MORTGAGE BANK

Annual report

for the year ending **31.12.2023.**

Budapest, 28 March 2024

31 December 2023

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GENERAL INFORMATION

Chairman of the Board of Directors
József Vida

Chairman of the Supervisory Board
Dr. Géza Károly Láng

Members of the Board of Directors
Dr. Gyula László Nagy
Illés Tóth
Ildikó Ginzer
Dr. Ilona Török
Szabolcs Károly Brezina
Gábor Kalenyák (Resigned as of 31 December 2023)

Responsible person for the control and management of accounting services:
Ildikó Brigitta Tóthné Fodor, registration number 007048

Auditor company
PricewaterhouseCoopers Auditing Ltd.

Statutory registered auditor
Árpád Balázs Mészáros

MBH Mortgage Bank Co. Plc. (formerly Takarek Mortgage Bank Plc. hereinafter: Bank, Mortgage Bank) is involved in the consolidation by its parent company, MBH Bank Plc. (superior parent company), and prepares this consolidated report for companies included in the scope of accounting consolidation.

The annual report, which is prepared by the Bank every year, does not contain the Business Report, while it is available for inspection on the Bank's website and at the registered office.

Headquarter of the Bank, central office
Budapest
Magyar Tudósok körútja 9. G. ép.
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Stand-alone Statement of Profit or Loss and Stand-alone Statement of Other Comprehensive Income **for the year ended 31 December 2023**

	Notes	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Interest and similar to interest income	**4**	**61,348**	**32,640**
Interest income using effective interest rate method		51,645	28,248
Other interest income		9,703	4,392
Interest and similar to interest expense	**4**	**(52,825)**	**(26,085)**
Interest expense using effective interest rate method		(43,369)	(21,102)
Other interest expenses		(9,456)	(4,983)
Net interest income		**8,523**	**6,555**
Income from commission and fees	5	219	557
Expense from commission and fees	5	(366)	(548)
Net income from commissions and fees		**(147)**	**9**
Results from financial instruments measured at fair value through profit or loss, net	8	2,193	(886)
Gains on financial assets and liabilities designated at fair value through profit or loss		-	50
Results from financial instruments measured at fair value through other comprehensive income, net	7	399	(273)
Results from financial instruments measured at amortized cost, net	7	(162)	361
Results from hedge accounting, net	32	(1,254)	(8)
Exchange differences result, net	6	(210)	449
Results from financial instruments, net		**966**	**(307)**
Impairment / (Reversal) on financial instruments held for credit risk management	29	1,345	(557)
Provision (loss) / gain	25	1	2
Modification (loss) / gain on financial instruments	29	(469)	(622)
(Impairment) / Reversal on other financial instruments		-	1
Impairment / (Reversal) on financial and non-financial instruments		**877**	**(1,176)**
Operating expense	10,11	(2,734)	(2,808)
Other income	9	36	75
Other expense	9	(136)	(190)
Profit before taxation		**7,385**	**2,158**
Income tax income / (expense)	12	(722)	(347)
PROFIT FOR THE YEAR		**6,663**	**1,811**

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Other Comprehensive Income for the year ended 31 December 2023	Notes	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Profit for the year		**6,663**	**1,811**
Other comprehensive income	**13**	**505**	**290**
Items that will not be reclassified to profit or loss		**-**	**-**
Income tax relating to items that will not be reclassified		**-**	**-**
Items that may be reclassified to profit/loss		**505**	**290**
Hedging instruments (unmarked items)		-	-
Debt instruments at fair value through other comprehensive income		495	290
Income tax relating to items that may be reclassified to profit or (-) loss		10	-
Total comprehensive income for the year		**7,168**	**2,101**
Earnings per share (HUF 100 face value)			
Basic earnings per share (HUF)	26	55.41	15.06
Weighted average number of shares (piece)		108,236,699	108,236,699

All figures in tables are in HUF million except otherwise noted
The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Stand-alone Financial Statements

Stand-alone Statement of Financial Position as at 31 December 2023

	Notes	31 December 2023	31 December 2022
Assets			
Cash and cash equivalents	**14**	**19,305**	**342**
Financial assets measured at fair value through profit or loss		**7,875**	**11,854**
Loans and advances to customers mandatorily at fair value through profit or loss	18	6,310	6,593
Derivative financial assets	15	1,565	5,261
Hedging derivative assets	**28**	**640**	**975**
Financial assets measured at fair value through other comprehensive income	**16**	**9,999**	**18,172**
Securities		9,999	18,172
Financial assets measured at amortised cost	**17**	**867,975**	**781,737**
Loans and advances to banks	17	523,272	437,013
Loans and advances to customers	17	20,540	24,733
Securities	17	323,975	319,726
Other financial assets	17	188	265
Property, plant and equipment	**20,21**	**143**	**63**
Intangible assets	**19**	**247**	**239**
Income tax assets		**337**	**468**
Deferred income tax assets	12	337	468
Other assets	**22**	**66**	**98**
Total assets		**906,587**	**813,948**

All figures in tables are in HUF million except otherwise noted

	Notes	31 December 2023	31 December 2022
Liabilities			
Financial liabilities measured at fair value through profit or loss	**15**	**1,372**	**5,146**
Derivative financial liabilities		1,372	5,146
Financial liabilities measured at amortised cost	**23**	**820,600**	**734,183**
Amounts due to other banks		445,316	377,771
Issued debt securities		374,647	355,799
Other financial liabilities		637	613
Hedging derivative liabilities	**28**	**5,214**	**2,639**
Provisions	**24**	**16**	**17**
Income tax liabilities	**12**	**264**	**105**
Current income tax liabilities		264	105
Other liabilities	**25**	**916**	**821**
Total liabilities		**828,382**	**742,911**
Equity			
Share capital	26	10,849	10,849
Treasury shares		(207)	(207)
Share premium		27,926	27,926
Retained earnings		30,126	28,981
Other reserves	26	2,286	1,620
Profit for the year		6,663	1,811
Accumulated other comprehensive income		562	57
Total equity		**78,205**	**71,037**
Total liabilities and equity		**906,587**	**813,948**

Budapest, 28. March 2024

dr. Gyula László Nagy
CEO

Illés Tóth
Deputy CEO

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Cash Flows for the year ended 31 December 2023

	Notes	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Cash flow from operating activities			
Profit for the year		**6,663**	**1,811**
Non-cash adjustments to net profit from			
Depreciation and amortization		88	67
Impairment/provision/ (-) Release of impairment/provision for losses		(603)	522
Provision/ (-) Release of other impairment/ provision		(1)	(11)
(Gain)/Loss on tangible assets derecognized		(9)	5
Interest expense on the lease liability		10	-
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		124	1,354
Operating profit before change in operating assets		**6,272**	**3,748**
Decrease/ (-) Increase in operating assets			
Derivatives held for trading and derivatives from hedge accounting		1 665	-
Non-trading financial assets mandatorily at fair value through profit or loss		1,326	2,327
Financial assets at fair value through other comprehensive income		8,677	8,360
Financial assets at amortised cost		(85,645)	(157,082)
Other assets		163	357
Increase/ (-) Decrease in operating liabilities			
Financial liabilities at amortised cost		71	(50)
Other liabilities		255	(49)
Net cash flow from operating activities		**(67,216)**	**(142,389)**

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Cash Flows for the year ended 31 December 2022 (continued)

	Notes	31 December 2023	31 December 2022
Cash flow from investing activities			
Proceeds from sales of tangible		24	46
Purchase of tangible assets		(138)	(55)
Purchase of intangible assets		(53)	(67)
Net cash outflow from investing activities		**(167)**	**(76)**
Cash flow from financing activities			
Repayment of leasing liabilities		(46)	(27)
Repayment/borrowing of long-term loans and issued securities		86 392	142,605
Net cash inflow from financing activities		**86,346**	**142,578**
Increase/ (-) Decrease in cash and cash equivalents		18,963	113
Opening balance of cash and cash equivalents		342	229
Closing balance of cash and cash equivalents		**19,305**	**342**
Breakdown of cash and cash equivalents			
Balances with the National Bank of Hungary		19,145	14
Due from banks with a maturity of less than 90 days		160	328
Closing balance of cash and cash equi valents		**19,305**	**342**

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Changes in Equity for the year ended 31 December 2023

	Notes	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	(-) Treasury shares	Total equity
At 1 January 2022 - Opening		**10,849**	**27,926**	**(233)**	**29,162**	**1,439**	**(207)**	**68,936**
Profit for the year		-	-	-	1,811	-	-	1,811
Other comprehensive income for the year		-	-	290	-	-	-	290
General reserve		-	-	-	(181)	181	-	-
At 31 December 2022 - Closing		**10,849**	**27,926**	**57**	**30,792**	**1,620**	**(207)**	**71,037**
At 1 January 2023 - Opening		**10,849**	**27,926**	**57**	**30,792**	**1,620**	**(207)**	**71,037**
Profit for the year		-	-	-	6,663	-	-	6,663
Other comprehensive income for the year		-	-	505	-	-	-	505
General reserve		-	-	-	(666)	666	-	-
At 31 December 2023 - Closing		**10,849**	**27,926**	**562**	**36,789**	**2,286**	**(207)**	**78,205**

All figures in tables are in HUF million except otherwise noted

1. DESCRIPTION OF THE BANK

The stand-alone financial statements for the year ended 31 December 2023 were approved by the resolution of the Board of Directors as of 28 March 2024. The final approval on the stand-alone financial statements is provided by the General Meeting.

Name:	MBH Mortgage Bank Co. Plc.
Seat:	1117 Budapest, Magyar Tudósok körútja 9. G. ép.
Website address:	https:// www.mbhmortgagebank.hu
Mailing address:	1908 Budapest
Phone number:	+36-1-4529-100Registration number: 01-10-043638
Tax number:	12321942-4-44
KSH statistical number sign:	12321942-6492-114-01
Year of foundation:	1997

Chairman of the Supervisory Board:	Dr. Géza Károly Láng
Chairman of the Board:	József Vida

MBH Mortgage Bank Public Limited Company (hereinafter MBH Mortgage Bank Co. Plc., Mortgage Bank, Bank, Company) was established on October 21, 1997 under the name of FHB Land Credit and Mortgage Bank Company and later under the name of Takarék Mortgage Bank Co. Plc.
The Bank's operations are provided by the Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds as well as Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institution Act).
The license of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.
The Bank's core business as a specialized credit institution includes primarily the refinancing of long-term mortgage loans secured by mortgaged properties, and the issuance of long-term mortgage covered bonds (mortgage bonds).
On September 23, 2015 the Bank joined the Integration of Cooperative Credit Institution. Consequently, the H-N-I-654/2015. resolution of the Hungarian National Bank declared that members of the former Bank Group are under the combined supervision of the MTB Bank of Hungarian Savings Cooperatives Co. Ltd. Group from 1st of January 2017 onwards.
From 24 September 2015 the principle of joint and several responsibilities-defined in Section 4 of Article 1 of Szhitv-covered both Takarék Mortgage Bank and Takarék Commercial Bank (hereinafter Commercial Bank), according to the decision of the Board of Directors of MTB Ltd., thus Takarék Mortgage Bank and Commercial Bank have become members of the Guaranty Community of Savings Cooperatives.

In December 2017 the Bank sold the majority of their direct and indirect investments, while Takarék Commercial Bank Ltd. remained in its portfolio until 29 October 2019. As a result of a transaction dated on the same day Takarék Mortgage Bank sold its 51% share in Takarék Commercial Bank to the MTB Ltd., since 1 May 2023 MBH Investment Bank Ltd.
The Commercial Bank, as the agent of Takarék Mortgage Bank Co. Plc., was fully responsible for direct lending, loan monitoring and qualified loan management until 31 October 2019, when it merged into Takarékbank Ltd. However, Takarék Commercial Bank, have had a part of its loan portfolio refinanced by Takarék Mortgage Bank Co. Plc in order to obtain favourable funding cost. Following the merger of the Commercial Bank, Takarékbank Ltd. carried out the credit management and qualified loan management activities in respect of the Mortgage

All figures in tables are in HUF million except otherwise noted

Bank's own originated loan portfolio until its merger with MKB Bank Plc. on 30 April 2023. Mortgage Bank starting from April 2018 has stopped its own lending activity.

In accordance with the resolution of the Magyar Nemzeti Bank (central bank of Hungary, MNB) and after the decision of the General Meeting, Budapest Bank and Hungarian Takarék Bank-holding (MTBH) merged into MKB Bank on 1 April 2022. At that time, MTB Bank of Hungarian Savings Cooperatives had a direct ownership of 88.13% in Takarék Mortgage Bank Co. Plc. and also directly owned 88.33% of the voting rights. Since MTBH's 88.13% ownership stake and 88.33% of the voting rights in Takarék Mortgage Bank Co. Plc. were exercised through MTB Bank of Hungarian Savings Cooperatives, as a result of MTBH's the merger MKB Bank (as the legal successor of MTBH) became the indirect owner of Takarék Mortgage Bank Co. Plc. with a stake of 88.13%, and also acquired indirectly the 88.33% of the voting rights in the company.

The extraordinary general meeting of Takarék Mortgage Bank held on 12 July 2022 converted 14,163,430 pcs from series "B" preference shares (dividend preference shares) with a nominal value of HUF 100 per share, with a total nominal value of HUF 1,416,343,000 into 14,163,430 pcs of series "A" ordinary shares with a nominal value of HUF 100 per share and a total nominal value of HUF 1,416,343,000. At the same time 2,832,686 pcs of series "C" ordinary shares with a nominal value of HUF 1,000 per share and a total nominal value of HUF 2,832,686,000 were also converted into 28,326,860 series "A" ordinary shares with a nominal value of HUF 100 per share and a total nominal value of HUF 2,832,686,000. The converted shares were registered on the Budapest Stock Exchange (BÉT) as of 7 October 2022.

On 18 October 2022, as a result of the sale and purchase of shares, MKB Bank Plc. acquired 43,076,417 pcs of series "A" dematerialized ordinary shares with a nominal value of HUF 100 per share owned by MTB Ltd. in Takarék Mortgage Bank. With this transaction, MKB Bank acquired 39.8 % direct qualifying stake (voting rights) in Takarék Mortgage Bank. Hence, MTB Ltd.'s ownership decreased to 48.42%. Magyar Posta Ltd. acquired MKB Bank Plc.'s full stake in Takarék Mortgage Bank on 2 December 2022. As a result of this transaction based on exchange of shares, Magyar Posta Ltd. acquired a 39.71 % direct qualifying stake (voting rights) in Takarék Mortgage Bank.

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., merged on 30 April 2023 and then continue their operations under the name MBH Bank Nyrt, with a single brand name and image. In February 2023, the MNB approved the merger of Takarékbank Zrt. into MKB Bank Nyrt. with effect from 30 April 2023, and the merger was registered by the Court of Registration.

On 10 March 2023, the Extraordinary General Meeting of the Bank decided in its Resolution 1/2023 (10.03.2023) to change the name of the Mortgage Bank with effect from 1 May 2023: it will continue to operate under the name MBH Mortgage Bank Co. Plc.

Despite the still complex geopolitical and macroeconomic environment, MBH Mortgage Bank has maintained its status as an active issuer of mortgage bonds in 2023. Adapting to the fluctuating investor sentiment, the Mortgage Bank has sought to adjust the parameters of its mortgage bonds to investor demand, both in terms of maturity, interest rate and nature (green/non-green instrument). Another important pillar of the issuance strategy during the

period was to use the MNB's still operating Mortgage Bond Renewal Facility to roll over the volume of maturing mortgage bonds in an efficient and safe manner. The successful re-purchase auction of mortgage bonds in March, aimed at reducing maturity concentration, was also organised for this purpose.
In 2023, the Mortgage Bank issued mortgage bonds with a total nominal value of HUF 74.8 billion (eight public auctions). As a result of these successful transactions, MBH Mortgage Bank remains the most active issuer of mortgage bonds in the domestic capital market.

The Bank's mortgage bonds have been rated by S&P Global Rating (Madrid) since 28 March 2019. MBH Mortgage Bank Plc's mortgage bond issuance programme and the BBB rating of its series of mortgage bonds issued in HUF and foreign currencies was confirmed by S&P on 25 April 2023 - a rating one category higher than the rating of domestic sovereign debt - and was accompanied by a positive outlook of stable, which has not changed since then.

In 2023, MBH Mortgage Bank successfully continued its green mortgage bond fundraising activities. In 2023, integration of sustainability factors into corporate governance played a key role in MBH Mortgage Bank's ESG efforts, enhancing its stand-alone ESG reporting (based on) GRI (Global Reporting Initiative). The ESG report for 2022 was published in August 2023.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The stand-alone financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in all material respects in accordance with the provisions of the Hungarian Act C of 2000 on Accounting (the „Accounting Act”) relevant to the entities preparing financial statements in accordance with IFRS adopted by the EU.

2.2. Functional and presentation currency

The stand-alone financial statements are presented in Hungarian forint (HUF) that is the functional and presentation currency used by Bank. The figures are rounded to the nearest million, except if indicated otherwise.

2.3. Basis of measurement

The stand-alone financial statements have been prepared on a historical cost bases, except for financial assets and liabilities measured at fair value through profit or loss , financial assets at fair value through other comprehensive income (FVOCI) and financial liabilities designated at fair value through profit or loss, that are recorded at fair value in the financial statements.

2.4 Change in accounting policies

2.4.1 Initial application of new amendments to the existing standards effective for the current reporting period

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

- **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 IFRS 17 "Insurance contracts"** Transition option to insurers applying IFRS 17 – Comparative Information (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

- **Amendments to IAS 1 "Presentation of Financial Statements" 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 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (issued on 12 February 2021 and 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.
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments specify how to account for deferred tax on transactions such as leases and decommissioning obligations.

- **Amendments to IAS 12 "Income Taxes"** – International Tax Reform – Pillar Two Model Rules (issued on 23 May 2023 and effective for annual periods beginning on or after 1 January 2023).

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

2.4.2 Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

- **Amendments to IFRS 16 Leases**: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).

- **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).

2.4.3 New standards and amendments to the existing standards 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 IAS 39 Financial Instruments: Recognition and Measurement (as adopted by the EU with carve-out) and 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 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures:** Supplier Finance Arrangements (issued on 25 May 2023 and effective for annual periods beginning on or after 1 January 2024).

- **Amendments to IAS 21 Lack of Exchangeability** (issued on 15 August 2023 and effective for annual periods beginning on or after 1 January 2024).

2.4.4 New standards and amendments to the existing standards issued by IASB but rejected or deferred by the EU

- **IFRS 14 "Regulatory Deferral Accounts"** (issued on 30 January 2014 and 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). The effective date is deffered indefinitely.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are the specific principles, bases, conventions, rules and practices that the Bank applies in preparing and presenting financial statements. The accounting policies described below have been applied consistently for all periods presented in these financial statements.

3.1. Cash and cash equivalents

Cash and cash equivalents include 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.

3.2. 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. If accounts payables do not contain significant financing component, they are recognized at transaction price by the Bank. 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. Interest income and interest expense should be determined using the effective interest rate method and then recognized in the Profit or Loss statement.

A simplified approach for financial contractual instruments and lease receivables

In the event that it is not possible to estimate reliably the cash flows or life expectancy of a financial instrument (or group of financial instruments), the Bank uses the contractual cash flows over the entire contractual term of the financial instrument (or group of financial instruments). For financial instruments where, due to product characteristics, future cash flows cannot be estimated reliably and contractual cash flows are not available, it is not possible to determine the effective interest rate on the instrument. Interest, fees, commissions and other items relating to such transactions are recognised against profit or loss in a simplified method as they arise (i.e. effective interest is equal to nominal interest in terms of rate).

3.3. Classification and subsequent measurement of Financial Instruments

Based on the principles of IFRS 9 standard the Bank applies the following 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 uses in accordance with IFRS 9 standard the following business models to manage its financial instruments.

- 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. 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 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.

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. 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 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.

3.4. 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,
- Amortised cost – other financial liabilities.

3.5. 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 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. 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). 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.

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 (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 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.

3.6. 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. Valuation techniques can be used for measuring the fair values of financial instruments inculding assumptions that are not supported by active marker prices or observable market figures.

3.7. Refinanced mortgage loans

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, the partner credit institutions sell independent mortgage rights to the Bank to cover the retail mortgage loans it provides, or – in case of applying a separate mortgage right – in addition by the transfer of the mortgage rights, uses a refinancing mortgage loan from the Bank.

The repurchase of the stand-alone mortgage and the repayment of the refinancing mortgage loan are carried out by the partner credit institution during the period of the refinanced loan transactions in such a way that the repurchase or repayment is adjusted to the partner bank's client's principal repayment schedule.

The refinanced loans of the partner banks meet the requirements regulated by law (therefore these loans are problem-free), the rating and impairment recognition obligation, as well as the receivable from the customer is recognised the given commercial bank. Refinanced mortgages are classified as performing because by purchasing a stand-alone line or a separate line, the Bank lends a long-term loan to the partner commercial bank and the customer risk is recognised entirely at the partner bank, the Bank is only exposed to the partner bank's credit risk. The Bank presents refinanced mortgage loans at amortized cost less impairment (if there is any).

3.8. Derecognition of financial assets

The Bank derecognises a financial asset in case of transfer in accordance with the IFRS 9 standard. When the Bank transfers a financial asset, based ont he IFRS 9 it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial 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.

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. 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).

3.9. 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.

3.10. Financial guarantee contracts

After initial recognition, an issuer of such a contract shall subsequently measure it in accordance with the IFRS 9 standard.

There are no significant non-financial guarantee contracts that should be measure based on IFRS 17 standard.

3.11. Non-trading financial assets mandatorily at fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured mandatorily at fair value through profit or loss.

The Bank measures mandatorily at fair value through profit or loss those financial assets, which are not held for trading and do not give rise contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.12. 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, net”.

3.13. 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.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.

3.14. 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 the Bank: micro hedge. 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 considers a hedge relationship 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 the Statement of Profit or Loss the following lines contain the gains and losses in connection with the hedging instruments (including the ineffective part):

- Other interest income / expense

- 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.

Micro hedge transaction

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.
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.

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. 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.

3.15. 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, at the cost determins the IFRS 16. 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. After the commencement date, the Bank measures the lease liability at amortised cost using the effective interest rate method.

The Bank as the lessor classifes its leasig contracts as financial or operative leasing based on requirements of the standard.

Presentation in the financial statements

During the lease term, the Bank 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 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.

3.16. Intangible assets

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 from the date when the asset is available for use, applying the straight-line method. The useful lives are reviewed annually.

Following depreciation rates are applied by the Bank for the intangible assets:

Softwares	5% - 50%
Rights	3.5% - 25%

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. 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.

3.17. Tangible assets

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

The Bank applies the following linear depreciation rates for the deprecation cost calculation:

Property	0-2%
Renovation of property	6% - 14,7%
Office equipments	9% - 33%
IT devices	33% - 50%
Vehicles	10% - 33%
Other equipments	7% - 50%

All figures in tables are in HUF million except otherwise noted

3.18. 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.

Each 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. Such reversal is recognised in the stand-alone statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

3.19. 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.

3.20. 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 determined by the IAS 37 are not recognised in the financial statements but are disclosed in the additional notes.

3.21. 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.

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.

The 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.

3.22. 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 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. The Bank 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 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.

3.23. Net income from commissions and fees

„Net income from commission and fees” comprises fee and commission income and expense that are not part of the amortised cost of the financial instruments. The fee and commission that is part of the EIR calculation are presented as interest income and expense.

The Bank applies the IFRS 5 standards for the fee and commission incomes, that are not part of the EIR calculation method based on the IFRS 9 standard.

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).

The Bank applies simplified approach for financial assets, that have no payment schedule (e.g. revolving loans, overdaft, or credit cards), or the short-term financial assets (maximum 12 month maturity), if the effect is not material. According to the simplified approach no fee and commission items (received or paid) are taken into account when calculating the effective interest. These items are recognized as revenue or expense at arisen date.

3.24. Interest subsidy

State interest subsidy- retail loans

Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond's interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond's interest subsidy being based indirectly on the bank's costs (mortgage bond's interest subsidy), and the supplementary interest subsidy on the actual amount of interest payable by the client (asset side subsidy). Both types of subsidies are presented in the Bank's revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

Mortgage bond interest subsidy

The mortgage bond interest subsidy is available for housing loans up to the stipulated amounts and based on conditions as specified in the government decree 12/2001 and calculated in accordance with the criteria set. The condition of the maximum interest percentage payable by the customer also has to be met. The subsidy is available for housing loans eligible for subsidy as specified in the decree such as:

- Mortgage loans granted by the Bank or with partner banks; and
- Independent and separated liens purchased by the Bank then repurchased by the partner bank under refinancing arrangements, and for receivables from the repurchased part(s) of lien packages.

The subsidy is available on a monthly basis up to the total of mortgage bonds outstanding in the given month. The underlying calculation is based on the daily balance of subsidized loans or mortgage bonds.

Supplementary interest subsidy- own loans

The amount of supplementary interest subsidy and the underlying calculation method thereof (reflecting the maximum interest) are laid down in the contract between the Bank and the client. The monthly interest subsidy is one-twelfth of the prevailing subsidized outstanding principal as determined by the amount of the non-due repayable principal as of the date of the transaction.

3.25. 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.

3.26. Dividends

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

3.27. 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.

Long-term employee benefits

The Bank has a defined jubilee benefit plan for all employees of the Bank. 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 contribu-tions 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.

Termination benefits
The Bank 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 Bank. 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.

3.28. Bank tax, extra profit tax

Hungarian credit institutions are obliged to pay bank tax. The base of the 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.

According to the Government Decree No 197/2022. (4.VI) the credit institutions and financial enterprises are obligated to pay extra profit tax. The determination approach of the tax liabilitiy for the year 2023 has been amended by the Government Decree No 206/2023 (31.V), therefore separeted tax-base is to be determined for the period between 1 January 2023 - 30 June, 2023 and for the period between 1 July 2023 – 31 December 2023. The tax-base for the period of 1. January 2023 - 30 June 2023 is still the net turnover under the Local Tax Act calculated on the basis of the annual financial statements of the previous tax year, which tax base must be used to calculate the tax liability by using the tax rate (8%) determined by the prior Decree. The tax base for the period of 1 July, 2023 – 31 December, 2023 has been amended from the net turnover to the net profit before tax of the prior tax year. Tax brackets have been introduced for the tax rate. The tax rate is 13% up to HUF 20 billion of the tax base, and 30% above that limit.

The extra profit tax liability is presented among the operating expense. (see note 10)

3.29. Segment report

Mortgage bank, a specialized credit institution subject to the Jht. Act, does not prepare a separate segment report, the consolidated financial statement of its parent company, MKB Bank Plc. contains segment information related to the group.

3.30. 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.

3.31. 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.

3.32. 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 by any members of the Bank. Consideration paid or received is recognised directly in equity.

3.33. 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 26.4.

3.34. Contingent liabilities / contingent assets

The Bank has recorded into off-balance sheet their contingent liabilities, they are not recognised in the financial statements. The contingent liabilities are presented in the Notes. This off-balance sheet items such as guarantees and similar obligations, commitments to extend credit, accepted value of non-balance sheet assets serving as collateral for third party debt.

Contingent liabilities are reported in the balance sheet when it becomes probable.

The Bank has recorded into off-balance sheet their contingent assets, they are not recognised in the financial statements. The contingent assets are disclosed in the Notes where an inflow of economic benefits is probable (more than 50%).

This off-balance sheet items such as write-off uncollected debts, received guarantees and bailment.

3.35. Post balance sheet events

Events after the balance sheet date are those events that occur between the balance sheet date and the date when the financial statements are authorised by management (Board of Directors, Supervisory Board) for issue.

The Bank is identified adjusting events after the balance sheet date and non-adjusting events after the balance sheet date. Adjusting events after the balance sheet date are incidences that provide evidence of conditions that existed at the balance sheet date, but information are received after the balance sheet date. The Bank shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date. Non-adjusting events after the balance sheet date are incidences that are indicative of conditions that arose after the balance sheet date. The Bank shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date, but its expected effects are disclosed in the Notes when material.

3.36. Offsetting

The Bank does not offset financial assets and financial liabilities, incomes and expenses unless required or permitted by a standard or an interpretation. (For example year-end not realized foreign exchange gains and losses, or exceptional financial instruments and cash-flow statements.). Usually, the Bank use offsetting if the economic events are the same or similar and gains and losses arising from similar transactions are not material or their separation is not material, when offsetting reflects the economic content better.

3.37. Trade date and settlement date accounting

A regular purchase or sale of a financial asset is recognized on the date of delivery. Exemptions are derivatives where recognition of purchase is done on the day when the deal is contracted. The date of settlement is the day on which the Bank takes possession of the asset. A regular sale or purchase transaction is a transaction where the asset sold and purchased must be delivered within a set interval prescribed by law or as customary in the market.

3.38. Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires using of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current event and actions the actual results may differ from those estimates. Estimates are applied in the following areas.

Fair value of financial instruments
In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 29)

Deferred tax assets
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. (Note 3.22)

Loan impairment test and its result
The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral.
For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of non-financial assets
The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.
When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.
Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

3.39. Error

After the balance sheet date of the consolidated financial statements of 2022 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

3.40. Changes in the legal and regulatory environment and its effect on the stand-alone

During the year, the Group's activities were affected by the following government regulations and other legal regulatory instruments and amendments:

- Government Decrees on the different application of the provisions of CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and certain related legislative provisions;

- the amendment of Government Decree No 197/2022 (4.VI.) on extraprofit taxes Decree No 206/2023 (31.V.) and 317/2023 (17.VII.), changing the relevant regulation of the special tax for Credit Institutions and Financial Enterprises;
- Government Decree 522/2023 (30.XI.) amending Government Decree 782/2021 (24.XII.) on the different application of Act CLXII of 2009 on credit to consumers in emergency situations, extending the “interest rate cap” until 30 June 2024 under unchanged conditions.
- MNB Decree 58/2022. XII.22.) amendment of 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 see note 29.4.3.

In 2022, the MNB revised again the regulations on JMM. Pursuant to the amendment from 1 July, 2022 under the specified conditions foreign currency mortgage-based sources can also be taken into account when calculating the indicator, thus supporting the expansion of the range of investors in mortgage bonds. It is only possible to set off funds secured by corporate loans secured by commercial real estate to a limited extent. At the same time the indicator's denominator will also be extended to foreign currency residential mortgage loans.

In view of the uncertain macroeconomic and financial environment, the MNB reviewed its further decisions of aggravation and postponed by one year to 1 October, 2023 the increasing of the minimum expected level of the JMM indicator from 25 to 30 percent, as well as the tightening of restrictions on cross-ownership of mortgage bonds between banks.

3.41. Change in estimates

There are not any significant areas, where there is any material change in estimates.

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Interest and similar income		
Financial assets at amortised cost	50,316	27,365
Financial assets at fair value through other comprehensive income	1,329	883
Interest income calculated using the effective interest method	**51,645**	**28,248**
Financial assets held for trading	2,574	1,648
Non-trading financial assets mandatorily at fair value through profit or loss	438	534
Derivatives – Hedge accounting, interest rate risk/ hedging derivatives	6,589	2,207
Other assets	102	1
Interest income on financial liabilities	-	2
Income similar to interest income/ other similar interest income	**9,703**	**4,392**
Total Interest income and similar to interest income	**61,348**	**32,640**

For stock data, see asse part of the Stand-alone Statement of Financial Position notes. The increase in interest rates and similar items is due to changes in the market yield environment..

All figures in tables are in HUF million except otherwise noted

	1 January 2023-31 December 2023	1 January 2022-31 December 2022
Interest and similar expense		
Financial liabilities measured at amortised cost*	43,369	21,102
Interest expense calculated using the effective interest method	**43,369**	**21,102**
Financial liabilities held for trading	3,159	1,645
Derivatives – Hedge accounting, interest rate risk	6,297	3,277
Financial liabilities designated at fair value through profit or loss	-	59
Interest expense on financial assets	-	2
Expense similar to interest expense / Other interest expense	**9,456**	**4 983**
Interest expense and expense similar to interest expense	**52,825**	**26 085**

**By actively participating in tenders, the Mortgage Bank has incorporated HUF 233,392 million December 31 2023. (HUF 235,768 million until the end of December 31, 2022)* the central bank has built 3- and 5-year loans into its long liabilities. *At the same time, the stock of securities formed, partly due to the use of LTRO funds.*

5. FEE AND COMMISSION INCOME AND EXPENSE

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Fee and commission income		
Mortgage loans	73	230
Handling commission	2	6
Real estate appraisal fee	52	107
Refinanced mortgage loans	92	214
Total	**219**	**557**

All figures in tables are in HUF million except otherwise noted

	1 January 2023- 31 December 2023	1 January 2022- 31 December 2022
Fee and commission expense		
Fees and commissions to banks and to clearing house	15	12
Agency fee expense	228	208
Real estate appraisal fee	37	206
Treasury services	84	119
Other	2	3
Total	**366**	**548**

6. EXCHANGE DIFFERENCES RESULT, NET

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
FX transactions realized results	(2)	(5)
FX transactions non-realized results	(208)	454
Total	**(210)**	**449**

7. RESULT FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND RESULTS FROM FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

	1 January 2023- 31 December 2023	1 January 2022- 31 December 2022
Sale of debt securities	399	(273)
Results from financial instruments at fair value through other comprehensive income, net	**399**	**(273)**
Financial assets at amortised cost (securitites, loans)	(255)	1
Repurchase of issued mortgage bond at amortised cost	93	360
Results from financial instruments measured at amortized cost, net	**(162)**	**361**
Total	**237**	**88**

All figures in tables are in HUF million except otherwise noted

8. RESULTS FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	1 January 2023-31 December 2023	1 January 2022-31 December 2022
IRS deals*	4,115	(2,399)
CCIRS deals**	-	-
MIRS deals***	(2,713)	2,477
FX deals	(252)	(97)
Result from financial assets and liabilities held for trading	**1,150**	**(19)**
Result from non-trading financial assets mandatorily at fair value through profit or loss, net	1,043	(867)
Total	**2,193**	**(886)**

*IRS= Interest Rate Swap
**CCIRS=Cross Currency Interest Rate Swap
***MIRS=Monetary Interest Rate Swap
The change in items is due to a change in the market yield environment.

9. OTHER INCOME AND EXPENSE

	1 January 2023-31 December 2023	1 January 2022-31 December 2022
Other income		
Sales of property, plant, equipments	9	5
SLA services income	21	49
Other income	6	21
Total	**36**	**75**

	1 January 2023-31 December 2023	1 January 2022-31 December 2022
Other expense		
Subsidies paid from banking tax *	125	175
Loss on damages compensations paid	10	6
Other expense	1	9
Total	**136**	**190**

** The Bank recognised among other expenses the subsidy granted from bank tax under the law.*

All figures in tables are in HUF million except otherwise noted

10. OPERATING EXPENSES

	1 January 2023-31 December 2023	1 January 2022-31 December 2022
Staff costs	505	449
Marketing and advertising	-	5
General and administrative costs	124	107
Rental fee	1	-
Depreciation of tangible assets	43	36
Amortisation of intangible assets	44	31
Consultancy fees and audit fees*	130	230
Maintenance costs**	450	433
Banking tax*	983	842
Other taxes	48	55
Insurance fees	3	6
Database system usage	28	24
Supervisor fee	1	32
SLA service costs***	103	81
CBIC**** fee, CBIC**** Capital Fund and Resolution and Compensation Fund fees	234	439
Other	37	38
Total	**2,734**	**2,808**

In **2023, according to the audit fee contract, the annual audit fee was HUF **30.96** million (+ VAT).* The auditor performed no other services during the year.
***The special tax on financial institutions line was increased by the HUF **575.6** million extra profit special tax paid during the year (**HUF 616 million until 31 December 2022**), and HUF **407** million (**HUF 226 million until 31 December 2022**) was incurred as a special tax on financial organizations*
****The SLA settlement agreement between the members of the **MBH** Bank Group was settled (among others, HR services, IT services, accounting services, compliance services, controlling management services, marketing services, legal services, background operations services). Central Organisation of Integrated Credit Institutions*

All figures in tables are in HUF million except otherwise noted

11. STAFF COSTS

	1 January 2023-31 December 2023	1 January 2022-31 December 2022
Wages and salaries	445	405
Social security contribution	51	44
Other personnel related payments	9	-
Total	**505**	**449**

Social security contribution is payable by the Bank based on gross wages and salaries paid to employees. The full-time head count of the Bank at the end of the reporting period was 17 (2022: 14).

12. INCOME TAX

Income tax expense recognized in the **Stand-alone** Statement of Profit or Loss and Other Comprehensive Income

	2023	2022
Current tax expense	*321*	*86*
Corporate tax charge – on current year profit	321	86
Deffered tax (income) / expense	*141*	*44*
Origination (reversal) of temporary differences	-	(6)
Origination (reversal) of non temporary differences	141	50
Local tax	226	189
Innovation fee	34	28
Income tax expense	**722**	**347**

Both in the reporting period and in 2022 9% current income tax rate was applied on taxable profit in Hungary. Due to this, 9% rate was applied both for current income tax and deferred tax purposes.

All figures in tables are in HUF million except otherwise noted

Reconciliation of effective tax rate

	2023		2022	
	%	HUF million	%	HUF million
Profit before income tax		7,385		2,158
Income tax using the domestic corporation tax rate	9.00%	665	9.00%	194
Local tax	3.05%	226	8.72%	189
Innovation fee	0.46%	34	1.30%	28
Permanent difference	(0.30%)	(23)	(0.88%)	(19)
Re-assessment of unrecognised tax losses carryforwards	(2.44%)	(180)	-	-
Other effect	-	-	(2.09%)	(45)
Income tax / expense	**9.77%**	**722**	**16.08%**	**347**

The Bank managed tax losses prudently. When accounting for deferred tax revenue, the Bank accounted for the value calculated on the basis of the available plan numbers, on the basis of which the unused tax loss base remains. According to the legislation, in the future, the carried forward losses of previous tax years can be accounted for up to 50% of the tax base.

On 31 December 2023, the Bank had unused tax losses amounting to HUF 22,162 million (2022: HUF 25,732 million) with the following maturity:

	2023	2022
Used indefinitely	22,162	-
Maturity up to 2030	-	25,732
Tax carryforward loss	**22,162**	**25,732**

Due to a change in legislation, the accrued tax carryforward loss that were previously usable until 2030 can now be used indefinitely.

The following table presents the main factors of change in deferred tax:

2023 P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences				
Assets				
Securities		10		10
Intangible assets	6			6
Liabilities				
Provisions				
Deffered Tax Assets – due to tax losses	462	(141)		321
Subtotal DTA before netting	**468**	**(131)**	**-**	**337**
Subtotal DTA after netting of balance sheet position	**468**	**(131)**	**-**	**337**

2022 P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences				
Assets				
Intangible assets and tangible assets	-	6	-	6
Deffered Tax Assets – due to tax losses	512	(50)	-	462
Subtotal DTA before netting	**512**	**(44)**	**-**	**468**
Subtotal DTA after netting of balance sheet position	**512**	**(44)**	**-**	**468**

The tax authority conducted a full-scale tax investigation at the Bank for the years 2018-2019. The tax authority can examine the accounting records for up to six years after the period to which they relate, according to law.

All figures in tables are in HUF million except otherwise noted

13. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Items that will not be reclassified to profit or loss	**-**	**-**
Items that may be reclassified to profit or loss	**505**	**290**
Debt instruments at fair value through other comprehensive income	495	290
Income tax relating to items that may be re-classified to profit or (-) loss	10	-
Total comprehensive income	**505**	**290**

14. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Cash balances at central banks	19,145	14
Other demand deposits	160	328
Total	**19,305**	**342**

14.1. On the basis of applicable Reserve Decree the Bank maintained it's regulatory. Accordingly the applied reserve ratio was 10% on balance sheet date (2022: 7%). In case of over-reserving on the Bank's accounts NBH pays the value of the actual base rate of the central bank - similarly to the payable interest of the obligatory reserve.

15. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	31 December 2023	31 December 2022
Derivative financial assets		
Swap deals	10	70
IRS deals	-	-
MIRS deals	1,555	5,191
Total	**1,565**	**5,261**

The fair value of derivatives developed in line with the market yield environment.

All figures in tables are in HUF million except otherwise noted

	31 December 2023	31 December 2022
Derivative financial liabilities		
Swap deals	3	
IRS deals	1,369	5,128
MIRS deals	-	18
Total	**1,372**	**5,146**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2023	31 December 2022
Equity instruments	10	10
Debt securities	9,989	18,162
from this: Discount treasury tickets	-	-
from this: Government bonds	*3,004*	*8,947*
from this: Credit institution bonds	*6,985*	*9,215*
Total	**9,999**	**18,172**

Financial assets measured against other comprehensive income developed along the lines of the Bank's ALM strategy.

The Equity instruments contain securities acquired for non-trading purposes by the Bank that its ownership ratio is under 20%. The table below presents the fair value of these shares as at 31 December 2023:

Shares	Fair Value at (thousand HUF) 31 December 2023
MBH Investment Bank Ltd.	2
Central Body of Integrated Credit Institutions	10,000
Takarék Egyesült Szövetkezet	10
Total	**10,012**

The Bank is not derecognised any investments in equity instruments at fair value through other comprehensive income during the reporting period.

17. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2023	31 December 2022
Debt securities gross	324,218	319,743
from this: Government bonds	285,667	289,044
from this: Mortgage bonds	8,932	3,069
from this: Corporate	29,619	27,630
Impairment on debt securities	(243)	(17)
Loans gross	*523,541*	*394,744*
from this: Due from banks	*502,273*	*368,462*
from this: Retail	*20,893*	*25,797*
from this: Corporate	*375*	*485*
Impairment on loans	(741)	(1,563)
from this: Due from banks	(13)	(14)
from this: Retail	(696)	(1,347)
from this: Corporate	(32)	(202)
Advances gross	191	270
Impairment on advances	(3)	(5)
Deposit from central bank and other banks gross	21,012	68,582
Impairment on deposit from central bank and other banks gross	-	(17)
Total	**867,975**	**781,737**

All figures in tables are in HUF million except otherwise noted

Individial and collective expected credit loss accoring to stage:

31 December 2023	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	-	-	-	-
Collective	370	226	403	-	999
Total	**370**	**226**	**403**	**-**	**999**

The gross exposure of group impairment financial assets measured at amortised cost is HUF 868,962 million at December 31, 2023. There are no individually assessed transactions. Among group impairment transactions, gross corporate loans amounted to HUF 375 million (related impairment HUF 32 million), and gross retail loans amounted to HUF 20,893 million (related impairment HUF 696 million) at December 31, 2023.

31 December 2022	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	586	427	-	1,013
Collective	58	172	359	-	589
Total	**58**	**758**	**786**	**-**	**1,602**

The gross exposure of individual-impaired financial assets at amortised cost is HUF 1,849 million, and the gross exposure of collective-impaired financial assets at amortised cost is HUF 781,490 million at 31 December 2022. From the individual-impaired financial assets the gross corporate portfolio is HUF 406 million (related impairment HUF 162 million) and the gross retail loan portfolio is HUF 1,442 million (related impairment HUF 851 million) on 31 December 2022. Among the collective-impaired financial assets, the gross corporate portfolio is HUF 79 (related impairment HUF 40 million) and the gross retail loan portfolio is HUF 24,355 million (related impairment HUF 496 million) at 31 December 2022.

All figures in tables are in HUF million except otherwise noted

18. LOANS AND ADVANCES TO CUSTOMERS MANDOTORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2023	31 December 2022
Loans	6,310	6,593
Total	**6,310**	**6,593**

Loans included in non-trading financial assets that are required to be measured at fair value through profit or loss are those groups of loans that do not pass the cash flow test. Loss on non-trading financial assets mandatorily at fair value through profit amounted to HUF 1,043 million at 31 December 2023 (31 December 2022 is HUF 867 million, loss).

19. INTANGIBLE ASSETS

31 December 2023	Software	Total
Gross value		
Opening balance	1,238	1,238
Increase	53	53
Decrease	-	-
Closing balance	**1,291**	**1,291**
Depreciation		
Opening balance	901	901
Annual depreciation	45	45
Decrease	-	-
Closing balance	**946**	**946**
Impairment		
Opening balance	98	98
Increase	-	-
Decrease	-	-
Closing balance	98	98
Net value	**247**	**247**

The Bank estimates the recoverable amount of the intangible 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.

All figures in tables are in HUF million except otherwise noted

31 December 2022	Software	Total
Gross value		
Opening balance	1,195	1,195
Increase	67	67
Decrease	(24)	(24)
Closing balance	**1,238**	**1,238**
Depreciation		
Opening balance	894	894
Annual depreciation	31	31
Decrease	(24)	(24)
Closing balance	**901**	**901**
Impairment		
Opening balance	98	98
Increase	-	-
Decrease	-	-
Closing balance	98	98
Net value	**239**	**239**

20. TANGIBLE ASSETS

31 December 2023	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	36	122	158
Increase	-	2	2
Decrease	-	(48)	(48)
Closing balance	36	76	112
Depreciation			
Opening balance	36	77	113
Annual depreciation	-	2	2
Decrease	-	(33)	(33)
Closing balance	36	46	82
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**-**	**30**	**30**

All figures in tables are in HUF million except otherwise noted

The Bank estimates the recoverable amount of the tangible 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.
Tangible assets of the stand-alone financial statement contains the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 113 million at 31 December 2023. (Note 21)

31 December 2022	Property	Office equip-ment	Total tangible assets
Gross value			
Opening balance	36	147	183
Increase	-	-	-
Decrease	-	(25)	(25)
Closing balance	36	122	158
Depreciation			
Opening balance	36	92	128
Annual depreciation	-	3	3
Decrease	-	(18)	(18)
Closing balance	36	77	113
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**-**	**45**	**45**

Tangible assets of the stand-alone financial statement contain the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 18 million at 31 December 2022. (Note 21)

All figures in tables are in HUF million except otherwise noted

21. IFRS 16 LEASES

Right-of-use asset and tangible assets

	31 December 2023	31 December 2022
Owned property, plant and equipment	30	45
Right-of-use assets, expect investment properties	113	18
Total property, plant and equipment	**143**	**63**

Lease liability

Lease liabilities presented in the statement of financial position

	31 December 2023	31 December 2022
Short term	44	11
Long term	73	9
Total lease liabilities	**117**	**20**

Maturity analysis - undiscounted contractual payments

	31 December 2023	31 December 2022
Up to 1 year	54	12
1 year to 5 years	79	9
Total undiscounted lease liabilities	**133**	**21**

Right-of-use asset

	Property	Company Car	Total
Opening balance at 1 January 2022	**39**	**10**	**49**
Increase	46	9	55
Amortization for the year	(28)	(5)	(33)
Decrease	(33)	(11)	(44)
Balance at 31 December 2022	**6**	**12**	**18**
Increase	223	-	223
Amortization for the year	(37)	(4)	(41)
Decrease	(87)	-	(87)
Balance at 31 December 2023	**105**	**8**	**113**

The lease agreement of the office building has been extended in 2023, and the impact of the contract amendment will be shown in the line item "The increase in the right to use the real estate" instrument.

All figures in tables are in HUF million except otherwise noted

Total cash outflow for leases

	1 January 2023 – 31 December 2023	1 January 2022 – 31 December 2022
Total cash outflow for leases	(56)	(27)

Items related to lease liabilities presented in profit or loss

	1 January 2023– 31 December 2023	1 January 2022– 31 December 2022
Interest expense on the lease liabilities	(10)	-
Total	**(10)**	**-**

Items presented in the statement of cash flows

	1 January 2023 – 31 December 2023	1 January 2022 – 31 December 2022
Cash payments for the principal portion of the lease liability	(46)	(27)

22. OTHER ASSETS

	31 December 2023	31 December 2022
Prepaid expenses*	39	89
Stocks	4	4
Repossessed collateral	2	2
Reclaimable taxes**	2	3
Others	19	-
Total	**66**	**98**

** A significant part of the prepaid expenses was the revenue not yet invoiced, in 2022 recognised under the SLA settlement agreement between the members of the MBH Bank group.*
*** A significant amount of reclaimable taxes has been accrued due to the special epidemiological tax, as the Goverment Decree No. 108/2020 (IV.14.) on the special tax on credit institutions related to the epidemiological situation. The tax paid can be deducted from the special tax payment obligation of financial institutions in the next 5 years (2021-2025).*

All figures in tables are in HUF million except otherwise noted

23. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31 December 2022	31 December 2022
Loans received*	445,316	377,771
Debt securities issued	374,647	355,799
Other financial liabilities	637	613
Total	**820,600**	**734,183**

**By actively participating in tenders, the Mortgage Bank has incorporated HUF 233,392 million December 31 2023. (HUF 235,768 million until the end of December 31, 2022)* the central bank has built 3- and 5-year loans into its long liabilities. *At the same time, the stock of securities formed, partly due to the use of LTRO funds.*

All figures in tables are in HUF million except otherwise noted

23.1. Issued debt securities

The Bank reports mortgage bonds and bonds that are recognised at amortised cost on ‘Issued debt securities’ line in the statement of financial position:

	31 December 2023		31 December 2022	
	Net book value	Face value	Net book value	Face value
Non-listed mortgage bonds				
Listed mortgage bonds				
Fixed interest	321,438	332,442	324,940	336,923
Floating interest	53,209	54,776	30,859	30,326
Total mortgage bonds	**374,647**	**387,218**	**355,799**	**367,249**
Total issued securities	**374,647**	**387,218**	**355,799**	**367,249**

All figures in tables are in HUF million except otherwise noted

Mortgage bonds

Mortgage bonds are strictly regulated transferable, registered securities and, pursuant to the Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds (Mortgage Act), can be issued only by mortgage banks.

Special status in case of liquidation and resolution

The obligations arising from the Mortgage Bonds are equal in rank to each other (pari passu) in the event of the liquidation or resolution of the Issuer. Unlike the Issuer's other unsecured, non-subordinated obligations, they enjoy a special status under the Section 20 Subsection (5) and Section 21 Subsection (2) of the Mortgage Act, given that these claims do not form part of the liquidation assets.

Security of Mortgage Bonds

According to the Section 14 Subsection (1) Mortgage Act Mortgage loan companies shall at all times have sufficient cover assets to ensure that all liabilities of the mortgage bonds are covered. The liabilities referred to in Subsection (1) shall include:

a) the obligations for the payment of the principal amount of outstanding mortgage bonds;
b) the obligations for the payment of any interest on outstanding mortgage bonds;
c) the obligations attached to derivative contracts held in accordance with the requirements set out in this Act; and
d) the expected costs related to maintenance and administration for the winding-down of the mortgage bond program.

According to the Section 14 Subsection (1b) Mortgage Act the following cover assets shall be considered to contribute to the coverage requirement:

a) *ordinary assets*; principal, interest, costs according to Section 14 subsection (3). The amount of ordinary collaterals must always reach 80% of outstanding mortgage bonds with a remaining maturity of longer than 180 days. In case of loans secured by a residential real estate the principal arising from a mortgage loan can be considered as ordinary collateral up to 70% of the mortgage lending value of the property. In case of loans secured by commercial real estate the limit is 60%.
b) *complementary assets* serve to complement ordinary security and shall contain assets set out in Section 14 subsection (11)
c) *liquid assets* held in accordance with Section 14/B, other than those mentioned in Section 14. Subsection (1b) sub-subsection b) hereof; and
d) claims for payment attached to *derivative contracts* held in accordance with the requirements set out in the Mortgage Act (Section 14 subsection (6))

According to Section 14/B Subsections (1) and (2) in order to cover the net liquidity outflow, the mortgage bond program shall contain a cover pool liquidity buffer composed of liquid assets. The cover pool liquidity buffer shall cover the maximum cumulative net liquidity outflow over the next 180 days. The Subsection (3) regulates which types of segregated assets shall the cover pool liquidity buffer consist of.

According to Section 14 Subsection (4) collaterals of mortgage bonds have to be calculated and monitored based on both on nominal and present value calculation.

In accordance with Section 14 subsection (17) the overcollateralization of outstanding mortgage bonds have to be least 2 percent.

The independent property supervisor monitors and certifies the permanent availability of the collateral for the mortgage bonds, as well as the registration of the collateral providing the ordinary collateral of the mortgage bonds, of their real estate registration data and loan to value, as well as of the ordinary and additional collateral.

Based on its decision no., H-KE-III-533/2022 dated September 12, 2022. of the Hungarian National Bank, mortgage bonds issued by MBH Mortgage Bank Co. Plc. are entitled to use the "European (premium) covered bond" logo.

Bonds

From 2007 the Bank issued senior unsecured bonds in addition to mortgage bonds. However, the Bank did not issue senior unsecured bonds since 2019.

Bonds are registered, dematerialized, transferable debt securities issued on the basis of Act CXX of 2001 on Capital Markets as amended and of Government Decree No. 285 of 2001 (26 December).

The Issuer may issue (i) Senior Unsecured Bonds and (ii) Subordinated Contributory Capital Instrument Bonds.

The Senior Unsecured Bonds incorporate the Bank's direct, unconditional, non-subordinate unsecured liabilities, which are equal in rank (pari passu) to the Bank's other outstanding unsecured non-subordinate liabilities at any time in the hierarchy of repayment in the event of bankruptcy, voluntary liquidation or foreclosure except for liabilities, which have precedence on the basis of the governing laws on voluntary liquidation or other relevant statutory provisions.

The Subordinated Contributory Capital Instrument Bonds are classified as collateral capital instruments of the Issuer in accordance with the provisions of Article 63 of the CRR, and in the event of the liquidation of the Issuer, the debt arising from the Subordinated Contributory Capital Instrument Bonds can only be satisfied after the debt arising from the subordinated debt instruments that do not qualify as a solvency capital istrument has been satisfied, pursuant to Section 57, Paragraph (2) b.) of the Credit Institutions Act.

24. PROVISIONS

Provisions are set up mainly for current and contractual obligation. Provision is also set up for a pending lawsuit. The changes in provisions are accounted for in credit loss expense or in other operating expense.

2023	*Provision for loan commitments and guarantees*	Provisions for litigation	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2023	**1**	**-**	**4**	**12**	**17**
Increase in the period	11	11	-	-	22
Derecognition / Use of provision in the period	(11)	-	-	(12)	(23)
Closing balance at 31 December 2023	**1**	**11**	**4**	**-**	**16**

All figures in tables are in HUF million except otherwise noted

Individual Investors Interest Association (TEBÉSZ) filed a lawsuit in the Capital Court for the annulment of the Company's resolutions number; 4/2019 (08.27.), 6/2019 (08.27.) and 7/2019 (08.27.) taken on the General Meeting of the Company held on August 27, 2019, and also asked the suspension of the enforcement of the resolutions. The Court of first instance rejected the lawsuit of TEBÉSZ on 17 of December 2020. The Bank has won the lawsuit in the second instance in 2021.

TEBÉSZ filed an application for review against the final judgment of the Budapest Court of Appeal. By its order dated 7 June 2022, the Curia as a review court set aside the judgment of the Budapest Court of Appeal and ordered the court of second instance to conduct a new procedure and issue a new decision. In the repeated proceedings, the Budapest Court of Appeal annulled the judgment of the Budapest Regional Court at first instance and instructed the court of first instance to conduct a new procedure and issue a new decision. The procedure is ongoing. Despite the foregoing, the creation of a provision in 2023 was not justified either, since the possible annulment of the contested decisions does not have retroactive effect, i.e. the annulment would not take place at the time of the decisions but when the judgment becomes final, therefore, in our view, the risk that their possible future annulment would have a practical disadvantage for MBH Mortgagebank Plc. is remote.

2022	*Provision for loan commitments and guarantees*	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2022	**1**	**13**	**14**	**28**
Increase in the period	1	4	-	5
Derecognition / Use of provision in the period	(1)	(13)	(2)	(16)
Closing balance at 31 December 2022	**1**	**4**	**12**	**17**

25. OTHER LIABILITIES

	31 December 2023	31 December 2022
Taxes payable	50	35
Accrued expenses	866	783
Other	-	3
Total	**916**	**821**

All figures in tables are in HUF million except otherwise noted

26. SHARE CAPITAL

26.1. Ownership structure

The table shows the ownership structure of the owners from different sectors as follows:

Shareholder	31 December 2023		31 December 2022	
	Holding %	Number of shares (piece)	Holding %	Number of shares (piece)
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	52.10	56,527,499	52.1	56,527,893
Foreign institutional investors	0.01	6,705	-	5,980
Domestic private investors	2.81	3,052,987	2.83	3,062,275
Foreign private investors	0.02	21,489	0.01	10,089
Employees, directors and senior management	-	-	-	0
Treasury shares	0.23	253,601	0.23	253,601
Government held owner	44.80	48,597,602	44.8	48,597,602
Other	0.03	30,417	0.03	32,860
Subtotal (Series "A")	*100.00*	*108,490,300*	*100.00*	*108,490,300*

MBH Bank's controlling stake in MBH Mortgage Bank is 52.0801%. Considering that the majority owner of MBH Bank Plc. is Hungarian Bankholding Ltd. with its ownership share of 98.87%, Hungarian Bankholding Ltd. can also be designated as the ultimate owner of MBH Mortgage Bank.

All figures in tables are in HUF million except otherwise noted

26.2. Owners with more than 5% ownership relating to listed series

Name	Custodian Bank (yes/no)	Number of shares (piece)	Stake (%)
MBH Investment Bank Ltd.	no	52,531,760	48.42%
Magyar Posta Ltd.	no	43,076,417	39.71%
Total		**95,608,177**	**88.13%**

On 18 October 2022, MBH Bank Plc.(formerly MKB Bank Plc.) acquired 43,076,417 pcs of series “A” dematerialised ordinary shares with a nominal value of HUF 100 each owned by MBH Investment Bank Ltd. (formerly MTB Ltd.) in Takarék Mortgage Bank (currently MBH Mortgage Bank). With this transaction, MKB Bank acquired a 39.71 % direct qualifying holding (voting rights) in Takarék Mortgage Bank. The ownership stake of MTB Ltd. decreased to 48.42%. On 2 December 2022, Magyar Posta Ltd. acquired from MKB Bank Plc. its full stake in Takarék Mortgage Bank as a result of an exchange of shares; with this transaction, Magyar Posta Ltd. acquired a 39.71 % direct qualifying holding (voting rights) in Takarék Mortgage Bank.

26.3. Owners with more than 5% ownership relating to total equity

Name	Custodian Bank (yes/no)	Number of shares (piece)	Stake (%)
MBH Investment Bank Ltd.	no	52,531,760	48.42%
Magyar Posta Ltd.	no	43,076,417	39.71%
Total		**95,608,177**	**88.13%**

26.4. The following amounts were used in the calculation of earnings per share:

	31 December 2023	31 December 2022
Loss of shareholders of the Bank	6,663	1,811
Change of general reserve	(666)	(181)
Attributable profit	**5,997**	**1,630**
Weighted average number of shares	108 236 699	108 236 699

Earnings per share ratio is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period excluding treasury shares. For the diluted earnings per share figure the profit attributable to shareholders and the weighted average number of shares outstanding needs to be adjusted by all of the potentially diluting securities. For the normal earnings per share figure the profit attributable to shareholders means the result for the year decreased by the amount of the general reserves which is divided by the number of the shares excluding the number of the treasury shares by the Bank. The Bank has no dilutive potential ordinary shares. Earnings per share figure therefore equals to the diluted earnings per share figure.

All figures in tables are in HUF million except otherwise noted

26.5. Treasury shares purchased

	31 December 2023	31 December 2022
Opening balance	207	207
Purchase	-	-
Closing balance	**207**	**207**

During the reporting period there were no changes in the cumulative balance of Treasury share purchased.

26.6. Other reserve

	31 December 2023	31 December 2022
General reserve	2,286	1,620
Closing balance	**2,286**	**1,620**

26.6.1 General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 2,286 million as at 31 December 2023 (General reserve was HUF 1,620 million as at 31 December 2022).

All figures in tables are in HUF million except otherwise noted

26.7. Cumulated other comprehensive income

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Opening balance at the beginning of the period	57	(233)
Cumulated other comprehensive income	**505**	**(290)**
Items that will not be reclassified to profit or loss	**-**	**-**
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified to profit or loss	**505**	**290**
Debt instruments at fair value through other comprehensive income	505	290
Income tax relating to items that may be reclassified to profit or loss	-	-
Closing balance at the end of the period	**562**	**57**

27. COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the stand-alone statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.
Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Bank:

	31 December 2023	31 December 2022
Loan commitments	28,539	27,103
Total	**28,539**	**27,103**

All figures in tables are in HUF million except otherwise noted

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of the on- and off-balance sheet financial assets and liabilities:

Financial instruments stated at amortized cost: due to short-term maturity profiles, the carrying values of certain financial assets and liabilities were assumed to approximate their fair values. These include cash and due from banks and with the National Bank of Hungary as well as deposits.

Securities at fair value through other comprehensive income: Securities at fair value through other comprehensive income held for liquidity purposes are marked to market. For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

28.1. Fair value of financial assets measured at amortised costs

The Bank calculates the fair value of loans and advances to customers and refinanced loans and securites at amortized cost on an individual basis.
The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions.
- In case of loan repricing events the model recalculates the interest cash flow.
- In case of loans where amortized cost is calculated with simplified approach no FV correction is applied.

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank's evaluation, which contains the following components:

- Relevant market yield curve
- Spread implied by the annual risk cost
- Spread implied by the capital allocated to the loans (regulatory minimum requirement and all addons)
- Allocated operational costs

The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FX values.

Under IFRS 13 a fair value measurement requires during the selection of appropriate valuation techniques an entity to determine all the following:

- all information what is reasonably available for the Bank;
- current and expected market conditions;
- the invesment timeline and the type of investment (for example in measuring the fair value of short-term financial investment the current market sentiment to be better reflected by some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valuation models than by others);
- pro- and counter-cyclicality of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

In case of illiquid quoted equity instruments are applied 180 days weighted average price in accordance with the market practice for measuring fair value by the Bank.
When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg,Refinitive), business reports, management letter of intent, etc.

	31 December 2023		31 December 2022	
	Net book value	Fair value	Net book value	Fair value
Financial assets measured at amortised cost	867,975	841,340	781,737	724,470

28.2. Fair value of other items in the statement of financial position

No estimation is made in respect of the fair value of assets and liabilities that are not considered to be financial instruments, such as fixed assets and other assets and liabilities. Given the use of subjective judgement and uncertainties, the fair values should not be interpreted as being realisable in an immediate settlement of the instruments.

28.3. Fair value of derivative transactions

Swap transactions are contracts between two parties to swap the differences of interests or exchange rates for a fixed amount. In case of interest rate swap (IRS) transactions, parties usually swap the fixed and variable interest payments of a given currency. In FXS, they swap fixed payments and given amounts of different currencies. CCIRSs are swap transactions where parties swap fix amounts in different currencies as well as fixed and variable interest payments.

	Fair value		Notional amount	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Swap deals	10	70	3,675	4,657
IRS	-	-	-	-
MIRS	1,555	5,191	8,766	17,751
Total trading derivatives	**1,565**	**5,261**	**12,441**	**22,408**
Hedge deals	640	975	3,545	21,500
Total derivative financial assets	**2,205**	**6,236**	**15,986**	**43,908**

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Swap deals	3	-	165	-
IRS	1,369	5,127	7,512	17,501
MIRS	-	19	-	151
Total trading derivatives	**1,372**	**5,146**	**7,677**	**17,652**
Hedge derivatives	5,214	2,639	61,950	37,000
Total derivative financial liabilities	**6,586**	**7,785**	**69,627**	**54,652**

The fair value of derivative deals is also calculated based on a cash flow basis by the Bank, the derivatives are broken down to elementary cash flows and the present value is calculated.
The present value of the future cash flows of fixed interest rate deals is calculated by the Bank using the zero-coupon swap yield curve corresponding to the appropriate currency. The fair value of swap deals is the difference of the present value of the two series of cash flows not yet due (incoming and outgoing).

In the case of floating rate deals the expected interest rates are estimated on a forward basis including interest premium. The interest cash flow calculated and the principal payments are discounted to present value using the multi-level yield curve (forward yield curve, and discounting curve). The fair value of the deal is the aggregate of the present values.

The risk premium is significant and permanent, it is justified to incorporate it into the evaluation method of swaps. The yield curve is adjusted with the risk premium. The application of the appropriate risk premium enhances the accuracy of the fair value calculation (please also refer to Note 3) taking counterparty and own credit risk into amount (CVA/DVA) in accordance with IFRS 13.

For the Bank's existing derivative contracts designated as fair value hedges, the purpose of the transaction is to exchange fixed interest rate contracts for floating rate transactions and to hedge the resulting fair value risk. The parameters of the hedging instrument (maturity, amount, currency, interest rate, etc.) and thus its cash flow are the same as the parameters of the hedged security and the cash flow of capital and interest.

In the valuation of hedging transactions, the Bank establishes a so-called hypothetical swap and measures its efficiency accordingly. The Bank introduced hedge accounting in the second quarter of 2019 for swap transactions in the individual IFRS financial statements of Bank. The effect of this is shown in the table on December 31,2023.

All figures in tables are in HUF million except otherwise noted

28.4. Fair value hedge transactions

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument 31 December 2023	Fair value of the hedged items 31 December 2023	Gains on the hedging instrument 2023	Losses on the hedged items 2023
IRS	Issued mortgage bonds	892	25,113	1,131	(1,135)
IRS	Securities	3,644	37,157	3,996	(4,266)

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument 31 December 2022	Fair value of the hedged items 31 December 2022	Gains on the hedging instrument 2022	Losses on the hedged items 2022
IRS	Issued mortgage bonds	(2,438)	21,707	(2,337)	2,708
IRS	Securities	774	24,353	878	(911)

28.5. Financial assets subject to offsetting and potential offsetting agreements in- 2023

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position	Net amount after potential offsetting
			Financial instruments	
Financial assets for trading	2,205	2,205	2,205	-
Total	**2,205**	**2,205**	**2,205**	**-**

Liabilities subject to offsetting and potential offsetting agreements - 2023

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position	Net amount after potential offsetting
			Financial instruments	
Financial liabilities for trading	6,586	6,586	2,205	4,381
Total	**6,586**	**6,586**	**2,205**	**4,381**

All figures in tables are in HUF million except otherwise noted

Financial assets subject to offsetting and potential offsetting agreements in- 2022

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position: Financial instruments	Net amount after potential offsetting
Financial assets for trading	1,046	1,046	7,766	(6,720)
Total	**1,046**	**1,046**	**7,766**	**(6,720)**

Liabilities subject to offsetting and potential offsetting agreements - 2022

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position: Financial instruments	Net amount after potential offsetting
Financial liabilities for trading	7,766	7,766	7,766	-
Total	7,766	7,766	7,766	**-**

Bank employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty.

For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column ‘Financial instruments’. If the net position is further secured by cash collateral or non-cash financial collaterals the effects are disclosed in columns ‘Cash collateral received / pledged’ and ‘Non-cash financial collateral received / pledged’ respectively.

All figures in tables are in HUF million except otherwise noted

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column ‘Non-cash financial collateral received / pledged’ respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge.

28.6. Fair value of financial instruments carried at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank calculates the fair value of non-trading financial assets mandatorily at fair value through profit or loss on an individual basis.
The applied valuation model takes into account the following:

- The scheduled and calculated repayments, with certain restrictions.
- In case of loan repricing events the model recalculates the interest cash flow
- In case of loans where amortized cost is calculated with simplified approach no fair value correction is applied

The cash flow series calculated in this way are discounted with the yield curve applied in the Bank's evaluation, which contains the following components:

- Relevant market yield curve
- Surcharge implied by liquidity costs
- Spread implied by the annual risk cost
- Spread implied by the capital allocated to the loans (regulatory minimum requirement and all addons)
- Allocated operational costs

The net value of assets, i.e. the fair value of the total portfolio of loans is determined by combining and exchanging to HUF the FX values.

Under IFRS 13 a fair value measurement requires during the selection of appropriate valuation techniques an entity to determine all the following:

- all information what is reasonably available for the Bank;
- current and expected market conditions;
- the investment timeline and the type of investment (for example in measuring the fair value of short-term financial investment the current mar-ket sentiment to be better reflected a some valuation technique than others);
- an entity's life-cycle of an equity instruments (the fair value of the investments in different life cycles is better reflected by some valuation models than by others);
- pro- and counter-cyclicality of an entity's business activity; and
- there are entity-specific factors, in which the entity operates.

In case of illiquid quoted equity instruments are applied 180 days weighted average price in accordance with the market practice for measuring fair value by the Bank.

When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash

flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg, Refinitive, business reports, management letter of intent, etc.
The following table shows an analysis of financial instruments carried at fair value.

	31 December 2023		
	Level 1	Level 2	Level 3
Assets			
Derivative financial assets	-	1,565	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	6,310
Securities at fair value through other comprehensive income	9,999	-	-
Hedging derivative assets	-	640	-
Total assets carried at fair value	**9,999**	**2,205**	**6,310**

	31 December 2023		
	Level 1	Level 2	Level 3
Liabilities			
Derivative financial liabilities	-	1,372	-
Hedging derivative liabilities	-	5,214	-
Total assets carried at fair value	**-**	**6,586**	**-**

All figures in tables are in HUF million except otherwise noted

	31 December 2022		
	Level 1	Level 2	Level 3
Assets			
Derivative financial assets	-	5,261	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	6,593
Securities at fair value through other comprehensive income	18,172	-	-
Hedging derivative assets	-	975	-
Total assets carried at fair value	**18,172**	**6,236**	**6,593**

	31 December 2022		
	Level 1	Level 2	Level 3
Liabilities			
Derivative financial liabilities	-	5,146	-
Hedging derivative liabilities	-	2,639	-
Total assets carried at fair value	**-**	**7,785**	**-**

Instruments' movements in Level 3	Non-trading financial assets mandatorily at fair value through profit or loss 2023	Non-trading financial assets mandatorily at fair value through profit or loss 2022
Opening balance – 1 January	**6,593**	**9,787**
Stand-alone Statement of profit or loss	-	-
Profit/(Loss)	1,043	(867)
Porfolio decrease	(1,326)	(2,327)
Closing balance – 31 December	**6,310**	**6,593**

29. RISK MANAGEMENT

29.1. Overview

MBH Mortgage bank Plc. (in the following: Bank) is a member of the Integration Organization under Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions (Section.). As a consequence of its Integration membership, the Bank is subject to the risk management policies of the Integration. The operation of the Bank's risk management is governed by the applicable Hungarian and EU legislation and further supervisory requirements. The Bank is a member of the MBH Group, so its operation must also comply with MBH Bank's internal regulations at group level.

All figures in tables are in HUF million except otherwise noted

Based on the Section 5/A (1) of the Integration Organization and its members shall be jointly and severally liable for each other's obligations in accordance with the rules of the Civil Code. Joint and several liability shall extend to all claims against the Integration Organization and its members, irrespective of the date on which they arose.

Based on the Section 5 of Article 1 of Szhitv the Integration Organisation and its members are under the combined supervision according to Credit Institution Act. The Bank is a member of the MBH Integration Group controlled by MBH Investment Bank, which is part of the MBH Group controlled by MBH Bank.

As part of the merger processes taking place in the MBH Group, from 01.05.2023 MKB Bank Plc. will continue its activities as MBH Bank Plc. (in the following MBH Bank), Takarek Mortgage Bank Co. Plc. as MBH Mortgage Bank Co. Plc., while MTB Ltd. will continue its activities as MBH Investment Bank Ltd.

If the conditions are met in the Article 10 of the EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council based on the Section 5 of Article 1 of Szhitv the integration of credit institutions is exempted from individual applying of the requirements are defined in the Section (2)-(8) of CRR. According to the resolution no. H-JÉ-I-209/2014 (on 3 March 2014) the National Bank of Hungary (MNB) authorized the members of the Integration to apply individual exemption based on the Article 10 of CRR.

MBH Bank's group-level risk strategy defines the range of risks the Bank can take and the risk management and measurement tools to be applied, as well as defines the general risk-taking principles and rules to be followed by the Bank. In the course of its operations, the Bank strives to maintain a risk culture that ensures the identification, measurement and management of emerging risks in accordance with risk appetite. Internal policies, strategies, regulations and guidelines, communication and employee training are the primary tools for a corresponding risk culture.

The Integration and its member institutions seek to create an integrated risk culture which covering the whole Integration and which is in line with their risk appetite, and their risk tolerance ensure the identification, measurement and management of the emerged risks.

The risk capacity of the Bank should be in line with the financial resources that are available to cover potential losses. In order to achieve this the current and future economic, capital requirements and the capital requirements under Pillar 1 for quantifiable risk types are calculated.

Prudent risk taking is a fundamental value for the Bank. In order to achieve this risk management identifies, evaluates and analyses the exposures. It processes the information gained, develops risk guidelines, and operates risk management systems.

The Group-wide Risk Strategy is based on the following main pillars:

- in risk management application of the best approaches and methods applied in market practice
- identification of risk and yield profile of segments, products and risk positions and continuous monitoring
- consideration of the risks in business decisions
- separation the risk management organisation from the business division
- the importance of all stages of the risk management process

- the risk management process is the part of the Bank Group's management system, its aspects are integrated into the strategic and annual planning.

29.2. Risk management structure

The Group's risk management is subject to multiple levels of control, the most important of which are final control at the level of the Board of Directors, independent control separate from risk-taking areas, and adequate measurement, diversification, monitoring and reporting of risks.

The highest level of risk management from the organisational point of view is the Supervisory Board and the Board of Directors.

Board of Directors

The Boards of Directors of the banks are responsible for the MBH Mortgage Bank's risk management policy and strategy. The Boards of Directors approve the basic framework rules for risk management and guidelines of applicable methodologies. Due to the Integration Membership MBH Mortgage Bank follows the Integration Risk Policy/ Strategy, applies uniform risk management policies and reports about its risks to the Central Bodies of the Integration (IHKSZ) to the Integration Business Management Organization (MBH Investment Bank Ltd) and MBH Bank Plc.

Based on regular risk exposure reports, the Boards of Directors evaluate the risk management activities and the level of exposure of the banks. If the level of exposure undertaken by the banks does not correspond to the strategy the Board takes measures to contain risks.

Supervisory Board

The Supervisory Board of the Bank is responsible for monitoring the overall risk and risk management processes within the Bank. In this context it also supervises and monitors the suitability of methods and systems applied by the Bank in order to ensure compliance with the statutory capital adequacy requirements.

Risk Control and Assets and Liabilities Committee (KK-EFB)

The Risk Control and Assets and Liabilities Committee exercise its authority on an individual level referring to the Bank.

The responsibilities of the Risk Control and Asset-Liability Committee include asset-liability management, planning / controlling, pricing, sales, product development, market risk management, liquidity risk management, credit and counterparty risk, concentration risk, and operational risk management - risk policy / risk strategy - , capital management.

It constantly monitors the liquidity position of MBH Mortgage Bank and makes proposals on its interest rate policy. It creates and continuously maintains a balance between income and liquidity, always adhering to the principles of prudent operation.

Refinancing Lending Committee

The purpose of the operation of the Refinancing Lending Committee is to make the necessary decisions to establish certain terms and conditions of the Bank's refinancing business that will be concluded with a particular partner bank (framework agreement).

Methodology Committee (MB)
The competence of the Methodology Committee is exercised at the individual level of MBH Bank Plc. and the Bank.
The Methodology Committee performs all the tasks required by law or supervisory recommendations from a risk control, a risk methodology, an operational risk management and an NPL committee in the areas specified in the Rules of Procedure of the Standing Committees. In detail:
• Defining risk strategy, risk self-assessment, risk appetite and related limits - proposing to the Board of Directors, allocating limits to group members
• Setting concentration and country risk limits, approving risk management principles, allocating and re-measuring limits
• Approval of changes in risk parameters affecting risk appetite, including risk methodological proposals related to product development
• Approval of risk regulations
• Regular and adhoc risk reports (credit risk, operational risk, large exposures, internal credit, other risks, except market and liquidity, which is the responsibility of the EFB)
• ICAAP-SREP methodological changes, parameters, credit ratings, etc. approval (Pillar 1 and Pillar 2, including market risk topics), monitoring, supervisory control
• Develop and monitor an SREP action plan
• Modeling framework changes, model validation system approval

Internal Audit
The elements of the internal control system (management control and management information system incorporated in processes, and an independent internal control unit function) cover the Bank's all organizational units and are incorporated in day-to-day operation. They are traceable and provide feedback to the appropriate levels of management and control.
Risk management processes are audited regularly by the internal audit organization that examines both the adequacy of the procedures and the compliance with the procedures. Internal Audit reports its findings to the Supervisory Board and the Management of the Bank.

Risk evaluation and reporting system
The Bank is measured the risk exposure in accordance with the methods defined in laws and integration policies.
In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. The Bank collects and analyses data about events and losses related to risk from operation. As a result of risk assessment, the Bank determines the level of capital justified by the level of acceptable exposure.
The Boards of Directors and The Supervisory Board evaluate the reports on risks on a quarterly basis.

Green Covered Bond Committee
TMB established its Green Covered Bond Committee (hereinafter referred as GCBC) to increase the role of green factors in its business and risk management governance. The Committee consists of the CEO, deputy CEO responsible for the Risk Management – Chairman of GCBC, Heads of Capital Market, Refinancing, ALM, Collateral Registry, Collateral Management. GCBC reports directly to the Management of Board. Pursuant to the internal regulations, the GCBC decides on the 'green' quality if new collateral is involved, and regularly reviews the adequacy of the green collateral behind the issued green mortgage bonds.

29.3. Risk mitigation

Interest rate and exchange rate risks
To minimize the risk of interest- and foreign exchange rate risks the Bank manages their asset and liability structure.

Credit risk
Credit risk is the risk of the Bank suffering losses because the borrowers (clients or partners) fail to meet their contractual obligation to the Bank.

The Bank is suspended the new loan placement activity based on strategy decision during 2018, keep handling the existing loan portfolio. There through the Bank monitors client and partner rating on an ongoing basis.
The Bank rates the creditworthiness of their clients and partners and classifies them into client or partner categories. Risk is only accepted if the client's or partner's rating is appropriate. The Bank monitors client and partner rating on an ongoing basis.

Risk taking to retail clients is based on the use of standardized loan schemes and lending processes, resulting in a portfolio characterized by high number of customers, small amounts of individual loans and diversification.
Corporate lending is based on individual assessment and the continuous monitoring is in focus.
The Bank applied strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio.

29.4. Credit risk

29.4.1. Credit risk

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The standard has been endorsed by the European Union (EU).

Impairment

The impairment requirements of IFRS 9 apply to all debt instruments that are measured at amortized cost or FVOCI, and to off balance sheet lending commitments such as loan commitments and financial guarantees (hereafter collectively referred to as "Financial Assets").

Under IFRS 9, the Bank first evaluates individually the Financial Assets whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged Approach to the Determination of Expected Credit Losses

IFRS 9 introduces a three-stage approach to impairment for Financial Assets that are performing at the date of origination or purchase. This approach is summarised as follows.

Stage 1:
The Bank recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

Stage 2:
The Bank recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Asset. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3:
The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 %, via the recoverable cash flows for the asset, for those Financial Assets that are credit-impaired. The Bank definition of default is aligned with the regulatory definition. The treatment of loans in Stage 3 remains substantially the same as the treatment of impaired loans under IAS 39 except for homogeneous portfolios as described below. Financial Assets that are credit impaired upon initial recognition are categorised purchased or originated credit-impaired (POCI) with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these (POCI) assets is discussed further below.

Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) of a Financial Asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on the Bank historical experience, credit risk assessment and forward-looking information (including macro-economic factors). The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month ECLs to one that is based on lifetime ECLs (i.e., Stage 1 to Stage 2). The Bank's framework aligns with the internal Credit Risk Management process and covers rating related and process related indicators which are discussed further in the section below on Model Descriptions.

Credit Impaired Financial Assets in Stage 3

The Bank has aligned its definition of credit impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation (CRR) under Art. 178.
The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

- The Bank considers the obligor is unlikely to pay its credit obligations. Determination may include forbearance actions, where a concession has been granted to the borrower or economic or legal reasons that are qualitative indicators of credit impairment; or
- Contractual payments of either principal or interest by the obligor are past due by more than 90 days.

For Financial Assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. The estimation of ECLs is done on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio-based parameters to individual Financial Assets in these portfolios via the Bank's ECL model for homogeneous portfolios.
Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference

between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Group expects to receive.

A Financial Asset can be classified as in default but without an allowance for credit losses (i.e., no impairment loss is expected). This may be due to the value of collateral. The Bank's ECL calculation is conducted on a quarterly basis.

Default

The Bank uses the CRR definition of default as a primary indicator of loss events in accordance with Article 178 (1) of CRR. A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:

(a) the Bank considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security;

(b) the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

Purchased or Originated Credit Impaired Financial Assets

A Financial Asset is considered purchased or originated credit-impaired if there is objective evidence of impairment at the time of initial recognition (i.e., rated in default by Credit Risk Management). Such defaulted Financial Assets are termed POCI Financial Assets. Typically, the purchase price or fair value at origination embeds expectations of lifetime expected credit losses and therefore no separate credit loss allowance is recognised on initial recognition. Subsequently, POCI Financial Assets are measured to reflect lifetime expected credit losses, and all subsequent changes in lifetime expected credit losses, whether positive or negative, are recognised in the income statement as a component of the provision for credit losses.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirely or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries will be presented in Provision for impairment losses in the stand-alone statement of Profit or Loss.

29.4.2. Model Descriptions - Expected Credit Loss

Stage determination

At initial recognition, Financial Assets which are not POCI are reflected in Stage 1. If there is a significant increase in credit risk, the Financial Asset is transferred to Stage 2. Significant increase in credit risk is determined by using rating-related and process- related indicators as discussed below. In contrast, the assignment of a financial instrument to Stage 3 is based on the status of the obligor being in default.

Rating-Related Indicators: Based on a dynamic change in counterparty PDs that is linked to all transactions with the counter- party, the Bank compares lifetime PD at the reporting date, with expectations at the date of initial recognition. Based on historically observed migration behaviour and available forward-looking information, an expected forward rating distribution is obtained. A quantile of this distribution, which is defined for each counterparty class, is chosen as the threshold. If for the remaining lifetime the PD of a transaction given current expectations exceeds the PD of the relevant threshold rating, the Financial Asset is considered as significantly deteriorated. The thresholds used to determine Stage 2 indicators are determined using expert judgment and validated annually.

Process-Related Indicators: Process-related indicators are derived via usage of existing risk management indicators, which allow the Bank to identify whether the credit risk of Financial Assets has significantly increased. These include obligors being added mandatorily to a credit watchlist, being mandatorily transferred to workout status, payments being 30 days or more overdue or in forbearance.

On an ongoing basis, as long as the condition for one or more of the indicators is fulfilled and the Financial Asset is not recognized as defaulted, the asset will remain in Stage 2. If none of the indicator conditions is any longer fulfilled and the Financial Asset is not defaulted, the asset transfers back to Stage 1. In case of a default, the Financial Asset is allocated to Stage 3.

Expected Lifetime model

The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.
Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk.In determining the expected lives of these transactions with no cash-flow, the Bank applies a fixed lifetime on an expert basis.

Forward-Looking Information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward - looking information obtainable, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into allowance for credit losses, the Bank uses two key elements: As its base scenario, the Bank uses the macroeconomic forecasts provided by Hungarian National Bank. These forecasts cover a number of macroeconomic variables (e.g., GDP, unemployment rates, inflation) and reflect Regulator search's view as to the most likely development of those variables, typically over a two-year (three in the medium/large sized enterprise segments) period and updated quarterly.

This base scenario is then translated into a multiple scenario analysis by leveraging the stress test environment. This environment generates the impact of a multitude of economic scenarios and is used as basis for deriving multi-year PD curves for different rating and counterparty classes, which are applied in the calculation of expected credit losses and in the identification of significant deterioration in credit quality of Financial Assets.

The general use of forward-looking information, including macro-economic factors, as well as adjustments taking into account the extraordinary factors, are monitored by the Bank's Risk Management.

Assumptions and the Estimation Techniques

IFRS 9 does not distinguish between individually significant or not individually significant Financial Assets and as such the Bank calculates expected credit losses for each Financial Asset individually. Similarly, the determination of the need to transfer between stages is made on an individual asset basis.

The Bank uses three main components to measure ECL. These are PD, Loss Given Default (LGD) and Exposure at Default (EAD).

Incorporating forecasts of future economic conditions into the measurement of expected credit losses influences the allowance for credit losses for each stage. In order to calculate lifetime expected credit losses, the Bank's calculation includes the PDs that reflect economic forecasts.

The expected credit loss calculation for stage 3 distinguishes between transactions in homogeneous and non-homogenous portfolios and purchased or originated credit-impaired transactions. For transactions that are in Stage 3 and in a homogeneous portfolio, a similar approach as for Stage 1 and 2 transactions is taken. Since a Stage 3 transaction is defaulted, the probability of default is equal to 100 %.

Below the estimation techniques for the input factors are described in more detail.

The one-year PD for counterparties is derived from our internal PD model. The Bank assigns a PD to each relevant counterparty credit exposure for our exposure.

The counterparty ratings assigned are derived based on internally developed rating models which specify consistent and distinct customer-relevant criteria and assign a rating grade based on a specific set of criteria as given for a certain customer. The set of criteria is generated from information sets relevant for the respective customer segments including general customer behaviour, financial and external data. The methods in use range from statistical scoring models to expert-based models taking into account the relevant available quantitative and qualitative information. Expert-based models are usually applied for counterparties in the exposure classes "Central governments and central banks", "Institutions" and "Corporates" with the exception of those "Corporates" segments. For the latter as well as for the retail segment statistical scoring or hybrid models combining both approaches are commonly used. Quantitative rating methodologies are developed based on applicable statistical modelling techniques, such as logistic regression.
In addition to these, categories based on the number of days past due in impairment calculations also influence the allocation of the parameters related to the probability of default.

One-year PDs are extended to multi-year PD curves using conditional transition matrices. The first step in the estimation process is the calculation of through-the-cycle (TTC) matrices, which are derived from a multi-year rating history. For the next three years, economic forecasts are available. These forecasts are used to establish "point-in time" (PIT) PDs based on TTC matrices.

LGD is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer's probability of default. The LGD models ensure that the main drivers for losses (i.e., different levels and quality of collateralization and customer or product types or seniority of facility) are reflected in specific

LGD factors. In our LGD models we assign collateral type specific LGD parameters to the collateralized exposure.

The EAD over the lifetime of a Financial Asset is modelled taking into account expected repayment profiles. We apply specific Credit Conversion Factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as the expected amount of the credit exposure to a counterparty at the time of its default. In instances where a transaction involves an unused limit, a percentage share of this unused limit is added to the outstanding amount in order to appropriately reflect the expected outstanding amount in case of a counterparty default.

Impact of the pandemic on credit risk management

In accordance with the MNB's expectations, and in line with the Hungarian Bankholding's and MKB Bank Plc's uniform impairment calculation methodology the staging logic for customers still in and out of moratorium has been standardised by adding the following to the normal processes:

- for retail customers in moratorium 1-2, not affected by moratorium 3 and/or moratorium 4, or who have exited from moratorium 1-2-3-4 and no other Stage3 indicator, then Stage2 classification is justified for at least 6 months after the end of the moratorium,
- for retail customers entering moratorium 3 or 4, a Stage3 classification is justified for the entire period of the moratorium if a significant deterioration in the income situation is justified on the basis of the client's declaration,
- for corporate customers in moratorium 1-2 that have been reclassified to Stage 2 and is not affected by moratorium 3 and or moratorium 4, or have exited moratorium 1-2-3-4 and no other Stage3 indicator is present, then Stage2 classification is justified for at least 24 months after the end of the moratorium,
- for corporate customers entering moratorium 3 or moratorium 4, a Stage3 classification is justified for the entire duration of the moratorium, from which can only be deviated with a detailed, objective justification supported by evidence, but only up to maximum of stage 2.
- customers who entered into „agricultural moratorium" have to be classified minimum as Stage2, but if the customer previously spent at least 9 months in moratorium has to be classified as stage3. They can be classified in Stage1 only on the basis of individual monitoring after the declaration has been made and taken into account. Individual deviations are possible from the application of Stage 3 and Stage2 triggers, which must be supported by detailed justification based on objective evidence in all cases.

For customers exiting the moratorium or customers on a contractual repayment schedule who never taking advantage of moratorium, the measurement of traditional credit behaviour will continue to be implemented. For retail customers, the Bank has reverted to the normal lifetime ECL/Expected Credit Loss calculation.
In case of corporate customers, the Bank will continue 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 lifetime ECL calculation.

Given that no new information has emerged on the payment ability of customers during the moratorium period and that the repayments of customers affected by the interest rate cap are lower than the contractual instalments, it is necessary to take into account the uncertainties about the ability and willingness of debtors to pay. In addition, MNB expects that the risk arising from modelling uncertainty needs to be mitigated.

In determining the management overlays, the Bank has taken into account the following criteria:

- in case of customers who entered into „agricultural moratorium", the models are not aware of the agricultural moratorium and therefore the willingness and ability to pay may contain a hidden high probability of default,
  the application of transitional staging rules alone does not always translate into a full increase in lifetime credit loss, even if 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 client management perspective. The management overlays have been created due to the uncertainties arising from the current economic situation, the expectations of the regulatory environment and the future volatility of the economic situation.

IFRS 9 credit risk tables are presented below. *Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2023*

31 December 2023	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	**-**	-	-	-	**-**
Cash balances at central banks	**19,151**	-	-	-	**19,151**
Investment grade	*19,151*	-	-	-	19,151
Other demand deposits	**160**	-	-	-	**160**
Investment grade	*160*	-	-	-	160
Securities at fair value through other comprehensive income	**9,995**	-	-	-	**9,995**
Investment grade	*9,995*	-	-	-	9,995
Securities at amortized cost	**324,218**	-	-	**-**	**324,218**
Investment grade	*324,218*	-	-	-	324,218
Due from banks	**523,285**	**-**	**-**	**-**	**523,285**
Investment grade	523,285				523,285
Retail	**14,432**	**4,671**	**1,790**	**-**	**20,893**
Investment grade	*13,933*	*3,949*	-	-	17,882
Default grade	-	-	*1,593*	-	1,593
Non-investment grade	*499*	*722*	*197*	-	1,418

All figures in tables are in HUF million except otherwise noted

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2023 (continued)

31 December 2023 (continued)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Corporate	**-**	**375**	**-**	**-**	**375**
Investment grade	-	-	-	-	-
Default grade	-	-	-	-	-
Non-investment grade	-	*375*	-	-	*375*
Advances	***188***	**-**	***3***	**-**	**191**
Investment grade	*188*	-	-	-	*188*
Default grade	-	-	*3*	-	*3*
Non-investment grade	-	-	-	-	-
Total gross carrying amount	**891,429**	**5,046**	**1,793**	**-**	**898,268**
Loss allowance	370	226	403	**-**	999
Carrying amount	**891,059**	**4,820**	**1,390**	**-**	**896,269**

All figures in tables are in HUF million except otherwise noted

IFRS 9 credit risk tables are presented below. *Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2022*

31 December 2022	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Gross carrying amount per asset type					
Cash on hand	**-**	-	-	-	**-**
Cash balances at central banks	**14**	-	-	-	**14**
Investment grade	*14*	-	-	-	14
Other demand deposits	**328**	-	-	-	**328**
Investment grade	*328*	-	-	-	328
Securities at fair value through other comprehensive income	**18,164**	**-**	**-**	**-**	**18,164**
Investment grade	*18,164*	-	-	-	18,164
Securities at amortized cost	**319,743**	-	-	**-**	**319,743**
Investment grade	*319,743*	-	-	-	319,743
Due from banks	**437,044**	**-**	**-**	**-**	**437,044**
Investment grade	437,044				437,044
Default grade	-	-	-	-	-
Non-investment grade	-	-	-	-	-
Retail	**10,137**	**13,223**	**2 437**	**-**	**25 797**
Investment grade	*9,856*	*12,455*	-	-	22 311
Default grade	-	-	*2 437*	-	2 437
Non-investment grade	*281*	*768*	-	-	1 049

All figures in tables are in HUF million except otherwise noted

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2022 (continued)

31 December 2022 (continued)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Gross carrying amount per asset type					
Corporate	**1**	**1**	**483**	**-**	**485**
Investment grade	*1*	*1*	*-*	*-*	*2*
Default grade	*-*	*-*	*483*	*-*	*483*
Non-investment grade	*-*	*-*	*-*	*-*	*-*
Advances	***265***	**-**	***5***	**-**	**270**
Investment grade	*265*	*-*	*-*	*-*	*265*
Default grade	*-*	*-*	*5*	*-*	*5*
Non-investment grade	*-*	*-*	*-*	*-*	*-*
Total gross carrying amount	**785,696**	**13,224**	**2,925**	**-**	**801,845**
Loss allowance	58	758	786	**-**	1,602
Carrying amount	**785, 638**	**12,466**	**2,139**	**-**	**800,243**

All figures in tables are in HUF million except otherwise noted

Impairment

31 december 2023	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (stage 3)			
Retail loans	1,790	400	1,390
Corporate loans	-	-	-
Advances	3	3	-
Total credit-impaired assets	**1,793**	**403**	**1,390**

Impairment

31 December 2022	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets (stage 3)			
Retail loans	2,437	580	1,857
Corporate loans	483	201	282
Advances	5	5	-
Total credit-impaired assets	**2,925**	**786**	**2,139**

31 December 2023	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	-	-	-
Collective	370	226	403	999
Total	**370**	**226**	**403**	**999**

Due to the change in the Impairment and Provisioning policy, the materiality level of individual impairment increased, as a result of which the clients still involved in the stock of the Mortgage Bank on 31 December 2022 were removed from the individual qualified circle and transferred to the group methodology.

31 December 2022	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	586	427	1,013
Collective	58	172	359	589
Total	**58**	**758**	**786**	**1,602**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2023

Asset type all	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Impairment loss as at 1 January 2023	**58**	**758**	**786**	**-**	**1,602**
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	-	14	-	-	14
Transfers from Stage 1 to Stage 3	-	-	12	-	12
Transfers from Stage 2 to Stage 1	54	(688)	-	-	(634)
Transfers from Stage 2 to Stage 3	-	(8)	89	-	81
Transfers from Stage 3 to Stage 1	-	-	(68)	-	(66)
Transfers from Stage 3 to Stage 2	-	43	(189)	-	(146)
Changes in PDs/LGDs/EADs	257	134	4	-	395
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(1)	(27)	(231)	-	(259)
Impairment loss as at 31 December 2023	**370**	**226**	**403**	**-**	**999**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2023

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Impairment loss as at 1 January 2023	**58**	**758**	**786**	**-**	**1,602**
Due from banks	**(12)**	**-**	**-**	**-**	**(12)**
Changes in PDs/LGDs/EADs	(12)	-	-	-	(12)
New financial assets originated or purchased	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Retail	**93**	**(564)**	**(181)**	**-**	**(652)**
Transfers:					
Transfers from Stage 1 to Stage 2	-	14	-	-	14
Transfers from Stage 1 to Stage 3	-	-	12	-	12
Transfers from Stage 2 to Stage 1	54	(688)	-	-	(634)
Transfers from Stage 2 to Stage 3	-	(8)	89	-	81
Transfers from Stage 3 to Stage 1	2	-	(29)	-	(27)
Transfers from Stage 3 to Stage 2	-	11	(26)	-	(15)
Changes in PDs/LGDs/EADs	38	134	4	-	176
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(1)	(27)	(231)	-	(259)

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2023 (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Corporate	**231**	**32**	**(202)**	**-**	**61**
Transfers:					
Transfers from Stage 2 to Stage 1	**-**	**-**	-	**-**	**-**
Transfers from Stage 3 to Stage 1	**-**	**-**	(39)	**-**	(39)
Transfers from Stage 3 to Stage 2	**-**	32	(163)	**-**	(131)
Changes in PDs/LGDs/EADs	231	-	-	-	231
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Securities	**-**	**-**	**-**	**-**	**-**
Changes in PDs/LGDs/EADs	-	-	-	-	-
Impairment loss as at 31 December 2023	**370**	**226**	**403**	**-**	**999**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2022

Asset type all	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Impairment loss as at 1 January 2022	**37**	**662**	**381**	**-**	**1,080**
Movements with P&L impact					
Transfers:					
Transfers from Stage 1 to Stage 2	(3)	17	-	-	14
Transfers from Stage 1 to Stage 3	-	-	12	-	12
Transfers from Stage 2 to Stage 1	2	(7)	-	-	(5)
Transfers from Stage 2 to Stage 3	-	(46)	249	-	203
Transfers from Stage 3 to Stage 1	-	-	(8)	-	(8)
Transfers from Stage 3 to Stage 2	-	1	(13)	-	(12)
Changes in PDs/LGDs/EADs	20	214	208	-	442
New financial assets originated or purchased	4	-	-	-	4
Other movements with no P&L impact					
Financial assets derecognised during the period other than write-offs	(2)	(83)	(43)	-	(128)
Impairment loss as at 31 December 2022	**58**	**758**	**786**	**-**	**1,602**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2022

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired	Total
Impairment loss as at 1 January 2022	**37**	**662**	**381**	**-**	**1,080**
Due from banks	**20**	**-**	**-**	**-**	**20**
Changes in PDs/LGDs/EADs	17	-	-	-	17
New financial assets originated or purchased	4	-	-	-	4
Financial assets derecognised during the period other than write-offs	(1)	-	-	-	(1)
Retail	**(2)**	**107**	**228**	**-**	**333**
Transfers:					
Transfers from Stage 1 to Stage 2	(3)	17	-	-	14
Transfers from Stage 1 to Stage 3	-	-	12	-	12
Transfers from Stage 2 to Stage 1	2	(7)	-	-	(5)
Transfers from Stage 2 to Stage 3	-	(46)	249	-	203
Transfers from Stage 3 to Stage 1	-	-	(8)	-	(8)
Transfers from Stage 3 to Stage 2	-	1	(13)	-	(12)
Changes in PDs/LGDs/EADs	-	214	30	-	244
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(1)	(72)	(42)	-	(115)

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2022 (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired	
Corporate	**-**	**(11)**	**177**	**-**	**166**
Changes in PDs/LGDs/EADs	-	-	178	-	178
Modification of contractual cash flows of financial assets	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	(11)	(1)	-	(12)
Securities	**3**	**-**	**-**	**-**	**3**
Changes in PDs/LGDs/EADs	3	-	-	-	3
Impairment loss as at 31 December 2022	**58**	**758**	**786**	**-**	**1,602**

All figures in tables are in HUF million except otherwise noted

Provision movement table

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Provision as at 1 January 2022	**-**	**1**	**-**	**1**
Movements with P&L impact				
Transfers:				
Transfers from Stage 2 to Stage 3	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	-	-	-	-
Provision as at 31 December 2022	**-**	**1**	**-**	**1**
Provision as at 1 January 2023	**-**	**1**	**-**	**1**
Movements with P&L impact				
Transfers:				
Transfers from Stage 2 to Stage 3	-	-	-	-
Changes in PDs/LGDs/EADs	(1)	-	-	(1)
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	-	-	-	-
Provision as at 31 December 2023	**(1)**	**1**	**-**	**-**

Exposure to credit risk on loan commitments and financial guarantees

31 December 2023	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Retail	25	10	1	36
Total exposure to credit risk	**25**	**10**	**1**	**36**

31 December 2022	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Retail	44	47	1	92
Total exposure to credit risk	**44**	**47**	**1**	**92**

All figures in tables are in HUF million except otherwise noted

29.4.3 Clients effected by payment relief program

Due to the first moratorium on repayment set out in Act LVIII of 2020 on transitional rules and epidemiological preparedness 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 it 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, and then, according to a further statement, until 31 December 2022.

Unpaid interest accrued during the moratorium, together with the instalment due for the remaining term, shall be paid in equal annual instalments during the term of the moratorium after the expiration of the moratorium on payment. 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.) (modification No. 522/2023 (XI.30.) Government Decre) 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 repricing date is before 30 June 2024 the applicable reference interest rate must not be higher than the reference interest rate 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, estimated under these legislations.
Takarék Mortgage Bank modified the impairment methodology in accordance with the legislation and 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 on this activity.
In the individual monitoring processes, a stricter procedure was applied, and new methodologies were introduced to identify companies in a deteriorating risk situation. In addition, the Bank has recalculated the parameters of the previously applied IFRS, taking into account the expected macroeconomic effects. This ensured that appropriate loss levels were established for the different credit risk categories.

29.4.4. Client effected by payment relief program 2023

Clients effected by interest rate cap program 2023 (1 July 2023 – 31 December 2024)

Based on Government Decree No. 782/2021 (XII.24.) (modification No. 522/2023 (XI.30.) Government Decree) 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 repricing applicable reference interest rate must not be higher than the reference interest rate the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.

Financial assets modified during the period 31 December 2023 (interest rate cap extend until the end of half year of 2024)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	8,200	5,957	14,157
Loss allowance before modification	(58)	(494)	(552)
Net amortised cost before modification	**8,142**	**5,463**	**13,605**
Net modification gain/(loss) (change in gross carrying amount)	(182)	(138)	(320)
Impairment gain or loss	1	10	11
Net amortised cost after modification	**7,961**	**5,335**	**13,296**

Clients affected by interest rate cap program/ number of loans *31 December 2023*

Interest rate cap extend until the year end 2024	Number of loans	Outstanding balance	% of portfolio
Retail loans	8,868	19,002	94,08 %
Total (retail and corporate loans)	**8,868**	**19,002**	**94,08 %**

Clients affected by interes rate cap programs / Carrying amount of the loans in 2023

31 December 2023	*Non-impaired loans*		*Impaired loans*	*FVTPL loans*	*Total*
	Stage 1	*Stage 2*	*Stage 3*		
Retail loans	*8,018*	*4,426*	*1,393*	*5,706*	*19,543*
Investment grade	*8,018*	*3,789*	*0*	*5,393*	*17,200*
Default grade	*0*	*0*	*1,220*	*177*	*1,397*
Non-Investment grade	*0*	*637*	*173*	*136*	*945*
Gross carrying amount	*8,018*	*4,426*	*1,393*	*0*	*19,543*
Allowances for credit losses	*(57)*	*(174)*	*(310)*	*0*	*(541)*
Carrying amount	***7,961***	***4,252***	***1,083***	***5,706***	***19,002***

All figures in tables are in HUF million except otherwise noted

29.4.5. Forborne loans

The Bank recognizes a receivable that contains concession as a restructured loan when the original contract was modified in order to avoid the non-payment of the receivables in cases when the debtor was not able to fulfil the original contractual requirements on repaying the loan or would not be able to fulfil those requirements without those concessions made.

Modification of contractual terms that meets the criteria of concession:

a) modifications of contractual terms that qualify as concessions can be the followings:
   - postponement on repayment (on principal and on interest as well) for a transitional period (grace period)
   - instalment
   - modification of interest rate, repricing (in a form of discount)
   - capitalization of interest
   - change in currency
   - prolonging the maturity of the loan
   - rescheduling the repayments
   - reducing the amount of required collateral, replacing present collateral to another one, forfeiture of collateral (release of collateral)
   - determination of new contractual terms, termination a part of original contractual terms.

b) a contract modification that qualifies as a concession may result in a supplementary agreement or a new contract between the parties or between a related party of the debtor and the original creditor that is a loan granted in order to repay the current outstanding balance of the loan (principal and interest) determined based on original contractual terms that was terminated or not yet terminated and also in order to avoid the increase in risk classification and to mitigate the loss in which cases the supplementary agreement or the new contracts that result in a new loan in the Bank's records are considered as restructured loans.

The Bank considers the following cases as non-performing restructuring:

a) the modified contracted loan was considered to be non-performing loan before the modification or the loan would be considered to be non-performing without the modification,
b) the contract contains partial or complete release of the debt,
c) the debtor performed a principal or interest repayment on loans that would be considered as non-performing loans without concession around when a concession was made in case of another debt,
d) modification of contractual terms when repayment involves the usage of collateral in cases of which the modification includes concession as well.

Change in monitoring/recovery of restructured loans:

- recovery period in case of restructured performing loans is 730-day (delay in repayment can be no longer than 30 days during this period), after successful recovery the deal can be treated under normal or intensified monitoring;
- recovery period in case of non-performing deals – deals with default flag or restructured – is 365-day (no delay in payment can occur during this period), after successful recovery the deal can be treated under intensive/preventive monitoring.

An analysis of forborne loan portfolio by loan types

31 December 2023	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	2,843	246	2,597	1,985
Corporate loans	375	32	343	1
Total	**3,218**	**278**	**2,940**	**1,986**

31 December 2022	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	3,487	166	3,321	1,980
Corporate loans	407	163	244	1
Total	**3,894**	**329**	**3,565**	**1,981**

29.4.6. Collaterals and other means for improving the loans portfolio

Collaterals for lending risk applied by the Bank:

Real estate
The Bank accepts as collateral mortgages, independent or separated liens established on such real estate that is registered in Hungary and have long live stable value.
Real estate is valued by independent appraisers who are not involved in decision-making regarding the loan. Collateral Management establish the value of credit collateral conservatively.

State guarantee and GHG Ltd. or AVGHA guarantee
All instances of State guarantee and other guarantee accepted by the Banks involve joint and several liability set forth by law. The rules governing the guarantee are laid down in statutory provisions.

Bail
Deposit can take the form of cash, bank deposit or securities.

Other
In addition to the above the Banks also accept assigned claims, lien on claims.

All figures in tables are in HUF million except otherwise noted

The table below shows the structure of the collaterals:

	31 December 2023	31 December 2022
Mortgage	2,023,628	1,592,836
Bail	14	22
Guarantee	26,959	2,536
Total	**2,050,601**	**1,595,394**

The table below shows the maximum credit risk exposure:

	31 December 2023	31 December 2022
Other demand deposit	160	328
Financial assets at fair value through other comprehensive income	9,989	18,162
Debt securities at amortised cost	324,218	319,744
Individual loans	20,893	25,797
Corporate loans	375	485
Dues from banks	523,285	437,043
Advances	191	270
Off-balance sheet commitments	28,539	27,103
Total gross credit risk exposure	**907,650**	**828,932**

29.5. Market risk

The Bank maintains the maturity-, interest rate- and foreign exchange rate risk at low level derived from the asset, liability and off-balance sheet commitments.

29.6. Interest rate risk

Interest rate risk derives from interest rate changes, which affect the value of financial instruments. A bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The Bank assess interest rate risk on a continuous basis applying Gap-analysis, sensitivity analysis. Interest rate risk is managed through mortgage bond issues and interest rate swaps, taking into account the breakdown of the loan portfolio by interest rate.

Interest rate risk exposure – basis point sensitivity analysis (figures in HUF million)

	Sensitivity of interest income 2023	Sensitivity of interest income 2022
HUF	(9)	(12)

The basis point sensitivity measurement in an economic capitalisation-based approach shows the long-term impact of a 1 basis point increase in the yield curve on the value of an institution's equity. As of 31.12.2023, the impact of the 1 basis point increase in the forint yield curve on economic capitalisation is -HUF 9 million, while no significant impact can be detected for EUR and CHF.

	Sensitivity of interest income 2023	Sensitivity of interest income 2023
HUF +200 bp	542	(241)
HUF -200 bp	(542)	241

The sensitivity test assumes interest rate changes of +200 and -200 basis points.

Net income sensitivity is the estimated effect of changes in interest rates on interest earnings one year in advance, based on changes in net interest income from financial assets and liabilities with variable rates held at the last day of the current year or repriced in the following year. This means that from 31 December 2023, with a 200 basis point decrease in interest rates, the estimated net interest income for HUF items may decrease by approximately HUF 542 million, while no effect can be detected for EUR and CHF.

29.6.1. Exchange rate risk management

The business policy of the Mortgage Bank is to keep exchange rate risk at a low level.
The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals.

FX risk (in the case of 1% increase in exchange rate) HUF thousand

FX	Effect on earning before income tax (31 December 2023)	Effect on capital (31 December 2023)	Effect on earning before income tax (31 December 2022)	Effect on capital (31 December 2022)
EUR	69	69	70	70
USD	-	-	(20)	(20)
CHF	103	103	130	130

The sensitivity analysis is performed according to the standard method of using 1% increase in foreign exchange rates, the excursion is symmetric meaning 1% decrease in foreign exchange rates would result in the same figures with opposite sign.

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax and the share capital could increase with HUF 69 thousand, in case of CHF items it could increase with HUF 103 thousand. In case of USD items the estimated net earnings before tax and the share capital could decrease with HUF 0 thousand, items it could decrease with HUF 0 thousand. The total effect is not significant.

Stand-alone FX financial position of the bank in terms of main currencies:

31 December 2023	HUF	EUR	CHF	Other	Total
Total assets	902,320	3,917	350	-	906,587
Total liabilities	(828,362)	(12)	(4)	(4)	(828,382)
Equity	(78,205)	-	-	-	(78,205)
Off-balance sheet items	(10,626)	(17,913)	-	-	(28,539)
Position	**(14,873)**	**(14,008)**	**346**	**(4)**	**(28,539)**

31 December 2022	HUF	EUR	CHF	Other	Total
Total assets	809,113	4,572	263	-	813,948
Total liabilities	(742,847)	(44)	(20)	-	(742,911)
Equity	(71,037)	-	-	-	(71,037)
Off-balance sheet items	91	(4,587)	-	-	(4,496)
Position	**(4,680)**	**(59)**	**243**	**-**	**(4,496)**

29.7. Liquidity and maturity risk

Liquidity risk is defined as the risk that the Bank could encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking, which can be ensured by managing the maturity mismatch of receivables and payables. Also, the Bank applies maturity transformation regulated by limits to manage profitability while maintaining solvency at all times.
The Bank regularly reviews clients' prepayments prior to the maturities of loans and takes into consideration their impact in managing market and liquidity risks.

The Bank prepares its plans for liquidity management and financing position based on different assumption that also considers the impact of stress scenarios. The Bank maintains a significant amount of liquid assets on an ongoing basis, mainly in the form of government securities and deposits at the Bank.

All figures in tables are in HUF million except otherwise noted

Contractual maturities of undiscounted cash flows of financial liabilities

31 December 2023	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Loans received	-	2,185	-	443,131	-	-	445,316
Issued debt securities	-	20,843	62,340	147,797	141,780	1,887	374,647
from this: Mortgage bonds	*-*	*20,843*	*62,340*	*147,797*	*141,780*	*1,887*	*374,647*
Other financial liabilities	514	-	44	79	-	-	637
Commitments		**28,539**					**28,539**
Total banking liabilities	**514**	**51,566**	**62,384**	**591,007**	**141,780**	**1,887**	**849,139**

31 December 2022	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Loans received	-	37,265	92,375	248,131	-	-	377,771
Issued debt securities	-	26,608	26,386	195,617	105,312	1,876	355,799
from this: Mortgage bonds	*-*	*26,608*	*26,386*	*195,617*	*105,312*	*1,876*	*355,799*
Other financial liabilities	592	3	9	9	-	-	613
Commitments		**27 103**					**27 103**
Total banking liabilities	**592**	**90 979**	**118,770**	**443,757**	**105,312**	**1,876**	**761,286**

In the table, the interest maturity breakdown includes only the value of accrued interest.

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2023

	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	19,305	-	19,305
Financial liabilities measured at fair value through profit or loss	88	7,787	7,875
Hedging derivative assets	-	640	640
Financial assets at fair value through other comprehensive income	6,757	3,242	9,999
Financial assets measured at amortised cost	224,043	643,932	867,975
Property, plant and equipment	-	143	143
Intangible assets	-	247	247
Income tax assets	-	337	337
Other assets	66	-	66
Total assets	**250,259**	**656,328**	**906,587**
Liabilities			
Financial liabilities measured at fair value through profit or loss	3	1,369	1,372
Financial liabilities measured at amortised cost	86,004	734,596	820,600
Hedging derivative liabilities	-	5,214	5,214
Provisions	16	-	16
Income tax liabilities	264	-	264
Other liabilities	916	-	916
Total liabilities	**87,203**	**741,179**	**828,382**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2022

	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	342	-	342
Financial liabilities measured at fair value through profit or loss	800	11,054	11,854
Hedging derivative assets	-	975	975
Financial assets at fair value through other comprehensive income	3,130	15,042	18,172
Financial assets measured at amortised cost	95,845	685,892	781,737
Property, plant and equipment	-	63	63
Intangible assets	-	239	239
Income tax assets	-	468	468
Other assets	98	-	98
Total assets	**100,215**	**713,733**	**813,948**
Liabilities			
Financial liabilities measured at fair value through profit or loss	553	4,593	5,146
Financial liabilities measured at amortised cost *	183,247	550,936	734,183
Hedging derivative liabilities	2,438	201	2,639
Provisions	17	-	17
Income tax liabilities	105	-	105
Other liabilities	821	-	821
Total liabilities	**187,181**	**555,730**	**742,911**

29.8. Management of operational risk

Operational risk is managed primarily by improving internal rules and regulations, training staff involved in the various processes, and further enhancement of the internal control mechanisms. The exploration and measurement of risks are performed by the Bank through the collection of the data of operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment.
The Bank has performed oprisk self-assessment referring to the key activities and determined incidences that are unfrequent, but in case of occurrence they inflict heavy losses, which effects are measured by scenario analysis.
In accordance with the supervisory expectations the Bank has compiled an inventory of models used to assess model risks and a product inventory to identify the risks inherent in the products.

All figures in tables are in HUF million except otherwise noted

29.9. Treatment of risk concentration

The Bank is significantly exposed to the status of real estate market regarding due to the high proportion of real estates for securing mortgage loans. This concentration risk is mitigated by applying conservative method in collateral valuation and cover rate.

30. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

MBH Mortgage Bank Plc. is a member of the Central Body of Integrated Credit Institutions (CBIC). The members of CBIC should examine prudential requirements on consolidated bases. The exemption of individual compliance is ensured by the relevant legislation and the respective resolution of the National Bank of Hungary.
MBH Nyrt. publishes audited financial statements on the capital adequacy of the members of the integration in the disclosure document of the business year.

31. RELATED PARTY TRANSACTION

For the purpose of the financial statements, MBH Bank Plc. (as ultimate parent company) identified related parties based on definition of IAS 24 including all the enterprises that directly or indirectly through one or more intermediaries are controlled by the reporting enterprise (this includes parents and subsidiaries) and key management personnel, including the member of the Board and Supervisory Board. For the purposes of this Report, related parties also include shareholders whose holding in the Bank exceeds 10%. Related parties have the power of control over or have a significant influence in, decisions relating to the finances and operation of another enterprise. The Group enters into transactions with related parties under market conditions.

The list of the related parties, - including the subsidiaries, associates and other shares of the MBH Mortgage Bank Plc. - as of 31 December 2023 is the following. The following table shows the Bank related companies freom the point of view of MBH Bank Plc. as of 31 December 2023.The Bank has no subsidiaries or associates.

Company	Classification	Share%	Core business
MBH Bank Nyrt.	**Ultimate Parent Company**	**-%**	**Other monetary inter-mediation**
MBH Befektetési Bank Zrt.	**Parent company**	**-%**	**Other monetary inter-mediation**
MBH Blue Sky Kft.	Related company	-%	Asset management
MBH Duna Bank Zrt.	Related company	-%	Other monetary inter-mediation
Mitra Informatikai Zrt.	Related company	-%	Data services, web hosting ser-vices
MBH Jelzálogbank Nyrt.	Related company	-%	Other lending
Euroleasing Ingatlan Zrt.	Related company	-%	Other lending
Takarék Ingatlan Zrt.	Related company	-%	Estate agent service
MBH Szolgáltatások Zrt.	Related company	-%	Own renting and oper-ating real estate
MBH Domo Kft.	Related company	-%	Own property real es-tate buying and selling
Takarék Faktorház Zrt.	Related company	-%	Other lending
Takarékszövetkezeti Informati-kai Kft.	Related company	-%	IT service
Takarék Zártkörű Befektetési Alap	Related company	-%	Investment fund
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Related company	-%	Investment fund
OPUS TM1 Ingatlan Befekte-tési Alap	Related company	-%	Investment fund
MBH Vállalati Abszolút Ho-zamú Kötvény Bef. Alap	Related company	-%	Investment fund
Magyar Strat-Alfa Zrt.	Related company	-%	Own property real es-tate buying and selling
MBH Ingatlanfejlesztő Kft.	Related company	-%	Own renting and oper-ating real estate
Euroleasing Zrt.	Related company	-%	Financial leasing
MBH Bank MRP Szervezet	Related company	-%	Other activities auxiliary to financial services
Retail Prod Zrt.	Related company	-%	Other lending
Budapest Eszközfinanszírozó Zrt.	Related company	-%	Other tangible assets leasing
Budapest Lízing Zrt.	Related company	-%	Financial leasing
MBH Befektetési Alapkezelő Zrt.	Related company	-%	Fund Management

As at 31 December 2023 and 2022, the Bank did not have any loans to members of the Bank's management bodies.

	31 December 2023		31 December 2022	
	Head-count	Amount of emoluments	Head-count	Amount of emoluments
Members of Board of Directors	7	101	8	58
Members of Supervisory Board	6	58	9	41
Total payments	**13**	**159**	**17**	**99**

Details of transaction in 2023 and 2022 between the Bank and other related parties are disclosed on the next table.

31 December 2023	Parent and main parent company	Related company	Key management
Due from banks	21,143	-	-
Loans and advances to customers at amortised cost	488,809	4,191	-
Other assets	11	-	-
Total assets	**509,963**	**4,191**	**-**
Due to banks	(210,185)	-	-
Other liabilities	(82,876)	(9,475)	-
Total liabilities	**(293,061)**	**(9,475)**	**-**
Interest income	39,867	4,647	-
Interest expense	(31,949)	(1,807)	-
Net interest income	**7,918**	**2,840**	**-**
Fee and commission income	90	41	-
Fee and commission expense	(213)	(141)	-
Net fee and commission income	**(123)**	**(100)**	**-**
Other operating income	4,844	618	-
Other operating expense	(5,123)	(3)	-
Operating income	**(279)**	**615**	**-**
Operating expense	(103)	(477)	(159)
Profit/loss on transactions with related parties	**7,413**	**2,878**	**(159)**

All figures in tables are in HUF million except otherwise noted

31 December 2022	Parent and main parent company	Related company	Key management
Due from banks	50,254	18,608	-
Loans and advances to customers at amortised cost	160,398	191,987	-
Other assets	1,046	37	-
Total assets	**211,698**	**210,632**	**-**
Due to banks	122,293	15,007	-
Other liabilities	38,149	35,254	-
Total liabilities	**160,442**	**50,261**	**-**
Interest income	9,519	8,628	-
Interest expense	(9,696)	(1,742)	-
Net interest income	**(177)**	**6,886**	**-**
Fee and commission income	88	314	-
Fee and commission expense	(69)	(375)	-
Net fee and commission income	**19**	**(61)**	**-**
Other operating income	466	894	-
Other operating expense	(1,259)	(2,225)	-
Operating income	**(793)**	**(1,331)**	**-**
Operating expense	(184)	(122)	-99
Profit/loss on transactions with related parties	**(1,135)**	**5,372**	**-99**

All figures in tables are in HUF million except otherwise noted

32. NET GAINS

The allocation of operating income to financial instrument categories excluding gains from foreign exchange transactions:

1 January 2023 – 31 December 2023	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	2,574	438	1,329	50,316	6,589	101	-	61,348
Interest expenses	(3,159)	-	-	(43,369)	(6,297)	-	-	(52,825)
NET INTEREST INCOME	**(585)**	**438**	**1,329**	**6,947**	**292**	**101**	**-**	**8,523**
Fee and commission income	-	-	-	-	-	219	-	219
Fee and commission expenses	-	-	-	-	-	(366)	-	(366)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**(147)**	**-**	**(147)**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	399	(162)	-	-	-	237
Gains on financial assets and liabilities held for trading, net	1,150	-	-	-	-	-	-	1,150
Gains on financial assets and liabilities designated at fair value through profit or loss	-	1,043	-	-	-	-	-	1,043
Gains on financial assets and liabilities mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-
(Losses) from hedge accounting, net	-	-	-	-	(1,254)	-	-	(1,254)
Other operating income	-	-	-	-	-	-	36	36
Other operating expense	-	-	-	-	-	-	(136)	(136)
OPERATING INCOME	**565**	**1,481**	**1,728**	**6,785**	**(962)**	**(46)**	**(100)**	**9,452**

All figures in tables are in HUF million except otherwise noted

1 January 2022 – 31 December 2022	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities	Not linked to financial instruments	TOTAL
Interest income	1,648	-	883	27,899	2,208	2	-	32,640
Interest expenses	(1,645)	(59)	-	(21,102)	(3,277)	(2)	-	(26,085)
NET INTEREST INCOME	**3**	**(59)**	**883**	**6,797**	**(1,069)**	**-**	**-**	**6,555**
Fee and commission income	-	-	-	-	-	557	-	557
Fee and commission expenses	-	-	-	-	-	(548)	-	(548)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**9**	**-**	**9**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	(273)	361	-	-	-	88
Gains on financial assets and liabilities held for trading, net	(19)	-	-	-	-	-	-	(19)
Gains on financial assets and liabilities designated at fair value through profit or loss	-	50	-	-	-	-	-	50
Gains on financial assets and liabilities mandatorily at fair value through profit or loss	-	(867)	-	-	-	-	-	(867)
(Losses) from hedge accounting, net	-	-	-	-	(8)	-	-	(8)
Other operating income	-	-	-	-	-	-	75	75
Other operating expense	-	-	-	-	-	-	(190)	(190)
OPERATING INCOME	**(16)**	**(876)**	**610**	**7,158**	**(1,077)**	**9**	**(115)**	**5,693**

All figures in tables are in HUF million except otherwise noted

33. EQUITY CORRELATION TABLE

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed as a part of the Notes for the reporting date by the Bank.
Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermore the equity correlation table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2023:

31 December 2023	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**32,974**	**-**	**-**	**(207)**	**6,663**	**78,205**
Accumulated other comprehensive income	-	-	-	-	(562)	562	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	2,286	(2,286)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**2,286**	**29,919**	**562**	**207**	**(207)**	**6,663**	**78,205**

All figures in tables are in HUF million except otherwise noted

Notes to the Stand-alone Financial Statements

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2022:

31 December 2022	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**30,658**	**-**	**-**	**(207)**	**1,811**	**71,037**
Accumulated other comprehensive income	-	-	-	-	(57)	57	-	-	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-	-	-
General reserve	-	-	-	1,620	(1,620)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**1,620**	**28,774**	**57**	**207**	**(207)**	**1,811**	**71,037**

All figures in tables are in HUF million except otherwise noted

Reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU:

	31 December 2023	31 December 2022
Share capital in accordance with IFRS adopted by EU	10,849	10,849
Share capital registered on the Registry Court	10,849	10,849
Difference	**-**	**-**

Untied retained earnings available for the payment of dividends are as follows:

	31 December 2023	31 December 2022
Retained earnings and other reserves	32,974	30,658
Unused portion of reserve for developments	-	-
Other capital reserve	-	-
Accumulated other comprehensive income	(562)	57
Repurchased treasury shares (Tied-up reserve)	(207)	207
General reserve	(2,286)	(1,620)
Profit for the year	6,663	1,811
Untied retained earnings available for the payment of dividends	**36,582**	**31,113**

All figures in tables are in HUF million except otherwise noted

34. POST BALANCE SHEET EVENTS

Mortgage bond issuance and repurchase.

MBH Mortgage bank Plc. announced an auction on the early secondary market repurchase of mortgage bonds publicly traded by MBH. With a value date of 22 February 2024. Original maturity of the mortgage bond series affected by the repurchase TJ24NF01: 26.06.2024. Mortgage bonds that are expected back will be withdrawn from circulation. The result of the auction: the nominal value of valid submitted bids for sale is HUF 26,729 million, the total nominal value of the present buyback is HUF 20,000 million, and the total nominal value of the series still outstanding is HUF 18,500 million. The mortgage bonds that have been recovered will be withdrawn from circulation, so that the remaining nominal value will continue to bear interest at the same interest rate.

On 11.03.2024, the Bank issued the MZJ29NF1 series of green mortgage bonds expiring on 22.11.2029 in a total nominal value of HUF 5.9 billion in the framework of a public stock exchange auction.

MBH Mortgage Bank Co. Plc. has won the "Mortgage Bond Issuer of the Year" category Budapest Stock Exchange award 2023.

MBH MORTGAGE BANK CO. PLC.

MANAGEMENT REPORT FOR 2023

Budapest, 28 March 2024.

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1 OVERVIEW OF MBH MORTGAGE BANK CO. PLC.

MBH Mortgage Bank Public Limited Company (formerly FHB Mortgage Bank Co. Plc.,or later,as Takarék Mortgage Bank Co. Plc. hereafter referred to as “the Bank” or “the Company”) was established on October 21, 1997 as a limited liability company with a share capital of HUF 3 billion.

The Bank received its operating license as a specialized financial institution in accordance with the provision of Act CXII of 1996 on Credit Institutions and Financial Enterprises (previous Hpt.) and Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (Jht.) on March 6, 1998. The Bank started operation as of March 16, 1998.

The Bank grants refinancing mortgage loans provided by commercial banks to their customers and issues mortgage bonds to raise funds for its refinancing activity.

On October 31, 2003 the Hungarian Financial Supervision Authority (HFSA) granted permission for the Bank to publish an issuance prospectus and introduce its shares to the Budapest Stock Exchange (BSE). The ordinary shares were listed on the BSE on November 24, 2003.

The ownership structure of MBH Mortgage Bank Co. Plc. at the end of 2023 and 2022

Shareholder	December 31, 2023		December 31, 2022	
	Ownership ratio %	Nr of shares	Ownership ratio %	Nr of shares
Ordinary shares listed on BSE (Series “A”)				
Domestic institutional investors	52.10	56 527 499	52.10	56 527 893
Foreign institutional investors	0.01	6 705	0.00	5 980
Domestic private investors	2.81	3 052 987	2.83	3 062 275
Foreign private investors	0.02	21 489	0.01	10 089
Employees, management	0	0	0	0
Treasury shares	0.23	253 601	0.23	253 601
Government held owner	44.80	48 597 602	44.80	48 597 602
Other investors	0.03	30 417	0.03	32 860
Subtotal (Series “A”)	*100.00*	*108 490 300*	*100.00*	*108 490 300*

In September 2015 the Bank and the formerly Commercial Bank (under the Bank’s majority ownership) became a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ), the latter created by Act CXXXV of 2013 on the integration of cooperative credit institutions and the amendment of selected economic legislation. In parallel, it also became the member of the Guarantee Community of Cooperative Credit Institutions.

At the end of December 2015 the Bank increased its share capital by HUF 4,249 million face value, which equalled HUF 30.5 billion issue value. The capital increase took place through private issuance of dematerialized dividend preference shares (Series “B”) and registered, dematerialized ordinary shares (Series “C”). The new shares (Series “B” and Series “C”) were not listed on the Budapest Stock Exchange, they were purchased by the members of formerly Takarék Group.

The integration process of the Bank and the Commercial Bank into the Integration of Cooperative Credit Institutions (today known as the Central Organization of Integrated Credit Institutions, i.e. COICI) that started in the autumn of 2015 was finished in 2017.

As a first step, the Bank simplified its business profile retaining only mortgage bond issuance and refinancing functions, while all other human resources and capacities were transferred to the MTB (since 1 May 2023 MBH Investment Bank Ltd.) and the formerly Commercial Bank.

From April 2018 the Bank discontinued new own originated loan disbursement. Previously made credit contracts are kept in the Bank's portfolio until their expiry, while the active functions of the Bank remained solely those that relate to classic mortgage bank functions.

The General Assembly of the Company drew a decision on changing the name of the Bank on April 27, 2018. From June 25, 2018 the official Company's name is Takarék Mortgage Bank Plc.

In the second half of 2019 the shares of Takarék Commercial Bank operarting as Commercial Bank Ltd. since April 2018 – upon approval of General Assembly held on August 27 2019 – were sold to MTB Bank of Hungarian Savings Cooperatives Ltd. by Takarék Mortgage Bank (hereinafter: the Bank), therefore consolidated financial statements were not prepared by the Bank since 2020. The parent company of the Bank (ultimate parent) prepared the Bank's consolidated financial statement for companies included in the scope of consolidation.

On December 30, 2020 MTB Bank of Hungarian Savings Cooperatives Ltd. published through official publication platforms its mandatory public purchasing bid for all shares issued by the Bank, and submitted its application for a permit to the Hungarian central bank. Based on the central bank's permit the period for the purchase offer started on January 19, 2021, while the deadline for the acceptance of the bid was February 17, 2021. MTB accepted all the shares that were offered and declared the mandatory public purchasing bid process successful. With all the preconditions set in the bidding process being met, following the transfer of the shares the ownership ratio of MTB in the Bank increased from 86.20% to 88.14%, whereas the combined share of MTB and other owners acting in concert with it increased from 94.82% to 96.76%.

The bid was made after the majority owners of Budapest Bank, MKB Bank (since 1 May 2023 MBH Bank) and MTB transferred their shares to the Magyar Bankholding on December 15, 2020.

On December 15, 2021 the main bodies of MKB, Budapest Bank and MTBH Ltd. (which was the owner of Takarék Group) approved the first step of the fusion process of MKB, Budapest Bank and Takarék Group. According to this, two member banks of MBH, namely MKB and Budapest Bank as well as MTBH Ltd. merged on March 31, 2022. During this process Budapest Bank merged into MKB, while MTB (Takarék Group) becomes a subsidiary of the merged bank. Takarékbank joined the merged bank in the second quarter of 2023. The unified brand for the new banking group were introduced in early-2023.

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.

In accordance with the authorisation by the National Bank of Hungary (hereinafter: NBH), Budapest Bank and Hungarian Takarék Bankholding (MTBH) merged into MKB Bank on 1 April 2022. At that time, MTB Bank of Hungarian Savings Cooperatives had a direct ownership stake of 88.13% in Takarék Mortgage Bank Co. Plc. and directly owned 88.33% of the voting rights. Given that MTBH had 88.13% ownership stake and 88.33% of the voting rights in Takarék Mortgage Bank Co. Plc. through MTB Bank of Hungarian Savings Cooperatives, as a result of the merger MKB Bank as the legal successor of MTBH became the indirect owner of Takarék Mortgage Bank Co. Plc. with a stake of 88.13%, and indirectly acquired 88.33% of the voting rights that may be exercised in the company.

The extraordinary general meeting of Takarék Mortgage Bank held on 12 July 2022 converted the 14,163,430 series “B” preference shares (dividend preference shares) with a nominal value of HUF 100 each, with a total nominal value of HUF 1,416,343,000 into 14,163,430 series “A” ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 1,416,343,000, and converted its 2,832,686 series “C” ordinary shares with a nominal value of HUF 1,000 each and a total nominal value of HUF 2,832,686,000 into 28,326,860 series “A” ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 2,832,686,000. The converted shares were registered on the Budapest Stock Exchange (BÉT) on 7 October 2022.

On 18 October 2022, as a result of the sale and purchase of shares, MKB Bank Plc. acquired 43,076,417 series “A” dematerialised ordinary shares with a nominal value of HUF 100 each owned by MBH Investment Bank Ltd. in MBH Mortgage Bank. With this transaction, MKB Bank acquired a 39.8 % direct qualifying holding (voting rights) in Takarék Mortgage Bank. The ownership stake of MTB Ltd. decreased to 48.42%. On 2 December 2022, Magyar Posta Ltd. acquired from MKB Bank Plc. its full stake in Takarék Mortgage Bank by way of an exchange of shares; with this transaction, Magyar Posta Ltd. acquired a 39.71 % direct qualifying holding (voting rights) in Takarék Mortgage Bank.

MBH Group was established on 1 May 2023. As a member of the Group, the new name of the Bank was changed to MBH Mortgage Bank.

2 THE MACROECONOMIC ENVIRONMENT IN 2023

2.1 THE HUNGARIAN ECONOMY IN 2023

International and domestic economic developments continued to be affected by the military conflict between Russia and Ukraine in 2023, which broke out in February 2022, and the conflict in the Middle East that started last October. Due to the latter, the prolonged conflict in Israel increased the oil's risk premium, which partly curbed the decrease in crude oil prices in the last quarter of 2023. In addition, since late December, some merchant ships bounded for Israel were attacked, as a result of which some ships can only safely carry goods around Africa, which could increase inflation risks in Europe in 2024 and potentially cause disruptions in supply chains.

Meanwhile, developed economies have struggled to fight inflation last year, which has and could lead to high interest rates and put the brakes on economic growth. Although preliminary data suggest that the euro zone economy avoided a technical recession last year, the weak growth dynamism (or recession in the case of our main external trading partner, Germany) was a significant drag on the Hungarian economy: In the fourth quarter of 2023, domestic GDP stagnated compared to the same period last year, while in 2023 economic output was 0.9% lower year-on-year according to raw (unadjusted) data.

The year 2023 was characterised by disinflationary trends, i.e. a moderation in inflation. Last year, base effects, moderation in demand, the emergence of a wider range of price corrections and competition-enhancing measures for food, and the fading price increases for durable goods, reflecting the strengthening of the forint, were beneficial for the decline in inflation. The base effects reflect the fact that international commodity and energy prices already fell back to 2021 levels in 2023 in most cases. The pace of disinflation has been partly moderated by the addition to the base of the gasoline price freeze, which was lifted in December 2022, as well as by the September increases in the prices of gambling and some public transport fares, as well as the emergence of a price-wage spiral in some service sectors. Despite the factors holding back the decline in the CPI, the annual rate of inflation in December came better than analysts' expectations at 5.5%, with the year-on-year average money inflation stood at 17.6%.

The NBH has tightened interest rates sharply over 2022, raising the base rate from 2.4% to 13%, but the effective interest rate actually rose to 18% through the restructuring of the asset base. In May 2023, the Monetary Council began its cycle of rate cuts, which continued so far and contributed to the policy rate converged to the base rate by September 2023. By the end of 2023, the base rate had fallen to 10.75%; the rate cut was facilitated by a steeper-than-expected fall in inflation in the second half of last year, a spectacular improvement in the external balance and a more favourable global investor mood towards the end of the year.

According to the January release of the Ministry of Finance, the central budget cash deficit in 2023 was HUF 4,593.4 billion, 135% of the revised estimate. The cash balance of the budget is worsened by the fact that in 2023, pre-financing of EU tenders exceeded the payments received from the EU, without which the cash deficit would have been HUF 573 billion lower. The fiscal picture is also affected by indirect acquisitions of public assets. The deficit is also influenced by the burden of household utility expense subsidies for the protection of the population. Based on the financial accounts, the budget could reach an accrual deficit of around 6.5% of GDP in 2023. The reduction in the debt-to-GDP ratio could continue despite the large government deficit, with the ratio falling to close to 72% by the end of 2023, thanks in large part to strong nominal GDP growth.

A surplus of EUR 410 million was generated in the current account in the third quarter of 2023, showing a significant improvement of EUR 5 billion compared to a year earlier. Including the capital account, the net external financing position (surplus), seasonally adjusted, amounted to EUR 760 million, an improvement of EUR 5.1 billion compared to a significant deficit a year earlier. Reflecting the improvement in the external balance, the goods balance reached a surplus of EUR 298 million. The improvement in the goods balance was partly due to improving terms of trade as energy prices fell, and partly to falling domestic demand through a reduction in imports. The current account deficit could drop from 8.2% of GDP in 2022 to 0.1% in 2023.

The credit institutions sector had an outstanding year in 2023 in terms of profit after tax: preliminary data show that domestic banks reported profits of over HUF 1,370 billion, almost HUF 900 billion higher than in 2022, and a return on equity of over 20%. Two factors played a key role in the improvement compared to 2022. The interest income was almost HUF 500 billion higher, although this was largely achieved passively, namely by banks placing their free liquidity in NBH's high interest paying deposit instruments. In fact, without the interest received on the liquidity held with the NBH, no improvement would have occurred. Although the margins between lending and deposit rates widened, the interest rate ceilings on the former resulted in substantial revenue shortfalls. Another factor behind the improvement was the evolution of risk costs. In net terms, more than HUF 400 billion less impairment and provisions were needed in 2023 than a year earlier, as the previously assumed deterioration in the loan portfolio did not materialise and the non-performing portfolio ratio even declined. While inflation has led to an increase in banks' operating costs, this has been broadly offset by an improvement in fee and commission income and other operating income (difference between received and paid dividend, trading profit, etc.). All in all, therefore, the banking sector has shown an outstanding performance of its domestic operations in 2023, not only in terms of profit after tax, but also in terms of key efficiency indicators (cost/income ratio, net interest margin, etc.). However, a significant part of the income improvement is not sustainable; a meaningful correction is expected in the declining yield environment.

2.1.1 New mortgage loan contracts

As a result of soaring lending rates and the worsening economic outlook, residential mortgage lending stalled in the second half of 2022, which then continued throughout 2023, with customers signing new contracts with credit institutions worth only HUF 686 billion, a 46% annual drop versus HUF 1,276 billion signed in 2022. For housing loans only, the rate of decline was even higher (over 50%), mitigated by the fact that there was a modest pick-up in the all-purpose mortgage lending during the year, but this was more likely to be mainly due to a favourable arbitrage opportunity in the short term. In the last two months of the year, when the turnaround in market interest rates on mortgage contracts had been already recognized, the volume of new contracts increased, indicating that significant deferred demand is likely once interest rates have normalised.

2.1.2 The outstanding stock of household mortgage loans

The portfolio of residential mortgage loans amounted to HUF 5,739 billion on 31 December 2023, according to data published by the Magyar Nemzeti Bank. The annual portfolio increase was only HUF 45 billion (+0.8%) compared to HUF 5,694 billion at the end of 2022. The decline in new contracts resulted by the fact that the volume of actual disbursements fall less (as the loans under the Green Home Programme contracted before 2023 have phased disbursements, there were also drawdowns from them in 2023), while the amortisation also fell significantly due to the minor shrinkage of prepayments. The portfolio of household loans for housing purposes stood at HUF 5,006 billion at the end of December 2023, up 1.3% from HUF 4,943 billion at the end of 2022, while the portfolio of all-purpose mortgage loans fell from HUF 751 billion at the end of 2022 to HUF 734 billion (-2.3%). The share of foreign currency loans in the portfolio of residential mortgages at the end of 2023 was symbolic: it did not even reach 0.1%.

2.1.3 Mortgage bond market

The total nominal value of mortgage bonds issued by the five Hungarian specialized mortgage banks increased by 8% from end-2022 to end-2023, and consequently on December 31, 2023 the aggregate nominal value of outstanding mortgage bonds was HUF 2,095 billion. The nominal value of MBH Mortgage Bank's outstanding mortgage bond portfolio amounted HUF 387 billion at the end of 2023, which represents an annual growth rate of 5.4%, i.e. below overall growth rate of the market. As a result the Bank has lost around 0.5 percentage points of market share, but with a market share of 18.5% it remained the second largest player in this market segment.

3 REPORT ON THE BANK'S BUSINESS AND FINANCIAL RESULTS

3.1 MAJOR FINANCIAL INDICATORS (IFRS, STANDALONE STATEMENT FIGURES)

The total assets of the Bank based on standalone statement figures according to IFRS increased by 11.3% (i.e. by HUF 92.0 billion) in 2023, and its volume reached HUF 905.9 billion by the end of the year. Pre-tax profit amounted to HUF 7.4 billion, while profit for the year reached HUF 6.7 billion significantly above the 2022 performance. The total comprehensive income for 2023 was HUF 6.5 million (2022: HUF 2.1 billion).

Major indicators (HUF million; %)	31.12.2023.	31.12.2022.	Change (%)	Change
Total assets	906,587	813,948	11.4%	92,639
Financial assets measured at amortised cost	867,975	781,737	11.0%	86,238
from this,				
Loans and advances to banks	523,272	437,013	19.7%	86,259
Loans and advances to customers	20,540	24,733	-17.0%	-4,193
Securities	323,975	319,726	1.3%	4,249
Financial liabilities measured at amortised cost	820,600	734,183	11.8%	86,417
from this,				
Amounts due to other banks	445,316	377,771	17.9%	67,545
Issued debt securities	374,647	355,799	5.3%	18,848
Equity	78,205	71,037	10.1%	7,168
Profit before taxation	7,385	2,158	242.2%	5,227
Profit for the year	6,663	1,811	267.9%	4,852
Total comprehensive income for the year	7,168	2,101	241.2%	5,067
ROAA (average return on assets), %	0.8%	0.2%	-	0,5%-pt
ROAE (average return on equity), %	8.9%	2.6%	-	6,3%-pt

A change of more than +/- 300% compared to the previous year cannot be interpreted, marked with "-".

3.2 REFINANCING

From the second quarter of 2018 the Bank performs solely classic mortgage bank functions, i.e. it issues mortgage bonds, raising funds for refinancing its partnerbanks'–both within the MBH Group and also for external partners mortgage loan portfolios. Within the Group, the Bank is a special entity: it is able to raise funds in the form of mortgage bond or uncovered bond issuances either at domestic or international financial markets. Due to the latter, it is able to obtain foreign currency financing if needed.

In its strategy the Bank puts special emphasis on co-operating with external partners. It strives to become an attractive alternative for banking groups that are involved in mortgage lending but do not have their own mortgage bank license and thus need mortgage refinancing.

The stock of refinancing loans granted by the Bank went up by 3.7% (or HUF 13.6 billion) in 2023 and their volume at the end of the year was HUF 381.3 billion.

3.3 LENDING TO CLIENTS

The Bank discontinued originating new loans from the second quarter of 2018, lending activity is provided by MBH Bank. The existing old own originated loan portfolio remains in the Bank's books until full expiry. From the second quarter of 2018 the Bank is only active in the refinancing segment, and thus the stock of its still existing client loans are gradually shrinking due to natural amortization.

Among financial assets measured at amortised cost, gross amounts due from customers (retail and corporate) in line with the above continued to decrease sinking to HUF 21.3 billion at the end of 2023 down by 19.1% from end-2022's HUF 26.3 billion. 98.2% of this gross portfolio are household loans, the volume of which decreased by HUF 4.9 billion compared to the previous year. The gross stock of corporate loans amounted to HUF 0.3 billion at the end of 2023.

3.4 PORTFOLIO QUALITY, IMPAIRMENT

The Bank's gross loan volume amounted to HUF 523.5 billion at the end of the year. The value of contingent liabilities was HUF 28.5 billion on December 31, 2023. Hence the full exposure of gross loans and contingent liabilities (excluding securities) was HUF 552.1 billion.

Claims on clients amounted to HUF 21.26 billion, moreover, based on already signed contracts there was a commitment for disbursing loans of HUF 0.04 billion at the end of 2023. Out of these volume 1,808 loan contracts were classified as Stage 3 category with an underlying volume of HUF 1.79 billion in claims with HUF 0.40 billion in impairments. HUF 19.47 billion in claims and HUF 0.04 billion in commitments were classified as Stage 1 and Stage 2 categories, with HUF 0.33 billion in impairments and provisions.

The total stock of refinancing loans was HUF 382.20 billion with a minimal HUF 13.2 million in impairments.

The Bank has ownership interest in three entities: the MBH Investment Bank Ltd., the Takarék United Cooperatives (TESZ) and the Central Body of Integrated Credit Institutions (CBIC). The nominal value of these investments is HUF 0.01 billion.

In the interbank market the Bank had placements of HUF 19.3 billion in the form of sight deposits.

The share of problem free (Stage 1 and Stage 2) loans was 91.59% as of December 31, 2023, consequently the share of Stage 3 loans was 8.41%.

Average impairment levels for both the total portfolio (excluding swaps) and the loan portfolio have decreased since the previous measurement date.

3.5 ISSUED SECURITIES

In 2023, MBH Mortgage Bank Co. Plc. issued mortgage bonds with a total nominal value of nearly HUF 75 billion in eight public auctions, compared to HUF 70.3 billion a year earlier. MBH Mortgage Bank did not organise any unsecured bond issues in 2023. All placements were made through a public auction with the participation of a four-member syndicate of distributors of MBH Mortgage Bank.

In 2023, MBH Mortgage Bank continued to rely on NBH's ongoing Mortgage Bond Renewal Facility under which the NBH also emerged among the investors with an offer (a mortgage bond portfolio maturing within six months, fixed rate mortgage bond issuance) subject to certain conditions. Under this framework, MBH Mortgage Bank sold mortgage bonds with a total volume of HUF 45.8 billion in 5 auctions to renew the maturities due in 2024.

In spite of the uncertain market environment and the decreasing demand, MBH Mortgage Bank continued its announced issuance strategy and organised regular auctions 1-3 times per quarter: it offered its mortgage bonds maturing in 2026, 2027, 2029, 2032 and 2033 to investors. It typically offered between 3 billion and 16 billion in these auctions. Yield spreads increased significantly in 2023 compared to benchmark government bond yields and stabilised at persistently high levels (between +100 and +150 bps depending on maturity), reflecting deteriorating domestic and international market sentiments and continued adverse macroeconomic developments and investor caution.

Mortgage bonds with a nominal value of HUF 10 billion, HUF 31 billion, HUF 26 billion and HUF 7.8 billion were issued by MBH Mortgage Bank Co. Plc. in each quarter. With the exception of two auctions, mainly fixed rate mortgage bonds were placed on the market.

Of the total HUF 75 billion of mortgage bonds issued in 2023, HUF 20.5 billion, or more than 27.4% of the total annual issuance in 2023, were green mortgage bonds. Out of the total mortgage bond issuance, the share of fixed rate mortgage bonds (HUF 50.3 billion) amounted to 67.3% and the share of variable rate mortgage bonds (HUF 24.35 billion) to 32.7%.

In the first quarter of 2023, the FJ23NF01 fixed-rate mortgage bond series with an original maturity of 5 years and a total nominal value of HUF 26.2 billion matured, followed by the FJ23NF02 mortgage bond series with a total nominal value of HUF 26.3 billion in the third quarter of 2023.

In March 2023, MBH Mortgage Bank organised a public buy-back auction for the FJ23NF02 series in order to reduce maturity concentration. Investors returned 2.3 billion nominal value of the series to MBH Mortgage Bank Co. Plc., which was redeemed in accordance with the law.

MBH Mortgage Bank Co. Plc. continuously monitored the collateralisation status and the fulfilment of the proportionality requirements in accordance with the requirements of the Act on Mortgage Loans and the Bank's collateral registration regulations, and verified the existence of the conditions for the normal collateralisation of the mortgage bonds after the disbursement of the loans in order to ensure that the mortgage bonds were covered.

The net value of ordinary collateral backing mortgage bonds issued by MBH Mortgage Bank Co. Plc. was HUF 582.8 billion as of 31 December 2023, an increase of 10.1% compared to 31 December 2022 (HUF 529.1 billion) as a result of the increase in the refinancing loan portfolio.

Value of mortgage bonds and cover assets

HUF million	December 31, 2023	December 31, 2022	Change
Outstanding mortgage bonds in circulation			
Face value	387 218	367 249	5.4%
Interest	70 012	55 666	25.8%
Total	457 230	422 915	8.1%
Value of ordinary collateral			
Principal	396 276	376 389	5.3%
Interest	186 554	152 742	22.1%
Total	582 830	529 131	10.1%
The value of the liquid assets involved (principal and interest amount)	65 220	35 827	82%
Value of assets involved as supplementary collateral	-	-	-
Value of mortgage bonds and assets involved as collateral	-	-	-
Total	65 220	35 827	82%

As of December 31, 2023, the present value of the cover assets was HUF 444.9 billion and the present value of the items to be covered was HUF 367 billion, so that the present value of the assets represented 121.1% of the present value of the outstanding mortgage bonds. The ratio of the net value of collateral assets' principal to the nominal amount of outstanding mortgage bonds was 117.18%, while the ratio of the interest amount of collateral assets and the unpaid interest amount of outstanding mortgage bonds was 276.87% at 31 December 2023.

3.6 BALANCE SHEET DEVELOPMENTS (IFRS, STANDALONE STATEMENT FIGURES)

As of 31 December 2023, the Bank's total assets according IFRS figures amounted to HUF 906.6 billion, 11.4% above the end-2022 figure of HUF 813.9 billion.

Balance sheet items (HUF million; %)	31 December, 2023	31 December, 2022	Change (%)	Change
Assets				
Cash and cash equivalents	**19,305**	**342**	**-**	**18,963**
Financial assets measured at fair value through profit or loss	**7,875**	**11,854**	**-33.6%**	**-3,979**
Loans and advances to customers mandatorily at fair value through profit or loss	*6,310*	*6,593*	*-4.3%*	*-283*
Derivative financial assets	*1,565*	*5,261*	*-70.3%*	*-3,696*
Hedging derivative assets	**640**	**975**	**-34.4%**	**-335**
Financial assets measured at fair value through other comprehensive income	**9,999**	**18,172**	**-45.0%**	**-8,173**
Securities	*9,999*	*18,172*	*-45.0%*	*-8,173*
Financial assets measured at amortised cost	**867,975**	**781,737**	**11.0%**	**86,238**
Loans and advances to banks	*523,272*	*437,013*	*19.7%*	*86,259*
Loans and advances to customers	*20,540*	*24,733*	*-17.0%*	*-4,193*
Securities	*323,975*	*319,726*	*1.3%*	*4,249*
Other financial assets	*188*	*265*	*-29.1%*	*-77*
Property, plant and equipment	**143**	**63**	**127.0%**	**80**
Intangible assets	**247**	**239**	**3.3%**	**8**
Income tax assets	**337**	**468**	**-28.0%**	**-131**
Deferred income tax assets	*337*	*468*	*-28.0%*	*-131*
Other assets	**66**	**98**	**-32.7%**	**-32**
	906,587	**813,948**	**11.4%**	**92,639**
Liabilities				
Financial liabilities measured at fair value through profit or loss	**1,372**	**5,146**	**-73.3%**	**-3,774**
Derivative financial liabilities	*1,372*	*5,146*	*-73.3%*	*-3,774*
Financial liabilities measured at amortised cost	**820,600**	**734,183**	**11.8%**	**86,417**
Amounts due to other banks	*445,316*	*377,771*	*17.9%*	*67,545*
Issued debt securities	*374,647*	*355,799*	*5.3%*	*18,848*
Other financial liabilities	*637*	*613*	*3.9%*	*24*
Hedging derivative liabilities	**5,214**	**2,639**	**97.6%**	**2,575**
Provisions	**16**	**17**	**-5.9%**	**-1**
Income tax liabilities	**264**	**105**	**151.4%**	**159**
Current income tax liabilities	*264*	*105*	*151.4%*	*159*
Other liabilities	**916**	**821**	**11.6%**	**95**
Total liabilities	**828,382**	**742,911**	**11.5%**	**85,471**
Equity				
Share capital	*10,849*	*10,849*	*0.0%*	*0*
Treasury shares	*-207*	*-207*	*0.0%*	*0*
Share premium	*27,926*	*27,926*	*0.0%*	*0*
Retained earnings	*30,126*	*28,981*	*4.0%*	*1,145*
Other reserves	*2,286*	*1,620*	*41.1%*	*666*
Profit for the year	*6,663*	*1,811*	*267.9%*	*4,852*
Accumulated other comprehensive income	*562*	*57*	*-*	*505*
Total equity	**78,205**	**71,037**	**10.1%**	**7,168**
Total liabilities and equity	**906,587**	**813,948**	**11.4%**	**92,639**

A change of more than +/- 300% compared to the previous year cannot be interpreted, marked with "-".

3.6.1 Financial assets measured at fair value through other comprehensive income

The value of financial assets measured at fair value through other comprehensive income was HUF 9.9 billion at the end of 2023, 45.0% lower than a year earlier. Debt-type securities are the most significant within this item, whereas the share of ownership-type instruments is below 1%.

Credit institution bonds account for 69.9% of the portfolio of debt securities within financial assets measured at fair value through other comprehensive income. The stock of credit institution bonds decreased by 24.4% to HUF 7.0 billion at the end of 2023. The stock of government bond, which accounted for 30.0% of the total, fell by 66.4% compared to the previous year (from HUF 8.9 billion to HUF 3.0 billion).

3.6.2 Financial assets measured at amortised cost

The volume of financial assets measured at amortized costs increased by 11.0% in 2023, thus the volume amounted to HUF 868.0 billion by the end of the period. The gross stock of debt-type securities within this increased by 1.4% and stood at HUF 324.2 billion at the end of the year. 88.1% of the total securities portfolio is made up of government bonds, the stock of which was HUF 285.7 billion at the end of 2023.

Within this class of assets the other major component is the stock of gross loans. This increased by 32.6% in the course of 2023, rising to HUF 523.5 billion by the end of the year.

The gross stock of interbank deposits and claims on central bank decreased from HUF 68.6 to HUF 21.0 billion, which represents a significantly lower level.

3.6.3 Financial liabilities measured at amortized costs

Financial liabilities measured at amortized costs take up 90.5% of the Bank's total liabilities. Their volume at the end of 2023 was 11.8% higher than a year before, thus reaching HUF 820.6 billion. Within these liabilities it is debt-type securities, i.e. the mortgage bonds issued by the Bank to secure the long-term refinancing of the mortgage debt portfolio, represent the highest share (45.7%). The value of mortgage bonds issued at the end of 2023 reached HUF 374.6 billion, which represents a 5.3% increase compared to 2022. During 2023, however, the stock of loans received increased by 17.9%, thanks to the increase in loans from the NBH with maturities beyond one year. At the end of the period, it reached HUF 455.3 billion.

3.6.4 Equity, capital adequacy

Shareholders' equity amounted to HUF 78.2 billion at the end of 2023, up HUF 7.2 billion (or 10.1%) from the end of 2022.

The Bank is member of Central Body of Integrated Credit Institutions (CBIC). The members of CBIC should examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured by the relevant statutory and resolution of the National Bank of Hungary.

On the capital adequacy of the members of the integration the MBH Bank Plc. publishes the audited financial statements in the disclosure document of the business year.

3.6.5 Off balance sheet items

The value of off balance sheet items amounted HUF 28.5 billion at the end of 2023, 5.3% higher than a year before. It entirely consisted of the volume of unused (or not yet drawn upon) credit lines by clients and refinancing partners.

3.7 PROFIT & LOSS DEVELOPMENTS (IFRS, STANDALONE STATEMENT FIGURES)

P&L items (HUF million;%)	2023.	2022.	Change (%)	Change
Interest and similar to interest income	**61,348**	**32,640**	**88.0%**	**28,708**
Interest income using effective interest rate method	*51,645*	*28,248*	*82.8%*	*23,397*
Other interest income	*9,703*	*4,392*	*120.9%*	*5,311*
Interest expense	**-52,825**	**-26,085**	**102.5%**	**-26,740**
Interest expense using effective interest rate method	*-43,369*	*-21,102*	*105.5%*	*-22,267*
Other interest expenses	*-9,456*	*-4,983*	*89.8%*	*-4,473*
Net interest income	**8,523**	**6,555**	**30.0%**	**1,968**
Income from commission and fees	219	557	-60.7%	-338
Expense from commission and fees	-366	-548	-33.2%	182
Net income from commissions and fees	**-147**	**9**	**-**	**-156**
Results from financial instruments, net	**966**	**-307**	**-**	**1,273**
Results from financial instruments measured at fair value through profit or loss, net	2,193	-886	-	3,079
Gains on financial assets and liabilities designated at fair value through profit or loss	0	50	-	-50
Results from financial instruments measured at fair value through other comprehensive income, net	399	-273	-	672
Results from financial instruments measured at amortized cost, net	-162	361	-	-523
Results from hedge accounting, net	-1,254	-8	-	-1,246
Exchange differences result, net	-210	449	-	-659
Impairment / (Reversal) on financial and non-financial instruments	**877**	**-1,176**	**-**	**2,053**
Impairment / (Reversal) on financial instruments held for credit risk management	1,345	-557	-	1,902
Provision (loss) / gain	1	2	-50.0%	-1
Modification (loss) / gain on financial instruments	-469	-622	-24.6%	153
(Impairment) / Reversal on other financial instruments	0	1	-	-1
Operating expense	-2,734	-2,808	-2.6%	74
Other income	36	75	-52.0%	-39
Other expense	-136	-190	-28.4%	54
Profit before taxation	**7,385**	**2,158**	**242.2%**	**5,227**
Income tax income / (expense)	-722	-347	108.1%	-375
Profit for the year	**6,663**	**1,811**	**267.9%**	**4,852**

Other Comprehensive Income				
Profit for the year	**6,663**	**1,811**	**267.9%**	**4,852**
Other comprehensive income	**505**	**290**	**74.1%**	**215**
Items that will not be reclassified to profit or loss	**0**	**0**	**-**	**0**
Items that may be reclassified to profit/loss	**505**	**290**	**74.1%**	**215**
Hedging instruments (unmarked items)	0	0	-	0
Debt instruments at fair value through other comprehensive income	495	290	70.7%	205
Income tax relating to items reclassified to profit or loss	10	0	-	10
Total comprehensive income for the year	**7,168**	**2,101**	**241.2%**	**5,067**

A change of more than +/- 300% compared to the previous year cannot be interpreted, marked with "-".

The Bank's pre-tax profit was HUF 7.4 billion in 2023, which represents a significant higher level compared to the profit of the previous year (2022: HUF 2.2 billion). Full-year profit was HUF 6.7 billion in 2023 (HUF 1.8 billion in 2022). The total comprehensive income was also over the performance of the previous year, reaching HUF 7.2 billion in 2023 (HUF 2.1 billion in 2022).

3.7.1 Net interest income

Net interest income reached HUF 8.5 billion in 2023 (HUF 6.6 billion in 2022) as a result of HUF 61.3 billion in interest income (up 88.0% from 2022) and HUF 52.8 billion in interest expenses (up 102.5% from 2022). In sum, net interest income was HUF 2.0 billion (30.0%) higher in 2023 than in the previous year.

In terms of interest income, the HUF 23.0 billion increase in interest income from financial assets measured at amortized cost in 2023 was decisive. Its value was HUF 50.3 billion in 2023 (HUF 27.4 billion in 2022).

Interest expenses were HUF 26.7 billion higher than the previous year, totalling HUF 52.8 billion (2022: HUF 26.1 billion). Among the interest expenses, the interest expenses of financial liabilities measured at amortized cost represent the most significant item; this amounted to HUF 43.4 billion in 2023 which was HUF 22.3 billion higher than the previous year (HUF 21.1 billion in 2022).

3.7.2 Net fees and commissions

The net fees and commissions result was HUF 147 million in loss in 2023, compared to the HUF 9 million profit in 2022.

Income from fees and commissions reached HUF 219 million (down 60.7% from 2022). The lower revenues were mainly caused by the decrease in fee and commission revenues related to the valuation, and to a lesser extent to the own-disbursement mortgages.

The amount of fee and commission expenses in 2023 was HUF 66 million (HUF 548 million in 2022). The lower level of fees and commission expenses is mainly explained by lower valuation expenses.

3.7.3 Results from financial instruments

The result related to financial assets amounted to HUF 966 million profit compared to last year's HUF 307 loss 2022. The positive result is mainly due to gains on financial instruments at fair value through profit or loss.

3.7.4 General and administrative expenses

The general and administrative expenses of the Bank decreased by 2.6% (i.e. by HUF 74 million) in 2023, reaching a level of HUF 2.7 billion overall compared to HUF 2.8 billion in 2022. One element, the extra profit tax had a significant impact on the development of operating costs. The extra profit tax amounted to HUF 575.6 million in 2023 (HUF 615.7 million in 2022).

The fall in operating expenses was driven by a decrease in consultancy fees from HUF 230 million in the previous year to HUF 130 million, while fees related to CBIC fee, CBIC Capital Fund and Resolution and Compensation Fund fees decreased by HUF 205 million.

The increase of HUF 56 million in salary expenses is the result of several factors: the growth of the remuneration of the members of the Board of Directors and the Supervisory Board, the increase in salaries and in bonuses.

Operating expenses (HUF million)	2023	2022	change (%)	change
Staff costs	505	449	12.5%	56
Marketing and advertising	0	5	-	-5
General and administrative costs	124	107	15.9%	17
Rental fee	1	0	-	1
Depreciation of tangible assets	43	36	19.4%	7
Amortisation of intangible assets	44	31	41.9%	13
Consultancy fees	130	230	-43.5%	-100
Maintenance costs	450	433	3.9%	17
Banking tax	983	842	16.7%	141
Other taxes	48	55	-12.7%	-7
Insurance fees	3	6	-50.0%	-3
Database system usage	28	24	16.7%	4
Supervisor fee	1	32	-96.9%	-31
CBIC* fee, CBIC* Capital Fund and Resolution and Compensation Fund fees	234	439	-46.7%	-205
SLA service costs	103	81	27.2%	22
Other	37	38	-2.6%	-1
Total	**2,734**	**2,808**	**-2.6%**	**-74**

* CBIC= Central Body of Integrated Credit Institutions

A change of more than +/- 300% compared to the previous year cannot be interpreted, marked with "-".

3.7.5 Impairment / (Reversal) on financial instruments held for credit risk management and provision (loss) / gain

The net balance of impairment and provisioning was HUF 1.3 billion million in 2023.

3.7.6 Modification (loss) / gain on financial instruments

The cost of the repayment moratorium that came into effect on March 18, 2020 is derived from the loss impact on the net present value of not served and thus accrued credit cash-flows. The total impact for the Bank was HUF 469 million loss in 2023 (HUF 622 million in 2022).

3.7.7 Pre-tax profit

The Bank's pre-tax profit amounted to HUF 7.4 billion in 2023 (HUF 2.2 billion in 2022).

4 LIQUIDITY MANAGEMENT

Due to its special legal mortgage bank status the MBH Mortgage Bank is not allowed to collect client deposits, hence among its liabilities the components with the highest weight are mortgage bonds and interbank liabilities.

The structure of the Bank's liabilities - following the adoption of the purely mortgage bank strategy in 2018 - are primarily influenced by developments in the stock of refinanced loans, and the level of activity in primary mortgage bond issuances with a view to secure the MFAR compliance of MBH Group.

In line with the above, the stock of mortgage bonds increased by 5.44% (+ HUF 20 billion) year-on-year from HUF 367.2 billion to HUF 387.2 billion in 2023. Based on the decision of the NBH No. H-KE-III-533/2022 dated 12 September 2022, all mortgage bonds of MBH Mortgage Bank Co. Plc. are considered as "European (premium) covered bonds".

In the course of 2023 the weight of long-term (3- and 5-year) central bank refinancing sources originating from the NBH's long-term covered refinancing operations was also decisive (at the end of July 2021 the central bank finished these operations, new deals are not available, but the outstanding stock remains intact).

Based on the amendment to the Act, entered into force on 8 July 2022, the cover pool assets (regular and assets involved as supplementary collateral) have been extended to liquid assets, and detailed rules on the liquidity buffer have been developed. In accordance with the above the Bank has been applying a liquidity buffer consisting of liquid assets with the aim of covering the net liquidity outflow in relation to its coved bond issue programme from July 8, 2022. Also, based on the amended Jht. the Bank maintains a minimum overcollateralization level of 2%.

Liquidity buffer at 31 December 2023:

Maximum daily net liquidity outflow within 180 days (HUF million)	-44 747
Liquidity buffer (market) value of the cover pull set (HUF million)	56 156

The Bank's mortgage bonds have been rated by S&P Global Rating (Madrid) since 28 March 2019. MBH Mortgage Bank Plc's mortgage bond issuance programme and the BBB rating of its series of mortgage bonds issued in HUF and foreign currencies was confirmed by S&P on 25 April 2023 - a rating one category higher than the rating of domestic sovereign debt - and was accompanied by a positive outlook of stable, which has not changed since then.

5 Risk management principles

The Bank's risk management is governed by the Hungarian and EU legislation in force, as well as by additional supervisory regulations. MBH Bank performs the governance functions of the MBH 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 2023.

5.1 RISK STRATEGY

MBH'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, 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 Bank's risk management activities are to protect the Bank's and 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.

Bank is primarily exposed to credit, liquidity, market and operational risks.

5.2 CREDIT RISK

In 2023, the main drivers of credit risk changes were the Russian-Ukrainian war, the geopolitical and economic situation, the end of the payment moratorium and the agricultural moratorium until 31 December 2023, as well as changes in the methodologies applied to both the corporate and retail portfolios.

The impact of moratoria and interest cap on credit risk management:

In line with the NBH's expectations, the staging logic for customers participating in the general credit moratorium and the agricultural moratorium has been standardised at MBH Group level by adding the following to the normal processes:

- Transactions that have been included in the general moratorium and have been classified as restructured are subject to the default recovery rules based on the default status in force, and to a 6-month probationary period for retail clients and 24 months for corporate clients. During the probationary period, restructured transactions shall not be assigned a rating higher than Stage 2.
- Customers entering an agricultural moratorium are classified as Stage 2 or above, but if the client has previously been in moratorium for at least 9 months, they are classified as Stage 3. They can only be placed in Stage 1 on the basis of individual monitoring after a declaration has been made and taken into account. Individual derogations from the application of Stage 3 and Stage 2 classification are possible and must in all cases be supported by detailed objective evidence.

For customers with a retail interest rate cap, the Group examined the monthly repayment increases without the cap and applied a minimum Stage 2 rating for changes deemed to be significant.

The Group has updated the macro parameters for the entire portfolio using the latest parameters available in the NBH Inflation Report. The updated risk parameters have also been implemented in the lifetime ECL calculation.

Given that no new information on the ability of customers to pay has emerged during the moratorium period and that the repayments 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 ability and willingness of debtors to pay. In addition, NBH expects that the risk arising from modelling uncertainty needs to be mitigated.

In determining the management overlay, the Group has considered the following aspects:

- For customers entering an agrarian moratorium, the models are not aware of the agrarian moratorium and therefore the willingness and ability to pay may contain a hidden high probability of default.

In summary, the Group's current modelling and impairment methodology, using the credit risk management methods and process additions detailed above, provides the opportunity to develop risk profiles that are well-defined from a customer management perspective and to establish adequate risk provisions to cover expected future credit losses.

5.3 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.

5.4 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.

5.5 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. MBH'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 2023 and new group level KRIs defined by MBH 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.

6 HUMAN RESOURCES POLICY

The full-time equivalent employment of MBH Mortgage Bank at the end of 2023 was 17.

Talent management at MBH Group:

The MBH 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 for colleagues:

Digitised and gamified pre-boarding programme

The programme focuses on colleagues who are in the pre-entry period after accepting offer of the Bank. 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 the talent retention activities in 2023 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. For trainees, the Bank Group is usually the first milestone at the start of their career. 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: through their own onboarding processes, with dedicated HR colleagues to guide university students through their professional work and development.

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Ambassador Academy:

The MBH Group's Ambassador Academy is an innovative tool to introduce new values and associated behaviours and leadership tools, a new culture roadmap and an innovative tool to retain talent and sustain engagement, with around 100 participants. It is a change management initiative, with members working together to ensure engagement across 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 enthusiastically received. They work together on some elements of the culture programme in joint workshops, for example they created the questions for the organisation-wide heart rate measurement, which was relevant and customised so it was really about colleagues.

Leadership Academy:

Leadership Academy is an integral part of preparing managers for the transition to the new way of banking. The 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.

The 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).

MBH Bank's 2022 talent management programme was recognised with a special award by the Joint Ventures Association in 2023.

Work-life balance at MBH Group:

At MBH 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, MBH Group 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.

Extensive fringe benefits:

MBH Group, as one of the largest banks in Hungary, has the ambition to become a market leader in the sector. All our employees have a key role to play in achieving this goal. As an employer, our main objective is to maintain a performance-based culture, but we also strengthen the commitment of our employees through our outstanding benefits system.

In addition to the Cafeteria, our fringe benefits include school and camping allowances and social assistance.

Our generational diversity programme provides support for the specific life situations of our employees. Within the framework of this programme, we offer colourful programmes and varied benefits for people starting out in their careers (Start+), parents with young children (Baby+), employees with reduced working capacity (MMM+) and colleagues preparing for retirement (Active+).

MBH Group and health:

Health promotion and health maintenance is an important area for MBH ***Group***, which is emphasised in various sports and health campaigns. Providing sporting opportunities for employees in a variety of ways and promoting healthy lifestyles is being implemented on multiple fronts.

Employees have access to preferential health insurance, including diagnostic services and extended occupational health services within the Bank, seven days a week.

MBH ***Group*** 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.

MBH Group and sports:

MBH provides significant support to its sports association where effective professional and recreational sports work is carried out. In 2023, the association has a membership of between 580 and 620 people, including 350-365 members in the various sports sections, a significant increase of more than 40% compared to the previous year.

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, trapshooting, triathlon, thai boxing, aerobics. In 2023, we organised several sports club in-house championships in 18 sports. 220 certificates were awarded.

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 in 2023, the MBH Group team was hosted in Debrecen and finished 2nd again after 2005.

The runners regularly take part in large numbers in races such as the Wizzair Half Marathon and the SPAR Marathon. In team sports, the men's football, basketball and bowling teams are top finishers in the Business Leagues. Dragon boaters have won medals in several national competitions, anglers also regularly place well, the table tennis team is supported by the training methods of two excellent NB/1 colleagues, and go-kart teams always have successful monthly meets.

Cycling section has been running a joint programme with BKK BUBI for several years, 150 SA member colleagues received annual discounted BUBI passes.

SA members in rural areas receive a recreational sports grant, which they could spend on sports facilities near their workplace or home. In 2023, 165 colleagues in 27 cities received a sports grant.

The SA considers it important that SA members can exercise regularly near all work bases, which is why we have a gym near our priority sites.

Safe working environment:

MBH 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.

7 SUSTAINABILITY

ESG strategy and reporting

The Bank pays particular attention to the risks posed to its own operations and society by climate change. In line with the above MBH Mortgage Bank identified the specialities of its business and profile (mortgage-based refinancing and mortgage bond issuance functions) by which the Bank influence its environment through reducing climate risk and improving social well-being in the medium and long term. In 2022, the Bank published its ESG strategy, which includes its identified values, mission and vision, as well as sustainability objectives by topic.

MBH Mortgage Bank, as a listed company, published an annual Sustainability Report in line with the Budapest Stock Exchange's Sustainability Recommendation, first in 2022 and then in 2023. The published stand-alone sustainability reports are prepared in accordance with the international (Global Reporting Initiative-GRI) standard, covering the Bank's specific environmental, social and corporate governance achievements. The report published in 2023 (for 2022) marks a milestone in the Bank's history by publishing for the first time detailed data on its direct (Scope 1) and indirect, purchased (Scope 2) and indirect financed (Scope 3) Greenhouse Gas (GHG) emissions.

In 2022, MBH Mortgage Bank joined the Energy Efficient Mortgage Label (EEML), under which it publishes a quarterly public transparency report on the composition, energy profile and environmental impact of green mortgages and green property securities backing green mortgage bonds.

Green Mortgage Bond Framework

MBH Mortgage Bank considers green mortgage refinancing and the issuance of green mortgage bonds as key pillars of its sustainability activities. For that purpose it established a Green Mortgage Bond Framework based on the Green Bond Principles 2021 (GBP), international standards in 2021, under which it conducts its green mortgage bond issuance activitiy. Based on the transparency requirements of the Framework, the Bank also publishes a quarterly Green Bond allocation reports and also an Annual review report on the consistency of its Green Bond issuance activities with the Framework, as well as an annual Impact report. The second-party opinion for the Green Mortgage Bond Framework was provieded out by Sustainalytics

Corporate governance

Green Mortgage Bond Committee

The Bank established the Green Mortgage Bond Committee (hereinafter according to the Hungarian abbreviation: ZJB or GMBC) to strengthen the role of sustainability factors in the Bank's corporate governance, particularly in the areas of business and risk management. The Committee is composed of the CEO, Deputy CEO, Head of Capital Markets, Head of Refinancing, Head of ALM, Head of Collateral Register, Head of Collateral Management and reports directly to the Board of Directors on its work. According to the internal regulations the ZJB decides on the green quality of new collateral and existing collateral and regularly reviews the availability of green collateral behind the issued green mortgage bonds.

Sustainability and organisation

The Bank's Rules of Organisation and Operation (ROO) assign ESG responsibilities to each job, and management reports quarterly to the Board of Directors and the Supervisory Board on MBH Mortgage Bank's green mortgage bond issuance and other sustainability activities, as well as on the commitments and performance indicators defined in the Sustainability Reports and the ESG Strategy.

8 PARTICIPATION IN PROFESSIONAL ASSOCIATIONS

The Bank actively participates in the work of the statistical, legal and capital market groups of the Hungarian Banking Association and the European Mortgage Federation/European Mortgage Bond Council (EMF - ECBC).

9 POST BALANCE SHEET DATE EVENTS

Mortgage bond issuance and repurchase

MBH Mortgage bank Plc. announced an auction on the early secondary market repurchase of mortgage bonds publicly traded by MBH. With a value date of 22 February 2024. Original maturity of the mortgage bond series affected by the repurchase TJ24NF01: 26.06.2024. Mortgage bonds that are expected back will be withdrawn from circulation. The result of the auction: the nominal value of valid submitted bids for sale is HUF 26,729 million, the total nominal value of the present buyback is HUF 20,000 million, and the total nominal value of the series still outstanding is HUF 18,500 million. The mortgage bonds that have been recovered will be withdrawn from circulation, so that the remaining nominal value will continue to bear interest at the same interest rate.

On 11.03.2024, the Bank issued the MZJ29NF1 series of green mortgage bonds expiring on 22.11.2029 in a total nominal value of HUF 5.9 billion in the framework of a public stock exchange auction.

MBH Mortgage Bank Co. Plc. has won the "Mortgage Bond Issuer of the Year" category Budapest Stock Exchange award 2023.

Budapest, 28 March 2024

dr. Gyula László Nagy
Chief Executive Officer

Illés Tóth
Deputy CEO

Issuer Declaration

MBH Jelzálogbank Nyrt. (MBH Mortgage Bank Co. Plc.) as the Issuer (represented by: dr.Gyula László Nagy CEO, and Illés Tóth Deputy CEO), hereby declares that the **2023 Annual report** of MBH Mortgage Bank Co. Plc. has 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 **Stand-alone Financial Statements** give a true and fair view of assets, liabilities, financial position and profit of MBH Mortgage Bank Co. Plc., furthermore the **Stand-alone Management report** gives a fair view of the position, development and performance of MBH Mortgage Bank Co. Plc., disclosing the risks and the factors of uncertainty.

Budapest, 28 March 2024.

MBH Mortgage Bank Co. Plc.

dr. Gyula László Nagy	**Illés Tóth**
Chief Executive Officer	Deputy Chief Executive Officer