



**INDEPENDENT AUDITOR'S REPORT**  
(Free translation)

**To the shareholders of MKB Bank Nyrt.**

**Report on the audit of the separate financial statements**

**Opinion**

We have audited the separate financial statements of MKB Bank Nyrt. (the "Company") included in the digital file 3HoQ3U74FVFE2SHZT16-2022-12-31-HU.html<sup>1</sup> which comprise the separate statement of financial position for the financial year ended on 31 December 2022 (in which total assets equal to total liabilities and equity are MHUF 7,468,778), the separate statement of profit or loss and other comprehensive income (in which the total comprehensive income for the year is MHUF 68,330 profit), the separate statement of changes in equity, the separate statement of cash flows for the financial year then ended and the notes to the separate financial statements comprising significant accounting policies and other explanatory information.

In our opinion, the separate financial statements give a true and fair view of the separate financial position of the Company as at 31 December 2022, and of its separate financial performance and its separate cash flows for the financial year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee dated 4 April 2023.

**Basis for opinion**

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the separate financial statements" section of our report.

We are independent of the Company in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and we also comply with further ethical requirements set out in these.

The non-audit services that we have provided to the Company, in the period from 1 January 2022 to 31 December 2022, are disclosed in note 40 to the separate financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

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<sup>1</sup> The SHA 256 HASH algorithm value of the 3HoQ3U74FVFE2SHZT16-2022-12-31-HU .html file:  
492D15CF910212E433328156131FB3CAoFB080225668E35906B1E15484D180F8



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Our audit approach

### Overview

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<i>Overall materiality</i>	Overall materiality applied was MHUF 7,930
<i>Key Audit Matters</i>	<ul style="list-style-type: none"><li>• Expected credit loss allowance on loans and advances to customers</li><li>• Merger of Budapest Bank Zrt. and Magyar Takarékszövetkezet Zrt. to MKB Bank Nyrt.</li><li>• Acquisition of the loan portfolio of Sberbank Magyarország Zrt. "v. a."</li><li>• Financing transactions with related parties</li><li>• Hedge Accounting</li></ul>

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate financial statements as a whole.

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<i>Materiality</i>	MHUF 7,930
<i>Determination</i>	1% of the separate equity
<i>Rationale for the materiality benchmark applied</i>	We chose separate equity as the benchmark because, in our view, it is a balanced benchmark which reflects the interests of the shareholders and of the regulator and is a generally accepted benchmark. We chose 1% as quantitative materiality threshold.

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## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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### *Key audit matter*

### *How our audit addressed the key audit matter*

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#### ***Expected credit loss allowance on loans and advances to customers***

The net balance of loans and advances to customers at amortised cost was MHUF 2,565,343 as at 31 December 2022, representing 34% of total assets. Expected credit loss (ECL) allowance included in the carrying amount of loans and advances to customers is MHUF 117,849.

Management disclosed related assumptions, balances and estimates in sections 4.k), 6 and 11 of the notes.

ECL allowance is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating individual and collective ECL allowances especially when considering the current uncertain economic environment.

The first step in the ECL calculation is to identify whether there was significant increase in credit risk. The selected indicators will determine whether a 12-month or a lifetime ECL is calculated.

In the calculation of individual ECL, the most significant uncertainty is involved in the estimation of expected future cash flows, and in probability weighting of cash-flow scenarios, where cash flows include recoveries both from collections of contractual cash flows and from collaterals.

The Company applies impairment models to calculate collective ECL. These models quantify the probability of default, exposure at default and the loss given default as the primary parameters in the estimation of the recoverable amount, taking into account forward looking information – in line with the requirements of *IFRS 9 Financial instruments* standard.

We gained an understanding of the lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval.

Thereby our focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment in ECL.

We performed credit review for individually significant loans on a sample basis. We checked the stage classification of the loans based on credit application and monitoring documents as well as customer-related financial and non-financial information.

For a sample of individually impaired loans, we checked whether assumptions, estimations and scenario weightings applied in calculations of the recoverable amount are reasonable and whether the calculations are correct.

For collective ECL we assessed whether the methodology applied by the Company was compliant with *IFRS 9 Financial instruments* with the support of our internal modelling experts. We read the validation documents, recalculated, on a sample basis, selected model parameters and the ECL.

We checked input data for the ECL allowance calculation (both historical and measurement data), indicators used to determine whether there was significant increase in credit risk and analysed the development of credit losses.

To address increased estimation uncertainty, we evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to state



The modelling methodologies are developed using historical experience, which - in uncertain economic conditions that currently vary across customer segments and industry sectors - can result in limitations in their reliability to appropriately estimate ECL.

A further limitation is caused by the fact, that, to reduce the economic consequences of the COVID-19 pandemic and the uncertain economic environment, the Hungarian government maintained various loan support programs introduced first in 2020, including moratoria on loan repayment transactions. These programs complicated a timely reflection of a potential deterioration of the loan portfolio and resulted in artificially low observed default rates.

To address these limitations, management applied quantitative and qualitative adjustments to ECL that include the following:

- Additional criteria to assess significant increase in credit risk, partly relating to those staying in the moratoria
- Additional expert judgement based adjustment of the estimation method of ECL.

We paid considerable attention to this area during our audit due to the significance of the amounts involved and because of the subjective nature of the judgments and assumptions that management is required to make, particularly due the high level of uncertainty that can be experienced in the current economic environment.

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***Merger of Budapest Bank Zrt. and Magyar Takarékszövetkezet Zrt. to MKB Bank Nyrt.***

Budapest Bank Zrt. and Magyar Takarékszövetkezet Zrt. (direct owner of MTB subgroup) legally merged to MKB Bank Nyrt. on 31 March 2022. The merger was approved by the shareholder's resolution on 15 December 2021 and by the National Bank of Hungary in January 2022. The merger was significant to our audit due to the complexity of the transaction in terms of composition of the Banking group, and in terms of new IT systems, partial migration of data between core systems and possible differences in the accounting policies applied by these entities. This transaction was classified as a "business

payment support programs. We also critically assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions.

We read sections 4.k), 6 and 11 of the notes to the separate financial statements to assess whether disclosures are in line with *IFRS 9 Financial instruments* and *IFRS 7 Financial instruments: Disclosures* standards.

We have assessed if the legal merger is a business combination under common control and if the Company selected the appropriate accounting method, in the absence of specific guidance in IFRS. We have assessed if the predecessor values accounting method was correctly applied by the management and we reconciled the audited merged balance sheet as at 31 March 2022 to the balances as incorporated into the Company's separate financial statements.

We performed IT audit procedures on all relevant IT systems in the predecessor entities. We have assessed the harmonized accounting policies and



combination under common control" and it is out of scope of *IFRS 3 Business Combinations*. Since there is limited guidance in IFRS on the treatment of business combinations under common control, significant judgement was involved in determining the accounting, presentation and disclosure of this transaction. The Group has accounted for the legal merger using the predecessor values method, prospectively, according to which assets and liabilities of the acquired entities have been transferred to MKB Bank at their respective carrying values in their separate Financial Statements on the effective date of the legal merger. Details of the transaction are disclosed in Note 5 Merger to the separate financial statements.

whether they have been applied consistently in the separate financial statements. We understood the impact of the transaction on the Banking group structure.

We read the disclosures made in the separate financial statements.

#### ***Acquisition of the loan portfolio of Sberbank Magyarország Zrt. "v. a."***

MKB Bank Nyrt. acquired Sberbank Magyarország Zrt.'s (under voluntary dissolution) loan portfolio of MHUF 246,189 on 1 August, 2022. The transaction has been accounted for as an asset purchase, the relevant details of the transactions are presented in Note 11 to the separate financial statements.

We have read the acquisition agreement, the service level agreement relating to the portfolio management, checked the accounting treatment of the acquisition and the migration procedures.

As part of our procedures, we performed the following relating to the purchase price allocation:

- We have understood the logic behind the allocation.
- We checked the integrity of the calculations.

From this date, the loan portfolio was recognised in the books of the Company, the Company allocated the purchase price to individual exposures and the portfolio was subject to the Company's procedures to calculate expected credit loss. After the acquisition, the portfolio management was still performed by the liquidator of Sberbank Magyarország Zrt. „v. a.". The portfolio was finally migrated to the Company's books on 17 December 2022.

Relating to the migration procedures, we performed the following tasks:

- We assessed the control environment and checked the controls performed relating to the migration procedures relating to data and documents.
- We checked on a sample basis the migrated data verification reports prepared by the Company.

We paid particular attention to this matter because the acquired portfolio is significant, containing both retail and corporate exposures, the purchase price allocation is a complex task. Furthermore, the migration of the portfolio to the systems of the Company is a complex exercise, involving a high number of individual exposures.



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### ***Financing transactions with related parties***

The Company, in the course of its banking operations, has significant financing transactions with related parties including entities belonging to the shareholders (other than state owned enterprises) that have significant influence over the parent entity and other related parties. Related party transactions are disclosed in Note 37 to the separate financial statements.

We identified related party financing transactions as a key audit matter because of risks with respect to completeness of identification of related parties and disclosures made in the separate financial statements.

We understood the process of identifying and disclosing related party transactions.

We obtained company registry records and other publicly available information and compared to the listing of related parties maintained by the Bank to check completeness of related parties identified.

We agreed, on a sample basis, the amounts disclosed to underlying documentation and read relevant agreements

We tested, on a sample basis, the financing arrangements between the related parties along with supporting documents to evaluate the management's assertions that the transactions were at arm's length and in the ordinary course of business.

We inspected relevant ledgers, agreements and other information that may indicate the existence of related party financing relationships or transactions.

We checked the relevant disclosures in the notes and assessed whether they are in line with IAS 24 *Related Party Disclosures* standard.

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### ***Hedge Accounting***

The criteria for applying hedge accounting and its accounting treatment are presented in chapter 4.t) of the notes to the separate financial statements on accounting policy and Note 9 to the separate financial statements.

The Company designates derivatives to hedge risks arising from its operation and open positions, in particular to interest rate risks. In the absence of hedge accounting the transactions involving derivatives may be presented in the statement of financial position and the income statement differently from the transactions generating the risks. Therefore, for selected portfolios and transactions, the Company applies fair value hedge accounting to ensure matching of accounting applied to the hedging instruments and hedged transactions. Hedge accounting is applied both for individual instruments (micro-hedge) and for parts of the loan portfolio (macro-hedge).

Application of hedge accounting is subject to stringent accounting rules. It is necessary to prove, among other criteria, that the values of transactions underlying open positions and the

We have assessed key internal controls operated by the Company with the aim of appropriately determining the fair values of derivatives and measuring hedge effectiveness.

We checked the valuation of derivatives and the adequacy of market prices applied on a sample basis, we have examined the documentation of hedge accounting, including the risk management strategy and objectives of the Company as well as the hedged transactions designation. With the support of our experts, we checked whether the effectiveness of the hedging relationship was measured and accounted for in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* (as adopted by the EU with carve-out) and *IFRS 9 Financial instruments* standards.

We assessed whether disclosures of hedge accounting in the separate financial statements are in line with *IFRS 7 Financial instruments: Disclosures* standards.

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transactions conducted to hedge them react to market changes, representing hedged risks in the opposite directions. This is called hedge effectiveness test. Measuring hedge effectiveness requires complex calculations, depending on the methodology applied to this assessment.

We focused on this matter because the extent of applying hedge accounting increased significantly during the year, it materially affects the separate financial statements and measurement of the effectiveness of hedging relationships is complex and subject to estimation uncertainty.

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**Other information: the separate business report that is referred to as separate management report in the annual report**

Other information comprises the separate business report (that is referred to as separate management report in the annual report) of the Company. Management is responsible for the preparation of the separate business report in accordance with the provisions of the Accounting Act and other relevant regulations, and for the preparation of the annual report in accordance with Act CXX. of 2001 on Capital Market. Our opinion on the separate financial statements does not cover the separate business report or the annual report.

In connection with our audit of the separate financial statements, our responsibility is to read the separate business report and the annual report and, in doing so, consider whether the separate business report and the annual report is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work performed, we conclude that the separate business report and the annual report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the separate business report to consider whether the separate business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any, and to express an opinion on this and on whether the separate business report is consistent with the separate financial statements.

Because the Company's transferable securities are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the separate business report shall cover the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, and state whether the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided.

As the Company is a public interest entity and the conditions in Paragraph a) and b) of Subsection (1) of Section 95/C of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by 95/C in its separate business report. In this respect, we shall state whether the separate business report includes the non-financial statement required by Section 95/C of the Accounting Act.

In the course of fulfilling our obligation, in respect of forming our opinion on the separate business report we have considered the requirements set out in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 on Supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single



electronic reporting format (“ESEF Regulation”) as the regulation prescribing further requirements for the separate business report.

In our opinion, the 2022 separate business report of the Company, also including the information prepared under Paragraphs e) and f) of Subsection (2) of Section 95/B, is consistent with the 2022 separate financial statements in all material respects; and the separate business report has been prepared in accordance with the provisions of the Accounting Act and the other relevant regulation referred to above.

We are not aware of any other material inconsistency or material misstatement in the separate business report and the annual report and therefore we have nothing to report in this respect.

We state that the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided. The separate business report includes the non-financial statement required by Section 95/C of the Accounting Act.

### **Responsibilities of management and those charged with governance for the separate financial statements**

Management is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and to prepare the separate financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

### **Auditor’s responsibilities for the audit of the separate financial statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on other legal and regulatory requirements**

### **Appointment**

We were first appointed as auditors of the Company on 26 April 2022. Our appointment has been approved by shareholder resolution representing a total period of uninterrupted engagement appointment of 1 year.

The engagement partner on the audit resulting in this independent auditor's report is Árpád Balázs.

## **Report on the compliance of the presentation of the separate financial statements with the requirements of the regulation on the European single electronic format**

We have undertaken a reasonable assurance engagement on the compliance of the presentation of the separate financial statements of the Company included in the 3H0Q3U74FVFED2SHZT16-2022-12-31-HU.html digital file ("separate financial statements in ESEF format") with the requirements set out in the ESEF Regulation.

## **Responsibilities of the management and those charged with governance for the separate financial statements in ESEF format**

The management is responsible for the presentation of the separate financial statements in ESEF format that comply with the ESEF Regulation. This responsibility includes:

- the preparation of the separate financial statements in the applicable XHTML format;



- the design, implementation and maintenance of internal control relevant to the application of the ESEF Regulation.

Those charged with governance are responsible for overseeing the Company's financial reporting process including compliance with the ESEF Regulation.

### **Our responsibility and summary of the work performed**

Our responsibility is to express an opinion on whether the presentation of the separate financial statements in ESEF format complies, in all material respect, with the requirements of the ESEF Regulation based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with Hungarian National Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000).

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the ESEF Regulation. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation whether due to fraud or error. Our reasonable assurance engagement included obtaining an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation and verifying whether the XHTML format was applied properly.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the presentation of the separate financial statements in ESEF format of the Company for the financial year ended 31 December 2022 included in the digital file 3HoQ3U74FVFE2SHZT16-2022-12-31-HU.html complies, in all material respects, with the requirements of the ESEF Regulation.

Budapest, 4 April 2023

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### *Translation note:*

*This English version of our report is a translation from the original version prepared in Hungarian on the separate financial statements prepared in Hungarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this English translation.*