MBH Bank Plc.

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statistic code

Consolidated Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 03 April 2024

31 December 2023

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Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2023	31 December 2022
Assets			
Cash and cash-equivalents	4.10	**1,347,889**	**1,361,315**
Financial assets measured at fair value through profit or loss		**756,308**	**819,718**
Loans and advances to customers mandatorily at fair value through profit or loss	4.11	510,988	418,517
Securities held for trading	4.12	2,621	49,923
Securities mandatorily at fair value through profit or loss	4.12	47,516	24,869
Derivative financial assets	4.13	195,183	326,409
Hedging derivative assets	4.13	**73,652**	**164,338**
Financial assets measured at fair value through other comprehensive income		**912,538**	**630,845**
Securities	4.14	912,538	630,845
Financial assets measured at amortised cost		**7,689,462**	**7,377,255**
Loans and advances to banks	4.15	106,544	179,088
Loans and advances to customers	4.15	4,390,428	4,342,801
Repurchase assets	4.15	17,918	1,070
Securities	4.15	3,010,864	2,781,620
Other financial assets	4.15	163,708	72,676
Fair value change of hedged items in portfolio hedge of interest rate risk	4.13	**3,159**	**(51,678)**
Associates and other investments	4.16	**55,169**	**49,599**
Property, plant and equipment	4.17	**120,501**	**98,345**
Intangible assets	4.17	**71,094**	**70,511**
Income tax assets		**13,540**	**24,981**
Current income tax assets		276	453
Deferred income tax assets	4.9	13,264	24,528
Other assets	4.18	**62,367**	**69,039**
Assets held for sale	4.31	**1,369**	**154**
Total assets		**11,107,048**	**10,614,422**

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	Note	31 December 2023	31 December 2022
Liabilities			
Financial liabilities measured at fair value through profit or loss		**152,581**	**278,203**
Derivative financial liabilities	4.13	129,944	235,877
Financial liabilities from short positions	4.19	22,637	42,326
Hedging derivative liabilities	4.13	**17,018**	**1,365**
Financial liabilities measured at amortised cost		**9,789,825**	**9,416,275**
Amounts due to banks	4.20	2,027,667	2,378,471
Amounts due to customers	4.20	6,957,100	6,574,357
Repurchase liabilities	4.20	11,767	-
Issued debt securities	4.21	520,901	290,838
Subordinated debt	4.22	108,341	88,887
Other financial liabilities	4.20	164,049	83,722
Provisions	4.23	**31,240**	**22,623**
Income tax liabilities		**16,985**	**15,483**
Current income tax liabilities		15,354	12,378
Deferred income tax liabilities	4.9	1,631	3,105
Other liabilities	4.24	**76,028**	**71,737**
Total liabilities		**10,083,677**	**9,805,686**
Equity			
Share capital		322,530	321,699
Share premium		348,894	313,947
Retained earnings		44,754	32,592
Other reserves		51,066	32,552
Profit for the year		176,679	88,942
Accumulated other comprehensive income		36,465	(21,357)
Equity of the owners of the parent company		**980,388**	**768,375**
Non-controlling interest	4.26	**42,983**	**40,361**
Total equity		**1,023,371**	**808,736**
Total liabilities and equity		**11,107,048**	**10,614,422**

Budapest, 3 April 2024

Dr. Zsolt Barna
Chairman and CEO

Péter Krizsanovich
Deputy CEO
for Strategy and Finance

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Interest and similar to interest income		**1,204,710**	**678,949**
Interest income using effective interest rate method	4.1	780,138	471,917
Other interest income	4.1	424,572	207,032
Interest and similar to interest expense		**(639,153)**	**(313,222)**
Interest expense using effective interest rate method	4.1	(388,040)	(159,870)
Other interest expenses	4.1	(251,113)	(153,352)
Net interest income		**565,557**	**365,727**
Income from fees and commissions	4.2	**188,872**	**142,020**
Expense from fees and commissions	4.2	**(49,431)**	**(37,591)**
Net income from fees and commissions		**139,441**	**104,429**
Results from financial instruments, net		**2,654**	**32,146**
Results from financial instruments measured at fair value through profit or loss, net	4.3	(72,105)	118,163
Results from financial instruments measured at fair value through other comprehensive income, net	4.3	2,784	(35,924)
Results from financial instruments measured at amortised cost, net	4.3	(2,414)	1,655
Results from hedge accounting, net	4.3	24,248	(5,288)
Exchange differences result, net	4.3	50,141	(46,460)
(Impairment) / Reversal on financial and non-financial instruments		**(75,461)**	**(93,176)**
Expected credit loss on financial instruments held for credit risk management	4.4	(58,618)	(65,005)
Provision (loss) / gain	4.4	(357)	(3,379)
Modification (loss) / gain on financial instruments	4.4	(14,449)	(23,222)
(Impairment) / Reversal on associates and other investments	4.4	(1,680)	(6)
(Impairment) / Reversal on other financial and non financial instruments	4.4	(357)	(1,564)
Dividend income	4.5	**1,628**	**728**
Operating expense	4.6	**(419,069)**	**(310,056)**
Other income	4.7	**25,776**	**13,317**
Other expense	4.7	**(21,215)**	**(10,536)**
Gain on negative goodwill	2.44	**4,821**	**-**
Share of associated companies' profit	4.16	**(2,256)**	**2,704**
Result from assets held for sale	4.31	**-**	**(1,893)**
Profit before taxation		**221,876**	**103,390**
Income tax income / (expense)	4.8	**(38,686)**	**(12,222)**
Profit for the year		**183,190**	**91,168**
Of which profit of the owners of the parent company		*176,679*	*88,942*
Of which profit of the non-controlling interest		*6,511*	*2,226*

Other comprehensive income	Note	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Items that may be reclassified to profit or loss		**53,202**	**4,972**
Hedging instruments (unmarked items)		*(333)*	*457*
Revaluation on financial assets measured at fair value through other comprehensive income		*58,303*	*3,917*
Income tax relating to items that will be reclassified		*(4,768)*	*598*
Items that may not be reclassified to profit or loss		**4,711**	**(210)**
Fair value changes of equity instruments measured at fair value through other comprehensive income		*4,711*	*(210)*
Income tax relating to items that will not be reclassified		*-*	*-*
Other comprehensive income for the year net of tax		**57,913**	**4,762**
Total comprehensive income		**241,103**	**95,930**
Of which total comprehensive income of the owners of the parent company		*234,233*	*93,606*
Of which total comprehensive income of the non-controlling interest		*6,870*	*2,324*
Profit / (Loss) attributable to:			
Profit/(loss) for the period from continuing operation		183,190	91,168
Profit/(loss) for the period from discontinued operation		-	-
Total comprehensive income attributable to:			
Total comprehensive income for the period from continuing operation		241,103	95,930
Total comprehensive income for the period from discontinued operation		-	-
Profit for the year available to ordinary shareholders		176,679	88,942
Average number of ordinary shares outstanding (thousands)		322,257	259,782
Earnings per Ordinary Share			
Basic (in HUF)	4.32	548	342
Diluted (in HUF)	4.32	548	342

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Retained earnings*	Other reserves	Accumulated other comprehensive income	Equity of the owners of the parent company	Non-controlling interest	Total equity
1 January 2022		**100,000**	**21,729**	**134,553**	**17,040**	**(23,569)**	**249,753**	**-**	**249,753**
Profit for the year		-	-	88,942	-	-	**88,942**	2,226	**91,168**
Other comprehensive income		-	-	-	-	4,664	**4,664**	98	**4,762**
Total comprehensive income for the year		**-**	**-**	**88,942**	**-**	**4,664**	**93,606**	**2,324**	**95,930**
Changes in treasury shares		85,982	122,239	-	-	-	**208,221**	-	**208,221**
Dividend paid		-	-	(4,300)	-	-	**(4,300)**	-	**(4,300)**
General reserve for the year		-	-	(6,463)	6,463	-	**-**	-	**-**
Increase from business combination - merger of Budapest Bank and Magyar Takarék Bankholding		135,717	169,979	(88,101)	9,049	(2,452)	**224,192**	37,125	**261,317**
Other changes in the ownership share in subsidiaries		-	-	(3,097)	-	-	**(3,097)**	912	**(2,185)**
Transactions with Owners		**221,699**	**292,218**	**(101,961)**	**15,512**	**(2,452)**	**425,016**	**38,037**	**463,053**
1 January 2023		**321,699**	**313,947**	**121,534**	**32,552**	**(21,357)**	**768,375**	**40,361**	**808,736**
Profit for the year		-	-	176,679	-	-	**176,679**	6,511	**183,190**
Other comprehensive income		-	-	-	-	57,554	**57,554**	359	**57,913**
Total comprehensive income for the year		**-**	**-**	**176,679**	**-**	**57,554**	**234,233**	**6,870**	**241,103**
Dividend paid		-	-	(25,093)	-	-	**(25,093)**	-	**(25,093)**
General reserve for the year		-	-	(11,832)	11,832	-	**-**	-	**-**
Changes from business combination – merger of Takarékbank Ltd.	2.45.2	831	34,947	(39,578)	6,682	-	**2,882**	(3,108)	**(226)**
Other changes in the ownership share in subsidiaries		-	-	(277)	-	268	**(9)**	(1,140)	**(1,149)**
Transactions with Owners		**831**	**34,947**	**(76,780)**	**18,514**	**268**	**(22,220)**	**(4,248)**	**(26,468)**
31 December 2023		**322,530**	**348,894**	**221,433**	**51,066**	**36,465**	**980,388**	**42,983**	**1,023,371**

** Reorganisation reserves described in note 2.3.2 are presented as part of retained earnings.*

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CONSOLIDATED STATEMENT OF CASH-FLOWS

	Note	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022*
Cash flows from operating activities			
Profit/ (Loss) before taxation		**221,876**	**103,390**
Adjustments for:			
Depreciation, amortization and impairment	4.6	35,655	27,320
Expected credit loss / (reversal) on financial instruments held for credit risk management	4.4	56,397	53 282
Impairment on securities, associates and other investments / (reversal of impairment)	4.4, 4.14, 4.15	3,901	582
Impairment / (reversal of impairment) on other assets		74	231
(Reversal of provisions for) / Recognise provisions on other items	4.23	1,382	3,379
Revaluation of loans and advances to customers mandatorily at fair value through profit or loss	4.11	(67,637)	39,410
Revaluation of securities		(9,287)	(25)
Revaluation of issued securities	4.21	(1,800)	(3,817)
Other revaluation differences	4.3	(21,736)	(88,345)
Net interest income	4.1	(565,557)	(365,727)
Dividends from shares and other non-fixed income securities	4.5	(1,628)	(728)
Negative goodwill		(4,821)	-
Foreign exchange movement		(7,174)	(22,024)
Adjusted profit / (loss) before taxation		**(360,355)**	**(253,072)**
Change in loans and advances to banks	4.15	32,506	(181,274)
Change in loans and advances to customers	4.15	(159,527)	233,747
Change in securities	4.12, 4.14	(179,967)	(89,422)
Change in derivative assets	4.13	167,855	(350,571)
Change in other assets	4.18	(14,890)	(38,394)
Change in amounts due to banks (short term)	4.20	(128,287)	320,485
Change in current and deposit accounts	4.20	383,222	209,702
Change in other liabilities	4.24	(532)	(39,251)
Change in derivative liabilities	4.13	(109,673)	154,133
Interest received	4.1	1,186,786	678,949
Interest paid	4.1	(669,618)	(313,222)
Dividends received	4.5	1,628	728
Income tax	4.8	(25,732)	(9,129)
Net change in assets and liabilities of operating activities		**483,771**	**576,481**
Net cash (used in) / generated by operating activities		**123,416**	**323,409**

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	Note	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022*
Cash flow from investing activities			
Change in cash due to business combinations	2.44, 2.45	35,017	-
Change in cash due to business combination under common control	2.44, 2.45	-	441,128
Purchase of PPEs and intangible assets	4.17	(49,111)	(117,711)
Disposals of PPEs and intangible assets	4.17	317	87,847
Purchase of securities measured at amortized cost	4.15	(372,901)	(501,166)
Disposals of securities measured at amortized cost	4.15	218,883	138,294
Non-current assets held for sale	4.31	-	5,001
Net cash (used in) / generated by investing activities		**(167,795)**	**53,393**
Cash flow from financing activities			
Increase in issued securities	4.21	237,312	3,251
Decrease in issued securities	4.21	(8,936)	-
Increase in subordinated liabilities	4.22	24,529	47,634
Cash outflows due to leases	4.25	(12,985)	(8,945)
Change in amounts due to banks (long-term)	4.20	(191,048)	(138,342)
Issue of new shares and income from share premium	1	-	208,221
Dividends paid	4.29	(25,093)	(4,300)
Net cash (used in) / generated by financing activities		**23,779**	**107,519**
Net increase / (decrease) of cash and cash-equivalents		**(20,600)**	**484,321**
Cash and cash-equivalents at 1 January		**1,361,315**	**854,970**
FX change on cash and cash-equivalents		7,174	22,024
Cash reserves at the end of period		**1,347,889**	**1,361,315**

** The structure of the consolidated cash-flow statement has been changed and comparatives have been restated. For further information please see Note 2.44.*

1. GENERAL INFORMATIONS

These consolidated financial statements for the year ended 31 December 2023 were approved by the MBH Bank Plc's (before the name change: MKB Bank Plc's, hereinafter: "MKB" or "MKB Bank", after the name change: "MBH" or "MBH Bank" or "Bank") Board of Directors on 3 April 2024.

MBH Bank is a commercial bank registered in Hungary, and operating under the effective laws of Hungary, particularly under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises. The headquarter of the Bank is at 38 Váci Street Budapest 1056.

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

On 30 October 2020, MKB Bank sold all of its shares representing 33.33% ownership in Magyar Bankholding Ltd. (hereinafter: „Magyar Bankholding") to its shareholders.

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

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Ltd., which owns MTB, approved the first step of the merger timetable of Budapest Bank, MKB Bank and Magyar Takarék Bankholding Ltd. In accordance with the merger schedule, based on the relevant decisions of the supreme bodies and in possession of the necessary regulatory approvals, the merger of the two member banks of Magyar Bankholding, Budapest Bank and MKB Bank, and Magyar Takarék Bankholding was completed on 31 March 2022. From 1 April 2022, the merged credit institution continued to operate temporarily under the name of MKB Bank Plc.

On 9 December 2022, the supreme bodies of MKB Bank and Takarékbank Ltd. - as part of the implementation of the second step of MBH's merger schedule - accepted the proposals regarding the merger of the two member banks. According to the decisions of the General Meetings, the two member banks of the banking group, MKB Bank and Takarékbank Ltd. merged on 30 April 2023, and then continued their operations under the name MBH Bank Plc, with a single brand name and image. With the triple bank merger led by Magyar Bankholding, Hungary's second largest universal major bank has been established through the integration of Budapest Bank, MKB Bank and Takarékbank.

The merger did not imply any change in the ownership structure of the banking group, the dominant shareholder of the banks involved in the merger process remained Magyar Bankholding.

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The shareholder structure of MBH Bank

On 9 December 2022, the General Meeting of MKB Bank decided by way of General Meeting resolution No. 57/2022 (9 December 2022) about the merger of Takarékbank into MKB Bank, and it decided by way of General Meeting Resolution No. 63/2022 (9 December) on the capital structure of the successor MBH Bank Plc, the proportion of the planned registered capital for it's shareholders and the quota of equity belongings to those owners who do not wish to participate in MBH Bank as a legal successor company.

The General Meeting determined that the registered capital of MBH Bank as receiving company shall increase to HUF 322,529,625,000 (31 December 2022: HUF 321,698,958,000). The 830,667 pieces of Series "A" ordinary shares with a nominal value of HUF 1,000.00 each newly issued within the framework of the merger have been originated by KELER, registered in the share register of the Bank and listed to the "Standard" category of BSE as of 1 August 2023. Since the holders of the new shares issued as a result of the merger were the shareholders of Takarékbank as the merging company, the shareholding and voting rights of Magyar Bankholding in MBH Bank decreased from 99.12% to 98.87% as a result of the merger and the shareholding and voting rights of the other shareholders of the Bank increased proportionately from 0.88% to 1.13%.

The Bank's share capital consists entirely of Series „A" ordinary shares, each of which carries the same rights.

The shareholder structure of MBH Bank is the following as of 31 December 2023:

Owner	Number of shares	Total nominal value of shares (HUF)	Ownership share (%)
Magyar Bankholding Ltd.	318,883,966	318,883,966,000	98,87%
Public contribution rate:	3,645,659	3,645,659,000	1,13%
Total	**322,529,625**	**322,529,625,000**	**100,00%**

There were no changes in the ownership structure of Magyar Bankholding Ltd. during the current period ended at 31 December 2023, as follows:

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

* *EIRENE Magántőkealap merged to GLOBAL ALFA Magántőkealap*

There is no single entity that is ultimate controlling party among the shareholders of Magyar Bankholding Ltd.

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

Chairman of the Supervisory Board:
- Dr. Andor Nagy

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

Subsidiaries

Changes in the Group's scope of accounting consolidation during the period:
- MBH Bank established a new company, MBH Domo Llc.
- MBH Bank acquired the majority of investment fund shares of MBH Vállalati Stabil Abszolút Hozamú Kötvény Investment Fund
- MBH Bank acquired 98.46% share capital of Duna Takarék Bank Ltd.

After the merger of MKB and Takarékbank on 30 April 2023, it continued its operation under the name MBH Bank Plc. from 1 May 2023. Accordingly, the names of several subsidiaries of the Bank have changed as described below.

The fully consolidated subsidiaries of the Group as at 31 December 2023 are as follows:

Company name before the name change	Company name on BS date
MITRA Informatikai Ltd.	MITRA Informatikai Ltd.
Magyar Takarékszövetkezeti Bank Ltd.	MBH Investment Bank Co. Ltd.
Takarék Mortgage Bank Co. Plc.	MBH Mortgage Bank Co. Plc.
Takarék Lízing Ltd.	Euroleasing Real Estate Ltd.
Takarék Ingatlan Ltd.	Takarék Ingatlan Ltd.
Takarék INVEST Ltd.	MBH Blue Sky Ltd.
TIHASZ Takarék Ingatlanhasznosító Ltd.	MBH Services Plc.
MBH Domo Llc.	MBH Domo Llc.
Takarék Faktorház Ltd.	Takarék Faktorház Ltd.
Takinfo Ltd.	Takinfo Ltd.
Takarék Zártkörű Investment Fund	Takarék Zártkörű Investment Fund
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Takarék Mezőgazdasági és Fejlesztési Magántőkealap
OPUS TM-1 Investment Fund	OPUS TM-1 Investment Fund
MKB Vállalati Stabil Rövid Kötvény Investment Fund	MBH Vállalati Stabil Abszolút Hozamú Kötvény Investment Fund
MKB Üzemeltetési Ltd.	MBH Real Estate Development Ltd.
Euroleasing Ltd.	Euroleasing Ltd.
MKB Bank MRP Szervezet	MBH Bank MRP Szervezet
Retail Prod Ltd.	Retail Prod Ltd.
Budapest Equipment Finance Privately Held Share	Budapest Equipment Finance Privately Held Share
Budapest Leasing Privately Held Share Company	Budapest Leasing Privately Held Share Company
MKB Fund Management Ltd.	MBH Fund Management Ltd.
Duna Takarék Bank Ltd.	MBH Duna Bank Ltd.

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

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

2. MATERIAL ACCOUNTING POLICY INFORMATION

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

2.1 Compliance with International Financial Reporting Standards

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

2.2 Basis of measurement

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

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts presented in the financial statements are described in Note 2.46.

2.3 Basis of consolidation, consolidated financial statements

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

The consolidated accounting policy of the Group, in consideration of the above, contains the accounting principles, procedures applied as well as other regulations related to the preparation of consolidated financial statements.

The subsidiaries are economic entities controlled by the Group. Control exists when the Group, resulting from its involvement in the subsidiaries, is exposed to variable yields or has rights in relation to them and it is able to influence these yields through its power exerted over the subsidiaries. Control is determined by taking into consideration the actual and potential voting rights. Newly-acquired subsidiaries are involved in the consolidation from the date when the Group acquires control over them. If the subsidiary does not have a financial statement for the date of acquisition, then it will be involved using the data of its financial statement nearest the date of its acquisition.

2.3.1 Acquisition method

Acquisition of subsidiaries (not under common control) are accounted for using the acquisition method in accordance with IFRS 3.

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

Presenting and measuring goodwill or gain from a bargain purchase

Where the cost of acquisition is higher than the fair value of identifiable assets, liabilities, contingent liabilities belong to the Group, the difference is presented as goodwill The Group presents goodwill at the time of the acquisition in accordance with the IFRS 3.

The Group carried out a profitable bargain if such a business combination took place, where the identifiable assets and liabilities of the Group increased the cost of acquisition. The Group records the profit resulting therefrom in the income at the time of the acquisition.

Goodwill impairment

Goodwill is subject to impairment testing in accordance with the IAS 36 "Impairment of Assets" standard and is impaired according to the standard.

Deferred tax

The acquired identifiable assets and assumed liabilities are presented by the Group at their fair value as of the date of the acquisition, and if the tax base of the acquired identifiable asset or assumed liability is not affected by the business combination or is affected differently, a temporary difference is recognised.

Non-controlling interest

The initial amount of the non-controlling interest is the fair value of the proportionate share of the acquired entity’s identifiable net assets. The Group allocates the result and every item in the other comprehensive income to the owners of the parent company and to the non-controlling interests.

2.3.2 Acquisition under common control

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

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

The accounting treatment of business combinations under common control is not in the scope of IFRS 3, it is accounted for according to the book value method.

Accounting according to book-value method

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

The difference between the consideration and the book value of the acquired entity's assets and liabilities (i.e. its net assets) at the time of the transaction is presented in the consolidated equity - separately within retained earnings - as a reorganization reserve. The reorganisation reserve is either reducing or increasing the consolidated retained earnings. By applying the book-value method goodwill can not arise.

Assumptions, considerations

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

1) *Non-controlling interest*
If the amount of non-controlling interests in the transaction is material, the acquisition method is more appropriate to be applied, however if in the transaction the amount of non-controlling interest is not material, the application of the book value method is also appropriate.

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

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

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

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Presentation in financial statements

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

2.3.3 Accounting for associates and joint ventures

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

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the Group elects to measure that investment at fair value through profit or loss in accordance with IFRS 9. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.

2.3.4 Special consolidation rules

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

2.4 Investments in subsidiaries, jointly controlled entities and associates

Subsidiaries are entities controlled by the Group. Please see the list of subsidiaries in Note 1. „General informations". Please see the list of associates in Note 4.16.

2.5 Intangible assets

Intangible assets that have a finite useful life are measured initially at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their estimated useful life from the date when the asset is available for use, applying the straight-line method. The useful lives are reviewed annually.

The following depreciation rates are applied by the Group 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.

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

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2.6 Property, plant and equipment

Items of property, plant and equipment including investment properties 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 the "Operating expense" line in the consolidated statement of profit or loss and other comprehensive income.

The Group applies the following linear depreciation rates for the depreciation cost calculation:

Property	0-14%
Land	0%
Building, other facility	2%
Image items	14%
IT networks	12%
Renovation of property	6% - 14,7%
Office equipments	9% - 33%
IT devices	33% - 50%
Vehicles	10% - 33%
Other equipments	7% - 50%

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

2.7 Investment property

Investment properties are held by the Group for rental income and capital appreciation.

The Group uses the cost model for investment properties, the fair value of the investment properties is reviewed annually by an independent valuer. Should the fair value be lower than the carrying amount, impairment loss shall be recognised through profit or loss.

2.8 Cash and cash-equivalents

Cash and cash-equivalents include highly-liquid financial assets with original maturities of less than three months, with an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term obligations.

2.9 Initial recognition and measurement of financial instruments

Financial assets are recognised by the Group on settlement date. All financial instruments are measured at fair value at initial recognition. Trade receivables, if they do not contain a significant financing component, are recognised at transaction price by the Group. The Group measures its financial assets at amortised cost if supported by the results of the business model test and if they meet the criteria of the SPPI test. Interest income and interest expense should be determined using the effective interest rate method and then recognised in the Profit or Loss statement.

Simplified approach for contract assets and lease receivables

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

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

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

2.10 Classification and subsequent measurement of financial instruments

Based on the principles of IFRS 9 standard the Group 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 Group 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 Group, not just the intent, but also the ability. The classification is not based on scenarios that are not reasonably expected ('worst case' or 'stress case' scenario). If the Group sells a particular portfolio or financial asset in a ‘stress case’ scenario, it does not affect the evaluation of the business model. The 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 Group examines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as leverage or other mismatch in interest rate, 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.

For selected financial instruments the Group makes an irrevocable 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 cases these financial assets should be measured at fair value through profit or loss.

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

2.11 Classification and subsequent measurement of financial liabilities

The Group classifies its financial liabilities into the following categories:

- mandatory FVTPL measurement (FVTPL category) if liabilities are held for trading,
- FVTPL option – based on the decision of the Group at initial recognition (if qualifying criteria are met),
- at amortised cost – in case of all other financial liabilities.

2.12 Fair value option (FVO)

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

2.13 Determination and recognition of expected credit loss

When classifying the Group's exposures, the customer's / partner's ability to pay is taken into account as the primary cover for the exposure. Except for those transactions that are covered by collateral which is independent of the financial and legal situation of the customer / partner and the recovery of the loan is fully guaranteed.

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

The Group assesses at each reporting date whether the credit risk of the financial asset has increased significantly since the initial recognition. The Group determines the significant increase in credit risk based on the examination of the following four conditions:

- changes in the clients' rating after the issuance,
- PD change in the master scale compared to the initial value,
- delay in payment (30 days),
- the amount of the client's exposure classified as Stage 2 exceeds a certain proportion of its gross exposure.

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

Financial assets whose default risk has increased to such an extent after initial recognition that there is objective evidence of impairment, have to be assigned to Stage 3 and loss allowance has to be recognised by calculating the lifetime expected credit loss (ECL). Group defines materiality threshold, exposure that is below that threshold should be considered as a small amount (below the limit). The ECL 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 ECL should be calculated according to the relevant principles of IFRS 9 for classes of clients calculated on a monthly basis, automatically.

Factors taken into account when determining expected credit loss:

- remaining lifetime,
- exposure at default (EaD),
- loss given default (LGD),
- probability of default (PD),
- credit conversion-factor (CCF),
- effective interest rate (EIR).

The amount of impairment and allowance equals the amount of expected credit loss. In Stage 1 the expected credit loss is equal to 12-month ECL. In Stage 2 and Stage 3 the expected credit loss is equal to the lifetime ECL.

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

The Group calculates lifetime ECL, except for the following financial instruments for which the loss is calculated for 12 months:

- financial instruments except for lease receivables and trade receivables, which credit risk did not significantly increase compared to initial recognition.

The Group does not use the low credit risk exemption.

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

Expected credit losses are probability-weighted estimates of credit losses during the life expectancy of a financial asset. These are assessed by the Group as follows:

- financial assets not impaired at the reporting date: discounted loss on cash flow (difference between the contractual cash flows and the expected cash flows),
- financial assets impaired at the reporting date: difference between the gross carrying amount and the estimated present value of the expected outstanding amount,
- undrawn loan commitments: present value of the difference between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down the loan and the cash flows that the entity expects to receive if the loan is drawn down,
- financial guarantee contracts: expected payments to the holder, reduced by the amounts that are expected to be recovered.

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

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

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

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

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

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

- in the case of clients / debtors subject to individual valuation, the Group determines the amount of provision individually,
- in the case of clients / debtors subject to collective valuation, the Group determines the EAD and the amount of provision by the probability of default of the guarantor.

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

2.14 Determination of fair value

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

For further information related to Funding for Growth Scheme (FGS) please see Note 4.18.

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 (for further information related to fair value measurement of financial instruments please see Note 4.30).

2.15 Derecognition of financial assets

The Group derecognises a financial asset in case of transfer in accordance with the IFRS 9 standard. When the Group transfers a financial asset, based on 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 Group's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The computation and comparison are made using the current market interest rate as a discount rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.

The Group has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. Asset transfers holding all or substantially all of the risks and rewards could be for example repo transactions (for repo transactions, the Group considers whether the risks and rewards incurred in the transaction are substantially transferred or not).

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

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

For debt instrument assets not measured at FVTPL 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 consolidated statement of profit or loss and other comprehensive income. The modification gain or loss is presented in the line 'Interest and similar to interest income' under 'Interest income using effective interest rate method' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line 'Impairment/ Reversal on financial and non-financial instruments'. However, to the extent that the contractual modification involves the bank giving up its rights of collecting cash flows in respect of an outstanding amount of the asset, such as waiving (part of) principal or accrued interest amount, it is treated as a write-off.

The Group considers it a significant change if the contractual currency is modified, or if the contractual interest rate is changed from variable to fix, or inversely. When this condition is met management may consider the specific characteristics of the financial instrument and make a formal decision to derecognise and recognise. The fulfillment of the condition does not necessarily result in the derecognition of the financial instrument.

Write-off of financial assets under legal proceeding

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

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

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

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

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

2.16 Derecognition of financial liabilities

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

2.17 Financial guarantee contracts

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

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

2.18 Non-current assets held for sale and discontinued operations

Financial instruments that meet the IFRS 5 criteria are recognised as held for sale by the Group.

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

A disposal group classified as held for sale may qualify for the definition of the discontinued operations. The result of the discontinued operation and the gains or losses at sale should be recognised in a separate line in the consolidated statement of profit or loss and other comprehensive income by the Group.

Find further details on non-current financial assets and liabilities held for sale in Note 4.31.

2.19 Financial assets and liabilities held for trading

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

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

2.20 Securities measured at FVTOCI

Securities are classified as held to collect and sell if there was a decision made previously about possible disposal in case of the changes in market conditions. By these assets the objective is to achieve both collecting contractual cash flows and selling financial assets. Financial investments are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities and are derecognised when either the securities are sold or the borrowers repay their obligations. The liquid securities are initially measured at fair value modified by direct and incremental transaction costs. Securities measured at FVTOCI are subsequently remeasured at fair value, and changes therein are recognised in the Other comprehensive income. Relating to these assets impairment gains / losses, interest income and foreign exchange differences should be accounted in the consolidated statement of profit or loss. When these securities are sold, cumulative gains or losses are recognised in the consolidated statement of profit or loss and other comprehensive income as “Results from financial instruments measured at FVTOCI, net”.

2.21 Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models. 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 recognised in Other interest income/expenses. Fair value differences related to derivatives are recognised in Results from financial instruments measured at FVTPL.

2.22 Hedging transactions

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

The Group prepares hedging documentation containing the purpose of the hedge relationship, the ID codes, the terms and conditions of the hedged and hedge transactions, the risk intended to be hedged and the method for measuring hedging efficiency. The Group assesses hedging efficiency on the day of the creation of the hedge and monthly thereafter, at the end of the month. Assessment methods used: dollar offset and scenario analysis (parallel changing the interest rates of the transactions under the terms and conditions by +/-250 basis points). The Group regards a hedge relationship as effective if there is an economic relationship between the hedged and the hedge items (interest rates move between the hedging transaction and the underlying transaction in the same way in the opposite directions) and the hedge effectiveness is at a pre-fixed required level.

In the consolidated statement of profit or loss and other comprehensive income the following lines contain the gains and losses in connection with the hedging instruments (including the ineffective part):

I. Other interest income / expense
II. Results from hedge accounting (including change in the fair value of hedged instruments)

In the consolidated statement of financial position the fair value change of hedging instruments recorded in Hedging Derivative assets/liabilities.

Macro hedge transaction

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

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

In accordance with the IAS 39 carve out rules, the Group measures efficiency both retrospectively and prospectively. For portfolio hedging, there is effectiveness between the hedging and the underlying transactions if, according to the scenario analysis, upon shifting the interest curve in either direction the relative percentage of changes in the fair values of the hedged and hedging transactions falls between 80 and 125%.

The fair value change of the hedged item in portfolio hedge of interest rate risk is recorded in the „Fair Value Change of Hedged item in portfolio hedge of interest rate risk”.

Micro hedge transaction

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

For the calculation of fair value change of the hedged instruments the Group uses a so-called hypothetical transaction; each parameter of this transaction is identical to that of the original transaction. Upon the valuation at fair value of the instruments included in the hedge relationship, the Group only considers the impacts attributable to interest rate risk and in certain cases foreign currency 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 consolidated statement of profit or loss 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. The fair value change of hedged item is recorded in the same line in the consolidated statement of financial position 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 consolidated statement of profit or loss for the period.

The Group used fair value hedges during the reporting period.

2.23 Leases

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

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

The Group recognises the right-of-use asset and the lease liability as at the commencement date of the lease, at the cost determined by IFRS 16. On subsequent measurement, the Group measures the right-of-use assets at cost and recognises depreciation on it from the commencement date to the end of the useful life of the underlying asset. After the commencement date of the lease term, the Group depreciates the asset on a straight-line basis. After the commencement date, the Group measures the lease liability at amortised cost using the effective interest rate method.

The Group as a lessor classifies its leasing contracts as finance leases or operating leases based on requirements of the standard.

Presentation in the financial statements

During the lease term, the Group recognises lease payments for short-term leases and low value leases (HUF 1,5 million) as an expense in the consolidated 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 consolidated statement of financial position. After the commencement date the Group recognises the related costs in the consolidated statement of profit or loss and other comprehensive income , if these are not recognised as part of the cost of the right-of-use asset. Interest on lease liabilities is included in "Other interest expenses". The depreciation of a right-of-use asset is recognised as "Operating expense".

The Group classifies the right-of-use assets arising from operating leases that are leased or subleased in the consolidated statement of financial position as Property, plant and equipment.

2.24 Deposits, debt securities issued and subordinated liabilities

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

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

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

2.25 Provisions

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

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

2.26 Income tax

Income tax comprises current tax and deferred tax.

By accounting treatment for current and future income tax, the Group recognises the tax consequences of the future recovery / settlement of the carrying amount of assets, liabilities, transactions and other events of the current period that are recognised in the consolidated statement of financial position. From 2022 the Group classifies the corporate income tax, local business tax and innovation contribution as income tax.

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

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

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

2.27 Interest and similar to interest income and expense

Interest income and interest expense are recognised 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 Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. The Group has recorded the modification loss of stage 1 financial assets among the interest income.

“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 (mainly loans), derivatives (interest rate swaps), 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.

The Group applies the simplified approach for financial assets that have no payment schedule (e.g. revolving loans, overdraft, 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 recognised as revenue or expense at arisen date.

2.28 Net income from commissions and fees

„Net income from commision and fees” comprises fee and commision income and expense that are not part of the amortised cost of the financial instruments. The fee and commission that is part of the Effective Interest Rate (hereinafter: EIR) calculation are presented as interest income and expense.

The Group applies IFRS 15 for fee and commision incomes that are not part of the EIR calculation method based on IFRS 9.

Fee and commission income, that is not part of the EIR calculation is accounted for as follows:
- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example the arrangement for the acquisition of shares or other securities) and
- income earned from the provision of services is recognised as revenue as the services are provided (for example asset management and service fees).

2.29 Results from financial instruments

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

2.30 Dividends

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

2.31 Employee benefits

Short-term employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service. Under the Group’s policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave appears in operating expenses.

Long-term employee benefits

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

Termination benefits

The Group recognises termination benefits as a liability and an expense when it has a demonstrable obligation to terminate the employment of an employee or a group of employees before the normal retirement date or to offer termination benefits as an incentive to encourage employees to voluntarily leave the Group. In case of redundancy, obligation can be recognised when the employee's contract of employment is terminated. In the case of a reorganisation, the group has an unavoidable obligation to pay termination benefits when it has a detailed formal plan and no possibility of withdrawal. The detailed plan includes, as a minimum, the following elements: the job, function and number of employees whose employment will be terminated; the termination benefits for each group; and the date of implementation.

2.32 Bank tax, 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 liability for the year 2023 has been amended by the Government Decree No 206/2023 (31.V), therefore separated 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 is presented among operating expenses, total amount of expenditure for the year is accounted for at the beginning of the year. The Group presents the whole expense of extra profit tax and bank tax according to IFRIC 21.

2.33 Segment reporting

The Group uses only business segment reporting. The Group allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm's length terms and conditions. Find further details on segment reporting in Note 4.33. The Group does not have any foreign segments.

2.34 Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the official exchange rate of the NBH at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

2.35 Share capital

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

2.36 Treasury shares

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

2.37 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. For further information about basic and diluted EPS, please see Note 4.32.

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

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 extra-profit 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.

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

2.39 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2023

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

- **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. The amendments resulted in changes in presentation of these consolidated financial statements, primarily by removing significant accounting policies that do not represent material accounting policy information.

- **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 (not mentioned above) has not led to any material changes in the Group's financial statements.

2.40 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).

2.41 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).

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

2.42 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 deferred indefinitely.

The Group is currently assessing the impact of those above mentioned standards.

Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

2.43 Availability of consolidated financial statements and annual report

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

Registered office: 38 Váci Street Budapest 1056.
Website: www.mbhbank.hu

Auditing company:
PricewaterhouseCoopers Auditing Ltd.

Auditor personally responsible:
Árpád Balázs

Person responsible for managing and controlling the accounting services tasks:
Edit Júlia Tóth-Zsinka, Managing director of finance and reporting
Ildikó Brigitta Tóthné Fodor, Head of accounting (registration number: 007048)

Fee of audit and other services provided by the auditor*:

	2023	2022
Annual fee of audit services	625,410,000	460,960,000
Other audit services provided by the auditor	260,699,539	194,900,000
Fee for other assurance services	73,000,000	39,900,000
Non-audit services provided by the auditor	82,468,150	33,900,000
Total fee of services provided by the auditor	**1,041,577,689**	**729,660,000**

**The fees shown are in HUF and do not include VAT.*

Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

2.44 Comparative figures

Due to the merger of Budapest Bank (BB Group) and Magyar Takarék Bankholding Ltd. (Takarék Group) into MKB Bank on 1 April 2022, the comparatives of the consolidated statement of profit or loss and other comprehensive income contain the net income of BB Group and MTB and their subsidiaries (Takarék Group) for a period of 9 month from April 1 2022 to 31 December 2022.

The merger of Takarékbank has no impact on the presentation of the current consolidated financial statements except for the transfer among equity elements that is required by the local regulations, as it was part of Magyar Takarék Bankholding Ltd. group before the merger.

MBH Bank acquired 98.46% share capital of Duna Takarék Bank Ltd., the transaction was completed on 29 September 2023, the consolidated statement of profit or loss and other comprehensive income contains the net income of Duna Takarék Bank Ltd. for a period of 3 month from 1 October 2023 to 31 December 2023. For further information please see note 2.45.1.

Consolidated financial statements of MBH Bank Plc. containing the following data:

	FS – 2022 YE		FS – 2023 YE	
	Balance sheet	**Profit or loss**	**Balance sheet**	**Profit or loss**
MKB Group	included	1-12 months	included	1-12 months
BB Group	included	4-12 months	included	1-12 months
Takarék Group	included	4-12 months	included	1-12 months

Because of the merger in 2022, there is a significant effect on certain P&L lines such as interest income, interest expense, commission income, operating expenses.

Restructures of Consolidated Statement of Cash-Flows

The provisions of credit limits and guarantees have been reclassified from *„(Reversal of provisions for) / Recognise provisions on off-Balance Sheet items and settlement for customers”* to *„Expected credit loss / (reversal) on financial instruments held for credit risk management”*. The former designation of provision cash-flow line has been renamed to *„(Reversal of provisions for) / Recognise provisions on other items”* and separately presents the other provisions of the operations (e.g: litigations or pension).

Fair value change of customer loans is shown in the line *„Revaluation of loans and advances to customers mandatorily at fair value through profit or loss”,* which is presented in the net cash (used in)/ generated by operating activities section of the Cash-Flow Statement.

Changes of securities held for trading and securities measured at fair value through other comprehensive income have been reclassified from the section of net cash (used in)/ generated by investing activities to the section of net cash (used in)/ generated by operating activities, as *„Change in securities”.* Purchase and disposal of the securities measured at amortised cost presents in the section of net cash (used in)/ generated by investing activities.

These amendments mentioned above have been also restated in the comparative figures of the consolidated statement of cash-flow.

Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

2.45 Business combinations during the reporting period

2.45.1 Duna Takarék Bank Ltd.

MBH Bank Plc. has made a purchase agreement with Duna Takarék Bank Ltd. about its 98.46% direct shareholding. The supervisory approval of the transaction has been successfully completed and the NBH as the supervisory authority has approved the acquisition by its decision H-EN-I-452/2023 dated 15 September 2023. Subsequently, the transaction was completed on 29 September 2023. The Purchaser paid the purchase price (HUF 3,9 billion) and the Seller transferred 270,084 ordinary shares as set out in the agreement.

Following the transaction, MBH Bank Plc., as the parent company of MBH Group, acquired control over Duna Takarék Bank Ltd. (MBH Duna Bank Ltd. from 01.12.2023; hereinafter MBH Duna Bank Ltd.) and fully consolidates it as of 30 September 2023. The business combination is accounted for using the acquisition method.

The following table states the fair value of assets and liabilities acquired through business combination.

	MBH Duna Bank Ltd. 2023.09.30
Cash and cash-equivalents	45,638
Financial assets measured at fair value through profit or loss	16,957
Financial assets measured at fair value through other comprehensive income	2,043
Financial assets measured at amortised cost	65,048
Property, plant and equipment	987
Intangible assets	326
Fair value change of hedged items in portfolio hedge of interest rate risk	11
Other assets	814
Assets held for sale	66
Total assets	**131,890**
Financial liabilities measured at amortised cost	121,298
Provisions	165
Other liabilities	1,570
Total liabilities	**123,033**

The total change in cash due to business combinations is HUF 35,017 million of which an amount of HUF 41,738 million is related to the acquisition of MBH Duna Bank Ltd., which is the difference between the cash acquired and the purchase price paid.

In connection with the business combination, non-controlling interests of HUF 142 million and negative goodwill of HUF 4,821 million were recognised. The result of MBH Duna Bank Ltd. has been recognised in these consolidated financial statements from 1 October 2023. In case MBH Duna Bank Ltd. had been part of the Group for the full financial year, the consolidated total comprehensive income would have been HUF 245,104 million and the net interest income would have been HUF 574,209 million.

Financial assets include government bonds, loans and advances to banks and loans and advances to customers. For loans and advances to customers acquired the gross contractual amount receivable is HUF 44,020 million (of which the retail portfolio is HUF 27,345 million; the wholesale portfolio is HUF 16,675 million).

2.45.2 Merger of Takarékbank

The extraordinary general meeting of MKB Bank held on 9 December 2022 decided on the merger of Takarékbank to MKB Bank in its resolution No. 57/2022 (9 December) and on the planned share capital of MBH Bank as the successor company in its resolution No. 63/2022 (9 December).

The effect of the merger on the consolidated financial statements is shown in the row "Changes from business combination – merger of Takarékbank Ltd." of the consolidated statement of changes in equity, as a rearrangement between capital elements.

2.46 Use of estimates and judgements

Management discusses with the Group's Supervisory Board the development, selection and disclosure of the critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 3).

Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances. Uncertain or unanticipated future events could result in material adjustments to provisions or additional allowances. The accounting values determined are not fair values or market prices that might be determined if the underlying assets are sold to a third party. For further information please see Note 3.2.5.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument (see also Note 4.30).

Deferred tax on tax loss carryforward

Deferred tax assets are recognised 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. Judgement is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For further information about the deferred tax on tax loss carryforward, please refer to Note 4.8.

3. RISK MANAGEMENT

3.1 Introduction and overview

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

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

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

The risk self-assessment of the Group is prepared at least annually as part of the ICAAP review process.

Credit risk

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

- Participations risk:
  The participation risk is defined as the risk related to the following events:
  - potential losses from providing equity instruments or subordinated loan capital. This involves potential losses realized during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment,
  - potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.

- Risk of other assets:
  Risk of other assets means risk arising from related claims (primarily real estate, tangible assets, other claims) from non-lending assets.

- Counterparty risk:
  Counterparty risk means potential losses from a counterparty's failure to perform its contractual obligation before the conclusion of the specific transaction (i.e. before the final settlement of cash flows). As a type of credit risk, this risk affects derivatives, repo and other securities financing transactions. Another characteristic feature of counterparty risks is their bilateral character; in other words, the respective positions can take on an opposing (market) risk profile from the perspective of the counterparties participating in the given transaction which, among other things, provides an opportunity for netting positions and settlements.

- Credit valuation adjustment risk (CVA):
  Credit valuation adjustment risk is defined as the adjustment of the counterparty's portfolio to the average market value.

- Concentration risk:
  The concentration of risks means the risk exposure that is able to generate such losses that endangers the institution's business activities or causes significant changes in the risk profile of the institution. It is fundamentally originated from credit risk but it causes effect with other risks in tight interaction.

- Residual risks:
  Residual risks are risks associated with the significant devaluation or limited applicability of collateral covering credit exposures. In other words, residual risk is the risk that recognised credit risk mitigation techniques used by the credit institution prove less effective.

- Foreign exchange (FX) lending risk:
  FX lending risk is the potential threat of a loss from lending in a currency other than the legal currency of the country of the borrower's residence.

Liquidity risk

Liquidity is the institution's ability to finance the growth of its assets and meet its maturing obligations without incurring significant and unexpected losses. Liquidity risk is embodied in long-term lending from short-term liabilities (maturity transformation carried out for the sake of profitability), mass disinvestment before maturity, the renewability of funds, changes in funding costs, environmental effects and the uncertainty of the behavior of other market participants.

Market risk

Market risk is the current or prospective risk of losses on balance sheet and off-balance sheet positions arising from changes in market prices (changes in bond prices, security or commodity prices, exchange rates or interest rates that impact the positions).

- Interest rate and exchange rate risk in the trading book:
  Market risk is the present and/or future danger of losses arising from changes in market prices (changes in the exchange rate of bonds, securities, commodities, currencies or interest rate affecting the position) on off-balance and on-balance sheet position.

- Interest rate risk in the banking book:
  Interest rate risk in the banking book is the possibility that income and/or institution's economic value of equity originating from banking book positions changes adversely as a result of changes in market interest rates.

- Credit spread risk from non-trading book activities:
  Risk driven by changes of the market price for credit risk, for liquidity and for potentially other characteristics of credit-risky instruments, which is not captured by another existing prudential framework such as IRRBB or by expected credit/(jump to-) default risk. Credit spread risk captures the risk of an instrument's changing spread while assuming the same level of creditworthiness, i.e. how the credit spread is moving within a certain rating/PD range.

Operational risks

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, conduct risk, reputational risk, modelling risk and information and communication technology (ICT) risk.

- Legal and business risk:
  Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law, a delay in reacting to changes in legal framework conditions, unexpected or ex post facto changes in legal framework respectively courts diverse legal judgements from the Group's side. The legal risk includes conduct risk in the supply of financial services originated from an inadequate supply of services or deliberately exhibited impermissible conduct. This includes risks arising from fraud and unfair, unethical or aggressive trading practices harmful to consumers.

- Reputational risk:
  Reputational risk is the current or prospective indirect risk to liquidity, earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators. It is manifested in the fact that the external opinion on the institution is less favourable than desired.

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

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

Other significant risks

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

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

Risk management governance

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

Committees	Main responsibilities
Supervisory Board	- Control the management of the Group in order to protect the interests of the Group. - Control of the harmonized and prudent operation of the Company and the credit institutions, financial enterprises and investment companies under its controlling influence. - Steers the Group's internal audit organization. - Analyzing the regular and ad-hoc reports prepared by the Board of Directors. - Decision on matters conferred to its competence by the Civil Code, Credit Institutions Act or the Articles of Association.
Audit Committee	- The Audit Committee assists the Supervisory Board in the audit of the financial reporting system and in the selection of the auditor and in cooperation with the auditor.
Risk Assumption, Risk Management Committee	- As part of its ongoing monitoring of the Group's risk-taking strategy and risk appetite, the Committee reviews the risk strategy, remuneration policy and quarterly risk report in advance. The Committee supports the Board of Directors in supervising the implementation of the risk strategy.
Remuneration Committee	- The Remuneration Committee is responsible for the preparation of decisions regarding remuneration, taking into account the long-term interests of shareholders, investors and other stakeholders in the company. Within such competence the Remuneration Committee prepares the performance evaluation and ex-post risk assessment of the Chairman and CEO, Deputy CEOs and other board members, it evaluates the achievement of performance goals. The committee ensures the implementation of the remuneration policy. The Remuneration Committee furthermore oversees the remuneration of the senior officers in the risk management and compliance functions, including the employees carrying out internal control functions.
Nomination Committee	- The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees. It is furthermore responsible for determining the skills and tasks required for membership of the management bodies, evaluating the composition and performance of the management bodies and its members. Determining the gender ratio within the management body and developing the strategy necessary to achieve this. It regularly reviews the Company's policy on the selection and appointment of managing directors.
Board of Directors	- As the Group's operative managing body the Board of Directors carries out management-related tasks and ensures the keeping of the Group's business books in compliance with the regulations; - It pursues tasks related to the shares and dividend. - Tasks related to the company's organization and scope of activities. - Tasks related to strategic planning (preparation of the business policy and financial plan, and approval of the risk strategy). - It approves the policies related to risk assumptions. - It evaluates regular and ad-hoc reports.
Management Committee (MC)	- The MC is the operative decision-making and decision-preparation body covering the entire operation of the Group. The MC decides on general and strategic issues submitted to it, on business-related matters concerning the operation and organization of the Group, the management and development of human resources, as well as business related matters. The MC regularly reviews and discusses current issues affecting the operation of the Group and prescribes measures if necessary.

Credit and Debt Management Committee	- According to the relevant regulations, it makes decisions related to credit and partner risk assumptions referred to its competence, and discusses in advance proposals related to credit and partner risk assumption within the competence of the Board of Directors. - The committee also functions as debt management committee, its task is to supervise and manage the sale of receivables and its process, the practical implementation of the NPL strategy, taking the necessary measures, supervising the management of non-performing exposures, furthermore its task is to make risk assumption decisions, which fall within its decision-making authority based on the provisions of the risk decision competence rules.
Asset and Liability Committee (ALCO)	- The ALCO has primary responsibility for asset and liability management, and exercises competencies in liquidity and market risk management, capital management - Develops and approves the appropriate balance sheet risk guidelines for the management of risks arising from asset-liability management and monitors their compliance, determines the necessary measures - It sets internal settlement prices and risk price levels within its pricing powers - It approves securities issuance programs and individual issuances
Group Banking Operations Committee (GBOC)	- GBOC is responsible for the holding and group member level banking operations, with a focus on profitability, cost, investment and resource management. - Exercises financial control over the portfolio and the profitability of specific group members and subsidiaries. - It sets and monitors product profitability expectations, targets and changes in market position, decides on budget utilisation, investments and commitments within defined limits.
Internal Defence Lines Committee	- The Internal Defence Lines Committee is primarily a consultative forum between internal defence lines. It is responsible for the integration of communication among the various defence lines and making it regular and systemic and for the improvement and establishment of communication channels where appropriate. - With its preventive, proactive activities, it identifies and effectively manages, or orders the management of, in a timely and effective manner, the risks affecting the Group that may lead to non-compliance with laws, external regulatory investigations or adverse decisions by the authorities supervising banking operations, and ensures that any necessary corrective actions are taken promptly.
Methodology Committee (MC)	- It controls the implementation of the group-wide risk strategy and risk strategy limit system. - It approves all methodological, modelling, limit setting and monitoring, supervisory, regulatory and reporting proposals related to credit risk, concentration risk and country risk, counterparty risk, operational risk under Pillar 1, risks under Pillar 2, and the ICAAP-SREP methodology and the exercise of supervision/control, the Recovery Plan and the resolution framework. - Its responsibilities include the discussion of the NPL strategy, related methodological, modelling, internal portfolio setting and monitoring, supervisory, regulatory and reporting proposals, including individual and portfolio-level decisions on impairment and provisioning.
Product Sales and Pricing Committee (PSPC)	- It is the forum for making management decisions on product development, pricing and sales at individual bank and group level. It develops the features and processes for existing products and new products to be introduced. It decides on the pricing of products, taking into account the profitability of the product; takes decisions on pricing issues within the framework of the rules set by the Asset and Liability Committee.

3.2 Risk factors

3.2.1 Liquidity risk

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

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

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

Management of liquidity risk

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

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

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

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

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

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

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

31.12.2023	Book value	Total principal and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Cash and cash-equivalents	**1,347,889**	**1,347,889**	**1,347,889**	**-**	**-**	**-**	**-**
Financial assets measured at FVTPL	**829,960**	**1,960,073**	**706,580**	**227,509**	**142,497**	**283,087**	**600,400**
Loans and advances	510,988	589,030	2,351	4,720	22,795	138,115	421,049
Securities	50,137	51,490	45	262	572	1,174	49,437
Derivative financial assets*	268,835	1,319,553	704,184	222,527	119,130	143,798	129,914
Financial assets measured at FVTOCI	**912,538**	**1,043,663**	**12,777**	**8,881**	**78,269**	**547,634**	**396,102**
Securities	912,538	1,043,663	12,777	8,881	78,269	547,634	396,102
Financial assets measured at amortised cost	**7,525,754**	**10,126,557**	**1,297,054**	**397,017**	**1,524,109**	**4,171,203**	**2,737,174**
Loans and advances	4,514,890	6,883,089	1,284,322	369,373	1,163,154	2,431,870	1,634,370
Securities	3,010,864	3,243,468	12,732	27,644	360,955	1,739,333	1,102,804
Total assets	**10,616,141**	**14,478,182**	**3,364,300**	**633,407**	**1,744,875**	**5,001,924**	**3,733,676**

31.12.2022	Book value	Total principal and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Cash and cash-equivalents	**1,361,315**	**1,361,315**	**1,361,315**	**-**	**-**	**-**	**-**
Financial assets measured at FVTPL	**984,056**	**2,103,189**	**786,851**	**305,937**	**254,594**	**417,850**	**337,957**
Loans and advances	418,517	499,355	107,272	14,695	76,696	157,910	142,782
Securities	74,792	80,088	1,127	420	6,475	37,059	35,007
Derivative financial assets*	490,747	1,523,746	678,452	290,822	171,423	222,881	160,168
Financial assets measured at FVTOCI	**630,845**	**672,566**	**9,465**	**3,523**	**54,376**	**311,215**	**293,987**
Securities	630,845	672,566	9,465	3,523	54,376	311,215	293,987
Financial assets measured at amortised cost	**7,377,255**	**8,510,259**	**993,638**	**187,673**	**1,138,162**	**3,221,978**	**2,968,808**
Loans and advances	4,595,635	5,544,673	951,904	172,138	898,398	1,849,719	1,672,514
Securities	2,781,620	2,965,585	41,734	15,535	239,764	1,372,259	1,296,294
Total assets	**10,353,471**	**12,647,329**	**3,151,269**	**497,133**	**1,447,132**	**3,951,043**	**3,600,752**

**Row of derivative financial assets contains economic hedges and hedge accounting as well.*

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

31.12.2023	Book value	Total principal and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Financial liabilities measured at FVTPL	**(169,599)**	**(1,360,156)**	**(747,416)**	**(219,142)**	**(132,142)**	**(134,361)**	**(127,095)**
Derivative financial liabilities*	(146,962)	(1,337,519)	(724,779)	(219,142)	(132,142)	(134,361)	(127,095)
Short positions	(22,637)	(22,637)	(22,637)	-	-	-	-
Financial liabilities measured at amortised cost	**(9,651,391)**	**(10,119,897)**	**(6,511,859)**	**(472,855)**	**(477,823)**	**(1,653,150)**	**(1,004,210)**
Term deposits**	(2,786,318)	(2,786,318)	(2,020,818)	(460,737)	(270,833)	(23,856)	(10,074)
Current deposits	(4,170,783)	(4,170,783)	(4,170,783)	-	-	-	-
Loans and other liabilities	(2,039,434)	(2,378,838)	(300,808)	(9,594)	(78,839)	(1,187,159)	(802,438)
Debt securities of own issue	(520,901)	(639,545)	(14,252)	(210)	(105,588)	(396,563)	(122,932)
Subordinated liabilities	(108,341)	(115,585)	(5,198)	-	(15,933)	(29,704)	(64,750)
Lease liabilities	(25,614)	(28,828)	-	(2,314)	(6,630)	(15,868)	(4,016)
Total liabilities	**(9,820,990)**	**(11,480,053)**	**(7,259,275)**	**(691,997)**	**(609,965)**	**(1,787,511)**	**(1,131,305)**
Credit limits	(17,858)	(1,188,142)	(1,188,142)	-	-	-	-
Guarantees	(2,853)	(98,367)	(98,367)	-	-	-	-
Other commitments	(1,861)	(294,641)	(294,641)	-	-	-	-
Off balance sheet items	**(22,572)**	**(1,581,150)**	**(1,581,150)**	**-**	**-**	**-**	**-**

**Row of derivative financial liabilities contains economic hedges and hedge accounting as well.*
***Presentation methodology for cash inflows and outflows related to deposits in liquidity reports has been developed during current period, from 2023 customer deposits will be presented in term and current deposit breakdown.*

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

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31.12.2022	Book value	Total principal and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Financial liabilities measured at FVTPL	**(279,568)**	**(1,576,283)**	**(765,516)**	**(294,468)**	**(168,631)**	**(203,858)**	**(143,810)**
Derivative financial liabilities*	(237,242)	(1,533,957)	(723,190)	(294,468)	(168,631)	(203,858)	(143,810)
Short positions	(42,326)	(42,326)	(42,326)	-	-	-	-
Financial liabilities measured at amortised cost	**(9,416,275)**	**(9,797,441)**	**(6,309,839)**	**(299,023)**	**(516,267)**	**(1,843,003)**	**(829,309)**
Deposits**	(6,574,357)	(6,797,945)	(5,951,973)	(280,390)	(172,241)	(247,865)	(145,476)
Loans and other liabilities	(2,462,193)	(2,572,438)	(328,352)	(17,848)	(300,420)	(1,370,452)	(555,366)
Debt securities of own issue	(290,838)	(321,140)	(28,337)	(295)	(41,471)	(168,472)	(82,565)
Subordinated liabilities	(88,887)	(105,918)	(1,177)	(490)	(2,135)	(56,214)	(45,902)
Total liabilities	**(9,695,843)**	**(11,373,724)**	**(7,075,355)**	**(593,491)**	**(684,898)**	**(2,046,861)**	**(973,119)**
Credit limits	(11,539)	(1,139,256)	(1,139,256)	-	-	-	-
Guarantees	(2,406)	(104,831)	(104,831)	-	-	-	-
Other commitments	(1,362)	(280,089)	(280,089)	-	-	-	-
Off balance sheet items	**(15,307)**	**(1,524,176)**	**(1,524,176)**	**-**	**-**	**-**	**-**

**Row of derivative financial liabilities contains economic hedges and hedge accounting as well.*
***Presentation methodology for cash inflows and outflows related to deposits in liquidity reports has been developed during current period, from 2023 customer deposits will be presented in term and current deposit breakdown.*

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

31.12.2023	Book value	Total principal and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Financial liabilities measured at FVTPL	**(169,599)**	**(1,360,156)**	**(747,416)**	**(219,142)**	**(132,142)**	**(134,361)**	**(127,095)**
Derivative financial liabilities*	(146,962)	(1,337,519)	(724,779)	(219,142)	(132,142)	(134,361)	(127,095)
Short positions	(22,637)	(22,637)	(22,637)	-	-	-	-
Financial liabilities measured at amortised cost	**(9,651,391)**	**(10,120,020)**	**(1,026,985)**	**(42,036)**	**(229,349)**	**(1,630,489)**	**(7,191,161)**
Term deposits**	(2,786,318)	(2,786,441)	(456,763)	(29,918)	(22,359)	(1,195)	(2,276,206)
Current deposits	(4,170,783)	(4,170,783)	(249,964)	-	-	-	(3,920,819)
Loans and other liabilities	(2,039,434)	(2,378,838)	(300,808)	(9,594)	(78,839)	(1,187,159)	(802,438)
Debt securities of own issue	(520,901)	(639,545)	(14,252)	(210)	(105,588)	(396,563)	(122,932)
Subordinated liabilities	(108,341)	(115,585)	(5,198)	-	(15,933)	(29,704)	(64,750)
Lease liabilities	(25,614)	(28,828)	-	(2,314)	(6,630)	(15,868)	(4,016)
Total liabilities	**(9,820,990)**	**(11,480,176)**	**(1,774,401)**	**(261,178)**	**(361,491)**	**(1,764,850)**	**(7,318,256)**
Credit limits	(17,858)	(1,188,142)	(1,188,142)	-	-	-	-
Guarantees	(2,853)	(98,367)	(98,367)	-	-	-	-
Other commitments	(1,861)	(294,641)	(294,641)	-	-	-	-
Off balance sheet items	**(22,572)**	**(1,581,150)**	**(1,581,150)**	**-**	**-**	**-**	**-**

**Row of derivative financial liabilities contains economic hedges and hedge accounting as well.*
***Presentation methodology for cash inflows and outflows related to deposits in liquidity reports has been developed during current period, from 2023 customer deposits will be presented in term and current deposit breakdown.*

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

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31.12.2022	Book value	Total principal and interest	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Financial liabilities measured at FVTPL	**(279,568)**	**(1,576,283)**	**(765,516)**	**(294,468)**	**(168,631)**	**(203,858)**	**(143,810)**
Derivative financial liabilities*	(237,242)	(1,533,957)	(723,190)	(294,468)	(168,631)	(203,858)	(143,810)
Short positions	(42,326)	(42,326)	(42,326)	-	-	-	-
Financial liabilities measured at amortised cost	**(9,416,275)**	**(9,797,441)**	**(846,527)**	**(37,723)**	**(385,060)**	**(1,604,405)**	**(6,923,726)**
Deposits*	(6,574,357)	(6,797,945)	(488,661)	(19,090)	(41,034)	(9,267)	(6,239,893)
Loans and other liabilities	(2,462,193)	(2,572,438)	(328,352)	(17,848)	(300,420)	(1,370,452)	(555,366)
Debt securities of own issue	(290,838)	(321,140)	(28,337)	(295)	(41,471)	(168,472)	(82,565)
Subordinated liabilities	(88,887)	(105,918)	(1,177)	(490)	(2,135)	(56,214)	(45,902)
Total liabilities	**(9,695,843)**	**(11,373,724)**	**(1,612,043)**	**(332,191)**	**(553,691)**	**(1,808,263)**	**(7,067,536)**
Credit limits	(11,539)	(1,139,256)	(1,139,256)	-	-	-	-
Guarantees	(2,406)	(104,831)	(104,831)	-	-	-	-
Other commitments	(1,362)	(280,089)	(280,089)	-	-	-	-
Off balance sheet items	**(15,307)**	**(1,524,176)**	**(1,524,176)**	**-**	**-**	**-**	**-**

**Row of derivative financial liabilities contains economic hedges and hedge accounting as well.*
***Presentation methodology for cash inflows and outflows related to deposits in liquidity reports has been developed during current period, from 2023 customer deposits will be presented in term and current deposit breakdown.*

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

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

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

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

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

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

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

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

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

3.2.2 Market risks

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

Management of market risks

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

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

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

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

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

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

Exposure to market risks – trading portfolios

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

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

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

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

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

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

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The Group's VaR position of trading portfolio

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

	Average	Maximum	Minimum	15% stress
2023				
Currency risk	65	568	7	930
Interest risk	216	508	78	-
Equity risk	5	23	2	-
Total	***286***	***1,099***	***87***	***930***
2022				
Currency risk	168	616	7	239
Interest risk	225	684	75	-
Equity risk	8	58	2	-
Total	***401***	***1,358***	***84***	***239***

Notes in connection with the table above:

- The Group applies historical and parametric VaR for general market risk:
  - Historical VaR: (1 day holding period; 99% confidence level, number of observation: 250 business days),
  - Parametric VaR: Risk metrics methodology (1 day holding period; 99% confidence level, 0.94 decay factor, number of observation: 100 business days).
- The Group calculates credit spread risk based on swap and bond yield curves and separates it from general interest rate risk.
- The Group calculates VaR only on trading-book position.
- There is no commodity in the Group's position.
- The Group does not have a significant open position from options therefore there is no volatility VaR calculation.

A potential adverse 15% change in the FX rates (HUF appreciation for long position and HUF depreciation for short position) would cause HUF 930 million loss based on the year-end FX open position.

The following table presents the sensitivity of the net present value of the Group's trading and banking book position in case of a parallel 200 bp movement in market conditions.

Book type	HUF	EUR	USD	Other
2023				
Trading	(596)	(10)	(4)	-
Banking	(13,214)	(4,792)	(1,689)	-
2022				
Trading	(708)	(668)	(1)	-
Banking	(2,514)	(7,318)	(4,148)	(36)

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Exposure to other market risks – non-trading portfolio

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

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

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

The financial position of the Group in foreign exchange at the end of the reporting periods were the following:

Gross foreign currency position	EUR	USD	CHF	Other currency	Total
31.12.2023					
Assets	1,563,852	141,228	11,253	31,365	1,747,698
Liabilities	(1,793,980)	(295,569)	(20,101)	(104,381)	(2,214,031)
Derivatives and spot (short)/long position	234,840	154,188	9,431	73,255	471,714
Total	***4,712***	***(153)***	***583***	***239***	***5,381***
31.12.2022*					
Assets	1,347,625	33,763	11,033	31,407	1,423,828
Liabilities	(1,671,754)	(241,392)	(24,607)	(21,619)	(1,959,372)
Derivatives and spot (short)/long position	324,116	207,480	13,571	(9,849)	535,318
Total	***(13)***	***(149)***	***(3)***	***(61)***	***(226)***

** Presentation method of foreign currency position has been modified during the period which also results in modification in previous year's data.*

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3.2.3 Interest risk

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

Interest rate risk registered in the non-trading book

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

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

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

Interest rate structure of financial instruments*			31.12.2023		
	HUF	EUR	USD	Other**	Total
Fixed rate assets	6,071,355	813,526	127,480	-	7,012,361
Variable rate assets	3,574,987	775,620	867	-	4,351,474
Total assets	***9,646,342***	***1,589,146***	***128,347***	***-***	***11,363,835***
Fixed rate liabilities	(7,538,566)	(1,683,269)	(289,558)	-	(9,511,393)
Variable rate liabilities	(1,212,831)	(99,786)	(2)	-	(1,312,619)
Total liabilities	***(8,751,397)***	***(1,783,055)***	***(289,560)***	***-***	***(10,824,012)***

Amounts shown in the table of interest rate structure containing gross amounts.

** table does not include derivative transactions*
***due to change in methodology stress tests are performed only for HUF-EUR-USD exposures, for exposures in other currencies which do not reach 5% of total assets stress tests are not performed.*

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

** table does not include derivative transactions*

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Sensitivity tests

	31.12.2023		31.12.2022	
	Effect on Equity	Effect on P/L*	Effect on Equity	Effect on P/L*
HUF				
200 bp increase	9,973	1,255	(2,514)	5,722
200 bp decrease	(13,214)	(20,981)	1,602	(23,093)
EUR				
200 bp increase	(4,792)	(1,216)	5,527	(2,540)
200 bp decrease	4,994	(5,440)	(7,318)	(8,190)
USD				
200 bp increase	(1,689)	208	3,567	2,225
200 bp decrease	1,865	(1,080)	(4,148)	(2,643)
Other**				
200 bp increase	-	-	(36)	139
200 bp decrease	-	-	38	(159)

** The table shows the effect on net interest income of a 200 bp change in market interest rates.*
***Due to change in methodology stress tests are performed only for HUF-EUR-USD exposures, for exposures in other currencies which do not reach 5% of total assets stress tests are not performed.*

FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
31.12.2023			
EUR	(4,792)	4,994	(4,792)
USD	(1,689)	1,865	(1,689)
Other*	-	-	-
Total	***(6,481)***	***6,859***	***(6,481)***
31.12.2022			
EUR	5,527	(7,318)	(7,318)
USD	3,567	(4,148)	(4,148)
Other	(36)	38	(36)
Total	***9,058***	***(11,428)***	***(11,502)***

**Due to change in methodology stress tests are performed only for HUF-EUR-USD exposures, for exposures in other currencies which do not reach 5% of total assets stress tests are not performed.*

3.2.4 Share price risk

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

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

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

Stock risk registered in the trading book

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

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

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

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

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

3.2.5 Credit risk

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

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

Credit risk management

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

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

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

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

As of the reporting date, environmental, social and governance (ESG) aspects have not been considered in the models used for the Group’s risk management. The Group plans to evaluate ESG aspects and utilize them into the models in the first half of 2024. The method of collecting and storing ESG relevant information has been already developed to ensure the subsequent analysis and usability in usual business procedures. In longer terms the information that becomes available by analyzing the composition of the ESG index can be utilised during stress test modelling as well as the estimation of life-time PD and LGD parameters.

The macroeconomic scenarios have been updated and used in the bank processes at the same time as the new inflation report from NBH has been received. Based on the forecasts, the Group has used the current macroeconomic PD forecast models to calculate the new parameters required for macroeconomic adjustments (Macro overlay factor – MOF) on a segment level. Using these new parameters, the IFRS PD (without macro correction) values have been adjusted to reflect the expectations of the macroeconomic scenarios. The weighting of the macroeconomic scenarios has been calculated in accordance with the recommendations of the (internal use only) management letter from NBH. By the end of the year 2023, the weights that have been used are as follows: 30% - stress scenario (2022: 25%), 65% - base scenario (2022: 70%), 5% - optimistic scenario (2022:5%). The resulting IFRS PD values, adjusted to the new macroeconomic environment and expectations have been implemented after the approval of the Methodology Committee. The Group’s macroeconomic models have been validated with every update, both with statistical methods and business side validation, thus ensuring the applicability of the model.

A detailed report on the changes of impairment and provisioning related to credit risks is presented quarterly to the Methodology Committee and also a report is prepared on a quarterly basis about changes and the utilization of limits related to different divisions and types of transaction.

Credit risk-related harmonization were implemented due to the merge of Takarékbank to MKB Bank:

- parameters were harmonized from a modelling point of view, whereupon the Group uses common models
- as a result methodological-harmonization not only the framework but the impairment calculation itself has also been standardised among the entities.

The total effect of the current period’s harmonization process is expected credit loss of HUF 8,6 billion which includes the consideration of collaterals and also the unification of monitoring results.

In extraordinary economic situations (e.g.: Covid epidemic and subsequent situation), the Group has the opportunity to adjust the models on an expert basis. The portfolio-level management correction calculated is a lump-sum expected loss that the models used by the Group cannot, or are not fully able to cover, but the level of risk can be assumed to be significant (these are, for example, increases in credit losses resulting from event of default arising after the end of the moratorium).

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

- in case of clients who enter an agricultural moratorium, the models do not know the agricultural moratorium, so the willingness and ability to pay may contain a hidden high probability of default. In order to compensate for the risk, in the case of deals classified as stage 2, the Group increased the missing coverage for the stage 3 coverage level on an expert basis.
- the application of transitional staging rules on its own does not always reflect a full increase in lifetime loss, even when macro parameters are updated. Therefore, in the case of corporate customers with a specific customer rating who do not improve compared to the initial rating, the default probability of stage 1 was increased on an expert basis.

At the end of the reporting period the applied overlays were the followings:

- overlay for agricultural moratorium: HUF 7,934 million (2022: HUF 6,001 million)

Collateral

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

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

Prior credit risk protection accepted by the Group includes assets that are liquid and value-preserving.

Therefore, accepted financial collateral are especially:

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

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

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

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

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

Face value of collateral received	Loan commitments received	Financial guarantees received
31.12.2023		
Central banks	54,991	-
General governments	-	535,478
Banks	79,098	193,815
Other financial companies	-	53,145
Non-financial companies	-	212,998
Households	-	89,004
Total	***134,089***	***1,084,440***
31.12.2022		
Central banks	-	79
General governments	-	766,938
Banks	35,218	184,766
Other financial companies	-	254,852
Non-financial companies	-	1,775,768
Households	-	529,669
Total	***35,218***	***3,512,072***

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

Total assets acquired for loans	31.12.2023	31.12.2022
Residential property	643	771
Commercial property	161	116
Personal assets	-	-
Equity and debt securities	-	-
Other	208	-
Total	**1,012**	**887**

Definition of non-performing (default):

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

- breach of financial covenants by the debtor;
- based on information from an internal or external source, the debtor is likely to default on its debt service (e.g. the debtor is more than 90 days in arrears);
- loans restructured with a loss of more than 1% of the NPV.

Please see more information related to significant increase in credit risk in Note 2.13.

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

Expected credit loss accounted for loans to be assessed individually and collectively

On the balance sheet date, and during the monthly monitoring, an assessment is made for the relevant financial instruments to determine the expected credit loss and the amount of the loss allowance for impairment. Individual calculation approach is applied in case of individually significant exposures to defaulted wholesale customers in Stage 3. The customer is individually significant if the total on- and off-balance exposure or the customer group exposure exceeds the predefined materiality limit. Workout experts calculate the loss allowances by discounting the expected recoveries from cash flows with the effective interest rate of transactions and deducted it from the gross exposures. The experts provide estimates in more probability-weighted scenarios on transaction basis.

Credit loss allowance of loans to be assessed collectively is determined in accordance with the provisions of IFRS 9. Allowance of loans to be assessed collectively is calculated on a monthly basis and the risk parameters used are determined on the basis of statistical models developed for homogeneous groups or groups of transactions. The models are validated at least once a year and revised if necessary. For Stage 1 loans, the expected credit loss is determined on the basis of the 12-month expected credit loss. For Stage 2 and Stage 3 loans, the expected lending loss is determined with the lifetime expected credit loss.

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

In stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used. The Group classified its retail portfolio in homogenous credit risk clusters, and allocates PD, LGD and CCF parameters.

The internal rating based models calculate the risk parameters which determine the level of impairment.

In case of individually not significant wholesale customers the calculation of impairment and provision methodology is based on internal models. The required provisioning rates are calculated based on the credit conversion factor (CCF), the statistical analysis of default (PD) and the loss given default (LGD).

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Individually and collectively assessed exposures of the Group are the followings:

31.12.2023	Cash and cash-equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Securities repurchase agreements and other financial receivables	Off-B/S exposures
Individually assessed items						
Non-default	-	-	2,478	-	-	365
Default	-	-	38,225	438	-	6,145
Total individually assessed gross amount	**-**	**-**	**40,703**	**438**	**-**	**6,510**
Total expected credit loss on individually assessed items	-	-	(20,362)	(345)	-	(824)
Total individually assessed carrying amount	**-**	**-**	**20,341**	**93**	**-**	**5,686**
Collectively assessed						
Non-default	1,348,055	107,559	4,494,098	3,016,813	189,151	1,275,854
Default	-	-	124,788	-	-	15,722
Total collectively assessed gross amount	**1,348,055**	**107,559**	**4,618,886**	**3,016,813**	**189,151**	**1,291,576**
Total expected credit loss on collectively assessed items	(166)	(1,015)	(248,799)	(6,042)	(7,525)	(19,886)
Total collectively assessed carrying amount	**1,347,889**	**106,544**	**4,370,087**	**3,010,771**	**181,626**	**1,271,690**
Total gross amount	**1,348,055**	**107,559**	**4,659,589**	**3,017,251**	**189,151**	**1,298,086**
Total expected credit loss	**(166)**	**(1,015)**	**(269,161)**	**(6,387)**	**(7,525)**	**(20,710)**
Total carrying amount	**1,347,889**	**106,544**	**4,390,428**	**3,010,864**	**181,626**	**1,277,376**

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31.12.2022	Cash and cash-equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Securities repurchase agreements and other financial receivables	Off-B/S exposures
Individually assessed items						
Non-default	-	-	14,337	-	-	-
Default	-	-	53,135	-	102	4,870
Total individually assessed gross amount	**-**	**-**	**67,472**	**-**	**102**	**4,870**
Total individually assessed allowance for impairment	-	-	(26,707)	-	(68)	(1,299)
Total individually assessed carrying amount	**-**	**-**	**40,765**	**-**	**34**	**3,571**
Collectively assessed						
Non-default	1,361,489	179,207	4,327,947	2,786,047	80,575	1,243,882
Default	-	-	162,641	461	1,014	9,280
Total collectively assessed gross amount	**1,361,489**	**179,207**	**4,490,588**	**2,786,508**	**81,589**	**1,253,162**
Total collectively assessed allowance for impairment	(174)	(119)	(188,552)	(4,888)	(7,877)	(12,647)
Total collectively assessed carrying amount	**1,361,315**	**179,088**	**4,302,036**	**2,781,620**	**73,712**	**1,240,515**
Total gross amount	**1,361,489**	**179,207**	**4,558,060**	**2,786,508**	**81,691**	**1,258,032**
Total allowance for impairment	**(174)**	**(119)**	**(215,259)**	**(4,888)**	**(7,945)**	**(13,946)**
Total carrying amount	**1,361,315**	**179,088**	**4,342,801**	**2,781,620**	**73,746**	**1,244,086**

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

31.12.2023	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	206,778	-	-	11
Medium risk	959,491	50,056	-	2,605
High risk	27,327	187,194	-	1,442
Default	-	-	81,174	735
Total retail loans	***1,193,596***	***237,250***	***81,174***	***4,793***
Wholesale loans				
Low risk	391,580	-	-	-
Medium risk	2,020,982	40,022	-	462
High risk	51,260	552,930	-	203
Default	-	-	84,904	433
Total wholesale loans	***2,463,822***	***592,952***	***84,904***	***1,098***
Total	**3,657,418**	**830,202**	**166,078**	**5,891**

31.12.2023	Expected credit loss			
	Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	(751)	-	-	-
Medium risk	(12,663)	(2,056)	-	(174)
High risk	(2,764)	(17,759)	-	(479)
Default	-	-	(53,912)	(228)
Total retail loans	***(16,178)***	***(19,815)***	***(53,912)***	***(881)***
Wholesale loans				
Low risk	(2,436)	-	-	-
Medium risk	(41,657)	(601)	-	(10)
High risk	(4,267)	(88,929)	-	(17)
Default	-	-	(40,267)	(191)
Total wholesale loans	***(48,360)***	***(89,530)***	***(40,267)***	***(218)***
Total	**(64,538)**	**(109,345)**	**(94,179)**	**(1,099)**

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

31.12.2022	Expected credit loss			
	Stage 1	Stage 2	Stage 3	POCI
Retail loans				
Low risk	(781)	-	-	(1)
Medium risk	(7,832)	(2,892)	-	(107)
High risk	(1,320)	(18,576)	-	(87)
Default	-	-	(44,694)	(632)
Total retail loans	***(9,933)***	***(21,468)***	***(44,694)***	***(827)***
Wholesale loans				
Low risk	(430)	-	-	-
Medium risk	(14,749)	(4,195)	-	(4)
High risk	(1,465)	(30,286)	-	(7)
Default	-	-	(23,921)	(423)
Total wholesale loans	***(16,644)***	***(34,481)***	***(23,921)***	***(434)***
Total	**(26,577)**	**(55,949)**	**(68,615)**	**(1,261)**

3.2.6 Forborne assets

During the normal course of business, the Group enters into forbearance measures to decrease the potential loan loss and maximize collection opportunities for the borrowers who have problems with their payment ability but not with their willingness and capacity to pay.

Restructured exposures are renegotiated, rescheduled (prolonged) or otherwise revised loans, receivables and credits (including also purchased ones) originated in the framework of an amendment or termination of a previously concluded contract, initiated either by the borrower or the Group, where

- the contract is amended in order to avoid default because the borrower is unable to fulfil its payment obligations in compliance with the conditions of the original contract due to significant deterioration in its financial position or payment ability, and
- the amendments significantly change the original terms and conditions of the outstanding contract largely in favor of the borrower, as compared to the market terms and conditions generally applicable to contracts of the same type and concluded under the same conditions, or
- a supplementary agreement or a new contract is concluded between the borrower and the Group that relates to a new loan provided for the repayment of the outstanding debts (principal and / or interest) arising from the original contract that is not terminated, or to any further commitment assumed to avoid any increase in the credit risks and to mitigate the possible loss.

Under its forbearance policies, the Group grants loan forbearance on a selective basis where the borrower is in default on its debt, or there is a high risk of future default, and there is evidence that the borrower made all reasonable efforts to pay under the original contractual terms, and it is expected that the borrower will be able to meet the revised terms. Both corporate and retail loans are subject to forbearance policies.

The Group generally applies the following types of forbearance measures:

- extension of the tenor / final maturity of the loan,
- renegotiation of original repayment schedule, reschedule installments,
- agreement on installment payment,
- reduction of the collateral coverage parallel reducing exposure,
- refinancing of the loan,
- interest rate cut, or lower conditions,
- interest capitalization.

Such exposures and associated credit risks are managed, monitored and reported distinctly by specific restructuring and debt management units of the Group on the basis of guidelines and procedure rules set by internal regulations incorporating also both legal and supervisory requirements and recommendations. When the conditions of forbearance cease to exist and the following cure period expires, respective assets are returned to normal / business treatments both from business and risk management perspectives.

Based on qualitative and quantitative information the Group terminates the forborne status of non-performing loans. After 1 year the fulfilment of non-default requirements, and after a further 2 years the fulfilment of monitoring period requirements, the forborne status of non-performing loans are reverting to normal treatment. To revert to normal treatment regarding corporate customers, additional criteria is that the customer performs its amended contractual obligations duly through a specified period (90 days or 365 days) and its risk position shows significant improvement. The amended terms and conditions of the contract are indicated in the records.

Recognition, derecognition and subsequent valuation of these assets are carried out according to the general rules of accounting as specified by the relevant IFRSs.

The detailed requirements of risk classification and impairment valuation of forborne exposures are included in the accounting policies, and other internal regulations on the valuation of assets and liabilities, as well as in impairment and provisioning policies.

Based on these internal guidelines, forbearance measures are regarded as impairment triggers and, as a consequence, impairment assessment should be performed for such exposures where the general methodologies and principles of assessment are to be applied. On the results of such risk assessments, impairment losses and the reversals of previously charged impairments are accounted for according to the common rules defined by IFRS 9.

Compared to the previous financial year, there were no changes in forbearance policies and in practices applied by the Group. The forbearance definition changed due to the legislative change that came into effect in January 2021. That change has an effect on the definition of place of treatment (Unit). Before the decision making, it is obligatory to examine and define the effect of proposed construction (modification of the contracts), forborne contract on the NPV in all the cases of clients to forborne, treated by Business Units. If the change of NPV would be higher than 1%, thus the treatment should be transferred to the Restructuring and Debt Management Unit.

The government of Hungary imposed a payment moratorium on agricultural sector loans from September until the end of 2023 to ease the burden on the sector, so these loans can be restructured either after the end of the moratorium (31 December 2023) or in the event of a voluntary withdrawal.

The last period of the repayment moratorium related to the pandemic situation was closed on 31 December 2022, therefore during 2023 in accordance with the legal requirements for the trial period, a continuous decrease of the portfolio restructured due to the moratorium can be experienced.

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Gross book value	Performing forbone assets	Non-performing forbone assets	Total forbone assets (gross amount)
31.12.2023			
General governments	1	5	6
Other financial corporations	4	310	314
Non-financial corporations	30,159	28,574	58,733
Households	87,908	37,023	124,931
Total	***118,072***	***65,912***	***183,984***
31.12.2022			
General governments	-	16	16
Other financial corporations	128	1,284	1,412
Non-financial corporations	72,332	37,882	110,214
Households	117,554	55,311	172,865
Total	***190,014***	***94,493***	***284,507***

Book value	Gross amount	Impairment	Net amount
31.12.2023			
General governments	6	(3)	3
Other financial corporations	314	(18)	296
Non-financial corporations	58,733	(18,004)	40,729
Households	124,931	(28,420)	96,511
Total	***183,984***	***(46,445)***	***137,539***
31.12.2022			
General governments	16	(8)	8
Other financial corporations	1,412	(354)	1,058
Non-financial corporations	110,214	(24,571)	85,643
Households	172,865	(33,552)	139,313
Total	***284,507***	***(58,485)***	***226,022***

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3.2.7 Portfolio affected by interest rate cap

On 24 December 2021, the Hungarian Government introduced a temporary cap on floating interest rates applicable to consumer mortgage loans - between 1 January 2022 and 30 June 2022, floating interest rates applicable to consumer mortgage loans cannot be set higher than the actual floating interest rate which was applicable in the context of the respective mortgage loan on 27 October 2021. In addition, lenders are not entitled to increase principal and interest amounts payable under consumer mortgage loans with any interest amounts which become due and are not paid during the above temporary period.

According to Decree 49/2022 (II. 18.) issued by the Hungarian Government on 18 February 2022, between 1 January 2022 and 30 June 2022 in the case of financial lease contracts on housing purpose with a reference interest rate, the reference interest rate shall be set so that it cannot be higher than the reference interest rate specified in the contract on 27 October 2021.

According to Decree 415/2022 (X. 26.) issued by the Hungarian Government on 26 October 2022, the temporary cap on floating interest rates was extended to HUF denominated, non-state subsidised credit-, loan- and financial lease agreements of small and medium-sized enterprises (hereinafter: SMEs). Following 15 November 2022, interest rates were frozen retroactively at their level on 28 June 2022. Similarly to consumer mortgage loans and financial lease contracts on housing purpose the cap was effective until 30 June 2023. This Decree entered into force on 27 October 2022. The interest rate cap was extended since then each time for a 6 month period - according to 175/2023 (12. V.) and 176/2023 (12. V.) - until 31 December 2023.

The temporary cap on floating interest rates on consumer mortgage loans was extended until 1 July 2024, furthermore the cap on floating interest rates on loans for SMEs was extended until 1 April 2024.

The modification loss is calculated separately for each legislative measures and based on the expected cash flows, which are estimated under these legislations. Credit risk monitoring is a key element in the methodology for measuring the significant increase in credit risk since its initial publication.

Net modification result related to exposure of the Group's customers affected by the cap of floating interest rate was the following:

Total financial assets during the period	**31.12.2023**	**31.12.2022**
Gross carrying amount before modification	4,656,449	4,525,644
Loss allowance before modification	(253,872)	(152,403)
Net amortised cost before modification	4,402,577	4,373,241
Net modification gain/(loss)	(12,149)	(30,440)
Net amortised cost after modification	**4,390,428**	**4,342,801**

The calculated modification loss in connection with modified contractual cash-flows was HUF -23,727 million in 2023. For stage 2, stage 3 loans HUF -14,449 million has recognised in Modification (loss)/gain on financial instruments and for stage 1 loans HUF -9,278 million in Interest income using effective interest rate method in the consolidated statement of profit or loss and other comprehensive income. In the consolidated statement of financial position the Group recognised HUF -12,149 million modification on contractual cash flows of the loans. In the line of Interest income using effective interest rate method in the consolidated statement of profit or loss and other comprehensive income HUF 10,380 million is recognised in connection with the modified cash-flows of financial instruments of the previous years.

3.3 Concentration of risks

The purpose of the Group is to maintain a balanced portfolio composition and to keep the concentration risk within an acceptable limit. Managing the concentration risk is operated by unique and portfolio based limits. Measurement of the portfolio based concentration risk is prepared by applying concentration figures in case of both the limits and the calculation of equity requirements. To cover non-planned losses derived from concentration risks the appropriate level of equity is required to ensure by the Group. The Group limits the geographical concentration with the concentration of portfolios by countries.

The risk strategy of the Group involves the following limits determining the risk apetite:

- Proportion of the top 10 client portfolio in the corporate loan portfolio (%),
- Proportion of the corporate clients worse than internally determined level of rating,
- Sector limits (billion HUF),
- Sector concentration (%) – industry with the highest proportion
- Product limits (billion HUF),
- Country risk limits (billion HUF),
- Portfolio concentration denominated in corporate currency (%),
- Shadow-banking limits.

On Group level a regular report is prepared on the most important dimensions of the concentration risk for the relevant committees of the Group management institution and for the Board of directors.

Sectoral breakdown of loans measured at amortised cost	31.12.2023		31.12.2022	
	Gross amount	Loss allowance	Gross amount	Loss allowance
Wholesale and retail trade	517,406	(14,320)	518,722	(13,080)
Manufacturing	483,836	(29,166)	474,776	(24,341)
Real estate activities	414,994	(53,323)	413,668	(23,831)
Construction	215,437	(13,068)	196,432	(7,392)
Agriculture, forestry and fishing	193,893	(12,174)	176,572	(14,670)
Financial and insurance activities	176,071	(6,490)	138,756	(1,914)
Transport and storage	173,992	(4,426)	152,181	(4,306)
Other services	144,509	(11,899)	97,119	(11,770)
Professional, scientific and technical activities	150,404	(9,466)	130,942	(4,697)
Electricity, gas, steam and air conditioning supply	127,417	(3,083)	126,989	(1,628)
Administrative and support service activities	79,422	(1,963)	77,737	(1,980)
Accommodation and food service activities	78,545	(5,801)	70,797	(3,931)
Information and communication	74,139	(1,576)	86,221	(2,178)
Human health services and social work activities	14,287	(288)	12,974	(434)
Mining and quarrying	13,364	(52)	1,430	(107)
Arts, entertainment and recreation	11,693	(949)	9,814	(706)
Water supply	8,789	(274)	8,839	(238)
Education	2,863	(95)	2,700	(86)
Public administration and defence, compulsory social security	143	(8)	192	(8)
Non-financial corporations	2,881,204	(168,421)	2,696,861	(117,297)
Other corporations	647,527	(26,681)	670,400	(20,921)
Households	1,130,858	(74,059)	1,190,854	(77,096)
Credit institutions	107,559	(1,015)	179,207	(119)
Total	**4,767,148**	**(270,176)**	**4,737,322**	**(215,433)**

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3.4 Encumbered assets

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

Encumbered assets	31.12.2023		31.12.2022	
	Book value	Fair value	Book value	Fair value
Loans on demand	443	443	156	156
Equity instruments	-	-	-	-
Debt securities	1,513,750	1,407,804	1,581,894	1,339,570
Loans and advances other than loans on demand	1,018,668	1,018,668	963,603	963,603
Total	**2,532,861**	**2,426,915**	**2,545,653**	**2,303,329**

Assets, collateral received, and own debt securities issued	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of collateral received or own debt securities issued non available for encumbrance
31.12.2023			
Loans on demand	-	14,444	-
Equity instruments	-	85,073	-
Debt securities	-	94,756	115,861
Loans and advances other than loans on demand	536,606	5,713,129	2,856,090
Total	***536,606***	***5,907,402***	***2,971,951***
31.12.2022			
Current receivables	-	15,874	-
Equity instruments	-	22,862	-
Debt securities	-	152,011	25,475
Loans and advances other than current receivables	883,934	5.436,675	2,217,638
Total	***883,934***	***5,627,422***	***2,243,113***

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

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

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3.5 Capital management

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

The calculations are CRR (575/2013/EU regulation) compliant. In 2023, the Group complied with prudential regulations at all times, no limits were breached. Based on NBH's decision no. H-EN-I-387/2023 Regulatory capital includes reserves of the Central Organization of Integrated Credit Institutions, therefore the table of regulatory capital shows the capital adequacy of the entire scope of prudential consolidation. The Group calculated the solvency capital according to the regulations of CRR, therefore it contains no transitional adjustments.

The following table shows the breakdown of the capital adequacy ratio of the Group:

	31.12.2023	31.12.2022
Share capital	323,919	323,088
Outstanding share capital	***323,919***	***323,088***
Reserves	841,418	631,933
Deferred tax	(12,310)	(20,157)
Intangible Assets	(71,096)	(70,512)
AVA - additional valuation adjustments	(1,881)	(1,781)
Regulatory adjustments to core Tier 1 capital	(117,641)	(119,582)
Additional Tier 1	-	-
Tier 1: Net core capital	**962,409**	**742,989**
Subordinated debt	84,734	72,989
Tier 2: Supplementary capital	**84,734**	**72,989**
Regulatory capital	**1,047,143**	**815,978**
Risk-weighted assets (RWA)	3,584,309	3,280,901
Operational risk (OR)	1,130,009	838,925
Market risk positions (MR)	15,084	12,891
Total risk weighted assets	***4,729,402***	***4,132,717***
Capital adequacy ratio	**22,14%**	**19,74%**

As at 31 December 2023, as an actual figure of the Group regulatory Tier 1 capital was HUF 962 billion based on CRR under Supervisory Regulation. Risk-weighted assets including operational and market risk increased from HUF 4,133 billion to HUF 4,729 billion. By application of capital management as a tool, the capital is a first priority decision making factor; therefore, the Group monitors the changes of the capital elements continuously.

The Group has complied with the regulatory capital requirements in both 2023 and 2022.

3.6 Sustainability activity (ESG)

The Group firmly believes it has a responsibility towards sustainability, firstly as a financial institution, in the lending and investment practices, and secondly in the operations. The Group aims to be a key participant in the achievement of a sustainable economy and is committed to sustainability and climate goals in day-to-day operations, internal processes, employee community, and through business strategy alike. MBH Bank is fortunate to have an immense legacy to build on from its three former member banks. Since the merger, they have sought to preserve and develop the best practices of the former member banks in the areas of corporate social responsibility and sustainability. Building on this legacy, the Group has taken some major steps forward in their ESG efforts over the past year.

As part of the Bank's ESG aims, last year an ESG and Sustainability Department has been set up to manage sustainability-related projects and processes in an integrated and cross-functional way. The Bank has developed its ESG strategy, integrating existing operational initiatives from its heritage into a strategic framework. At the end of 2022, MBH Bank strengthened its ESG commitment by becoming a signatory to the UN Principles for Responsible Banking. MBH Bank also wants to set an example to the market participants and partners by reducing its ecological footprint and by operating responsibly, one of the key pillars of its ESG strategy therefore revolves around climate neutrality. MBH Bank launched its own Net Zero project earlier this year to calculate its carbon emissions. As a next step, MBH Bank plans to work hand in hand with an internationally recognised environmental organisation to make the most innovative and environmentally accurate decisions to reduce its footprint and offset any emissions that cannot be reduced further.

It is the vision of the Group to be a responsible partner in green finances, leading efforts to promote green finance and sustainable investing, to create a range of products and services that help both retail and corporate clients to achieve sustainable and climate goals. One of its aims is to understand the clients' ESG operations so that the Group can actively cooperate with them in this respect and are continuously working on developing and launching new green loan products.

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4. NOTES

4.1 Net interest income

Interest income	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Interest income from debt securities measured at amortised cost	196,949	104,482
Interest income from loans and advances measured at amortised cost	431,112	297,563
Interest income from debt securities measured at FVTOCI	83,348	37,240
Interest income from cash and cash-equivalents	68,729	32,632
Interest income calculated using the effective interest method	***780,138***	***471,917***
Interest income from derivatives for trading	267,588	146,153
Interest income from debt securities for trading	1,325	1,296
Interest income from loans and advances mandatorily measured at FVTPL	27,678	15,038
Interest income from derivatives (hedge accounting, interest rate risk)	85,521	29,366
Interest income from lease assets	38,679	13,080
Interest income from other assets and liabilities	3,781	2,099
Other interest income	***424,572***	***207,032***
Total interest income and income similar to interest income	**1,204,710**	**678,949**

Interest expense	2023.01.01-2023.12.31	2022.01.01-2022.12.31
Interest expense from loans and advances measured at amortised cost	(54,233)	(23,565)
Interest expense from deposits measured at amortised cost	(303,934)	(125,900)
Interest expense from debt securities measured at amortised cost	(29,833)	(10,363)
Interest expense from other financial liabilities measured at amortised cost	(40)	(42)
Interest expense calculated using the effective interest method	***(388,040)***	***(159,870)***
Interest expense from derivatives for trading	(223,766)	(139,593)
Interest expense from derivatives (hedge accounting, interest rate risk)	(24,438)	(12,641)
Interest expense from other liabilities	(2,909)	(1,118)
Other interest expense	***(251,113)***	***(153,352)***
Total interest expense and expenses similar to interest expense	**(639,153)**	**(313,222)**
Net interest income	**565,557**	**365,727**

Included within various captions under interest income for the year ended 31 December 2023 is a total of HUF 3,991 million (2022: HUF 1,365 million) accrued on credit impaired financial assets.

Net interest income increased in connection with the merger in 2022 and the general macroeconomic trends. For further information please see Note 2.44.

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4.2 Net income from fees and commission

	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Fee and commission income from payment services	134,925	104,389
Fee and commission income from credit service activity	5,500	6,138
Fee and commission income from asset management	16,710	12,060
Fee and commission income from securities transfers	10,663	9,883
Fee and commission income on financial guarantees given	3,439	2,813
Other fee and commission income	17,635	6,737
Total fee and commission income	***188,872***	***142,020***
Fee and commission expense from credit service activity	(6,229)	(2,889)
Fee and commission expense on financial guarantees received	(3,041)	(4,859)
Fee and commission expenses on payment services	(14,909)	(13,124)
External distribution of products	(7,196)	(5,608)
Other fee and commission expense	(18,056)	(11,111)
Total fee and commission expense	***(49,431)***	***(37,591)***
Net income from fees and commissions	**139,441**	**104,429**

Net income from fees and commissions increased in connection with the merger in 2022 and the general macroeconomic trends. For further information please see Note 2.44.

The following main fee and commission income is accounted for in accordance with IFRS 15:

- Fee and commission income from payment services
  - The Group provides account management services to its retail and business clientele. The main types of services are opening an account, monitoring the balance, arranging transactions within and outside the bank based on a customer order/provision, arranging deposit transactions in relation to the account, cash flow, closing of accounts. Depending on the regularity of the service, their service fee and commission will be charged to customer accounts on a daily, monthly (or more regular basis) or on a case-by-case basis. In the case of continuous services (for example: monthly fee for account management, monthly fee for sms services), fee receipts are recorded monthly on the last day of the month. These fees are typically fixed fees. In the case of transaction-based services (for example: remittance orders, direct debits, cash payments), transaction fees are settled at the same time as the transaction or by collecting monthly transaction fees. Fees are determined based on the amount of the transaction, in % or in combination with a fixed and % combination.
  - Credit card fees are typically fixed fees, which are usually related to events such as the maintenance (annual card fee), issuance, cancellation or replacement of credit cards. Credit card transactions are free of charge.

- Fee and commission income from credit service activity
  - Non-interest charges related to credit transactions are regular monitoring fees, fees for validation, verification, review and administration fees, incurring on an adhoc basis. These fees are recorded when the service is incurred or, in the case of a continuous service, monthly, ex post.

- Fee and commission income from securities transfers and asset management
    - The Group provides brokerage services to other banks, insurers, investment service providers, factoring companies. The fees for these services are usually charged monthly, depending on the volume and value of the customer transactions.
    - Fees related to investment services provided for customers, typically fee of maintaining, distributing and issuing security accounts and fee income related to other investment services which are recorded when the service is incurred, monthly.

- Fee and commission income on financial guarantees given
    - Fee income from documentary operations can either be fixed or charged occasionally when the service is provided, for example fees charged for guarantees, sureties, for the issuance of letters of credit or collections. Fee income related to documentary operations is recognised among other commission and fee income.

The following main fee and commission expense is accounted for in accordance with IFRS 15:

- Fee and commission expense from credit service activity
    - Fees and commissions incurred in connection with the lending activity of the Group to its clients, to other banks or refinancing institutions (one-off disbursement fees for refinancing loans, verification fees), accounted for on a regular basis and may be subject to variable remuneration depending on the refinancing facility or transactions but may also be fixed remuneration. These types of fees are accounted for on a monthly basis or on a case-by-case basis for one-offs.

- Fee and commission expense on financial guarantees received
    - Fees paid to other entities in connection with customer loans are also incurred in case they are not part of the effective interest calculation, for example: notary fees, valuation fees, national or other central database fees if they are passed on to the client. Fees are accounted for on a monthly basis in line with continuous services.

- Fee and commission expenses on payment services
    - The fees paid for ancillary services related to account management services provided to customers are typically fees incurred in connection with the payment of account management fees (nostro) to other banks, the sending of statements, cash logistics, cash processing, postal cash transfers, postal payments, sms service payments incurred in order to serve the account management of customers. Fees are accounted for on a monthly basis and regularly in line with continuous account management.
    - The Group incurs expenses related to credit card manufacturing and distribution, and also pays transaction fees. These fees can either be charged on a fixed monthly rate or depend on the volume of cards and the value of the card transactions. Fees are accounted for on a monthly basis.

- External distribution of products
    - The Group also sells its products through agents, so its payments for brokering are typically made on a monthly basis, depending on the volume sold. Typically used broker services include currency exchange agents.

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4.3 Gains/(losses) on financial instruments

	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Gains/(losses) on derivative instruments	(150,411)	147,458
Gains/(losses) on securities held for trade	13,026	1,309
Gains/(losses) on other financial instruments held for trade	-	16
Changes in fair value of loans mandatorily measured at FVTPL	67,637	(30,326)
Changes in fair value of securities mandatorily measured at FVTPL	(2,357)	(294)
Gains/(losses) on financial instruments measured at FVTPL	***(72,105)***	***118,163***
Securities measured at FVTOCI	2,784	(35,924)
Gains/(losses) on financial instruments measured at FVTOCI	***2,784***	***(35,924)***
Gains/(losses) on loans and advances measured at amortised cost	(1,946)	(321)
Gains/(losses) on securities measured at amortised cost	(468)	1,976
Gains/(losses) on financial instruments measured at amortised cost	***(2,414)***	***1,655***
Gains/(losses) on foreign exchange revaluation	***50,141***	***(46,460)***
Gains/(losses) on hedge accounting	***24,248***	***(5,288)***
Gains/(losses) on financial instruments	**2,654**	**32,146**

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4.4 (Impairment) / Reversal on financial and non-financial instruments

	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Loans and advances to banks and customers	(49,301)	(55,911)
Provision for commitments and guarantees	(7,096)	(5,586)
Investment in securities	(2,221)	(3,508)
Expected credit loss (-) on financial instruments held for credit risk management	**(58,618)**	***(65,005)***
Provision for litigation	(465)	315
Provision for restructuring	1,245	(3,791)
Other provision	(1,392)	(139)
Provision for staff costs	255	236
Provision (loss) / gain	**(357)**	***(3,379)***
Modification (loss) / gain on financial instruments	**(14,449)**	***(23,222)***
(Impairment) / reversal on associates and other investments	**(1,680)**	***(6)***
(Impairment) / reversal on other financial and non-financial assets	**(357)**	***(1,564)***
(Impairment) / Reversal on financial and non-financial instruments	**(75,461)**	**(93,176)**

4.5 Dividend income

	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Dividend income on financial assets held for trade	1,011	710
Other dividend income received	617	18
Total	**1,628**	**728**

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4.6 Operating expenses

	01.01.2023-31.12.2023	01.01.2022-31.12.2022
General and administrative expenses	(172,889)	(129,022)
Legal and advisory services	(18,227)	(15,078)
Wages and salaries	(133,161)	(96,433)
Severance pay	(5,624)	(3,092)
Compulsory social security obligations	(3,260)	(487)
Property costs	(7,667)	(7,346)
Repair and maintenance of movable assets	(2,209)	(1,694)
IT costs	(24,625)	(23,586)
Marketing and public relations	(10,844)	(4,027)
Communication and data processing	(5,192)	(3,303)
Administrative costs	***(383,698)***	***(284,068)***
Depreciation	***(35,371)***	***(25,988)***
Operating expenses	**(419,069)**	**(310,056)**

Operating expenses increased in connection with the merger in 2022 and the general macroeconomic trends. For further information please see Note 2.44.

In 2023, the Group's average statistical employee number was 8,838 (2022: 9,474).

The main operating expenses were as the followings:

- Social contribution tax: HUF 12,045 million (2022: HUF 9,805 million)
- Extra profit tax: HUF 55,579 million (2022: HUF 31,910)
- Bank tax: HUF 9,325 million (2022: HUF 8,492 million)
- Financial transaction levy: HUF 61,737 million (2022: HUF 48,712 million)

4.7 Other income and expenses

	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Income from related shares' disposal	-	3,736
Other operating income	25,776	9,581
Other income	***25,776***	***13,317***
Expense from related shares' disposal	(71)	(3,241)
Expense from non-financial assets' disposal	(5,775)	(3,658)
Other operating expenses	(15,369)	(3,637)
Other expense	***(21,215)***	***(10,536)***
Other income / (expense), net	**4,561**	**2,781**

Other operating income contains other income received related to MFB Points, given subsidies are shown as the most significant item of other operating expenses.

4.8 Income tax income / (expense)

	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Corporate income tax expense on current year's profit	(9,386)	(2,517)
Corporate income tax expense - effect of self-monitoring in previous years	(55)	-
Deferred tax income/(expense)	(5,819)	7,276
Local business tax	(20,345)	(14,534)
Innovation contribution	(3,081)	(2,447)
Income tax income / (expense)	**(38,686)**	**(12,222)**

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

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

Determination of the effective tax rate	01.01.2023 - 31.12.2023		01.01.2022 - 31.12.2022	
	%	Data in million HUF	%	Data in million HUF
Profit before income tax		***221,876***		***103,390***
Income tax using the domestic corporation tax rate	9.00%	(19,969)	9,00%	(9,305)
Local business tax	9.17%	(20,345)	14,06%	(14,534)
Innovation contribution	1.39%	(3,081)	2,37%	(2,447)
Unrecognised tax losses for the reporting period	0.02%	(34)	0,81%	(836)
Non-deductible expense	0.25%	(544)	0,20%	(207)
Tax exempt income	-1.44%	3,187	-2,16%	2,231
Change of unrecognised tax losses carryforwards*	-0.63%	1,406	-11,63%	12,026
Effect of tax credits	0.00%	-	-0,69%	710
Effect of corporate tax group	-0.33%	727	-0,90%	933
Other tax effects	0.01%	(33)	0,77%	(793)
Income tax (income) / expense	**17,15%**	**(38,686)**	**11,82%**	**(12,222)**

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

*The Group relied on its available business plans for calculating the amount of tax losses that can be offset against future tax bases.

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Tax losses can be offset against up to 50% of future tax bases. On 31 December 2023, the Group had unused tax losses amounting to HUF 226,137 million (2022: HUF 315,784 million) with the following maturity:

Unused tax losses	31.12.2023	31.12.2022
Maturity between 1 and 5 years	46,687	58,340
Maturity between 5 and 10 years	-	257,444
Indefinitely utilizable*	179,450	-
Total	**226,137**	**315,784**

*Tax losses incurred before 2015 could be utilized originally until 2030, but as a result of an interim tax law modification in 2023 tax losses can be utilized for an unlimited period of time.

4.9 Deferred tax assets and liabilities

Deferred tax assets and liabilities arise under the following grounds:

Net deferred tax assets / (liabilities)	31.12.2022	Credited/ (charged) to profit or loss	Credited/ (charged) to other compre-hensive income	Credited/ (charged) directly to equity	31.12.2023
Provisions	642	97	-	-	739
Intangible assets	140	49	-	-	189
Property, plant and equipment	(236)	(136)	-	-	(372)
Allowances for loan losses	11	(3)	-	-	8
Securities	3,283	-	(5,424)	-	(2,141)
Tax-loss carry-forward	20,339	(6,018)	-	-	14,321
Other items	(2,756)	192	656	797	(1,111)
Total	**21,423**	**(5,819)**	**(4,768)**	**797**	**11,633**
Recognised deferred tax asset	24,528	(5,879)	(5,478)	93	13,264
Recognised deferred tax liability	(3,105)	60	710	704	(1,631)
Total	**21,423**	**(5,819)**	**(4,768)**	**797**	**11,633**

During 2023 the Group charged deferred tax expense HUF 4,768 million (2022: HUF 598 million) in other comprehensive income and HUF 5,819 million (2022: HUF 7,276 million) in profit or loss.

4.10 Cash and cash-equivalents

	31.12.2023	31.12.2022
Cash	81,300	78,070
Receivables against central banks	1,181,833	1,172,983
Other current receivables from banks	84,756	110,262
Cash and cash-equivalents	**1,347,889**	**1,361,315**

On the basis of the applicable Reserve Decree limit (10-15%) the Group maintained its regulatory reserves according to its balance sheet as of March 2023. Accordingly the applied reserve ratio was 10% on balance sheet date (2022: 7%). In case of over-reserving on the Group’s accounts NBH pays the value of the actual base rate of the central bank - similarly to the payable interest of the obligatory reserve.

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4.11 Loans and advances to customers mandatorily at fair value through profit or loss

In connection with loans mandatorily measured at FVTPL the Group has identified the following effects in P/L:

- Changes in fair value of loans in connection with general decrease in yields of between 300 and 900 basis points - due to an increase in discount factors – had a positive effect on profit or loss of nearly HUF 68 billion (2022: a negative effect of HUF 39 billion).
- Development of the evaluation methodology of the model linked to the most significant portfolio (baby loans) resulted in HUF 5,5 billion gain (for further information please see Note 4.30).

	Total
Opening fair value at 01.01.2023	***418,517***
Portfolio increase from business combination	14,369
Fair value and other movements	68,405
Assets derecognised except write-off	(6,948)
Financial assets originated or purchased	16,645
Closing fair value at 31.12.2023	***510,988***

	Total
Opening fair value at 01.01.2022	***53,295***
Portfolio increase from business combination	285,163
Fair value and other movements	(38,836)
Assets derecognised except write-off	(5,844)
Financial assets originated or purchased	124,739
Closing fair value at 31.12.2022	***418,517***

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4.12 Securities held for trade and securities mandatorily measured at FVTPL

Securities measured at FVTPL	31.12.2023	31.12.2022
Debt securities	2,418	49,612
Equity instruments	203	311
Total securities held for trade	***2,621***	***49,923***
Debt securities	22	20
Equity instruments	47,494	24,849
Total securities mandatorily measured at FVTPL	***47,516***	***24,869***
Total	**50,137**	**74,792**

Main types of securities measured at FVTPL	31.12.2023	31.12.2022
State bonds	2,257	49,467
Corporate bonds	-	165
Bonds issued by domestic credit institutions	183	-
Domestic shares	40,885	16,851
Foreign shares	3,947	3,305
Investment fund shares	2,865	5,004
Total	**50,137**	**74,792**

4.13 Derivative financial instruments

4.13.1 Non-hedging derivative instruments

The fair values of the Group's derivatives not designated as hedges were as follows:

	31.12.2023		31.12.2022	
	Asset	Liability	Asset	Liability
Interest rate swaps	174,214	106,688	290,769	193,872
Forwards	351	14,066	5,504	9,799
Cross-currency interest rate swaps	15,968	5,318	26,801	8,827
Foreign exchange swaps	2,187	1,539	1,885	21,589
Options	2,463	2,333	1,408	1,019
Futures	-	-	1	4
Other transactions	-	-	41	767
Total	**195,183**	**129,944**	**326,409**	**235,877**

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4.13.2 Hedging derivative instruments

Fair value of hedging derivatives at the end of the period is shown in the following table:

Fair value of hedging derivatives	31.12.2023 Asset	31.12.2023 Liability	31.12.2022 Asset	31.12.2022 Liability
Interest rate swaps	73,426	16,793	164,338	166
Cross-currency interest rate swaps	226	225	-	-
Fair value hedging derivatives	***73,652***	***17,018***	***164,338***	***166***
Interest rate swaps	-	-	-	-
Cross-currency interest rate swaps	-	-	-	1,199
Cash-flow hedging derivatives	***-***	***-***	***-***	***1,199***
Total	**73,652**	**17,018**	**164,338**	**1,365**

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

31.12.2023	Maturity <1 month	1-3 months	3-12 months	1-5 years	>5 years
Interest rate swaps	-	-	8,906	168,199	291,282
Cross-currency interest rate swaps	-	-	-	-	9,674
Micro-hedge derivatives	***-***	***-***	***8,906***	***168,199***	***300,956***
Interest rate swaps	11,600	6,500	30,537	128,727	122,489
Cross-currency interest rate swaps	-	-	-	-	-
Macro-hedge derivatives	***11,600***	***6,500***	***30,537***	***128,727***	***122,489***
Total	**11,600**	**6,500**	**39,443**	**296,926**	**423,445**

31.12.2022	Maturity <1 month	1-3 months	3-12 months	1-5 years	>5 years
Interest rate swap	-	-	-	148,900	222,788
Cross-currency interest rate swaps	-	-	-	45	1,828
Micro-hedge derivatives	***-***	***-***	***-***	***148,945***	***224,616***
Interest rate swap	220	3,959	33,121	123,499	105,099
Cross-currency interest rate swaps	-	-	-	-	-
Macro-hedge derivatives	***220***	***3,959***	***33,121***	***123,499***	***105,099***
Total	**220**	**3,959**	**33,121**	**272,444**	**329,715**

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	Face value of swaps	Fair value differences on swaps designated as hedges
31.12.2023		
Macro hedge - Asset	250,452	34,362
Macro hedge - Liability	49,401	(4,230)
Micro hedge - Asset	302,626	39,290
Micro hedge - Liability	175,435	(12,788)
Total	***777,914***	***56,634***
31.12.2022		
Macro hedge - Asset	265,898	75,522
Macro hedge - Liability	-	-
Micro hedge - Asset	354,688	86,599
Micro hedge - Liability	18,874	(1,365)
Total	***639,460***	***160,756***

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

	Fix-interest loans	Interest rate swaps	Net profit/loss
31.12.2023			
Macro hedge – Positive fair value change	58,094	4,005	
Macro hedge – Negative fair value change	(3,257)	(53,241)	
Total	***54,837***	***(49,236)***	***5,601***
31.12.2022			
Macro hedge – Positive fair value change	31,633	45,393	
Macro hedge – Negative fair value change	(45,950)	(20,851)	
Total	***(14,317)***	***24,542***	***10,225***

In 2023 the Group accounted for a loss of HUF 49,2 billion on interest swaps in macro hedging relationships. During the hedge relation the Group accounted for a profit of HUF 54,8 billion on changes in interest risks related to the hedged fixed interest bearing loans which are stated in the balance sheet line “Loans and advances to customers”. The HUF 54,8 billion profit on loans is the sum of HUF 3.4 billion amortisation of the previous years' losses and 51,4 billion profit on the fixed rate interest loans. An unamortised sum of HUF 3,2 billion arising from terminated hedging relationships is recorded in the balance sheet line “Fair value change of hedged items in portfolio hedge of interest rate risk”.

The ineffective part of micro hedge transactions was HUF -10,4 billion during the current period (2022: HUF -0,5 billion).

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

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

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

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

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

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

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

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

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

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31.12.2023 **Offsetting and enforceable master netting arrangements**	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position			Net amount of exposure
				Financial instruments	Cash collateral received	Other non-cash collateral received	
Derivative financial assets	268,835	-	268,835	123,113	-	-	145,722
Repurchase assets	17,918	-	17,918	-	-	19,130	(1,212)
Total assets subject to offsetting, master netting and similar arrangement	**286,753**	**-**	**286,753**	**123,113**	**-**	**19,130**	**144,510**
Derivative financial liabilities	146,962	-	146,962	123,113	-	-	23,849
Repurchase liabilities	11,767	-	11,767	-	-	12,000	(233)
Total liabilities subject to offsetting, master netting and similar arrangement	**158,729**	**-**	**158,729**	**123,113**	**-**	**12,000**	**23,616**

31.12.2022 **Offsetting and enforceable master netting arrangements**	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position			Net amount of exposure
				Financial instruments	Cash collateral received	Other non-cash collateral received	
Derivative financial assets	490,747	-	490,747	62,199	-	-	428,548
Repurchase assets	1,070	-	1,070	-	-	1,650	(580)
Total assets subject to offsetting, master netting and similar arrangement	**491,817**	**-**	**491,817**	**62,199**	**-**	**1,650**	**427,968**
Derivative financial liabilities	237,242	-	237,242	62,199	-	-	175,043
Repurchase liabilities	-	-	-	-	-	1,650	(1,650)
Total liabilities subject to offsetting, master netting and similar arrangement	**237,242**	**-**	**237,242**	**62,199**	**-**	**1,650**	**173,393**

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4.14 Financial assets measured at fair value through other comprehensive income

Assets measured at FVTOCI	31.12.2023	31.12.2022
Debt securities	896,476	621,762
Equity instruments	16,062	9,083
Total	**912,538**	**630,845**

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

Main types of securities measured at FVTOCI	31.12.2023	31.12.2022
Government bonds	520,001	510,223
Domestic corporate bonds	59,134	50,758
Bonds issued by domestic credit institutions	294,712	42,555
Bonds issued by foreign credit institutions	22,629	18,226
Domestic shares	9,529	5,721
Foreign shares	151	75
Investment fund shares	6,382	3,287
Impairment losses	***(1,319)***	***(639)***
Total	**912,538**	**630,845**

The amount of impairment of the FVTOCI financial assets, which is accounted for between other comprehensive income reserve and profit or loss, does not decrease the carrying amount of the financial assets. All financial assets measured at FVTOCI in both 2023 and 2022 were stage 1.

The amount of debt securities measured at FVTOCI was HUF 896,476 million at the end of the reporting period. The Group’s equity instruments measured at FVTOCI at the end of the period was HUF 16,062 million. In connection to the decrease of prevailing interest rate the revaluation on financial assets measured at FVTOCI changed to HUF 62,655 million from HUF 3,609 million. As at 31 December 2023 the total amount of revaluation reserve comprises HUF 36,465 million (2022: HUF -21,357 million). In 2023, HUF 2,784 million gain on sale (2022: HUF 35,924 million loss) was recognised in the profit or loss relating to securities measured at FVTOCI, which is a reclassification from other comprehensive income into profit or loss.

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4.15 Financial assets measured at amortised cost

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

Financial assets measured at amortised cost	31.12.2023	31.12.2022
Loans and advances to banks	106,544	179,088
Loans and advances to customers	4,390,428	4,342,801
Repurchase assets	17,918	1,070
Securities	3,010,864	2,781,620
Other financial assets	163,708	72,676
Total	**7,689,462**	**7,377,255**

During Q3 2022, the Group took over the outstanding loan agreements between Sberbank Hungary Ltd. (under liquidation) and its customers, based on the authorisation received from NHB. The transfer of the portfolio took place with effect from 1 August 2022, under which HUF 246,189 million legal claim of retail (32%) and corporate (68%) loan portfolio was transferred to MBH Bank for a consideration of HUF 211,179 million, as a result of which the Group has achieved a significant expansion in the strategically important retail and corporate lending. The migration of Sberbank's loan portfolio to the Group's core system was successfully completed in the last quarter of 2022.

Main types of other financial assets are the followings:

- Capital increase pending in an associate: HUF 44,730 million
- Settlements related to subsidised credit facilities: HUF 68,462 million (2022: HUF 38,198 million)
- Other receivables related to lending activities: HUF 13,125 million (2022: HUF 8,757 million)

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4.15.1 Securities measured at amortised cost

Securities measured at amortised cost	31.12.2023	31.12.2022
Government bonds	2,493,527	2,312,424
Corporate bonds	258,526	229,626
Bonds issued by domestic credit institutions	232,390	217,189
Bonds issued by foreign credit institutions	32,808	27,269
Expected credit loss	***(6,387)***	***(4,888)***
Total	**3,010,864**	**2,781,620**

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

	Stage 1	Stage 2	Stage 3	Total
31.12.2023				
Government bonds	2,493,527	-	-	2,493,527
Corporate bonds	235,320	22,768	438	258,526
Bonds issued by domestic credit institutions	232,390	-	-	232,390
Bonds issued by foreign credit institutions	32,808	-	-	32,808
Expected credit loss	***(2,896)***	***(3,146)***	***(345)***	***(6,387)***
Total	***2,991,149***	***19,622***	***93***	***3,010,864***
31.12.2022				
Government bonds	2,312,424	-	-	2,312,424
Corporate bonds	228,417	1,209	-	229,626
Bonds issued by domestic credit institutions	210,620	6,569	-	217,189
Bonds issued by foreign credit institutions	27,269	-	-	27,269
Expected credit loss	***(2,630)***	***(2,258)***	***-***	***(4,888)***
Total	***2,776,100***	***5,520***	***-***	***2,781,620***

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4.15.2 Presentation of loans measured at amortised cost by stage

	Gross value	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Total ECL	Book value
31.12.2023							
Loans and advances to banks	107,559	(1,015)	-	-	-	(1,015)	106,544
Loans and advances to customers	4,659,589	(64,538)	(109,345)	(94,179)	(1,099)	(269,161)	4,390,428
- of which: retail	1,130,858	(12,936)	(16,644)	(43,611)	(868)	(74,059)	1,056,799
- of which: wholesale	3,528,731	(51,602)	(92,701)	(50,568)	(231)	(195,102)	3,333,629
Total	***4,767,148***	***(65,553)***	***(109,345)***	***(94,179)***	***(1,099)***	***(270,176)***	***4,496,972***
31.12.2022							
Loans and advances to banks	179,207	(119)	-	-	-	(119)	179,088
Loans and advances to customers	4,558,061	(37,435)	(75,036)	(101,525)	(1,318)	(215,314)	4,342,801
- of which: retail	1,190,854	(12,299)	(16,859)	(47,073)	(865)	(77,096)	1,113,758
- of which: wholesale	3,367,261	(25,136)	(58,177)	(54,452)	(453)	(138,218)	3,229,043
Total	***4,737,322***	***(37,554)***	***(75,036)***	***(101,525)***	***(1,318)***	***(215,433)***	***4,521,889***

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4.15.3 Movement of loans measured at amortised cost

The following movement tables contain cumulative data for the financial year.

Gross book value	Stage 1	Stage 2	Stage 3	POCI	Total
Opening gross book value on 01.01.2023	***3,316,855***	***1,034,505***	***197,140***	***9,615***	***4,558,115***
Reclassifications					
from Stage 1 to Stage 2	(164,940)	164,940	-	-	-
from Stage 1 to Stage 3	(17,935)	-	17,935	-	-
from Stage 2 to Stage 1	359,911	(359,911)	-	-	-
from Stage 2 to Stage 3	-	(35,915)	35,915	-	-
from Stage 3 to Stage 1	14,374	-	(14,374)	-	-
from Stage 3 to Stage 2	-	37,893	(37,893)	-	-
Increase from business combination	28,603	-	-	1,461	30,064
Change in EAD	(1,133,424)	(91,035)	(39,916)	(3,762)	(1,268,137)
Assets derecognised except write off	(244,272)	(44,141)	(8,752)	(503)	(297,668)
Financial assets written off	(77)	(18)	(982)	(13)	(1,090)
Financial assets originated or purchased*	1,496,555	123,879	16,215	156	1,636,805
FX and other movements	1,768	5	790	(1,063)	1,500
Closing gross book value on 31.12.2023	***3,657,418***	***830,202***	***166,078***	***5,891***	***4,659,589***

** The stage classification based on the year end classification of financial assets, the line includes the subsequent measurement of current year originated or purchased financial assets as well.*

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Expected credit loss of assets (ECL)	Stage 1 12-month expected credit loss (ECL)	Stage 2 Lifetime expected credit loss (ECL)	Stage 3 Lifetime expected credit loss (ECL)	POCI Financial assets acquired or created impaired	Total
Opening cumulated ECL at 01.01.2023	***37,435***	***75,036***	***101,525***	***1,318***	***215,314***
Reclassifications					
from Stage 1 to Stage 2	(3,073)	3,073	-	-	-
from Stage 1 to Stage 3	(368)	-	368	-	-
from Stage 2 to Stage 1	18,234	(18,234)	-	-	-
from Stage 2 to Stage 3	-	(3,212)	3,212	-	-
from Stage 3 to Stage 1	7,328	-	(7,328)	-	-
from Stage 3 to Stage 2	-	17,997	(17,997)	-	-
Increase from business combination	852	-	-	617	1,469
Change in risk parameters	(27,583)	34,124	18,932	(753)	24,720
Assets derecognised except write off	(5,545)	(4,765)	(4,746)	(41)	(15,097)
Financial assets written off	(40)	(1)	(926)	-	(967)
Financial assets originated or purchased*	24,606	14,559	7,656	66	46,887
FX and other movements	12,692	(9,232)	(6,517)	(108)	(3,165)
Closing cumulated ECL at 31.12.2023	***64,538***	***109,345***	***94,179***	***1,099***	***269,161***

** The stage classification based on the year end classification of financial assets, the line includes the subsequent measurement of current year originated or purchased financial assets as well.*

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

* Business combination under common control.
*** The stage classification based on the year end classification of financial assets, the line includes the subsequent measurement of current year originated or purchased financial assets as well.*

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Expected credit loss of assets (ECL)	**Stage 1** **12-month expected credit loss (ECL)**	**Stage 2** **Lifetime expected credit loss (ECL)**	**Stage 3** **Lifetime expected credit loss (ECL)**	**POCI** **Financial assets acquired or created impaired**	**Total**
Opening cumulated ECL at 01.01.2022	***5,101***	***19,505***	***21,583***	***2,112***	***48,301***
Reclassifications					
from Stage 1 to Stage 2	(6,915)	6,915	-	-	-
from Stage 1 to Stage 3	(353)	-	353	-	-
from Stage 2 to Stage 1	10,193	(10,193)	-	-	-
from Stage 2 to Stage 3	-	(2,489)	2,489	-	-
from Stage 3 to Stage 1	3,780	-	(3,780)	-	-
from Stage 3 to Stage 2	-	4,424	(4,424)	-	-
Increase from business combination*	25,464	27,805	63,340	642	117,251
Change in risk parameters	(6,305)	18,968	20,046	417	33,126
Assets derecognised except write off	(1,226)	(2,150)	(5,172)	(1,710)	(10,258)
Financial assets written off	-	-	(5)	-	(5)
Derecognition and reclassification during the current year due to classification as held for sale	(2)	-	(8,949)	-	(8,951)
Financial assets originated or purchased**	12,517	14,841	12,119	329	39,806
FX and other movements	(4,819)	(2,590)	3,925	(472)	(3,956)
Closing cumulated ECL at 31.12.2022	***37,435***	***75,036***	***101,525***	***1,318***	***215,314***

** Business combination under common control.*
*** The stage classification based on the year end classification of financial assets, the line includes the subsequent measurement of current year originated or purchased financial assets as well.*

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The following table shows the eligible collateral value of the Group's non-performing loan portfolio:

Stage 3 **Loans and advances to customers**	**31.12.2023**	**31.12.2022**
Carrying amount	72,233	88,099
Collateral value	101,549	124,172

4.16 Associates and other investments

Associates and other investments	**31.12.2023**	**31.12.2022**
Cost	50,064	44,381
Share of post acquisition reserves	2,805	1,535
Investment in associates	***52,869***	***45,916***
Other investments	2,300	3,683
Total	**55,169**	**49,599**

At the end of the reporting period there is no goodwill presented in the consolidated financial statements.

The following table shows the associates of the Group considered as not material in an aggregated manner:

Associates	**Book value**	**Profit after tax**	**Country of incorporation**	**Activity**
FVTPL exemption	25,980	(828)	Hungary	agricultural activity, investment fund
Equity method	6,046	(570)	Hungary	investment fund

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The following table shows the associates of the Group considered as material:

General information	**Magyar Strat-Alfa Zrt.**	**MBH Magántőkealap**
Activity	Sale of own property	Fund management
Country of incorporation	Hungary	Hungary
Ownership % (direct & non-direct)	50%	30%
Proportion of the voting rights held	50%	30%
Relation	Associate	Associate
Involvement	Equity method	Equity method
Financial data*	**2023.12.31**	**2023.12.31**
Cash and cash equivalents	*223*	*8,269*
Other current assets	*100*	-
Current assets	323	8,269
Non-current assets (investments)	60,880	71,645
Other assets	623	1,555
Total assets	***61,826***	***81,469***
Amounts due to banks	20,299	-
Liabilities from customers	1,300	-
Other liabilities	71	74
Total liabilities	***21,670***	***74***
Equity	40,156	81,394
Total Equity and liabilities	***61,826***	***81,394***
Revenue	333	3,172
Other income	-	-
Total revenue	***333***	***3,172***
Other expenses	(153)	(11,436)
Depreciation	-	-
Total expenses	***(153)***	***(11,436)***
Financial result	(322)	(810)
Income tax expense	-	-
Profit after tax	***(142)***	***(9,074)***
Dividend paid	-	-

** table contains preliminary, non-audited financial data.*

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General information	**Magyar Strat-Alfa Zrt.**	**MBH Magántőkealap**
Activity	Sale of own property	Fund management
Country of incorporation	Hungary	Hungary
Ownership % (direct & non-direct)	50%	30%
Proportion of the voting rights held	50%	30%
Relation	Associate	Associate
Involvement	Equity method	Equity method
Financial data	**2022.12.31**	**2022.12.31**
Cash and cash equivalents	*620*	*25,536*
Other current assets	*4*	-
Current assets	624	25,536
Non-current assets (investments)	67,986	46,893
Other assets	-	502
Total assets	***68,610***	***72,931***
Amounts due to banks	21,043	-
Liabilities from customers	132	-
Other liabilities	-	23
Total liabilities	***21,175***	***23***
Equity	47,435	72,908
Total Equity and liabilities	***68,610***	***72,931***
Revenue	-	-
Other income	-	-
Total revenue	***-***	***-***
Other expenses	(117)	(496)
Depreciation	-	-
Total expenses	***(117)***	***(496)***
Financial result	(130)	2,159
Income tax expense	-	-
Profit after tax	***(247)***	***1,663***
Dividend paid	-	-

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4.17 Tangible assets and intangible assets

Movements in the Group's tangible and intangible assets recognised in the consolidated financial position for the current and previous years are shown in the two tables below. Current year depreciation is recorded in the consolidated statement of profit or loss and other comprehensive income among operating expenses. Movement table for 2023 does not include right-of-use assets, disclosures in connection to them are included in note 4.26.

31.12.2023	Softwares	Other intangible assets	Own properties	Own equipments	Total
Cost					
Opening balance at 01.01.2023	***159,422***	***26,571***	***75,837***	***46,323***	***308,153***
Additions – including internally developed	18,976	3,942	29,609	3,893	56,420
Additions from business combination	2,480	734	877	5,382	9,473
Other modification	(31)	1	(300)	(802)	(1,132)
Disposals	(3,493)	(5,545)	(7,460)	(1,430)	(17,928)
Closing balance at 31.12.2023	**177,354**	**25,703**	**98,563**	**53,366**	**354,986**
Depreciation and impairment losses					
Opening balance at 01.01.2023	***92,993***	***22,489***	***21,218***	***25,737***	***162,437***
Depreciation charged for the year	17,029	945	3,008	5,454	26,436
Additions from business combination	2,649	407	583	3,103	6,742
Impairment loss	237	-	106	14	357
Other modification	-	-	-	-	-
Disposals	(59)	(4,727)	(3,023)	(860)	(8,669)
Closing balance at 31.12.2023	**112,849**	**19,114**	**21,892**	**33,448**	**187,303**
Book value					
01.01.2023	66,429	4,082	54,619	20,586	145,716
31.12.2023	64,505	6,589	76,671	19,918	167,683

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31.12.2022	Softwares	Other intangible assets	Own properties	Own equipments	Total
Cost					
Opening balance at 01.01.2022	***39,963***	***45,803***	***25,558***	***20,069***	***131,393***
Additions – including internally developed	68,846	532	18,843	30,269	118,490
Additions from business combination	52,688	(19,454)	36,251	6,370	75,856
Other modification	-	-	511	415	926
Disposals	(2,075)	(310)	(5,326)	(10,800)	(18,511)
Closing balance at 31.12.2022	**159,422**	**26,571**	**75,837**	**46,323**	**308,154**
Depreciation and impairment losses					
Opening balance at 01.01.2022	***21,223***	***32,757***	***9,609***	***14,618***	***78,207***
Depreciation charged for the year	48,080	1,832	10,240	16,742	76,894
Additions from business combination	24,461	(12,157)	3,140	3,884	19,329
Impairment loss	-	-	240	113	353
Other modification	352	175	-	-	527
Disposals	(1,123)	(118)	(2,011)	(9,620)	(12,871)
Closing balance at 31.12.2022	**92,993**	**22,489**	**21,218**	**25,737**	**162,438**
Book value					
01.01.2022	18,740	13,046	15,949	5,451	53,186
31.12.2022	66,429	4,082	54,619	20,586	145,716

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4.18 Other assets

Other assets	31.12.2023	31.12.2022
Inventories	1,023	528
Assets received in exchange of claims	457	387
Initial fair value difference	8,342	9,035
Taxes, duties and other fiscal items	8,323	11,017
Intermediary services	1,744	481
Prepaid cost and accrued income	42,478	47,591
Total	**62,367**	**69,039**

The NBH launched its three-pillar Funding for Growth Scheme (FGS) on 1 June 2013, primarily to stimulate lending to small and medium-sized enterprises. Under pillar I and II of the FGS the NBH provided refinancing loans to credit institutions participating in the Scheme at 0 percent interest rate, which were lent further by the credit institutions to the SMEs with a capped interest margin. Since then, the range of FGS schemes has been further expanded with the FGS Go and FGS Green Home loan programs. The Group participated in all mentioned loan programs, the presentation of initial fair value difference is related to these programs.

Special epidemic tax is presented among taxes, duties and other fiscal items, as the Government 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).

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

Financial liabilities at FVTPL	31.12.2023	31.12.2022
Derivative financial liabilities	129,944	235,877
Short positions	22,637	42,326
Total	**152,581**	**278,203**

The Group recognised short positions due to government bond transactions.

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4.20 Financial liabilities at amortised cost

Financial liabilities measured at amortised cost	31.12.2023	31.12.2022
Deposits	7,072,054	6,848,768
Loans	1,924,480	2,104,060
Issued debt securities	520,901	290,838
Subordinated debt	108,341	88,887
Other financial liabilities	164,049	83,722
Total	**9,789,825**	**9,416,275**

Sectoral breakdown of deposits and loans	31.12.2023	31.12.2022
Amounts due to banks	2,039,434	2,378,471
Amounts due to customers	6,957,100	6,574,357
- *of which: deposits*	*2,786,318*	*2,170,484*
- *of which: current accounts*	*4,170,782*	*4,403,873*
Total	**8,996,534**	**8,952,828**

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

For further information please see Note 4.21 for debt securities issued, Note 4.22 for subordinated debts. Other financial liabilities typically include liabilities related to the investment accounts of clients and accounts payable.

Line of Other financial liabilities includes interim dividend liabilities to the shareholders. Based on Section 3.2.2 (m) of the Articles of Association, the Board of Directors of MBH Bank Plc. (decided on 15 December 2023 with its Resolution No. 162/2023 (15 December) (the 'Resolution') to pay interim dividend of HUF 21,609,484,875 to the shareholders of the Bank. The Supervisory Board approved the decision of the Board of Directors by way of its Resolution No. 43/2023 (15 December). Based on the above, the gross interim dividend per ordinary share with a nominal value of HUF 1,000 is HUF 67. The amount of the gross interim dividend actually payable to a shareholder is calculated by multiplying the number of shares held by the shareholder by the gross interim dividend per share, rounded up to the nearest whole forint amount in accordance with the rounding rules. Pursuant to the Board of Directors' Resolution, the first date of payment of the interim dividend (E day) was 12 January 2024.

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4.21 Debt securities issued

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

Debt securities issued	31.12.2023		31.12.2022	
	Nominal value	Book value	Nominal value	Book value
Bonds issued				
Variable rate	-	-	-	-
Fixed rate	71,280	71,626	-	-
Total	***71,280***	***71,626***	***-***	***-***
Mortgage bonds issued				
Variable rate	47,476	46,921	30,326	30,859
Fixed rate	250,913	242,711	267,635	259,979
Total	***298,389***	***289,632***	***297,961***	***290,838***
MREL bonds issued*				
Variable rate	-	-	-	-
Fixed rate	156,335	159,643	-	-
Total	***156,335***	***159,643***	***-***	***-***
Total	**526,004**	**520,901**	**297,961**	**290,838**

Book value of securities issued by currency	31.12.2023	31.12.2022
Denominated in EUR	173,306	-
Denominated in HUF	347,595	290,838
Total	**520,901**	**290,838**

***MREL bonds**

From 01 January 2024 a minimum level of quantity and quality of liability is required to be held by the domestic financial institutions and investment entities by NBH. The required type of liabilities must partly or entirely be eligible, or convertible to capital in a case of critical economic situation (minimum requirement for regulatory capital, and eligible or convertible liabilities, shortly: MREL - Minimum Requirement for own funds and Eligible Liabilities).

During current period MBH Bank issued the following bonds to comply with the minimum requirements:

- within the framework of the first issuance program of debt instruments complying with MREL requirements of MBH Bank's history a senior non-priority (senior-preferred) debt instrument (ISIN: HU0000362702) has been issued on value date of 16 June 2023 with EUR 74.98 million (HUF 28,1 billion) nominal value, 3 years maturity, 9% fixed interest rate for the first and second year then 3 month BUBOR+5.5% variable interest rate for the last year of the duration.
- during the Bank's newly announced EUR 1,5 billion international bond issuance program a senior non-priority (senior-preferred) debt instrument (ISIN: XS2701655677) has been issued on value date of 19 October 2023 with EUR 350 million (HUF 134,7 billion) nominal value, 4 years maturity (redeemable after 3 year) and 8.625% fixed interest rate.

Mortgage bonds

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

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

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

In addition to assessing the nominal value of the cover of mortgage bonds and the underlying collaterals, the Mortgage Loan Act stipulates that collateral for mortgage bonds should also be assessed at present value. The present value of collateral exceeded the present value of mortgage bonds outstanding not yet repaid throughout the period. The Group fulfills the requirements of the Mortgage Funding Adequacy Ratio (JMM) introduced by NBH.

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4.22 Subordinated liabilities

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

	Interest	Date of issue	Maturity	Face value in original currency	Original currency	Book value
31.12.2023						
Subordinated debt*	Variable	31.12.1995	Perpetual	32,477,987	HUF	33
Subordinated bond	Fixed	26.05.2017	14.06.2024	36,900,000	EUR	14,472
Subordinated debt*	Variable	28.12.2017	28.12.2024	179,266,584	HUF	179
Subordinated debt*	Variable	28.12.2018	28.12.2025	62,395,771	HUF	62
Subordinated bond	Fixed	28.03.2019	15.04.2026	28,700,000	EUR	11,337
Subordinated bond	Fixed	26.05.2020	20.07.2028	39,255,000	EUR	15,329
Subordinated debt	Fixed	23.11.2020	23.11.2030	40,000,000,000	HUF	40,000
Subordinated bond	Variable	31.01.2023	31.01.2030	24,750,000,000	HUF	26,929
Total						***108,341***
31.12.2022						
Subordinated bond	Fixed	26.05.2017	14.06.2024	36,900,000	EUR	15,134
Subordinated bond	Fixed	28.03.2019	15.04.2026	31,000,000	EUR	12,714
Subordinated bond	Fixed	26.05.2020	20.07.2028	51,300,000	EUR	21,039
Subordinated debt	Fixed	23.11.2020	23.11.2030	40,000,000,000	HUF	40,000
Total						***88,887***

** Issued subordinated instruments by Duna Takarék Bank.*

The new issued subordinated debt in 2023 pays interest on variable base (6 month BUBOR + interest premium).

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4.23 Provision

Following table shows the movement of provision:

Provisions	Opening at 01.01.2023	Increase from business combination	Provisions made during the year	Release/use of provisions	Closing at 31.12.2023
Expected credit loss (IFRS9)	15,311	60	45,833	(38,571)	22,633
Pension and severance pay	1,036	-	1,714	(1,036)	1,714
Provision for litigation	619	-	513	(47)	1,085
Provision for restructuring	3,816	-	2,571	(3,816)	2,571
Other provisions	1,841	105	2,765	(1,474)	3,237
Total provisions	**22,623**	**165**	**53,396**	**(44,944)**	**31,240**

Provisions	Opening at 01.01.2022	Increase from business combination	Provisions made during the year	Release/use of provisions	Closing at 31.12.2022
Expected credit loss (IFRS9)	3,134	6,643	27,006	(21,472)	15,311
Pension and severance pay	-	486	550	-	1,036
Provision for litigation	45	886	477	(789)	619
Provision for restructuring	-	25	4,511	(720)	3,816
Other provisions	451	1,954	-	(564)	1,841
Total provisions	**3,630**	**9,994**	**32,544**	**(23,545)**	**22,623**

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

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

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

4.24 Other liabilities

	31.12.2023	31.12.2022
Other accrued expenses	42,862	39,600
Taxes, duties and other levies	13,695	14,772
Initial fair value difference	9,247	11,902
Other liabilities	10,224	5,463
Total	**76,028**	**71,737**

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4.25 Leases

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

	31.12.2023	31.12.2022
Own property, machinery and equipment	96,589	75,206
Right-of use assets	23,912	23,139
Total property, machinery and equipment	**120,501**	**98,345**

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

Lease liabilities	31.12.2023	31.12.2022
Short-term	7,675	5,243
Long-term	17,939	27,869
Total lease liabilities	**25,614**	**33,112**

Right-of use assets	Property	Vehicles and other equipment	Total
Balance at 01.01.2023	***21,236***	***1,903***	***23,139***
Additions	17,533	679	18,212
Increase from business combination	302	-	302
Depreciation for the current year	7,623	1,305	8,928
Decrease	8,784	29	8,813
Balance at 31.12.2023	***22,664***	***1,248***	***23,912***

Right-of use assets	Property	Vehicles and other equipment	Total
Balance at 01.01.2022	***5,856***	***746***	***6,602***
Additions	12,991	739	13,730
Increase from business combination	14,482	1,618	16,100
Depreciation for the current year	6,593	1,104	7,697
Decrease	5,500	96	5,596
Balance at 31.12.2022	***21,236***	***1,903***	***23,139***

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Total cash outflows related to leases	2023	2022
Total cash outflows related to leases	14,710	8,945

Items recognised in profit or loss relating to leased assets	2023	2022
Interest expense on leasing liabilities	1,725	1,083

Items presented in the cash-flow statement	2023	2022
Interest expense on leasing liabilities	1,725	1,083
Payments related to the capital component of a lease liability	12,985	7,862

The value of contracts for which the Group does not expect to exercise the extension and / or exercise option is immaterial.

The Group elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets (e.g including printers, IT equipment). Expenses relating to leases of low-value assets and short-term leases for the reporting period are considered not material.

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

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4.26 Share of non-controlling owners

31 December 2023	Proportion of non-controlling interest	Proportion of votes on non-controlling interest	Primary place of activity	Total comprehensive income on non-controlling interest over the current period	Cumulative non-controlling interest
MBH Mortgage Bank Co. Plc.	47,91%	47,91%	1117 Budapest, Magyar Tudósok körútja 9. G. ép.	3,192	37,466
Takarékbank Ltd.	-	-	1117 Budapest, Magyar Tudósok körútja 9. G. ép.	375	-
MITRA Informatikai Ltd.	3,53%	3,53%	1138 Budapest, Váci út 193.	75	245
MBH Services Plc.	0,36%	0,36%	1134 Budapest, Kassák Lajos utca 18.	2	118
Takinfo Ltd.	47,62%	47,62%	1125 Budapest, Fogaskerekű utca 4-6.	(23)	562
MBH Fund Management Ltd.	1,54%	1,54%	1068 Budapest, Benczúr utca 11.	2,856	3,457
MBH Vállalati Stabil Abszolút Hozamú Kötvény Investment Fund	6,77%	6,77%	1068 Budapest, Benczúr utca 11.	32	995
MBH Duna Bank Ltd.	1,54%	1,54%	9022 Győr, Árpád út 93.	2	140
Total				**6,511**	**42,983**

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

In subsidiaries not included in tables above, the Group has no minority interest.

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4.27 Financial data of subsidiaries

The 2023 and 2022 year's preliminary financial data of subsidiaries on the record date are summarized in the following table:

31.12.2023	Total assets	Total liabilities	Total equity	Net income from interest, fees and commissions	After-tax profit or loss	Total comprehensive income	Total cash flow (net)
MITRA Informatikai Ltd.	27,588	20,678	6,910	(1,029)	1,457	1,457	1,807
MBH Investment Bank Co. Ltd.*	409,876	374,507	35,369	4,404	6,300	6,121	(164,607)
MBH Mortgage Bank Co. Plc.	906,579	828,373	78,206	8,376	6,663	7,167	18,964
Euroleasing Real Estate Ltd.	34,884	34,307	577	961	133	133	1,327
Takarék Ingatlan Ltd.	696	40	656	281	56	56	(11)
MBH Blue Sky Ltd.	16,303	265	16,038	61	(785)	(785)	8
MBH Services Plc.	35,095	2,110	32,985	548	359	359	(115)
MBH DOMO Llc.	20,389	1,131	19,258	619	498	498	274
Takarék Faktorház Ltd.	453	45	408	362	124	124	17
Takinfo Ltd.	1,183	3	1,180	7	(49)	(49)	(394)
Takarék Zártkörű Investment Fund	19,086	11	19,075	371	314	6,786	(3,078)
MBH Mezőgazdasági Befektetési és Fejlesztési Magántőkealap	37,638	28	37,610	1,387	223	223	195
OPUS TM-1 Investment Fund	2,546	5	2,541	14	(25)	248	(163)
MBH Vállalati Stabil Abszolút Hozamú Kötvény Investment Fund	14,734	27	14,707	803	1,674	1,945	2,550
MBH Real Estate Development Ltd.	41,698	3,595	38,103	1,280	1,505	2,050	(11,974)
Euroleasing Ltd.	405,585	401,471	4,114	9,504	(1,964)	(1,964)	123
MBH Bank MRP Szervezet	16,719	159	16,560	1,664	2,086	2,086	(25)
Retail Prod Ltd.	1,065	20	1,045	127	156	156	985
Budapest Equipment Finance Privately Held Share Company	3,924	2,079	1,845	111	809	809	3
Budapest Leasing Privately Held Share Company	80,919	70,254	10,665	3,575	5,269	5,269	6,295
MBH Fund Management Ltd.	16,156	2,026	14,130	15,524	11,674	11,914	(938)
MBH Duna Bank Ltd.	130,829	121,705	9,124	9,903	3,838	3,990	40,315

* In line with the Group's business strategy, MBH Befektetési Bank Ltd. has transformed its scope of activities during 2023, and intends to sell the Group's diversified portfolio of investment products in a uniform manner through MBH Investments Bank Ltd.

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31.12.2022	Total assets	Total liabilities	Total equity	Net income from interest, fees and commissions	After-tax profit or loss	Total comprehensive income	Total cash flow (net)
MITRA Informatikai Ltd.	29,772	24,390	5,382	(205)	(770)	(770)	4,735
Takarékbank Ltd.	3,511,717	3,284,849	226,869	174,188	18,329	19,491	17,289
Magyar Takarékszövetkezeti Bank Ltd.	1,742,900	1,713,647	29,253	(2,316)	(5,590)	(5,078)	121,210
Takarék Mortgage Bank Co. Plc.	813,923	742,885	71,039	5,149	1,786	2,193	113
Takarék Lízing Ltd.	46,836	46,286	550	1,017	(701)	(701)	(1,191)
Takarék Ingatlan Ltd.	727	126	600	562	25	25	(521)
Takarék INVEST Ltd.	16,388	64	16,324	13	(221)	(221)	1,558
TIFOR Takarék Ingatlanforgalmazó Ltd.	6,476	94	6,382	229	203	203	(2,960)
TIHASZ Takarék Ingatlanhasznosító Ltd.	26,679	534	26,145	52	(159)	(159)	(71)
Takarék Faktorház Ltd.	9,647	8,752	895	532	207	207	1
Takinfo Ltd.	1,692	7	1,685	-	(11)	(11)	9
Takarék Zártkörű Investment Fund	10,715	6	10,709	162	126	(90)	(1,864)
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	24,119	14	24,105	768	750	750	(1,464)
OPUS TM-1 Investment Fund	2,297	3	2,293	8	42	51	25
MKB Üzemeltetési Ltd.	37,863	1,844	36,019	573	1,543	1,543	(3,057)
Euroleasing Ltd.	276,361	270,266	6,095	6,063	(1,851)	(1,851)	(137)
MKB Bank MRP Szervezet	13,010	40	12,970	360	588	588	17
Retail Prod Ltd.	905	16	889	71	93	93	(70)
Budapest Equipment Finance Privately Held Share Company	2,442	1,408	1,034	75	(250)	(250)	-
Budapest Leasing Privately Held Share Company	107,058	101,663	5,396	1,837	(1,482)	(1,482)	-
MKB Fund Management Ltd.	9,632	949	8,682	5,360	4,017	3,877	1,150

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4.28 Contingent liabilities

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

Commitments to extend loans refer to contractual commitments to provide credit line and revolving loans.Commitments typically have fixed expiry dates or have other provisions regarding its termination and typically generate an obligation for the client to pay a fee.

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

	Gross amount		Provision		Net amount
		Stage 1	Stage 2	Stage 3	
31.12.2023					
Loan commitments provided	1,206,000	(10,478)	(5,936)	(1,444)	1,188,142
Financial guarantees provided	101,220	(1,071)	(1,549)	(233)	98,367
Other contingent liabilities	296,502	(872)	(977)	(12)	294,641
Total contingent liabilities	***1,603,722***	***(12,421)***	***(8,462)***	***(1,689)***	***1,581,150***
31.12.2022					
Loan commitments provided	1,150,795	(5,456)	(3,153)	(2,930)	1,139,256
Financial guarantees provided	107,237	(896)	(1,086)	(424)	104,831
Other contingent liabilities	281,451	(771)	(520)	(71)	280,089
Total contingent liabilities	***1,539,483***	***(7,123)***	***(4,759)***	***(3,425)***	***1,524,176***

Other contingent liabilities include the amount of liabilities arising from legal cases and other possible future events, the settlement of which will probably require the use of resources representing economic benefits.

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4.29 Related party transactions

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

All transactions with related companies were carried out in the ordinary course of business. Transactions include credit and deposit transactions and off-balance sheet transactions. All the transactions were carried out under ordinary commercial conditions and by applying market interest rates.

Key management personnel compensation for the period comprised:

	2023	2022
Short-term employee benefits	993	864
Other long-term benefits	36	50
Termination benefits	-	23
Share-based payment transactions	177	184
Total	**1,206**	**1,121**

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	Associates and other investments		Key Management Personnel		Other related parties*	
	2023	2022	2023	2022	2023	2022
Assets						
Amounts due from banks	-	-	-	-	-	-
Loans and advances to customers	32,873	22,439	514	2,060	190,345	223,720
Derivative financial assets	-	1,036	-	-	16	271
Securities and equity instruments	96,414	24,105	-	-	54,078	43,093
Other assets	44,730	-	-	-	4	117
Liabilities						
Amounts due to banks	-	-	-	-	-	-
Current and deposit accounts	2,523	2,771	511	1,548	404,520	259,818
Derivative financial liabilities	-	-	-	-	-	-
Other liabilities	44,988	-	-	-	29	469
Profit or Loss						
Interest income	2,155	576	12	144	20,162	16,047
Interest expense	(33)	(11)	(3)	(3)	(27,207)	(12,233)
Net income from commissions and fees	480	125	4	20	124	948
Other income / (expense)	(356)	33	(1,209)	(1,368)	(297)	93
Contingencies and commitments						
Undrawn commitments to extend credit	783	2,414	4	236	52,530	159,222
Guarantees	-	-	-	315	95,785	10,101
Provision	14,344	5,159	2	(9)	17,859	9,728

* Balances to other related parties include exposures to owners and their groups.

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4.30 Fair value of financial instruments

	Quoted prices available on the active market	Valuation techniques - with observable parameters	Valuation techniques - with significant non-observable parameters	Total
31.12.2023				
Financial assets measured at amortised cost	-	3,010,864	4,678,598	7,689,462
Loans and advances to banks	-	-	106,544	106,544
Loans and advances to customers	-	-	4,390,428	4,390,428
Repurchase assets	-	-	17,918	17,918
Securities	-	3,010,864	-	3,010,864
Other financial assets	-	-	163,708	163,708
Financial assets measured at fair value through profit or loss	663	298,430	530,867	829,960
Revaluation on financial assets measured at FVTOCI	439,107	473,431	-	912,538
Total	***439,770***	***3,782,725***	***5,209,465***	***9,431,960***
31.12.2022				
Financial assets measured at amortised cost	-	2,781,620	4,595,635	7,377,255
Loans and advances to banks	-	-	179,088	179,088
Loans and advances to customers	-	-	4,342,801	4,342,801
Repurchase assets	-	-	1,070	1,070
Securities	-	2,781,620	-	2,781,620
Other financial assets	-	-	72,676	72,676
Financial assets measured at fair value through profit or loss	6,221	559,318	418,517	984,056
Revaluation on financial assets measured at FVTOCI	305,686	325,159	-	630,845
Total	***311,907***	***3,666,097***	***5,014,152***	***8,992,156***

The Group measures fair values using the following measurement hierarchy:

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

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

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

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

The evaluation methodology of the model linked to baby loans was further developed during the period as follows:

- Modifications affecting the calculation of the forward curve:
  Estimation of futures cash flows is based on forward reference interest rates calculated from 6-month BUBOR forward curve instead of previously used yield curve used for discounting. This results in an amount of HUF 4,161 million gain.

- Modifications affecting the yield curve used for discounting:
  In order to increase the accuracy of the calculation the number of yield points used to interpolate the zero curve has been increased from 23 to 60 yield points. This results in an amount of HUF 427 million loss.

- Modifications affecting the estimated cash flow of transactions:
  The estimated period between the child births or the signing of the loan contract and the birth of the first child has been revised based on a performed hypothesis test on the largest portfolio to verify the Hungarian Central Statistical Office's statistics. This modification results in an amount of HUF 1,774 million positive fair value adjustment related to baby loans.

Development of the evaluation methodology of the model linked to baby loans resulted in HUF 5,508 million gain and was recognised in the line of consolidated statement of profit or loss and other comprehensive income "Results from financial instruments measured at fair value through profit or loss, net."

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

Cash and cash-equivalents

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

Derivative financial instruments

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

Securities

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

The value of investment units held is determined based on the net asset value of the related investment funds.

The net asset value of the investment funds is established by the Fund Manager, the calculated net asset value is checked by the Depositary. The net asset value of the funds is determined at least on a quarterly basis. The determined net asset value of the funds is the value of the assets minus all the liabilities of the investment funds. Investments must be measured at fair value based on market prices. When calculating the net asset value of the first three quarters of each financial year, the Fund Manager continuously monitoring the management of the investments, the development of market prospects and having the information at its disposal - which includes the latest available quarterly reports on the investments, financial information - updates the valuation of investments based on the valuation model, which is taken into account during the calculation of the net asset value for the relevant quarter.

The Fund Manager uses fair value valuation when calculating the year-end net asset value of the funds. After the end of the year, the Fund Manager prepares a business evaluation of all investments in a given fund based on the latest financial data and information available at the time of the evaluation, in which the fair value of the investments is determined. The evaluation is reviewed by a requested independent expert and a report containing the findings of the evaluation is issued. The value of the investments in the consolidated financial statements is determined based on the mentioned business valuations.

Loans to banks and customers

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

A +/- 250 basis point parallel yield curve shift on the HUF 373 billion contractual portfolio of baby loans, which represents the largest portfolio of loans measured at fair value, has a theoretical gain of HUF 9.2 billion (-250) and theoretical loss of HUF -10.7 billion (+250). This represents an average market impact of 2.67% on the exposure, in the case of -250 basis point movement, the BPV value is HUF 37 million, while in the case of +250 bp it is HUF -43 million.

Amounts due to other banks and current and deposit accounts

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

Issued debt securities and Subordinated debt

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

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

31.12.2023	Total carrying amount	Total fair value
Financial assets		
Cash and cash-equivalents	1,347,889	1,347,889
Financial assets measured at fair value through profit or loss	829,960	829,960
Financial assets measured at FVTOCI	912,538	912,538
Financial assets measured at amortised cost	7,689,462	7,385,332
Total financial assets	***10,779,849***	***10,475,719***
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	169,599	169,599
Financial liabilities measured at amortised cost	9,789,825	9,910,921
Total financial liabilities	***9,959,424***	***10,080,520***

31.12.2022	Total carrying amount	Total fair value
Financial assets		
Cash and cash-equivalents	1,361,315	1,361,315
Financial assets measured at fair value through profit or loss	984,056	984,056
Financial assets measured at FVTOCI	630,845	630,845
Financial assets measured at amortised cost	7,377,255	6,770,767
Total financial assets	***10,353,471***	***9,747,137***
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	279,568	279,568
Financial liabilities measured at amortised cost	9,416,275	9,416,275
Total financial liabilities	***9,695,843***	***9,695,843***

4.31 Assets classified as held for sale

Carrying amount of non-current assets classified as held for sale	31.12.2023	31.12.2022
Loans for sales purposes	-	-
Other assets held for sale	1,369	154
Total	**1,369**	**154**

Other assets held for sale present properties on sale where a decision has already been made and the sale is expected to be concluded within 12 months.

4.32 Earnings per share

Basic earnings per share as at 31 December 2023 was calculated based on the net income available to ordinary shareholders of HUF 176,679 million (2022: HUF 88,942 million) and the weighted average number of ordinary shares outstanding of 322,257 thousand pieces (2022: 259,782 thousand pieces).

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$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{176{,}679}{322{,}257} = 548\ \text{Ft}$$

31 December 2022

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

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

4.33 Segment report

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

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

As of 31 December 2023, the Group's business segments and their main products were:

Corporate Banking

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

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

Retail and Private Banking

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

Leasing

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

Other

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

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31.12.2023	Corporate Banking*	Leasing	Retail and Private Banking	Other	Total
Assets					
Cash and cash-equivalents	**1,347,889**	**-**	**-**	**-**	**1,347,889**
Financial assets measured at fair value through profit or loss	**245,320**	**-**	**510,988**	**-**	**756,308**
Loans and advances to customers mandatorily at fair value through profit or loss	-	-	510,988	-	510,988
Securities held for trading	2,621	-	-	-	2,621
Securities mandatorily at fair value through profit or loss	47,516	-	-	-	47,516
Derivative financial assets	195,183	-	-	-	195,183
Hedging derivative assets	**73,652**	**-**	**-**	**-**	**73,652**
Financial assets measured at fair value through other comprehensive income	**912,538**	**-**	**-**	**-**	**912,538**
Securities	912,538	-	-	-	912,538
Financial assets measured at amortised cost	**5,814,911**	**244,494**	**1,138,710**	**491,347**	**7,689,462**
Loans and advances to banks	106,544	-	-	-	106,544
Loans and advances to customers	2,679,585	244,494	1,138,710	327,639	4,390,428
Repurchase assets	17,918	-	-	-	17,918
Securities	3,010,864	-	-	-	3,010,864
Other financial assets	-	-	-	163,708	163,708
Fair value change of hedged items in portfolio hedge of interest rate risk	**3,159**	**-**	**-**	**-**	**3,159**
Associates and other investments	**-**	**-**	**-**	**55,169**	**55,169**
Property, plant and equipment	**23,906**	**1,378**	**484**	**94,733**	**120,501**
Intangible assets		**-**	**-**	**71,094**	**71,094**
Income tax assets	**-**	**-**	**-**	**13,540**	**13,540**
Current income tax assets	-	-	-	276	276
Deferred income tax assets	-	-	-	13,264	13,264
Other assets	**-**	**-**	**-**	**62,367**	**62,367**
Assets held for sale	-	-	-	**1,369**	**1,369**
Total assets	**8,421,375**	**245,872**	**1,650,182**	**789,619**	**11,107,048**

** Corporate and Institutional banking segments have been merged in 2023.*

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31.12.2023	Corporate Banking*	Leasing	Retail and Private Banking	Other	Total
Liabilities and equity					
Financial liabilities measured at fair value through profit or loss	**152,581**	**-**	**-**	**-**	**152,581**
Derivative financial liabilities	129,944	-	-	-	129,944
Financial liabilities from short positions	22,637	-	-	-	22,637
Hedging derivative liabilities	**-**	**-**	**-**	**17,018**	**17,018**
Financial liabilities measured at amortised cost	**6,568,761**	**-**	**2,641,518**	**579,546**	**9,789,825**
Amounts due to banks	2,027,667	-	-	-	2,027,667
Amounts due to customers	3,987,937	-	2,553,666	415,497	6,957,100
Repurchase liabilities	11,767	-	-	-	11,767
Issued debt securities	433,049	-	87,852	-	520,901
Subordinated debt	108,341	-	-	-	108,341
Other financial liabilities	-	-	-	164,049	164,049
Provisions	**19,534**	**28**	**7,041**	**4,637**	**31,240**
Income tax liabilities	**-**	**-**		**16,985**	**16,985**
Current income tax liabilities	-	-	-	15,354	15,354
Deferred income tax liabilities	-	-	-	1,631	1,631
Other liabilities	**-**	**-**	**-**	**76,028**	**76,028**
Equity	**-**	**-**	**-**	**1,023,371**	**1,023,371**
Total liabilities and equity	**6,740,876**	**28**	**2,648,559**	**1,717,585**	**11,107,048**

* *Corporate and Institutional banking segments have been merged in 2023.*

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31.12.2023	Corporate Banking*	Leasing	Retail and Private Banking	Other	Total
Income statement					
Interest and similar income	1,007,058	44,706	141,209	11,737	1,204,710
Interest expense	(591,853)	-	(18,959)	(28,341)	(639,153)
Net interest income	**415,205**	**44,706**	**122,250**	**(16,604)**	**565,557**
Net income from commissions and fees**	**58,888**	**795**	**86,440**	**(6,682)**	**139,441**
Results from financial instruments, net	(3,897)	(95)	6,646	-	2,654
(Impairment) / Reversal on financial and non-financial instruments	(67,327)	2,954	(5,599)	(5,489)	(75,461)
Dividend income	-	-	-	1,628	1,628
Operating expense	(103,575)	(3,569)	(198,710)	(113,215)	(419,069)
Other income / (expense)	(223)	1,126-	(111)	3,769	4,561
Gain on negative goodwill			-	4,821	4,821
Share of associates's profit	-	-	-	(2,256)	(2,256)
Result from assets held for sale	-	-	-	-	-
Profit before taxation	**299,071**	**45,917**	**10,916**	**(134,028)**	**221,876**
Income tax income / (expense)	-	-	-	(38,686)	(38,686)
Segment result	**299,071**	**45,917**	**10,916**	**(172,714)**	**183,190**

** Corporate and Institutional banking segments have been merged in 2023.*
*** Income from commissions and fees are evaluated by the management of the Group on a net basis.*

Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

31.12.2022	Corporate Banking*	Leasing	Retail and Private Banking	Other	Total
Assets					
Cash and cash-equivalents	**1,361,315**	**-**	**-**	**-**	**1,361,315**
Financial assets measured at fair value through profit or loss	**401,201**	**-**	**418,517**	**-**	**819,718**
Loans and advances to customers mandatorily at fair value through profit or loss	-	-	418,517	-	418,517
Securities held for trading	49,923	-	-	-	49,923
Securities mandatorily at fair value through profit or loss	24,869	-	-	-	24,869
Derivative financial assets	326,409	-	-	-	326,409
Hedging derivative assets	**164,338**	**-**	**-**	**-**	**164,338**
Financial assets measured at fair value through other comprehensive income	**630,845**	**-**	**-**	**-**	**630,845**
Securities	630,845	-	-	-	630,845
Financial assets measured at amortised cost	**5,376,288**	**508,303**	**1,389,402**	**103,262**	**7,377,255**
Loans and advances to banks	179,088	-	-	-	179,088
Loans and advances to customers	2,414,510	508,303	1,389,402	30,586	4,342,801
Repurchase assets	1,070	-	-	-	1,070
Securities	2,781,620	-	-	-	2,781,620
Other financial assets	-	-	-	72,676	72,676
Fair value change of hedged items in portfolio hedge of interest rate risk	**(51,678)**	**-**	**-**	**-**	**(51,678)**
Associates and other investments	**-**	**-**	**-**	**49,599**	**49,599**
Property, plant and equipment	**-**	**-**	**-**	**98,345**	**98,345**
Intangible assets	**-**	**-**	**-**	**70,511**	**70,511**
Income tax assets	**-**	**-**	**-**	**24,981**	**24,981**
Current income tax assets	-	-	-	453	453
Deferred income tax assets	-	-	-	24,528	24,528
Other assets	**-**	**-**	**-**	**69,039**	**69,039**
Assets held for sale	**-**	**-**	**-**	**154**	**154**
Total assets	**7,882,309**	**508,303**	**1,807,919**	**415,891**	**10,614,422**

** Corporate and Institutional banking segments have been merged in 2023.*

Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

31.12.2022	Corporate Banking*	Leasing	Retail and Private Banking	Other	Total
Liabilities and equity					
Financial liabilities measured at fair value through profit or loss	**278,203**	**-**	**-**	**-**	**278,203**
Derivative financial liabilities	235,877	-	-	-	235,877
Financial liabilities from short positions	43,326	-	-	-	42,326
Hedging derivative liabilities	**1,365**	**-**	**-**	**-**	**1,365**
Financial liabilities measured at amortised cost	**6,457,845**	**-**	**2,816,340**	**142,090**	**9,416,275**
Amounts due to banks	2,378,471	-	-	-	2,378,471
Amounts due to customers	3,699,649	-	2,816,340	58,368	6,574,357
Repurchase liabilities	-	-	-	-	-
Issued debt securities	290,838	-	-	-	290,838
Subordinated debt	88,887	-	-	-	88,887
Other financial liabilities	-	-	-	83,722	83,722
Provisions	**11,590**	**-**	**7,431**	**3,602**	**22,623**
Income tax liabilities	**-**	**-**	**-**	**15,483**	**15,483**
Current income tax liabilities	-	-	-	12,378	12,378
Deferred income tax liabilities	-	-	-	3,105	3,105
Other liabilities	**-**	**-**	**-**	**71,737**	**71,737**
Equity	**-**	**-**	**-**	**808,736**	**808,736**
Total liabilities and equity	**6,749,003**	**-**	**2,823,771**	**1,041,648**	**10,614,422**

** Corporate and Institutional banking segments have been merged in 2023.*

Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

31.12.2022	Corporate Banking*	Leasing	Retail and Private Banking	Other	Total
Income statement					
Interest and similar income	563,731	29,836	93,478	(8,096)	678,949
Interest expense	(295,026)	-	(9,360)	(8,835)	(313,222)
Net interest income	**268,705**	**29,836**	**84,118**	**(16,931)**	**365,727**
Net income from commissions and fees**	**46,365**	**(389)**	**80,430**	**(21,977)**	**104,429**
Results from financial instruments, net	26,448	-	5,698	-	32,146
(Impairment) / Reversal on financial and non-financial instruments	(52,339)	(804)	(25,623)	(14,410)	(93,176)
Dividend income	-	-	-	728	728
Operating expense	(80,698)	(10,610)	(151,718)	(67,030)	(310,056)
Other income / (expense)	777	254	818	932	2,781
Share of associates's profit	-	-	-	2,704	2,704
Result from assets held for sale	-	-	-	(1,893)	(1,893)
Profit before taxation	**209,258**	**18,287**	**(6,277)**	**(117,878)**	**103,390**
Income tax income / (expense)	-	-	-	(12,222)	(12,222)
Segment result	**209,258**	**18,287**	**(6,277)**	**(130,100)**	**91,168**

** Corporate and Institutional banking segments have been merged in 2023.*
*** Income from commissions and fees are evaluated by the management of the Group on net a basis.*

Measurement of segment profit or loss

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

Calculation of intersegment revenue

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

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

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

Consolidated Financial Statements as at 31 December 2023 Data in HUF million except stated otherwise

4.34 Information on employee share system

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. MKB Bank as the former member of MBH Group was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016.

In 2017 the MBH Group launched its ESOP's Remuneration Policy, which is operated by the ESOP Organisation. The operation of the Bank's remuneration policy is regulated by the CRD/Hpt.) based remuneration framework of the Bank and the ESOP Act. Eligible employees submit a participation declaration, to become participants of the ESOP and subject to the regulations of the Remuneration Policy.

In order to settle the variable cash settled share based payments, the ESOP exercises subordinated MBH's bonds and buys financial settlement type purchase-rights for ordinary shares. These transactions are financed by MBH as the founder's financial contribution. The amount and quantity purchased are in line with the employees bonuses assessed. The MBH as the founder has to ensure the financial contribution 2 years before the employee settlement, due to an obligation regulated by the ESOP Act.

The purchase options are financial-settled, therefore there are no actual share movements. The beneficiary of the purchase options are the ESOP Organisation, so the employees are not beneficiaries. The participants of the ESOP will not become owners of shares. However the financial assets managed by the ESOP Organisation are the bases of the participants' membership. Participants will be entitled for the financial settlement of cash settle share based payments, as it is regulated by the ESOP Remuneration Policy. The Policy determines the market price of the shares belongings to the purchase options. In addition to cancellation of the participant's membership, the payments of the cash settled share based payments will be managed by the ESOP Organisation and performed after the recognition of the bonds and the purchase options in line with the deferral periods.

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

Changes in purchase options	Number of related shares	Option fee (HUF/share)
2023		
Outstanding at the beginning of the period	***7,399,972***	***10***
Granted during the period	3,266,767	10
Exercised during the period	(373,795)	10
Derecognition (expired)	(996,145)	-
Outstanding at the end of the period	***9,296,799***	***10***
2022		
Outstanding at the beginning of the period	***5,438,444***	***10***
Granted during the period	2,167,068	10
Exercised during the period	(205,540)	10
Outstanding at the end of the period	***7,399,972***	***10***

4.35 Events after the reporting period

BSE introduction

Budapest Stock Exchange Plc. introduced into exchange trading the dematerialised, registered "EUR 350,000,000 8.625 per cent. Senior Preferred Fixed-to-Floating Callable Notes due 2027", tranche number 1, in an amount of 350,000 securities with a face value of EUR 1,000 giving a total face value of EUR 350,000,000 issued by MBH Bank Plc. as of 16 February 2024.

Personal changes

After the resignation of dr. Péter Magyar at 13 February 2024 the Extraordinary General Meeting of MBH Bank elects dr. Árpád Kovács to the member of the Supervisory Board and Audit Committee from 14 March 2024 to 31 December 2025 (after the receipt of the relevant authorization decision issued by NBH and the written acceptance of the election of the Supervisory Board).

Acquisition of Fundamenta

In November 2023 MBH Bank signed a share purchase agreement with Bausparkasse Schwäbisch Hall AG (Germany), Bausparkasse Wüstenrot AG (Austria) and Wüstenrot & Württembergische AG (Germany) in order to purchase a total of 76,35% stake of Fundamenta-Lakáskassza Lakás-takarékpénztár Plc. (registered office: 1123 Budapest, 55-61., Alkotás Street, Hungary). The prior authorization of the transaction by the competition and the supervisory authorities was successfully completed, after which the Sellers and the Purchaser carried out the transaction on 27 March 2024.

The consolidated total equity of Fundamenta Lakás-takarékpénztár Plc. on 31 December 2023 was HUF 76,033 million, which is the 100% of the ownership. The fixed component of the purchase price is EUR 170.7 million, which is modified by other variable components defined in the purchase price contract.

The acquisition means a significant growth. The Group grows by 480 thousand clients, HUF 530 billion in loans and HUF 570 billion in deposits, furthermore the market share of retail savings and residential loans also increases. Besides these the products of MBH Bank will also be available to wider audiences through new channels provided by the strong sales network of Fundamenta.

MBH Bank Plc. takes the opportunity of the option provided by paragraph 45 of IFRS 3 Business Combinations standard, that the initial accounting of business combinations is not yet complete and may change until the end of the evaluation period (maximum 1 year). According to this, any additional assets, liabilities and fair value differences regarding the facts and circumstances existing at the time of the acquisition will be determined after the end of the evaluation period, therefore paragraphs B.64 (h-k) of IFRS 3 are not published in the current consolidated financial statements.

M B H B a n k Plc.

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Consolidated Management Report

31 December 2023

MANAGEMENT REVIEW AND ANALYSIS[1]

1. HISTORY OF MBH BANK NYRT.

MBH Bank's stability is based on the combined knowledge and experience of three Hungarian financial institutions with a long history, Budapest Bank, MKB Bank and Takarékbank.

On May 15, 2020, MTB Magyar Takarékszövetkezeti Bank and MKB Bank signed a Memorandum of Understanding to establish a joint financial holding company - Magyar Bankholding - in which the two financial institutions entered with equal ownership. On 26 May, 2020, Budapest Bank also joined the strategic cooperation.

Magyar Bankholding was established to carry out the merger and transformation of Budapest Bank, MKB Bank and Takarék Group as a domestically owned financial holding company. The company started its effective operations on 15 December 2020, after the major shareholders of the three banks transferred their bank shares to the joint holding company with the approval of the Hungarian National Bank, thus creating Hungary's second largest banking group.

On 15 December 2021, the General Meeting of MKB Bank and the highest decision-making bodies of Budapest Bank and Magyar Takarék Bankholding, which owns the Takarék Group, approved the merger timetable for the merger of Budapest Bank, MKB Bank and Magyar Takarék Bankholding. As a first step, on 31 March 2022, the two member banks of the banking group, Budapest Bank and MKB Bank merged with Budapest Bank being merged into MKB Bank.

The merged bank continued to operate under the name of MKB Bank until 30 April 2023, when Takarékbank joined, and since 1 May 2023 it has continued to operate under the name of MBH Bank, with a single brand name and image.

The bank group aims to implement customer-centred, competitively priced, internationally leading digital solutions, products and services, building on the combined strengths, values and best practices of the three strong domestic commercial banks. The integration of the three member banks is unique not only in Hungary, but also in the financial market of the region, mainly due to its complexity and size.

MBH Group is a very stable, strong and dominant player in the Hungarian financial sector. Currently, it is the second largest bank group in Hungary in terms of total assets and also has the largest branch and ATM network. The bank group is a market leader in number of areas, including lending to corporate customers and the micro, small and medium-sized enterprise sector, which has key importance to the national economy, serving agricultural and private banking clients, and in the leasing market.

[1] In the next chapter of the financial statement, we assess and analyze the financial situation of the Bank and the results of the activities in order to give the reader an overview of the financial situation and the results for 2023. The following analyses are based on the individual financial statements of MBH Bank prepared in accordance with the International Financial Reporting Standards ("IFRS") for 2023 to the accounting date of 31 December 2023, audited by the registered auditors of the PwC Auditing Ltd. Accordingly, the following analysis focuses on the performance of the Bank. Individual financial statements prepared in accordance with the IFRS requirements will be presented separately.

2. OPERATIONAL ENVIRONMENT

The 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 had a significant impact. 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 suggests that the euro zone economy avoided technical recession last year, the weak growth dynamic (or recession in 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 the economic output of 2023 was 0.9% lower year-on-year according to raw (unadjusted) data.

The year 2023 was characterised by disinflationary trends, i.e. 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 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 was better than analysts' expectations at 5.5%, with the year-on-year average money inflation stood at 17.6%.

National Bank of Hungary (hereinafter: „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 being 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 that 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 to the 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 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.

3. THE CONSOLIDATED PERFORMANCE OF MBH GROUP IN 2023

The consolidated total assets of the Bank increased by 4.6% to HUF 11,107.0 billion by the end of 2023. The stock of customer loans measured at amortised cost amounted to HUF 4,390.4 billion, while the stock of customer deposits reached HUF 6,957.1 billion. Profit after tax increased by HUF 92.0 billion to HUF 183.2 billion.

The Bank's financial and business fundamentals were strengthened further, including capitalization, liquidity, funding structure, balance sheet structure and the performance of its business lines.

Key figures (HUF million)	**31.12.2023**	**31.12.2022**	**change (%)**	**change**
Total assets	11,107,048	10,614,422	4.6%	492,626
Financial assets measured at amortised cost	7,689,462	7,377,255	4.2%	312,207
o/w net client loans	4,390,428	4,342,801	1.1%	47,627
Financial liabilities valued at amortized costs	9,789,825	9,416,275	4.0%	373,550
o/w client deposits	6,957,100	6,574,357	5.8%	382,743
Equity	1,023,371	808,736	26.5%	214,635
Profit/Loss before tax	221,876	103,390	114.6%	118,486
Profit/loss for the year	183,190	91,168	100.9%	92,022
Total comprehensive income	241,103	95,930	151.3%	145,173

4. PERFORMANCE OF THE INDIVIDUAL BUSINESS LINES2

Retail clients

On 30 April the merger of MKB Bank Plc. and Takarékbank Ltd. was completed, and from 1 May the new credit institution continued its activities under the name of MBH Bank Plc.
The merger process, which lasted for more than two years, has thus been completed, creating Hungary's second largest credit institution in pure Hungarian ownership.
At the same time, the bank card portfolio of MBH Investment Bank Ltd. (former MTB Magyar Takarékszövetkezeti Bank Ltd.) was transferred to MBH Bank Plc., which, as the acquiring credit institution, replaced the former issuer in terms of the bank card portfolio.

In retail account products, the focus was on supporting the achievement of business objectives and digital developments. The account sales channel was further expanded through the MBH Bank Digital kiosks and, thanks to a successful tender, through a contract between the Bank and Diákhitel Központ Ltd. On the bank card side, there have been several developments and measures to support the use of digital channels and to enhance customer convenience. Google's own mobile payment solution, Google Pay, has been made available to MBH Bank customers for all Mastercard and Visa retail debit and credit cards.
In August 2023, the Bank launched, first in the Hungarian financial market, the Mastercard Touch Card, an accessible bank card for blind and partially sighted people. The Touch Card debit and credit cards have notches on the side to help distinguish between the cards and how to insert them into the card reader.

In 2023, the premium services of the Go! Platinum credit card were further enhanced with exclusive benefits from Müpa Budapest. On August 1, 2023, MBH Bank was the first card issuer in Hungary to introduce the Mastercard Touch Card feature. The Go! credit card was the first credit card to offer this new feature and throughout the year it was continuously extended to partner-issued credit cards.

Among savings and investment solutions, investment funds were particularly popular in 2023. The Bank met customer needs primarily through wide range of products offered by MBH Fund Manager. Short bond funds combining high return potential with flexible investment horizons were particularly popular among the investment funds, with portfolios multiplying during the year. The total assets under management in private investment funds in the banking group increased by 47.6% compared to 2022. From May 2023, newly-issued MBH bonds with multiple maturities became available to retail customers, and these schemes were also popular with savers.

The merger in May 2023 brought a significant change in MBH Bank's mortgage lending, with the range of loans and services sold being consolidated across the branch network. The renewal of the product portfolio in line with the ESG strategy also played an important role in this process, within the framework of which the Green Certified Consumer Friendly Home Loan was introduced from 1 April 2023, while the MBH ECO Home Loan for green credit purposes was made available with renewed terms from 1 May 2023.
MBH Bank voluntarily joined the APR cap as of 9 October 2023, setting the interest rates for market-rate home loans at a level within the set limit and further reducing the interest rates for those loans in line with the January 2024 amendment of the cap.

[2] The source of individual market data: NBH (National Bank of Hungary), KAVOSZ, BAMOSZ (Association of Hungarian Investment Funds and Asset Management Companies), Exim Bank, MFB (Hungarian Development Bank), MBH's own calculation

In 2023, the government's capping of loan rates continued to provide assistance to customers in payment difficulties. A government decree of 30 November 2023 extended the interest rate freeze until 30 June 2024, until which date customers can repay their mortgages on favourable terms.
The Bank is well-prepared for the restructuring of the Home Support Programme, with the new CSOK (Family Home Purchase Subsidy) Plus loan and the modified conditions of the Village CSOK and the Baby Loan schemes being available in the Bank's product range from 1 January 2024. As a retail bank, MBH Bank aims to serve its customers with the full range of state subsidies.

In order to strengthen its market position, the Bank has launched a Baby Loan promotion throughout the year and has priced the 10-year mortgage loan in the TOP3. Mortgage loans closed the year with a market share of 10%, while the all-purpose mortgage closed the year with a market share of 15%.
Personal loan sales were supported by the Group's active campaign and sales activities. Overall, the volume of new disbursements increased to HUF 72.5 billion, making MBH Bank an even more dominant player in the unsecured lending market, included in the personal loan segment.

Continuing to achieve the targets set last year with CIG Pannónia Insurance, in 2023 we took further steps to increase the product range, related processes and sales efficiency. As a result of the bank merger in May, the travel insurance products related to the former MTB Ltd. issued debit cards were modified as of 1 May 2023. The group insurance contracts for travel abroad previously concluded with Allianz Hungária Ltd. and SIGNAL IDUNA Biztosító Ltd. have been terminated by the bank, both for the built-in and optional insurance, and then the travel insurance related to the cards concerned are and will be provided by CIG Pannónia Biztosító.
The BajTárs accident insurance product has been renewed as of 15 June 2023, offering a higher-level service package and more extended cover. There was a change in limits and a new element of indexation helps to maintain the real value of the sums insured.

In November 2023, a group travel insurance product for one trip, specifically designed for this platform with the help of our insurance partner, became available to all three former member bank customers through a completely new channel, the MBH Bank App.

In the premium segment, we have extended the new unified value proposition to the merged Takarékbank; we now operate the new service model in the Premium Service branches to enhance customer experience and work more efficiently. The portfolio grew by 47% in 2023.
In February 2023, MBH Bank was awarded 1st place in the 'Premium Banking Activity of the Year 2022' category, announced by MasterCard on 16 February 2023.

Branch network

With the merger process completed in April 2023, MBH Bank has the largest branch network in the country.
The bank will continue to operate with a unified and completely renewed image, gradually developing and modernising its network of 400 branches. By the end of the year, MBH Bank's new branding features were introduced in all operating branches and completely new branches were opened. The branches have been redesigned to reflect changing customer needs, providing more space for discrete advice. A separate space is now allocated to premium banking and mortgage lending advice in the larger branches.
Further innovation and digitalisation has been achieved with the installation of unique video-banking units in 7 higher education institutions, assisting the younger generation to bank and open accounts online. The Digital Kiosk capsule provides full accessibility with a modern, innovative look.
MBH Bank has mobile bank branches that are unique in the market. These mobile units provide local access to banking services for people living in small communities.
In addition to the branch's new look, the back-office systems have also undergone a major overhaul, with a focus on a customer-centric redesign of workflows and service. A unified customer call system has been rolled out across the branch network and online branch appointment booking has been made available, minimising the time customers spend waiting in the branch.

In terms of central systems, the Bank's new unified cashier system has been implemented. This development has made it easier and simpler for branch colleagues to manage money in the branch, thus enabling them to serve customers more quickly in their daily cash transactions.
To enhance the customer experience, a new unified mobile app for the entire customer base was created and successfully introduced at the end of 2023.
In addition to system developments, the Bank has made it a priority to standardise processes and train branch network staff.

One of the major successes of the last quarter of 2023 was that, as a result of the open EU procedure, EU-funded loan programmes for micro, small and medium-sized enterprises for the 2021-2027 financing cycle would become available exclusively in selected branches of MBH Bank and Gránit Bank. The new network, called MFB Pont Plus, will continue to provide professional administration of easily accessible loan programmes tailored to the needs of customers.

Micro and small enterprise clients

Between 29 September and 3 October 2023, the entire portfolio of the predecessor Budapest Bank's corporate clients was migrated into MBH Bank's IT system.

The IT migration affected 60,000 corporate clients and contributes to the Bank's ability to serve its clients with modern banking services, efficiently with unified processes.

In 2023, the demand for government-subsidised loans to boost the economy among Micro and Small Enterprise customers remained unbroken. The MAX+ scheme of the Széchenyi Card programme was the most popular in that segment. The vast majority of the loans extended to businesses through these schemes were the driving force behind lending in that segment throughout the year.

The MAX+ program has seen an increase in demand for liquidity loans, which is expected to continue into 2024.

The competitiveness of the loans funded by the bank has continued to weaken in a rising interest rate environment, further widening the cost difference between fixed subsidized and variable market rate loans.

In addition to the merger work, there was a strong focus on improving loan servicing processes in 2023.

MFB Points

In 2023, MBH Bank's main task was to complete the end-of-cycle tasks for the EU-sourced repayable financial instruments available in the MFB 2014-2020 funding cycle. The end-of-cycle tasks included the management of outstanding transactions, settlement of working capital loans, project closure site visits, project closures. MBH Bank successfully completed all the tasks.
In addition to the end-of-cycle tasks, during the year, nearly HUF 135 billion of new loans were disbursed through MBH Bank's branches dedicated as MFB Points.
In the year 2023, MBH Bank has successfully applied for funding for the MFB Pont Plus corporate network during the EU financial cycle 2021-2027. The first 74 branches of the new MFB Pont Plus network were opened by the end of the year.

Digital products and channels

In 2023, a modern and unified front-end framework was deployed on a cloud-based infrastructure to improve the customer experience, along with additional features to help shorten process lead times and make the work of service colleagues more efficient. This includes the replication of customer master records, contracts and products contained in the source systems, display of product portfolio and detailed product data, customer master deduplication, customer grouping and statistical data display.

Single Treasury System - Petak2 and PER
MBH Bank has launched it as the first new application that enables a single teller service for all three predecessor banks, for any of their customers, providing full cross-service for all customers. Like the common mobile application, the application went live on the Openshift containerised platform.

OneApp - common mobile application
Based on the predecessor Budapest Bank's mobile application, a common mobile banking application was launched that can serve the daily banking needs of customers of all three predecessor banks. With continuous feature enhancements, it covers the most used banking functions continuously, and enhancements such as the donation function have also been implemented at record speed. In addition to the functional improvements, the application has also undergone a technological overhaul, and was moved to a modern containerised platform.

University smart capsule
Since its launch in May, self-service smart capsules have already been implemented in several universities in the country and the capital city, piloting the possibility of wider use.

Unification of electronic channels, new common channels
On 1 May 2023, the full legal merger of MKB Bank and Takarékbank and the related IT developments took place, and all electronic channels received a completely new brand. The website was further developed and unified at the entire MBH level, building on the new, youthful digital brand.

In 2023, Google Pay was implemented for all cards.

Contact Center

In 2023, in line with the Takarékbank merger, the organisational hierarchy of the Contact Center was simplified The Contact Center TeleSales tasks and e-mail response handling was concentrated in one location. In Videobank, 3 member bank customer service has been reduced to 2 member bank service.

The WFM (Scheduling Call Coverage) system, Kapszula (Digital Zone) and Student Loan video shop services were introduced.

MBH SZÉP Card

Two major legislative changes were introduced in the operation of the MBH SZÉP Card in 2023:

- As of 9 January 2023, the accommodation, catering and leisure sub-accounts have been consolidated into the accommodation sub-account, from which date the accommodation sub-account continues to operate as the sole account of the SZÉP Card;
- On 1 June 2023, a one-off fee of 15%, with a minimum of HUF 100, had to be charged on the amount of and from the funds transferred to SZÉP Card accounts as benefits until 15 October 2022 and not used by 31 May 2023. In accordance with its statutory obligation, the Bank informed MBH SZÉP cardholders by 15 January 2023 about the balance of their unused funds received by 15 October 2022 and not used by the date of the information and the amount of the 15% fee calculated in advance on the unused funds.
  Then on the basis of Government Decree 381/2022 (6 October) on the use of the Széchenyi Card during the State of Danger, the payment service provider will charge a one-off fee up to and from the amount of the funds transferred to the SZÉP Card accounts as benefits and not used for at least 365 days after the transfer, on 20 March and 20 September. The fee can not be charged on funds for which a fee has already been charged and paid.

On 1 August 2023, the annual limit of HUF 450,000 for the SZÉP card benefit, which is an extra-wage benefit, was supplemented by an additional HUF 200,000 for the year 2023.

The spending opportunities were further extended by the fact that between 1 August and 31 December 2023, it was also possible to buy food with SZÉP Cards from traders who were engaged in food retail as their main activity.

By the end of 2023, the number of MBH SZÉP cardholders exceeded 260,000. Nearly HUF 33.6 billion employer contributions were transferred to them in 2023 with 819 thousand transactions. The MBH SZÉP cardholders spent nearly HUF 34.7 billion in 2023 with 5.3 million transactions. Between 1 August and 31 December 2023, the Bank's customers purchased HUF 3.7 billion worth of groceries, accounting for 24.26% of MBH SZÉP Card spending during that period.
The average annual value of funds in MBH SZÉP Card accounts was HUF 8.6 billion in 2023. Cardholders can now use their MBH SZÉP Cards for payments at nearly 40,000 points of acceptance.

Corporate and institutional customers

Relying on its traditional strengths, MBH Bank's strategic goal is to further develop and build a strong corporate business line. The business line focuses on local knowledge, professional service, consulting-based sales and the provision of innovative solutions.

MBH Bank provides comprehensive business solutions and advice to its customers, sets up comprehensive loan schemes if necessary and satisfies special financial customer needs. MBH Bank is able to provide efficient and unique solutions to all members in the corporate segment.

In line with its strategy, MBH Bank continued to play a key role in the introduction of economic incentive programs and their delivery to customers. The significantly rising interest rate environment generated more demand in Széchenyi Card Programmes and Baross Gábor Reindustrialisation Loan Programme than ever before, there was particularly high demand for working capital and current account loans.

MBH Bank Group remained an active participant in the continually renewed Széchenyi Card Programme. In the SZKP MAX+ programme which has been launched in January 2023 and is still running, MBH Bank has a 25% market share[3] of the number of loan applications in the corporate business line, including micro and small companies.

MBH Bank has traditionally maintained close ties with Exim Bank to enable customers to benefit from EXIM financing sources. In the Baross Gábor Reindustrialisation Loan Programme, a total of HUF 1,000 billion loan has become available in euros as well as in forints at a fixed, low interest rate. The majority of the facility was allocated to working capital loans. The Bank's customers also requested a significant amount of these products. MBH Bank's market share in the BGH scheme was 21%[4]. In order to provide flexible and comprehensive services to its customers, the Bank continues to actively participate in all subsidised loan programmes announced by Exim Bank, including the Baross Gábor Reindustrialisation Investment Loan Programme Plus, which will continue in 2024.

In 2023, there was strong demand for subsidised loan products compared to market-rate loans thanks to surging demand, as opposed to market-rate loans, given that these products offer a much lower interest burden for companies, thus significantly improving the domestic and international competitiveness of domestic businesses.

Private banking

On 30 April 2023 - simultaneously with the banking transformation - the merger of MKB Private Banking and Takarékbank Private Banking was completed, as a result of which the business continued its activities as MBH Private Banking.

[3] KAVOSZ
[4] EXIM Bank

Each of the member bank business lines brought with them different strengths, creating one of the most dynamic private banking services in Hungary, with full national coverage and a personalised service model.

In addition to its core business, MBH Bank Private Banking is a gold supporting member of the Social Impact Investors' Association, which has a strong focus on supporting family wealth planning and its special branch, the increasingly important topic of succession planning and generational wealth preservation.

Continuing the trend of previous years, we have managed to significantly increase the volume of assets under private banking management. Taking advantage of market conditions, by developing the skills of our private banking colleagues and increasing the number of services and products available to customers, the assets under management in this business line exceeded HUF 1,200 billion, making it the private bank managing the second largest portfolio in the domestic market.

At the Private Banking 2023 Awards, MBH Private Banking (shared with Friedrich Wilhelm Raiffeisen due to the equality of votes) won first place in the "Private Banking Service Provider of the Year" category for the first time in its history. (The prize is awarded by Blochamps Capital on the basis of votes from competitors in the market.)
MBH Private Banking also won the "Business Developer of the Year" award and came second in the "Assets under Management" category, and one of our colleagues, Brigitta Barna, was awarded "Senior Private Banker of the Year".

Municipal clients

In 2023, the municipality business continued the strategy started last year, with a special focus on municipal clients. The main ambition of this area is to engage with local communities, through that MBH Bank helps to develop the economy as an engine of rural development through municipalities.
Over the past year, the business line got even closer to its clients, who are now served by a dedicated team of advisors with specific expertise in the rural metropolitan areas. In addition to serving municipal clients, the business line now also serves municipality-owned businesses, thus further exploiting synergies. The Bank maintained its second position in the overall municipal segment. By the end of 2023, thanks to a series of successful acquisitions, the municipal business line serviced the accounts of 1,225 municipalities and their member institutions (primary education establishments, kindergartens, crèches, etc.).
A measure of its success is the fact that several cities with county status also chose MBH Bank as their account managing partner. In addition to a significant increase in the number of customers, the deposit portfolio also expanded, reaching nearly HUF 200 billion, and the loan portfolio reached HUF 40 billion. As a result of its complex servicing model, the business unit joined the financing of Esco projects and played a key role in successfully serving a number of water utility customers.

Churches

In May 2023, the special unit serving church customers was established. MBH Bank currently serves nearly 2,000 church customers.
In 2023, active cooperation began with the highest level departments of all three historical churches (Hungarian Catholic Bishops' Conference, Hungarian Reformed Church, National Office of the Evangelical Lutheran Church in Hungary).
The savings portfolio managed by MBH Bank amounted to nearly HUF 76 billion.
MBH Bank is actively involved in the everyday life of church organisations, by assuming social responsibility and supporting and sponsoring various events.
The future goal of the special unit is to further expand its current business relations with these churches through strategic agreements.

Agricultural clients

Merger and organisational structure:

As a result of the merger processes, the Business Line has also developed unified customer service processes, products and risk management principles. This has created the largest unified agri-food business in the domestic banking market, which has continued the customer service principles and best practices already established in its predecessors.

The Bank's approach to financing the sector is based on a value chain approach to the food industry, and therefore the segmentation principles have not changed, in that the business continues to include agriculture and food, as well as other agribusiness clients, including primarily grain traders, integrators and input material traders. The single MBH Bank will continue to serve its clientele with dedicated colleagues specialised in financing the agri-food value chain. The business line therefore serves a clientele of all sizes, engaged in the given activity, with segmentation based on client size: segmentation is based partly on sales revenues and partly on production characteristics.

The business line is organised in a separate, flat structure with a central management structure with a small number of staff, and the main organisational unit, the agricultural region. MBH Bank has retained the ‘Agrárcentrum’ sub-brand, which was already well established in the predecessor organisation, and following the merger the business line is now embodied in the MBH Agrárcentrum sub-brand, which is also the name of the locations nationwide providing loans to customers. In addition, the agribusiness and large agri-food clientele are served by a specialised centralised service unit. In addition, leasing and factor financing, advisory services on tenders and insurance activities, which the Bank provides to its clients through cooperating partners, play an important role in serving the agri-food sector.

Market environment and business results:

In 2023, complex macroeconomic and sectoral developments determined the business performance of the business line:

- The drought in 2022 resulted in a loss of circa HUF 1,000 billion in revenues in agriculture, the knock-on effects of which continued to affect farmers' day-to-day liquidity in 2023.
- From 2022 onwards, input-output prices were temporarily disrupted by various specific shocks, the after-effects of which were also felt in 2023.
- Production costs in the arable sectors were still affected by the rise in input prices, depending on the timing of purchases, and sales prices felt significantly in 2023. The prices on the domestic market were also hit by a significant increase in transport costs in Europe.
- Thus, despite a much more favourable rainfall situation than in 2022, producers realised zero or minimal returns on most crops. The winners in 2023 were the livestock sectors and feed producers.
- At the end of the value chain, the food industry faced significantly weakening consumer demand due to falling real wages.
- The investment tenders for the new EU support cycle (Rural Development Programme) have not yet been launched.
- The financing needs were mainly for intra-year, day-to-day operation and production financing. Small and medium sized enterprises reported investment loan requests mainly under the ASZB (Agricultural Széchenyi Investment Loans) scheme, while larger ones applied for investment loans under the Baross Gábor programme.
- Long-term financing needs at market rates were moderate compared to previous periods.
- According to the available interim data[5], the loan portfolio of the banking market increased slightly in agriculture, decreased in the food sector and stagnated overall.

[5] 2023/Q3-NBH, Ministry of Agriculture

The annual operating results of the Agri-Food Business Line were within the range of market factors:

- Loans under management in the Business Unit increased slightly in 2023, leaving its market share practically unchanged according to the available interim data (around 25% in agriculture and food industry[6]).
- The business line achieved a higher than planned growth rate (well into double digits) in terms of customer deposits.
- Strengthened market leading position in the main agricultural loan products of the Széchenyi Programme (see below).
- Strong focus on exploiting synergies with cooperating partners (leasing, insurance, application writing and advisory services, factoring) to strengthen cross-selling.

The main commitments affecting the business line's activities:

The business line's key partnership with the Rural Credit Guarantee Foundation (AVHGA) was further strengthened:

- The dominant market position stabilised for products guaranteed by AVHGA.
- In the Agricultural Széchenyi Card Programme, four out of five transactions are financed by MBH Bank's agricultural business line, while the Bank also has a market-leading share[7] (over 50% in both volume and number of transactions) in the Agricultural Széchenyi Investment Loans.
- From 2023, Dávid Hollósi, head of the business line, has been helping to further develop the cooperation as a member of the Supervisory Board of AVHGA.

In 2023, he took over the chairmanship of the Agricultural Working Committee of the Hungarian Banking Association. The programme was proposed and adopted with the aim of ensuring that the Banking Association participates more effectively in the preparation of professional decisions affecting agriculture.

In 2023, the autumn regional customer events were held, with the addition of a large corporate agribusiness customer event.

5. TREASURY AND INVESTMENT SERVICES (MARKETS)

Treasury

The Treasury made good use of the market opportunities provided by the main exchange rate movements during the year, and had a successful year from a business perspective, while maintaining risk exposures low.

The Treasury Trading area effectively managed short-term interest rate positions arising from counterparty positions and also made good use of the business opportunities arising from the monetary policy tools.

The Bank was an active participant in the bond market, with a significant share in the auctions of the ÁKK (Government Debt Management Agency) as primary dealer.

ALM & Liquidity service

In terms of operational liquidity management, the business unit continuously adapted to the changing monetary environment and fully executed the money market transactions necessary for the smooth functioning of the bank's payment flows.

[6] KSH, TEÁOR
[7] AVHGA

Sales

In the merger process, the banking group completed a number of important milestones which had a significant impact on the work of Treasury Sales. The corporate migration that took place in the last quarter should be stressed as a result of which customers of the former Budapest Bank were able to benefit from a wider range of products and new electronic services.

Corporate Finance

In addition to the renewal of the Bank's bond issuance framework, the Bank completed nearly 30 domestic bond issues. Last year's main task was to coordinate the international EUR 1.5 billion bond programme of MBH Bank Nyrt, and to assist in the placement of EUR 350 million senior preferred bonds with a nominal value of EUR 1.5 billion, which met the MREL requirements. In addition to its activities in the debt securities market, the unit was also involved in an IPO transaction during the previous year.

Intermediary currency exchange

As the pandemic passed, new companies have entered the market to exchange money. Temporarily closed exchange offices reopened and new branches opened among the Bank's partners. The exchange rate fluctuations during the year, which were well above average, led to a significant turnover of intermediaries doing business with the Bank.

Investment services

Investment services - sales

In 2023, secondary sales in the retail government bond market were particularly active. The DTB (Discount Treasury Bill) turnover declined due to the very sharp fall in yields.
The underwriting of MBH Bank's own bonds and, at the same time, secondary market sales were of particular importance, with the Bank being able to underwrite a significant volume of bonds during the year.
MBH Bank's foreign currency bonds were also traded in high demand. The MREL bond maturing in 2027 is now available on the secondary market at a net price of almost 106%.
Increased equity market volatility in the last quarter has had an impact and the Bank has seen a visible improvement in both domestic and foreign equity sales.
Foreign exchange products continued to be one of the strongest contributors to turnover and income figures at year-end. The Bank's options turnover continued to grow, with thousands of options contracts concluded during the year.
Margin-type speculative deals remained very popular with customers.

Investment Products and Services Management

During the year, MBH Bank successfully maintained its position as one of the largest securities distribution networks in the country. On 6 November 2023, MBH Befektetési Bank Zrt. was established and commenced effective operations as a member of the MBH Group, but now operates in the market as a separate bank specialised in investment products and services.

As of the end of 2023, in addition to the MBH Group's network of intermediaries, securities brokerage activities were pursued in 35 additional branches operated by companies and banks. The MBH Group maintained its sub-distribution agreements for the distribution of retail government securities, which are used by a number of Investment Service Providers such as SPB Befektetési Zrt, HOLD Alapkezelő Zrt, Gránit Bank Zrt, Equilor Alapkezelő Zrt and Concorde Értékpapír Zrt. In line with the investment services strategy, several major projects and tasks have been implemented in the Bank:

- The MBH Group continued to strengthen in certificate issuance, issuing a total of 16 certificates denominated in three currencies.
- MBH Bank issued 9 HUF-denominated and 4 EUR-denominated own bonds.
- As of November 2023, MBH Group has introduced a single pricing harmonisation for investment services and the Wealth Management Platform, which will provide a broad digital advisory platform for its clients.
- In line with MBH Group's commitment to digital development, MBH Group is developing the MBH Netbroker and MBH Mobilbroker platforms, which were nominated by the Budapest Stock Exchange for the Online Hungarian Stock Trading Platform of the Year Award in 2023.
- In line with its ESG strategy, in the last quarter of 2023, the Bank renewed its MiFID questionnaire, adding an ESG preference module to assess the ESG preferences of the Bank's clients together with their investment objectives.
- It strengthened the MBH Group's choice of investment funds. The Group has more than 14 Fund Managers and over 300 investment funds available to its clients in the most popular asset classes, ensuring that specific product groups are always available, in line with the current market and economic environment, and a diversified portfolio.

Depositary services, sales

The institutional depositary services increased the client base during the year by acquiring additional mandates. In addition, as a result of the business processes of the existing client base, the growth in the portfolio significantly exceeded the value of the assets added through new portfolios. The business unit continued to actively support banking transactions requiring specialised depositary expertise, often related to a different client base than institutional entities using depositary services.

6. ACQUISITION ACTIVITY

MBH Duna Bank

During 2023, the acquisition of the direct majority stake in Duna Takarék Bank Ltd. was completed, and the Győr-based financial institution is now part of MBH Bank Plc. with 98.46% direct ownership of MBH Bank. Duna Takarék Bank Ltd. operates as an independent credit institution under the name MBH Duna Bank Ltd. as of 1 December 2023

MBH Duna Bank Ltd. initiated the accession of the credit institution to the Central Organisation of Integrated Credit Institutions and informed MBH Investment Bank Ltd., a member of the MBH Banking Group, as the business management organisation. MBH Duna Bank Ltd. joined the Central Organisation of Integrated Credit Institutions on 1 August 2023.

Fundamenta-Lakáskassza

In November 2023 MBH Bank signed a share purchase agreement with Bausparkasse Schwäbisch Hall AG (Germany), Bausparkasse Wüstenrot AG (Austria) and Wüstenrot & Württembergische AG (Germany) in order to purchase a total of 76,35% stake of Fundamenta-Lakáskassza Lakás-takarékpénztár Plc. (registered office: 1123 Budapest, 55-61., Alkotás Street, Hungary). The prior authorization of the transaction by the competition and the supervisory authorities was successfully completed, after which the Sellers and the Purchaser carried out the transaction on 27 March 2024.

The acquisition represents a significant growth, adding 480,000 customers, HUF 530 billion in loans and HUF 570 billion in deposits, and significantly increasing the Bank's share of the retail savings and housing lending markets. In addition, Fundamenta's strong distribution network will make MBH Bank's products available through new channels and to an even wider extent.

7. SUBSIDIARIES/STRATEGIC COOPERATION AND PARTNERS

In addition to its own range of banking products and services, MBH provides the services of its subsidiaries and partners too. The objective of the Bank is to preserve, increase the market position of its subsidiaries, to deepen cooperation within the group, and to continually strengthen ancillary financial services.

SUBSIDIARIES[8]

Euroleasing

The consolidated MBH Group includes the dominant operators of the domestic leasing market, Euroleasing Ltd., Budapest Lízing Ltd. and Euroleasing Ingatlan Ltd.

As an important step in the merger process, from the first day of 2022, Euroleasing Ltd., Budapest Leasing Ltd., Euroleasing Ingatlan Ltd., and MBH Bank's car financing segment (Budapest Autó) continue to operate in the same management structure, in a coordinated and integrated manner.

The leasing group has national network and market share of more than 25 percent based on the newly placed, aggregated leasing stock – all showing the importance of this step. After the integration, new loan and leasing services will primarily be provided by Euroleasing Ltd., while contracts concluded before January 1, 2022 will continue to be managed by the original leasing companies or their legal successors.

Car financing activity

The leasing group has become a key operator in the vehicle financing segment of the leasing market. Starting from the fourth quarter of 2021, the introduction of the different, subsidised KAVOSZ Széchenyi Leasing had a stimulating effect on the financing market, which drove a significant number of commercial vehicle buyers towards the financing market in 2023.
The high interest rates reduced the demand for financing last year, at the same time rising prices had a negative effect on the sales market.

In 2023, new car sales volumes were slightly below the previous year, while the car finance leasing market grew significantly, as car prices increased. The growth of the financing market was also supported by a turnaround in interest rates and significant sales support from importers and dealers, mainly in the form of interest rate subsidies in addition to price support.

On 27 February 2023, Euroleasing Ltd. and RCI Services Llc. signed a partnership agreement under the leasing company will become the official domestic financier of the Renault, Dacia and Alpine brands from 1 March 2023, providing financing solutions under the name Mobilize Financial Services.

[8] Source: Hungarian Leasing Association, BAMOSZ

Asset financing activity
The leasing group has a dominant market position in the asset financing leasing market and achieved leading position with significant market share in its two most significant segments, the financing of agricultural equipment and commercial vehicles.
Every third investment in agricultural equipment financed through leasing and every fifth purchase of commercial vehicles financed through leasing was carried out with the support of Euroleasing in 2023. Excellent partnerships with the largest agricultural machinery dealers, limit-oriented service to returning customers and efficient cross-selling within the banking group have contributed significantly to increasing market share and maintaining market leadership.

State support programs (EXIM, KAVOSZ) had a significant impact on the asset financing market segment, and the Euroleasing group remains clearly the most important player in the leasing market in terms of the intermediation of subsidised transactions.

The deterioration in the economic environment was transmitted to the asset finance market through contraction in investment appetite and demand in the second half of the year. This decline in demand is expected to continue to be adequately cushioned by government economic stimulus programmes and sales support solutions from manufacturers/distributors.

Changes in the economic environment affecting the leasing group

In 2022 the management of the leasing group’s members was significantly influenced by several regulatory factors. These are the extra-profit tax extended to financial enterprises, and the Government's Decree No. 292/2022 issued on August 8, 2022. (VIII.8.) payment moratorium for the period between September 1, 2022 and December 31, 2023 for agricultural farmers' credit and loan contracts, as well as financial leasing contracts.

The group has devoted considerable attention to the follow-up and monitoring of the portfolios of customers who have exited previous moratoriums or are in moratorium in order to reduce potential losses.

The considerable diversification of the group's financing portfolio played an important role in countervailing the negative external effects, the development of which is an important pillar of the company's strategy.

MBH Befektetési Alapkezelő Ltd.

Following the merger in autumn 2022, the year 2023 will see the consolidation of the product portfolios of the two former Fund Managers. In addition to the mergers and restructuring, two new funds were launched during the year.

As of 31 December 2023, the Fund Manager managed a total of HUF 2,144 billion in net assets under management, representing a market share of 10.64%. Within this, it invests HUF 1,451 billion in 67 investment funds and 2 private equity funds and manages assets totalling HUF 693 billion for 9 funds, 3 insurance companies and 5 other customers in the context of portfolio management. MBH Fund Management is ranked second among pension fund asset managers (in terms of assets under management).

MBH Fintechlab

For MBH Fintechlab, the year 2023 was all about adapting to a changing environment and evolving. In 2023, the brand name stood for both the MBH Inkubátor Llc. and the Business Innovation area of the Standard Servicing business line. The MBH Fintechlab will make a major contribution to the establishment of digital capabilities in banking, the conscious development of innovation maturity and the exploitation of its business potential. The venture capital investment and the innovation management capability are the pillars of MBH Fintechlab's strategy.

During the year, MBH Fintechlab made 3 new investments in the framework of the implementation of the incubator tender of the National Research, Development and Innovation Office and provided member loans to 3 existing portfolio companies. In addition, its portfolio companies recorded a number of successes in growth. MBH Fintechlab successfully closed one full and one partial exit during the year, and verbal agreement was reached on another full exit, which will be completed in Q1 2024.

Continuing from the previous year, the subsidiary once again managed several events. Within the Fintech Factory competition, mentor meetings were organised on a monthly basis, where the founders of the portfolio companies had the opportunity to get to know each other and share their experiences and discuss their questions with each other and the mentors.
In addition, the company launched a Fintech Startup training course in English at the Budapest Business University, where students of finance at the university had the opportunity to develop a financial innovation idea with the help of our colleagues and mentors.

In 2023, the School of Innovation's financial innovation apprenticeship programme continued, for which 210 applications were received. Over the course of five months, participants were introduced to financial innovation trends and methodologies, participated in hands-on workshops and professional community events, divided into six professional topics. The training covered topics such as technology trends shaping the future of banking, how fintech giants work and design thinking. The training prepared them to be able to collaborate with fintech companies in their respective business areas and to integrate fintech solutions, improving the speed of response to customer needs. Our Artificial Intelligence training programme on the potential banking applications of Generative AI was a huge success, with hundreds of participants so far and more than 700 colleagues requesting access to the closed banking Chat GPT system.

Last year, the innovation management activity was launched in the Business Innovation area, where a total of 9 external fintech solutions were validated along the banking business needs, including the Péntech B2B BNPL solution from one of the start-up companies in our investment portfolio, with which MBH Fintechlab closed a successful test project, and the Book-keepie bookkeeper selecting platform, which was integrated into the BUPA SME ecosystem. However, the integration of the other solutions has been significantly delayed due to workloads related to restructuring and migration, and innovative solutions will be adapted to the new banking strategy and QBR in the future.

Solus Capital Venture Capital Fund Management

Solus Capital Venture Capital Fund Management Ltd. continued its investment activity in the start-up ecosystem in 2023 too.

The Solus I Venture Capital Fund is a fund jointly financed by the Specialization Venture Capital Program (GINOP 8.1.3/B-17) and MBH Group and its strategic partners as private investors. By the end of 2023, the Solus I Venture Capital Fund has invested more than HUF 11.2 billion (HUF 344 million in 2023) in SMEs applying innovative and smart technologies.
The investment portfolio of Solus I Venture Capital Fund consisted of 27 companies at the end of 2023.

Solus II Venture Capital Fund is a fund operating within the framework of the Digital Venture Capital Programme (GINOP 8.2.7-18), co-financed by MBH Group as a private market investor. By the end of 2023, Fund invested close to HUF 7 billion in micro-, small- and mid-sized enterprises that focus on digitalization. The portfolio consisted of 21 companies at the end of 2023. In 2023, the Fund made 4 new investment decisions and disbursed a total of nearly HUF 2 billion during the year, including existing elements in the portfolio.

At the end of 2023, the primary investment period set out in the Intermediary Agreement for the Funds has ended, and the Manager will focus its attention on increasing the value of the portfolio elements, estabilising their liquidity where necessary, and on successful exits during the remaining life of the Funds.

On the growth side, the biggest challenges for portfolio companies were entering domestic and foreign markets, product validation and finding the next round of capital. In the latter case, there is a shrinking venture capital market, with investors looking for more mature companies.
On the resource side, the challenge was rising labour costs due to increased inflationary pressures. Given the negative economic impact, the Fund Manager focused on capitalisation and stabilisation of potent companies during the year.

The Fund Manager's prudent approach has included the recognition of impairments on several occasions during the year by reviewing the carrying value of less successful companies. At the same time, the past year has seen the emergence of a financially sound portfolio of companies that are close to break-even and have growth potential, and which the Fund Manager intends to continue to support in every way possible in the hope of achieving significant returns.

MBH Investment Bank Ltd.

Created in May 2023 through a merger, which was unique in the European banking market, MBH Bank is today one of the largest financial institutions in the region, both in terms of the number of clients and assets. The merger of MKB Bank, Budapest Bank and the Takarék Group has created a new much larger bank of scale and scope: the complementary product range and professional competences of the predecessors were combined in a new, unified framework, creating a new quality in the Hungarian banking sector.

The banking group's highly diversified product portfolio is marketed through MBH Investment Bank. The new investment-focused financial institution offers customers all the benefits of the merger of the three predecessors: investment expertise across a wide range of sectors and asset categories, a branch network accessible from anywhere in the country and a broad range of securities available through a single service.

MBH Investment Bank's mission is to provide its clients with services at the forefront of the international investment market in the most direct and flexible way possible, without compromise, and is therefore pioneering innovative digital banking solutions. Thanks to innovative service paths and methods based on web and mobile technology, MBH Investment Bank enables its clients to manage their finances anytime and anywhere, without constraints and limitations.

MBH Mortgage Bank Plc.

MBH Mortgage Bank Co. Plc. as FHB Land Credit and Mortgage Bank started its operation in 1998. The first specialized mortgage credit institution created the basis of the mortgage lending business operating with mortgage bank background in the Hungarian banking market, actively participated in the establishing the legal environment of mortgage banking operations, developed its strategy and built up its customer base, and made mortgage-based financing available with mortgage bonds available in the country. On both the asset and liability side, the Bank has developed a gradually refining product range, in line with the changing market environment, which is well adapted to both capital market conditions and client needs.

The Bank's profile has been clarified since 2018, which is in line with the long-term goals of MBH Group, it operates as a refinancing mortgage bank, consequently its main activities are refinancing mortgage loans for members of MBH Group and third-party partner banks outside the group, as well as issuing mortgage bonds.

As a member of the Group, the Bank's new name was changed to MBH Mortgage Bank Co. Plc. with effect from 1 May 2023.
The Bank actively participates in the statistical, legal and capital market groups of the Hungarian Banking Association and the European Mortgage Federation/European Mortgage Bond Council (EMF - ECBC).

The main owner of the Bank is MBH Investment Bank Ltd.

MBH Duna Bank Ltd.

On 1 October 2013, the Győr-based Duna Savings Cooperative, founded in 1960 in Halászi (which was established in 2008 by the merger of the Halászi and Esztergom Savings Cooperatives), was transformed into a private limited company, DUNA TAKARÉK BANK Ltd.

From 01.12.2023, it will continue its activities under the name MBH Duna Bank, with a renewed image, as a member of the MBH Group, but operating independently.

The credit institution serves its customers in 14 branches in four counties (Győr-Moson-Sopron, Komárom-Esztergom, Fejér and Pest).

Takarék Faktorház Ltd.

Takarék Faktorház Ltd. is a fully-owned subsidiary of MBH Befektetési Bank, its primary activity was business factoring until 2022, transferred its business portfolios to MBH Bank in 2023. The sale of the Company is in progress.

Takinfo Llc.

Takinfo Llc. is a subsidiary of MBH Investment Bank, in which it holds 52.38% of shares, its primary activities were the development and management of information technology systems, the trade of information technology assets and software and service activity. The Company transferred its activities and clients to MITRA Ltd. (formerly: Takarékinfo), its assets consist of real estate property.

MITRA Informatikai Ltd.

MITRA Informatikai Ltd. (formerly: Takarékinfo Központi Adatfeldolgozó Ltd.) is a company majority-owned by MBH Bank Plc., in which MBH Investment Bank Ltd. holds a direct 2.45% stake, the main activity of which is the provision of IT services (primarily to the Bank Group, the members of Integration) and the operation and development of systems. The Company was established on 1 September 2022 by the merger of Takarékinfo, MKB Digital Ltd. and Euro-Immat Llc.

Takarék Ingatlan Ltd.

Takarék Ingatlan Ltd. is a wholly-owned direct subsidiary of MBH Investment Bank, whose main task is to develop and continuously provide real estate valuation, real estate brokerage, real estate marketing and real estate management activities, as well as real estate energy certification and real estate services in line with the strategy and business interests of the MBH Investment Banking Group and the former Takarékbank, which is no longer part of the Group. In the context of the consolidation of the collateral management activities, the management of the valuation activities of the collateralised real estate assets has been insourced to MBH Bank Plc., and the Company is no longer performing its related activities, and is therefore in the process of being fully deconsolidated.

MBH Szolgáltatások Ltd.

Takarékbank established TIHASZ Takarék Ingatlanhasznosító Ltd. on 4 October 2019 with a share capital of HUF 50 million with the purpose of allocating the real estate properties of the cooperative integration related to banking into this company, which, as its core function, would manage these real properties and lease them to Takarékbank Ltd.

As a result of multiple capital increases by way of transfers (of real estate), the share capital of TIHASZ Takarék Ltd. reached approximately HUF 25.8 billion during 2020, while by the end of 2022 it reached HUF 26.1 billion.

On 25 September 2020, MTB Ltd. purchased from Takarékbank 23,419 pieces of series "A" ordinary shares in TIHASZ Takarék Ingatlanforgalmazó Ltd. (for a total bidding price of HUF 23,419 million).
During 2022, the liquidation of the former property management company Hajdú-Rent Llc. va, fully owned by Takarékbank (acquired after the merger of the savings cooperatives), was completed, as a result of which the ownership share Takarékbank Ltd. in the company stands at 9.21%.
TIFOR Ltd. was merged with TIHASZ Ltd. on 31 December 2022, along with two other MKB subsidiaries with real estate profiles - into TIHASZ Ltd., which took the name MBH Szolgáltatások Ltd. as of 1 May 2023.

MBH DOMO Llc.

MBH DOMO Llc. was established in May 2023 as a subsidiary of MBH Bank. On 28 June 2023, a sale and purchase agreement was signed for the development of a significant real estate development, which allowed the construction of new headquarters for the Company and the MBH Bank Group to begin.

The sale and purchase process of the new headquarters project has been completed and the visual plans for the new MBH Bank headquarters have been finalised. In line with the Group's objectives, the new headquarters will meet all social, employee and ESG requirements, and will be designed as a building complex that will integrate into the urban landscape and provide community functions.

8. STRATEGIC COOPERATION AND PARTNERS[9]

MBH Gondoskodás Pension Fund

MBH Gondoskodás Pension Fund is one of Hungary's leading pension funds. The Voluntary segment of the Fund offers a decades-long, efficient savings instrument to nearly 69,000 customers within the MBH Group's comprehensive investment solutions. As of 31 December 2023, the voluntary branch closed the year with an asset of HUF 159.9 billion. Owing to the continuous communication and financial awareness education in recent years, the individual's willingness to save is increasingly outweighed by the employer's commitment.

The private branch of MBH Gondoskodás Pension Fund closed 2023 with nearly 3,400 members and HUF 22.8 billion in assets, while the proportion of members paying membership fees remained well above the 70% statutory requirement.

The uninterrupted, stable and prudent operation of the Fund for more than 25 years has been facilitated by a well-prepared fund and asset management professional support and the desire for continual development.

The simple, interest tax-free product, which can be used in many ways even in the active years, can be tailored to the return expectations and risk-bearing capacity of the customers. To fully satisfy the needs more of the members, the fund continuously expands its services portfolio to allow product benefits to be used. The implementation of distributing customer savings between diverse portfolios as well as the introduction of a new, fifth fund portfolio were successfully implemented in the voluntary branch of the fund in 2023. Customers investing in their future with the MBH Gondoskodás Pension Fund can take advantage of the combined benefits of impressive balanced yields even over 10 and 15 years and low cost levels due to expert asset management. The funds can be used through a flexible range of services.

In the framework of the digital renewal of the MBH Gondoskodás Pension Fund, the development of the Member Portal supporting customer service and electronic administration was also prepared, in line with the already modernised web interface. The new, streamlined and more transparent interface is expected to be available to members to manage their savings as early as 2024. In addition to digital improvements, the focus of business development has been on continuous activation, customer outreach, and the search for new and innovative solutions and their incorporation into daily operations to continuously increase customer satisfaction.

MBH Gondoskodás Health Fund

MBH Gondoskodás Health Fund is a market leading health fund in Hungary, which provides a wide range of services to more than 198 thousand members and had HUF 17.7 billion in assets as of 31 December, 2023. For nearly 26 years, the name of the Fund has been synonymous for its customers with the widest possible range of health-supporting and cost-reducing services available. The assets of the health fund, which can be spent on the needs of the whole family in almost every life situation and can be supplemented with a 20% tax allowance, can be widely used, from maternity through private health care expenses to supporting elderly care. In the case of preventive expenses and a two-year fixed-term deposit, the state provides an additional 10% tax allowance to customers, which can be used for a wide

[9] Source: National Association of Voluntary Funds

variety of products and services at its more than 18,500 partners using conventional payment methods or at nearly 9,700 contracted card acceptance service providers.

During 2023, the Fund also upgraded and launched a modernised version of the Member Portal and the mobile app as part of a complex process in line with the redesign of its website last year. One important result of the Portal redesign is that the previously outdated interface can now be accessed from any device, such as a mobile phone or tablet, with full functionality and a high user experience.
It is a novelty that the mobile application of the Fund, in contrast to the previously limited usability, now includes almost all the functions and data display of the Member Portal and almost all online administration options.

The positive result of 2023 is that the Fund closed the year with an increasingly dynamic member contribution activity as a result of a strengthened business approach. It has also successfully developed products with an external partner in response to growing health awareness. The Fund, in partnership with CIG Pannónia Insurance, offers a full range of health insurance products, from diagnostic tests to hospitalisation cover.
Health insurance is thus available from January 2023 as a tax-advantaged corporate benefit option - financed through the Fund - to serve not only individual customers but also employers.

In 2023, in addition to the above steps, easier subscription management for electronic administration has been implemented, and the modernisation of the account processing process continued in a complex project, developing online account submission, which can contribute to making account settlement smoother.

Budapest Voluntary Pension Fund

The Budapest Voluntary Pension Fund manages the pension savings of nearly 20 thousand members, amounting to HUF 45.5 billion. While the Fund's contributions were close to the previous year's level, its investment performance was also outstanding, with both portfolios achieving returns of over 20%. The web-based customer service system facilitates efficient information for members, while the online login interface provides a fast and convenient service for new customers. The low-cost investment, backed by tax relief and interest tax exemption, offers flexible savings for which MBH Fund Manager provides the investor expertise as a professional asset manager.

Budapest Private Pension Fund

The Budapest Private Pension Fund has a membership of 6,300 people and assets under management amounted to nearly HUF 44 billion on 31 December 2023. Members' savings increased significantly during the year thanks to excellent investment performance. All three portfolios achieved returns above 20%, with two of them even exceeding 25%. Members' willingness to pay membership fees is high, so in 2023, the proportion of paying members was still well above the statutory 70%. As a result of early payments, this legal condition is already met for the full calendar year 2024. The Fund now operates on a voluntary basis, with the aim of significantly increasing its members' pension savings in the long term at a low cost.

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9. FINANCIAL PERFORMANCE

Statement of the consolidated financial situation

	31.12.2023	31.12.2022	change (%)	change
Assets				
Cash and cash equivalents	**1,347,889**	**1,361,315**	**-1.0%**	**-13,426**
Financial assets measured at fair value through profit or loss	**756,308**	**819,718**	**-7.7%**	**-63,410**
Loans and advances to customers mandatorily at fair value through profit or loss	510,988	418,517	22.1%	92,471
Securities held for trading	2,621	49,923	-94.7%	-47,302
Securities mandatorily at fair value through profit or loss	47,516	24,869	91.1%	22,647
Derivative financial assets	195,183	326,409	-40.2%	-131,226
Hedging derivative assets	**73,652**	**164,338**	**-55.2%**	**-90,686**
Financial assets measured at fair value through other comprehensive income	**912,538**	**630,845**	**44.7%**	**281,693**
Securities	912,538	630,845	44.7%	281,693
Financial assets measured at amortised cost	**7,689,462**	**7,377,255**	**4.2%**	**312,207**
Loans and advances to banks	106,544	179,088	-40.5%	-72,544
Loans and advances to customers	4,390,428	4,342,801	1.1%	47,627
Repurchase assets	17,918	1,070	-	16,848
Securities	3,010,864	2,781,620	8.2%	229,244
Other financial assets	163,708	72,676	125.3%	91,032
Fair value change of hedged items in portfolio hedge of interest rate risk	**3,159**	**(51,678)**	**-**	**54,837**
Investments in subsidiaries and associates	**55,169**	**49,599**	**11.2%**	**5,570**
Property, plant and equipment	**120,501**	**98,345**	**22.5%**	**22,156**
Intangible assets	**71,094**	**70,511**	**0.8%**	**583**
Income tax assets	**13,540**	**24,981**	**-45.8%**	**-11,441**
Current income tax assets	276	453	-39.1%	-177
Deferred income tax assets	13,264	24,528	-45.9%	-11,264
Other assets	**62,367**	**69,039**	**-9.7%**	**-6,672**
Assets held for sale	**1,369**	**154**	**-**	**1,215**
Total assets	**11,107,048**	**10,614,422**	**4.6%**	**492,626**
Financial liabilities measured at fair value through profit or loss	**152,581**	**278,203**	**-45.2%**	**-125,622**
Derivative financial liabilities	129,944	235,877	-44.9%	-105,933
Financial liabilities from short positions	22,637	42,326	-46.5%	-19,689
Hedging derivative liabilities	**17,018**	**1,365**	**-**	15,653
Financial liabilities measured at amortised cost	**9,789,825**	**9,416,275**	**4.0%**	**373,550**
Amounts due to banks	2,027,667	2,378,471	-14.7%	-350,804
Amounts due to customers	6,957,100	6,574,357	5.8%	382,743
Repurchase liabilities	11,767	-	-	11,767
Issued debt securities	520,901	290,838	79.1%	230,063

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Subordinated debt	108,341	88,887	21.9%	19,454
Other financial liabilities	164,049	83,722	95.9%	80,327
Provisions	**31,240**	**22,623**	**38.1%**	**8,617**
Income tax liabilities	**16,985**	**15,483**	**9.7%**	**1,502**
Current income tax liabilities	15,354	12,378	24.0%	2,976
Deferred income tax liabilities	1,631	3,105	-47.5%	-1,474
Other liabilities	**76,028**	**71,737**	**6.0%**	**4,291**
Total liabilities	**10,083,677**	**9,805,686**	**2.8%**	**277,991**
Equity				
Share capital	322,530	321,699	0.3%	831
Share premium	348,894	313,947	11.1%	34,947
Retained earnings	44,754	32,592	37.3%	12,162
Other reserve	51,066	32,552	56.9%	18,514
Profit for the year	176,679	88,942	98.6%	87,737
Accumulated other comprehensive income	36,465	(21,357)	-	57,822
Equity attributable to owners of the parent company	**980,388**	**768,375**	**27.6%**	**212,013**
Non-controlling interest	**42,983**	**40,361**	**6.5%**	**2,622**
Total equity	**1,023,371**	**808,736**	**26.5%**	**214,635**
Total liabilities and equity	**11,107,048**	**10,614,422**	**4.6%**	**492,626**

Based on 2023 year-end data, the total assets of the Bank increased by HUF 492.6 billion compared to 2022 year-end and amounted to HUF 11,107.0 billion as of December 31, 2023.

Cash and cash-equivalent assets amounted to HUF 1,347.9 billion, showing a decrease of HUF 13.4 billion compared to the end of the previous year.

Loans and advances to credit institutions decreased by HUF 72.5 billion compared to the end of the previous year, to HUF 106.5 billion.

The stock of securities measured at amortised cost increased by HUF 229.2 billion compared to the end of the preceding year, reaching HUF 3,010.9 billion. By the end of 2023, the stock of loans and advances to customers amounted to HUF 4,390.4 billion at the end of the period.

The stock of financial assets at fair value through profit or loss decreased by 7.7% to HUF 756.3 billion at the end of the period.

Financial assets at fair value through other comprehensive income increased by 44.7% to HUF 912.5 billion at the end of 2023.

The amount of assets qualified as held for sale and that of discontinued operations increased by HUF 1.2 billion compared to end the of 2022.

Other assets are HUF 6.7 billion lower at the end of 2023 compared to the end of the previous year.

Compared to the end of 2022, investments in subsidiaries, jointly controlled entities and associates decreased to HUF 5.6 billion.

During the reporting period, the stock of liabilities to credit institutions decreased by HUF 350.8 billion, reached HUF 2,027.7 billion. The aggregate sum of client deposits and current accounts were HUF 6,957.1 billion, increased by HUF 382.7 billion compared to the end of the previous year.

Derivative financial liabilities recorded among liabilities decreased by 44.9%, it amounted HUF 129.9 billion at the end of 2023.

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The stock of other liabilities increased by HUF 4.3 billion and provisions also increased by HUF 8.6 billion during the year.

The total equity reached HUF 1,023.4 billion at the end of 2023.

Statement of profit or loss and other comprehensive income

	01.01.2023.-31.12.2023.	01.01.2022.-31.12.2022.	Change (%)	Change
Interest and similar to interest income	**1,204,710**	**678,949**	**77.4%**	**525,761**
Interest income using effective interest rate method	780,138	471,917	65.3%	308,221
Other interest income	424,572	207,032	105.1%	217,540
Interest and similar to interest expense	**(639,153)**	**(313,222)**	**104.1%**	**-325,931**
Interest expense using effective interest rate method	(388,040)	(159,870)	142.7%	-228,170
Other interest expenses	(251,113)	(153,352)	63.7%	-97,761
Net interest income	**565,557**	**365,727**	**54.6%**	**199,830**
Income from fees and commissions	**188,872**	**142,020**	**33.0%**	**46,852**
Expense from fees and commissions	**(49,431)**	**(37,591)**	**31.5%**	**-11,840**
Net income from commissions and fees	**139,441**	**104,429**	**33.5%**	**35,012**
Results from financial instruments	**2,654**	**32,146**	**-91.7%**	**-29,492**
Results from financial instruments measured at fair value through profit or loss, net	(72,105)	118,163	-	-190,268
Results from financial instruments measured at fair value through other comprehensive income, net	2,784	(35,924)	-	38,708
Results from financial instruments measured at amortized cost, net	(2,414)	1,655	-	-4,069
Results from hedge accounting, net	24,248	(5,288)	-	29,536
Exchange differences result, net	50,141	(46,460)	-	96,601
(Impairment) / Reversal on financial and non-financial instruments	**(75,461)**	**(93,176)**	**-19.0%**	**17,715**
(Impairment) / Reversal on financial instruments held for credit risk management	(58,618)	(65,005)	-9.8%	6,387
Provision (loss) / gain	(357)	(3,379)	-89.4%	3,022
Modification (loss) / gain on financial instruments	(14,449)	(23,222)	-37.8%	8,773
(Impairment) / Reversal on investments in subsidiaries and associates	(1,680)	(6)	-	-1,674
(Impairment) / Reversal on other financial and non-financial instruments	(357)	(1,564)	-77.2%	1,207
Dividend income	**1,628**	**728**	**123.6%**	**900**
Operating expense	**(419,069)**	**(310,056)**	**35.2%**	**-109,013**
Other income	**25,776**	**13,317**	**93.6%**	**12,459**
Other expense	**(21,215)**	**(10,536)**	**101.4%**	**-10,679**

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Negative goodwill recognised in profit or loss	**4,821**	**-**	**-**	**4,821**
Investments in jointly controlled entities and associates	**(2,256)**	**2,704**	**-**	**-4,960**
Result from assets held for sale	**-**	**(1,893)**	**-**	**1,893**
Profit before taxation	**221,876**	**103,390**	**114.6%**	**118,486**
Income tax income / (expense)	**(38,686)**	**(12,222)**	**216.5%**	**-26,464**
PROFIT FOR THE YEAR	**183,190**	**91,168**	**100.9%**	**92,022**
Of which profit or (loss) of the owners of the parent company	*176,679*	*88,942*	98.6%	87,737
Of which profit or (loss) of the non-controlling interest	*6,511*	*2,226*	192.5%	4,285
Other comprehensive income				
Items that may be reclassified to profit or loss	**53,202**	**4,972**	**-**	**48,230**
Hedging instruments (unmarked items)	*(333)*	*457*	-	-790
Revaluation on financial assets measured at fair value through other comprehensive income	*58,303*	*3,917*	-	54,386
Income tax relating to items that will be reclassified	*(4,768)*	*598*	-	-5,366
Items that may not be reclassified to profit or loss	**4,711**	**(210)**	**-**	**4,921**
Fair value changes of equity instruments measured at fair value through other comprehensive income	*4,711*	*(210)*	-	4,921
Income tax relating to items that will not be reclassified	-	-	-	0
Other comprehensive income for the year net of tax	**57,913**	**4,762**	**-**	**53,151**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**241,103**	**95,930**	**151.3%**	**145,173**

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

In 2023, net interest income showed a HUF 199.8 billion increase compared to the previous year mainly due to a favourable change in the market interest rate environment.

Net income from fees and commissions increased by HUF 35.0 billion in 2023 compared to the previous year.

The profit on financial instruments decreased by HUF 29.5 billion, reached HUF 2.7 billion in 2023.

Impairment and provisioning showed a total of HUF 75.5 billion in the relevant period, decreased by HUF 17.7 billion in the financial year compared to the previous year. The largest part of this is the impairment of financial instruments held for credit risk management due to moratorium and stage reclassifications.

Major items leading to the HUF 109.0 billion increase of operating expenses are the increased wages and IT costs and the paid extraprofit tax.

MBH Banking Group's consolidated profit before tax amounted to HUF 221.9 billion and its profit after tax to HUF 183.2 billion in 2023, significantly exceeding the previous year's performance.

10. THE RISK POSITION OF MBH GROUP

MBH’s risk management is governed by the Hungarian and EU legislation in force and 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.

The Bank considers prudent risk-taking to be a core value, and its risk management and risk control activities are performed in accordance with the principles laid down in the Risk Strategy. The Bank’s risk management is subject to several levels of control, the most important of which are ultimate control at the level of the Board of Directors (some specific and identified risk decisions require the approval of the Supervisory Board), independent control separate from the risk-taking areas, and appropriate measurement, diversification, monitoring and reporting of risks. The Bank continued to comply with the regulatory requirements throughout 2023.

The merger processes in the banking group had a significant impact on the risk situation of Bank Group in 2023. As a result of the merger with Takarékbank on 30 April 2023 and the acquisition of Duna Takarék Bank Ltd. on 29 September 2023, the Bank's risk exposure increased during the year in line with the change in business volume.

Risk Strategy

MBH's Group level Risk Strategy defines the scope of risks that can be taken consideration 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, Banking Group 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 the Banking Group’s risk management activities are to protect the Banking Group’s financial strength and reputation and to contribute to the use of capital for competitive business activities that enhance shareholder value.

The Banking Group's risk appetite should be consistent with the financial resources available to cover potential losses. In order to ensure this, the Group calculates on standalone and group level the current and future economic capital requirements for the quantifiable types of risk, as well as the capital requirements under Pillar 1.

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

Credit risk

In 2023, in addition to the merger with Takarékbank Ltd. and the migration of Budapest Bank Ltd.'s corporate portfolios, 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.

Market risk

Market risks include interest rate risk and foreign exchange risk arising from all banking activities. Banking Group 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. Banking Group measures interest rate risk by performing sensitivity tests on an ongoing basis. In addition, the impact of adverse interest rate scenarios is continuously measured and limited through the application of stress tests. Interest rate risks are managed through an appropriate composition of the securities and derivatives portfolio and through the consistency of other assets and liabilities in the bank's books.

Management of currency risk

The Group aims to keep its exposure to foreign exchange risk low by maintaining open foreign exchange positions up to the limit set in the banking book.

Foreign exchange risk arising in the course of core banking activities is managed by the Bank in the course of its operations, depending on market conditions. The Bank also performs VAR calculations and stress tests to measure foreign exchange risk.

Liquidity and solvency risks

The Group analyses liquidity risks with a number of indicators and mitigates them with limits, the most important of which are based on regulatory indicators (LCR, NSFR, required reserve ratio) and stress tests relevant to liquidity. In addition, the Group operates an early warning system for the timely detection of liquidity disturbances, which is presented to the Asset and Liability Committee and to management without delay in the case of an alert and on a regular basis during normal operations.

Operational risk

The Group continues to manage operational risk primarily through internal policies, rules of procedure and the operation of built-in control mechanisms in line with defined supervisory requirements. 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 Banking Group.

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 Banking Group every year, several KRIs were modified in 2023 and new group level KRIs defined by MBH were implemented.

The Group conducts operational risk self-assessments for its key activities and uses scenario analysis to assess the impact of events that occur infrequently but could result in severe losses if they were to occur.

The Group's operational risk events and the results of operational risk monitoring are reported on a quarterly basis.

With regard to operational risk, the Banking Group'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.

11. DEVELOPMENT PROSPECTS, EXPECTATIONS AND PLANS FOR 2024

2023 was an eventful year for MBH Bank, it was the year of integration, the year in which the bank completed a merger process unique in Europe and became an unavoidable player in the domestic banking sector. 2023 was a very important milestone for the Group, but in a sense only a chapter in its strategy.

From 2024 MBH Bank will focus on further exploiting synergies, increasing efficiency and developing improvements to support strong business expansion, with a focus on making processes and service even more customer-centric.

MBH Bank's vision is positioning itself as a national champion, serving all customer segments, while maintaining local community values.

Key strategic objectives of the bank:

- To create the most modern bank in Hungary, offering a value proposition beneficial to all Hungarian citizens and businesses.
- To maintain the largest branch network in the country, which allows for quality, value-based customer service, with efficiency is a primary concern.
- To build an innovative organisation and a modern corporate culture with a strong focus on staff.
- To actively contribute to the development of the Hungarian economy by supporting segments of national economic importance, such as SMEs, the agricultural sector and young people, while maintaining a commitment to local communities.
- Outstanding profitability supported by synergies and capital position.
- Setting a growth-based financial path with significant earnings, an efficient capital course and major cost reductions.

Overall, MBH Bank's main objective is to be a national champion with strong positions in all market segments, to maintain its current market leadership in key segments such as corporate lending, agricultural finance and leasing, and to be able to go public and thus expand internationally, ensuring superior return on equity for its shareholders.

The economic environment and the financial sector

A combination of negative and positive risk factors could result in an economic growth rate of 3.5% in 2024, supported mainly by a recovery in industry and growth from new capacities, as well as a recovery in services, including trade and consumption-related industries. In addition, the low base in 2023 is also supportive.

After a weak performance in the first half of last year, a positive turnaround started from the third quarter of 2023, thanks to the spill over from lower energy prices, a weaker base effect and an improvement in the performance of some sub-sectors compared to the previous quarters, supported by a rebound and good performance of agriculture. The investment component has been dampened by high interest rates and a moderation in public investment, but this could be partly offset by significant FDI inflows. The domestic and pan-European outlook is supported by energy prices that have stabilised at a significantly lower level than in the past, but is overshadowed by slowing domestic and external demand due to the war in Ukraine and high global interest rates. On the positive side, industry's domestic order books continued to rise in November - while exports fell slightly for two months - with new manufacturing capacity gradually contributing to the increase. Net exports also continued to support the growth outlook in the second half of 2023, after import volumes continued to decline, partly due to lower domestic consumption. Exports remained a moderately positive factor despite weak external demand, and the same positive export effect will persist in 2024, but to a much lesser extent.

From the beginning of this year, the growth-boosting role of EUR 10.2 billion of unlocked and gradually phased-incoming EU funds, representing a third of EU funds, could also support the industry and broader economic growth, as well as the commissioning of manufacturing capacity in the investment phase. The expected replacement of deferred consumption and the likely pick-up in investment as interest rates ease point in the same direction. The latter could be particularly strong in 2025, as a number of major manufacturing developments are scheduled to be put into operation, including BMW and the first CATL factory - and the construction and possible trial run of BYD will also support growth - partly underpinning a slight acceleration in growth in 2025 compared to this year.

Rising prices for alcohol and tobacco products, as well as continued price increases at a large number of service providers, will dampen the downward momentum of inflation, but overall, despite the increase in excise duties on fuel earlier this year, the annual inflation rate could drop to 4.1% this year. We expect the indicator to fall below the 4% top of the central bank's target range for the first time in Q3, but the extent of repricing decisions taken by market participants in the first two months of the year could carry risks. The latest inflation data confirm previous expectations of continued disinflation and allow monetary policy to continue the easing cycle and to cut interest rates at the current pace. One identifiable risk in the process is whether the tight labour market and the 15% and 10% increases in wage minima since last December - and the resulting upward shift in the overall wage scale - will provide meaningful support to demand and consumption through real wage growth, and whether companies will be able to reflect the still sharply rising wage costs into their prices. Furthermore, fuel prices, also a significant inflation item, are at risk from the impact of further oil output cuts announced by OPEC to 'stabilise' prices and a possible further escalation of the conflict in the Middle East, although base effects are currently helping to drive the index lower.

Disinflation is likely to continue in 2024, and the vulnerability of the domestic economy is also expected to be further reduced through the external position, so the base rate cut could continue at the current pace in the coming months. However, we expect the return to the inflation target to be slower, and we expect that only in 2025, with the rate cut cycle shifting to a slower pace after the first half of 2024. The central bank sees the need to maintain a positive real interest rate, confirming our expectation that the base rate could fall to 6% by the beginning of Q3 of 2024 and remain fixed at that level until the end of the year, keeping in mind the prudence motive.

In a declining yield environment, the banking system could realise lower net interest income than last year, but we expect an improvement in net fee and commission income as lending picks up (we expect a jump in new contract volumes, especially in the retail segment). However, this could be somewhat offset by an increase in operating costs, and risk costs could also rise from last year's low level, especially if concerns about the ability/reliance of debtors to repay arise following the lifting of interest rate freezes. All in all, therefore, we expect a correction in 2024 towards a return on equity of 10%, which we believe to be sustainable in the longer term, in terms of the expected profits for the banking system.

12. ENVIRONMENTAL PROTECTION

Although the Group does not pursue business or non-profit activities related to environmental protection, it strives to ensure an environmentally conscious workplace, maintains and cares for the natural vegetation and ornamental plants in its direct environment. It pursues to apply energy-saving solutions during its operation. In its internal trainings it emphasises the importance of energy and environmentally conscious corporate and employee behaviour.

13. HUMAN RESOURCES POLICY

The full-time equivalent employment of MBH Bank Group at the end of 2023 was 8.838, below the same figure in 2022 (2022: 9.474).

Talent management at MBH Banking 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.

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 Bank:

At MBH Bank, flexible working is a core element of the HR strategy and an important component of improving the employee experience.

As part of its HR strategy, MBH Bank aims to increase the share of atypical employment. In addition, the company aims to make working from home available to as many employees as possible, which is why it is also continuously improving its equipment. Working from home reduces workplace stress, improves work-life balance and thus increases employee satisfaction, morale, efficiency and loyalty.

Extensive fringe benefits:

MBH Bank, 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 Bank and health:

Health promotion and health maintenance is an important area for MBH Bank, 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 Bank also offers hobby and recreation rooms in its buildings. Fitness menus and other special dietary meals are available in the canteens at the workplace, and restaurant services were also made available through delivery during the pandemic.

MBH Bank 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.

14. SERVICES OF THE AUDITING COMPANY

The fee for the auditing company as stipulated by the relevant 2023 auditing contract is HUF 1 042 million (excluding VAT). Several assignments have been carried out during the year, and the amount of the above fee includes the remuneration for all the assignments carried out.

15. POST BALANCE SHEET DATE EVENTS

Interim dividend payment procedure of MBH Bank Plc.
Based on Section 3.2.2 (m) of the Articles of Association, the Board of Directors of MBH Bank Plc. (decided on 15 December 2023 with its Resolution No. 162/2023 (15 December) (the 'Resolution') to pay interim dividend of HUF 21,609,484,875 to the shareholders of the Bank. The Supervisory Board approved the decision of the Board of Directors by way of its Resolution No. 43/2023 (15 December). Based on the above, the gross interim dividend per ordinary share with a nominal value of HUF 1,000 is HUF 67. The amount of the gross interim dividend actually payable to a shareholder is calculated by multiplying the number of shares held by the shareholder by the gross interim dividend per share, rounded up to the nearest whole forint amount in accordance with the rounding rules. The Resolution designated the Board of Directors to determine the date of payment of the interim dividend within the framework set by the Articles of Association. Pursuant to the Board of Directors' Resolution, the first date of payment of the interim dividend (E day) was 12 January 2024.

BET introduction
The Budapest Stock Exchange Plc. introduced into exchange trading the dematerialised, registered, EUR 350,000,000 and 8.625 percent. Senior Preferred Fixed-to-Floating Callable Notes due 2027, tranche number 1, in an amount of 350,000 securities with a face value of EUR 1,000 giving a total face value of EUR 350,000,000 issued by MBH Bank Plc. as of 16 February, 2024.

Changes in the management of MBH Bank Plc.
After the resignation of dr. Péter Magyar at 13 February 2024 the Extraordinary General Meeting of MBH Bank elects dr. Árpád Kovács to the member of the Supervisory Board and Audit Committee from 14 March 2024 to 31 December 2025 (after the receipt of the relevant authorization decision issued by NBH and the written acceptance of the election of the Supervisory Board).

Fundamenta
In November 2023 MBH Bank signed a share purchase agreement with Bausparkasse Schwäbisch Hall AG (Germany), Bausparkasse Wüstenrot AG (Austria) and Wüstenrot & Württembergische AG (Germany) in order to purchase a total of 76,35% stake of Fundamenta-Lakáskassza Lakás-takarékpénztár Plc. (registered office: 1123 Budapest, 55-61., Alkotás Street, Hungary). The prior authorization of the transaction by the competition and the supervisory authorities was successfully completed, after which the Sellers and the Purchaser carried out the transaction on 27 March 2024.

The consolidated total equity of Fundamenta Lakás-takarékpénztár Plc. on 31 December 2023 was HUF 76,033 million, which is the 100% of the ownership. The fixed component of the purchase price is EUR 170.7 million, which is modified by other variable components defined in the purchase price contract.

MBH Bank Plc. takes the opportunity of the option provided by paragraph 45 of IFRS 3 Business Combinations standard, that the initial accounting of business combinations is not yet complete and may change until the end of the evaluation period (maximum 1 year). According to this, any additional assets, liabilities and fair value differences regarding the facts and circumstances existing at the time of the acquisition will be determined after the end of the evaluation period, therefore paragraphs B.64 (h-k) of IFRS 3 are not published in the current consolidated financial statements.

16. CAPITAL MANAGEMENT

The Capital situation of Group was sufficient at the end of 2023. As a result of the 2023YE profit (and therefore core capital accumulation) the available core capital increased significantly. The owner of the MBH Bank is committed to maintain the bank's capital adequacy and implement all the necessary measures.
Domestic and international guidelines require the Bank to maintain certain minimum capital-to-asset ratios. These risk-based ratios are determined by allocating assets and specified off-balance sheet instruments into different weighted categories, with higher levels of capital being required for categories perceived as representing higher risk. Regulatory capital is divided into Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Bank may raise regulatory capital by issuing several types of financial instruments to the public. These financial instruments are then classified as either Tier 1 or Tier 2, depending on the types of conditions or covenants they place upon the issuer.

As at 31 December 2023, the Group's own funds on a Basel IV IFRS basis in accordance with supervisory rules amounted to HUF 1,047 billion, an increase of HUF 231 billion compared to the end of 2022. The change in own funds was mainly driven by the following factors during the year:

- the profit for the year increased own funds
- the overall level of reserves (capital reserve, profit and loss reserve, other reserves) increased
- the value of accumulated other comprehensive income increased
- the amount of deductions from core Tier 1 capital did not change significantly
- additional capital increased due to the T2 bond issue in January 2023

The risk-weighted asset value (RWA) was HUF 4,729 billion at the end of 2023, an increase of HUF 597 billion compared to the value at the end of 2022. The increase in RWA was mainly driven by an increase in business portfolios and an increase in the operational risk capital requirement. The market risk capital requirement increased only slightly compared to year-end 2022.

The Group's capital adequacy ratio was 22.1% at the end of 2023, an increase of +2.4%pts compared to the end of 2022.

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

Legal limits defined by the
Regulation (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT on prudential requirements for credit institutions and investment firms and amending Regulation (CRR):

- Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act) - CRR 395-400.§, Banking Act 302.§ large loan limit -> no excess
- Banking Act 101-102.§ total investment limit -> no excess

Consolidated Management Report as at 31 December 2023 Data in HUF million except stated otherwise

INFORMATION PURSUANT TO SECTIONS 95/A AND 95/B OF THE ACCOUNTING ACT

INFORMATION RELATED TO SHARES AND OWNERS

The Bank's shares – under the name of MKB Bank - were added to the product list of the Budapest Stock Exchange (hereinafter: "**BSE**") on 30 May 2019, whereby the shares got listed on the BSE.
The first trading date of the Bank's ordinary shares listed on the BSE - in the BSE shares section's Standard category - was 17 June 2019
On 30 October 2020, the Bank sold all its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Magyar Bankholding Zrt. (hereinafter: "**Hungarian Bankholding**") commenced its effective operation as a financial bankholding on 15 December 2020, after the bank shares of the key owners of Budapest Bank Zrt. (hereinafter: "**Budapest Bank**"), the Bank and MTB Zrt. (hereinafter: "**MTB**") were transferred to the joint holding company in possession of the approval of National Bank of Hungary (hereinafter: "**NBH**"). The owners transferred their shares to Hungarian Bankholding as a result the second largest banking group in Hungary has been established, in which the Hungarian State owned 30.35% of the shares through Corvinus Nemzetközi Befektetési Zrt., the former direct owners of the Bank acquired 31.96% of the shares and the former direct owners of MTB acquired 37.69% of the shares. All required approval has been obtained for these changes.

On 15 December 2021, the supreme bodies of the Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owned MTB, approved the first step of the merger timetable of Budapest Bank, the Bank and MTB. The merger of two member banks, Budapest Bank and the Bank, as well as Magyar Takarék Bankholding Zrt. took place on 31 March 2022 in accordance with the fusion schedule, based on the relevant decisions adopted by the supreme decision-making body and in possession of the necessary official permits and authorisations. From 1 April 2022 the merged credit institution operated temporarily under the name of MKB Bank Nyrt.

On 9 December 2022 the supreme bodies of the Bank and Takarékbank Zrt. adopted – as part of the execution of the second step Hungarian Bankholding's fusion schedule – the proposed decisions regarding the merger of the two member banks. Under the decisions of the respective general meetings and in possession of the necessary official permits and authorisations the two member banks – the Bank and Takarékbank Zrt. – merged with effect from 30 April 2023 and have continued operating under the name of MBH Bank Nyrt., with a single uniform brand name and image. Thereby Hungary's second largest universal major bank was established in terms of balance sheet total, a leader in digitalisation.

The merger did not imply any change in the ownership structure of the banking group, Hungarian Bankholding remained the dominant shareholder of the banks involved in the merger process.

As at 31 December 2023 the shareholder structure of MBH Bank is the following:

Shareholder structure of MBH Bank Nyrt.		
Name of shareholder	Number of shares (pieces)	Ownership share (%)
Magyar Bankholding Zrt.	318 883 966	98.87%
Free float	3 645 659	1.13%
Total:	**322 529 625**	**100%**

The share capital (subscribed capital) of the Bank is HUF 322,529,625,000, that is, three hundred and twenty-two billion five hundred and twenty-nine million six hundred and twenty-five thousand forints, representing a cash contribution made available in total amount. The share capital is divided into 322,529,625,000, that is, three hundred twenty-two million five hundred and twenty-nine thousand six hundred and twenty-five registered, dematerialized, series "A", ordinary shares with a nominal value of HUF 1,000 i.e. one thousand forints each. All Series “A” Ordinary Shares (“Ordinary Shares”) bear the same rights. Each shareholder holds solely ordinary shares.

Consolidated Management Report as at 31 December 2023 Data in HUF million except stated otherwise

The parties having more than 10% indirect influence in the Bank are presented below, in line with the decisions of the National Bank of Hungary H-EN-I-15/2020., H-EN-I-704/2020., H-EN-I-705/2020., H-EN-I-295/2021., H-EN-I-423/2021 and H-EN-I-441/2023.

Magyar Bankholding's ownership structure is as follows as at 31 December 2023:

Ownership structure of Magyar Bankholding Zrt.	
Name of shareholder	**Ownership share (%)**
Corvinus Nemzetközi Befektetési Zrt.	30.35%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25.13%
Magyar Takarék Holding Zrt.	12.56%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
GLOBAL ALFA Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
OPUS FINANCE Future Zrt.	0.84%
Total:	**100%**

The following organisations have more than 10% indirect influence in MBH Bank:

- Corvinus Nemzetközi Befektetési Zrt., Hungarian State
- Magyar Takarék Befektetési és Vagyongazdálkodási Zrt., GLOBAL ALFA Magántőkealap
- Magyar Takarék Holding Zrt., Aurum Magántőkealap
- METIS Magántőkealap, Opus Global Befektetési Alapkezelő Zrt.
- Blue Robin Investments SCA, Blue Robin Management S.à r.l., Uncia Finance Zrt., Uncia Alpha Kft., Uncia Private Equity Fund, QUARTZ Alapkezelő Zrt., Dry Immo Zrt., FELIS Magántőkealap

The Articles of Association of the Bank do not restrict the transfer of shares representing the subscribed capital of MBH Bank. The Company has no issued shares representing special controlling rights. Voting rights are not restricted at MBH Bank.

Rights and obligations of the shareholders

Rights of the shareholders at the General Meeting

a) The shareholder is entitled to attend the General Meeting. The Bank's General Meeting may be attended by the shareholder or the shareholder's proxy specified in Sections 151-155 of the Capital Market Act, who was registered in the Register of Shares at the Closing of the Register of Shares by the General Meeting in accordance with the result of the shareholder matching. The day of closing the Register of Shares is the second business day preceding the starting day of the General Meeting.

b) The shareholder may also exercise his / her rights at the General Meeting by way of proxy. Member of the Board of Directors, member of the Supervisory Board and the auditor cannot be persons authorised by proxy. Shareholders may authorise an executive employee of the Bank as well to exercise their rights relating to the Shareholders' Meeting. The proxy authorisation of the authorised representative shall be valid for one Shareholders' Meeting or for the period of time defined therein, but in any case not more than 12 months. The proxy authorisation shall also be valid for the continuation of the suspended Shareholders' Meeting and for the repeated Shareholders' Meeting convoked due to the lack of quorum. The authorisation shall be issued in the form of a private document with full probative force and submitted to the Bank at the place and time indicated in the General Meeting announcement. The proxy shall be drawn up in the form of a public document or a private document providing full evidence and it shall be submitted to the Bank.

c) The shareholder has the right to be informed about cases on the agenda of the General Meeting In line with which right, in reply to the written request of the shareholder submitted at least eight days before the day of the General Meeting the Board of Directors shall provide information necessary to discuss the agenda item of the General Meeting three days before the day of the General Meeting, the latest. The Board of Directors may make the exercise of the right to information as described above conditional on the submission of a written confidentiality statement by the shareholder requesting the information. The Board of Directors may refuse to disclose information and access to documents if it violated the Bank 's business, banking, securities or other similar secrets, if the person requesting the information abuses their right or fails to make a confidentiality statement even if requested. If the party requesting information considers the refusal of information unjustified, they may request the Court of Registration to order the Bank to provide the information.

d) The Bank ensures that the rights to be informed, to comment and to suggest at the General Meeting are granted to every shareholder attending the General Meeting, on the condition that the exercising of these rights shall not hinder the lawful and proper operation of the General Meeting. In the interest of exercising the shareholder's rights specified in this present point the Chairman of the General Meeting shall grant the right of speech to the shareholder at the General Meeting, on the condition that the Chairman of the General Meeting may specify the duration of the speech, may withdraw the right to speak, especially in case the shareholder is off the point, furthermore he / she can specify the sequence of the speeches, if there are several speeches at the same time, in order to ensure the lawful and proper operation of the General Meeting.

e) Voting rights attached to shares are determined by the nominal value of such shares. The shareholder cannot exercise his / her right to vote until he / she has performed his / her due cash contribution

Minority rights

a) Shareholders jointly representing at least 1% of the voting rights may request the convocation of the General Meeting at any time without specifying the reason or the purpose. If the Board of Directors fails to take action to convene the General Meeting for the earliest possible date within eight days after the receipt of the request, the registering court shall convene the meeting in reply to the application of the shareholders suggesting the meeting or the registering court shall authorise the suggesting shareholders to convene the meeting. The expected costs shall be advanced by the suggesting shareholders.

b) If shareholders jointly representing at least 1% of the votes communicate a proposal to the Board of Directors to supplement the agenda in line with the rules of the levels of detail or a draft resolution concerning an item on the agenda or an item to be added to the agenda within eight days after the announcement of the convocation of the General Meeting is published, the Board of Directors shall publish an announcement about the supplemented agenda, the draft resolutions proposed by the shareholders after the communication of the proposal pursuant to THE Articles of Association. The issue specified in the announcement shall be deemed added to the agenda.

c) If the General Meeting rejected or did not allow the submission to enforce a claim of the Bank from any member, managing officer, member of the Supervisory Board or the auditor for a resolution to be adopted, shareholders representing at least 1% of the voting rights may enforce the claim themselves for the benefit of the Bank and representing the Bank within a thirty-day limitation period.

d) If the General Meeting rejected or did not allow the submission to have the last report or an economic event or commitment related to the activity of the Board of Directors in the last two years audited by a specially commissioned auditor for a resolution, the registering court shall order the audit and appoint an auditor at the cost of the Bank in reply to the application of the shareholders jointly representing at least 1% of the voting rights submitted within the thirty-day limitation period following the General Meeting. The registering court shall reject the fulfilment of the application if the submitting shareholders abuse the minority rights.

Right to dividend

The shareholder shall be entitled to a dividend from the profit of the Bank, which can be shared and which was ordered to be shared by the General Meeting in the proportion of the nominal value of his / her share.

Obligations of the shareholders

a) The shareholder shall provide cash contribution to the Bank in amount corresponding to the nominal or issue value of the shares received or quoted by his / her person. The shareholder may not be validly exempted from his / her obligation - excepting the case of share capital decrease.

b) The shareholder with at least 1% share or the shareholder acquiring such share shall report his / her indirect share and its changes to the Bank providing his / her details suitable for identification at the same time. The National Bank of Hungary shall suspend the exercising of the voting right of a member failing to perform his / her reporting obligation.

MBH Bank is not aware of any agreement concluded between its owners that may result in restrictions on the transfer of issued securities and / or voting rights.

MBH Bank is not aware of any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is not obliged to disclose such information on the basis of other legal requirements.

Employee share scheme

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. The Bank was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016. The launch of the ESOP was closely linked to the Bank's reorganisation efforts, as it created ownership interest among its employees. As of 2017, the Bank has performed the settlement of performance-related remuneration through its own ESOP Organisation, in accordance with the up to date ESOP Performance Remuneration Policy. The Investment ESOP is where the ESOP Organisation purchases issued ordinary shares for investment purposes on behalf of participating employees or managing officers. The employees who declared their participation to the ESOP Organization did not become owners of the shares, the shares were owned by the ESOP Organization. The ESOP Organization is still the owner of the shares. The participating employees have become members of the ESOP Organisation. Upon the fulfilment of the objective specified in the ESOP Performance Remuneration Policy and the deferral period, participating employees or executive officers may claim a share price gain on the shares. After the conversion of the shares into money, the settlement and payment takes place, taking into account the deferral rules, in proportion to the performance remuneration.

* * *

As a public limited company, in accordance with market practice and the BSE Corporate Governance Recommendations (Recommendations), the Bank prepares a Corporate Governance Report, which shall be published on the website of the Company (www.mbhbank.hu). In its Corporate Governance Report, the Bank presents its corporate governance practices for the financial year and, on the other hand, details its compliance with each section of the Recommendations.

SUPREME, EXECUTIVE AND MANAGEMENT BODIES, SUPERVISORY BODY, COMPOSITION AND OPERATION OF COMMITTEES

General Meeting

The supreme body of the Bank is the General Meeting. The General Meeting has, inter alia, the exclusive competence to approve and amend the Articles of Association, except for the modification of the Company's headquarters, premises, branches and, except for the core activity of the Company, the activities of the Company as the Board of Directors is entitled to amend the Articles of Association in that regard, make decisions on the Company's transformation, merger and demerger, termination without legal successor, on increasing or decreasing the share capital authorisation of the Board of Directors to increase the share capital, appoint and remove the chair and members of the Board of Directors, appoint and remove the Supervisory Board and Audit Committee members, determine their remuneration, appoint the auditor, approve the annual report and make decisions on the utilisation of the profit after taxes and the payment of dividend advance. Pursuant to the Articles of Association of the Bank, the General Meeting of the Bank has the exclusive competence to recall and elect the Chairman and members of the Board of Directors. Members of the Board of Directors shall be elected by the General Meeting for a definite term of maximum five years. The members of the Board of Directors may be re-elected and may be recalled at any time by the General Meeting without giving reasons, in accordance with the provisions of the Articles of Association.

Board of Directors:	Supervisory Board:	Audit Committee:
Chairman:	**Chair person:**	**Chair person:**
Dr. Zsolt Barna	Dr. Andor Nagy	Rita Feodor
Members:	**Members:**	**Members:**
István Sárváry	Zsigmond Járai	dr. Péter Magyar
Dr. Balázs Vinnai	Miklós Vaszily	Miklós Vaszily
Marcell Tamás Takács	dr. Géza Láng	
Ádám Egerszegi	Rita Feodor	
Levente László Szabó	dr. Péter Magyar	
Andrea Mager	Kitti Dobi	
	Balázs Bechtold	
	dr. Ilona Török	

(as of December 31, 2023)

Board of Directors

The Board of Directors is the executive body of the Bank. The members of the Board of Directors represent the Bank vis-a-vis third parties and before court and other authorities. The Board of Directors shall develop and manage the work organisation of the Bank.

The scope of authority of the Board of Directors is included in the Articles of Association of the Bank with the proviso that within the framework of effective laws and resolutions adopted by the General Meeting, the Board of Directors shall be entitled to take any actions and make any decisions that do not form part of the exclusive powers of the General Meeting or the Supervisory Board. The decision on the acquisition or the sale of own shares, as well as the increase of the registered capital through the issue of shares belongs to the competence of the General Meeting subject to the condition that the General Meeting may authorize the Board of Directors to decide on registered capital increase. The tasks of the Board of Directors include working out and adopting the Bank's business policy, strategy and business plan. Moreover, the powers of the Board of Directors include decision making – with the Supervisory Board's prior approval – on the approval of the Bank's interim balance sheet and on the payment of dividend advance based on the General Meeting's authorisation.

Supervisory Board

The Supervisory Board shall control the management of the Bank in order to protect the interests of the Bank. The board of directors makes sure, inter alia, that the Company has a comprehensive controlling system which is suitable for efficient and effective operation, manages the internal audit organisation, checks the Bank's annual and interim financial reports, makes proposals to the General Meeting for the auditor to be appointed, and for the auditor's remuneration, and performs other tasks assigned to it by the Bank's Articles of Association. The General Meeting may only adopt its resolutions on the report prepared in accordance with the Accounting Act and on the utilisation of the profit after taxes in possession of the Supervisory Board's written report. It may adopt its resolution on the payment of dividend advance only with the Supervisory Board's approval.

Audit Committee

The Audit Committee provides assistance to the Supervisory Board in supervising the financial report regime, in selecting an auditor, and in working with the auditor.

After the resignation of dr. Péter Magyar at February 13, 2024 the Extraordinary General Meeting of MBH Bank held on March 14, 2024 elected dr. Árpád Kovács to member of the Supervisory Board and Audit Committee from the date of the relevant authorization issued by NBH until December 31, 2025.

Risk Assumption, Risk Management Committee:	Remuneration Committee:	Nomination Committee:
Chair person:	**Chair person:**	**Chair person:**
Marcell Tamás Takács	István Sárváry	Zsigmond Járai
Members:	**Members:**	**Members:**
István Sárváry	Dr. Balázs Vinnai	Dr. Andor Nagy
Andrea Mager	Marcell Tamás Takács	Miklós Vaszily

(as of December 31, 2023)

Risk Assumption and Risk Management Committee

As part of its ongoing monitoring of the Bank's risk-taking strategy and risk appetite, the Risk Assumption and Risk Management Committee reviews the risk strategy, remuneration policy and quarterly risk report in advance. It supports the Board of Directors in monitoring the implementation of the risk-taking strategy.

Remuneration Committee

The Remuneration Committee is responsible for the preparation of decisions regarding remuneration, taking into account the long-term interests of shareholders, investors and other stakeholders in the company. Within such competence the Remuneration Committee prepares the performance evaluation and ex-post risk assessment of the Chairman and CEO, Deputy CEOs and other board members, it evaluates the achievement of performance goals. The committee ensures the implementation of the remuneration policy. The Remuneration Committee furthermore oversees the remuneration of the senior officers in the risk management and compliance functions, including the employees carrying out internal control functions.

Nomination Committee

The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees, for specifying the capabilities required for membership in management bodies as well as their tasks, along with the evaluation of the composition and performance of the managing bodies and their members. Determining the ratios of the sexes within the managing bodies and the strategy for achieving it. It is also in charge of the regular revision of the Bank’s policy concerning selection and appointment of its executive director.

The Committees operate in accordance with the rules laid down in their rules of procedure. Bodies shall meet as often as necessary to carry out their functions and shall take their decisions in the form of a meeting or in writing and without a meeting. The work of the bodies is organized by the chairman of the body.

In accordance with the Nomination Policy applicable to the selection, members of the management boards of the members of the Bank Group, individuals with different professional skills, versatile regional and industry experience are elected into the managing bodies of the Bank Group and they also take advantage of these differences in their operations in the operation of those bodies, which the members of the Bank Group consider as a key consideration in determining the optimal composition of their bodies. Board appointments are based on the pool of expertise, experience, independence and knowledge represented by the candidates, taking into account what the body as a whole needs to function effectively. The members of the Bank Group pay particular attention to the representation of both genders in executive bodies which is why they strive to reach 15% female members in executive bodies. To this end, they commit themselves to favouring the member of the under-represented gender of the same management body among two candidates of the same capacity who are otherwise suitable, unless otherwise justified by professional judgement.

There is no agreement with an executive officer or an employee that provides for compensation in the event of a manager's resignation or termination by the employee or unlawful termination of the executive officer's or employee's relationship, or termination of the relationship due to a public takeover bid.

MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM OF THE COMPANY

The provisions regarding the operation, management and functions of the internal control system of the Company are set out in the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Hpt.), the provisions of the Civil Code (Act V of 2013, hereinafter referred to as "the Civil Code") on business companies, Act CXX of 2001 on the Capital Markets; the applicable recommendations of the NBH (primarily Recommendation NBH 12/2022. (11 July) on the establishment and operation of internal lines of defence, the management and control functions of financial organisations), the Bank's Memorandum of Association and the Bank's effective rules of organisation and operation.

Section 154 (1) of the Hpt. requires banks to operate an internal control system. The elements of the internal control system include the management information system, in-process and management controls, and the independent internal audit organisation.

<u>*The concept of a management information system*</u> encompasses all information technology based or manual systems that transform data into useful information for decision-makers. Its main tasks are to produce ad hoc and regular reports and to support (in general) decision making.

<u>*In-process and management controls*</u> are forms of control directly or indirectly integrated into business processes. These controls are performed by persons who are functionally involved in the processes or by those responsible for the final outcome of the audited activities.

<u>*Independent internal audit*</u> is part of the internal control (monitoring) system independent of the process. Internal audits should be performed by persons who are not involved in the Bank's workflows and are therefore independent of the entities and workflows being audited. Accordingly, the Bank operates an independent organisational unit, that is, Internal Audit.

Also in view of the NBH recommendation 12/2022. (11 July) referred to above, the system of lines of defence is interpreted in the Bank's monitoring framework system. The above control mechanisms, which are also stressed in the Hpt as the elements of the Bank's internal monitoring system (distinguished from the external monitoring independent of the Bank (for example: customers, NBH, other authorities) and the external monitoring system elements (for example: auditor) related to the Ban can be classified as follows:

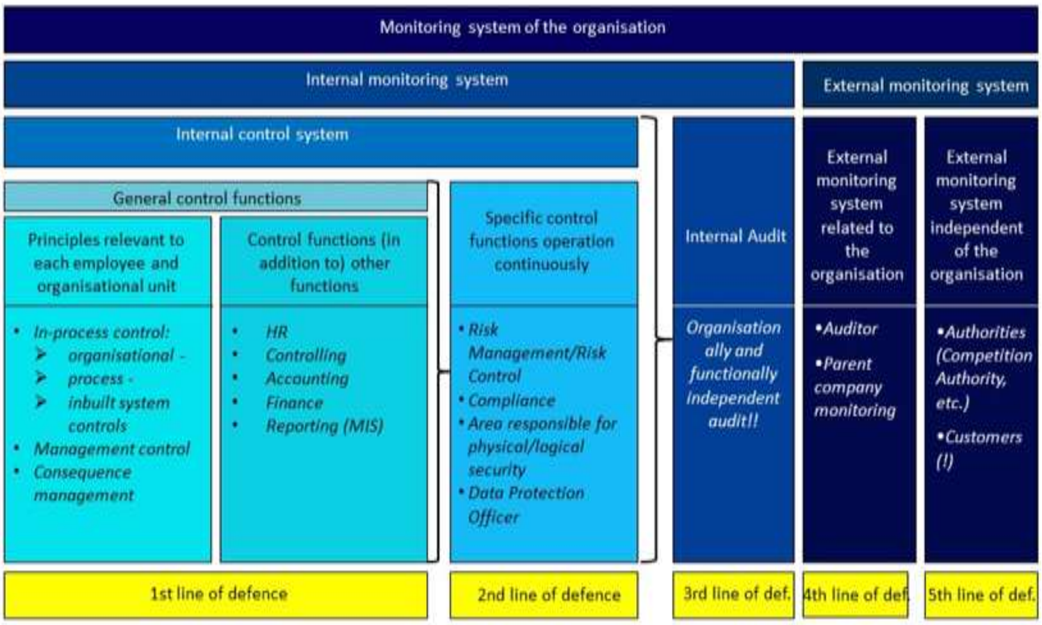
The Bank's internal monitoring system consists of an internal control system and independent internal audit.

Within the Bank's internal control system, we can distinguish between general principles (for example: consistent responsibility management), practices (for example: management control), organisational solutions (for example: in-process controls), and areas with a control function (for example: Controlling) and activities (for example: management information system), which together form the first line of defence of the Bank's internal monitoring system. In fact, this line of defence includes all employees and managers who, through their prudent work, protect the Bank's interests and values.

Another element of the Bank's internal control system is all those organisations, activities and persons responsible for performing dedicated operational functions, activities and control functions (for example: Risk Control, Compliance, Bank Security, Data Protection Officer), which together constitute the Bank's second line of defence. The function of the second line of defence can also be formulated by overseeing and supporting the activities of the first line of defence.

Independent internal audit, as another element of the internal monitoring system alongside the internal control system, is the Bank's third line of defence. Internal audit is an independent, objective assurance tool and consulting activity that adds value to the Bank's operations and improves its quality. It is responsible for examining the Bank's risk management, governance processes and the internal control system (or the Bank's first and second lines of defence) in a systematic and regulatory manner, evaluating and improving its operation, thereby contributing to the achievement of organisational goals.

The model of the Bank's monitoring system, including the place and role of independent internal audit, is illustrated in the figure below.



BRIEF DESCRIPTION OF THE COMPANY'S RISK MANAGEMENT SYSTEM AND PRINCIPLES APPLIED IN RISK MANAGEMENT

MBH Bank's Risk Control reviews the risk strategy of the MBH Group every year with the involvement of the relevant areas. In line with the current economic environment and in accordance with the Bank's and Magyar Bankholding Zrt.'s business strategy and capital plan, the Risk Strategy sets out the risk strategy principles and objectives of the Bank Group for each risk type and risk appetite. The approval of the risk strategy falls within the scope of competence of the Board of Directors.

In line with the basic regulatory requirements, a concept for the Group's comprehensive risk-taking processes has been developed and is constantly being fine-tuned.

<u>The main elements of the concept are:</u>

- Group-wide application of risk management principles;
- Applying the Unified Segmentation to the entire clientele of the group;
- A decision-making system that depends on customer quality and risk-taking;
- The use of Basel conform rating tools, in compliance with IRBF and analytical and behavioural scorecards, as well as a corresponding client rating regime, which adequately supports the decision-making activities of the bank management;
- Internal, group-level model validation methodology with annual frequency (rating and scoring tools, validation of related processes);
- Monitoring activities with IT support;
- Establishment of a comprehensive system of criteria that includes and takes into account relevant indicators enabling the detection of threatened loans in order to identify loans at risk as

quickly as possible and, based on this, to determine the various types of customer / exposure management, the related tasks and order of procedure.
- IFRS 9 provisioning system;
- Pillar 1 and pillar 2 capital accounting systems based on IFRS;
- Regular group level management reports, backtesting measurements (Risk Reports, Capital Management Reports, Rating Quality, Rating Monitoring Reports, etc.);
- Definition of a revised recovery plan and its evaluation on a monthly basis.

The key risk management principles include ultimate control at board level, independent control separate from risk areas, and appropriate measurement, diversification, monitoring and reporting of risks.

The effective risk management function of the Bank is ensured by the effective communication of risks and the willingness to assume risks within the organisation, continuous development for recognising, measuring, monitoring and managing risks, turning the key risk management processes and procedures up-to-date and user friendly and improving their efficiency, as well as employing adequately trained workforce.

NON-FINANCIAL STATEMENT

STRATEGIC OBJECTIVES AND A BRIEF DESCRIPTION OF THE BUSINESS MODEL

2023 was an eventful year for MBH Bank, it was the year of integration, the year in which the bank completed a merger process unique in Europe and became an unavoidable player in the domestic banking sector. 2023 was a very important milestone for the Group, but in a sense only a chapter in its strategy.

From 2024 MBH Bank will focus on further exploiting synergies, increasing efficiency and developing improvements to support strong business expansion, with a focus on making processes and service even more customer-centric.

MBH Bank's vision is positioning itself as a national champion, serving all customer segments, while maintaining local community values.

Key strategic objectives of the bank:

- To create the most modern bank in Hungary, offering a value proposition beneficial to all Hungarian citizens and businesses.
- To maintain the largest branch network in the country, which allows for quality, value-based customer service, with efficiency is a primary concern.
- To build an innovative organisation and a modern corporate culture with a strong focus on staff.
- To actively contribute to the development of the Hungarian economy by supporting segments of national economic importance, such as SMEs, the agricultural sector and young people, while maintaining a commitment to local communities.
- Outstanding profitability supported by synergies and capital position.
- Setting a growth-based financial path with significant earnings, an efficient capital course and major cost reductions.

Overall, MBH Bank's main objective is to be a national champion with strong positions in all market segments, to maintain its current market leadership in key segments such as corporate lending, agricultural finance and leasing, and to be able to go public and thus expand internationally, ensuring superior return on equity for its shareholders.

In December 2023, the Board of Directors adopted the Bank's Strategic Plan for 2024-2028. The 2024-2028 plan focuses on increasing sales efficiency, personal loan product, simplifying heterogeneous IT architecture and streamlining corporate processes. The focus in the next period will be on improving internal performance in key areas: catching up revenue potential with customer share, reducing costs and increasing sales efficiency on the retail side, strengthening the universal banking presence, and maintaining market share and increasing sales efficiency on the corporate side.

The Bank has a huge amount of data, and using them effectively is essential to exploit business opportunities. Analytical methods must be used to leverage the data assets to create business value: by increasing margins, strengthening cross-selling, reactivating inactive customers and optimising costs.

POLICIES PURSUED IN RELATION TO SOCIAL, EMPLOYMENT, HUMAN RIGHTS, ENVIRONMENTAL PROTECTION AND THE FIGHT AGAINST CORRUPTION, THEIR RESULTS AND THE SCREENING PROCEDURES APPLIED

MBH Bank places a high priority on contributing to the development of the community through its broad-based involvement, in line with its economic strength.

The initiatives took the following forms: improving financial culture, supporting various educational programmes, health protection, helping the disadvantaged through inclusion and targeted sponsorships and support activities.

The Bank does not carry out risk assessment in relation to its social and community engagement activities, but operates in accordance with the Bank's respective internal policies and procedures.

Through its donations and sponsorships, MBH Bank aims to provide real help by supporting programmes and causes that benefit society as a whole, so the development of financial literacy, the creation and preservation of value, and the creation of opportunities are extremely important.

The credit institution has defined four pillars in its strategy, based on previous member bank initiatives, customer and employee surveys and the ESG strategy. The objectives of the pillars have been implemented in the following programmes:

1. Social inclusion by helping the disadvantaged

MBH Conscious Assistance Programme: in May 2023, MBH Bank and the Hungarian Interchurch Aid signed a cooperation agreement under which the Bank will support the aid organisation with HUF 100 million per year. As part of the joint cooperation, the parties, who are in strategic partnership, launched the MBH Conscious Assistance Programme, which contributes to helping thousands of families through the National Assistance Centre of the Aid Organisation. The partnership enables the development of models that focus not only on immediate assistance, but also on financial and energy awareness and poverty prevention. The aim of the programme is to provide long-term, tangible support to people in difficult circumstances, in line with the Bank's social responsibility strategy, as MBH Bank considers social inclusion by helping the disadvantaged a priority. As part of the cooperation, in addition to the programme, MBH Bank supports the work of Interchurch Aid by involving and sensitising its own staff, who have been involved in the organisation's Advent fundraising campaign for two years now by distributing food, collecting donations and participating in a charity running competition.

MBH Scholarship: in November 2022, MBH Bank signed a cooperation agreement with the organisation to support the work of the International Children's Safety Service and young people in need for the next three years. The strategic cooperation between the credit institution and the aid organisation dates back 25 years, when the former MKB Bank scholarship was jointly established to support the education of socially disadvantaged children. From this year the programme continues under the title of MBH scholarship. The total value of the scholarships awarded so far under the initiative exceeds half a billion HUF, and in the last five years the Bank has provided over HUF 40 million per year, divided equally between the scholarship beneficiaries.

2. Financial awareness and digital literacy in Hungarian society

Collaborating with the DUE media network - Great Financial Literacy Test: Over the last decade, the world of banking has seen a significant evolution in terms of modernisation, moving part of banking services from branches and paper to smartphones and digital space, bringing a significant transformation and lots of new services. In 2023 the DUE Media Network and MBH Bank were looking for the new generation of Banking Experts, university students who are the most knowledgeable in banking and finance. The Great Financial Literacy Test for Students is a brand new competition that tests knowledge and educates at the same time. Anyone could take part in the competition supported by MBH Bank, but university students could compete for valuable prizes.

MBH Dobbantó programme: The 'MBH Bank Dobbantó - finance for women' programme was launched in 2010 by Budapest Bank, a former member bank of MBH Bank, in partnership with the SEED Small Enterprise Economic Development Foundation.
As the host of the programme, MBH Bank continues to improve financial literacy for women as a priority and carries on the legacy of organising activities to develop the knowledge and skills of women entrepreneurs. The key elements of the Dobbantó programme are the 12-day skills development training and club events open to everyone. The Dobbantó training provides tools specifically tailored to the needs of women entrepreneurs to develop key entrepreneurial skills. Participants can learn through experience the key skills needed to run a business.

MBH Junior Digital Programme: An important element of MBH Bank's social responsibility strategy is the financial and digital education of the younger generation, and therefore the Bank is continuously seeking opportunities for cooperation with educational organisations. This is why the credit institution partnered with the Skool team this year to launch a comprehensive digital literacy series of programmes for primary and secondary school children. During the programme the partners join school education: MBH Bank experts talk about the profession and safe digital finance at form master's classes, while Skool staff introduce young people to the latest technological trends. The partners' key objective is to support at least 8,000 students and their teachers in 2024 to acquire the latest digital skills, while teaching children the basics of finance and programming in a playful manner. The programme also aims to create opportunities for children in the convergence region to change their course of life. Through the MBH Junior Digital Programme, it is important to introduce as many young people as possible to the atmosphere of a technology company, to the career opportunities available in the technology and finance sectors for all, and to inspire and encourage children to use technology creatively.

Money7: In spring 2023, we rejoined the Money7 series to offer our expertise to help the younger generation to better understand the banking sector and banking operations. The MONEY7 lessons focused on experience are designed to teach the skills needed to make responsible decisions and develop creative problem-solving skills, taking into account the specificities of each age group. The programme was again very well received this year, with nearly 140,000 students from more than 1,000 schools taking part in around 12,000 lessons and with more than 500 volunteers. We are proud that our colleagues have contributed to the success of the programme as volunteer financial mentors!

Cybersecurity education campaign: In order to prevent cybercrime, which is on the rise, there is a concerted effort at international and national level, with the participation of banks, supervisory bodies and authorities, focusing on customer education and developing other preventive measures, processes and monitoring systems, both in the sector and by supervisors. MBH Bank has joined this collaboration and has set the importance of education as its goal for 2023. Our communication concept aimed to raise awareness of our employees, customers and business partners about cyber security exposures. The campaign targeted all relevant target groups through paid advertising and appearances in professional forums, in addition to our own internal and external, offline and online channels. In terms of our own channels, we appeared on the web and social media platforms all 3 of our member banks used before the merger and then by the new MBH Bank after the merger, as well as on the digital and ATM devices of the branch network. Throughout the campaign, we raised awareness with 73 social media content and 6 educational videos, generating over 5 million online views.

3. Enforcing sustainability and ESG

MBH Forest: In the framework of an internal initiative, MBH Bank volunteers planted 10,000 native tree seedlings in the spring of 2023 in South Transdanubia. The aim of the programme is twofold, combining the Bank's carbon neutrality goals set out in its ESG Strategy with its ambition to be an active participant in shaping the sustainability mindset of its staff and customers. The tree seedlings planted with the involvement of a professional partner are expected to grow into a full 2.5 hectare forest by 2025, which is estimated to sequester more than 1,000 tonnes of carbon dioxide over a 100-year time horizon.

PET Cup: In the summer of 2023, MBH Bank's team took part in the 4th PET Cup on Lake Tisza, where 12 employee volunteers collected waste on the lake for 3 days using a raft built by them. The 12 teams of the PET Cup collected a total of 6.5 tonnes of waste during the 3 days of the competition, which fit into about 1500 bags. The MBH Bank team came third in the competition.

Sustainability internal communication campaigns: In autumn 2022, we launched an internal sustainability communication campaign called “Let's act together” for sustainability. In the first 3 months of the campaign, our ESG ambassadors shared their sustainability tips with colleagues through video messages, we placed awareness-raising posters in our headquarters and organised environmentally conscious workshops for our colleagues. In the second wave of the campaign, we added a number of eye-catching visual elements (lift and stair stickers, posters, stickers encouraging energy saving), and on Earth Day we organised a charity clothes collection day and a drawing competition and posted educational content on our internal channels. We will continue our internal sustainability communication with further actions in the future.

Red-footed Falcon programme: Introduced in 2022, our Green Monthly Flat Fee package is an essential element of our sustainability and climate strategy to help protect the endangered domestic red-footed falcons. The account package provides paperless, fully electronic account management for our corporate customers with a turnover of over HUF 1 billion or belonging to the Individual Business Unit, and for every Green Monthly Fee package sold, the Hungarian Ornithological Society will provide a red-footed falcon breeding box. In 2023, MBH Bank supported the Society's Red-footed Falcon Conservation Working Group with HUF 3.5 million, which enabled the production and placement of 200 breeding boxes. The burrows and the flock were under constant surveillance, so we know for sure that breeding took place in the vast majority of the nests. A total of 171 different nest boxes were found, from which it is estimated that 128 young red-footed falcons may have fledged.

Cooperation with Hungarian National Park Directorates: In 2023, the Bank launched comprehensive cooperation with the Hungarian National Parks, where biodiversity conservation programmes will be developed in 2024. This will be linked to the UN Guidelines for Responsible Banking, signed by the Bank in 2022, where we have committed to align our business activities with the UN Sustainable Development Goals. The theme was chosen because the Bank has conducted a local impact assessment, which found that one of the areas where we can have the greatest impact is biodiversity.

Carbon Monitor: At the end of 2023, we mapped and measured the carbon footprint of the MBH Bank website. Our goal is to reduce our website’s carbon emissions in 2024, and in the long term to formulate and incorporate website design and development processes that will enable us to keep our carbon footprint at the minimum necessary level and minimize our environmental impact in our approach.

4. Promoting and developing Hungarian art

MBH Bank Foundation for the Support and Development of Art: At MBH Bank, the promotion of art, including the Hungarian fine arts, and the linking of financial and art education are a priority social responsibility, with a view to the development of the community and the contribution to social welfare. MBH Bank has also recently established MBH Bank Foundation for the Support and Development of Art, which is dedicated to the preservation and dissemination of Hungarian art and culture in Hungary and beyond the borders of Hungary, to the support of young Hungarian artists and contemporary art, and to the promotion of exhibition opportunities for art works owned by MBH Bank. To achieve these goals, the Foundation has also supported the establishment of our Hungarian Art & Business (HAB) Art Centre this year, whose mission is based on the belief that art truly belongs to everyone and we want to make it truly accessible to everyone. The HAB's priority is to care for and expand the bank's collection of over 260 works of art.

Junior Prima Awards - theatre and film category: In 2007, the founders of Prima Primissima decided to create a separate award for young talents under 30 who are among the best in their age group. As one of the predecessors of MBH Bank, Takarék Group has been running the Junior Prima Prize in this category since 2017. MBH Bank is determined to continue this tradition. The speciality and importance of the award is enhanced by the fact that young talents are confirmed and recognised by an independent professional jury, as well as gaining visibility. Professional recognition is always important, but such recognition is even more important when the talent is young, and it is regularly given to outstanding young talents from rural theatres. This is in line with the Bank's efforts to strengthen local communities and culture, as well as its efforts to support Hungarian arts and artists. It is a prestigious award which, in addition to the awards, also strengthens the Bank's social commitment and reputation.

Our other charitable programmes:

Bank Blood Donors' Week: In 2022 and 2023 we joined the initiative launched by the Hungarian Banking Association. In these two years, nearly 500 people rolled up their sleeves for this noble cause. We also regularly arrange blood donations for our colleagues at our headquarters even outside of the Bank Blood Donor Week. So far this year, 184 volunteers have taken advantage of this form of assistance.

Give Blood! poster competition: In autumn 2022, we joined the Give Blood! poster design competition announced by the Hungarian Banking Association, MOME and the Media Union as a sponsor, which resulted in artistic posters that are able to address Generation Z, thus bringing people and young people closer to the active role of the Hungarian blood supply.

Give your change to a better place: In the summer of 2023, we joined the coin recollection campaign of the National Bank of Hungary, where one of the beneficiaries is our partner, the International Children's Safety Service.

Charitable actions with the Hungarian Interchurch Aid

In 2023, a strategic partnership with the Interchurch Aid was launched. As part of this collaboration, we will be involved in other charitable initiatives launched by the aid organisation:

- In the spring of 2023, we held a charity clothes collection campaign and collected 60 bags of clothes to help those who cannot afford to wear appropriate clothes and shoes every day.
- In September 2023, we contributed 25 crates of school supplies to the organisation's Back to School Together! aid programme.
- In October 2023, our colleagues joined the - Hungarian Interchurch Aid - Don't just cheer, help! running community during the Spar Budapest Marathon.

At the end of 2023, we also took part in the aid organisation's **Advent Charity**, which aims to encourage donations and social solidarity among Bank staff.

- In 2023, **we gave Christmas gifts for** nearly **250 young children from Baranya** within the framework of the well-known shoebox campaign.
- At the end of December 2023, we distributed 2,000 hot meals to people in need.
- And at the Advent market in front of St. Stephen's Basilica, hundreds of gingerbreads were made by our volunteers, so that the Aid Organisation could use them to thank the donations received during the festive season.
- Many families have benefited from the non-perishable food collected at our headquarters or packaged in partnership with the Aid Organisation.

Donation campaign: the Bank launched a nationwide campaign to help and support disadvantaged Hungarians. The main element of the campaign was a sensitizing commercial, communicated through TV, cinema and online channels, complemented by building networks and online presences. The commercial was the result of a partnership between MBH Bank, Mastercard and the Hungarian Interchurch Aid and was aimed at supporting the increase of donations over Christmas. The campaign ran from 1-24 December 2023 and reached nearly 4 million people over the festive period.

Health preservation

The Bank provides a wide range of sports opportunities to its staff. The MKB Sports Club, established in 2016, organises the bank's sporting life by operating 23 sports sections. In the headquarters on Váci Street and the office building on Kassák Lajos Street, a total of almost 400 m^2 of gym facilities are available.

MBH Bank is a key supporter of the Hungarian sporting scene, especially with regard to the young generation, helping them to adopt a healthy lifestyle. The Bank has become the official bank of the Hungarian Olympic Team, contributed to the financial support of the Ferencváros Gymnastics Club for young talents in need, and continued to sponsor the up-and-coming young team of the Hungarian sailing sports, the Prospex Team.

Consolidated Management Report as at 31 December 2023 Data in HUF million except stated otherwise

Support and sponsorship

Support and sponsorship activities are a major part of MBH Bank's social responsibility strategy, whereby we support such important causes as social awareness, knowledge development, helping children in need and their families, and supporting the domestic sports scene.

MBH Bank also supported the work of other foundations and organisations in 2023, such as the **Red Nose Clown Doctors Foundation**, which used the funds to help sick children.

Support for Together for Autism Foundation: The Together for Autism Foundation aims to provide long-term support for children with autism spectrum disorder and their families. They are constantly working with partner organisations to help as many people as possible who are affected by autism spectrum disorder. They give priority to supporting the development of institutions and the work of professionals working in the field of autism spectrum disorder, an activity supported by MBH Bank 2023.

Adopt a Teddybear Foundation: integrated employment and rehabilitation of people with disabilities, organisation and implementation of cultural events as part of the cultural life of the capital city, integrated culturalisation.

Employment policies and their results, screening procedures applied

MBH Bank has carried out a risk assessment on employment and has identified the risks relevant to its operations, which is taken into account in its human resources policy.

The HR strategy focuses on improving the employee experience, increasing engagement by promoting flexible working and the use of available digital tools, developing a collaborative corporate strategy, with a particular focus on the migration in May 2023, which resulted in the merger of the three financial institutions to form MBH Bank.

Based on global trends, domestic and MBH specific needs, the human resources actions focused on targeted areas such as talent and career management, mentoring, employee satisfaction, training and development, supportive work environment, as well as continuous review of work processes, efficiency improvement and last but not least, employee programmes to support employees in all life situations.

Breakdown of MBH Bank Group employees by job (FTE):

Area	subordinate	other manager	director	Deputy CEO + managing directors	Total
Bank	**7 274**	**219**	**67**	**44**	**7 604**
MBH Bank Nyrt.	7 274	219	67	44	7 604
Subsidiaries	**1 122**	**76**	**28**	**8**	**1 234**
MBH Befektetési Bank Zrt.	388	20	2	1	411
MBH Jelzálogbank Nyrt.	16			1	17
MBH Duna Bank Zrt.	158		10	1	169
Euroleasing Zrt.	294	49	6	1	350
MBH Alapkezelő Zrt.	37		6	1	44
MITRA Informatikai Zrt.	137	6	1	1	145
Other	92	1	3	2	98
Total	**8 396**	**295**	**95**	**52**	**8 838**

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Breakdown of the staff employed by MBH Bank Group by average age, duration of service and group member (years):

Area	0-2 years	2-5 years	5-10 years	10 + years	Average
Bank	**37**	**39**	**42**	**48**	**42**
MBH Bank Nyrt.	37	39	42	48	42
Subsidiaries	**41**	**43**	**45**	**49**	**45**
MBH Befektetési Bank Zrt.	38	42	44	50	45
MBH Jelzálogbank Nyrt.	54	52	48	52	51
MBH Duna Bank Zrt.	38	41	47	48	45
Euroleasing Zrt.	36	37	42	45	40
MBH Alapkezelő Zrt.	41	45	43	50	45
MITRA Informatikai Zrt.	38	42	46	49	44
Other	43	45	43	50	46
Average	**39**	**41**	**43**	**49**	**43**

Breakdown of the staff employed by MBH Bank Group by duration of service and group member (years) (FTE):

Area	0-2 years	2-5 years	5-10 years	10 + years	Total
Bank	**1 653**	**1 621**	**1 697**	**2 633**	**7 604**
MBH Bank Nyrt.	1 653	1 621	1 697	2 633	7 604
Subsidiaries	**208**	**274**	**285**	**467**	**1 234**
MBH Befektetési Bank Zrt.	35	108	116	152	411
MBH Jelzálogbank Nyrt.		2	6	9	17
MBH Duna Bank Zrt.	31	27	34	77	169
Euroleasing Zrt.	71	64	75	140	350
MBH Alapkezelő Zrt.	15	8	9	12	44
MITRA Informatikai Zrt.	35	38	32	40	145
Other	21	27	13	37	98
Total	**1 861**	**1 895**	**1 982**	**3 100**	**8 838**

Breakdown of MBH Bank Group employees by sex (FTE):

Breakdown by sex	Total headcount			Director+		
Area	Men	Women	Total	Men	Women	Total
Bank	**2 333**	**5 271**	**7 604**	**82**	**29**	**111**
MBH Bank Nyrt.	2 333	5 271	7 604	82	29	111
Subsidiaries	**540**	**694**	**1 234**	**27**	**9**	**36**
MBH Befektetési Bank Zrt.	176	235	411	2	1	3
MBH Jelzálogbank Nyrt.	7	10	17	1		1
MBH Duna Bank Zrt.	34	135	169	7	4	11
Euroleasing Zrt.	141	209	350	6	1	7
MBH Alapkezelő Zrt.	22	22	44	5	2	7
MITRA Informatikai Zrt.	108	37	145	1		1
Other	52	46	98	5	1	6
Total	**2 873**	**5 965**	**8 838**	**109**	**38**	**147**

Talent management at MBH Bank:

Talent management is a key element in building our organisational culture. Talent management is both a way of ensuring individual performance and thus professional excellence, and a way of identifying and preparing future leaders. Well-designed talent management supports the implementation of a modern banking culture and workforce strategy based on our values.

The programme identifies key talents across the company and develop a framework for junior management. This programme includes a senior management nomination and a development centre-based selection process, supported by a specific training plan to prepare colleagues for a broader and more diverse range of roles at the highest possible level in the future.

The following programmes support talent management at MBH Bank:

Digitised and gamified pre-boarding programme: The focus of the programme is on our colleagues who are in the pre-entry period after accepting our offer. The solution, available in the online space, supports new talent engagement in the pre-entry period; we not only accompany prospective employees on their journey until the day of entry, but also maintain a positive experience while providing them with ongoing connectivity, reinforcing the experience of belonging to the team.

Fusion programme: The next step in our talent retention activities was the Fusion programme, which won multiple awards in 2023. Fusion is one of the largest trainee programmes in the country, currently hosting nearly 300 talented students aged 19-25 from across the country. We are usually the first milestone for our trainees at the start of their careers. During the programme they gain relevant work experience, which provides us with a stable supply base. The trainee programme is designed to give more than just work experience: we support our trainees through our own onboarding processes, with dedicated HR colleagues guiding the university students through their professional work and development. This reinforces our commitment to our corporate value: “We give more”.

Ambassador Academy An innovative tool was needed to introduce new values and associated behaviours and leadership tools, a new culture roadmap and to retain talents and maintain engagement. So we developed the Ambassador Academy of around 100 people. It is a change management initiative, with members working together to ensure engagement between different talents, teams and the delivery of information to all colleagues. High-interest online and offline sessions focus on a different change-related topic; the initiative has been very enthusiastically received. They work together in joint workshops on elements of the culture programme, employer brand and technology skills development, for example, they created the questions for the organisation-wide pulse measurement, which was a truly tailor-made solution.

Leadership Academy: Our Leadership Academy is an integral part of preparing managers for the transition to the new way of banking. Our leadership training programme is modular, with different solutions and topics (inspirational leadership, heterogeneous generational teams, transparent leadership, motivational leadership, etc.) to support the continuous development of talented leaders. A dedicated programme supports the training of newly appointed managers.

The training activities of the Change Management Academy, established in 2022, were continuously expanded throughout 2023, supporting the strengthening of MBH Bank's corporate culture. Within the framework of the Academy, we not only provide the skill development necessary for change management, but also introduce the communication of corporate values in an interactive format, working with colleagues through workshops to help them understand and accept these values.

Mentoring: By introducing a mentoring programme, we aim to multiply high quality professional knowledge and further build a consistent knowledge base. The Mentoring Programme is open to mentor colleagues who have demonstrated professional excellence in a particular banking area and are willing to share this professional knowledge with other colleagues in **a** more formal mentor-mentee relationship. The programme was launched on a pilot basis during 2023.

Conscious Career Building Support Programmes for our employees: The Conscious Career Building Support Programmes aim to further strengthen MBH Bank's organisational health and promote conscious career building. In addition to training provided from internal resources, we also seek to bring in external experts relevant to the topic at hand, who can contribute to our individual and organisational development with their unique and high quality knowledge and their unique personality. We also try to include in these training courses subjects and lecturers with whom we would have little or no contact as individuals, thus enhancing the quality of the banking employees.

Employee welfare programmes at MBH Bank:

Generational diversity: This programme aims to help employees in all life situations. Our employee lifecycle programme currently supports four priority employee groups, but will be expanded with new elements in the near future.

MBH Start+ is for people just starting their careers, providing recent graduates with individual vocational training and a one-year employment contract. MBH Baby+ is for those with families. Parents with children receive support from as early as the birth of their baby. MBH Bank also supports the furnishing of the baby room or, when needed, the development of motor skills. What's more, the company also offers three weeks of paternity leave for fathers.

Our MBH Active+ employee programme is aimed at the over-60s. We also organise community programmes for colleagues with decades of experience. In addition to ongoing training and knowledge sharing, quality time is key: our employees can take additional days off for grandchildren, as well as for cultural recharging. In addition to a number of other benefits, MBH Bank also provides health screenings for its employees, according to their age needs.

The fourth element of our Generational Diversity programme is our initiative to support our Disabled Workers.

MBH Bank attaches great importance to the wellbeing and health of its employees, but today, unfortunately, few people can claim to be in perfect health. Under our new MMM+ programme, which is now being launched, we are trying to provide a wide range of support and equal opportunities for our colleagues with disabilities to work in a happy, safe and supportive environment.

With the MMM+ programme, which focuses on our colleagues with disabilities, our aim is to create equal opportunities and provide them with as much support as possible, as we know that their health conditions make everyday life even more challenging.

MBH Bank's HR programmes in 2023 have been recognised with 2 international and nearly 10 national professional awards.

Work-private life balance at MBH Bank:

At MBH Bank, flexible working is a core element of the HR strategy and an important component of improving the employee experience.

As part of its HR strategy, MBH Bank aims to increase the share of atypical employment. It also aims to make working from home accessible to as many employees as possible, and therefore the tools and devices are developed constantly. Working from home reduces stress at work, improves the balance of work and private life and thus increases employee satisfaction, work morale, productivity and loyalty.

From 2020, home office working in jobs that do not require personal presence has been implemented in 100% and flexible working is widespread. The regulation of teleworking has become perhaps one of the most preoccupied labour law issues of the last year and a half.

During the period of danger, the rules on teleworking were contained in Government Decree 487/2020, the rules of which were incorporated into Act I of 2012 on the Labour Code (Labour Code) and Act XCIII of 1993 on Occupational Safety and Health (Labour Safety Act) as of 1 June 2022. The management of the MBH Group has reviewed the work schedule implemented so far and decided to change it.

As of the above date, under the provisions of the Labour Code, teleworking is not only work carried out with a computer, but also any work carried out at a place separate from the employer's premises for part or all of the working time. We believe that in the current merger period, the new working arrangements will help teams to work more efficiently and improve personal collaboration, while giving managers the flexibility to manage the needs of individual teams and colleagues.

The first MBH Bank Family Picnic was held on 16 September 2023, where all our employees and their families could participate. The day was all about celebrating successful migration, relaxation and our employees with a variety of themed activities including children and youth programmes, a wide range of food and drinks, raffles, prizes, presentations on work-private life, training and recruitment, career development and concerts at the end of the day.

MBH Bank and health:

Health promotion and health preservation is an important area for MBH Bank, which is emphasised in various sports and health campaigns, such as the #20minhealth programme mentioned above. The promotion of a healthy lifestyle and the provision of sporting opportunities for employees in a variety of ways is implemented on several fronts. In 2020 and 2021, programmes to support sporting activities were also organised online due to the pandemic. Ensuring a healthy working environment for employees is a priority. In the spirit of the Year of Health programme announced in 2018, screening tests for employees have been organised for the employees from 2020.

Employees have access to discounted health insurance, including diagnostic services and extended occupational medical appointments at the Bank, seven days per week. The teleworking rules referred to in the previous point are also designed to balance the work-private life balance of our employees and to safeguard their health, while also seeking to increase the efficiency of work.

MBH Bank also offers hobby and recreation rooms in its buildings. Fitness menus and other special dietary meals are available in the canteens at the workplace, and restaurant services were also made available through delivery during the pandemic.

MBH Bank and sport:

The Bank provides a wide range of sports opportunities to its staff. In the headquarters on Váci street and the office building on Kassák Lajos street, a total of almost 400 m^2 of gym facilities are available. In 2020 and 2021, online sports events and training sessions were made available to support the health of officers also in the home environment. The MBH Group also supports sport in other ways: the MBH Sports Club runs several sports sections depending on the interests and activities of its employees.

The MBH provides significant support to its sports club (HUF 45 million per year) where effective professional and recreational sports work is performed. The club has a membership of nearly 500 people, including 200-250 members in the various sections.

The club operates 2 fitness rooms in the MBH Headquarters and in the office building in Kassák Lajos street, with a total of 780 square meters, where TRX, Kettlebell, Yoga, Pilates, Bodyart strength group classes and cardio and strengthening machines are available for our members, where the pool of cardio equipment has been continuously expanded.

Our sections are: squash, volleyball, fishing, go-karting, dragon boat, cycling, running, table tennis, men's and women's football, hiking, bowling, bowling, boxing, basketball, throwing sports, swimming, wall climbing, spartan/crossfit, kayak-canoe and SUP, shooting, dodgeball.

In addition to the support of the section, the club also provides its members with sports equipment, sportswear with logo, sports tools, and even individual support for members of the section.
The Sports Club prepares our athletes for the annual Hungarian Banks Sports Competition in nine sports disciplines where we came 3rd for the fourth time in 2022.

The 35th Hungarian Banks' Sports Competition in 2023 was held in Debrecen, hosted by MBH Bank. Our Bank was represented by 85 of our colleagues at the event, which attracted more than 800 participants, and thanks to their fantastic performance, MBH Bank was able to take second place on the podium at the end of the contest, which was unprecedented since 2005. In addition, MBH Bank employees returned home with medals in all sports.

A significant number of our runners regularly take part in races such as the Wizzair Half Marathon or the SPAR Marathon. In team sports, our men's football, basketball and bowling teams are all top finishers in the Business Leagues. Our dragon boaters have won medals in several national competitions, our anglers are also regular competitors, and our table tennis team is supported by the coaching of two excellent NB/1 colleagues.

Our cycling section has been running a joint programme with BKK BUBI for several years, 150 colleagues received an annual discounted BUBI pass.

We are proud of our spring-autumn round of the “MBH MOVE" competition, where registered colleagues were able to collect kilometres in walking, running and cycling.
At the same time as the merger on 01 April 2022, we also took over the members of the Budapest Bank General Sports Club, with 85 people joining the MBH Sports Club.

We have created a Facebook group called MBHSE with now more than 500 members.
Sport activities are promoted with the help of the Marketing department, which sends out numerous newsletters to colleagues, and purchases and provides sportswear with its MBH Bank’s logo.

Safe work environment:

In order to fulfil its legislative obligations, MBH Bank has prepared a risk assessment of the head office and other business sites of the Bank, including all Branches. As it is an office work environment, there is only a low risk of accidents. Consequently, there are very few work accidents and their number is decreasing.

Health and safety and fire safety training is mandatory for each employee every year. A separate training material has been developed for the employees of the Branches on how to respond if the Branch is attacked. The personal, material and organisational conditions of safe work were defined in the Health and Safety Regulations of the Bank in compliance with the law.

A Health and Safety Representative also works at the Bank on behalf of the Works Council. The HS Representative is entitled to make sure that the requirements of healthy and safe work are fulfilled at the Bank.

Responsible corporate governance:

MBH Bank, as a publicly traded company whose shares are listed on the Budapest Stock Exchange, has prepared and published its Corporate Governance Report based on the BSE's Corporate Governance Recommendations.

MBH Bank lays paramount importance on building and maintaining successful and effective corporate governance system to best comply with capital market practices and to ensure responsible operational management.

The governing structures of MBH Bank comply with legal, supervisory and stock exchange requirements along with its own business specialities. MBH Bank intends to comply at the possible highest level with the Corporate Governance Recommendations published by the BSE.

Regulations on the related policies, the applied due diligence and risk management procedures:

MBH Bank's Performance Remuneration Policy in accordance with the Hpt.

- Regulation on the performance assessment process
- Regulation on the management of human resources
- Regulation on the cafeteria benefit scheme
- Regulation on the division and delegation of the exercise of employment rights by the employer
- Group-level Incentive Policy
- Operational regulation for the single traineeship programme
- MBH Bank's training system, processes for the training of MBH Bank's internal and external employees (Training regulation)
- Regulation on the recruitment and selection process.
- Staff Recommendation Policy
- On the registration of working hours and absence form work
- Regulation on the remuneration policy
- Regulation on teleworking
- Regulation on the Employee Recognition Programme
- Consequence management regulation
- Health and Safety Regulation

Human rights protection policies and their results, screening procedures applied

Relying on the standards also expressed in the Code of Conduct, the Bank takes into account the interests of its employees based on fair assessment, recognises their right to the integrity of their private life but, in exchange, the Bank expects its employees to responsibly protect their health.

It is especially important for the Bank to see that its employees can equally focus on their families and work as well as their professional career. To support that, the Bank offers a healthy work environment without any discrimination. The Bank does not prepare a risk assessment of the enforcement of human rights but its members of staff operate in compliance with the internal banking regulations that outline the equal access strategy and procedural rules.

The equal access procedural rules of MBH Bank were developed on the basis of Section 283 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, the Decree of the Minister of National Economy 22/2016 (29 June) on the rules of equal opportunities for persons with disabilities in access to financial services provided by credit institutions and the MNB Recommendation 4/2017 (13 March) on the treatment of disabled customers. The regulation contains the rules of implementation and details defined in MBH Bank's equal access strategy and constitutes an inseparable part thereof. In order to assess the needs of persons with disabilities with regard to financial services, the Bank has placed an anonymous questionnaire, as set out in the annex to the regulations, in its premises open to customers, which can be completed by anyone, whether or not they are a customer of the Bank. Questionnaires are completed anonymously on a voluntary basis and the information provided to the Bank is collected solely for the purpose of improving the quality of its services.

The Bank's equal access strategy was developed in the spirit of the Bank's social responsibility as the Bank pays special attention to the special needs of disabled customers and to special treatments promoting their equal access to services. The fundamental objective is to integrate the strategic requirements into the Bank's daily operation and to make them an integrated part of the attitude of executive officers and all other employees. The purpose of the regulation is to enable the disabled customers of the Bank to have access, whenever possible, to services of the same quality as those offered to ordinary customers but adapted to their special needs.

The Bank applies a fair treatment based on respect and esteem while keeping contact with its stakeholders. It rejects all forms of discrimination based on sex, age, ethnic origin, religious or political belief, belonging to any interest group, sexual orientation, different native languages and any other direct or indirect discrimination-based excluding conduct.

MBH Bank also operates a notification system (anonimbox@mbhBank.hu email address), where anyone can report any violation of law, or internal regulation or other rule of conduct experienced by them, even anonymously.

A Works Council also operates at MBH Bank in compliance with the currently effective Labour Code. The Works Council is the main interest representation forum, representing the interests of the employees. The employees may be involved in the discussion of issues and taking decisions affecting them and can learn about any change therein through the Works Council. The Ethics and Conciliation Committee of the Works Council has the power to resolve conflicts between employees and conflicts between managers and employees.

MBH Bank does not employ children and is not engaged in forced labour either.

Privacy and data security:

The right to the protection of personal data is one of the rights of the individual under the Civil Code, in addition, the protection of personal data is also constitutionally protected by the Fundamental Law, and MBH Bank pays special attention to this area accordingly. MBH Bank is committed to ensuring the highest level of protection of personal data relating to natural persons that it processes and, in this context, it has implemented and continues to implement appropriate technical and organisational measures, taking into account the risks of varying likelihood and severity, in relation to the nature, scope, context and purposes of the processing and the rights and freedoms of the data subjects, and to monitor the measures taken and their effects in order to ensure compliance with the applicable legal regulations on the protection of personal data at all times.

In order to comply with the requirements of the GDPR, the primary legislation governing the processing of personal data of natural persons, MBH Bank has established an effective data protection framework, and has integrated data protection controls into its business processes and IT development processes. MBH Bank operates and keeps up-to-date its data protection framework in accordance with the applicable legislation, the guidelines of the National Authority for Data Protection and Freedom of Information, the European Data Protection Board (EDPB) as supervisory authorities, and the guidelines of the European Union's guidance authorities, such as the CNIL (Commission Nationale de l'Informatique et des Libertés, the French Data Protection Authority) and the ICO (Information Commissioner's Office, the UK Data Protection Authority), as well as best market practices.

In line with the industry practice and MNB regulations, MBH Bank keeps its security preparedness up to date by updating and replacing its IT protection systems.

The Bank also prioritises the security of digital channels, among other things, by regularly conducting external vulnerability inspection and penetration tests to ensure that the level of security is adequate.

In full compliance also with the MNB recommendations, MBH Bank informed its customers on what to do in relation to cyber fraud and data phishing and raised attention about the importance of prevention and alertness regularly on its own platforms as well as in various publications issued on a number of occasions during the year.

The members of staff of MBH Bank have a great deal of experience in how to prevent data phishing, or identify the actual cases as well as implement measures to mitigate losses. The officer of the MBH fraud management unit contacts the potentially affected customers and checks whether or not they are aware of the respective transaction or whether they initiated it. MBH Bank also takes all security and legal measures required on such occasions in addition to informing its customers.

Sustainability and climate strategy:

The MBH Finance Group is committed to being a key player in creating a sustainable economic operation. As a Hungarian financial institution, it has a key role and responsibility in supporting and financing sustainable and climate investments. By reducing its ecological footprint and operating responsibly, the MBH Group wants to set an example for its market players and partners, while at the same time feeling obliged to protect the environment.

In order to translate this commitment into action, MBH has revised its previous sustainability and climate strategy and from 2022 has developed and adopted a Group-level ESG strategy, which includes the Bank's carbon neutrality ambitions. A dedicated ESG department has been created, under the direct supervision of a senior manager.

The strategic directions set out the vision and actions for the MBH Group as a group of companies, on the one hand, and for the MBH Group as a financial institution, on the other.

- "*MBH, a partner in green finance*": an element of the strategy is to create an infrastructure, product and service portfolio for retail and corporate customers that will help them achieve their own sustainability and climate goals. MBH attaches particular importance to investing in renewable energy and supports the implementation of these projects. MBH is committed to ESG-based resource mobilisation both in its own operations and towards its customers. As part of MBH's sustainability and climate strategy, a gradual review of the risk framework and the integration of an ESG approach into the risk framework is being conducted. This concerns, on the one hand, the full transposition of European Union requirements and, on the other hand, the examination of specific elements that can be added to these and tailored to the Hungarian market.
- *"MBH Bank, the Responsible Group"* As a responsible group of companies, the MBH Group aims to fully comply with climate neutrality and sustainability objectives in its own operations, in

particular the widest possible application of paperless and contactless operation, and the ESG aspects of operations. The Group aims to achieve these goals through its everyday operations, its internal processes and by shaping its employee community.

In MBH Bank's ESG Strategy, two strategic objectives are set out:

1. "MBH Bank, a partner for sustainable finance" - the strategic goal is to create an infrastructure, product and service offering for both retail and corporate customers that will help them achieve their own sustainability and climate goals. In this context, the tools to implement the strategy are:
   - developing products and services that promote sustainability;
   - raising funds to promote sustainability and financing (green bonds, green mortgages).
   - Implementing an ESG-based risk framework, where MBH has already implemented an extension of the process for identifying risks from climate change and environmental degradation and incorporating sustainability and climate objectives into its risk management. As part of this, it will, e.g., integrate ESG considerations into its credit risk processes and quantify its operational risks, thus becoming an integral part of the Risk Strategy.

2. "MBH Bank, the Responsible Group" - MBH's strategic goal is to adopt sustainability principles in its own operations. As part of this:
   - From an environmental perspective, it aims to reduce its carbon footprint. Thus, e.g., it will reduce energy consumption, further promote digital banking to radically reduce paper use, and take steps to promote responsible waste management by extending separate waste collection.
   - On the social side, it is important to be a fair and supportive partner to its employees and customers, and it places a high priority on awareness-raising, training and charity activities. To achieve this, it will, e.g., provide ESG training to its employees on an ongoing basis and strive to create a healthy work environment, non-discrimination and equal opportunities within its operations.
   - And from a governance perspective, it ensures that it operates in an ethical, transparent, compliant and sustainable manner. For that, it has, e.g. raised its sustainability (ESG) representation to the level of Deputy CEO and created a dedicated area within the Bank; published its first GRI sustainability report in 2022, which is auditable by an external independent party; and joined the UN Principles for Responsible Banking in October 2022.

We have achieved a number of successes in recent years, including, but not limited to:

- Green Bank Award: In 2021, MKB Bank (a former member bank of MBH Bank) won the "Green Bank Award", established by the Hungarian National Bank. In February 2019, the MNB launched its Green Programme to support financial services in Hungary to protect the environment and further reduce the ecological footprint of market participants and the MNB. In assessing the award, the MNB looked at the extent of green lending by financial institutions, the green bond portfolio held by institutions and the institutions' exposure to climate change impacts. MKB Bank's conscious, step-by-step sustainability strategy, its consistently introduced green products and services, as well as its numerous socially important commitments, have also played a major role in the recognition of MKB Bank.
- Net Zero Project: the first half of the project, which is the preparation and calculation of MBH Bank's 2022 carbon inventory (Scope 1, 2 and 3), has been completed and a carbon reduction trajectory has been established based on the internationally recognised SBTi methodology (where a methodology is available). Bank Scope 3's inventory is unique in that we will be the first Hungarian bank to publish it.
- Pillar 3 compliance: the collection of related data and the preparation of systems for continuous data collection and provision is ongoing and on schedule.
- ESG training for senior managers and directors: training was launched in September 2023, taking colleagues up to director level until December.

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- UN Principles for Responsible Banking: the first task related to the implementation of the principles was completed by the beginning of October 2023, which means the impact assessment. The total residential and corporate customer base was assessed against the criteria provided by the UN. Based on this impact analysis, we set 2 targets, in line with UN expectations.
- Developing a strategic "umbrella" programme for 2024: our "Sustainable Future Bank" programme was announced on 04.12.2023, one of the pillars of which is to work with domestic National Parks to promote biodiversity, focusing on green products.
- Developing a Green Loan and Bond Framework: we have prepared our now complete Green Financing Framework in line with international and domestic standards, as confirmed by an SPO opinion.
- ESG rating: In November 2023, we also obtained our first ESG rating, issued by Refinitiv (now LSEG), and achieved an excellent B+ result.

Measures aimed at optimising energy consumption:

The majority of MBH Bank's energy consumption relates to the utility consumption of buildings and fuel consumption of its vehicle fleet. The consumption of buildings is partly of communal and partly of technological origin. Energy consumption in the headquarters and in all office buildings, as well as in a significant number of branches, is monitored and regulated by a building control department.

No significant energy efficiency investments were made at MBH Bank in 2023.

The annual energy consumption indicators for the MBH Group buildings are as follows.

Consumption in 2023	MBH Bank Nyrt.	MBH Szolgáltatások Zrt.
Electricity (kWh)	23 761 631	1 962 291
Natural gas (kWh)	23 105 785	3 007 223
Heat (MJ)	6 549 153	141 308
Water (m3)	46 015	5 960

In its environmental risk assessment the Bank took into account the annual energy consumption and annual carbon dioxide emission. For MBH Bank, a comprehensive energy efficiency audit was last performed in 2023 by Pannon Építőműhely Kft., which complies with the requirements of EU Directive 27/2012, Act LVII of 2015 and Government Decree 122/2015 (26 May). In addition, on the basis of the Decree of the Hungarian Energy and Public Utility Regulatory Authority (MEKH) 2/2017 (16 February), monthly energy desk officer reports are also prepared with energy consumption analyses.

Selective waste collection and management:

MBH Bank focuses on sustainable development. One of the key pillars of this is the selective collection of waste, which is promoted through the installation of separate collection containers in bank branches and office buildings, where paper waste, metal beverage cans, plastics, PET bottles, batteries, caps and electronic waste (ink cartridges, toners, etc.) can be collected separately. Following adequate treatment, the selectively collected waste may be recycled, thus reducing the impact on the environment.

MBH Bank is particularly committed to environmentally friendly operations, and therefore it pays special attention to the management of electronic waste. The digitisation strategy also has a positive impact on MBHs paper consumption.

Waste management is subject to a number of regulations and MBH Bank complies with the legal requirements. The Bank prepares waste management reports annually, containing the classification and quantities of waste generated and collected. In 2023, MBH Bank generated 58,716 kg of paper and cardboard waste and 2168 kg of waste from discarded electrical and electronic equipment.

Environmental measures relating to the vehicle fleet of MBH Bank:

The MBH Bank Group currently owns or leases 1,282 company cars. All of these are modern, state-of-the-art vehicles, the majority of which use 744 petrol. The Bank also has a fleet of 495 diesel cars, 6 electric cars and 37 hybrid petrol-fuelled cars.
In 2023, 78% of newly purchased vehicles were petrol models and 22% were hybrids, which were introduced at the beginning of the year.
A fleet and brand tender is currently underway, so the future of fleet operations is not yet clear. This affects car procurement, the phasing out of the ageing fleet, the number of vehicles and the methodology for the continued operation of the fleet.

MBH Bank also uses taxi services for its employees. A decisive factor in the selection of the contracted service provider was that the contracted service provider should have the largest fleet of electric cars on the Budapest market. At the end of 2019, the Bank also signed a contract with MOL Limo to replace the future petrol taxi service, mainly within Budapest, and to provide more environmentally friendly transport.

MBH Bank will continue to promote electric community car sharing.
In 2023, we added electric charging on MOL well networks as an extended service to the MOL fuel cards of all our hybrid vehicles.
Extra wall chargers for electric cars and plug-in hybrids have been installed in the underground garages of the Bank's office buildings.

Anti-corruption and anti-bribery policy and results, due diligence procedures applied

MBH Bank has set out its anti-fraud and anti-corruption measures in its Group-level Anti-Corruption Policy in particular, and in other policies as necessary, in order to comply with its legal obligations. MBH Bank's management is committed to the principle of "zero tolerance" for corruption and seeks to ensure a legal and ethical climate through internal policies that encourage reporting of suspected corruption, thereby protecting MBH Bank and its stakeholders. The anti-corruption processes are designed and resourced to ensure that complete investigations are conducted at all times.

Anti-money laundering and anti-terrorist financing measures:

MBH Bank developed its Group-level Compliance policy because it uses the available tools to actively participate in the prevention, combating and detection of money laundering, terrorist financing and economic crime both in Hungary and internationally. In order to effectively perform those tasks, the Bank applies the following main principles:

- The Bank Group consistently meets and complies with all relevant international and Hungarian embargo rules, requirements and regulations concerning the fight against money laundering and the relevant national and international legislation.
- The Bank Group does not finance illegal arms business, drug trafficking, child exploitation work, the slave trade, prostitution or corruption.
- The Bank Group does not and will not finance persons or business associations managed or controlled by persons qualifying as unreliable, having been sentenced for any related criminal act.

- The Bank Group duly observes the FATF recommendations and pursues its activities in compliance with them.

The anti-money laundering procedures apply to all employees of the Bank and fully comply with the FATF 40+9 recommendation, the Directive of the European Parliament and of the Commission 2015/849 and the Regulation of the European Council 2015/847. MBH Bank takes all reasonable efforts to prevent using the services offered by the Bank for money laundering or terrorist financing. MBH Bank has a Compliance and anti-money laundering organisation, with separate areas dedicated to the prevention of money laundering and terrorist financing. The Bank fully co-operates with the official agencies in the identification of all suspicious cases, with special regard to potential money laundering and terrorist financing. The declarations required under the international regulations are available on the Bank’s website.

In order to reduce the risk of money laundering and terrorist financing, the Bank must be aware of the activities of its customers, the nature of business relationships, business partners, financial habits, the Hungarian and business practice, the economic background of debits and credits in the account, the expected sales (amount, currency), hence it maintains a regular and active relationship with its customers. In accordance with the legal requirements, the Bank’s staff perform the due diligence of customers. Natural persons and representatives of legal entities must also provide a declaration on the PEP status of the beneficial owner, which is then verified by the Bank’s staff in public sources.

MBH Bank prepared its internal risk assessment in compliance with the provisions of Act LIII of 2017 on the prevention and combating of money laundering and terrorist financing, taking into account the Hungarian and international economic conditions and habits and the known risk factors. The Bank is also obliged to apply adequate risk classification on the basis of the nature and volume of the business relationship or a transaction order or the conditions related to the customer, product, service or the applied instrument.

MBH Bank identified its major risks in its risk assessment policy and reserves the right to refuse any customer relationship, transaction or transaction order if it is not in accordance with its risk appetite. The Bank monitors unusual activities and has identified cash transactions as a high risk, in particular in the case of extremely large or highly intensive cash turnover, thus verifying it continuously controls such turnover.

MBH Bank does not maintain a business relationship with customers who carry reputational risks, only customers who use their products for legitimate purposes and whose identity can be determined and verified without any doubt. The Bank does not provide services to natural persons or legal entities who/which are subject to any sanction or are included in any restricted list, such as the restricted list of the United Nations Security Council (UN), the EU Consolidated Financial Sanctions list (EU), the Restricted List handled by the Foreign Assets Control Office (OFAC) of the United States, which also includes the Specially Designated Nationals and Blocked Persons (SDN). In addition, the Bank also identified industries, products and countries that represent a high risk.

MBH Bank tries to prevent and detect fraud not only in its customer relations.

The Bank has detailed internal rules covering all insider and potentially insider persons, which totally comply with the detailed regulations limits and prohibitions set forth in Tpt.[10] and Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse.

In the supply contracts partners must commit to compliance with the effective laws and regulations. The Bank's Compliance and Anti-Money Laundering unit also screens counterparties before entering into new supplier contracts or those that have not been vetted for more than one year, as set out in the Bank's internal regulations. The Bank does not enter into any contract with a supplier who does not satisfy the minimum requirements stated by law or the Bank’s compliance regulations.

The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the legislation in force and the Bank's internal regulations is a fundamental requirement for all officers

[10] Act CXX of 2001 on the Capital Market

of the Bank Group. The MBH Group also expects its business or other contractual partners to comply with the Code of Conduct.

Gift and conflict of interest rules:

In order to ensure transparent operation and prevent corruption, the Bank applies strict rules on conflict of interest and gifts to business partners. The Regulation on the Conflict of Interest of Employees and Gifts sets out the rules of accepting and providing gifts for employees, and the rules on conflicts of interest for employees and executive officers, and the conditions under which executive officers may be appointed on the basis of conflicts of interest, restrictions on the exercise of influence, participation in decision-making or the acquisition of a controlling interest in an entity by persons holding a position as an executive officer, and the rules on authorisation.

Regulations related to the respective policy and applied due diligence procedures:

- Group-level code of conduct
- MBH Bank Group-level Compliance Policy
- Group-level regulation on the conflict of interest and gift rules
- Regulation on the prevention and combating of money laundering and terrorist financing
- Group-level regulation on the whistleblowing system
- Group-level Anti-corruption Policy
  Group-level Regulation on the Management of Inside Information, on the Prohibition of Insider Trading, the Unauthorised Disclosure of Inside Information and Market Manipulation, and on Keeping a Restricted List, as well as Insider Records

A SUMMARY OF THE MAIN RESULTS OF POLICIES ON SOCIAL AND EMPLOYMENT ISSUES, RESPECT FOR HUMAN RIGHTS, ENVIRONMENTAL PROTECTION AND THE FIGHT AGAINST CORRUPTION

In 2023, the MBH Group continued its broad community engagement by supporting a number of health promotion, education and equal opportunities programmes.

It is important to note that, due to the pandemic, 100% home office working in jobs that do not require presence was implemented in 2022, and flexible working is still prevalent.

The health promotion programmes launched by the MBH Group have been an unbroken success for many years now.

In 2023, MBH Bank continued to apply its anti-corruption, anti-money laundering policies and its dedicated anti-corruption policy managed by the compliance area consistently and effectively in practice.

SIGNIFICANT RISKS RELATED TO BUSINESS RELATIONS, PRODUCTS AND SERVICES, SOCIAL AND EMPLOYMENT ISSUES, RESPECT FOR HUMAN RIGHTS, ENVIRONMENTAL PROTECTION AND THE FIGHT AGAINST CORRUPTION, AND HOW TO ADDRESS THEM

MBH Bank has identified its most significant risks in its risk policy. The nature of the Bank's operations exposes it to operational risk. Operational risk is the risk of loss resulting from human error, system failures, inadequate or faulty internal processes, possible fraud or abuse by Bank employees, customers or third parties, or external events, which includes legal risk, conduct risk, modelling risk, information and communication technology risk and reputational risk. The Bank's core strategic objective is to minimise operational risk, and to this end it applies risk mitigating controls in its core business processes.

The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the effective law and the internal regulations of the Bank is a basic requirement for each employee and all partners with a business or other contract with the Bank are also expected to comply with the Code of Conduct. MBH Bank does not maintain a business relationship with customers who carry reputational risks, only customers who use their products for legitimate purposes. MBH Bank completed a risk assessment in employment and identified the risks relevant in terms of its operation which are also taken into account in its HR activities.

KEY NON-FINANCIAL PERFORMANCE INDICATORS

- Breakdown of employees by job, age and gender (see the chapter Policy and results on employment issues, screening procedures applied)
- Energy consumption: (included in the Environmental Policy and its results, applied due diligence processes chapter)

Budapest, 03 April 2024

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