6.14

	31 December 2022		31 December 2021	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	*409 405*	*1 010 082*	*246 030*	*723 575*
Derivatives	37 265	27 244	6 325	6 427
Deposits	372 140	982 838	239 705	717 148
Repurchase agreements	73 429	73 429	1 319	1 319
Collateralised deposits other than repurchase agreements	298 711	909 409	238 386	715 829
Debt securities issued	-	-	-	-
Other sources of encumbrance	974 077	974 077	-	-
Other	974 077	974 077	-	-
Total Sources of encumbrance	**1 383 482**	**1 984 159**	**246 030**	**723 575**

At the end of 2022 the level of encumbered assets determined in accordance with the aforementioned regulation was 18.23%. The total of Bank’s encumbered assets belonged to MKB Bank. The main sources and types of encumbrance were arising from having corporate loans covered by NBH, secured refinancing, from collaterals of mortgage loans, money market deposits as well as collateralized derivative transactions and repo transactions, furthermore the Bank took the opportunity to borrow unconditional fixed-rate secured loan granted by NBH. Encumbrance due to collateral requirement of used clearing systems and central counterparties was not significant. MKB did not have covered bonds issued or securitization. The most significant secured refinancing facilities were participating in the “Funding for Growth Scheme” refinancing loan program of the NBH. The majority of collateralized derivative transactions were concluded to hedge on balance sheet FX position and interest rate.

g) Credit spread risk

Credit spread risk is the risk of changing market price of the bonds due to change in spread of bonds' issuer which may have negative impact on the Bank's performance.

Managing and monitoring credit spread risk

The framework of credit spread risk management is defined in the risk strategy. According to this risk strategy credit spread risk may be taken only within the approved limits. Credit spread risk is managed on operative level by the Money and Capital Market Managing Directorate. Bank's Risk Unit is responsible for measuring credit spread risk, controlling limit utilisations and reporting it to ALCO.

Risk measurement

Similar to the general interest rate risk measurement the Bank establishes the credit spread risk figures based on the present value of future cash flows.

h) Operational risks

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk, conduct risk, reputational risk, modelling risk and information and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

Procedure

The principles, rules and procedures that serve to properly identify, manage and monitor operational risk are defined in the Risk Strategy and in the OpRisk Policy.

Risk measurement

The operational risk capital requirement of MKB Bank is calculated by using The Standardised Approach (TSA) both at single and group level since January 1st 2008. According to the Standardised Approach the operational risk capital requirement is the average of the preceding three years' total of the weighted governing indicators of the business lines (gross income).

Risk management and monitoring

The system that serves to evaluate operational risk is fully integrated in the Bank's risk management process and in the work processes.

The centralised unit of the Bank's operational risk management is the OpRisk Management that is responsible for the establishment and maintenance of the internal regulation and organisation of operational risk management and for the establishment and coordination of the Oprisk management methods and tools. Besides, its task is to ensure proper loss data collection and in connection with that the reporting obligations.

Besides the OpRisk Management, OpRisk Champion Network (extended to the whole organisation) were established that identify, report and manage operational risks and their tasks and responsibilities are included in the oprisk regulations. The OpRisk Management keeps independent control over the OpRisk Champions that are assigned in the various units and responsible for managing operational risk and reporting of loss events.

At group level theOpRisk Management of MKB determines the operational risk regulations required from the subsidiaries, and also the framework for operational risk management at group level and in this respect supervises the subsidiaries as well. The centralised and decentralised operational risk management units have also been established in the subsidiaries that have loss data collection and reporting obligation towards the OpRisk Management of MKB.

The OpRisk Management of MKB prepares a report on the current status of the operational risk management of the Bank and of the subsidiaries for the Board of Directors on a quarterly basis. The Bank fulfils oprisk COREP data delivery to NBH on half-yearly basis.

Business Continuity Planning

In order to undisturbedly maintain the Bank's operational processes it is necessary to evaluate the potential threats of the certain processes, their probability of occurrence and the potential damages resulting from the fallout of the processes. This risk analysis and the procedures needed to maintain the functionality of the Bank's organisation is included in the Business Continuity Plan and the Disaster Recovery Plan (BCP-DRP). The BCP-DRP includes measures that have to be taken when the processes that are critical regarding the Bank's operation and (eg. IT) resources that support these processes get damaged or become unmaintainable.

Membership of the Hungarian Interbank Operational Risk Database (HunOR)

The Bank is one of the foundation members of the Hungarian Interbank Operational Risk Database (HunOR) and reports their loss data towards regularly and anonymously.

i) Capital management

The Bank's lead regulator, the NBH sets and monitors capital requirements for the Bank as a whole.

Capital allocation

The Bank measures the pillar 1 and pillar 2 risks and the Bank's Asset and Liability Management Committee (ALCO) monitors the results using a monthly reporting framework.

Basel IV

The calculations are Basel IV/CRR (575/2013/EU regulation) compliant.

The supervisory objectives of Basel IV are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel IV is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The Capital Requirements Regulation (CRR) is directly effective in Hungary.

Basel IV provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The Bank uses the standardised approach, which requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Basel IV also introduces capital requirements for operational. For the capital requirement calculation the Bank currently has adopted the standardized approach to the determination of Bank operational risk capital requirements.

The second pillar of Basel IV (Supervisory Review and Evaluation Process - SREP) involves both the Bank and the Supervisory regulators taking a view on whether a Bank should hold additional capital and how much against risks not covered or not entirely covered in pillar 1. In framework of the pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) the Bank introduced policies and processes for measuring capital requirement of risks not captured by pillar 1 and to measure pillar 1 risks with more sophisticated methodology. Under pillar 2 the materiality of the following risks is to be analysed:

- Credit risk,
- Market risk,
- Liquidity risk,
- Risk estate risk and risk derived from other assets,
- Participation risk,
- Operational risk,
- Modell risk,
- Business and strategic risk.

Pillar 3 of Basel IV is related to market discipline and aims to make firms more transparent by requiring them to publish specific, prescribed details of their risks, capital and risk management under the Basel IV framework.

The capital requirement is limited by a complex limit system, which contains the limits of the material risk types by institutions and business lines.

Data in HUF million except stated otherwise

6.15

	31 December 2022 Basel IV IFRS	31 December 2021 Basel IV IFRS
Share capital	321 699	100 000
Reserves	217 041	145 993
Deferred tax	(14 797)	(7 756)
Intangible assets	(44 206)	(27 388)
AVA - additional valuation adjustments	(1 192)	(399)
Additional Tier 1	**-**	**-**
Additional Tier 1	**478 545**	**210 450**
Subordinated debt	42 985	35 418
Tier 2: Supplementary capital	**42 985**	**35 418**
Regulatory capital	**521 530**	**245 868**
Risk-weighted assets (RWA)	1 919 106	809 014
Operational risk (OR)	506 011	189 937
Market risk positions (MR)	10 147	11 354
Total risk weighted assets	**2 435 264**	**1 010 305**
Regulatory capital / Total assets	6.98%	7.40%
Tier1 ratio	**19.65%**	**20.83%**
Capital adequacy ratio	**21.42%**	**24.34%**

The table above contains the MKB Bank's separate capital adequacy ratio.

As at 31 December 2022, as an actual figure of the Bank regulatory capital was HUF 521.5 billion based on Basel IV IFRS under Supervisory Regulation. The increase of regulatory capital was due to the merger and capital increase of HUF 188.3 billion during the year.

In 2022 risk-weighted assets including operational and market risk increased by 141% from HUF 1,010.3 billion to HUF 2,435.3 billion besides approximately 8.5% weakening of domestic currency. The main part of the increase derived from the increase of business volumes and increase of operational risk, which was compensated by the decrease of market risk.

By application of capital management as a tool, the capital is a first priority decision making factor; therefore, the Bank monitors the changes of the capital elements continuously.

Planning and limitation of capital requirements

The owner of MKB with strong capital background contributes to its safety, promotes customer confidence, and helps the Bank to manage the negative effects on its profitability which come from macroeconomic turbulences.

j) Forborne assets

During the normal course of business, the Bank enters into forbearance measures to decrease the potential loan loss and maximize collection opportunities for the borrowers who have problems with their payment ability but not with their willingness and capacity to pay.

Restructured exposures are renegotiated, rescheduled (prolonged) or otherwise revised loans, receivables and credits (including also purchased ones) originated in the framework of an amendment or termination of a previously concluded contract, initiated either by the borrower or the Bank, where

- the contract is amended in order to avoid default because the borrower is unable to fulfill its payment obligations in compliance with the conditions of the original contract due to significant deterioration in its financial position or payment ability, and
- the amendments significantly change the original terms and conditions of the outstanding contract largely in favor of the borrower, as compared to the market terms and conditions generally applicable to contracts of the same type and concluded under the same conditions, or
- a supplementary agreement or a new contract is concluded between the borrower and the Bank that relates to a new loan provided for the repayment of the outstanding debts (principal and / or interest) arising from the original contract that is not terminated, or to any further commitment assumed to avoid any increase in the credit risks and to mitigate the possible loss.

Under its forbearance policies, the Bank grants loan forbearance on a selective basis where the borrower is in default on its debt, or there is a high risk of future default, and there is evidence that the borrower made all reasonable efforts to pay under the original contractual terms, and it is expected that the borrower will be able to meet the revised terms. Both corporate and retail loans are subject to forbearance policies.

The Bank generally applies the following types of forbearance measures:

- extension of the tenor / final maturity of the loan,
- renegotiation of original repayment schedule, reschedule instalments,
- agreement on instalment payment,
- reduction of the collateral coverage parallel reducing exposure,
- refinancing of the loan,
- interest rate cut, or lower conditions,
- interest capitalization.

Such exposures and associated credit risks are managed, monitored and reported distinctly by specific restructuring and debt management units of the Bank on the basis of guidelines and procedure rules set by internal regulations incorporating also both legal and supervisory requirements and recommendations. When the conditions of forbearance cease to exist and the following cure period expires, respective assets are returned to normal / business treatments both from business and risk management perspectives. Based on qualitative and quantitative information the Bank terminate the forborne status of non-performing loans. After 1 year the fulfilment of non-default requirements, and after a further 2 years the fulfilment of monitoring period requirements, the forborne status of non-performing loans are reverting to normal treatment.

Data in HUF million except stated otherwise

To revert to normal treatment regarding corporate customers, additional criteria is that the customer performs its amended contractual obligations duly through a specified period (90 days or 365 days) and its risk position shows significant improvement. Forborne assets are recorded separately, and the amended terms and conditions of the contract are also indicated in the accounting records. Recognition, derecognition and subsequent valuation of these assets are carried out according to the general rules of accounting as specified by the relevant IFRSs.

The detailed requirements of risk classification and impairment valuation of forborne exposures are included in the accounting policies, and other internal regulations on the valuation of assets and liabilities, as well as in impairment and provisioning policies. Based on these internal guidelines, forbearance measures are regarded as impairment triggers and, as a consequence, impairment assessment should be performed for such exposures where the general methodologies and principles of assessment are to be applied. On the results of such risk assessments, impairment losses and the reversals of previously charged impairments are accounted for according to the common rules defined by IFRS 9.

Comparing to the previous financial year, there were no changes in forbearance policies and in practices applied by the Bank. The forbearance definition changed due to the law change to implement in January, 2021. That change has effect on the definition of place of treatment (Unit). Before the decision making, it is obligatory to examine and define the effect of proposed construction (modification of the contracts), forborne contract on the NPV in all the cases of clients to forborne, treated by Business Units. If the change of NPV would be higher than 1, thus the treatment should be transfer to Restructuring and Debt Management Unit.

With the merge of Budapest Bank and MKB as of 1 April, 2022, the restructuring process was regulated according to integrated principles and main rules. The government of Hungary imposed a payment moratorium on farm sector loans from September until the end of 2023 to ease the burden on the sector, so these loans can be restructured either after the end of the moratorium (December 31, 2023) or in the event of a voluntary withdrawal.

The repayment moratorium related to the pandemic situation was closed on December 31, 2022, therefore an increase in the number of restructurings is forecasted in case those customers who participated in the moratorium.

6.16

	31 December 2022	31 December 2021
Corporate Banking		
Forborne financial assets	63 349	53 818
Allowances for impairment	(11 937)	(14 989)
Carrying amount	51 412	38 829
Retail and Private Banking		
Forborne financial assets	124 449	111 943
Allowances for impairment	(19 458)	(10 661)
Carrying amount	104 991	101 282
Total carrying amount	**156 403**	**140 111**

Data in HUF million except stated otherwise

7. Cash and cash equivalents

7.1

	31 December 2022	31 December 2021
Cash and balances with Central Banks	1 081 158	866 957
Cash and cash equivalents	**1 081 158**	**866 957**

The Bank is required to maintain an appropriate reserve with the NBH equivalent to 7% of certain deposits for December 2022. The daily required limit was set at 5% in the current regulatory reserve. The balance of the reserve, in line with the prescription of NBH, is based on the balance at 31 October 2022 of these deposit accounts and amounted to HUF 311,109 million as at 31 December 2022 (2021: HUF 18,965 million). As at 31 December 2022, cash on hand amounted to HUF 191,920 million (2021: HUF 23,107 million).

In connection with the merge, the amount of cash and cash equivalents increased by HUF 278,601 million.

8. Loans and repurchase agreements to banks

8.1

	31 December 2022	31 December 2021
Interbank term deposits	335 171	4 985
Interbank loans granted	113 601	20 060
Repurchase agreements to banks (gross amount)	8 010	1 268
Loans and advances to banks (gross amount)	**456 782**	**26 313**
Allowance for impairment at the end of period	**(145)**	**(21)**
Carrying amount	**456 637**	**26 292**

Data in HUF million except stated otherwise

9. Derivative financial assets and liabilities

9.1

	31 December 2022		31 December 2021	
	Derivative financial assets	Derivative financial liabilities	Derivative financial assets	Derivative financial liabilities
Derivative instruments by type				
Swaps-FX	1 812	20 961	2 137	1 653
Swaps-interest rate	240 216	157 337	82 056	27 677
Swaps- cross currency interest rate	19 797	2 931	10 812	1 714
Forwards	3 723	6 130	7 495	3 151
Options	803	668	347	196
Futures	196	466	344	243
Others	1 036	-	1 211	6 894
Total	**267 583**	**188 493**	**104 402**	**41 528**

9.2

31 December 2022	Face value of interest rate swaps in hedge relationships	Fair value difference of IRSs in hedge relationships
Macro hedge - Asset	265 898	75 522
Micro hedge - Asset	332 576	67 352
Micro hedge - Liability	16 624	(158)
Total	**615 098**	**142 716**

On December 31, 2022, HUF 265.9 billion value of fixed rate loan and interest rate swaps were stocked in macro-hedge and HUF 349.2 billion value of security and interest rate swaps were stocked in micro-hedge.

9.3

31 December 2022	Fix-interest loans	Interest rate swaps	Net profit/loss
Macro hedge - Positive fair value change	31 633	45 393	
Macro hedge - Negative fair value change	(45 950)	(20 851)	
Total	**(14 317)**	**24 542**	**10 225**

31 December 2022	Securities	Interest rate swaps	Net profit/loss
Micro hedge - Positive fair value change	29 942	48 004	
Micro hedge - Negative fair value change	(43 222)	(35 470)	
Total	**(13 280)**	**12 534**	**(746)**

Data in HUF million except stated otherwise

In 2022 the Bank accounted for a profit of HUF 24.5 billion on interest swaps in macro-hedging relationships and HUF 12.5 billion in micro-hedging relationships.

During the last three quarters of 2022 the terms of hedging relationships, the Bank accounted for a loss of 14.3 billion on changes in interest risks related to the hedged fixed interest bearing loans which are stated in the balance sheet line “Loans and advances to customers” and accounted for a loss of 13.3 billion on changes in interest risk related to securities. The HUF 14.3 billion loss on loans is the sum of +8.8 billion amortisation of the previous years' losses and 23.1 billion loss on the fixed rate interest loans during the last 9 months.

An unamortised sum of 51.7 billion arising from closed hedging relationships is recorded in the balance sheet line “Fair value change of hedged items in portfolio hedge of interest rate risk”.

At the date of the merge was (HUF 37.4 billion) negative fair value difference was recognised in the line of Fair value change of hedged items in portfolio hedge of interest rate risk in the statement of financial position.

The ineffective part of micro hedge transactions was HUF 746 million.

9.4

	31 December 2022
Fair value change of hedged items in portfolio hedge of interest rate risk - Statement of Financial Position	**(51 678)**
Fair value change of hedged items in micro-hedge of interest rate risk - Statement of Financial Position	**(13 280)**
Net result of hedging relationships	**9 479**

9.5

31 December 2022	Interest rate risk portfolio hedging IRS and hedged loans/securities					
	within 1 month	1-3 months	3-12 months	1 - 5 years	beyond 5 years	Total
MACRO-HEDGE expiration - notional value	220	3 959	33 121	123 499	105 099	265 898
MICRO-HEDGE expiration - notional value				155 270	193 930	349 200

Data in HUF million except stated otherwise

10. Securities

10.1

Securities measured at FVTOCI	31 December 2022	31 December 2021
Hungarian Government bonds	337 304	118 625
Hungarian corporate sector bonds	91 216	69 056
Less allowance for impairment	(503)	(238)
Total	**428 520**	**187 681**

Securities measured at AC	31 December 2022	31 December 2021
Hungarian Government bonds	1 551 351	706 518
Hungarian corporate sector bonds	223 822	98 583
Less allowance for impairment	(2 258)	(533)
Total	**1 772 915**	**804 568**

Securities held for trading	31 December 2022	31 December 2021
Government Treasury bills	133	8
Hungarian Government bonds	8 033	2 824
Hungarian corporate sector bonds	161	185
Hungarian equities	107	947
Total	**8 434**	**3 964**

Securities mandatorily at FVTPL	31 December 2022	31 December 2021
Hungarian equities	345	125
Foreign equities	1 886	1 697
Investment fund shares	15 786	5 715
Total	**18 017**	**7 537**

The amount of impairment of the FVTOCI financial assets, which is accounted for between other comprehensive income reserve and profit or loss, does not decrease the carrying amount of the financial assets.

The amount of debt securities measured at FVTOCI was HUF 428,520 million at the end of the reporting period. The Bank did not have equity instruments measured at FVTOCI on 31 December 2022.

Data in HUF million except stated otherwise

In connection to the increase of the prevailing interest rate the revaluation on financial assets measured at FVTOCI decreased to HUF 3,693 million from HUF (20,009) million. The effect on deferred tax is disclosed in Note 32.

At 31 December 2022, HUF 776,175 million (2021: HUF 602,362 million) from the total amount of Securities were pledged as collateral for stock exchange, for NBH related to Funding for Growth Scheme and credit card transactions in the ordinary course of business.

As at 31 December 2022 the total amount of revaluation reserve comprises HUF (26,362) million (2021: HUF (23,569) million).

In 2022, HUF (36,106) million loss on sale (2021: HUF 14,610 million gain) was recognized in the profit or loss relating to securities measured at FVTOCI, which is a reclassification from other comprehensive income into profit or loss.

Related to debt securities measured at amortised cost HUF 79,033 million interest income (2021: HUF 14,425 million) was recognized in the Statement of Profit or Loss and Other Comprehensive Income during the year.

At 31 December 2022, the carrying amount of the Stage 1 securities is HUF 2,497,157 million (2021: HUF 998,961 million) and the carrying amount of the Stage 2 securities is HUF 155,095 million (2021: HUF 54,353 million).

11. Loans and repurchase agreements to customers

The following table presents the loans and repurchase agreements to customers measured at AC and FVTPL:

11.1

Loans and repurchase agreements to customers	Carrying amount	
	31 December 2022	31 December 2021
Loans and repurchase agreements to customers measured at amortized cost		
Loans and advances to customers	2 565 343	1 128 148
Repurchase assets to customers	1 070	18 996
Total	**2 566 413**	**1 147 144**
Loans and repurchase agreements to customers measured at fair value through profit or loss		
Loans and advances to customers	182 875	53 295
Total	**182 875**	**53 295**

Data in HUF million except stated otherwise

Loans and repurchase agreements to customers measured at AC

Loans and advances to customers measured at amortised cost:

11.2

31 December 2022	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Allowance for impairment	Carrying amount
Wholesale	1 871 498	(10 036)	(29 083)	(17 061)	(56 180)	1 815 318
Retail	812 764	(10 030)	(12 467)	(39 172)	(61 669)	751 095
Total	**2 684 262**	**(20 066)**	**(41 550)**	**(56 233)**	**(117 849)**	**2 566 413**

31 December 2021	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Allowance for impairment	Carrying amount
Wholesale	972 478	(3 203)	(13 629)	(11 358)	(28 190)	944 288
Retail	216 439	(284)	(4 675)	(8 624)	(13 583)	202 856
Total	**1 188 917**	**(3 487)**	**(18 304)**	**(19 982)**	**(41 773)**	**1 147 144**

In the third quarter of 2022, the Bank took over the outstanding loan agreements between Sberbank Magyarország Zrt. (under liquidation) and its customers, based on the authorisation received from NHB. The transfer of the portfolio took place with effect from 1 August 2022, under which HUF 246.189 million legal claim of retail and corporate loan portfolio was transferred to MKB Bank, which has achieved a significant expansion in the strategically important retail and corporate lending.

For a consideration of HUF 211.179 million, which was the fair value of the acquired loans, the Bank acquired a loan portfolio of HUF 246.189 million legal claim, of which 32% wholesale, 68% retail loans. The best estimate at the date of transfer for the contractual cash flows from acquired loans not expected to be collected amounts to HUF 7.103 million.

The migration of Sberbank's loan portfolio to the Bank was successfully completed in the last quarter of 2022.

Allowances for impairment

11.3

	31 December 2022	31 December 2021
Allowances for impairment on loans and advances to customers		
Balance at 1 January	**41 773**	**39 072**
Migration balances at 1 April 2022	**50 142**	**-**
Impairment loss for the year:		
Increases due to origination and acquisition	9 899	2 619
Decreases due to derecognition	(12 841)	(5 260)
Changes due to change in credit risk (net)	32 237	4 879
Changes due to modifications without derecognition (net)	810	538
Decrease in allowance account due to write-offs	(2 485)	(602)
Other adjustments	(1 686)	527
Allowance for impairment at the end of period	**117 849**	**41 773**

Data in HUF million except stated otherwise

The aim of the IFRS 9 credit risk scoring system is to assign a PiT (point-in-time) PD to each relevant customer. The IRB rating system for pillar II. capital requirement calculation was modified according to IFRS 9 requirements. Both of rating systems use the same default definition and model structure, including the quantitative and qualitative sub-models and the explicative variables. The calibration processes are different. In the case of IFRS 9 it depends on the stage of a given customer. In the Stage 1, the time horizon is one year, in the Stage 2 the lifetime PiT PD's are estimated. The Stage 3 contains the defaulted customers, where the PD equals to 1.

In the Stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used.

Note 6.1 provides additional information on the calculation of the Bank's impairment.

The tables below show the breakdown of the gross value and impairment of Loans and advances to customers measured at amortised cost, by stages:

11.3.1

31 December 2022	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	188 509	-	-	4
Medium risk	349 434	70 148	-	2 348
High risk	11 530	130 428	-	1 000
Default	-	-	56 838	2 510
Total Retail	***549 473***	***200 576***	***56 838***	***5 862***
Wholesale				
Low risk	569 906	-	-	-
Medium risk	910 061	138 048	-	354
High risk	9 819	203 922	-	336
Default	-	-	36 639	2 279
Total Wholesale	***1 489 786***	***341 970***	***36 639***	***2 969***
Total gross amount	**2 039 259**	**542 546**	**93 477**	**8 831**

Data in HUF million except stated otherwise

31 December 2022	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	1 630	-	-	-
Medium risk	7 321	2 892	-	116
High risk	1 177	9 528	-	116
Default	-	-	38 331	559
Total Retail	***10 128***	***12 420***	***38 331***	***791***
Wholesale				
Low risk	261	-	-	-
Medium risk	8 411	4 195	-	4
High risk	1 297	24 884	-	13
Default	-	-	16 733	279
Total Wholesale	***9 969***	***29 079***	***16 733***	***296***
Total allowance for impairment	**20 097**	**41 499**	**55 064**	**1 087**

31 December 2021	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	36 067	-	-	-
Medium risk	65 752	89 468	-	2 380
High risk	274	8 110	-	648
Default	-	-	11 882	2 700
Total Retail	***102 093***	***97 578***	***11 882***	***5 728***
Wholesale				
Low risk	287 628	-	-	-
Medium risk	565 352	31 048	-	-
High risk	6 779	62 721	-	17
Default	-	-	18 073	19
Total Wholesale	***859 759***	***93 769***	***18 073***	***36***
Total gross amount	**961 852**	**191 347**	**29 955**	**5 764**

Data in HUF million except stated otherwise

31 December 2021	Allowance for impairment Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	56	-	-	-
Medium risk	296	4 178	-	440
High risk	4	497	-	225
Default	-	-	6 516	1 443
Total Retail	***355***	***4 676***	***6 517***	***2 108***
Wholesale				
Low risk	99	-	-	-
Medium risk	2 859	1 356	-	-
High risk	174	12 273	-	-
Default	-	-	11 354	4
Total Wholesale	***3 132***	***13 629***	***11 354***	***4***
Total allowance for impairment	**3 487**	**18 305**	**17 871**	**2 112**

The tables below show the changes of the gross value and impairment of Loans and advances to customers measured at amortised cost, by stages:

11.3.2

Gross amount	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2022	**961 851**	**191 347**	**29 955**	**5 764**	**1 188 917**
Migration balances at 1 April 2022	**798 704**	**300 390**	**49 827**	**-**	**1 148 921**
Transfers:					
Transfers from Stage 1 to Stage 2	(714 300)	714 300	-	-	-
Transfers from Stage 1 to Stage 3	(22 947)	-	22 947	-	-
Transfers from Stage 2 to Stage 1	629 483	(629 483)	-	-	-
Transfers from Stage 2 to Stage 3	-	(15 651)	15 651	-	-
Transfers from Stage 3 to Stage 1	9 355	-	(9 355)	-	-
Transfers from Stage 3 to Stage 2	-	8 171	(8 171)	-	-
New financial assets originated or purchased	446 495	55 982	8 006	3 463	513 946
Changes of contractual cash flows	(32 364)	(24 768)	(2 232)	430	(58 934)
FX and other movements	(37 018)	(57 742)	(13 151)	(826)	(108 737)
Balance at 31 December 2022	**2 039 259**	**542 546**	**93 477**	**8 831**	**2 684 113**

Data in HUF million except stated otherwise

Allowance for impairment	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Balance at 1 January 2022	**3 488**	**18 304**	**17 869**	**2 112**	**41 773**
Migration balances at 1 April 2022	**6 327**	**13 438**	**30 377**	**-**	**50 142**
Transfers:					
Transfers from Stage 1 to Stage 2	(11 913)	11 913	-	-	-
Transfers from Stage 1 to Stage 3	(7 702)	-	7 702	-	-
Transfers from Stage 2 to Stage 1	3 018	(3 018)	-	-	-
Transfers from Stage 2 to Stage 3	-	(5 645)	5 645	-	-
Transfers from Stage 3 to Stage 1	18	-	(18)	-	-
Transfers from Stage 3 to Stage 2	-	627	(627)	-	-
Transfers from non-current assets held for sale and discontinued operations	-	-	235	-	235
Changes in PDs/LGDs/EADs	5 434	(5 570)	11 777	(1 082)	10 559
New financial assets originated or purchased	4 476	8 825	1 706	(755)	14 252
Changes of contractual cash flows	17 491	2 456	(86)	1	19 862
FX and other movements	(540)	169	(19 516)	811	(19 076)
Balance at 31 December 2022	**20 097**	**41 499**	**55 064**	**1 087**	**117 747**

Gross amount	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Balance at 1 January 2021	**997 379**	**75 673**	**25 023**	**6 441**	**1 104 516**
Transfers:					
Transfers from Stage 1 to Stage 2	(195 988)	195 988	-	-	-
Transfers from Stage 1 to Stage 3	(1 901)		1 901	-	-
Transfers from Stage 2 to Stage 1	38 036	(38 036)		-	-
Transfers from Stage 2 to Stage 3		(11 286)	11 286	-	-
Transfers from Stage 3 to Stage 1	464		(464)	-	-
Transfers from Stage 3 to Stage 2		1 913	(1 913)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	-	(1 060)	-	(1 060)
Transfers from non-current assets held for sale and discontinued operations	-	-	4	-	4
New financial assets originated or purchased	254 710	12 023	249	29	267 011
Changes of contract amendment	(16)	3 035	297	111	3 427
FX and other movements	(130 833)	(47 963)	(5 368)	(817)	(184 981)
Balance at 31 December 2021	**961 851**	**191 347**	**29 955**	**5 764**	**1 188 917**

Allowance for impairment	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Purchased or originated credit-impaired	
Balance at 1 January 2021	**6 730**	**13 064**	**17 153**	**2 124**	**39 071**
Transfers:					
Transfers from Stage 1 to Stage 2	(2 938)	2 938	-	-	-
Transfers from Stage 1 to Stage 3	(24)	-	24	-	-
Transfers from Stage 2 to Stage 1	335	(335)	-	-	-
Transfers from Stage 2 to Stage 3	-	(482)	482	-	-
Transfers from Stage 3 to Stage 1	17	-	(17)	-	-
Transfers from Stage 3 to Stage 2	-	189	(189)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	-	(934)	-	(934)
Transfers from non-current assets held for sale and discontinued operations	-	-	3	-	3
Changes in PDs/LGDs/EADs	(308)	(4 457)	5 228	296	759
New financial assets originated or purchased	1 334	1 179	105	(1)	2 617
Changes of contract amendment	1 014	4 057	67	15	5 153
FX and other movements	(2 672)	2 151	(4 053)	(322)	(4 896)
Balance at 31 December 2021	**3 488**	**18 304**	**17 869**	**2 112**	**41 773**

Changes of contractual cash-flows row contains additional disbursement or repayment. The above table contains cumulative data for the financial year.

The Bank classified its retail portfolio in homogenous credit risk clusters, and allocates PD, LGD and CCF parameters. The internal rating-based models calculate the risk parameters which determine the level of impairment. Further information about the transfer are disclosed in Note 6.

Data in HUF million except stated otherwise

In case of individually not significant wholesale customers the calculation of impairment and provision has been changed to internal rating-based method. The required provisioning rates are calculated based on the credit conversion factor, the statistical analysis of default and the loss given default. Individually assessed items where no specific provision has been set aside the impairment and provision have to be calculated based on the above method.

11.3.3

Stage 3 Loans and advances to customers	31 December 2022	31 December 2021
Carrying amount	38 413	12 084
Collateral value	54 455	23 145

Loans to customers measured at FVTPL

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by coupon rates. In general, contractual cash flows are discounted using a rate which is sum of the available interest rate which would have been offered if the customer applied for loan at the end of the reporting period plus the counterparty margin. The used interest rates are available in published Terms and Conditions as of 31 December 2022 and the counterparty margin is available in the Bank's systems. The rediscounted cash flows are decreased using by the same impairment percentage as it was used for impairment purpose, and it is considered as fair value of the loan portfolio.

Non-performing loans which are assessed for impairment individually are discounted with discount factors which are calculated as in case of performing loans, but that estimated cash flows of these loans are used for calculation, which was also used for impairment purpose.

In the case of work-out loans where the Bank expects cash flows only from sale of collaterals and therefore they are impaired to the net present value of this amount, the fair value is equal with the carrying amount.
During the reporting period, the Bank has implemented the following activities to further develop the fair value measurement model for mandatorily fair value loans in order to increase the confidence level of the model.

- Updating statistical data in the cash flow run-off model
- Change in the calculation methodology of the cost of capital
- Incorporate a risk premium in the discount calculation by shifting the yield curve
- Revision of the operating expenses and liquidity premium

Considering the above, the Bank has identified the following effect in the Profit or Loss:
- The increase in the discount rate for operating expenses from 1.1% to 1.2% increased the fair value by HUF 1.98 billion.
- The reduction of the cost of capital by 8bp decreased the fair value by HUF 1.57 billion.
- By shifting the SWAP yield curve by 3.6bp, the net fair value increased by HUF 0.4billion.
- The 1% reduction in the KSH rate for unborn children increased the fair value by HUF 0.4billion.
- Overall, the four effects increased the fair value by HUF 1.2 billion.

Data in HUF million except stated otherwise

11.4

Loans and advances to customers measured at FVTPL		
Balance at 1 January 2021		**40 797**
	Changes of gross amount	11 026
	Changes of fair value	1 472
Balance at 31 December 2021		**53 295**
Balance at 1 January 2022		**53 295**
	Effect of merge	58 726
	Changes of gross amount	65 883
	Changes of fair value	4 972
Balance at 31 December 2022		**182 875**

12. Other financial and non-financial assets

12.1

Other financial assets	31 December 2022	31 December 2021
Other clearing accounts	20 889	865
Various other financial receivables	6 664	1 431
Trade receivables (Customers)	1 425	746
Advance payments	1 413	95
Comission accruals	440	181
Impairment	(3 318)	(1 634)
Other financial assets	**27 513**	**1 684**

12.2

	31 December 2022	31 December 2021
Inventory	495	530
Advance payments for investments	1 344	-
Collaterals held in possession	23	-
Initial fair value difference	9 846	4 873
Prepayments and other debtors	23 114	8 679
Tax and tax-related claims	3 773	3 715
Several other assets	4 956	100
Other assets	**43 551**	**17 897**

The NBH launched its three-pillar Funding for Growth Scheme (FGS) on 1 June 2013, primarily to stimulate lending to small and medium-sized enterprises. Under pillar I and II of the FGS the NBH provided refinancing loans to credit institutions participating in the Scheme, at 0 per cent interest rate, which were lent further by the credit institutions to the SMEs with a capped interest margin.
Since then, many other FGS program took place by NBH, for example FGS Go and FGS Green Home program. The Bank participated in all loan programmes.

Data in HUF million except stated otherwise

13. Investments in subsidiaries and associates

The directly owned entities of MKB Bank Plc. included in MKB Group of consolidation and their activities are as follows:
13.1

2022

Company	Percentage of equity owned	Percentage of voting rights	Carrying amount	Country of incorporation	Brief description of activities
Euroleasing Zrt.	100.00%	100.00%	6 895	Hungary	Car and consumer finance activities, other finance activities
Budapest Lízing Zrt.	100.00%	100.00%	5 654	Hungary	Financial leasing activities
Budapest Eszközfinanszírozó Zrt.	100.00%	100.00%	1 003	Hungary	Rental of other machines and assets
MKB Bank MRP Szervezet	100.00%	0.00%	12 594	Hungary	Employee Stock Ownership Plan
MKB Üzemeltetési Kft.	100.00%	100.00%	35 796	Hungary	Property operation and maintenance
MKB Befektetési Alapkezelő Zrt.	75.54%	75.54%	160	Hungary	Investment fund management activity
MTB Magyar Takarékszövetkezeti Bank Zrt.	75.91%	94.23%	87 150	Hungary	Investment and treasury services
Takarékbank Zrt.	98.83%	98.83%	218 810	Hungary	Universal banking services
Takarék INVEST Kft.	100.00%	100.00%	16 118	Hungary	Asset management
Magyar Strat-Alfa Zrt.	50.00%	50.00%	20 223	Hungary	Sale and purchase of self-owned real estate
MITRA Informatikai Zrt.	82.83%	82.83%	5 205	Hungary	Web hosting services

2021

Company	Percentage of equity owned	Percentage of voting rights	Carrying amount	Country of incorporation	Brief description of activities
Euro - Immat Üzemeltetési Kft.	100.00%	100.00%	4 672	Hungary	Intangible assets, license maintenance
MKB-Euroleasing Autólízing Szolgáltató Zrt.	100.00%	100.00%	4 857	Hungary	Car and consumer finance activities, other finance activities
MKB Bank MRP Szervezet	100.00%	0.00%	3 392	Hungary	Special purpose entity for the Employee Share Program
MKB Üzemeltetési Kft.	100.00%	100.00%	33 735	Hungary	Property operation and maintenance
MKB-Pannónia Alapkezelő Zrt.	49.00%	49.00%	150	Hungary	Investment fund management activity
MKB Digital Szolgáltató Zrt.	100.00%	100.00%	500	Hungary	IT services

Carrying amount of the Bank's subsidiaries and associates:
13.2

	31 December 2022	31 December 2021
Cost	424 367	49 563
Investments in subsidiaries, jointly controlled entities and associates	**424 367**	**49 563**

Data in HUF million except stated otherwise

13.3

Investments in subsidiaries and associates Change in gross amount	2022	2021
Balance at 1 January	**86 393**	**84 738**
Acquisition	277 881	427
Disposition	(44)	-
Capitalisation	731	1 228
Effect of merge	290 586	-
Balance at 31 December	**655 547**	**86 393**

Investments in subsidiaries and associates Change in impairment	2022	2021
Balance at 1 January	**36 830**	**36 514**
Impairment loss	13 626	316
Reversal of impairment	(4 099)	-
Effect of merge	184 823	-
Balance at 31 December	**231 180**	**36 830**

Data in HUF million except stated otherwise

General and financial data of associates are as follows:

13.4

	31 December 2022	31 December 2021
	Magyar Strat-Alfa Befektetési Zrt.	**MKB-Pannónia Alapkezelő Zrt.**
General information		
Activity	Trading, leasing with freehold properties	Investment fund management activity
Country of incorporation	Hungary	Hungary
Ownership % (direct & non-direct)	50%	49%
Proportion of the voting rights held	50%	49%
Relation	associate	associate
Involvement	equtiy	equity method
Financial data		
Cash and cash equivalents	620	755
Other current assets	5	7 108
Current assets	**625**	**7 863**
Non-current assets	**67 985**	**279**
Total assets	**68 610**	**8 142**
Liabilities from customers	132	-
Other current liabilities	-	852
Current liabilities	**132**	**852**
Amounts due to banks	21 043	-
Non-current liabilities	**21 043**	**-**
Total liabilities	**21 175**	**852**
Equity	**47 435**	**7 290**
Book value of investment (Carrying amount of the Bank's interest in the Company)	20 223	150
Other income	-	8 799
Revenues	**-**	**8 799**
Interest expense	131	-
Depreciation and amortization	-	72
Income tax expense	-	596
Other Expenses	117	2 104
Expenses	**248**	**2 772**
Profit/(Loss) for the year	**(248)**	**6 027**
Total comprehensive income for the year	**(248)**	**6 027**
Dividends received by MKB Bank from the associate	-	2 949

In 2022 the Bank increased its ownership in MKB Pannónia Alapkezelő Zrt. and therefore it became subsidiary.

Data in HUF million except stated otherwise

14. Intangibles, property and equipment

14.1

31 December 2022	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	55 485	21 264	3 679	80 428
Additions due to merge	51 347	30 540	16 966	98 853
Additions – including internally developed	8 119	3 841	4 069	16 029
Other modifications	598	6 293	525	7 416
Disposals	-	(144)	(235)	(379)
Balance at 31 December	**115 549**	**61 794**	**25 004**	**202 347**
Depreciation and impairment losses				
Balance at 1 January	28 097	9 101	1 822	39 020
Additions due to merge	33 133	14 255	11 642	59 030
Amortization and depreciation for the year	9 306	4 376	2 770	16 452
Disposals	-	(134)	(156)	(290)
Other modifications	807	5 135	262	6 204
Balance at 31 December	**71 343**	**32 733**	**16 340**	**120 416**
Carrying amounts				
Balance at 1 January	27 388	12 163	1 857	41 408
Balance at 31 December	**44 206**	**29 061**	**8 664**	**81 931**

Data in HUF million except stated otherwise

31 December 2021	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	51 088	18 709	3 454	73 251
Additions – including internally developed	15 995	109	346	16 450
Other modifications	-	2 495	52	2 547
Disposals	(11 598)	(49)	(173)	(11 820)
Balance at 31 December	**55 485**	**21 264**	**3 679**	**80 428**
Depreciation and impairment losses				
Balance at 1 January	26 610	6 100	1 328	34 038
Amortization and depreciation for the year	3 734	2 680	541	6 955
Disposals	(2 247)	-	(45)	(2 292)
Other modifications	-	321	(2)	319
Balance at 31 December	**28 097**	**9 101**	**1 822**	**39 020**
Carrying amounts				
At 1 January	24 478	12 609	2 126	39 213
Balance at 31 December	**27 388**	**12 163**	**1 857**	**41 408**

Depreciation and amortization is presented in ”Operating expenses”.

The gross value of the property and equipment is HUF 8.7 billion and the gross value of the intangible assets is HUF 13.5 billion which are recognized at net zero value.

Other modification includes the effect of contract amendments and indexations of lease agreements.

Changes in the value of right-of-use assets during the reporting period are disclosed in Note 33.

15.Amounts due to other banks

15.1

	31 December 2022	31 December 2021
Due on demand	1 372	2 107
Money market deposits	556 109	285 948
Borrowings	1 408 450	414 986
Amounts due to other banks	**1 965 931**	**703 041**

The largest balance of the Amounts due to other banks is HUF 396,149 million, which is the re-financing loans relating to Funding for Growth Scheme at NBH.

Data in HUF million except stated otherwise

16. Amounts and repurchase liabilities due to customers

	31 December 2022	31 December 2021
Corporate clients related	3 064 334	1 675 135
Retail clients related	1 142 691	547 218
Repurchase agreement	-	51
Amounts due to customers and Repurchase liabilities	**4 207 025**	**2 222 404**

As at 31 December 2022 and 2021 the Bank had no deposit and current accounts measured at fair value from the total amount.

17. Other financial liabilities

17.1

	31 December 2022	31 December 2021
Other clearing accounts	27 320	9 535
Various other financial liabilities	214	318
IFRS 16 lease liability	33 959	19 625
Trade payables	7 936	3 126
Commission expenses accruals	-	32
Other financial liabilities	**69 429**	**32 636**

For further information about lease liability, see Note 33.

18. Other liabilities

18.1.

	31 December 2022	31 December 2021
Tax liabilities	3 710	1 427
Accruals	24 582	11 631
Initial fair value difference	9 906	5 077
Other liabilities	3 602	5 395
Other liabilities	**41 800**	**23 530**

Provision for contingencies and commitments

18.2.1

	31 December 2022	31 December 2021
Provision for contingencies and commitments		
Balance at 1 January	**3 407**	**2 560**
Changes due to merge	**3 683**	**-**
Provisions made during the year	19 890	2 676
Provisions used/reversed during the year	(13 032)	(1 851)
Other movements	29	22
Balance at the end of the reporting period	**13 977**	**3 407**

Data in HUF million except stated otherwise

Further information about provisions for contingencies and commitments are disclosed in Note 33.

Provisions

18.2.2

31 December 2022	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Provision for commitments and guarantees	1 276 632	(4 641)	(3 233)	(2 312)	-	1 266 446
Provision for employee benefits	-	-	-	-	(1 694)	(1 694)
Provision for litigation	1 032	-	-	-	(556)	476
Provision for reorganization	-	-	-	-	(1 517)	(1 517)
Other provision	3 809	-	-	-	(24)	3 785
Total provision	**1 281 473**	**(4 641)**	**(3 233)**	**(2 312)**	**(3 791)**	**1 267 496**

31 December 2021	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Provision for commitments and guarantees	553 579	(1 128)	(1 334)	(652)	-	550 465
Provision for employee benefits	284	-	-	-	-	284
Provision for litigation	2 924	-	-	-	(45)	2 879
Other provision	7 612	-	(14)	(5)	(229)	7 364
Total provision	**564 399**	**(1 128)**	**(1 348)**	**(657)**	**(274)**	**560 992**

19. Issued debt securities

The table below shows the new issuance, repayment and other changes during the year:

19.1

Interest	Balance at 1 January	Issued debt securities	Repurchased debt securities	Repaid debt securities	Amortization	Balance at 31 December
31 December 2022						
Zero coupon	3 394	12 028	125	(1 442)	(1 199)	12 906
Total	**3 394**	**12 028**	**125**	**(1 442)**	**(1 199)**	**12 906**

Interest	Balance at 1 January	Issued debt securities	Repurchased debt securities	Repaid debt securities	Amortization	Balance at 31 December
31 December 2021						
Zero coupon	2 343	2 133	179	(1 181)	(80)	3 394
Total	**2 343**	**2 133**	**179**	**(1 181)**	**(80)**	**3 394**

Data in HUF million except stated otherwise

20. Subordinated debt

Subordinated debts are direct, unconditional and unsecured subordinated bonds and loan of the Bank and are subordinated to the claims of the Bank's depositors and other creditors.

20.1

31 December 2022	Loan and interest type	Date of issue	Maturity date	Amount in original currency	Original currency	Carrying amount in functional currency
Subordinated debt	Fixed paid bond	26.05.2017	14.06.2024	36 900 000	EUR	15 134
Subordinated debt	Fixed paid bond	28.03.2019	15.04.2026	31 000 000	EUR	12 714
Subordinated debt	Fixed paid bond	26.05.2020	20.07.2028	51 300 000	EUR	21 039
Subordinated debt	Fixed rate loan	23.11.2020	23.11.2030	40 000 000 000	HUF	40 000
Total						**88 887**

31 December 2021	Loan and interest type	Date of issue	Maturity date	Amount in original currency	Original currency	Carrying amount in functional currency
Subordinated debt	Fixed paid bond	26.05.2017	14.06.2024	36 900 000	EUR	13 952
Subordinated debt	Fixed paid bond	28.03.2019	15.04.2026	31 000 000	EUR	11 721
Subordinated debt	Fixed paid bond	26.05.2020	20.07.2028	51 300 000	EUR	19 397
Total						**45 070**

The subordinated debts of HUF 40,000 million was recognized in the Bank’s accounts through the merger of Budapest Bank.

21. Share capital

The Bank’s authorised, issued, and fully paid share capital comprises 321,699 million at the reporting date (2021: 100 million) ordinary shares of HUF 1,000 (2021: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

The share capital of the Bank until the merger was HUF 100 million. In connection with the merge of Budapest Bank and Magyar Takarék Bankholding, the Share capital of the bank increased by 49,616 million HUF. At the same time the Bank transferred 86,101 million HUF from Capital reserve to Share capital. The shareholders of the Bank increased the Share capital of the Bank by 75,603 million HUF on 2 April 2022 and 10,379 million HUF on 12 December 2022.

On 31 December 2022, the share capital of the Bank was HUF 321,699 million.

Separate Statement of changes in equity based on Hungarian Accounting Law for the year ended 31 December 2022:

21.1

	Share capital	Capital reserve	Retained earnings	Revaluation reserve	Total
At 1 January 2021	**100 000**	**21 729**	**84 805**	**(3 560)**	**202 974**
Profit before tax			55 916		55 916
Accumulated other comprehensive income				(20 009)	(20 009)
At 31 December 2021	**100 000**	**21 729**	**140 721**	**(23 569)**	**238 881**
Issue of share capital and share premium	85 982	122 239			208 221
Dividend			(4 300)		(4 300)
Settlement of equity items	135 717	169 979	(19 714)	(4 102)	
Profit before tax			64 637		64 637
Accumulated other comprehensive income				3 693	3 693
At 31 December 2022	**321 699**	**313 947**	**181 344**	**(23 978)**	**793 012**

Data in HUF million except stated otherwise

21.2

Reconciliation of share capital registered at registry court and share capital under IFRS as adopted by the EU	31 December 2022	31 December 2021
Share capital registered at the registry court	321 699	100 000
Share capital under IFRS as adopted by the EU	**321 699**	**100 000**

21.3

Schedule of the profit reserves available for dividend	31 December 2022	31 December 2021
Total equity	793 012	238 881
Share capital (-)	321 699	100 000
Share premium (-)	313 947	21 729
Other reserve (-)	32 552	17 040
Accumulated other comprehensive income (-)	(23 978)	(23 569)
Profit reserve available for dividend	**148 792**	**123 681**

The Board of Directors proposes a dividend of HUF 25,092.5 million, the remaining part of the Profit attributable to the shareholders of the Bank for the reporting period will increase the Retained earnings. HUF 13.075 million interim dividend was proposed and paid on 12th August 2022 based on the decision Nr. 165/2022. (29 July) of the General Meeting. Therefore, only the additional accepted dividend will be paid to the shareholders.

22. Reserves

Share premium

Share premium comprises of premiums on share capital issuances.

Retained Earnings

Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entity of the Bank less any dividend payment.

General reserve

According to the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act), banks shall set aside as general reserve 10% of Profit after taxation. Dividends can be paid only after recognition of general reserve. This reserve can be utilized only for losses derived from ordinary activity. Credit institution can reclassify part or total of its retained earnings into general reserve. Supervisory authority can allow the entity not to set aside the amount calculated as above stated.

The Bank discloses general reserve as part of retained earnings. In 2022, MKB recognized general reserve of HUF 32,522 million (2021: HUF 17,040 million).

Revaluation reserves

Revaluation reserve of financial assets measured at FVTOCI includes the cumulative net change in the fair value until the derecognition. For financial instruments measured at fair value through other comprehensive income, the Bank has recognized an impairment loss in accordance with IFRS 9, which is shown in the Revaluation reserve.

Data in HUF million except stated otherwise

The Bank did not apply any reclassification adjustments relating to components of other comprehensive income.

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

23.1

	31 December 2022			31 December 2021		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangibles, property and equipment	113	49	64	142	20	122
Securities	2 384	-	2 384	2 355	-	2 355
Allowances for loan losses	2	-	2	-	-	-
Provision	331	-	331	18	-	18
Tax loss carry-forwards	14 838	-	14 838	5 261	-	5 261
Net tax assets / (liabilities)	**17 668**	**49**	**17 619**	**7 776**	**20**	**7 756**

In 2022, there were HUF 29 million deferred tax asset in cumulated OCI and HUF 9,714 million deferred tax asset in profit or loss.

24. Interest and similar to interest income

24.1

	2022	2021
Interest income from loans and advances at amortized cost	218 107	32 484
Interest income from debt securities at amortized cost	79 033	14 425
Interest income of debt securities measured at fair value through other comprehensive income	26 849	7 116
Interest income from cash and cash equivalents	12 602	9 770
Interest income using effective interest rate method	**336 591**	**63 795**
Interest income from derivative held for trading	124 269	14 946
Interest income of loans and advances mandatorily measured through profit or loss	5 950	216
Interest income from debt securities held for trading	385	324
Interest income relating to financial liabilities	26	54
Interest income from lease assets	6 597	-
Interest income from derivative transactions (hedge accounting)	23 859	-
Other interest income	**161 086**	**15 540**
Interest income	**497 677**	**79 335**

Included within various captions under interest income for the year ended 31 December 2022 is a total of HUF 1,365 million (2021: HUF 921 million) accrued on credit impaired financial assets.

Data in HUF million except stated otherwise

25. Interest expense

25.1

	2022	2021
Interest expenses of loans and advances at amortized cost	(44 549)	(5 475)
Interest expenses of deposits at amortized cost	(106 308)	(4 781)
Interest expenses of debt securities at amortized cost	(2 460)	(1 966)
Interest expense using effective interest rate method	**(153 317)**	**(12 222)**
Interest expense from derivative held for trading	(117 721)	(18 883)
Interest expenses of other liabilities	(1 316)	(1 365)
Interest expenses from derivative transactions (hedge accounting)	(9 646)	-
Other interest expenses	**(128 683)**	**(20 248)**
Interest expense	**(282 000)**	**(32 470)**

26. Net income from commissions and fees

26.1

	2022	2021
Commission and fee income	**77 431**	**33 205**
Income from account management fees, commissions	9 694	7 913
Income from payment services	39 487	14 219
Loans, leases, guarantees incomes	5 606	3 009
Commission and fee from credit cards	12 776	2 791
Other commission and fee income	2 582	1 113
Brokerage fees incomes	3 229	479
Investment services commission and fee income	4 057	3 681
Commission and fee expense	**18 955**	**6 462**
Charges for account maintenance fees paid	200	16
Expense from payment services	278	289
Loans and guarantees expenses	6 516	2 498
Other commission and fee expense	3 073	656
Brokerage fees expenditure	2 581	36
Investment services expenditure	957	839
Credit card transaction expenses	5 350	2 128
Net income from commissions and fees	**58 476**	**26 743**

The following fee and commission income is recorded in accordance with IFRS 15:

Fee income related to account management

The Bank provides account management services to its retail and business clientele. The main types of service are opening an account, monitoring the balance, arranging transactions within and outside the bank based on a customer order/provision, arranging deposit transactions in relation to the account, cash flow, closing of accounts. Depending on the regularity of the service, their service fee and jute receipts will be charged to customer accounts on a daily, monthly (or more regular basis) or on a case-by-case basis.

In the case of continuous services (for example: monthly fee for account management, monthly fee for sms services), fee receipts are recorded monthly on the last day of the month. These fees are typically fixed fees.

In the case of transaction-based services (for example: remittance orders, direct debits, cash payments), transaction fees are settled at the same time as the transaction or by collecting monthly transaction fees. Fees are determined based on the amount of the transaction, in % or in combination with a fixed and % combination.

Credit card fee and commission income

Credit card fees are typically fixed fees because card transactions are free of charge. Events related to the maintenance of the card (annual card fee), card re-manufacture and replacement.

Fee income related to lending

Non-interest charges related to credit transactions are regular monitoring fees, fees for validation, verification, review and administration fees. These fees are recorded when the service is incurred or, in the case of a continuous service, monthly, ex post.

Agent fees

The Bank provides brokerage services to other banks, insurers, investment service providers, factor companies. The fees for these services are charged monthly, depending on the volume and value of the customers, transactions, transactions, usually monthly, sold or served on the order.

The following fee and commission expenses are recorded in accordance with IFRS 15:

Fee expenses related to account management

The fees paid for ancillary services related to account management services provided to customers are typically fees incurred in connection with the payment of account management fees (nostro) to other banks, the sending of statements, cash logistics, cash processing, postal cash transfers, postal payments, postal payments incurred in order to serve the account management of customers. They are usually monthly and regularly in line with continuous account management.

Fee and commission expense related to bank cards in connection with the provision of bank card services, the Bank pays the transaction and production and distribution fees of the bank card to the parent company who is the bank card provider. The amount of these fees depends on the number volume and value of card transactions, so there are variable rates, but there are also fixed monthly fees. They are accounted for on monthly basis.

Data in HUF million except stated otherwise

Lending fees

Fees and commissions incurred in connection with the lending of the Bank's clients to other banks and refinanced (one-off disbursement fees for refinancing loans, verification fees). They shall be accounted for on a regular basis and may be subject to variable remuneration depending on the refinancing facility or transactions but may also be fixed remuneration. They shall be accounted for on monthly basis or on a case-by-case basis for one-offs.

Credit card fee and commission expense

Fees paid to other entities in connection with client loans are also incurred if they are not part of the effective calculation of interest, for example notarial fees, valuation fees, national or other central database usage fees, if they have been re-invoiced to the customer. They are accounted for on monthly basis on a case-by-case basis or on a continuous basis.

Agent's fee

The Bank also sells its products through agents, so its payments for brokering are typically made on monthly basis, depending on the volumes sold. Typically used broker services include currency exchange by currency exchange agents.

27. Results from financial instruments

27.1

	2022	2021
Results from securities measured at fair value	(175)	(2 042)
Results from derivative transactions	108 687	89 428
Results from loan and advances measured mandatorily at fair value	(10 120)	(1 803)
Results from financial assets measured at FVTPL	(562)	(72)
Results from financial liabilities measured at FVTPL	15	15
Results from financial instruments measured at fair value	**97 845**	**85 526**
Results from securities measured at FVTOCI	(36 106)	(14 582)
Results from financial instruments measured at FVTOCI	**(36 106)**	**(14 582)**
Results from loans and advances measured at AC	463	22
Results from securities measured at AC	949	2 719
Results from other financial assets measured at AC	-	(17)
Results from investments measured at AC	-	7
Results from financial and non financial instruments measured at AC	**1 412**	**2 731**
Results from micro hedge	23 796	-
Results from macro hedge	(14 317)	-
Results from hedge accounting, net	**9 479**	-
Exchange differences	**(38 878)**	**(10 239)**
Results from financial instruments measured at fair value or AC	**33 752**	**63 436**

The net gain / (loss) on derivative transactions is in connection to the changes of the prevailing interest rate.

Data in HUF million except stated otherwise

28.Net impairments / (reversal) and provisions for losses

28.1

	2022	2021
Loans and advances to banks and customers	(28 223)	(2 356)
Provisions for commitments and guarantees	(4 966)	(975)
Investments in securities	(1 518)	(328)
Expected credit (loss) on financial instruments held for credit risk management	**(34 707)**	**(3 659)**
Provision for litigation	217	20
Provision for restructuring	(1 517)	-
provisions for employee benefits	(697)	-
Other provisions	537	132
Provision for staff costs	(431)	-
Provision (loss) / gain	**(1 891)**	**152**
Modification (loss) / gain on financial instruments	**(10 607)**	**(1 343)**
(Impairment) / Reversal on investments in subsidiaries and associates	**(9 527)**	**(316)**
(Impairment) / Reversal on other financial and non financial instruments	**(242)**	**(251)**
Impairments and provisions for losses	**(56 974)**	**(5 417)**

29.Dividend income

29.1

	2022	2021
Dividend income	4 023	2 995
Dividend income	**4 023**	**2 995**

In the financial year 2022, the Bank received dividend from Budapest Lízing Zrt. and MKB Befektetési Alapkezelő Zrt.

Data in HUF million except stated otherwise

30. Operating expense

30.1

	2022	2021
Wages, salaries and other employee benefits	54 056	20 010
Compulsory social security obligations	7 276	3 172
Material costs	3 683	906
Other services used	46 268	19 255
Occupancy costs	16 455	6 954
Other tax related costs	24 224	4 154
Other fees and charges paid	38 171	17 869
Other operating expenses	174	488
Operating expenses	**190 307**	**72 808**

In 2022, the Bank's average statistical employee number was 4,823 (2021: 1,652).

The main operating expenses were as follows:

- Bank tax: HUF 2,824 million (2021: HUF 1,824 million)
- National Deposit Insurance Fund fee payment obligation in connection with the liquidation of Sberbank: HUF 2,600 million
- Social contribution tax: HUF 6,092 million (2021: HUF 2,796 million)
- Extra profit tax: HUF 11,176 million

31. Other income and other expense

31.1

	2022	2021
Other revenue indirectly related to products or transactions	2 420	1 909
Income from intermediate serivces	2 579	2 410
Several other income	1 130	181
Penalties received, other interest on arrears	182	55
Other income	**6 311**	**4 555**
Grants granted	(3 318)	(2 142)
Expenses from intermediate services	(2 332)	(2 408)
Fines, penalties, other interest on arrears paid	(617)	(43)
Several other expense	(561)	(63)
Other expense	**(6 828)**	**(4 656)**

32.Income tax

Income tax expense recognized in the Statement of Profit or Loss and Other Comprehensive Income

32.1

	2022	2021
Current tax (expense)	*(9 207)*	*(4 870)*
Corporate tax charge – on current year profit	(1 064)	(2 540)
Corporation tax charge due to predecessor	39	-
Local business tax	(7 115)	(2 025)
Innovation contribution	(1 067)	(305)
Deferred tax income / (expense)	*9 714*	*927*
Origination (reversal) of temporary differences	136	(109)
Deferred tax (expense) / income on tax losses	9 578	(818)
Income tax income / (expense)	**507**	**(3 943)**

Both in the reporting period and in the comparative period, the corporate income tax rate was 9% levied on the taxable profit in Hungary. Due to this, 9% nominal income tax rate was applied both for current income tax and deferred tax purposes. In addition to the corporate income tax, the Bank classifies the local business tax and innovation contribution also as income taxes as of 2022.

Reconciliation of effective tax rate

32.2

	2022		2021	
	%	HUF million	%	HUF million
Profit before income tax		64 130		59 383
Income tax using the domestic corporation tax rate	9.00%	5 772	9.00%	5 344
Local business tax	11.10%	7 116	3.41%	2 025
Innovation contribution	1.66%	1 067	0.51%	305
Effect of tax rates in foreign jurisdictions	0,00%	-	0.01%	4
Movement of unrecognized temporary differences	0,00%	-	0.11%	68
Non-deductible expense	0.22%	138	0.18%	104
Tax exempt income	-1.79%	(1 149)	-0.57%	(337)
Re-assessment of unrecognised tax losses carryforwards	-18.75%	(12 027)	-2.89%	(1 716)
Tax credit	-1.11%	(710)	0,00%	-
Effect of corporate tax group	-1.05%	(675)	0,00%	-
Corporate income tax due to predecessor	-0.06%	(39)	0,00%	-
Income tax income / (expense)	**-0.79%**	**(507)**	**9.76%**	**5 797**

Data in HUF million except stated otherwise

The Bank is a member of a corporate income tax group. Therefore, corporate income tax is not assessed on a standalone basis, rather it is impacted by the overall tax position of the corporate income tax group.

The Bank relied on its available business plans for calculating the amount of tax losses that can be offset against future tax bases. The Bank completed a sensitivity analysis in connection with the feasibility of the profit before tax for the next five years set out in the Bank's strategy. In the analysis the Bank concluded that the realisation of the Deferred Tax Assets presented in financial statements is secured even if during the next five years, the profit before tax of the Bank disclosed in its strategy will be reduced by 10%.

Tax losses can be offset against up to 50% of future tax bases.

On 31 December 2022, the Bank had unused tax losses amounting to HUF 210,697 million (2021: HUF 237,903 million) with the following maturity:

32.3

	2022	2021
Maturity up to 2025	2 451	2 451
Maturity up to 2030	208 246	235 452
Tax loss carryforwards	**210 697**	**237 903**

The Bank has HUF 45,826 million (2021: HUF 179,453 million) tax losses carried forward, on which no deferred tax asset was recognised mainly due to time limit of utilisation rules.

In 2015, the rules of utilization of tax losses carried forward have changed in Hungary: tax losses arising in 2015 and in following years, can be utilized solely in the subsequent five years following the tax year in which they were generated. Tax losses incurred before 2015 can be utilized until 2030.

Data in HUF million except stated otherwise

33.Leases

The Bank has no significant sub-lease contracts.

33.1

31 December 2022	Other assets	Properties	Freehold property	Vehicles	IT equipments	Total
Cost or deemed cost						
Balance at 1 January	16	11 396	7 358	27	1 230	20 027
Effect of merge	-	17 487	-	-	-	17 487
Additions	-	2 937	78	-	259	3 274
Remeasurement	-	13 188	(815)	-	29	12 402
Disposals	-	44	-	-	-	44
Other modifications	5	(5 342)	(738)	-	21	(6 054)
Balance at 31 December	**21**	**39 710**	**5 883**	**27**	**1 539**	**47 180**
Depreciation and impairment losses						
Balance at 1 January	10	5 829	1 812	3	514	8 168
Effect of merge	-	6 652	-	-	-	6 652
Depreciation for the year	4	3 136	712	4	360	4 216
Remeasurement	-	8 157	(251)	-	-	7 906
Disposals	-	44	-	-	-	44
Other modifications	-	(2 222)	(557)	-	(1)	(2 780)
Balance at 31 December	**14**	**21 596**	**1 716**	**7**	**873**	**24 206**
Carrying amounts						
Balance at 1 January	6	5 567	5 546	24	716	11 859
Balance at 31 December	**7**	**18 114**	**4 167**	**20**	**666**	**22 974**

31 December 2021	Other assets	Properties	Freehold property	Vehicles	IT equipments	Total
Cost or deemed cost						
Balance at 1 January	17	10 428	5 832	-	1 178	17 455
Additions	-	136	1 526	27	52	1 741
Remeasurement	1	1 055	-	-	-	1 056
Disposals	(2)	(183)	-	-	-	(185)
Other modifications	-	(40)	-	-	-	(40)
Balance at 31 December	**16**	**11 396**	**7 358**	**27**	**1 230**	**20 027**
Depreciation and impairment losses						
Balance at 1 January	8	3 727	1 071	-	223	5 029
Depreciation for the year	4	1 752	769	3	291	2 819
Remeasurement	-	640	-	-	-	640
Disposals	(2)	(330)	(28)	-	-	(360)
Other modifications	-	40	-	-	-	40
Balance at 31 December	**10**	**5 829**	**1 812**	**3**	**514**	**8 168**
Carrying amounts						
Balance at 1 January	9	6 701	4 761	-	955	12 426
Balance at 31 December	**6**	**5 567**	**5 546**	**24**	**716**	**11 859**

Data in HUF million except stated otherwise

33.2

	31 December 2022	31 December 2021
Within 3 months	955	606
Within 3 months and 1 year	3 902	2 285
Within 1 year and 3 years	8 030	4 898
Within 3 years and 5 years	5 891	3 588
Over 5 years	16 050	9 185
Contractual value of lease liabilities	**34 828**	**20 562**

33.3

	31 December 2022	31 December 2021
Long-term	28 784	17 019
Short-term	4 386	2 605
Carrying amount of lease liabilities	**33 170**	**19 624**

33.4

	31 December 2022	31 December 2021
Interest expense recognized on lease liabilities	1 258	1 307
Depreciation charged for the year	(4 216)	(2 819)
Cash outflow for leases	7 848	2 837

The value of contracts for which the Bank does not expect to exercise the extension and / or exercise option is immaterial.

The Bank elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets (e.g including printers, IT equipment). The Bank did not recognise any expense relating to leases of low-value assets and short-term leases for the reporting period (2021: HUF 26 million).

The relevant rules on measurement, recognition and presentation are disclosed in Note 4.

33.5

	2023	2024	2025	2026	2027	2028	2029	2030
Lease payments that depend on an index	4 234	3 451	2 286	1 847	1 599	1 383	435	409

34. Earnings per share

The calculation of basic earnings per share on 31 December 2022 based on the net income attributable to ordinary shareholders of HUF 64,637 million (2021: HUF 55,916 million) and a weighted average number of ordinary shares outstanding of 259,782 thousands (2021: 100,000 thousands).

Basic value

31 December 2022

Earnings per Ordinary Share (in HUF)	=	Net income available to ordinary shareholders (in HUF million) / Average number of ordinary shares outstanding (thousands)	=	HUF 64,637 million / 259,782 thousands	=	HUF 249

31 December 2021

Earnings per Ordinary Share (in HUF)	=	Net income available to ordinary shareholders (in HUF million) / Average number of ordinary shares outstanding (thousands)	=	HUF 55,916 million / 100,000 thousands	=	HUF 559

The calculation of fully diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after any adjustment for the effects of all dilutive potential ordinary shares. In the reporting period and in the previous period there were no dilution factors.

Diluted value

31 December 2022

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 64,637 million}}{\text{259,782 thousands}} = \text{HUF 249}$$

31 December 2021

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 55,916 million}}{\text{100,000 thousands}} = \text{HUF 559}$$

35. Use of estimates and judgements

Management discusses with the Bank Supervisory Board the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 6).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see Note 4).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's use of scenarios of the present value of the cash flows that are expected to be received Further information in Note 6.

In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Uncertain or unanticipated future events could result in material adjustments to provisions or additional allowances. The accounting values determined are not fair values or market prices that might be determined if the underlying assets are sold to a third party.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also Note 36 "Valuation of financial instruments" below.

Impairment of non-financial assets

On the balance sheet date the Bank assesses if there is any indication of impairment. If there is, or in cases where an annual impairment test is required the Bank estimates the recoverable amount of the asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount. When determining value in use the estimated future cash flows are discounted to their present value considering current market assessment of the time value of money and the risks specific to the asset. The appropriate valuation method is applied for the determining fair value net of cost of sales. Several assessments are used to underpin these calculations such as listed share prices or other available fair value indicators. If there is significant uncertainty in the valuation method the Bank is able to request an external independent valour. Significant risk can occur in case of a restructuring of the Bank Group, modification of the regulatory requirements, or in determining the estimated effect of complex transactions.

Each impaired asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment.
The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

For further information about the impairment of non-financial assets, please refer to Note 13.

Deferred tax on tax loss carryforward

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

A Bank recognises deferred tax asset for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The Bank is a member of a corporate income tax group. Therefore, corporate income tax is not assessed on a standalone basis, rather it is impacted by the overall tax position of the corporate income tax group.

The Bank relied on its available business plans for calculating the amount of tax losses that can be offset against future tax bases. The Bank completed a sensitivity analysis in connection with the feasibility of the profit before tax for the next five years set out in the Bank's strategy. In the analysis the Bank concluded that the realisation of the Deferred Tax Assets presented in financial statements is secured even if during the next five years, the profit before tax of the Bank disclosed in its strategy will be reduced by 10%.

Tax losses can be offset against up to 50% of future tax bases.

For further information about the deferred tax on tax loss carryforward, please refer to Note 32.

Data in HUF million except stated otherwise

36. Accounting classifications and fair values

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques (see Note 4, and Note 35), which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured.

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

36.1

	31 December 2022 Total carrying amount	31 December 2022 Fair value	31 December 2021 Total carrying amount	31 December 2021 Fair value
Financial assets				
Cash and cash equivalents	**1 081 158**	**1 081 158**	**866 957**	**866 957**
Financial assets measured at fair value through proft or loss	**476 909**	**476 909**	**169 198**	**169 198**
Loans and advances to customers mandatorily at FVTPL	*182 875*	*182 875*	*53 295*	*53 295*
Securities held for trading	*8 434*	*8 434*	*3 964*	*3 964*
Securities mandatorily at FVTPL	*18 017*	*18 017*	*7 537*	*7 537*
Derivative financial assets	*267 583*	*267 583*	*104 402*	*104 402*
Hedging derivative assets	**142 874**	**142 874**	**-**	**-**
Financial assets measured at fair value through other comprehensive income	**428 520**	**428 520**	**187 681**	**187 681**
Securities	*428 520*	*428 520*	*187 681*	*187 681*
Financial assets measured at amortised cost	**4 823 478**	**4 189 651**	**1 979 687**	**1 943 450**
Loans and advances to banks	*448 627*	*448 627*	*25 024*	*25 049*
Loans and advances to customers	*2 565 343*	*2 181 833*	*1 128 148*	*1 091 886*
Repurchase agreement	*9 080*	*9 080*	*20 263*	*20 263*
Securities	*1 772 915*	*1 522 599*	*804 568*	*804 568*
Other financial assets	*27 513*	*27 513*	*1 684*	*1 684*
Fair value change of hedged items in portfolio hedge of interest rate risk	**(51 678)**	**(51 678)**	**-**	**-**
Total	**6 901 261**	**6 267 435**	**3 203 523**	**3 167 286**
Financial liabilities				
Financial liabilities measured at fair value through proft or loss	**196 728**	**196 728**	**43 751**	**43 751**
Derivative financial liabilities	*188 493*	*188 493*	*41 528*	*41 528*
Financial liabilities from short positions	*8 235*	*8 235*	*2 223*	*2 223*
Financial liabilities measured at amortised cost	***6 417 607***	***6 417 607***	**3 007 813**	**3 007 813**
Amounts due to other banks	*1 965 931*	*1 965 931*	*703 041*	*703 041*
Deposits and current accounts	*4 207 025*	*4 207 025*	*2 222 353*	*2 222 353*
Repurchase agreements	*73 429*	*73 429*	*1 319*	*1 319*
Issued debt securities	*12 906*	*12 906*	*3 394*	*3 394*
Subordinated debt	*88 887*	*88 887*	*45 070*	*45 070*
Other financial liabilities	*69 429*	*69 429*	*32 636*	*32 636*
Hedging derivative liabilities	***158***	***158***	**-**	**-**
Total	**6 614 493**	**6 614 493**	**3 051 564**	**3 051 564**

The non-fair value measured instruments of the Bank are Level 3 instruments, except the securities, that are Level 1,2 instruments in the fair value hierarchy.

The methods and the assumptions applied in determining fair values of financial instruments when a valuation technique is used were as follows:

Cash and cash equivalents

Due to the short term nature, the carrying amount of Cash and cash equivalents is a reasonable approximation of their fair value.

Derivative financial instruments

Fair values of Derivative financial instruments are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Securities

The fair values of instruments grouped into Securities are based on quoted market prices, when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar securities. For further information, please refer to Note 10.

Loans to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. For the valuation of the loans to banks and customers, please refer to Note 11.4.

Amounts due to other banks and Current and deposit accounts

For the purposes of estimating fair value, Amounts due to other banks and Current and deposit accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities plus MKB own credit risk. For determining own credit risk (DVA – Debit Value Adjustment) the bank uses the own PD and LGD used also for risk purposes which is also in line with the DVA calculation method for negative fair value derivatives. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the end of the reporting period.

Issued debt securities and Subordinated debt

Fair values are determined using quoted market prices at the end of the reporting period where available, or by reference to quoted market prices for similar instruments plus own credit risk.

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under Note 4.

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the

instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

Counterparty risk (CVA) and own credit risk (DVA) is also taken into account by calculation of fair value of derivative transactions except of the followings:

- 1Netting of NPVs to counterparty level is allowed only in case of International Swaps and Derivatives Association (ISDA) agreement is available.
- If the partners have Credit Support Annex (CSA) for the derivative then both CVA and DVA are 0.
- If the contract covered by collateral then CVA=0.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of the reporting period that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain over the counter structured derivatives and certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The table below analyses financial instruments measured at fair value, by valuation method:

Data in HUF million except stated otherwise

36.2

31 December 2022	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
Financial assets				
Financial assets measured at fair value through proft or loss	**6 354**	**287 306**	**183 249**	**476 909**
Loans and advances to customers mandatorily at FVTPL	*-*	*-*	*182 875*	*182 875*
Securities held for trading	*6 354*	*2 080*	*-*	*8 434*
Securities mandatorily at FVTPL	*-*	*17 643*	*374*	*18 017*
Derivative financial assets	*-*	*267 583*	*-*	*267 583*
Hedging derivative assets	-	**142 874**	-	**142 874**
Financial assets measured at fair value through other comprehensive income	**305 686**	**122 834**	-	**428 520**
Securities	*305 686*	*122 834*	-	*428 520*
Financial liabilities				
Financial liabilities measured at fair value through profit or loss	**8 114**	**188 614**	-	**196 728**
Derivative financial liabilities	*-*	*188 493*	*-*	*188 493*
Financial liabilities from short positions	*8 114*	*121*	*-*	*8 235*
Hedging derivative liabilities	-	**158**	-	***158***

31 December 2021	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
Financial assets				
Financial assets measured at fair value through profit or loss	**3 320**	**112 440**	**53 438**	**169 198**
Loans and advances to customers mandatorily at FVTPL	*-*	*-*	*53 295*	*53 295*
Securities held for trading	*3 320*	*644*	*-*	*3 964*
Securities mandatorily at FVTPL	*0*	*7 394*	*143*	*7 537*
Derivative financial assets	*-*	*104 402*	*-*	*104 402*
Financial assets measured at fair value through other comprehensive income	**116 195**	**71 487**	-	**187 681**
Securities	116 195	71 487	-	***187 681***
Financial liabilities				
Financial liabilities measured at fair value through profit or loss	**2 223**	**41 528**	-	**43 751**
Derivative financial liabilities	*-*	*41 528*	*-*	*41 528*
Financial liabilities from short positions	*2 223*	*-*	*-*	*2 223*

The determination of fair value level and the transfers between levels are in line with accounting policy (see Note 4). There were no transfers between fair value levels in the reporting period ended on 31 December 2022.

There is no active quotation of discount government bonds when they reach within 3-month maturity. For discount government bonds within the maturity of 3 months, MKB Bank is using yield-curve valuation technique. The inputs of the yield-curve are the relevant active market prices, consequently it is considered as Level 2 valuation.

As part of its trading activities the Bank enters into OTC structured derivatives, primarily options indexed to equity prices, foreign exchange rates and interest rates, with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different asset prices or foreign currency exchange rates. These inputs are estimated based on extrapolation from observable shorter-term volatilities, recent transaction prices, quotes from other market participants and historical data.

In determining fair values, the Bank does not use averages of reasonably possible alternative inputs as averages may not represent a price at which a transaction would take place between market participants on the measurement date. When alternative assumptions are available within a wide range, judgements exercised in selecting the most appropriate point in the range include evaluation of the quality of the sources of inputs (for example: the experience and expertise of the brokers providing different quotes within a range, giving greater weight to a quote from the original broker of the instrument who has the most detailed information about the instrument) and the availability of corroborating evidence in respect of some inputs within the range.

Separate Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

37.Related parties

The Bank's related parties include other subsidiaries of owners that have significant influence over the parent entity, subsidiaries, associates, Key Management Personnel of the Bank, their companies for which significant voting power is held, by related parties, close family members of Key Management Personnel.

Government-related entities are exempt from the general disclosure based on IAS 24.25.

Key Management Personnel are the members of the governing boards of the Bank like Supervisory Board and the members of the Board of Directors.

Transactions with related parties

Related parties have transacted with the Bank during the period as follows:

37.1

	Parent company and its group		Subsidiaries		Associates		Key Management Personnel		Other related parties	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Assets										
Amounts due from other banks	-	1 268	30 000	-	-	-	-	-	-	-
Loans and advances to customers	81 074	55 329	348 573	182 099	21 171	269	1 897	430	7 266	8 100
Derivative financial assets	271	3 342	6 711	43	1 036	-	-	-	-	141
Securities and investments	34 160	455	397 414	45 557	20 682	614	-	-	280	1 336
Other assets	-	48	4 806	8 550	-	-	-	-	-	-
Liabilities										
Amounts due to other banks	-	2 385	673 162	-	-	-	-	-	-	-
Current and deposit accounts	225 717	54 329	18 846	17 582	681	339	1 536	889	12 826	8 819
Derivative finacial liabilities	-	1 128	-	-	-	-	-	-	-	1
Other liabilities	-	636	-	7 343	-	-	-	-	-	-
Income statement										
Interest and similar to interest income	7 072	1 625	40 792	1 856	356	1	137	16	840	301
Interest expense	(10 793)	(549)	(39 828)	(133)	-	-	(3)	-	(1 097)	(44)
Net income from commissions and fees	713	414	700	113	111	47	20	47	208	94
Other net income / (expense)	(433)	(237)	(132)	(53)	(10)	(4)	(1 368)	(1 660)	(100)	(82)
Contingencies and commitments	*140 165*	*80 978*	*150 151*	*27 191*	*477*	*113*	*550*	*30*	*5 837*	*86*
Undrawn commitments to extend credit	*135 901*	*80 514*	80 299	22 771	*477*	*113*	*235*	*30*	-	-
Guarantees	4 264	464	69 852	4 420	-	-	315	-	5 837	86
Expected credit loss / Impairment	9 276	6 265	228 025	36 921	651	2	(9)	13	29	62

Parent company and its group include parties of Magyar Bankholding shareholders and its interests.

Significant part of the amount outstanding from Key Management Personnel represents mortgages and secured loans granted and these loans are secured over property of the respective borrowers.

Data in HUF million except stated otherwise

The above transactions with other than Key Management Personnel were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. The transactions did not involve more than the normal risk of repayment.

The average interest rate applied to related parties was within the 0.15% - 18.5% range.

Other related parties include the interests of the Key Management Personnel and other investments.

Impairment losses and provisions against balances outstanding with related parties were recognized during ordinary course of impairment assessment. Expected credit loss has been recognized on balance sheet items and off balance sheet items with related parties which were individually or collectively assessed.

Key management personnel compensation for the period comprised:

37.2

	2022	2021
Short-term employee benefits	461	769
Other long-term benefits	143	110
Termination benefits	-	11
Share-based payment transactions	143	108
Total	**747**	**998**

38. Segment information

The following segment information has been prepared in accordance with IFRS 8, “Operating Segments,” which defines requirements for the disclosure of financial information of an entity’s operating segments. It follows the “management approach”, which requires presentation of the segments on the basis of the internal reports about components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance. Management reporting for the Bank is based on IFRS presenting the following segments.

Business segments

The business segments identified by the Bank represent the organizational structure as reflected in its internal management reporting systems. The Bank is organized into four business lines, each with its own distinct market and products. Each business line has its own set of objectives and targets broken down by operating units, which are consistent with the Bank's overall strategic direction.

As of 31 December 2022, the Bank's business segments and their main products were:

Corporate Banking

The Bank provides trade finance, a wide array of credit, account and deposit products, forfeiting and factoring, letters of credit, guarantees, international payments, project and structured finance, investment and financial advisory services to large entities through branches and electronic delivery channels.

Institutional Banking

MKB Bank serves financial institutions, financial service companies and other entities with financial services, as well as international and domestic payments, the Treasury department deals with investments in securities, hedging transactions and correspondent banking services, the Bank participates in bank-to-bank finance.

Retail and Private Banking

The Bank provides a wide range of deposit and savings instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through 143 full-service branches and sub-branches (2021: 51 branches), ATMs, telephone and electronic channels.

Leasing

Leasing segments contains data in connection with lease activity.

Other

Residual items which cannot be directly allocated to business segments (mainly general administration expense) are included in the Other category.

Data in HUF million except stated otherwise

38.1

31 December 2022	Corporate Banking	Retail and Private Banking	Leasing	Institutional Banking	Other	Total
Assets						
Cash and cash equivalents	-	-	-	1 081 158	-	1 081 158
Financial assets measured at fair value through profit or loss	-	182 875	-	294 034	-	476 909
Loans and advances to customers mandatorily at FVTPL	-	182 875	-	-	-	182 875
Securities held for trading	-	-	-	8 434	-	8 434
Securities mandatorily at FVTPL	-	-	-	18 017	-	18 017
Derivative financial assets	-	-	-	267 583	-	267 583
Hedging derivative assets	-	-	-	142 874	-	142 874
Financial assets measured at fair value through other comprehensive income	-	-	-	428 520	-	428 520
Securities	-	-	-	428 520	-	428 520
Financial assets measured at amortised cost	1 737 903	778 145	84 348	2 230 622	(7 540)	4 823 478
Loans and advances to banks	-	-	-	448 627	-	448 627
Loans and advances to customers	1 737 903	778 145	-	-	(35 053)	2 480 995
Repurchase agreement	-	-	-	1 772 915	-	1 772 915
Securities	-	-	-	9 080	-	9 080
Other financial assets	-	-	-	-	27 513	27 513
Fair value change of hedged items in portfolio hedge of interest rate risk	-	-	-	(51 678)	-	(51 678)
Investments in subsidiaries and associates	-	-	-	-	424 367	424 367
Property, plant and equipment	-	-	-	-	37 725	37 725
Intangible assets	-	-	-	-	44 206	44 206
Income tax assets	-	-	-	-	17 668	17 668
Other assets	-	-	-	-	43 551	43 551
Total assets	**1 737 903**	**961 020**	**84 348**	**4 125 530**	**559 977**	**7 468 778**
Liabilities						
Financial liabilities measured at fair value through profit or loss	-	-	-	196 728	-	196 728
Derivative financial liabilities	-	-	-	188 493	-	188 493
Financial liabilities from short positions	-	-	-	8 235	-	8 235
Financial liabilities measured at amortised cost	2 744 193	1 396 496	-	2 144 506	132 412	6 417 607
Amounts due to other banks	-	-	-	1 965 931	-	1 965 931
Deposits and current accounts	2 744 193	1 396 496	-	3 353	62 983	4 207 025
Repurchase agreements	-	-	-	73 429	-	73 429
Issued debt securities	-	-	-	12 906	-	12 906
Subordinated debt	-	-	-	88 887	-	88 887
Other financial liabilities	-	-	-	-	69 429	69 429
Hedging derivative liabilities	-	-	-	158	-	158
Provisions	9 421	4 151	107	298	-	13 977
Income tax liabilities	-	-	-	-	5 496	5 496
Other liabilities	-	-	-	-	41 800	41 800
Total liabilities	**2 753 614**	**1 400 647**	**107**	**2 341 690**	**179 708**	**6 675 766**
Equity						
Share capital	-	-	-	-	321 699	321 699
Share premium	-	-	-	-	313 947	313 947
Retained earnings	-	-	-	-	84 155	84 155
Other equity	-	-	-	-	32 552	32 552
Profit for the year	-	-	-	-	64 637	64 637
Accumulated other comprehensive income	-	-	-	-	(23 978)	(23 978)
Total equity					**793 012**	**793 012**
Total liabilities and equity	**2 753 614**	**1 400 647**	**107**	**2 341 690**	**972 720**	**7 468 778**
Statement of profit or loss						
Interest and similar to interest income	56 832	42 626	8 937	357 406	31 876	497 677
Interest expense	(81 726)	(3 760)	(5 162)	(174 297)	(17 055)	(282 000)
Net interest income	**(24 894)**	**38 866**	**3 775**	**183 109**	**14 821**	**215 677**
Net income from commissions and fees	**31 906**	**38 728**	**(157)**	**(880)**	**(11 121)**	**58 476**
Results from financial instruments	10 918	5 698	-	17 136	-	33 752
(Impairment) / Reversal on financial and non-financial instruments	(23 714)	(16 941)	-	-	(16 319)	(56 974)
Dividend income	-	-	-	-	4 023	4 023
Operating expense	(54 364)	(93 463)	(1 709)	(1 834)	(38 937)	(190 307)
Other income / (expense), net	-	-	-	-	(517)	(517)
Profit before taxation	**(60 148)**	**(27 112)**	**1 909**	**197 531**	**(48 050)**	**64 130**
Income tax income / (expense)	-	-	-	-	507	507
PROFIT FOR THE YEAR	**(60 148)**	**(27 112)**	**1 909**	**197 531**	**(47 543)**	**64 637**

Separate Financial Statements as at 31 December 2022 Data in HUF million except stated otherwise

31 December 2021	Corporate Banking	Retail and Private Banking	Institutional Banking	Other	Total
Assets					
Cash and cash equivalents	-	-	831 434	-	831 434
Loans and advances to banks	-	-	61 814	-	61 814
Derivative financial assets	-	-	104 402	-	104 402
Securities	149 019		854 732	-	1 003 751
Loans and advances to customers	944 485	256 724	-	-	1 201 209
Non-current assets held for sale and discontinued operations	-	35	-	-	35
Other assets	-	-	-	18 810	18 810
Deferred tax assets	-	-	-	7 756	7 756
Investments in jointly controlled entities and associates	-	-	-	49 563	49 563
Intangibles, property and equipment	-	-	-	41 408	41 408
Total assets	**1 093 504**	**256 759**	**1 852 382**	**117 537**	**3 320 182**
Liabilities					
Amounts due to other banks	-	-	705 565	-	705 565
Deposits and current accounts	1 789 348	444 346	-	-	2 233 694
Derivative financial liabilities	-	-	41 528	-	41 528
Other liabilities and provisions	44 725	3	-	5 460	50 188
Current income tax liabilities	-	-	-	1 862	1 862
Issued debt securities	-	-	3 394	-	3 394
Subordinated debt	-	-	45 070	-	45 070
Shareholders' equity	-	-	-	238 881	238 881
Total liabilities and equity	**1 834 073**	**444 349**	**795 557**	**246 203**	**3 320 182**
Income statement					
Interest and similar to interest income	18 748	11 526	44 956	7 100	82 330
Interest expense	(3 708)	(48)	(23 604)	(5 112)	(32 472)
Net income from commissions and fees	18 108	6 936	7	-	25 051
Other Income	8 992	1 665	52 776	(17 841)	45 592
(Impairment) / Reversal and provision for losses	49	(3 805)	110	(107)	(3 753)
Operating expense	(21 281)	(19 324)	(3 609)	(11 327)	(55 541)
Expense related to bank levies	-	-	-	(1 824)	(1 824)
Segment result	**20 908**	**(3 050)**	**70 636**	**(29 111)**	**59 383**

The Bank does not changed the structure of the segment report of 2021 in line with management's expectations.

Measurement of segment profit or loss

Segment reporting under IFRS 8 requires a presentation of the segment results based on management reporting methods with reconciliation between the results of the business segments and the separate financial statements. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information which are regularly reviewed by the management.

Calculation of intersegment revenue

Intersegment revenues and expenses are calculated on market interest method. In the case of refinanced loans, as well as those linked to a deposit, are evaluated against the connected transaction. Revenues and expenses on refinanced loans and loans linked to deposit are calculated with reference to the interest of the underlying transaction.

Since the Bank's business activities are diverse in nature and its operations are integrated, certain estimates and judgments have been made to apportion revenue and expense items among the business segments.

Both revenues and non-current assets can be connected to domestic activities based on geographical location.

Data in HUF million except stated otherwise

39. Non-current assets held for sale and discontinued operations

At the end of the reporting period the Bank has no non-current assets held for sale.

On 31 December 2021, a loan-portfolio in net amount of HUF 35 million (gross value of HUF 354 million, relating loss allowances of HUF 319 million) was reclassified to non-current assets held for sale.

40. Audit fee and other services performed by the auditor

The following table contains other audit service fees for 2022:

2022	Amount in HUF
Other audit services	171 200 000 +VAT
Other non-audit servies	21 400 000 +VAT
Fee of other services performed by the auditor*	**192 600 000 +VAT**

* All services were of fixed fees.

The following table presents the fees for audit services:

2022	Amount in HUF
Audit fee of the Bank	192 000 000 +VAT
Total audit fee	**192 000 000 +VAT**

Auditing company:
Deloitte Könyvvizsgáló és Tanácsadó Kft. (until 31st May 2022)
PricewaterhouseCoopers Könyvvizsgáló Kft. (from 1st June 2022)

Auditor personally responsible:
Zoltán Mádi-Szabó (until 31st May 2022)
Árpád Balázs (from 1st June 2022)

Person responsible for managing and controlling the accounting services tasks:
Péter Darazsacz, managing director of finance and reporting
Tamás Tóth, registration number 207276

Data in HUF million except stated otherwise

41. Share based payments

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. MKB Bank was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016. The launch of the ESOP was closely linked to MKB Bank's reorganisation efforts, as it created ownership interest among its employees. The establishment of the ESOP was strongly linked to the reorganisation efforts of the Bank as it founded the framework of the employee share ownership.

Since 2017 MKB manages the settlements of the variable cash settled share based payments as they are regulated by ESOP’s Remuneration Policy. Eligible employees submit a participation declaration, to become participants of the ESOP and subject to the regulations of the Remuneration Policy.

In order to settle the variable cash settled share based payments, the ESOP exercises MKB’s bonds and buys purchase options. The maturity of the bonds and the quotation of the purchase options cover the variable cash settled payments are aligned with the cycles of the deferred payments. The participants of the ESOP will not become owners of MKB shares, the owner will be the ESOP Organization. Participants of the ESOP will have shares in the ESOP Organization. Participants will be entitled for the financial settlement of cash settle share based payments, as it is regulated by the ESOP Remuneration Policy, during the periods of the deferred payments. The payments of the cash settled shared based payments will be managed after the recognition of the bonds and the purchase options in line with the deferral periods.

The share based payments of the purchase options are accounted based on the principles of IFRS 2 standard, while the share based payments of the bonds are accounted as of IAS 19 standard.

Details of the share based compensation:

41.1

2022	Number of shares	Weighted average exercise price (HUF/share)
outstanding at the beginning of the period	5 438 444	10
granted during the period	2 167 068	10
exercised during the period	(205 540)	10
outstanding at the end of the period	7 399 972	10

2021	Number of shares	Weighted average exercise price (HUF/share)
outstanding at the beginning of the period	3 798 388	10
granted during the period	1 962 061	10
exercised during the period	(322 005)	10
outstanding at the end of the period	5 438 444	10

42. Events after the end of the reporting period

MKB Bank Plc. has announced that the position of Mr Antal Martzy as Deputy Chief Executive Officer for Finances at the Company, at Magyar Bankholding Zrt., and at the members of the MKB Bank group, Takarékbank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt. will be terminated by mutual consent as of 31 December 2022. The MKB Bank Plc. furthermore has informed the capital market participants that Mr Péter Krizsanovich will take up the position of Deputy Chief Executive Officer for Finances of the Company and the MKB Bank group as of 1 January 2023, but at the latest upon receipt of the relevant approval of the National Bank of Hungary. Mr Péter Krizsanovich has held various management positions in OTP Bank's Strategy and Finance Division for 17 years, including 5 years as Managing Director of the Strategy, Planning and Controlling Directorate. He has international experience in regional expansion and he has participated as a board member in the management of several leading foreign banks, and has achieved significant innovations and results in all areas of finance, especially in IT.

On 13 March 2023, the Board of Directors of National Deposit Insurance Fund determined to refund the surplus of the remaining part of the extraordinary payment obligation charged to credit institutions to compensate the customers of Sberbank Hungary Zrt. (under liquidation) until 31 March 2023. The Bank expects to receive a refund of HUF 2,578 million in the financial statements of 2023 after the financial settlement of the refund.

The Bank's management is closely monitoring the material events in the European and US banking sectors, as a consequence of which the management does not expect any direct negative impact on the Bank. The liquidity and capital position of the Bank is stable and strongly excess the regulatory requirements.

SEPARATE MANAGEMENT REPORT

to the separate 2022 Financial Statements of MKB Bank Nyrt. (Prepared under IFRS)

In 2022, the scope of activities of MKB Bank Nyrt. comprised the following sectors:

- **banking services**
- **finance and operating leases**
- **financial and investment services**
- **other loans**

MKB Bank's profit after taxation for 2022 under IFRS amounted to HUF 64,637 million gain.

Shareholders' equity was HUF 793,012 million at 2022 year-end.

Budapest, 04 April 2023

dr. Zsolt Barna	Péter Krizsanovich
Chairman and Chief Executive Officer	Deputy Chief Executive Officer

MANAGEMENT REVIEW & ANALYSIS[1]

HISTORY OF MKB BANK Plc.

MKB Bank Plc. is one of the oldest members of the Hungarian banking system, having started its operations in 1950. The purpose of its creation was to take part in international payments, mainly by performing banking functions related to foreign trade. During the 1987 banking reform, when the two-tier banking system was established, MKB Bank was granted comprehensive commercial banking powers, which strengthened its traditional banking activities and successfully launched and expanded its new business lines.

Complex services for domestic companies became the bank's core business in a short period of time. In the first successful privatisation of a large domestic bank, the internationally renowned German financial institution BayernLB, a significant player in its home country, acquired a majority stake in the bank. Since the late 1980s, the bank has further developed its retail banking services, its money and foreign currency market activities and its capital market activities. By the end of 2001, with the integration of its securities trading activities, MKB Bank became a universal bank, offering unique and complex services to its customers through its strategic interests.

Under the terms of the agreement with the European Commission, BayernLB had to divest certain stakes in exchange for receiving state financial aid. For this reason. From 30 September 2014, the Hungarian state became the owner of MKB Bank Zrt. At the end of this year, the bank's EU-supervised reorganisation process was launched, putting the institution on a sustainable path through reorganisation and rationalisation measures. On 29 June 2016, the sale process launched in the autumn of 2015 was successfully completed, with the new owners of MKB Bank Zrt. being the METIS Private Equity Fund (45%), the consortium of Blue Robin Investments S.C.A. (30%), the Pannónia Pension Fund (10%) and the ESOP organisation (15%).

Even after the successful reorganisation of MKB Bank, the number one core value is to continue to serve customers professionally, with the most important elements being customer relationship and experience, value preservation and creation, and innovative banking solutions. The knowledge and expert base as well as the embedded system of relations built over the fifty years of operation, made MKB a major operator in the Hungarian corporate trade financing, cash and liquidity management and investment market. The bank's exceptional professional prestige helps it create value for its customers.
On 15 May 2020, MTB Magyar Takarékszövetkezeti Bank and MKB Bank signed a Memorandum of Understanding to establish a joint financial holding company, in which the two financial institutions entered with equal ownership shares. On 26 May, Budapest Bank Zrt. also joined the strategic cooperation.

Magyar Bankholding Zrt. is a domestically owned financial holding company, which aims to implement the merger of Budapest Bank Zrt., MKB Bank Plc. and the Takarék Group. The company became operational on 15 December 2020 when, after obtaining the approval of the

[1] In the next chapter of the financial statement, we assess and analyze the financial situation of the Bank and the results of the activities in order to give the reader an overview of the financial situation and the results for 2022. The following analyses are based on the individual financial statements of MKB Bank prepared in accordance with the International Financial Reporting Standards ("IFRS") for 2022 to the accounting date of 31 December 2022, audited by the registered auditors of the PwC Könyvvizsgáló és Tanácsadó Kft. Accordingly, the following analysis focuses on the performance of the Bank. Individual financial statements prepared in accordance with the IFRS requirements will be presented separately.

Magyar Nemzeti Bank, the major shareholders of the three credit institutions transferred their bank shares to the joint holding company, creating Hungary's second largest bank group.

On 15 December 2021, the General Meeting of MKB Bank and the highest decision-making bodies of Budapest Bank and Magyar Takarék Bankholding Zrt., which owns the Takarék Group, approved the merger timetable for the merger of Budapest Bank, MKB Bank and Magyar Takarék Bankholding.

As a first step, the two member banks of the bank group, Budapest Bank and MKB Bank, merged on 31 March 2022, in the course of which Budapest Bank was merged into MKB Bank. The merged bank will temporarily continue to operate under the name MKB Bank Plc. the launch of the single financial institution brand will be completed in the second quarter of 2023, simultaneously with the Takarékbank.

Upon request of Hungarian Bankholding the National Bank of Hungary with its decision nr. H-EN-I-119/2022. dated on 8 March 2022, revoked the licence issued to Hungarian Bankholding by decision nr. H-EN-I-358/2020. dated 12 June 2020 for operating as a financial holding company with effect from 29 April 2022, and MKB Bank took over the group management function over the banking group after 29 April 2022, based on a new group resolution issued by the National Bank.

The bank group aims to introduce customer-centred, competitively priced, internationally leading digital solutions, products and services, building on the combined strengths, values and best practices of the three strong domestic commercial banks. The integration of the three member banks is unique not only in Hungary, but also in the financial market of the region, mainly due to its complexity and scale.

MKB Group is a very stable, strong and dominant player in the Hungarian financial sector. Currently, it is the second largest bank group in Hungary in terms of total assets and also has the largest branch and ATM network. The bankgroup is a market leader in a number of areas, including lending to corporate customers and the micro, small and medium-sized enterprise sector, which is of key importance to the national economy, serving agricultural and private banking clients, and in the leasing market.

OPERATIONAL ENVIRONMENT

International and domestic economic processes in 2022 were significantly influenced by the military conflict between Russia and Ukraine that started in February. Due to the elevated risks concerning the energy supply of Europe – partly secured from imported Russian gas and oil – energy prices effectively exploded. This thoroughly amplified inflationary processes, which already unfolded in the wake of a demand-supply mismatch created by the pandemic restrictions in 2020 and 2021. Accelerating inflation, sanctions imposed on Russia and measures to markedly reduce energy consumption clearly increased the danger of the Euro Area’s economy turning into recession in the second half of last year. Yet, towards the end of the year a significant correction took place in energy prices, adjustment processes also proved to be mostly successful, hence the Euro Area’s economy, which is imperative from the viewpoint of Hungary’s growth opportunities, finally avoided recession. Compared to its European peers Hungary’s economy was impacted more severely by the war in its neighbourhood, since it is more reliant on Russian gas and oil and the Forint experienced exceptionally heavy downward pressures partly owing to the war itself, partly to disputes with the EU over the rule of law and hence financing issues. Although GDP-growth remained fairly dynamic in the first quarter supported by expansionary fiscal policies, the aforementioned negative developments gradually started to weigh on performance, besides, an unusually severe drought led to a marked contraction in agricultural output. In the last two quarters of 2022 the quarterly growth rate of GDP (adjusted for seasonal effects) was already negative, hence Hungary slipped into a technical recession, and following 7.1% growth back in 2021, it finally realized an average annual growth rate of below 5% in 2022.

Inflation has already been on an upward trajectory before the Russian-Ukrainian war broke out, core inflation, which captures underlying inflation processes, was continuously above the upper edge of the central bank's tolerance band from the second half of 2021. The rate of inflation gained speed with the outbreak of the Russian-Ukrainian war through the fast increase of energy prices, while the Forint's sharp depreciation, the inferior growth rate of supply to that of demand and direct supply shortages also played a decisive role. By introducing caps on the price of fuel and certain key food items the government made efforts to slow the speed of CPI-growth. Yet, this partly resulted in speculative purchases and supply problems, while some retailers, who sell a wide range of foodstuff, were able to raise the prices of food items, not subject to the fixed caps, to an extent, which cannot be explained on pure cost basis. These problems eventually led to the termination of price caps in the case of fuel by December. As a consequence, inflation was pushed even higher by year-end and stood at 24.5% year-on-year, while on annual average it amounted to 14.5%.

The Hungarian central bank implemented one of the strictest tightening of interest rate conditions throughout 2022: it raised its base rate from 2.4% prevailing at the end of 2021 to 13% by September last year, also declaring that the rate hike cycle that began in June 2021, came to its end. However, the base rate acted as the effective policy rate for only a short, transitional period, since up to June's rate setting meeting the interest rate on the one-week deposit facility was the decisive policy rate, and it was only between June and October that the base rate was equal to that rate. In the middle of October the central bank had to react to strong pressures on Hungarian financial asset prices (most notably to the downward pressure on the Forint's exchange rate) by transforming its monetary policy tools, at the end of which the 18% interest paid on the daily quick deposit tenders becoming the effective policy rate. Besides tightening interest rate conditions the central bank made efforts to alleviate the pressure on Hungarian financial asset prices by markedly raising the mandatory reserves ratio and introducing measures that limited the volume of instant liquidity of the banking system (like holding tenders for longer term deposits, more frequently auctioning the discount bill etc.). In its statements towards the end of 2022 the central bank emphasized that a gradual cutting of the effective policy rate becomes realistic only after marked improvements in Hungary's risk perception take place, in which reaching an agreement with the EU over development and cohesion funds should be vital.

After first quarter of 2022 the central government implemented massive corrective measures (imposing new sector specific taxes, delaying investment projects), which were necessitated by rising energy prices that became a heavy burden on the expenditure side of the budget, but interest payments on public debt also increased sharply. Whereas higher than expected inflation led to significant overperformance in some income items (like consumption related tax revenues), the annual cash-flow based deficit finally amounted to HUF 4,750 billion, almost 50% above the original budget plan. Taking into account the impact of an exceptional natural gas purchase to fill up gas reservoirs this translates into a 6% of GDP accruals based deficit for 2022, thus only a modest improvement following 6.8% deficit back in 2021. Yet, as nominal GDP growth was outstanding due to high inflation, public debt relative to GDP declined quite considerably, down by close to 4 percentage points from the preceding year's 76.8%.

Due to adverse terms of trade changes reflecting mainly the impact of rising energy prices the deficit of the current account widened further in 2022: following 4.2% of GDP back in 2021 it likely deteriorated to 7.5% of GDP. Taken together with the capital account, which mostly includes transactions related to the EU budget, Hungary's net external financing need rose above 4% of GDP as opposed to 1.6% a year before. This, of course, resulted in an increase of net external debt, albeit only in nominal terms. Relative to GDP neither gross, nor net external debt exhibits actual growth, due to the strong increase of nominal GDP. Compared to end-2021 their levels are approximately the same at 84% and 15% respectively.

Credit institutions were also subject to diverse impacts in 2022. While the marked increase in the yield environment led to spectacular growth in net interest income, operating costs were driven up by soaring inflation, net impairment and provisioning on loans multiplied due to a marked deterioration in the economic outlook, new levies were imposed on the banking sector and the largest credit institution suffered a heavy loss on its Russian and Ukrainian exposures. In the second half of the year the previously dynamic lending activity markedly slowed due to rising interest rates especially in the household segment, meanwhile, in the corporate segment demand for credit was diverted towards relatively less expensive foreign exchange denominated loans. Overall, following year 2021's HUF 500 billion profit that was realized on the banking sector's domestic operations and translates into a 10% return on equity, last year's after-tax profit was less than HUF 400 billion, which implies only 7% return on equity.

MKB's RESULTS FOR 2022

The merger of Budapest Bank on 31 March 2022 had a significant impact on MKB's 2022 figures, both in the items of profit and in the financial situation. The total assets of the Bank increased by HUF 4,148.6 billion to HUF 7 468.8 billion by the end of 2022. The stock of customer loans amounted to HUF 2,565.3 billion, while the stock of customer deposits reached HUF 4,207.0 billion. Profit after tax increased by HUF 8.7 billion to HUF 64.6 billion.

The Bank's financial and business fundamentals strengthened further, including capitalization, liquidity, funding structure, balance sheet structure and the performance of its business lines.

Main figures in HUF million	31.12.2022	31.12.2021	Change %*	Change
Total assets	7,468,778	3,320,182	125.0%	4,148,596
Financial assets measured at amortised cost	4,823,478	1,979,687	143.6%	2,843,791
o/w net client loans	2,565,343	1,128,148	127.4%	1,437,195
Financial liabilities valued at amortized costs	6,417,607	3,007,813	113.4%	3,409,794
o/w client deposits	4,207,025	2,222,353	89.3%	1,984,672
Equity	793,012	238,881	232.0%	554,131
Profit/Loss before tax	64,130	61,713	3.9%	2,417
Profit/loss for the year	64,637	55,916	15.6%	8,721
Total comprehensive income	68,330	35,907	90.3%	32,423

PERFORMANCE OF THE INDIVIDUAL BUSINESS LINES[2]

Retail clients

In preparation for the merger of MKB Bank and Takarékbank in May 2023, a process of unification of products and the harmonisation of processes has started. The merger of MKB Bank and Budapest Bank took place on 1 April 2022. From then onwards, new account

[2] The source of individual market data: MNB (Central Bank of Hungary), KAVOSZ, BAMOSZ (Association of Hungarian Investment Funds and Asset Management Companies), Eximbank, MFB (Hungarian Development Bank), MKB's own calculation

packages with uniform pricing were launched not only in the two former, already merged, member banks, but also in Takarékbank, the third member bank of Bank Group, paving the way for full integration. The new account packages cover a wide range of customer needs and are in line with Bank Group's future strategy.

To facilitate the delivery of the business plans, a retail bank account acquisition promotion was launched with a number of other promotions to encourage the use of bank cards and increase the number of account openings. There have been a number of developments and measures relating to bank cards to support the use of digital channels and to improve customer convenience. As of 1 April 2022, customers of MKB Bank and former Budapest Bank with retail and corporate debit cards have been able to withdraw cash at nearly 1,000 ATMs (MKB Bank, former Budapest Bank and Takarékbank ATNs) nationwide at the same rate as their own bank cash withdrawal. In December 2022, the Google Pay service became available for Takarékbank Visa retail and corporate debit cardholders.

In order to compensate for the increase in expenditure due to inflation, the Bank has taken the opportunity provided by law to increase the fees for retail account and bank card products by the rate of the consumer price index for 2021.

Among savings and investment solutions, investment funds were particularly popular in 2022. The Bank primarily met client needs with the wide range of products offered by MKB Fund Manager, which was merged as a result of the merger of Budapest Fund Manager and MKB-Pannónia Fund Manager in 2022. Among investment funds, short bond funds combining high return potential with flexible investment horizons were particularly popular, with their assets multiplying over the year. Total assets under managed in the investment funds increased further by 6.8% compared to 2021. Demand for retail government bonds in 2022 was more subdued than previously for most of the year, but new retail government bonds issued in the last quarter of the year have re-emerged as a favourable savings alternative in customers' individual portfolios.

To strengthen market position, the Bank launched a Baby Loan promotion and priced the 10-year interest period mortgage loan in TOP3. At the end of the year home loans had 15% market share (MKB: 7.9%) while the market share of all general purposes mortgage loans increased from 23.2% to 24.4% (MKB: 13.4%).

As of January 2022, the government's capping of lending rates has provided further relief for customers in payment difficulties. A government decree of 14 October 2022 extended the interest rate freeze until 30 June 2023 and extended it to non-interest-subsidised mortgage loan aqreements with fixed interest rates for interest periods of up to five years from 1 January 2022.

In the third quarter of 2022, MKB Bank Nyrt. took over the outstanding loan agreements between Sberbank Magyarország and its customers, based on the authorisation received from the Magyar Nemzeti Bank. The transfer of the portfolio took place with effect from 1 August 2022, under which HUF 330 billion of high-quality, stable retail and corporate loan portfolio was transferred to MKB Bank, which has achieved a significant expansion in the strategically important retail and corporate lending.

For personal loans, Bank Group's market share increased steadily from the second quarter and exceeded 15% by the end of the year. Although volumes declined as a result of the rise in interest rates that peaked in the last quarter, this was less pronounced in the member banks thanks to intensive campaigning activity, strict competitor monitoring and a competitive pricing strategy. Product and risk conditions, marketing activities and segment-based targeting have also been harmonised. The share of online E2E (end to end) claims is steadily increasing within the total claims and cycle times have also been improved. The new disbursed volume of HUF 34 billion exceeded the performance of the previous years. This gave Bank a stable market position at a high level.

The performance of the intermediary sales channel in 2022 on the unsecured loan side was 8.1% higher than the previous year, while for mortgage loans it was down by 19.3%.

The Credit Card range was further expanded in 2022. GO! was introduced for credit cards in July. The Bank tailored the Platinum Credit Card primarily to the banking habits of Premium and Private Banking customers, in order to meet the everyday financial needs of this segment as widely as possible. The number of strategic partners involved in the sale of Credit Cards and Commodity Loans also increased last year. In addition to the Tesco Shopping Card and the Euronics Credit Card, from May 2022 the Bank launched the sale of the ÉnPostám (MyPost) co-branded credit card in 200 post offices in cooperation with the Hungarian Post. This new co-branded credit card combines the benefits of shopping with a credit card and the benefits of the ÉnPostám Loyalty Programme. In eight months, 475 credit cards were sold. The physical sale of the commodity credit product with Media Markt, which has been in place for several years, has increasingly shifted towards online sales. The average amount of unsecured loans offered by each of the Bank's strategic partners has increased compared to 2021. The average loan amount requested under the Media Markt Online commodity loan increased the most, by 19.4%. The trust of not only the strategic partners, but also hundreds of small partners have been gained by promoting the Commodity Loan scheme.

The member banks of Bank Group signed a strategic cooperation agreement with CIG Pannónia Group in the first quarter of 2022. As part of this, the merged banks have developed a range of insurance products for sale, which is made up of products from CIG Pannónia Insurers, in order to provide a uniform service to customers.

As the first stage of the cooperation, a change was made in housing insurance, with the introduction of CIG Pannónia LakóTárs housing insurance, which replaced Aegon's OKÉ housing insurance product, from 16 March 2022.

Starting from the second quarter, insurance products that were previously unavailable in the merged MKB's branch network were made available to a wide range of customers by exploiting the synergies of the two separate entities, for both individual life insurance and group insurance policies. For our new customers, group life, accident, income and asset insurance is available for accounts, credit cards and investment cards, and credit protection insurance for credit cards and commodity loans, in addition to mortgage loan and personal loan protection insurance, which are of strategic significance.

As a further step of the strategic cooperation, the travel insurance products related to bank cards and credit cards previously issued by MKB Bank have been modified. The group insurance agreement for foreign travel with Allianz Hungária Zrt. has been terminated by the bank with effect from 30 June 2022 for both the built-in and optional insurance, after which the travel insurance will be provided by CIG Pannónia Biztosító.

In the third quarter of 2022, the Best Doctors Smart product was no longer sold through the banking channel and will no longer be available in the bank's branch network.

CIG Pannónia Biztosító has agreed with BNP Paribas Cardif Életbiztosító Zrt. and BNP Paribas Cardif Biztosító Zrt. to transfer the group insurance agreements concluded with BNP Cardif Biztosító Zrt., the predecessor of MKB Bank, to CIG Pannónia Biztosító as of 1 September 2022. The portfolio transfer between insurers was approved by the Magyar Nemzeti Bank, and MKB notified the affected customers of the changes.

All the member banks of Bank Group launched the sale of the CIG LakóTárs Extra Qualified Consumer Friendly Home Insurance product in mid-October.

Also in October, CIG Pannónia's corporate property insurance products were added to the range of products available for sale, to be followed by other products that can be offered to businesses. In the first round, corporate property insurance, machinery breakdown, electrical equipment all-risk insurance, general liability, professional liability and contractor’s all-risk insurance products have been added to the range of products available.

In November 2022, a new single-premium life insurance product was introduced under the name of Pannónia Amethyst with premium payment options in HUF and EUR. At the same time as the launch, the insurance company discontinued the Pannónia Gravis product, but the Pannónia Gravis Pension product can still be taken out.

In the premium segment, the Bank decided to introduce a new unified value proposition and at the same time launched a new service model in MKB to enhance the customer experience and work more efficiently. Due to the focused acquisition, the portfolio clean-up was carried out without reducing the size of the portfolio.

In February 2023, MKB Bank was awarded 1st place in the *‘Premium Banking Activity of the Year 2022’* category, announced by MasterCard on 16 February 2023.

Branch network

Following the merger of Budapest Bank and MKB Bank, in the second half of the year the focus was on branch modernisation, a unified sales approach, harmonisation of tools and processes, with the aim of providing a higher quality of customer service. The branch network continues to place a strong emphasis on providing information and full disclosure of information. In addition to the extensive and continuously expanding online services, the Bank has ensured a nationwide coverage of face-to-face customer service.

During the year, the quality of customer service across the entire branch network was further improved, based on regular customer experience surveys, including interviews and mystery shopping.

The transfer of Sberbank's loan portfolio to MKB Bank was successfully completed in the last quarter. The Bank has paid particular attention to informing and preparing the branch network, facilitating the proper handling of the takeover tasks and providing a high level of service to Sberbank's customers. As part of the takeover of Sberbank's loan portfolio, MKB Bank offers new customers the opportunity to benefit from new services within the framework of various campaigns.

Micro and small enterprise clients

The Micro and Small Corporate business line achieved a high result in 2022 owing to a favourable interest rate environment.

Demand among Micro and Small Corporate customers for government-backed loans to stimulate the economy remained strong in 2022. The GO and MAX schemes of the Széchenyi Card programme were the most popular in this segment. The vast majority of outsourced loans were channelled to businesses through these schemes, and they were the driving force behind lending in this segment throughout the year.

In the second half of the year, the practice of recent years was somewhat reversed, and the demand for Széchenyi Card investment loans applied for through the programme decreased.

Presumably, the macroeconomic changes are not favourable to business development and investment. Simultaneously, the MAX programme has seen an increase in demand for liquidity loans, which is expected to continue into 2023.

The competitiveness of own-bank loans continued to weaken in the rising interest rate environment, further widening the cost differential between fixed subsidised and variable market rate loans.

In addition to the merger work, there was also a strong focus on quality service to existing customers and new customer acquisitions. During 2022, several lending and account management product developments were prepared and launched.

MFB Points

In 2022, a total of nearly HUF 175 billion worth loan applications were accepted in 474 branches dedicated as MFB Points across the entire MKB Group. A significant part of the portfolio came from the sale of the working capital loans, reopened at the end of the year, on 8 December 2022, and which will be processed and disbursed in year of 2023.

In addition to the processing of the outstanding portfolio and the inclusion of new transactions, more than HUF 41 billion of loans were disbursed during the year. At the end of the year, MFB Point loans exceeded HUF 341 billion.

Digital products and channels

The implementation of the digital strategy and the digital transformation of customer experience also continued in 2022, the primary goal being to enhance customer experience, to introduce new digital products and to expand cooperation with partners.

The Bank deployed new functions in several channels (introduction of a corporate mobile application and stabilization developments were conducted in every channel for the sake of more stable and higher quality services). After the pandemic situation, which diverted customers previously less inclined to the digital channel, it further increased the number of active users of the channels and also accelerated digital developments. The Bank makes an effort to harmonize the channels, to develop service packages that create real value and to integrate these into the life of its customers.

During the past year, the number of the users of the mobile application continues to show a rising trend, the number of active users increased by 15%, number of Apple Pay users increased by 46% while the number of cards digitized for Android payment shows a 64% rise. Customers actively use electronic channels for daily banking.

In 2022, the group's website was moved to a platform in the CMS system running in AWS, which greatly facilitates the integrated and timely completion of the rebranding. At the same time, a new brand architecture and a completely new brand were created, which will debut in May 2023. The number of visitors to the website also shows the importance of technological renewal. The number of monthly visitors increased by 30% last year, reaching 820,000 monthly visitors by the end of the year.

As a result of the developments, the digital capability of the Bank significantly increased, and a lot of experience was accumulated in design thinking, UX design and agile product development too. These methodologies and capabilities are essential for the Bank to engage its customers during the research, design and market launch of the related products and services, and to swiftly react to the increasing challenges of the digital world.

During the year 2022, the bank's teams dealing with the digital image and channels were fully united and consolidated, preparing for the challenges of the new year. After the organizational transformation, the area works together to unify the channels and continuously follows market trends.

Contact Center

On 1 May 2022, the Contact Center organisation of 3 member banks (former Budapest Bank, former MKB Bank, Takarékbank) was established with 4 main areas: Service area for incoming calls, TeleSales for campaign challenges, and for managing transactions via VideoBank, and a new area within the Contact Centre, the Support and Development Group, was established, who support the Contact Center organisation with training, quality assurance, coordination, process and background development. The new MKB central phone number (+36-80-350-350) has been introduced, the 7/24 uninterrupted customer service for Hungarian and foreign language customers has been emphasized, and the Premium priority customers have been served with priority on the 1444 number from the second half of the year.

In 2022, 1,221,147 incoming calls were handled by the call centers of the three member banks. In 2022, the TeleSales team launched outbound campaigns for Takarékbank in addition to the MKB campaign challenges and exceeded expectations. VideoBank handled an average of 2,500 incoming enquiries per month and the email group handled an average of 4,800 incoming enquiries per month. KPIs for SZÉP card servicing show an outstanding performance in the second half of the year, thanks to efficiency measures. Recruitment and staff stabilisation have also played an important role in the efficient operation of the Contact Centre, with staff churn down by a third compared to 2021.

MKB SZÉP Card

In the 2022 operation of the MKB SZÉP Card, the return to the pre-pandemic period on the In the 2022 operation of the MKB SZÉP Card, the return to the pre-pandemic period on the benefits side was the determining factor. The annual limit of the SZÉP Card benefit, which is considered an extra-wage benefit, was again set at HUF 450,000 and for benefits within the annual limit, employers are no longer exempt from paying social contribution tax. Simplifications on using SZÉP Card have remained unchanged, so the balance of any SZÉP Card service could be paid from the balance on any sub-account of the SZÉP Card. Between February 1 and July 1, 2022, it was also possible to buy food with a SZÉP card at merchants whose main activity was food retailing, which further expanded spending options.

The MKB SZÉP Card achieved good results in 2022. By the end of the year, the number of SZÉP Card customers had already approached 250,000. In 2022, they received nearly HUF 28.5 billion in employer contributions via 1.4 million transactions. SZÉP Card owners spent approximately HUF 31.9 billion through 5.7 million transactions in 2022. Between February 1 and July 1, 2022, the Bank's customers bought HUF 3.5 billion worth of food and accounted for 23% of MKB SZÉP Card spending during this period. Assets held in MKB SZÉP Card accounts were HUF 11.7 billion on annual average in 2022. Card holders can currently use their SZÉP Cards for payment at 35,000 card acceptance locations.

Preparations had to be made for two significant SZÉP Card legislative changes at the end of 2022:

- From January 9, 2023, accommodation, hospitality and leisure sub-accounts were merged into the accommodation sub-account, and from this date onwards the accommodation sub-account continues to function as the sole account of the SZÉP Card;

- A one-time fee of 15%, minimum HUF 100, will be charged on June 1, 2023, to the extent and burden of cash transferred to SZÉP Card accounts as benefits until October 15, 2022 and not used until May 31, 2023. In accordance with its legal obligation, the Bank informed MKB SZÉP Card owners by January 15, 2023 about their balance received until October 15, 2022 and not used by the date of the notification, and the amount of the 15% fee for the unused cash, calculated in advance.

Corporate and institutional customers

Relying on its traditional strengths, MKB Bank’s strategic goal is to further develop and build a strong corporate business line. The business line focuses on local knowledge, professional service, consulting-based sales and the provision of innovative solutions.

MKB Bank provides comprehensive business solutions and advice to its customers, sets up comprehensive loan schemes if necessary and satisfies special financial customer needs. MKB Bank is able to provide efficient and unique solutions to all players in the corporate segment.

In 2022, the primary goal was to ensure the uninterrupted operation of customer relations and central support areas, in addition to the creation of new organizational units and the implementation of segmentation processes.

In line with its strategy, MKB Bank continued to play a key role in the introduction of economic stimulus programs and their delivery to customers. The significantly rising interest rate environment generated more demand in Széchenyi Card Programs than ever before. There was particularly high demand for working capital and current account loans due to rising wages and rising energy and raw material prices.

The Bank provided information and processes concerning the repayment moratorium to its customers on a regular basis, facilitating a temporary solution to any potential liquidity problem.

In 2021, the Bank continued to regard customers among small and medium-sized enterprises (SMEs) as a key segment and increasing product penetration played a central role here.

MKB Bank remained an active participant in the continually renewed Széchenyi Program. Together with the merged Budapest Bank, it achieved a 15% market share in GO products and a 13% share in SZKP MAX products by the end of the year in terms of the contracted amount.

MKB Bank has traditionally maintained close ties with Eximbank to enable customers to benefit from EXIM financing sources. In terms of the performance of the Hungarian economy, foreign trade is a top priority, to which not only exporters contribute, but also suppliers organized around export activity and companies only now appearing on the export market. MKB Bank is particularly proud to have received EXIM's recognition as the Most Innovative Bank in 2022 and its leasing company, the merged entity of Euroleasing and Budapest Leasing, also won prizes in two categories: the Leasing Company of the Year and the Leasing Company Providing the Highest Volume of Financing under the Damage Mitigation Leasing Scheme.

All in all, it can be concluded that in 2022 the stock of loans and deposits both increased significantly when compared to the previous year, the new organizational operation of Bank Group was created alongside it, a successful merger was realized, the purchased portfolio of Sberbank was integrated, and preparations continued for the planned merger with Takarékbank in 2023.

Private banking

The first phase of the merger of the Private Banking segment was successfully completed. The consolidated national network was established, as a result of which the Bank established dedicated private banking service centers in several locations in Budapest and in nearly twenty locations nationwide. In addition to easier personal contact, the segment continues to provide telephone administration covering all of its services.

Services provided to customers were further expanded: investment funds of a new, internationally recognized market operator became available in the MKB Private Banking network, while the Bank's structured product program offers the opportunity to subscribe to more and more capital-guaranteed solutions. In 2022, MKB Private Banking won the title of "Hungarian private banking service provider of the year in the succession planning category" awarded by the prestigious Euromoney for the development of services related to family wealth planning. At the Private Banking Hungary award ceremony, the business took second place in the "Private Banking Service Provider of the Year" category.

Despite the unfavorable market trends and the notable fall in market value, we were able to significantly increase the volume of private bank portfolios. The number of clients with private banking contracts also increased, even though - mainly for ex-BB and MTB clients - hundreds of clients had to be reclassified to premium or into the mass segment due to the HUF 50 million limit. The new customer contracts not only managed to countervail this change, but also minimally increased the number of private bank customers.

Agricultural clients

In Takarékbank, which belongs to the MKB Bank Group, the implementation of the sector-specific service model for the agricultural and food industry, which was already developed earlier, will be launched in 2022 for the entire Bank Group. Within this framework, the agri-food business line was established in the merged MKB Bank at the same time as the legal merger of Budapest Bank and MKB Bank, with a unified management structure. This created an independent agri-food business line of the bank group, which serves almost 40,000 agri-businesses, from the smallest farmers to large food companies and agri-integrators, has a market share of around 25 per cent in financing the agri-food industry, and has disbursed almost a third of agricultural loans, approximately 30 per cent.

A unique feature of the branch's service model is that for livestock sectors with a farm size of 200 hectares or more, or equivalent, the branch assigns a dedicated agricultural contact person to its customers, who can also meet with customers at their premises as required.

The business line is organised into a separate organisational structure within a horizontal organisation, with a small central governing body, its main organisational unit is the agricultural region. MKB Bank Group's agri-food business line is represented by the Agri Centres in more than 40 locations in 8 regions across the country. In addition, the large corporate agri-business customers are served by a specialised central unit. In addition, leasing and factor financing, advisory services on tenders and insurance activities play an important role in serving the agri-food customers, which the Bank provides to its customers through our cooperation partners.

In order to strengthen direct customer relationships and attract new customers, MKB Bank Group continued to hold regular regional agricultural meetings for customers in 2022. It has also maintained and strengthened its public professional presence, in particular in the following forums:

- participation in professional conferences, publication of articles and interviews;

- the Agrárláz 2022 yearbook was published, which provides detailed information on global market trends and domestic product trajectory analysis;
- continued measuring and publishing the quarterly AgrárTrend Index, launched in 2020, which, as an indicator of confidence in the agri-food industry, can give an indication of where a particular product sector is heading months before the statistics are released.

MKB Bank Group continues to be a major financing partner for agricultural and food businesses, with some aspects of annual activity broken down by aggregate and product level as follows:

- In 2022, the loan portfolio managed by Bank Group's agri-food business increased by more than HUF 90 billion, reaching HUF 540 billion by the end of the year;
- growth was not limited to plant size segments; small, medium, large and agri-business and agri-business and large corporate food customers were all affected;
- the business line grew mainly in disbursing working capital loans to large corporates, while maintaining its clear leadership in financing small and large agricultural businesses.

TREASURY AND INVESTMENT SERVICES (MARKETS)

The 2022 business year posed a number of challenges for market players. Following the economic expansion that followed the end of the coronavirus, inflationary pressures emerged not only in domestic but also in international economies, due to supply chain constraints and a surge in demand. Central banks have reacted with small delays, but typically with interest rate hikes. The MNB also continued the tightening cycle started last year, with the pace accelerating significantly in the second half of the year.

At the end of February a new armed conflict shook Europe after more than 20 years. The primary impact of the Russia-Ukraine war was a sharp rise in the price of energy resources (mainly natural gas), and consequently a sharp depreciation of the currencies of the economies most exposed to Russian gas dependence. The depreciation of the forint exchange rate led to a new local peak during the year, which also led to significant price movements in other markets. Thus, last year was the most volatile year in decades, not only in terms of foreign currency and equity prices, but also in terms of interest rate products and government bond yields.

Treasury

Treasury Trading

Significant changes in almost all fundamental segments tested the adaptability of treasury trading in 2022. The area made good use of the market opportunities provided by the main exchange rate movements during the year, and had a very successful year from a business perspective, while keeping risk exposures relatively low.

The Treasury trading effectively managed short-term interest rate positions arising from customer positions, and made good use of the business opportunities offered by the monetary policy instruments.

In the foreign currency market, the trading was mainly active in EURHUF and USDHUF, as a large part of the client turnover is also realised in these currency pairs. The trading has also had a successful year in a highly volatile market, taking mainly short-term spot positions and pursuing a more active and proactive options portfolio management. In addition to profitability, it continued to strive for a high level of service to institutional customers and sales areas.

Treasury Sales

The year 2022 was characterised by above-average volatility, which encouraged corporate customers to manage exchange rate risk, and was treated as an attractive option by premium and private bank customers with a higher risk appetite. Dealers were able to generate strong turnover in options and structured products, which require deeper market knowledge. On the interest rate front, accelerating inflation and rising yields have made companies borrowing long-term debt hesitant and postponing projects or hedging the interest rate risk on related loans, which could come to the fore as yield curves shift downwards as early as this year.

ALM & Liquidity service

The ALM Service & Liquidity Management was created during the year with the aim of serving the capital markets transaction needs of the ALM area in the most professional way possible. It met this requirement to the maximum extent possible for both bond, interest rate derivatives and money market products.

In terms of operational liquidity management, it has continuously adapted to the changing monetary environment and has fully executed the money market transactions necessary for the smooth functioning of the bank payment flows.

Capital market and institutional customers

Institutional sales

2022 posed considerable excitement not only for retail customers but also for institutional investors. The tightening monetary policy of the Federal Reserve and the world's leading central banks in the external international environment has posed a significant challenge to institutional clients with a ‘buy & hold’ approach. The new more volatile market environment required a much more active investment behaviour, generating significantly higher turnover across all asset classes compared to previous years. This is particularly true for Hungarian assets, where the significant fall in equity prices, the stress of the war and the rise in yields caused by the MNB's interest rate hikes, as well as the weakening forint, have resulted in a surge in the number of contracts and turnover. Among the wide range of products accessed by institutional customers, foreign exchange (spot, forward, futures, swaps, options and warrants) was clearly the most popular, due to the extreme movements in the forint market. The rapid pace of monetary tightening by the Magyar Nemzeti Bank has generated interest in deposit-fixing, which is expected to continue to play a prominent role in the decisions of institutional investors due to very high interest rates.

Banking relations

The focus in financial institution relations in 2022 remained unchanged on serving the needs of the Bank Group's customers in the areas of international payments and foreign trade, market risk hedging, liquidity management, treasury cooperation and fund raising, as well as on outstanding banking relationships. In 2022, the area successfully expanded the range of partner banks involved in the central clearing of the Bank Group's derivatives transactions. In addition, the Banking Relations area was actively involved in communicating with financial institution partners on the merger process of the bank group and in the necessary contract amendments.

Corporate Finance

In 2022, the Corporate Finance area continued to be active in several capital market transactions, such as bond issues and stock market listings. The MNB did not announce a new programme to support corporate bond issuance after the NKP (Bond Funding for Growth) programme had reached its limit, and the increasingly high interest rate environment during the year did not encourage businesses to issue fixed-rate bonds. However, there have been several examples of floating rate bonds. Lower debt securities issuance activity than in previous years was offset by the fact that Corporate Finance was an active player in managing the listing of several companies during the year.

Corporate Finance will continue to provide a high level of support to MBH member banks and market participants in order to make their capital market transactions as simple and quick as possible.

Investment services

Investment services – sales

The rising yield environment brought about a major portfolio rebalancing, typically within retail government bonds. Foreign exchange products generated significantly higher turnover and revenues than in previous years due to high volatility. Towards the end of the year, investor attention focused on fixed income assets, in line with expectations for a peak in yields. In all product areas, the volatile market led to more intense investor activity than in previous years, resulting in higher revenues.

Investment services business operation

Over the year, MKB Bank successfully maintained its position as **one of the largest securities distribution networks in the country**. By the end of 2022, in addition to MBH's network of intermediaries, securities brokerage activities were performed in nearly 40 additional branches operated by companies and banks. MKB has maintained its sub-distribution agreements for the distribution of retail government securities, which are used by a number of Investment Service Providers, such as SPB Befektetési Zrt. or Concorde Értékpapír Zrt. In line with the investment services strategy, several major projects and tasks were implemented in the Bank, and the war situation that started at the beginning of the year and the inflationary effects resulted in a portfolio restructuring of the investment portfolio.

- As of 31 March 2022, MKB Bank and Budapest Bank merged, unifying the Investment Services product range and pricing of the two Banks, and customers will be served under the operating model of one Bank.
- As a result of the merger, customers of the former Budapest Bank have access to a number of new investment products, such as share trading or certificate quotation, and for corporate customers, several new foreign currency hedging products will be available.
- In August 2022, MKB-Pannónia Fund Manager and Budapest Fund Manager merged under the name of MKB Fund Manager, from which date the Bank will provide MKB Investment Fund product portfolios to its customers under a unified Fund Manager operation.

Compared to the beginning of the year, the stock of retail government bonds fell, reflecting overall market movements, but the stock of investment fund shares and other forms of investment, such as shares and certificates, increased significantly.

Depositary services, sales

While maintaining its existing mandates, the institutional depositary area smoothly serviced new portfolio and investment fund depositary requests from existing customers during the year, and provided ongoing expert support on deposit-related solution and execution issues for a wide range of investment fund customers in less common types of transactions.

Intermediary currency exchange

With the pandemic over, new companies have emerged on the market intending to exchange money. Temporarily closed exchange offices reopened and new locations were opened among the Bank's partners: 81 licensed active intermediaries serve customers from around 172 locations. Due to above-average exchange rate fluctuations during the year, the area recorded a significant turnover in intermediaries' dealings with banks.

SUBSIDIARIES / STRATEGIC COOPERATION AND PARTNERS

SUBSIDIARIES[3]

Euroleasing

The consolidated MKB Group includes the dominant operators of the domestic leasing market, Euroleasing Plc., Budapest Leasing Plc. and Takarék Leasing Plc.

As an important step in the merger process, from the first day of 2022, Euroleasing Plc., Budapest Leasing Plc., Takarék Leasing Plc., and Budapest Bank's (from April 2022 MKB Bank) car financing segment continue to operate in the same management structure, in a coordinated and integrated manner.

The leasing group has a national network, around 110,000 customers and a market share of more than 20 percent based on the newly placed, aggregated leasing stock – all showing the importance of this step. After the integration, new loan and leasing services will primarily be provided by Euroleasing Plc., while contracts concluded before January 1, 2022 will continue to be managed by the original leasing companies or their legal successors.

The professional recognition of the corporate group is indicated by the fact that in 2022 Budapest Lízing, integrated into Euroleasing, won three of the eight categories of the EXIM Awards, which reward the work of domestic credit institutions.

Car financing activity

The leasing group has become a key operator in the vehicle financing segment of the leasing market. From the third quarter of 2021, the international trends - primarily the shortage of chips holding back production and the slowdown of supply chains - became noticable in the Hungarian car sales market, and through it also in the vehicle financing market, which had a strong negative impact on the sales and financing markets as well. However, starting from the fourth quarter of 2021, the introduction of the subsidized Széchenyi Leasing GO! and then Széchenyi Leasing MAX products had a stimulating effect on the financing market, which in 2022 drove a significant number of buyers towards the financing market in the affected segments. In addition to previous unfavorable factors, the Russo-Ukrainian war also had a negative impact on the production and sale of new vehicles, and at the same time on the

[3] Source: Hungarian Leasing Association, BAMOSZ

financing market. An important factor is that the general trend of rising interest rates reduced the demand for financing last year, while rising prices had a negative effect on the sales market.

Asset financing activity

The leasing group has a dominant market position in the asset financing leasing market and is the market leader in its two most significant segments, the financing of agricultural equipment and commercial vehicles.

State support programs (EXIM, KAVOSZ) had a significant impact on the asset financing market segment, while the leasing group played a prominent role in bringing these subsidized products to market in 2022.

The deterioration of the economic environment has had an effect on the asset financing market in the past period through the narrowing of investment desire and demand, as well as investment opportunities, which will hopefully be mitigated adequately in the future by state economic stimulus programs.

Changes in the economic environment affecting the leasing group

In 2022 the management of the leasing group’s members was significantly influenced by several regulatory factors. These are the extra-profit tax extended to financial enterprises, the interest stop measures extended to real estate leasing contracts, and then to the SME sector in the second half of the year, and the Government's Decree No. 292/2022 issued on August 8, 2022. (VIII.8.) payment moratorium for the period between 1 September 2022 and 31 December 2023 for agricultural farmers' credit and loan contracts, as well as financial leasing contracts.

The group has devoted considerable attention to the follow-up and monitoring of the portfolios of customers who have exited previous moratoriums or are in moratorium in order to reduce potential losses.

The considerable diversification of the group's financing portfolio played an important role in countervailing the negative external effects, the development of which is an important pillar of the company's strategy.

MKB Fund Manager Ltd.

As of 31 August 2022, MKB-Pannónia Alapkezelő Zrt. was merged into Budapest Fund Manager and will continue to operate under the name MKB Alapkezelő Zrt. as of 1 September 2022.

There were no new fund launches during the year due to the merger of the two fund managers. The aim for the coming period is to consolidate and rationalise the product portfolios of the two Fund Managers following the merger.

As at 31 December 2022, the Fund Manager managed a total of HUF 1,324 billion in net asset value investments, representing a market share[4] of 9.6%. Within this, it invests HUF 820 billion in 67 investment funds and 2 private equity funds and manages assets totalling HUF 504 billion for 10 funds, 3 insurance companies and 5 other customers in the context of

[4] Source: BAMOSZ (market share)

portfolio management. MKB Fund Manager is ranked second among pension fund asset managers (in terms of assets under management).

MKB Fintechlab

For MKB Fintechlab, the year 2022 was all about adaptation to a changing environment and development. The MKB Fintechlab makes a major contribution to the establishment of digital capabilities in banking, the conscious development of innovation maturity and the exploitation of its business potential. The core pillar of MKB Fintechlab's strategy is investment and the ability to manage innovation.

During the year, MKB Fintechlab made 6 new investments in an incubator tender. In addition, the portfolio companies have had a number of successes in terms of growth. Furthermore, MKB Fintechlab successfully closed two full and one partial exit during the year.

Continuing from the previous year, the subsidiary again organised several events. Within the Fintech Factory, we organised monthly mentor meetings, where the founders of our portfolio companies had the opportunity to get to know each other and share their experiences, discuss their questions with each other and with the mentors.

Hackathon was also held at Corvinus University where finance students had the opportunity to develop a financial innovation idea with the help of our mentors. Prizes were awarded to the best ideas.

The first School of Innovation financial innovation apprenticeship programme was launched in 2022, with 229 applicants. During the five-month programme, participants were able to learn about financial innovation trends and methodologies, participate in hands-on workshops and professional community events, divided into six professional topics. The training covered topics such as the technological trends shaping the future of banking, how fintech giants work and design thinking.

Similarly successful is the Partnership Programme of the subsidiary, where a total of 8 external fintech solutions have been validated according to the needs of the bank, among which it is worth highlighting the solution of Péntech B2B BNPL, one of the start-ups in our investment portfolio, with which MKB Fintechlab launched a test project. The Programme team prepared 22 research papers and supported the implementation of the KYC system, commissioned by the Bank Group Foundation, as an integrated part of the agile teams.

Solus Capital Venture Capital Fund Management

Solus Capital Venture Capital Fund Management Ltd. continued its investment activity in the start-up ecosystem in 2022 too.

The Solus I Venture Capital Fund is a fund jointly financed by the Specialization Venture Capital Program (GINOP 8.1.3/B-17) and MKB Group and its strategic partners as private investors. The Solus I Venture Capital Fund is expected to disburse HUF 12 billion venture capital to SMEs applying innovative and smart technologies by the end of 2023. At the end of 2022, the portfolio consisted of 28 companies, and investment decisions had already been made on HUF 12,032 million. In 2022, the Fund invested a total of HUF 1,291 million in 12 of its portfolio items.

Solus II Venture Capital Fund was realized within the framework of the Digital Welfare Venture Capital Program (GINOP 8.2.7-18). By the end of 2023, the Fund will invest a venture capital of more than HUF 7 billion in micro-, small- and mid-sized enterprises that focus on digitalization. At the end of 2022, the portfolio consisted of 17 companies, and investment decisions had already been made on HUF 5,935 million. In 2022, 1 new investment decisions were made and a total of HUF 1,750 million was disbursed, including the existing elements in the portfolio.

On the growth side, the biggest challenges for portfolio companies were entering domestic and foreign markets, product validation and finding the next round of capital, while on the resource side, financing energy and raw material costs and labour shortages due to increased inflationary pressures. Mitigating the negative economic impact and providing capital to potent companies shifted the Fund Manager's focus to the existing portfolio.

A review of the book value of failing companies began and, where necessary, a write-down undertook by the Fund Manager twice a year. Over the past year, in the context of industry difficulties, a pool of financially stable companies, close to break even and with growth potential, has emerged, which the Fund Manager intends to support in the hope of future returns.

STRATEGIC COOPERATION AND PARTNERS[5]

MKB Pension Fund

MKB Pension Fund is one of Hungary's leading pension funds. The Voluntary segment of the Fund, offers a decades-long, efficient savings instrument to nearly 72,000 customers within the MKB Group's comprehensive investment solutions. As at 31 December 2022, the voluntary branch closed the year with an asset of HUF 132 billion. Owing to the continuous communication and financial awareness education in recent years, the individual's willingness to save is increasingly outweighed by the employer's commitment.
The private branch of MKB Pension Fund closed 2022 with near 3,500 members and HUF 18.7 billion in assets, while the proportion of members paying membership fees remained well above the 70% statutory requirement.

The uninterrupted, stable and prudent operation of the Fund for more than 25 years has been facilitated by well-prepared fund and asset management professional support and the desire for continual development.

[5] Source: National Association of Voluntary Funds

The simple, interest tax-free product, which can be used in many ways even in the active years, can be tailored to the return expectations and risk-bearing capacity of the customers. To more fully satisfy the needs of the members, the fund continuously expands its services portfolio to allow product benefits to be used. The implementation of distributing customer savings between diverse portfolios as well as the introduction of a new, fifth fund portfolio was prepared in the voluntary branch of the fund in 2022. Customers investing in their future with the MKB Pension Fund can take advantage of the combined benefits of impressive balanced yields even over 10 and 15 years and low cost levels due to expert asset management. The funds can be used through a flexible range of services.

In the framework of the digital renewal of the MKB Pension Fund, the development of the Member Portal supporting customer service and electronic administration was also started, in line with the already modernised web interface. The new, streamlined and more transparent interface is expected to be available to members to manage their savings as early as 2023. In addition to digital improvements, the focus of business development has been on continuous activation, customer outreach, and the search for new and innovative solutions and their incorporation into daily operations to continuously increase customer satisfaction.

MKB-Pannónia Health and Mutual Benefit Fund

MKB-Pannónia Health and Mutual Benefit Fund is a market leading health fund in Hungary, which provides a wide range of services to more than 202 thousand members and had HUF 16.2 billion in assets as of 31 December, 2022. For nearly 25 years, the name of the Fund has been synonymous for its customers with the widest possible range of health-supporting and cost-reducing services available. The assets of the health fund, which can be spent on the needs of the whole family in almost every life situation and can be supplemented with a 20% tax allowance, can be widely used, from maternity through private health care expenses to supporting elderly care. In the case of preventive expenses and a two-year fixed-term deposit, the state provides an additional 10% tax allowance to customers, which can be used for a wide variety of products and services at its more than 17,000 partners using conventional payment methods or at nearly 9,600 contracted card acceptance service providers.

During 2022, the Fund also upgraded and launched a modernised version of the Member Portal and the mobile app as part of a complex process in line with the redesign of its website last year. One important result of the Portal redesign is that the previously outdated interface can now be accessed from any device, such as a mobile phone or tablet, with full functionality and a high user experience.

It is a novelty that the mobile application of the Fund, in contrast to the previous limited usability, now includes almost all the functions and data display of the Member Portal and almost all online administration options.

The positive result of 2022 is that the Fund closed the year with an increasingly dynamic member contribution activity as a result of a strengthened business approach. It has also successfully developed products with an external partner in response to growing health awareness. By the end of the year, the Pension Fund, in partnership with CIG Pannónia Biztosító, added new versatile packages to its health insurance product range, offering a complete solution from diagnostic tests to hospitalisation cover.

Health insurance is thus available from January 2023 as a tax-advantaged corporate benefit option - financed through the Fund - to serve not only individual customers but also employers.

In 2022, in addition to the above steps, easier subscription management for electronic administration has been implemented, and the modernisation of the account processing process continued in a complex project, which can contribute to making account settlement smoother. This move should also lead to organisational efficiency gains in the medium term. The Fund's business development has worked to support stable, predictable operations and in 2022 continued to explore a number of new and innovative solutions to continuously increase customer satisfaction. Alongside an active marketing presence, effective customer advocacy and deposit incentives.

Budapest Voluntary Pension Fund

The Budapest Voluntary Pension Fund manages the pension savings of more than 20 thousand members, amounting to HUF 38 billion. Individual contributions from members exceeded HUF 2 billion in 2022, and a number of employers also supported their employees, mostly through cafeteria payments. The web-based customer service system helps members to find their way around efficiently, while the online login interface provides a fast and convenient service for new customers. The low-cost investment, backed by tax relief and interest tax exemption, offers flexible savings for which MKB Fund Manager provides the investor expertise as a professional asset manager.

Budapest Private Pension Fund

Budapest Private Pension Fund has a membership of nearly 6,500 people, the assets under management amounted to HUF 35 billion on 31 December 2022. Members' willingness to pay membership fees is high, so in 2022, the proportion of paying members was still well above the statutory 70%. As a result of early payments, this legal condition is already met for the full calendar year 2023. The Fund now operates on a voluntary basis, with the aim of significantly increasing its members' pension savings in the long term at low cost

FINANCIAL PERFORMANCE
Statement of the individual financial situation

Statement of Financial Position (in HUF million)	31.12.2022	31.12.2021	Change %*	Change
Assets				
Cash and cash equivalents	**1 081 158**	**866 957**	**24,7%**	**214 201**
Financial assets measured at fair value through profit or loss	**476 909**	**169 198**	**181,9%**	**307 711**
Loans and advances to customers mandatorily at fair value through profit or loss	*182 875*	*53 295*	*243,1%*	*129 580*
Securities held for trading	*8 434*	*3 964*	*112,8%*	*4 470*
Securities mandatorily at fair value through profit or loss	*18 017*	*7 537*	*139,0%*	*10 480*
Derivative financial assets	*267 583*	*104 402*	*156,3%*	*163 181*
Hedging derivative assets	**142 874**	**-**	**-**	**142 874**
Financial assets measured at fair value through other comprehensive income	**428 520**	**187 681**	**128,3%**	**240 839**
Securities	*428 520*	*187 681*	*128,3%*	*240 839*
Financial assets measured at amortised cost	**4 823 478**	**1 979 687**	**143,6%**	**2 843 791**
Loans and advances to banks	*448 627*	*25 024*	*-*	*423 603*
Loans and advances to customers	*2 565 343*	*1 128 148*	*127,4%*	*1 437 195*
Repurchase assets	*9 080*	*20 263*	*-55,2%*	*-11 183*
Securities	*1 772 915*	*804 568*	*120,4%*	*968 347*
Other financial assets	*27 513*	*1 684*	*-*	*25 829*
Fair value change of hedged items in portfolio hedge of interest rate risk	**(51 678)**	**-**	**-**	**(51 678)**
Investments in subsidiaries and associates	**424 367**	**49 563**	**-**	**374 804**
Property, plant and equipment	**37 725**	**14 020**	**169,1%**	**23 705**
Intangible assets	**44 206**	**27 388**	**61,4%**	**16 818**
Income tax assets	**17 668**	**756**	**127,8%**	**9 912**
Current income tax assets	*49*	*-*	*-*	*49*
Deferred income tax assets	*17 619*	*7 756*	*127,2%*	*9 863*
Other assets	**43 551**	**17 897**	**143,3%**	**25 654**
Assets held for sale	**-**	**35**	**-100,0%**	**(35)**
Total assets	**7 468 778**	**3 320 182**	**125,0%**	**4 148 596**
Liabilities				
Financial liabilities measured at fair value through profit or loss	**196 728**	**43 751**	**-**	**152 977**
Derivative financial liabilities	*188 493*	*41 528*	*-*	*146 965*
Financial liabilities from short positions	*8 235*	*2 223*	*270,4%*	*6 012*
Financial liabilities measured at amortised cost	**6 417 607**	**3 007 813**	**113,4%**	**3 409 794**
Amounts due to banks	*1 965 931*	*703 041*	*179,6%*	*1 262 890*
Amounts due to customers	*4 207 025*	*2 222 353*	*89,3%*	*1 984 672*
Repurchase liabilities	*73 429*	*1 319*	*-*	*72 110*
Issued debt securities	*12 906*	*3 394*	*280,3%*	*9 512*
Subordinated debt	*88 887*	*45 070*	*97,2%*	*43 817*
Other financial liabilities	*69 429*	*32 636*	*112,7%*	*36 793*
Hedging derivative liabilities	**158**		**-**	**158**
Provisions	**13 977**	**3 407**	**-**	**10 570**
Income tax liabilities	**5 496**	**2 800**	**96,3%**	**2 696**
Current income tax liabilities	*5 496*	*2 800*	*96,3%*	*2 696*
Other liabilities	**41 800**	**23 530**	**77,6%**	**18 270**
Total liabilities	**6 675 766**	**3 081 301**	**116,7%**	**3 594 465**

Statement of Financial Position (in HUF million)	31.12.2022	31.12.2021	Change %*	Change
Equity				
Share capital	**321 699**	**100 000**	**221,7%**	**221 699**
Share premium	**313 947**	**21 729**	**-**	**292 218**
Retained earnings	**84 155**	**67 765**	**24,2%**	**16 390**
Other reserve	**32 552**	**17 040**	**91,0%**	**15 512**
Profit for the year	**64 637**	**55 916**	**15,6%**	**8 721**
Accumulated other comprehensive income	**(23 978)**	**(23 569)**	**1,7%**	**(409)**
Total equity	**793 012**	**238 881**	**232,0%**	**554 131**
Total liabilities and equity	**7 468 778**	**3 320 182**	**125,0%**	**4 148 596**

A change of more than +/- 300% compared to the previous year cannot be interpreted, marked with "-".

Based on 2022 year-end data, the total assets of the Bank increased by HUF 4,148.6 billion compared to 2021 year-end and amounted to HUF 7,468.8 billion as of 31 December 2022. The more than doubled increase is largely due to the merger of Budapest Bank.

Cash and cash-equivalent assets amounted to HUF 1,081.2 billion, showing 24.7% increase compared to the end of the previous year. Of this, cash on hand amounted to HUF 50,0 billion, while the balance of the deposit account held at the central bank reached HUF 673.6 billion.

Loans and advances to credit institutions increased HUF 423.6 billion compared to the end of the previous year.

The stock of securities increased by HUF 968.3 billion compared to the end of the preceding year, reaching HUF 1,772.9 billion. By the end of 2022, the stock of loans and advances to customers amounted to HUF 2,565.3 billion at the end of the period.

The amount of assets qualified as held for sale and that of discontinued operations decreased by HUF 35 million compared to end-2021.

Other assets increased by HUF 25.7 billion by the end of 2022.

Compared to the end of 2021, investments in subsidiaries, jointly controlled entities and associates increased to HUF 424.4 billion, a multiple of the two periods, mainly due to the result of merger.

During the reporting period, the stock of liabilities to credit institutions increased by HUF 1,262.9 billion. The aggregate sum of client deposits and current accounts were HUF 4,207.0 billion, increased by HUF 1,984.7 billion compared to the end of the previous year.

HUF 188.5 billion in derivative financial liabilities recorded among liabilities was primarily due to the fair value change of derivative transactions related to interest- and currency risks.

The stock of other liabilities increased by HUF 18.3 billion and provisions also increased by HUF 10.6 billion during the year.

Statement of Profit or Loss and Other Comprehensive Income

Statement of profit or loss (in HUF million)	2022	2021	Change %*	Change
Interest and similar to interest income	**497 677**	**79 335**	**-**	**418 342**
Interest income using effective interest rate method	*336 591*	*63 795*	*-*	*272 796*
Other interest income	*161 086*	*15 540*	*-*	*145 546*
Interest and similar to interest expense	**(282 000)**	**(32 470)**	**-**	**(249 530)**
Interest expense using effective interest rate method	*(153 317)*	*(12 222)*	*-*	*(141 095)*
Other interest expenses	*(128 683)*	*(20 248)*	*-*	*(108 435)*
Net interest income	**215 677**	**46 865**	**-**	**168 812**
Income from fees and commissions	*77 431*	**33 205**	**133,2%**	**44 226**
Expense from fees and commissions	*(18 955)*	**(6 462)**	**193,3%**	**(12 493)**
Net income from commissions and fees	**58 476**	**26 743**	**118,7%**	**31 733**
Results from financial instruments	**33 752**	**63 436**	**-46,8%**	**(29 684)**
Results from financial instruments measured at fair value through profit or loss, net	*97 845*	*85 526*	*14,4%*	*12 319*
Results from financial instruments measured at fair value through other comprehensive income, net	*(36 106)*	*(14 582)*	*147,6%*	*(21 524)*
Results from financial instruments measured at amortized cost, net	*1 412*	*2 731*	*-48,3%*	*(1 319)*
Results from hedge accounting, net	*9 479*	*-*	*-*	*9 479*
Exchange differences result, net	*(38 878)*	*(10 239)*	*279,7%*	*(28 639)*
(Impairment) / Reversal on financial and non-financial instruments	**(56 974)**	**(5 417)**	**-**	**(51 557)**
(Impairment) / Reversal on financial instruments held for credit risk management	*(34 707)*	*(3 659)*	*-*	*(31 048)*
Provision (loss) / gain	*(1 891)*	*152*	*-*	*(2 043)*
Modification (loss) / gain on financial instruments	*(10 607)*	*(1 343)*	*-*	*(9 264)*
(Impairment) / Reversal on investments in subsidiaries and associates	*(9 527)*	*(316)*	*-*	*(9 211)*
(Impairment) / Reversal on other financial and non financial instruments	*(242)*	*(251)*	*-3,6%*	*9*
Dividend income	**4 023**	**2 995**	**34,3%**	**1 028**
Operating expense	**(190 307)**	**(72 808)**	**161,4%**	**(117 499)**
Other income	**6 311**	**4 555**	**38,6%**	**1 756**
Other expense	**(6 828)**	**(4 656)**	**46,6%**	**(2 172)**
Profit before taxation	**64 130**	**61 713**	**3,9%**	**2 417**
Income tax income / (expense)	**507**	**(5 797)**	**-108,7%**	**6 304**
PROFIT FOR THE YEAR	**64 637**	**55 916**	**15,6%**	**8 721**

Other comprehensive income

Data in HUF million except stated otherwise

Items that may be reclassified to profit or loss				
Revaluation on financial assets measured at fair value through other comprehensive income	4 025	(21 985)	-118,3%	26 010
Income tax relating to items that will be reclassified	(332)	1 976	-116,8%	(2 308)
Other comprehensive income for the year net of tax	**3 693**	**(20 009)**	**-118,5%**	**23 702**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**68 330**	**35 907**	**90,3%**	**32 423**

*A change of more than +/- 300% compared to the previous year cannot be interpreted, marked with "-".

In 2022, net interest income showed a HUF 168.8 billion increase compared to the previous year mainly caused by increased interest revenues.

Net income from fees and commissions increased by HUF 31.7 billion in 2022 compared to the previous year, mainly due to the increase of commission income earned from payment transactions.

Despite a HUF 29.7 billion decrease in the results from financial instruments, resulting in HUF 64.6 billion profit for the year under review.

Impairment and provisioning showed a total of HUF 57.0 billion in the relevant period, increased by HUF 51.6 billion in the financial year compared to the previous year. The largest part of this is the impairment of financial instruments held for credit risk management due to moratorium and stage reclassifications.

Major items leading to the HUF 117.5 billion increase of operating expenses are the increased wages and IT costs and the paid extraprofit tax.

THE RISK POSITION OF THE BANK

MKB's risk management is governed by the Hungarian and EU legislation in force and additional supervisory regulations. MKB Bank performs the governance functions of the MKB banking group and defines for its members the mandatory internal rules and guidelines related to prudent risk taking and risk management.
Bank considers prudent risk-taking to be a core value, and its risk management and risk control activities are performed in accordance with the principles laid down in the Risk Strategy. The Bank's risk management is subject to several levels of control, the most important of which are ultimate control at the level of the Board of Directors (some specific and identified risk decisions require the approval of the Supervisory Board), independent control separate from the risk-taking areas, and appropriate measurement, diversification, monitoring and reporting of risks. The Bank continued to comply with the regulatory requirements throughout 2022.
The merger processes in the banking group had a significant impact on the risk situation of MKB Bank Nyrt. in 2022. After the merger with Budapest Bank Zrt., the volume of risks of MKB Bank Nyrt. increased during the year in line with the change in business volume.

Risk Strategy

MKB's Group level Risk Strategy defines the scope of risks that can take and the risk management and measurement tools to be applied, as well as the general risk-taking principles and rules to be followed by the Bank.

In its operations, MKB Bank strives to maintain a risk culture that ensures the identification, measurement and management of emerging risks in accordance with the risk appetite. Internal policies, strategies, regulations and guidelines, communication and employee training are the primary means of ensuring a corresponding risk culture.
The primary objectives of MKB Bank's risk management activities are to protect the Bank's and MKB Banking Group's financial strength and reputation and to contribute to the use of capital for competitive business activities that enhance shareholder value.
The Bank's risk appetite should be consistent with the financial resources available to cover potential losses. In order to ensure this, the Bank calculates on standalone and group level the current and future economic capital requirements for the quantifiable types of risk, as well as the capital requirements under Pillar 1.
MKB Bank is primarily exposed to credit, liquidity, market and operational risks.

Credit risk

In 2022, in addition to the merger with Budapest Bank Zrt. and the integration of the portfolios of Sberbank Hungary Zrt., the main factor influencing the change in credit risk was the pandemic period, the geopolitical and economic situation, the change in methodologies due to the modification of the payment moratorium and the introduction of the agricultural moratorium, both for the corporate and retail portfolios.

In line with the MNB's expectations and the uniform impairment calculation methodology at MKB banking group level, the staging logic for customers in the moratorium and leaving the moratorium was standardised.

For customers exiting the moratorium or not on a contracted repayment schedule, the measurement of traditional credit behaviour continues to be implemented. For retail customers, the Bank has reverted to the standard lifetime ECL calculation.
For corporate customers, the Bank continues to determine the level of impairment based on the rating and the monitoring result.

In addition to the above, the Bank has updated the macro parameters for the entire portfolio, using the latest parameters available in the MNB Inflation Report. The updated risk parameters have also been implemented in the ECL calculation.

Given that no new information on the paying capacity of customers has emerged during the moratorium period and that the repayment rates of customers affected by the interest rate freeze are lower than those in the contracts, it is necessary to take into account the uncertainties about the capacity and willingness of debtors to pay. In addition, MNB expects that the risk arising from modelling uncertainty needs to be mitigated.

The Bank has considered the following aspects in determining the year end management overlays:

- the rate at which the income of retail customers entering the moratorium4 has decreased compared to 18.03.2020,
- the credit risk models are not aware of the agricultural moratorium and therefore the willingness and capacity to pay for customers entering the agricultural moratorium may contain a hidden high probability of default,
- the application of corporate ratings and transitional staging rules alone does not always reflect the full increase in lifetime loss, even when macro parameters are updated.

In summary, the Bank's current modelling methodology, using the above information, provides the opportunity to develop risk profiles that are well-defined from a customer management perspective. The management overlays have been formed due to the uncertainties arising from the current economic situation, the expectations of the regulatory environment and the future volatility of the economic situation.

At the end of 2022, there was an increase in both the portfolio of impaired receivables and the portfolio of impairment, driven in part by the volume-increasing impact of the loan portfolio acquired from Sberbank and the merger with Budapest Bank in April 2022. During 2022, the quality of the portfolio improved somewhat due to the sale of receivables. Non-performing receivables as a percentage of gross receivables increased during 2022.

Market risk

Market risks include interest rate risk and foreign exchange risk arising from all banking activities. Bank keeps its market risks low by means of an appropriate limit system and in-process controls.

Interest rate risk:

Interest rate risk arises from the fact that changes in interest rates affect the value of a financial instrument. A credit institution is also exposed to interest rate risk if the amounts of its maturing or repricing assets, liabilities and off-balance sheet instruments are not consistent with each other in a given period. Bank measures interest rate risk by performing sensitivity tests on an ongoing basis. In addition, the impact of adverse interest rate scenarios is continuously measured and limited through the application of stress tests. Interest rate risks are managed through an appropriate composition of the securities and derivatives portfolio and through the consistency of other assets and liabilities in the bank's books.

Management of currency risk

Bank aims to keep its exposure to foreign exchange risk low by maintaining open foreign exchange positions up to the limit set in the banking book.
Foreign exchange risk arising in the course of core banking activities is managed by the Bank in the course of its operations, depending on market conditions. The Bank also performs VAR calculations and stress tests to measure foreign exchange risk.

Liquidity and solvency risks

Bank analyses liquidity risks with a number of indicators and mitigates them with limits, the most important of which are based on regulatory indicators (LCR, NSFR, required reserve ratio) and stress tests relevant to liquidity. In addition, Bank operates an early warning system for the timely detection of liquidity disturbances, which is presented to the Asset and Liability Committee and to management without delay in the case of an alert and on a regular basis during normal operations.

Operational risk

Bank continues to manage operational risk primarily through internal policies, rules of procedure and the operation of built-in control mechanisms in line with defined supervisory requirements. MKB's Group Level Operational Risk Management Policy and Operational Risk Management Rules set out the methodology for the operational risk management framework tools used by the Bank.
The operational risk loss data collection is based on uniform definitions and limits. The Bank promotes the recognition and identification of operational risks with internal training.
The adequacy of key risk indicators (KRIs) is reviewed by the Bank every year, several KRIs were modified in 2022 and new group level KRIs defined by MKB were introduced.
Bank conducts operational risk self-assessments for its key activities, and uses scenario analysis to assess the impact of events that occur infrequently but could result in severe losses if they were to occur.

Bank's operational risk events and the results of operational risk monitoring are reported on a quarterly basis.
With regard to operational risk, the Bank's management attaches great importance to feedback. An essential aspect is the implementation and monitoring of the effectiveness of the measures taken to eliminate operational risks.

DEVELOPMENT PROSPECTS, EXPECTATIONS AND PLANS FOR 2023

On 31 March 2022, the two member banks of Magyar Bankholding Zrt., Budapest Bank Zrt. and MKB Bank Nyrt., and Magyar Takarék Bankholding Zrt. merged. During the merger, Budapest Bank was merged into MKB Bank and Takarékbank Zrt. will continue to operate as a subsidiary bank of the merged bank. In the second quarter of 2023, Takarékbank will join the bank merged in the spring of 2022. The merged bank, created on 31 March, became the group leader and temporarily operates under the name MKB Bank Nyrt.

On 27 September 2022, MKB Group announced to the public that MKB Bank Nyrt. and Takarékbank Zrt., which will merge in May 2023, will operate under a single brand name and image, hereinafter referred to as MBH Bank Nyrt. The new brand name signals that an entirely new bank is being built, taking the customer experience to a new level, combining the strengths and heritage of the three banks. The Bank intends to continue building with a fresh, clean and modern image to become a successful bank by international standards and create value for its customers.

The Board of Directors adopted the Bank's Strategic Plan for 2023-2027 on 14 September 2022. It confirmed the intention to merge MKB and Takarékbank, emphasised the solution-oriented digital IT system and process improvements, the merger process, and the further development of service quality and value proposition. The new strategy also took into account the rapidly changing economic and regulatory environment. For the period 2024-2025, the Strategy set as a priority the possibility of active trading in MKB shares, based on the Bank's renewed business capabilities, with an expected steady increase in the bank's ability to generate profits.

The priority is for the Bank Group to offer its customers customer-focused, competitively priced, internationally leading digital solutions, products and services, building on the strengths, values and best practices of its member banks.

The objective of the Bank Group is to play a leading role in the domestic financial services market, in line with its announced strategy, through its professional experience, product range and quality of service, thus:

- To become the most customer-centric bank in Hungary, offering value to all Hungarian citizens and businesses.
- Active contribution to the development of the Hungarian economy by supporting segments of national economic significance, such as young people, SMEs and the agricultural sector, while remaining committed to local communities.
- A key priority of the strategy is digital orientation, which means introducing internationally leading fintech solutions. The aim is to radically change the customer experience of financial services by introducing flexible, fast solutions and products that can be combined with each other.
- In the retail business, the key objectives are to provide quality customer service, enhance the customer experience, strengthen lending and the premium segment. Partnerships play an important role and the Bank plans to further develop them in order to further increase its market share in the intermediary market.

- The Bank's ongoing strategic objective is to maintain and build a strong corporate business. The corporate business line is focused on local knowledge, professional service provision, advice-based sales and the provision of innovative solutions.
- The MKB Bank Group provides a wide range of investment banking type services: Private Banking, Fund Management and Treasury
- Building an innovative organisation and corporate culture, with a focus on people, continuous capability development and a cutting-edge corporate culture.

It offers a uniquely broad range of services to its customers, in addition to its own banking products and services provided by its subsidiaries and partners: Euroleasing, MKB Befektetési Alapkezelő Zrt, MKB Pension Fund, MKB-Pannónia Health and Self-Assistance Fund, Budapest Voluntary Pension Fund, Budapest Private Pension Fund.

The economic environment and the financial sector

Taking into account both upside and downside risks, we expect GDP to expand by 0.8% in real terms in 2023. The protracted war in the neighbourhood, the negative impacts of energy price rises, the partial termination of preferential energy prices for households and losses associated with the severe drought led to a marked deterioration in last year's economic performance and continue to exert an impact in 2023 as well. Given the low basis last year, agriculture has a good chance to contribute to growth positively in 2023, provided the severe drought does not repeat itself. Still, the growth outlook continues to be blurred by the partial termination of preferential household energy prices, the high energy bills of the economy's other sectors like companies, state institutions and municipalities. Some sectors may experience transitional, but some also enduring reductions in production levels or even halts in production. These can partly be offset by subsidies and preferential loan schemes by the government, especially for actors in the most energy-intensive industrial branches. Further risks to growth are posed by supply chain disruptions caused either directly by the war in Ukraine or indirectly through the resulting sanctions, which culminate in a lack of or insufficient availability of base and raw materials and steeply rising costs. Purchasing power may be hit by lastingly strong inflation and the high costs of credit. External demand may also get weaker as purchasing power is also undermined in Hungary's main export destinations. The most severe risk would be the complete stop of Russian gas and oil deliveries, but apart from minor incidences this has not yet taken place and there is small probability for such an event in the future. On the other hand, upside risks are also present in the form of new industrial capacities entering production phase, the easing of the lack or insufficient supply of electronic chips, semiconductors and other appliances, the outstanding level of the order book in the industrial sector, which may help the sector to overachieve current expectations. The recovery in international tourism may give a further boost to growth especially with the termination of Covid-related travel restrictions in China. Large scale investment projects announced more recently will also help economic growth accelerate to its previous pace on medium term; from the middle of this decade Hungary's GDP-growth may lastingly exceed 4%.

The termination of the price cap for fuels was only partially reflected in inflation figures in December, the full impact will emerge in January's figures, hence inflation may still accelerate slightly further in the first month of 2023. However, due to base effects we expect at first gradual, but later quite substantial moderations in inflation figures in the coming months. These base effects will be reinforced by a recent fall in international commodity and energy prices, hence no new piece hikes are on the horizon, and the Forint's expected correction (appreciation) should also dampen inflationary pressures. As for food prices, weaker demand will likely drive prices somewhat down, or at least prevent them from rising further. In the course of the last year higher excise taxes pushed tobacco and alcoholic beverage prices up, and the same was true for many processed food items that were subject to the rising of the public health product tax. These effects will, however, disappear from the annual rate of inflation this year. Yet, a wage-price spiral may be forming in some sectors, which can slightly reduce the pace of disinflation. This still won't prevent from inflation declining to below 10% by year-end, however, it will still be as high as 17.5% on annual average in 2023.

Data in HUF million except stated otherwise

The current 18% effective policy rate (the rate on the quick deposit tender) is expected to be gradually cut from the middle of 2023, but from then on it may quite rapidly close the gap with the base rate at 13%. As the disinflation process speeds up, the last quarter may bring especially steep rate cuts from the central bank, hence the base rate may sink to as low as 9% by the end of the year. In the still high inflation environment the growth of budget revenues will definitely exceed that of expenditures, hence on accruals basis the budget deficit may improve by at least 2 percentage points compared to 2022, i.e. it may decline to 4% of GDP, while public debt may sink below 70% of GDP by year-end. Since improvements are likely in the terms of trade, the deficit of the current account may considerably narrow, and improved external balances may lend support to the Forint's exchange rate.

With respect to net interest revenues the banking system may experience a further improvement to last year's figures, but a marked slowdown in lending activity (mainly the disbursement of new housing loans will suffer a dramatic setback compared to 2022 figures) will curb the opportunities for improvement in net fee and commission revenues. As for operating and risk costs, a continued deterioration is well on the cards. The preceding years' fast growth in total assets as well as last year's sharp increase in fundamental operating revenues means that the tax base will be higher both for the special sectoral tax and the so-called extra profit tax, which will still be imposed upon the banking system in 2023, hence the tax burden continues to become even stricter. In addition, interest rate caps introduced in 2022 will involve substantial losses in the form of foregone revenues. All in all, the entire banking system may expect HUF 80 to 100 billion lower after-tax profit than it realized last year, while the return on equity ratio may moderate to as low as 5 to 5.5% following the previous year's 7%.

ENVIRONMENTAL PROTECTION

Although the Bank does not pursue business or non-profit activities related to environmental protection, it strives to ensure an environmentally conscious workplace, maintains and cares for the natural vegetation and ornamental plants in its direct environment. It pursues to apply energy-saving solutions during its operation. In its internal trainings it emphasizes the importance of energy and environmentally conscious corporate and employee behavior.

HUMAN RESOURCES POLICY

The full-time equivalent employment of MKB Bank at the end of 2022 was 4,738, which is higher than in the previous year. (2021: 4,231).

SERVICES OF THE AUDITING COMPANY

The following table contains other audit service fees for 2022:

2022	Amount in HUF
Other audit services	**171 200 000 +VAT**
Other non-audit servies	**21 400 000 +VAT**
Fee of other services performed by the auditor*	**192 600 000 +VAT**

* All services were of fixed fees.

Data in HUF million except stated otherwise

The following table presents the fees for audit services:

2022	Amount in HUF
Audit fee of the Bank	192 000 000 +VAT
Total audit fee	**192 000 000 +VAT**

Auditing company:
Deloitte Könyvvizsgáló és Tanácsadó Kft. (until 31st May 2022)
PricewaterhouseCoopers Könyvvizsgáló Kft. (from 1st June 2022)

Auditor personally responsible:
Zoltán Mádi-Szabó (until 31st May 2022)
Árpád Balázs (from 1st June 2022)

POST BALANCE SHEET DATE EVENTS

MKB Bank Plc. has announced that the position of Mr Antal Martzy as Deputy Chief Executive Officer for Finances at the Company, at Magyar Bankholding Zrt., and at the members of the MKB Bank group, Takarékbank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt. will be terminated by mutual consent as of 31 December 2022. The MKB Bank Plc. furthermore has informed the capital market participants that Mr Péter Krizsanovich will take up the position of Deputy Chief Executive Officer for Finances of the Company and the MKB Bank group as of 1 January 2023, but at the latest upon receipt of the relevant approval of the National Bank of Hungary. Mr Péter Krizsanovich has held various management positions in OTP Bank's Strategy and Finance Division for 17 years, including 5 years as Managing Director of the Strategy, Planning and Controlling Directorate. He has international experience in regional expansion and he has participated as a board member in the management of several leading foreign banks, and has achieved significant innovations and results in all areas of finance, especially in IT.

On 13 March 2023, the Board of Directors of National Deposit Insurance Fund determined to refund the surplus of the remaining part of the extraordinary payment obligation charged to credit institutions to compensate the customers of Sberbank Hungary Zrt. (under liquidation) until 31 March 2023. The Bank expects to receive a refund of HUF 2,578 million in the financial statements of 2023 after the financial settlement of the refund.

The Bank's management is closely monitoring the material events in the European and US banking sectors, as a consequence of which the management does not expect any direct negative impact on the Bank. The liquidity and capital position of the Bank is stable and strongly excess the regulatory requirements.

CAPITAL MANAGEMENT

The Capital situation of MKB Bank was sufficient at the end of 2022. The year-end 2021 result (hence capital accumulation) and the increase in the subordinated debt stock, as well as the merger and capital increase of HUF 188 billion during the year, resulted in a significant increase the core capital. The owner of the MKB Bank is committed to maintain the bank’s capital adequacy and implement all the necessary measures.

Domestic and international guidelines require the Bank to maintain certain minimum capital-to-asset ratios. These risk-based ratios are determined by allocating assets and specified off-balance sheet instruments into different weighted categories, with higher levels of capital being required for categories perceived as representing higher risk. Regulatory capital is divided into Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Bank may raise regulatory capital by issuing several types of financial instruments to the public. These financial instruments are then classified as either Tier 1 or Tier 2, depending on the types of conditions or covenants they place upon the issuer.

As at 31 December 2022, as an actual figure of the Bank regulatory capital was HUF 521,53 billion based on Basel IV IFRS under Supervisory Regulation. The increase of regulatory capital was due to the merger and capital increase of HUF 188.3 billion during the year.

Risk-weighted assets including operational and market risk increased by 141% from HUF 1 010.3 billion in 2021 to HUF 2 435.3 billion besides approximately 8,5% weakening of domestic currency. The main part of the increase derived from the banking merge, the increase of business volumes and increase of operational risk, which was compensated by the decrease of market risk.

By application of capital management as a tool, the appropriate capital safety is a first priority decision making factor, therefore the Bank monitors the changes of the capital elements continuously.

Legal limits defined by the
Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act), Regulation (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT on prudential requirements for credit institutions and investment firms and amending Regulation (CRR):

- CRR 395-400.§, Banking Act 302.§ large loan limit -> no excess
- Banking Act 101-102.§ total investment limit -> no excess

INFORMATION RELATED TO SHARES AND OWNERS

MKB Bank's shares were added to the product list of the Budapest Stock Exchange (hereinafter: “BSE”) on 30 May 2019, whereby the MKB shares got listed on the BSE.
The first trading date of MKB Bank's ordinary shares listed on the BSE was – in the BSE shares section's Standard category – was 17 June 2019.

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Magyar Bankholding Zrt. (hereinafter: Hungarian Bankholding) commenced its effective operation as a financial bankholding on 15 December 2020, after the bank shares of the key owners of Budapest Bank Zrt. (hereinafter: Budapest Bank), MKB Bank Nyrt. and MTB Zrt. (hereinafter: MTB) were transferred to the joint holding company in possession of the approval of National Bank of Hungary (hereinafter: NBH). The owners transferred their shares to Magyar Bankholding Zrt. as a result the second largest banking group in Hungary has been established, in which the Hungarian State owned 30.35% of the shares through Corvinus Nemzetközi Befektetési Zrt., the earlier direct owners of MKB acquired 31.96% of the shares and the earlier direct owners of MTB acquired 37.69% of the shares. All required approval has been obtained for these changes.

Data in HUF million except stated otherwise

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owns MTB, approved the first step of the merger timetable of Budapest Bank, MKB Bank and MTB. The merger of two member banks, that is Budapest Bank and MKB Bank, as well as Magyar Takarék Bankholding Zrt. took place on 31 March 2022 in accordance with the fusion schedule, based on the relevant decisions adopted by the supreme decision making body and in possession of the necessary official permits and authorisations. From 1 April 2022 the merged credit institution operated temporarily under the name of MKB Bank Nyrt. This brought the triple bank fusion – managed by Hungarian Bankholding – to yet another milestone, the ultimate aim of which is to create Hungary's second largest universal large bank in terms of its expected balance sheet total, through the merger of Budapest Bank, MKB Bank and later – by May 2023 after the adoption of the relevant decisions, the obtaining of the necessary official permits and authorisations and the fulfilment of other conditions – the integration of Takarékbank Zrt., a leader of its segment in digitalisation as well.

On 9 December 2022 the supreme bodies of MKB Bank and Takarékbank Zrt. adopted – as part of the execution of the second step Hungarian Bankholding's fusion schedule – the proposed decisions regarding the merger of the two member banks. Under the decisions of the respective general meetings two member banks – MKB Bank Nyrt. and Takarékbank Zrt. – merge with effect from 30 April 2023 – or, in case the merger is not registered by the Court of Registration, as of the day of registration – to continue operating under the name of MBH Bank Nyrt., with a single uniform brand name and image. In February 2023 the MNB authorised Takarékbank Zrt's merger into MKB Bank Nyrt.

The merger does not imply any change in the ownership structure of the banking group, the dominant shareholder of the banks involved in the merger process will remain Magyar Bankholding Zrt.

As at 31 December 2022 the shareholder structure of MKB Bank is the following:

Shareholder structure of MKB as of 31 December 2022	Number of shares (pieces)	Total nominal value of shares (HUF)	Ownership share (%)
Magyar Bankholding Zrt.	318 883 966	318 883 966 000	99.12%
Free float ratio: 0.88%			

The share capital (subscribed capital) of MKB Bank Nyrt. is HUF 321,698,958,000, that is, three hundred and twenty one billion six hundred ninety eight million nine hundred and fifty eight thousand forints , representing a cash contribution made available in total amount. The share capital is divided into 321,698,958, that is, three hundred twenty one million six hundred ninety eight thousand nine hundred and fifty eight registered, dematerialized, series "A", ordinary shares with a nominal value of HUF 1,000 i.e. one thousand forints each. providing that the capital increase approved by General Meeting Resolution No. 55/2022. (9 December) adopted by the Extraordinary General Meeting on 9 December 2022 has been executed by Magyar Bankholding Zrt. and entered by the Court of Registration in the trade register, however, the origination of the 10,378,975 series "A" dematerialised ordinary shares, newly issued by way of the capital increase is under way at KELER Zrt.. Magyar Bankholding Zrt. can exercise its rights relating to the newly issued shares as of the day of the issuance, and crediting to the securities account of Magyar Bankholding Zrt., of the new shares. All Series "A" Ordinary Shares ("Ordinary Shares") bear the same rights. Each shareholder holds solely ordinary shares.

Data in HUF million except stated otherwise

The parties having more than 10% indirect influence in MKB Bank Nyrt. are presented below, in line with the decisions of the National Bank of Hungary H-EN-I-15/2020., H-EN-I-704/2020., H-EN-I-705/2020., H-EN-I-295/2021. and H-EN-I-423/2021.

Magyar Bankholding's ownership structure is as follows as at 31 December 2022:

The shareholders of Magyar Bankholding	Ownership share (%)
Corvinus Nemzetközi Befektetési Zrt.	30.35%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25.13%
Magyar Takarék Holding Zrt.	12.56%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
EIRENE Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
OPUS FINANCE Future Zrt.	0.84%
Total	**100%**

The following organisations have more than 10% indirect influence in MKB Bank Nyrt:

- Corvinus Nemzetközi Befektetési Zrt., Hungarian State
- METIS Magántőkealap, Opus Global Befektetési Alapkezelő Zrt.
- Blue Robin Investments SCA, Blue Robin Management S.à r.l., Uncia Finance Zrt., Uncia Alpha Kft., Uncia Private Equity Fund, QUARTZ Alapkezelő Zrt., Bremdal Private Equity Fund
- Magyar Takarék Befektetési és Vagyongazdálkodási Zrt., GLOBAL ALFA Private Equity Fund
- Magyar Takarék Holding Zrt., Aurum Private Equity Fund

The Articles of Association of the Company do not restrict the transfer of shares representing the subscribed capital of MKB Bank Nyrt. The Company has no issued shares representing special controlling rights. Voting rights are not restricted at MKB Bank Nyrt.

Rights and obligations of the shareholders

Rights of the shareholders at the General Meeting

a) The shareholder is entitled to attend the General Meeting. The Company's General Meeting may be attended by the shareholder or the shareholder's proxy specified in Sections 151-155 of the Capital Market Act, who was registered in the Register of Shares at the Closing of the Register of Shares by the General Meeting in accordance with the result of the shareholder matching. The day of closing the Register of Shares is the second business day preceding the starting day of the General Meeting.

b) The shareholder may also exercise his / her rights at the General Meeting by way of proxy. Member of the Board of Directors, member of the Supervisory Board and the auditor cannot be persons authorised by proxy. Shareholders may authorise an executive employee of the Company as well to exercise their rights relating to the Shareholders' Meeting. The proxy authorisation of the authorised representative shall be valid for one Shareholders' Meeting or for the period of time defined therein, but in any case not more than 12 months. The proxy authorisation shall also be valid for the continuation of the suspended Shareholders' Meeting and for the repeated Shareholders' Meeting convoked due to the lack of quorum. The authorisation shall be issued in the form of a private document with full probative force and submitted to the Company at the place and time indicated in the General Meeting announcement. The proxy shall be drawn up in the form of a public document or a private document providing full evidence and it shall be submitted to the Company.

c) The shareholder has the right to be informed about cases on the agenda of the General Meeting In line with which right, in reply to the written request of the shareholder submitted at least eight days before the day of the General Meeting the Board of Directors shall provide information necessary to discuss the agenda item of the General Meeting three days before the day of the General Meeting, the latest. The Board of Directors may make the exercise of the right to information as described above conditional on the submission of a written confidentiality statement by the shareholder requesting the information. The Board of Directors may refuse to disclose information and access to documents if it violated the Company's business, banking, securities or other similar secrets, if the person requesting the information abuses their right or fails to make a confidentiality statement even if requested. If the party requesting information considers the refusal of information unjustified, they may request the Court of Registration to order the Company to provide the information.

d) The Company ensures that the rights to be informed, to comment and to suggest at the General Meeting are granted to every shareholder attending the General Meeting, on the condition that the exercising of these rights shall not hinder the lawful and proper operation of the General Meeting. In the interest of exercising the shareholder's rights specified in this present point the Chairman of the General Meeting shall grant the right of speech to the shareholder at the General Meeting, on the condition that the Chairman of the General Meeting may specify the duration of the speech, may withdraw the right to speak, especially in case the shareholder is off the point, furthermore he / she can specify the sequence of the speeches, if there are several speeches at the same time, in order to ensure the lawful and proper operation of the General Meeting.

e) Voting rights attached to shares are determined by the nominal value of such shares. The shareholder cannot exercise his / her right to vote until he / she has performed his / her due cash contribution

Minority rights

a) Shareholders jointly representing at least 1% of the voting rights may request the convocation of the General Meeting at any time without specifying the reason or the purpose. If the Board of Directors fails to take action to convene the General Meeting for the earliest possible date within eight days after the receipt of the request, the registering court shall convene the meeting in reply to the application of the shareholders suggesting the meeting or the registering court shall authorise the suggesting shareholders to convene the meeting. The expected costs shall be advanced by the suggesting shareholders.

b) If shareholders jointly representing at least 1% of the votes communicate a proposal to the Board of Directors to supplement the agenda in line with the rules of the levels of detail or a draft resolution concerning an item on the agenda or an item to be added to the agenda within eight days after the announcement of the convocation of the General Meeting is published, the Board of Directors shall publish an announcement about the supplemented agenda, the draft resolutions proposed by the shareholders after the communication of the proposal pursuant to THE Articles of Association. The issue specified in the announcement shall be deemed added to the agenda.

c) If the General Meeting rejected or did not allow the submission to enforce a claim of the Company from any member, managing officer, member of the Supervisory Board or the auditor for a resolution to be adopted, shareholders representing at least 1% of the voting rights may enforce the claim themselves for the benefit of the Company and representing the Company within a thirty-day limitation period.

d) If the General Meeting rejected or did not allow the submission to have the last report or an economic event or commitment related to the activity of the Board of Directors in the last two years audited by a specially commissioned auditor for a resolution, the registering court shall order the audit and appoint an auditor at the cost of the Company in reply to the application of the shareholders jointly representing at least 1% of the voting rights submitted within the thirty-day limitation period following the General Meeting. The registering court shall reject the fulfilment of the application if the submitting shareholders abuse the minority rights.

Right to dividend

The shareholder shall be entitled to a dividend from the profit of the Company, which can be shared and which was ordered to be shared by the General Meeting in the proportion of the nominal value of his / her share.

Obligations of the shareholders

a) The shareholder shall provide cash contribution to the Company in amount corresponding to the nominal or issue value of the shares received or quoted by his / her person. The shareholder may not be validly exempted from his / her obligation - excepting the case of share capital decrease.

b) The shareholder with at least 1% share or the shareholder acquiring such share shall report his / her indirect share and its changes to the Company providing his / her details suitable for identification at the same time. The National Bank of Hungary shall suspend the exercising of the voting right of a member failing to perform his / her reporting obligation.

MKB Bank Nyrt. is not aware any agreement concluded between its owners that may result in restrictions on the transfer of issued securities and / or voting rights.

MKB Bank Nyrt. is not aware of any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is not obliged to disclose such information on the basis of other legal requirements.

Employee share scheme

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. MKB Bank was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016. The launch of the ESOP was closely linked to MKB Bank's reorganisation efforts, as it created ownership interest among its employees. As of 2017, MKB Bank will perform the settlement of performance-related remuneration through its own ESOP Organisation, in accordance with the up to date ESOP Performance Remuneration Policy. The Investment ESOP is where the ESOP Organisation purchases issued ordinary shares for investment purposes on behalf of participating employees or managing officers. The employees who declared their participation to the ESOP Organization did not become owners of the shares, the shares were owned by the

ESOP Organization. The ESOP Organization is still the owner of the shares. The participating employees have become members of the ESOP Organisation. The ESOP Organisation's shareholding was initially 15% of the Issuer's share capital, which has been eliminated due to the continued implementation of the Investment ESOP Remuneration Policy, i.e. the sale of shares by the ESOP Organisation.Upon the fulfilment of a specified objective or condition in respect of the Investment ESOP, participating employees or executive officers may claim a share price gain on the shares.

* * *

As a public limited company, in accordance with market practice and the BSE Corporate Governance Recommendations (Recommendations), MKB Bank Nyrt. prepares a Corporate Governance Report, which shall be published on the website of the Company (www.mkb.hu). In its Corporate Governance Report, the Company presents its corporate governance practices for the financial year and, on the other hand, details its compliance with each section of the Recommendations.

SUPREME, EXECUTIVE AND MANAGEMENT ORGANS, SUPERVISORY BODY, COMPOSITION AND OPERATION OF COMMITTEES

General Meeting

The supreme body of the Company is the General Meeting. The General Meeting has, inter alia, the exclusive competence to approve and amend the Articles of Association, except for the modification of the Company's headquarters, premises, branches and, except for the core activity of the Company, the activities of the Company as the Board of Directors is entitled to amend the Articles of Association in that regard, make decisions on the Company’s transformation, merger and demerger, termination without legal successor, on increasing or decreasing the share capital authorisation of the Board of Directors to increase the share capital, appoint and remove the chair and members of the Board of Directors, appoint and remove the Supervisory Board and Audit Committee members, determine their remuneration, appoint the auditor, approve the annual report and make decisions on the utilisation of the profit after taxes and the payment of dividend advance. Pursuant to the Articles of Association of MKB Bank Nyrt., the General Meeting of the Company has the exclusive competence to recall and elect the Chairman and members of the Board of Directors. Members of the Board of Directors shall be elected by the General Meeting for a definite term of maximum five years. The members of the Board of Directors may be re-elected and may be recalled at any time by the General Meeting without giving reasons, in accordance with the provisions of the Articles of Association.

Board of Directors:	Supervisory Board:	Audit Committee:
Chairman:	**Chair person:**	**Chairman:**
dr. Zsolt Barna	dr. Andor Nagy	Rita Feodor
Members:	**Members:**	**Members:**
Andrea Mager	Zsigmond Járai	Miklós Vaszily
István Sárváry	Miklós Vaszily	dr. Péter Magyar
dr. Balázs Vinnai	Rita Feodor	
Marcell Tamás Takács	dr. Péter Magyar	
Ádám Egerszegi	dr. Géza Károly Láng	
Levente László Szabó	dr. Ilona Török	
	Kitti Dobi	
	Balázs Bechtold	

Board of Directors

The Board of Directors is the executive body of the Company. The members of the Board of Directors represent the Company vis-a-vis third parties and before court and other authorities. The Board of Directors shall develop and manage the work organisation of the Company.

The scope of authority of the Board of Directors is included in the Articles of Association of the Company with the proviso that within the framework of effective laws and resolutions adopted by the General Meeting, the Board of Directors shall be entitled to take any actions and make any decisions that do not form part of the exclusive powers of the General Meeting or the Supervisory Board. The decision on the acquisition or the sale of own shares, as well as the increase of the registered capital through the issue of shares belongs to the competence of the General Meeting subject to the condition that the General Meeting may authorize the Board of Directors to decide on registered capital increase. The tasks of the Board of Directors include working out and adopting the Company's business policy, strategy and business plan. Moreover, the powers of the Board of Directors include decision making – with the Supervisory Board's prior approval – on the approval of the Company's interim balance sheet and on the payment of dividend advance based on the General Meeting's authorisation.

Supervisory Board

The Supervisory Board shall control the management of the Company in order to protect the interests of the Company. The board of directors makes sure, inter alia, that the Company has a comprehensive controlling system which is suitable for efficient and effective operation, mmages the internal audit organisation, checks the Company's annual and interim financial reports, makes proposals to the General Meeting for the auditor to be appointed, and for the auditor's remuneration, and performs other tasks assigned to it by the Company's Articles of Association. The General Meeting may only adopt its resolutions on the report prepared in accordance with the Accounting Act and on the utilisation of the profit after taxes in possession of the Supervisory Board's written report. It may adopt its resolution on the payment of dividend advance only with the Supervisory Board's approval.

Audit Committee

The Audit Committee provide assistance to the Supervisory Board in supervising the financial report regime, in selecting an auditor, and in working with the auditor.

Risk Assumption, Risk Management Committee:	Remuneration Committee:	Nomination Committee:
Chair person:	**Chair person:**	**Chair person:**
Marcell Tamás Takács	István Sárváry	Zsigmond Járai
Members:	**Members:**	**Members:**
Andrea Mager	dr. Balázs Vinnai	dr. Andor Nagy
István Sárváry	Marcell Tamás Takács	Miklós Vaszily

Risk Assumption and Risk Management Committee

As part of its ongoing monitoring of the Bank's risk-taking strategy and risk appetite, the Risk Assumtion and Risk Management reviews the risk strategy, remuneration policy and quarterly risk report in advance. It supports the Board of Directors in monitoring the implementation of the risk taking strategy.

Remuneration Committee

The Committee supervises the remuneration of the manager in charge of risk management and legal compliance – including employees performing the internal control function – and prepares proposals for decisions to be made by the shareholders regarding remuneration, in view of the long term interests of investors and other stakeholders.

Nomination Committee

The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees, for specifying the capabilities required for membership in management bodies as well as their tasks, along with the evaluation of the composition and performance of the managing bodies and their members. Determining the ratios of the sexes within the managing bodies and the strategy for achieving it. It is also in charge of the regular revision of the Company’s policy concerning selection and appoitment of its executive director.

The Committees operate in accordance with the rules laid down in their rules of procedure. Bodies shall meet as often as necessary to carry out their functions and shall take their decisions in the form of a meeting or in writing and without a meeting. The work of the bodies is organized by the chairman of the body.

In accordance with the recruitment policy for the selection of members of the management bodies of MKB Bank Nyrt. and the Diversity Policy (Nomination Policy) applicable to the selection, members of the management boards of the members of the Bank Group, individuals with different professional skills, versatile regional and industry experience are elected into the managing bodies of the Bank Group and they also take advantage of these differences in their operations in the operation of those bodies, which the members of the Bank Group consider as a key consideration in determining the optimal composition of their bodies. Board appointments are based on the pool of expertise, experience, independence and knowledge represented by the candidates, taking into account what the body as a whole needs to function effectively. The members of the Bank Group pay particular attention to the representation of both genders in executive bodies which is why they strive to reach 15% female members in executive bodies. To this end, they commit themselves to favouring the member of the under-represented gender of the same management body among two candidates of the same capacity who are otherwise suitable, unless otherwise justified by professional judgment.

There is no agreement with an executive officer or an employee that provides for compensation in the event of a manager's resignation or termination by the employee or unlawful termination of the executive officer's or employee's relationship, or termination of the relationship due to a public takeover bid.

MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM OF THE COMPANY

The provisions regarding the operation, management and functions of the internal control system of the Company are set out in the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Hpt.), the provisions of the Civil Code (Act V of 2013, hereinafter referred to as “the Civil Code”) on business companies, Act CXX of 2001 on the Capital Markets; the applicable recommendations of the NBH (primarily Recommendation NBH 27/2018. (10 December) on the establishment and operation of internal lines of defence, the management and control functions of financial organisations), the Bank’s Memorandum of Association and the Bank’s effective rules of organisation and operation.

Section 154 (1) of the Hpt. requires banks to operate an internal control system. The elements of the internal control system include the management information system, in-process and management controls, and the independent internal audit organisation.

The concept of a management information system encompasses all information technology based or manual systems that transform data into useful information for decision-makers. Its main tasks are to produce ad hoc and regular reports and to support (in general) decision making.

In-process and management controls are forms of control directly or indirectly integrated into business processes. These controls are performed by persons who are functionally involved in the processes or by those responsible for the final outcome of the audited activities.

Independent internal audit is part of the internal control (monitoring) system independent of the process. Internal audits should be performed by persons who are not involved in the Bank's workflows and are therefore independent of the entities and workflows being audited. Accordingly, MKB Bank operates an independent organisational unit, that is, Internal Audit.

Also in view of the NBH recommendation 27/2018. (10 December) referred to above, the system of lines of defence is interpreted in the Bank's monitoring framework system. The above control mechanisms, which are also stressed in the Hpt as the elements of the Bank's internal monitoring system (distinguished from the external monitoring independent of the Bank (for example: customers, NBH, other authorities) and the external monitoring system elements (for example: auditor) related to the Ban can be classified as follows:

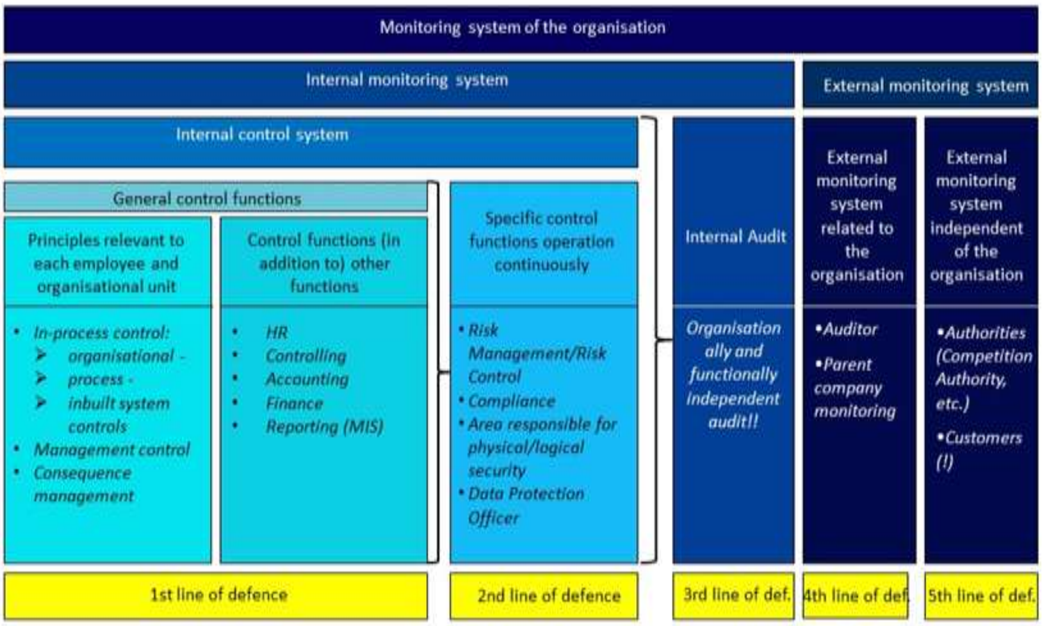
The Bank's internal monitoring system consists of an internal control system and independent internal audit.

Within the Bank's internal control system, we can distinguish between general principles (for example: consistent responsibility management), practices (for example: management control), organisational solutions (for example: in-process controls), and areas with a control function (for example: Controlling) and activities (for example: management information system), which together form the first line of defence of the Bank's internal monitoring system. In fact, this line of defence includes all employees and managers who, through their prudent work, protect the Bank's interests and values.

Another element of the Bank's internal control system is all those organisations, activities and persons responsible for performing dedicated operational functions, activities and control functions (for example: Risk Control, Compliance, Bank Security, Data Protection Officer), which together constitute the Bank's second line of defence. The function of the second line of defence can also be formulated by overseeing and supporting the activities of the first line of defence.

Independent internal audit, as another element of the internal monitoring system alongside the internal control system, is the Bank's third line of defence. Internal audit is an independent, objective assurance tool and consulting activity that adds value to the Bank's operations and improves its quality. It is responsible for examining the Bank's risk management, governance processes and the internal control system (or the Bank's first and second lines of defence) in a systematic and regulatory manner, evaluating and improving its operation, thereby contributing to the achievement of organisational goals.

The model of the Bank's monitoring system, including the place and role of independent internal audit, is illustrated in the figure below.



BRIEF DESCRIPTION OF THE COMPANY'S RISK MANAGEMENT SYSTEM AND PRINCIPLES APPLIED IN RISK MANAGEMENT

MKB Bank's Risk Control reviews the risk strategy of the MKB Group every year with the involvement of the relevant areas. In line with the current economic environment and in accordance with the Bank's and Magyar Bankholding Zrt.'s business strategy and capital plan, the Risk Strategy sets out the risk strategy principles and objectives of the Bank Group for each risk type and risk appetite. The approval of the risk strategy falls within the scope of competence of the Board of Directors.

In line with the basic regulatory requirements, a concept for the Group's comprehensive risk-taking processes has been developed and is constantly being fine-tuned.

The main elements of the concept are:

- Group-wide application of risk management principles;
- Applying the Unified Segmentation to the entire clientele of the group;
- A decision-making system that depends on customer quality and risk-taking;
- The use of Basel conform rating tools, in compliance with IRBF and analytical and behavioural scorecards, as well as a corresponding client rating regime, which adequately supports the decision-making activities of the bank management;
- Internal, group-level model validation methodology with annual frequency (rating and scoring tools, validation of related processes);
- Monitoring activities with IT support;
- Establishment of a comprehensive system of criteria that includes and takes into account relevant indicators enabling the detection of threatened loans in order to identify loans at risk as quickly as possible and, based on this, to determine the various types of customer / exposure management, the related tasks and order of procedure.
- IFRS 9 provisioning system;
- Pillar 1 and pillar 2 capital accounting systems based on IFRS;

- Regular group level management reports, backtesting measurements (Risk Reports, Capital Management Reports, Rating Quality, Rating Monitoring Reports, etc.);
- Definition of a revised recovery plan and its evaluation on a monthly basis.

The key risk management principles include ultimate control at board level, independent control separate from risk areas, and appropriate measurement, diversification, monitoring and reporting of risks.

The effective risk management function of the Bank is ensured by the effective communication of risks and the willingness to assume risks within the organisation, continuous development for recognising, measuring, monitoring and managing risks, turning the key risk management processes and procedures up-to-date and user friendly and improving their efficiency, as well as employing adequately trained work force.

SEPARATE NON-FINANCIAL STATEMENT

STRATEGIC OBJECTIVES AND BRIEF DESCRIPTION OF THE BUSINESS MODEL

MKB Bank Nyrt. is one of the oldest members of the Hungarian banking system. Combining 70 years of experience with modern digital banking solutions, it provides professional service to both retail and corporate customers at a high level. As Hungary's leading universal bank, MKB Bank creates lasting value for its customers through reliable and stable partnerships. The Bank is on a dynamic growth trajectory, with an advanced digital foundation and strategy, a traditionally strong corporate, premium and private banking client base, and advisory and analytical capabilities. The core value of the financial institution is professional customer service in the digital age, founded on dedicated, supportive and honest professionalism. Through its members the MKB Financial Group provides a full range of financial services in Hungary.

MKB Group's activities combine respect for traditional banking values with openness to innovative financial solutions, especially digitalisation. As a result, by 2022, MKB Group became a leader in the field of innovative financial solutions in Hungary.

In addition to digitalisation, MKB also pays special attention to the requirements of the domestic corporate trade finance, money and liquidity management and investment market, so that thanks to its highly experienced and recognised colleagues, MKB Group is also at the forefront in this area.

In the corporate sector, the ability to react quickly and professionally to changing trends is a key requirement. MKB Group experts are dedicated to meeting these high demands in a stable and predictable way, choosing optimal financing methods adapted to the opportunities.

MKB seeks to develop partnerships with key market players through strategic cooperation agreements that create a win-win situation capable of promoting sustainable growth.

One of the ways in which this is achieved, in particular, is the contribution of the MKB Group to the growth of economic productivity through its financing activities.

Fair banking values are paramount in the Bank's day-to-day operations and its vision for the future, it thus strives for a sustainable business model, with manageable risks and efficient and profitable operations.

On 15 December 2020 Magyar Bankholding Zrt. acquired a 97.19% majority controlling stake in MKB through a non-cash contribution in the form of a capital increase. At the same time, Magyar Bankholding Zrt. also acquired a controlling stake in Budapest Bank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt.

With this move, Hungary's second largest banking group was created. The new Bank Group serves 1.9 million customers, operates more than 500 branches, has a combined balance sheet total of nearly HUF 11,000 billion, gross loans of more than HUF 5,000 billion and deposits of nearly HUF 6,500 billion. It serves 200,000 micro-enterprises, 30,000 SMEs, 6,000 private banking partners and is a market leader in many areas.

In line with the plans, Magyar Bankholding Zrt. developed a detailed merger roadmap for the three banks in 2021 and a detailed business strategy, under which the bank holding intends to preserve and build on the values and experience of the 70-year-old MKB Bank Nyrt.

The merger of the two member banks of Magyar Bankholding Zrt., Budapest Bank Zrt. and MKB Bank Nyrt., with Magyar Takarék Bankholding Zrt. took effect on 31 March 2022. As a result of the merger, Budapest Bank was absorbed by MKB Bank and MTB Bank Zrt. will continue to operate as a subsidiary bank of the merged bank. Takarékbank will join the combined bank formed in spring 2022 in the second quarter of 2023. The merged bank, created on 31 March, became the group leader and will temporarily operate under the name MKB Bank Nyrt.

The MKB Group announced to the public on 27 September 2022 that MKB Bank Nyrt. and Takarékbank Zrt., to be merged in May 2023, will operate under the name MBH Bank Nyrt., with a unified brand name and image. The new brand name marks the building of a completely new bank, taking the customer experience to a new level, combining the strengths and heritage of the three banks. The Bank intends to continue building with a fresh, clean, modern image to become a successful bank by international standards and create value for its clients.

The Board of Directors adopted the Bank’s 2023-27 Strategic Plan on 14 September 2022. This confirmed the intention to merge MKB and Takarékbank, emphasised solution-oriented digital IT system and process improvements, the merger process and the enhancement of service quality and value proposition. The new strategy also took into account the rapidly changing economic and regulatory environment. For the period 2024-2025, the Strategy sets the possibility of active trading in MKB shares as a key objective, with the Bank’s profitability expected to grow steadily.

The focus is for the Bank Group to offer customer-centric, competitively priced, internationally leading digital solutions, products and services to its customers, building on the strengths, values and best practices of its member banks.

In line with its announced strategy, the Bank Group aims to play a leading role in the domestic financial services market through its professional experience, product range and service quality, thus:

- The creation of the most customer-focused bank in Hungary, offering value to all Hungarian citizens and businesses.
- Active contribution to the development of the Hungarian economy by supporting segments of national economic importance, such as the youth, SMEs and the agricultural sector, while maintaining a commitment to local communities.
- A key priority of the strategy is digital orientation, which means introducing internationally leading fintech solutions. The aim is to radically change the customer experience of financial services by introducing flexible, fast solutions and interoperable products.
- In the retail business, the key priorities are to deliver quality customer service, enhance the customer experience and strengthen the lending and premium segments. Partnerships play an important role and the Bank plans to further develop them in order to further increase its market share in the intermediary market.
- The Bank’s ongoing strategic objective is to maintain and build a strong corporate division. The focus of the division is on local knowledge, professional service, consultancy-based sales and ensuring innovative solutions.
- MKB Bank Group provides a wide range of investment banking services: Private Banking, Fund Management and Treasury.
- In the long term, maintaining the largest and most widely accessible branch network in the country, providing nationwide coverage, while contributing to quality, value-based customer service through efficient operations.
- Building an innovative organisation and corporate culture, where the Bank focuses on its people, continuous skills development and a cutting-edge corporate culture.

In addition to its own banking products and services, it offers its customers a uniquely wide range of services provided by its subsidiaries and partners: Euroleasing, MKB Investment Fund Management Ltd, MKB Pension Fund, MKB-Pannónia Health and Self-Care Fund, BB Voluntary Pension Fund, BB Private Pension Fund.

THE POLICIES PURSUED, THEIR RESULTS AND THE DUE DILIGENCE PROCEDURES APPLIED IN RELATION TO SOCIAL, EMPLOYMENT, HUMAN RIGHTS, ENVIRONMENTAL PROTECTION ISSUES AND THE FIGHT AGAINST CORRUPTION

MKB Bank considers it of the utmost importance to contribute to the development of the community through its wide-ranging involvement, commensurate with its economic strength. As a result of the triple bank merger launched earlier and continuing in 2022, Magyar Bankholding Zrt. acquired a majority controlling stake in MKB in December 2020. Following the merger, by the end of 2022 an integrated, group-wide strategy for corporate social responsibility was in place, so while during the year the programmes were implemented under the auspices of MKB Bank and Magyar Bankholding, by the end of the year integrated, group-wide initiatives were underway.

The forms of cooperation have included: financial literacy, support for various educational programmes, health protection, support for disadvantaged people through inclusion, and targeted sponsorships and support activities.

The Bank does not carry out a risk assessment in relation to its social and community engagement activities, but operates in accordance with the Bank’s internal policies and procedures.

Through its donation and sponsorship activities, MKB Bank aims to provide real help by supporting programmes and causes that serve the interests of society as a whole, thus the development of financial literacy, the shaping of attitudes, the creation and preservation of value and the creation of opportunities are of particular importance.

Activities to improve financial literacy and awareness as well as education

In February 2022, Széchenyi István University organised the 20th National Financial Case Study Competition with the support of Magyar Bankholding. It was the twentieth time that talented students competed in Széchenyi István University’s own quiz. Magyar Bankholding is the main sponsor of one of Hungary’s most prestigious university competitions. Magyar Bankholding aims to play an active role in the education of the next generation of students through its extensive network of professional contacts and its teams of experts in banking, finance, agriculture and other fields. To this end, in November 2021 the Bank Group signed a strategic agreement with Széchenyi István University. Under the agreement, the Bank Group will strengthen and support university research, digitalisation and robotisation development efforts, as well as agricultural and practice-oriented student training. It will also assist the University in the development of existing and emerging courses, curricula and accreditation processes relevant to the banking sector.

2022 saw the re-launch of Money Week (Pénz7), the Financial and Entrepreneurship Week: Organised by the Financial Compass (Pénziránytű) Foundation, more than 100 colleagues from our member banks participated as mentors in developing financial awareness among primary and secondary school students.

MKB Bank supported the universities participating in **the Let's Teach for Hungary programme** (University of Szeged, University of Pécs, University of Miskolc) in the year 2022. The motivation behind the Let's Teach for Hungary programme initiative is to create opportunities for people living in the more disadvantaged small villages in the country to thrive in life and in the labour market. The Bank contributed to the purchase of minibuses for the transport of mentors from the 3 universities participating in the programme and for the travel of the mentored students.

The main motivation behind supporting the concept of E-lab at **Eötvös József Secondary School** was to establish a creative pedagogical learning space to complement traditional learning with the development of competences that evolving social and economic demands require schools to prepare students for. A space was created in which pupils could carry out different learning stages in small groups without direct teacher guidance.

An initiative to improve the quality of education was the donation of the Bank's scrapped computers to the IT department of the József Attila High School in Monor, to help them prepare for their school-leaving exams.

Health preservation

MKB Group provides a wide range of sporting opportunities for its employees. The MKB Sports Association, founded in 2016, organises the sporting life of the Bank by running 23 sports sections. The headquarters on Váci Street and the office building on Kassák Lajos Street house a total of almost 400 m2 of gym facilities.

MKB Bank is a key sponsor of the Hungarian sports scene, especially with regard to the young generation and to helping to adopt a healthy lifestyle. In 2022, the Bank became the official bank of the Hungarian Olympic Team, contributed to the financial support of the Ferencváros Torna Club for young talents in need, and continued to sponsor Prospex Team, an up-and-coming young sailing team in Hungary.

Social responsibility, charity and cultural activities to promote equal opportunities:

In March 2022, Magyar Bankholding Group committed to help refugees from Ukraine. In response to the war, the Bank Group donated HUF 1,000 on behalf of each of its employees, totalling HUF 10,500,000, through the Bridge for Transcarpathia relief programme.

In June 2022, following a three-year tradition, we took to the water in the 3rd Lake Tisza PET Cup, representing Magyar Bankholding. 12 of our volunteers took up the challenge and the fight against waste, contributing to the overall success of the waste collection competition: in 4 days, the teams cleared the floodplain of Lake Tisza of 1500 bags of waste.

In September 2022, five young artists were awarded the **Junior Prima Prize** in theatre, film and dance. The award and the prize money were presented by Levente Szabó, the Bank Group's Deputy CEO for Individual Business Services, the sponsor of the award, the Chairman and CEO of Takarékbank, on 20 September in Budapest. At the invitation of Takarékbank, theatres, professional and advocacy organisations nominated 49 candidates this year. The five young talents who were awarded the Junior Prima title were selected by a six-member jury, consisting of Gabriella Balogh, member of the Prima Primissima Foundation's Board of Trustees, Csaba Káel, director, CEO of Müpa Budapest, Government Commissioner for Film, Gábor Máté, actor-director, director of Katona József Theatre, Pál Oberfrank, actor-director and director of the Petőfi Theatre in Veszprém, Tibor Orlai, theatre producer and Péter Rudolf, actor and director of Vígszínház. (The award winners are Ágnes Barta, Dániel Benedek, Gergely Csiky, Petra Hartai, Balázs Koltai-Nagy, Benett Vilmányi)

Also in September, we joined the Bank Blood Donors' Week organised by the Hungarian Banking Association for the third time. The member banks of Magyar Bankholding participated in 4 locations, with a total of 248 employees rolling up their sleeves for this noble cause. In connection with the programme series, Magyar Bankholding joined forces with the Hungarian Banking Association to launch a blood donation poster competition among the students of the Moholy-Nagy University of Art and Design. The aim of the competition was to draw the attention of Hungarian society and young people to the social obligation of blood donation through the works of young, contemporary artists. Ten students took part in the closed competition, submitting their individual poster designs in two categories. The poster design competition was presented at a ceremony on 24 November at the Hungarian National Museum.

The Dobbantó Programme was launched again **in October 2022.** Our award-winning programme to support female entrepreneurs with competences and mentoring, where 20 participants will take part in a multi-week course to learn the key skills needed to run a business through experience, and leave with a business plan ready to go, evaluated by the training professionals.

The aim of the Dobbantó Programme is to equip female entrepreneurs with the knowledge they need to launch and develop their businesses in a planned and conscious way.

The entrepreneurship skills development training provides participants with the marketing, management, tax, and resource generation know-how they need to succeed in business. The training, which takes place over 12 days in a group of 20 people over six weeks and 90 hours in total, gives participants the opportunity to learn the key skills needed to run a business through experience and to leave with a business plan, assessed by the training experts. Elements of the programme reflect on the difficulties of the current economic situation, suggest operational options and highlight the sustainability of entrepreneurship and the beauty of the profession.

In November 2022, thanks to MKB Bank's 25-year scholarship programme, the number of young people earning a degree grew yet again. MKB Bank and the International Children's Safety Service bid them farewell, while the current scholarship holders received their usual certificates at the event, which was also attended by Dr. László Kövér, President of the Hungarian Association of the International Children's Safety Service. The International Children's Safety Service and MKB Bank have a long and successful history of cooperation in helping children in difficult circumstances. Thanks to this partnership, for 25 years now, children and young people who are excelling in their studies every school year but are socially disadvantaged have been able to benefit from the exceptional opportunities provided by the MKB Scholarship Programme. The number of applications received year after year by the Children's Safety Service proves the need for initiatives such as these. The number of applications is 110 times higher than the number of scholarships. MKB Bank supports the work of the Children's Safety Service with an annual amount of around HUF 50 million under a three-year contract.

In December 2022, we partnered with Hungarian Interchurch Aid for a Group-wide charity programme involving colleagues in our Advent collaboration. In a charity programme launched in early December, our staff granted the Christmas wishes of needy children in the form of Christmas gift boxes. Almost 300 gifts were thus collected and delivered to the children of Boldogkőfalu and Vizsoly with the involvement of senior executives and Bankholding Employer Branding Ambassadors. In the few days immediately preceding Christmas, staff also joined in food distributions with the help of Hungarian Interchurch Aid.

Families living in poor social conditions and people without shelter were hosted by volunteers in Csepel.

On 21 and 22 December, more than 50 of our colleagues, including Dr. Ilona Török, Ádám Egerszegi, Levente Szabó, Roland Pecsenye and Kitti Dobi from senior management, helped distribute 1000 meals each day. The two food distributions were sponsored by Magyar Bankholding.

Support and sponsorship

Support and sponsorship activities are a distinctive part of MKB Bank's social responsibility strategy, in which we support such important causes as social awareness, knowledge development, helping children in need and their families, and supporting the domestic sports scene.

MKB Bank also supported the work of other foundations and organisations in 2022, such as **the Kováts Ferenc Foundation and the Red Noses Clowndoctors Foundation**, which used the funds to help our fellow citizens in Covid wards and sick children.

Magyar Bankholding's social responsibility strategy for the future

Magyar Bankholding's Group-wide corporate social responsibility strategy, adopted at the end of 2022, aims to rank among the leaders of the Hungarian banking sector in terms of corporate social responsibility as a market-dominant group, and to make a real difference in the issues it supports. The objectives of the strategy for the next three years are set out under the following four pillars:

1. Pillar 1: Social inclusion by supporting disadvantaged people:

Magyar Bankholding has defined social inclusion as the first pillar of its strategy, with the aim of building a group of companies that pays special attention to local communities and values.

2. Pillar 2: Increasing financial awareness and digital literacy in Hungarian society:

One objective included in Magyar Bankholding's business strategy is to help people get ahead in their finances. The company also feels responsible for and aims at the second pillar of the strategy, which is to raise the level of financial awareness in the local community where it operates, i.e. in Hungarian society, and to increase digital literacy, which has become topical recently, thus reducing inequalities and contributing to responsible economic activity.

3. Pillar 3: Addressing sustainability and ESG considerations:

In addition to this, Magyar Bankholding is committed to playing a key role in creating a sustainable economy in Hungary. Along the Group's ESG strategy the common points of intersection with the corporate social responsibility strategy include the inclusion of employees and the launch of internal programmes to increase their engagement.

4. Pillar 4: Support and development of Hungarian art:

The fourth pillar of Magyar Bankholding's social responsibility strategy is the support of art and related activities, as part of which MKB Bank has established the Foundation for the

Data in HUF million except stated otherwise

Support and Development of Art, which will focus on the identification and fostering of emerging talents, making the Bank's art collection accessible to a wide audience and art patronage in the coming years.

Employment-related policies and their results, due diligence procedures applied

MKB Bank has carried out a risk assessment in the area of employment and has identified the risks relevant to its operations, which are also taken into account in its human resources policy. Human resources actions focused on targeted areas such as talent and career management, supportive environment and work processes, based on global trends, as well as domestic and MKB specific concerns. The Bank organises an orientation day for new colleagues joining the Bank. The aim of this is to integrate new joiners, provide them with the basic training they need to do their job and introduce them to the organisation globally.
The HR strategy focuses on improving the employee experience by promoting flexible working and the use of available digital tools, through a collaborative corporate strategy.

Breakdown of employees employed by MKB Bank by job function (FTE):

Breakdown by job	Staff member	Head of department	Director	CEO + managing director	Total
MKB Bank Nyrt.	4,446	189	63	40	4,738
Total	**4,446**	**189**	**63**	**40**	**4,738**

Average age of employees of the MKB Bank, by length of service and group member (years):

MKB Group	0-2 years	10+ years	2-5 years	5-10 years	Average
MKB Bank Nyrt.	38	41	40	47	42
Average	**38**	**41**	**40**	**47**	**42**

The number of employees of the MKB Bank by length of service and group member (FTE):

Field	0-2 years	2-5 years	5-10 years	10+ years	Total
MKB Bank Nyrt.	1,359	1,075	869	1,435	4,738
Total	**1,359**	**1,075**	**869**	**1,435**	**4,738**

Employees employed by MKB Bank by gender (FTE):

Breakdown by gender	Total staff			Director+		
Field	Male	Female	Total	Male	Female	Total
MKB Bank Nyrt.	1,695	3,043	4,738	76	26	102
Total	**1,695**	**3,043**	**4,738**	**76**	**26**	**102**

MKB Bank provides its employees with a fringe benefit package consisting of several elements. The employee package does not only consist of cash benefits. It includes a number of components aimed at improving the working environment, maintaining a healthy lifestyle and fostering motivation and a sense of belonging to the team. These benefits are governed by the Fringe Benefit Policy.

Talent management at MKB Bank:
In 2018, a company-wide calibration process and uniform performance assessment were introduced. A talent management programme covering all subsidiaries was also introduced and launched in December 2019. Participants in the programme have been involved in developing projects that have an impact on the life of the entire organisation. The MKB Group places great emphasis on training employees and nurturing talent, supporting the development of professional knowledge and skills through a wide range of educational programmes. The following programmes were launched in 2022:

Digitised and gamified pre-boarding programme:

The programme focuses on our colleagues who are in the pre-entry period after accepting our offer. The solution, available online, supports new talent engagement in the pre-joining period; we not only accompany prospective employees on their journey until their onboarding day, but also maintain a positive experience while providing them with ongoing engagement.

Fusion programme:

The next step in our talent retention activities in 2022 was the award-winning Fusion programme. Fusion is one of Hungary’s largest internship programmes, currently hosting nearly 300 talented students aged 19-25 from across the country. We are usually the first milestone for our trainees at the start of their careers. During the programme they gain relevant work experience, which provides us with a solid pool of young talent. The internship programme is designed to give more than just work experience: we support them through our own onboarding processes, with dedicated HR colleagues to guide university students through their professional work and development. This reinforces our commitment to our corporate value: We give more.

Ambassador Academy:

An innovative tool was called for to introduce new values, associated behaviour patterns and leadership tools, a new culture roadmap and to retain talent and maintain engagement. We therefore developed the Ambassador Academy of around 100 people. It is a change management initiative, with members working together to ensure engagement between different talent, teams and the delivery of information to all colleagues. With high-profile on- and offline sessions focusing on different change-related topics, the initiative has been very well received. They work together on elements of the workplace culture programme in joint workshops, for example they created the questions for the organisation-wide pulse check survey, which was thus relevant and customised to truly pertain to actual colleagues.

Leadership Academy:

Our Leadership Academy is an integral part of preparing managers for the transition to the new way of banking. Our leadership training programme is modular and supports the continuous development of talented leaders through a variety of solutions and topics (inspiring leadership, heterogeneous cross-generational teams, transparent leadership, motivating leadership, etc.). A specific programme supports the training of newly appointed managers.
We created the Change Management Academy, which more than 1,500 of our management and non-management colleagues attended in 2022. Within the framework of the Academy, we not only provide the re-skilling needed for change management, but we also introduced the communication of corporate values in an interactive form, working with colleagues through workshops to help them understand and accept these values.

Our retention programmes focus on colleagues with specialist skills, as retention is key (Key Employee Programme), and equally focus on those with a consistently high performance and excellent attitude (High Performer Retention Programme).

MKB Bank's 2022 talent management programme was recognised with a special award by the Joint Ventures Association on 4 February 2023.

Work-life balance at MKB Bank:

At MKB Bank, flexible working is a core element of the HR strategy and an important component of improving the employee experience.

As part of its HR strategy, MKB Bank aims to increase the share of atypical employment. In addition, the company aims to make working from home available to as many employees as possible, which is why it is also continuously improving its equipment. Working from home reduces workplace stress, improves work-life balance and thus increases employee satisfaction, morale, efficiency and loyalty.

From 2020, home office working in jobs that do not require personal presence is 100% implemented and flexible work arrangements are widespread. The regulation of teleworking has become perhaps one of the most discussed labour law issues of the last year and a half.

During the period of the pandemic emergency regime, the rules for teleworking were laid down in Government Decree 487/2020, whose rules were incorporated into Act I of 2012 on the Labour Code and Act XCIII of 1993 on Occupational Safety and Health with effect from 1 June 2022, the date when the pandemic emergency regime ended. The management of MKB Group reviewed the working schedule implemented so far and decided to change it.

As of the above date, under the provisions of the Labour Code, teleworking is not only work carried out with IT equipment, but also any work carried out at a place other than the employer's premises for part or all of the working time. We believe that in this merger period, the new working arrangements will help teams to work more efficiently and improve personal collaboration, while giving managers the flexibility to handle the needs of individual teams and colleagues.

MKB Bank and health:

Health promotion and health maintenance is an important area for MKB Bank, which is emphasised in various sports and health campaigns, such as the #20minutehealth programme mentioned above. Providing sporting opportunities for employees in a variety of ways and promoting healthy lifestyles is being implemented on multiple fronts. In 2020 and 2021, due to the pandemic, programmes to support sport were also organised in an online format. Ensuring a healthy working environment for employees is a priority. In the spirit of the Year of Health programme announced in 2018, screening tests for employees have been organised from 2020.

Employees have access to preferential health insurance, including diagnostic services and extended occupational health services within the Bank, seven days a week. The teleworking rules referred to in the previous point were also designed to ensure a work-life balance for our employees and to safeguard their health, while also aiming to increase work efficiency.
MKB Bank also offers hobby and recreation rooms in its buildings. Fitness menus and other special dietary meals are available in the canteens at the workplace, and restaurant services were also made available through delivery during the pandemic.

MKB Bank and sports:

MKB Bank provides a wide range of sporting opportunities for its employees. The headquarters on Váci Street and the office building on Kassák Lajos Street house a total of almost 400 m2 of gym facilities. In 2020 and 2021, online sporting events and training sessions were also made available, so as to enable the Bank to support the health of its employees in their home environment. MKB Group also supports sport in other ways: the MKB Sports Association runs several sports sections depending on the interests and activities of its employees.

MKB provides significant support to its sports association (HUF 45M per year), where effective professional and recreational sports work is carried out. In 2022, the association has a membership of between 400 and 450 people, including 200-250 members in the various sports sections.

The association operates 2 fitness rooms with a total of 780 sqm in the MKB Headquarters and in the office building in Kassák Lajos Street, where TRX, Kettlebell, Yoga, Pilates, Bodyart strength group classes and a fleet of cardio and strengthening machines are available for members. During the pandemic in 2022, we acquired 7 new cardio machines.

Our sports sections are: squash, volleyball, fishing, go-kart, dragon boat, cycling, running, table tennis, men’s and women’s football, hiking, bowling, boxing, basketball, throwing sports, swimming, wall climbing, spartan/crossfit, kayak-canoe and SUP, target shooting, dodgeball.

We organise in-house championships in a number of sports several times a year.

In addition to sports sections support, the association also provides its members with sports equipment, logoed sportswear, sports accessories, and even individual support to sports section members on request.
The Sports Association prepares our competitors in 9 sports for the annual Hungarian Banks Sports Tournament, where we achieved 3rd place for the fourth time in a row in 2022.
Our runners regularly take part in large numbers in races such as the Wizzair Half Marathon and the SPAR Marathon. In team sports, our men’s football, basketball and bowling teams are top finishers in the Business Leagues. Our dragon boaters have won medals in several national competitions, our anglers also regularly place well, our table tennis team is supported by the training methods of two excellent NB/1 colleagues, and our go-kart teams always have successful monthly meets.
Our cycling section has been running a joint programme with BKK BUBI for several years, 150 colleagues received annual discounted BUBI passes.

We are proud of our spring and autumn round of the ‘MKB MOVE’ competition, where registered colleagues were able to collect kilometres in walking, running and cycling.
At the same time as the merger on 01 April 2022, we also took over the membership of the Budapest Bank General Sports Circle, with 85 people joining the Sports Association.

We created a FB group called MKBSE which now has over 500 members.
We have a close working relationship with the Marketing Department, as many newsletters are produced and sent out to colleagues, logoed sportswear and sports products are purchased throughout the year.

Safe working environment:

MKB Bank complies with its legal obligations by carrying out a workplace risk assessment of its headquarters and premises, including all bank branches. As the Bank is an office working environment, the risk of accidents is fortunately low. The incidence of accidents at work is therefore low and on a downward trend.

Every year, employees are required to attend mandatory training on health and safety and fire prevention. Special training material has been prepared for bank branch staff on what to do in the event of an attack on the branch. The personnel, material and organisational conditions for safe work are laid down in the Bank's Health and Safety at Work Manual in accordance with the legal requirements.
The Bank also employs a safety and health representative on behalf of the Works Council, who is entitled to check that the requirements for safe and healthy working conditions are met.

Responsible corporate governance:

MKB Bank, as a publicly traded company whose shares are listed on the Budapest Stock Exchange, has prepared and published its Corporate Governance Report based on the BSE's Corporate Governance Recommendations.

MKB Bank attaches great importance to the development and operation of a corporate governance system that is in line with best market practices and ensures effective and efficient operation, and to responsible corporate governance.

The governance structure of MKB Bank takes into account the legal, supervisory and stock exchange requirements, as well as the specificities of the business. MKB Bank aims to comply as fully as possible with BSE's Responsible Corporate Governance Recommendations.

Regulations related to the respective policy and applied due diligence and risk management procedures:

the Regulations of the Performance Remuneration Policy of MKB Bank pursuant to the Banking Act (Hpt).

- Performance Review Process Policy
- Human Resources Management Policy
- Cafeteria Benefit Scheme Policy
- Policy on the allocation and delegation of employer's rights in the employment relationship
- Group Incentive Policy
- Operational Rules for the Single Internship Programme
- MBH Bank's training system, processes for training MBH Bank's internal and external employees (Training Policy)
- Recruitment and Selection Process Policy
- Staff Recommendation Policy
- Policy on Recording Working Time and Absence from Work
- Remuneration Policy Regulations
- Teleworking Policy
- Employee Recognition Program Policy
- Health and Safety Policy

Policies adopted for the protection of human rights and their results, due diligence procedures followed

In accordance with the standards set out in the Bank's Code of Ethics, the interests of employees are taken into account on a fair and equitable basis, their right to privacy is recognised and in return the Bank expects its employees to take responsibility for their health.

It is of paramount importance for the Bank that its staff can combine family life with work and career development. To enable this, the Bank provides a healthy, non-discriminatory working environment. The Bank does not carry out risk assessments with regard to human rights, but operates on the basis of its Equal Access Strategy and the Bank's internal rules of procedure.

MKB Bank's Procedural Rules on Promoting Equal Access have been prepared on the basis of Section 283 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Decree 22/2016 (VI. 29.) NGM on the rules for equal access to financial services for disabled persons in credit institutions and MNB Recommendation 4/2017 (III.13.) on the treatment of disabled customers. The Rules contain the implementation and detailed rules of MKB Bank's strategy to promote equal access and form an integral part thereof.

The Bank's equal access strategy was developed in the spirit of the Bank's social responsibility as the Bank pays particular attention to the specific needs of disabled customers and to special treatments promoting their equal access to services. It is essential that the strategic vision is integrated into the day-to-day operations of the Bank and forms an integral part of the approach of senior management and all staff. The aim of the policy is to ensure that the Bank's disabled customers receive the same quality of service as non-disabled customers, where possible, but adapted to their specific needs.

The Bank will treat all its stakeholders fairly, with respect and dignity. It rejects all forms of discrimination, including exclusionary behaviour based on differences of gender, age, ethnic origin, religion, political opinion, membership of a particular interest group, sexual orientation, mother tongue or any other direct or indirect discrimination.

MKB Bank operates a whistleblowing system (e-mail address: anonimbox@mkb.hu), which allows anyone to report, even anonymously, any violations of the law, internal violations and other ethical standards that they have encountered.

MKB Bank also has a Works Council in accordance with the labour legislation in force. The Works Council is the primary interest representation forum, representing the interests of employees. Employees may be involved in the discussion of issues and taking decisions affecting them and can learn about any change therein through the Works Council. The Ethics and Conciliation Committee of the Works Council has the power to resolve conflicts between employees and conflicts between managers and employees.

MKB Bank does not employ child labour or forced labour.

Data protection and data security:

The right to the protection of personal data is one of the personal rights provided for in the Civil Code, and the protection of personal data is also constitutionally protected by the Fundamental Law, and MKB Bank has been paying special attention to this area for a long time. MKB Bank is committed to the highest level of protection of personal data of natural persons processed by it and, in this context, it has implemented and continues to implement appropriate technical and organisational measures, taking into account the risks of varying likelihood and severity, in relation to the nature, scope, context and purposes of the processing and the rights and freedoms of data subjects, and it continuously monitors the measures taken and their effects in order to ensure compliance with the applicable legislation on the protection of personal data.

MKB Bank has established an appropriate data protection framework to comply with the requirements of the GDPR, the primary legislation governing the processing of personal data of natural persons, and has incorporated data protection controls into its business processes and IT development processes.

MKB Bank operates and maintains its data protection framework in accordance with applicable law and the guidelines of the Hungarian Authority for Data Protection and Freedom of Information, the European Data Protection Board as supervisory authorities, and the European Union's guidance authorities, such as the CNIL (Commission Nationale de l'Informatique et des Libertés, the French data protection authority, and the ICO (Information Commissioner's Office, the UK data protection authority), as well as best market practices.

In line with industry practices and MNB regulations, MKB Bank continuously updates its security preparedness by updating and replacing its IT protection systems.

The Bank also prioritises the security of its digital channels, with regular external vulnerability scans and penetration tests to ensure that the level of security is adequate.

MKB Bank, also in full compliance with the MNB's recommendations, has continuously warned its customers on its own platforms and in several notices issued during the year about the actions to be taken in connection with cyber fraud and phishing and the requirements of prevention and vigilance.

MKB Bank's employees are highly experienced in preventing phishing incidents, identifying those that have occurred and implementing mitigation measures. Potentially affected customers are contacted by the MKB Fraud Management department to verify whether the customer is aware of the transactions in question and whether they were initiated by the customer. In addition to informing customers, MKB Bank takes the necessary security and legal measures.

Sustainability and climate strategy:

The MKB Financial Group is committed to being a key player in creating sustainable economic operations. As a Hungarian financial institution, it has a key role and responsibility in supporting and financing sustainable and climate-smart investments. MKB Group wants to set an example to market players and partners by reducing its ecological footprint and operating responsibly, while at the same time it feels obligated to protect the environment.
To translate this commitment into action, MKB has revised its previous sustainability and climate strategy and from 2022 has developed and adopted a Group-wide ESG strategy, which includes the Bank's carbon neutrality ambitions. A dedicated ESG function has been created and is directly supervised by senior management.
The strategic directions set out the future vision and actions for the MKB Group on the one hand, due to its role as a financial institution, and on the other hand, for the MKB Group as a group of companies.

- *"MKB, a partner in green finance"*: as part of the strategy, the aim is to create an infrastructure, product and service range for retail and corporate customers that will help them achieve their own sustainability and climate goals. MKB attaches great importance to investing in renewable energy and supports the implementation of these projects. MKB is committed to ESG-based resource mobilisation both in its own operations and towards its customers. MKB's sustainability and climate strategy includes a gradual review of the risk framework and the integration of an ESG approach therein. This involves both the full adoption of European Union requirements and the examination of additional specific elements that may be tailored to the Hungarian market.

- *"MKB is a responsible group of companies":* As a responsible group of companies, the MKB Group aims to fully comply with climate neutrality and sustainability objectives in its own functioning, in particular the widest possible application of paperless and contactless methods and ESG aspects in operations. The Group aims to achieve these objectives through its daily operations, internal processes and the way it shapes its employee community.

The Sustainability Strategy Framework of Magyar Bankholding, which will also be the strategy of the MKB Financial Group in the future, sets out two strategic objectives:

1. "Magyar Bankholding, a partner in sustainable finance" – a strategic goal to create an infrastructure, product and service offering for both retail and corporate customers that will help them achieve their own sustainability and climate goals. In this context, the tools to implement the strategy are:
   a) the development of products and services that promote sustainability (for example: the Green Home Program already available at member banks, or the Green Capital Requirement Allowance Program to be adopted in the future);
   b) raising funds and financing to promote sustainability (green bonds, green mortgages).
   c) establish an ESG-based risk framework, where MBH aims to expand the process of identifying risks from climate change and environmental degradation and incorporate sustainability and climate objectives into its risk management. In this context, it will, for example, integrate ESG considerations into its credit risk processes and quantify its operational risks, thus becoming an integral part of its Risk Strategy.

2. "Magyar Bankholding, the responsible group of companies" - the strategic goal of MBH is to adopt sustainability principles in its own operations. As part of this:
   a) From an environmental perspective, it aims to reduce its carbon footprint, for example by reducing energy consumption, further promoting digital banking to radically reduce paper use, and taking steps to promote responsible waste management by extending separate waste collection.
   b) On the social side, it is important for the Bank to be a fair and supportive partner to its employees and customers, and it places a high priority on awareness-raising, training and charitable giving. To this end, it will, for example, provide ESG training to its employees and strive to create a healthy working environment, non-discrimination and equal opportunities within its operations.
   c) In terms of governance, MHB continuously ensures that it operates in an ethical, transparent, compliant and sustainable manner. It has therefore, for example, raised the advocacy of sustainability (ESG) to the level of Deputy CEO and created a dedicated area within the Bank; and in 2022, it published its first GRI Sustainability Report, which is externally auditable by an independent third party, and in October 2022, it joined the UN Principles for Responsible Banking.

In 2021, MKB Bank won the 'Green Bank Award' established by the Hungarian National Bank. In February 2019, the MNB launched its Green Programme to support financial services in Hungary aimed at protecting the environment and further reducing the ecological footprint of its market participants and its own ecological footprint. In judging the award, the MNB looked at the extent of green lending by financial institutions, the green bond portfolio held by the institutions, and the institutions' exposure to climate change impacts. MKB Bank's conscious, step-by-step sustainability strategy, its consistently implemented green products and services, and its numerous socially relevant commitments played a major role in its recognition.

Data in HUF million except stated otherwise

Measures to optimise energy use:

A large part of MKB Bank's energy consumption comes from utility consumption in its buildings, combined with the fuel consumption of its fleet of vehicles. The consumption of buildings is partly of communal and partly of technology origin. Energy consumption is constantly monitored and supervised in each building. The national centre of the system is located in the office building on Kassák Lajos Street.

No significant energy efficiency investments were made at MKB Bank in 2022.

The annual energy consumption indicators of the MKB Group buildings were as follows[6].

Annual consumption	2020	2021	2022
Electricity (kWh)	11,084,110	10,797,666	16,371,405
Natural gas (gnm3)	932,862	998,098	1,008,169
Thermal energy (MJ)	2,141,367	2,301,308	18,131,000
Water (m3)	24,340	21,734	33,016

The Bank’s environmental risk assessment took into account annual energy consumption and annual carbon emissions. MKB Bank was last audited in 2019 by NKM Optimum Zrt. for full energy efficiency, which complies with the requirements of EU Directive 27/2012, Act LVII of 2015 and Government Decree 122/2015 (V.26). In addition, monthly energy desk officer reports are also prepared with energy consumption analyses on the basis of Decree 2/2017 (II. 16.) of the Hungarian Energy and Public Utility Regulatory Authority (MEKH).

Separate waste collection and management:

MKB Bank is committed to sustainable development. One of the pillars of this is separate waste collection, which is promoted by the installation of separate collection bins in the Bank branches and office buildings, where paper waste, metal beverage cans, plastics, PET bottles, batteries, caps and electronic waste (ink cartridges, toners, etc.) can be collected separately. Separately collected waste can be recycled and reused as raw material after proper treatment – reducing the impact on the environment.

MKB Bank strives to operate in an environmentally friendly manner, and to this end, it pays special attention to the management of electrical waste. Digitalisation strategy also has a positive impact on the Bank’s paper consumption.

Waste management is regulated by a number of regulations, and MKB Bank complies with the legal requirements. The Bank prepares an annual waste management report, which includes the classification of waste generated and the quantities of waste disposed of. In 2022, MKB Bank generated 103,860 kg of paper and cardboard waste and 15,177 kg of waste from discarded electrical and electronic equipment.

[6] Note: At the time of writing, energy consumption data for the month of December 2022 were not yet fully available. The missing data were based on the previous year’s consumption.

Environmental awareness measures for MKB Bank's fleet:

MKB BANK currently owns 796 vehicles. All of these are modern, state-of-the-art vehicles, with a fuel consumption that is almost equally divided between diesel (407) and petrol (370), as well as 5 electric and 14 hybrid petrol vehicles. As a result of the scheduled replacement of the fleet, the average age of the vehicles has been reduced to 3.5 years. Due to the worldwide chip shortage, the ordering time for new vehicles has increased manifold, but the vast majority of the cars needed were successfully purchased before the end of the year, with a view to green energy in the choice of vehicles.

In 2022, 67% of newly purchased vehicles were petrol models and 10% were hybrids.
MKB Bank also uses taxi services for its employees. A crucial factor in the selection of the contracted service provider was that the company should have the largest fleet of electric cars on the Budapest market. At the end of 2019, the Bank also signed a contract with MOL Limo, which aims to replace the future petrol taxi service, mainly within Budapest, and to provide more environmentally friendly transport.

MKB BANK will continue to promote the possibility of electric community car sharing.
In 2022, we added electric charging at MOL petrol stations as an extended service to the MOL fuel cards of all our hybrid vehicles.

Anti-corruption and anti-bribery policies and their results, due diligence procedures applied

In compliance with its statutory obligations, MKB Bank has set out its anti-fraud and anti-corruption measures primarily in the Group Anti-Corruption Policy and in other policies and regulations as necessary. MKB Bank's management is committed to the principle of 'zero tolerance' of corruption and seeks to ensure a legal and ethical climate through internal policies that encourages reporting of suspected corruption, thus protecting MKB Bank and its stakeholders. The anti-corruption processes are designed and resourced to ensure that investigations are fully conducted at all times.

Measures against money laundering and terrorist financing:

MKB Bank established a group-wide policy against money laundering and terrorist financing, as it is actively involved in the prevention, suppression and detection of money laundering, terrorist financing and economic crime, both at the domestic and international level, using the means at its disposal. In order to carry out these tasks effectively, it applies the following principles:

- The Bank Group consistently complies with international and domestic embargo rules, money laundering regulations and related national and international legislation.
- The Bank Group does not finance illegal arms deals, drug trafficking, child labour, slave trade, prostitution or corruption.
- The Bank Group does not finance persons or companies controlled by persons or companies that have been proven to be unreliable, for example because of a related criminal conviction.
- The Bank Group takes into account the FATF recommendations and conducts its activities with them in mind.
-

The anti-money laundering procedures apply to all employees of the Bank and are in full compliance with FATF Recommendation 40+9, Directive 2015/849 and Regulation 2015/847 of the European Parliament and of the Council. MKB Bank makes every effort to ensure that the services offered by the Bank cannot be used for money laundering or terrorist financing.

MKB Bank operates a Compliance organisation, within which a special department works on the prevention of money laundering and terrorist financing. The Bank cooperates fully with the authorities in identifying any suspicious cases, in particular those with a potential for money laundering and terrorist financing. The declarations required by international regulations are available on the Bank's website.

In order to reduce the risk of money laundering and terrorist financing, the Bank needs to be aware of its customers' activities, the nature of business relationships, business partners, financial habits, Hungarian and business practices, the economic background of debits and credits to the account, the expected turnover (amount, currency) and therefore maintains regular and active contact with its customers. In accordance with the legal requirements, the Bank's staff carry out due diligence of customers, and in the case of natural persons as legal entities, the representatives must also declare the status of the beneficial owner as a prominent public figure, which is then verified by the Bank's staff in public sources.

MKB Bank prepared its internal risk assessment in compliance with the provisions of Act LIII of 2017 on the prevention and combating of money laundering and terrorist financing, taking into account the Hungarian and international economic conditions and habits and the known risk factors. The Bank is also required to apply adequate risk classification on the basis of the nature and volume of the business relationship or a transaction order or the conditions related to the customer, product, service or the applied instrument.

MKB Bank identified its major risks in its risk assessment policy and reserves the right to refuse any customer relationship, transaction or transaction order if it is not in accordance with its risk appetite. The Bank monitors unusual activities and has identified cash transactions as a high risk, in particular in the case of extremely large or highly intensive cash turnover, thus verifying it continuously controls such turnover.

MKB Bank does not maintain business relations with customers who carry reputational risk, only with customers who use its products exclusively for legitimate purposes and whose identity can be established and verified beyond reasonable doubt. The Bank does not provide services to natural persons or legal entities who/which are subject to any sanction or are included in any restricted list, such as the restricted list of the United Nations Security Council (UN), the EU Consolidated Financial Sanctions list (EU), the Restricted List handled by the United States Office of Foreign Assets Control (OFAC), which also includes the Specially Designated Nationals (SDNs) and Blocked Persons List. The Bank has also identified industries, products and countries that pose a high risk to the Bank.

MKB Bank does not only strive to prevent and detect fraud in its customer relations.

The Bank has detailed internal regulations covering actual and potential insider dealers, which fully comply with the limits and prohibitions detailed in the current Capital Markets Act (Tpt). All partners in supplier contracts must undertake to comply with the regulatory environment in force. The Bank's internal regulations also require the Bank's compliance area to screen counterparties before concluding new supplier contracts or contracts that have not been reviewed for more than one year. The Bank will not contract with any supplier that does not meet the minimum requirements set by law or the Bank's compliance policies.
The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the legislation in force and with the Bank's internal rules is a fundamental requirement for all employees of the Bank Group. The MKB Group also expects its business and other contractual partners to comply with the provisions of its Code of Conduct.

Regulations on gifts and conflicts of interest:

To ensure transparent operation and prevent corruption, the Bank applies strict rules on conflict of interest and gifts to business partners. The Regulations on Conflicts of Interest of Employees and Gifts set out the rules of accepting and giving gifts for employees, the rules on conflicts of interest for employees and executive officers, as well as the conditions for holding an executive officer position according to the conflict of interest criteria, and the restrictions on influential roles, obtaining a controlling interest and a majority interest in the business entity for persons holding executive positions and the rules of authorisation.

Regulations related to the respective policy and applied due diligence procedures:

- MKB Bank Group Code of Ethics
- MKB Bank’s Group-wide policy against money laundering and terrorist financing
- MKB Bank Group Regulations on Conflicts of Interest and Gifts
- MKB Bank Group Policy on the Prevention and Combating of Money Laundering and Terrorist Financing and on the Implementation of Financial and Asset Restriction Measures by the European Union and the United Nations Security Council
- on the whistleblowing system operated by MKB Bank Plc.
- MKB Bank Group Anti-Corruption Policy
- Rules on the treatment of insider information, insider trading, the prohibition of unauthorised disclosure of insider information and market manipulation

A SUMMARY OF THE MAIN RESULTS OF THE POLICIES PURSUED IN RELATION TO SOCIAL AND EMPLOYMENT ISSUES, RESPECT FOR HUMAN RIGHTS, ENVIRONMENTAL PROTECTION AND THE FIGHT AGAINST CORRUPTION

The MKB Group continued its broad community involvement in 2022 by supporting a number of health promotion, education and equal opportunities programmes.

It is important to note that, due to the pandemic, in 2022, 100% home office work was implemented in jobs that do not require presence and flexible working is still prevalent.

The health promotion programmes launched by the MKB Group have been a continuing success for five years now. The online sporting events and training sessions continued to be accessible and popular among employees in 2022, enabling them to contribute to the health promotion of bank employees.

In 2022, MKB Bank continued to follow its anti-corruption, anti-money laundering policies and dedicated anti-corruption policy managed by the compliance area and applied them effectively in practice.

ADDRESSING AND MANAGING THE MATERIAL RISKS RELATED TO SOCIAL AND EMPLOYMENT ISSUES, RESPECT FOR HUMAN RIGHTS, ENVIRONMENTAL PROTECTION AND THE FIGHT AGAINST CORRUPTION IN THE CONTEXT OF BUSINESS RELATIONS, PRODUCTS AND SERVICES

MKB Bank has identified its most significant risks in its underwriting policy. The Bank is exposed to operational risk by the very nature of its activities. Operational risk is the risk of loss arising from human error, system failures, inadequate or faulty internal processes, possible fraud or abuse by Bank employees, customers or third parties, or external events, and includes legal risk, business risk, modelling risk, information and communication technology risk, and reputational risk. The Bank's key strategic objective is to minimise operational risk and to this end it applies risk mitigating controls in its core business processes.

The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the prevailing legal regulations and the Bank's internal regulations is a fundamental requirement for all employees of the Bank and the Bank expects its business partners and other contractual partners to comply with the Code of Conduct. MKB Bank does not do business with customers who pose a reputational risk, but only maintains relations with customers who use its products for legitimate purposes. MKB Bank also carried out a risk assessment in the area of employment and identified the risks relevant to its operations, which it takes into account in its human resources policy.

KEY NON-FINANCIAL PERFORMANCE INDICATORS:

- Breakdown of employees by job, age and gender (see the section 'Employment-related policies and their results, due diligence procedures applied')
- Energy use (see the section 'Environmental policy and results, due diligence procedures applied')

Budapest, 04 April 2023

dr. Zsolt Barna	Péter Krizsanovich
Chairman and Chief Executive Officer	Deputy Chief Executive Officer

M K B B a n k Ny r t.

ISSUER DECLARATION

MKB Bank Nyrt. (hereinafter: Bank) **as issuer** (represented by: dr. Zsolt Barna Chairman and Chief Executive Officer, and Péter Krizsanovich Deputy Chief Executive Officer), hereby declares that the ***2022 Annual report*** of the Bank have been prepared in accordance with the applicable accounting standards, its best knowledge and accordance with the International Financial Reporting Standards adopted by the European Union. The included ***separate financial statements*** and ***consolidated financial statements*** give a true and reliable view of assets, liabilities, financial position and profit of the Bank furthermore the ***separate management report*** and ***consolidated management report*** give a fair view of the position, development and performance of Bank disclosing the main risks and the factors of uncertainty.

Budapest, 4 April 2023.

MKB Bank Nyrt.

dr. Zsolt Barna	Péter Krizsanovich
Chairman and Chief Executive Officer	Deputy Chief Executive Officer

M K B B a n k Ny r t.

Contacts

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