MBH Investment Bank Co. Ltd.

Independent Auditor's Report

MBH Investment Bank Co. Ltd.
Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

Business Report

31. December 2023.

INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the shareholders of MBH Befektetési Bank Zrt.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of MBH Befektetési Bank Zrt. (the "Company") for the financial year ended on 31 December 2023 which comprise the separate statement of financial position as at 31 December 2023 (in which total assets equal to total liabilities and equity are MHUF 409,876), the separate statement of profit or loss and the separate statement of other comprehensive income (in which the total comprehensive result for the year is MHUF 6,121 profit), the separate statement of changes in equity, the separate statement of cash flows for the financial year then ended and the notes to the separate financial statements comprising material accounting policy information and other explanatory information.

In our opinion, the separate financial statements give a true and fair view of the separate financial position of the Company as at 31 December 2023, and of its separate financial performance and its separate cash flows for the financial year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee dated 3 April 2024.

Basis for opinion

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

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

The non-audit services that we have provided to the Company in the period from 1 January 2023 to 31 December 2023 are disclosed in note 10 to the separate financial statements.

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

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

Our audit approach

Overview

Overall materiality	Overall materiality applied was MHUF 354
Key Audit Matter	Transfer of assets related to asset-liability management

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

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

Materiality

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

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

Materiality	MHUF 354
Determination	1% of the separate equity
Rationale for the materiality benchmark applied	We chose standalone equity as the benchmark because, in our view, it is a balanced benchmark which reflects the interests of the shareholders and of the regulator and is a generally accepted benchmark. We chose 1% which is consistent with quantitative materiality thresholds used for companies in this sector.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Transfer of assets related to asset-liability management	
Following the merger of Takarékbank Zrt. into MBH Bank Nyrt. in the current year, MBH Bank Nyrt. as the parent company of the Company and the merged Takarékbank Zrt., decided to transfer its asset-liability management activity and related assets and liabilities relating to Takarékbank Zrt. to MBH Bank Nyrt. In the current year, the Company presents a profit of HUF 13,012 million on the lines results from financial instruments measured at fair values through other comprehensive income and as results from financial instruments measured at amortized cost in connection with the transfer. The management disclosed the balances presented in the statement of the financial position relating to the transfer (securities valued at amortized cost, securities valued at fair value through other comprehensive income, derivative financial assets and liabilities, loans and advances to banks and amounts due to banks) in point 30 of the notes to the individual financial statements. The profit or loss impact related to the transfer was disclosed in point 7 of the notes. We paid considerable attention to this area, because the transfer of asset-liability management related assets and liabilities is a one-time significant transaction both in terms of its impact on the Company's statement of financial position and the amount of profit realized on the transaction, and its accounting and disclosure is complex, so we consider it as a key audit matter.	We read the contracts relating to the transaction. We reconciled the data of the transferred assets and liabilities included in the contracts with the general ledger and the results accounted for in the separate profit and loss statement, and examined the completeness and accuracy of these recorded amounts. We tested, on a sampling basis, the time-proportional interest income and interest expense recognised until the transfer of the interest-bearing items. We evaluated the assumptions used by the management in connection with pricing of the transactions, checked the calculations supporting the pricing and tested on a sample basis whether the transactions were at arm's length and in the ordinary course of business. We gained comfort on the completeness and accuracy of the presentation in the notes related to the transfer. We read section 7 and 30 of the notes to assess whether the disclosures are consistent with the standard requirements of *IFRS 9 Financial Instruments*, *IFRS 7 Financial Instruments: Disclosures* and *IAS 24 Related Party Disclosures*.

Other information: the separate business report

Other information comprises the separate business report of the Company for the financial year ended on 31 December 2023. Management is responsible for the preparation of the separate business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the separate financial statements does not cover the separate business report.

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

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

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

In our opinion, regarding the financial year ended on 31 December 2023, the separate business report of the Company is consistent, in all material respects, with the separate financial statements for the financial year ended on 31 December 2023, and the separate business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the separate business report, we do not express an opinion in this respect.

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

The separate business report includes the non-financial statement required by Section 95/C.

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

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

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

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

Auditor's responsibilities for the audit of the separate financial statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company on 28 April 2022. Our appointment has been renewed annually by shareholders' resolutions representing a total period of uninterrupted engagement appointment of two years.

Budapest, 3 April 2024

Balázs Árpád
Partner
Statutory auditor
Licence number: 006931
PricewaterhouseCoopers Könyvvizsgáló Kft.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence number: 001464

Translation note:

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

MBH Investment Bank Co. Ltd.
Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2023

Separate Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2023

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GENERAL INFORMATION

Chairman of the Board of Directors
Levente László Szabó (until 21.06.2023.)
Dr. Zsolt Barna (since 21.06.2023.)

Chairman of the Supervisory Board
István Sebestyén (until 29.06.2023.)
Ádám Egerszegi (since 29.06.2023.)

Members of the Board of Directors
Levente László Szabó (until 21.06.2023.)
Ádám Egerszegi (until 19.06.2023.)
Tibor Görög (until 21.06.2023.)
Lajos Kovács (until 21.06.2023.)
Lászlóné Vince Pénzes(until 21.06.2023.)
István Pongrácz (until 21.06.2023.)
Dr. Zsolt Barna (since 21.06.2023.)
Szabolcs Károly Brezina (since 19.06.2023.)
Ildikó Ginzer (since 21.06.2023.)
Dr. Ilona Török (since 21.06.2023.)
Dr. Nándor Tóth (since 21.06.2023.)
Gyula Márk Pleschinger (since 21.06.2023.)
Levente László Szabó (since 17.07.2023.)

Responsible person for the control and management of accounting services:
Edit Júlia Tóth-Zsinka Head of Finance and Reporting
Ildikó Brigitta Tóthné Fodor, registration number 007048

Auditor company
PricewaterhouseCoopers Auditing Ltd.
Statutory registered auditor
Árpád Balázs

As the parent company of the Bank - MBH Bank Plc. - prepare the consolidated financial statements regarding to the companies included in the consolidation.

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

Seat of the Bank, central office
Budapest
Magyar Tudósok körútja G. ép
1117

Separate Statement of Profit or Loss for the year ended 31 December 2023

Statement of profit or loss	Notes	1 January 2023 – 31 December 2023	1 January 2022 – 31 December 2022
Interest and similar to interest income	4	**117,297**	**88,256**
Interest income using effective interest rate method		69,917	51,724
Other interest income		47,380	36,532
Interest and similar to interest expense	4	**(114,783)**	**(92,698)**
Interest expense using effective interest rate method		(73,779)	(55,488)
Other interest expenses		(41,004)	(37,210)
Net interest income		**2,514**	**(4,442)**
Income from fees and comissions	5	19,902	17,591
Expense from fees and comissions	5	(18,011)	(14,194)
Net income from fees and comission		**1,891**	**3,397**
Results from financial instruments measured at fair value through profit or loss, net	6	5,715	15,674
Results from financial instruments measured at fair values through other comprehensive income, net	7	1,418	-
Results from financial instruments measured at amortized cost, net	7	11,653	638
of which: Financial assets measured at amortized cost	7	(42,152)	638
of which: Financial liabilities measured at amortized cost	7	53,805	-
Exchange differences result	8	(1,826)	(7,623)
Results from financial instruments, net		**16,960**	**8,689**
(Impairment) / Reversal on financial instruments held for credit risk management	32	1,081	497
Provision (loss) / gain	26	284	284
(Impairment) / reversal on investments in subsidiaries and associates	19	1,711	(5,052)
(Impairment) / reversal on other financial instruments and non-financial insturments		1	(3)
(Impairment) / Reversal on financial and non-financial instruments		**3,077**	**(4,274)**
Dividend income	19	1,490	23
Operating expense	10,11	(23,663)	(22,366)
Other income	9	9,579	11,913
Other expense	9	(516)	(461)
Result from assets held for sale		-	4,821
Profit before taxation		**11,332**	**(2,700)**
Income tax income / (expense)	12	(5,032)	(3,277)
Result for the year		**6,300**	**(5,977)**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Other Comprehensive Income	Notes	1 January 2023 – 31 December 2023	1 January 2022 – 31 December 2022
Result for the year		**6,300**	**(5,977)**
Other comprehensive income	**13**	**(179)**	**704**
Items that will not be reclassified to profit / (loss)		**67**	**1**
Fair value changes of equity instruments measured at fair value through other comprehensive income		67	1
Income tax relating to items that will not be reclassified		-	-
Items that may be reclassified to profit / (loss)		**(246)**	**703**
Hedging instruments (unmarked items)		-	150
Debt instruments measured at fair value against other comprehensive income		(232)	553
Income tax relating to items that may be reclassified to profit or (-) loss		(14)	-
Total comprehensive result for the year		**6,121**	**(5,273)**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Financial Position as at 31 December 2023

	Notes	31 December 2023	31 December 2022
Assets			
Cash and cash equivalents	**14**	**100,490**	**265,097**
Financial assets measured at fair value through profit or loss		**34,288**	**148,088**
Loans and advances to customers mandatorily at fair value through profit or loss	16	49	85
Securities held for trading	15	1,624	41,502
Securities mandatorily at fair value through profit or loss	16	10,456	11,707
Derivative financial assets	15	22,159	94,797
Financial assets measured at fair value through other comprehensive income	**17**	**5,432**	**44,515**
Securities		5,432	44,515
Financial assets measured at amortised cost	**18**	**169,946**	**1,183,182**
Loans and advances to banks		112,062	843,302
Repurchase assets		56,985	103,684
Securities		-	233,131
Other financial assets		899	3,065
Investments in subsidiaries and associates	**19**	**82,878**	**78,637**
Property, plant and equipment	**20,22**	**3,188**	**2,367**
Intangible assets	**21**	**4,451**	**3,714**
Income tax assets	**12**	**2**	**6**
Current income tax assets		2	3
Deferred income tax assets		-	3
Other assets	**23**	**9,201**	**16,673**
Total assets		**409,876**	**1,742,279**

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

Separate Statement of Financial Position as at 31 December 2023

	Notes	31 December 2023	31 December 2022
Liabilities			
Financial liabilities measured at fair value through proft or loss	**24**	**22,466**	**129,809**
Derivative financial liabilities		21,586	95,718
Financial liabilities from short positions		880	34,091
Financial liabilities measured at amortised cost	**25**	**345,058**	**1,573,653**
Amounts due to banks		242,919	1,474,534
Repurchase liabilities		16,615	22,201
Subordinated debt		8,742	8,708
Other financial liabilities		76,782	68,210
Provisions	**26**	**109**	**375**
Income tax liabilities	**12**	**3,730**	**2,197**
Current income tax liabilities		3,652	2,197
Deffered tax liabilities		78	-
Other liabilities	**27**	**3,145**	**6,998**
Total liabilities		**374,508**	**1,713,032**
Equity			
Share capital	28	3,390	3,390
Treasury shares		(2,539)	(2,539)
Share premium		3,479	3,479
Retained earnings		24,973	31,580
Other reserves		638	8
Profit for the year		6,300	(5,977)
Accumulated other comprehensive income		(873)	(694)
Total equity		**35,368**	**29,247**
Total liabilities and equity		**409,876**	**1,742,279**

Budapest, 3 April 2024.

Szabolcs Károly Brezina
Chief Executive Officer

Edit Júlia Tóth-Zsinka
Head of Finance and Reporting

All figures in tables are in HUF million except otherwise noted

Separate Statement of Cash Flows for the year ended 31 December 2023

	Notes	1 January 2023 – 31 December 2023	1 January 2022 – 31 December 2022
Cash flow from operating activities			
Result for the year		6,300	(5,977)
Non-cash adjustments to net profit from			
Depreciation and amortization		1,854	1,755
Impairment and provision for credit loss expense		(1,314)	(987)
Other impairment and provision/ (Release of other impairment and provision)		(1,693)	(2,350)
Profit/Loss on tangible assets derecognized		6	6
Interest expense on the lease liability		120	1
Effective interest rate effect on securities		(1,078)	(1,388)
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		(915)	334
Fair value adjustments on financial assets mandatorily measured at fair value through profit or loss		1,230	-
Operating profit before change in operating assets		**4,510**	**(8,606)**
Adjustment on derivatives held for trading and derivatives from hedge accounting		6,085	12,738
Changes in non-trading financial assets mandatorily at fair value through profit or loss		26	(9,999)
Changes in financial assets at fair value through other comprehensive income		40,261	(43,347)
Changes in financial assets at amortised cost		486,151	(127,526)
Changes in other assets		7 476	7 758
Increase/ (Decrease) in operating liabilities			
Financial liabilities at amortised cost		(937,407)	6,276
Other liabilities		(2,320)	(1,483)
Net cash flow from operating activities		**(395,218)**	**(164,189)**

All figures in tables are in HUF million except otherwise noted

Separate Statement of Cash Flows for the year ended 31 December 2023 (continued)

	Notes	1 January 2023 – 31 December 2023	1 January 2022 – 31 December 2022
Cash flow from investing activities			
Proceeds from sales of tangible assets		(6)	(188)
Proceeds from sales of intangible assets		(2)	8
Purchase of tangible assets		(1,856)	(42)
Purchase of intangible assets		(1,554)	(2,524)
Net cash inflow from investing activities		**(3,418)**	**(2,746)**
Cash flow from financing activities			
Repayment of leasing liabilities		(838)	(747)
Borrowing of long term loans		237,367	165,924
Acquisition and sale of subsidiaries, joint ventures and associates and shares held for sale		(2,500)	122,968
Net cash outflow from financing activities		**234,029**	**288,145**
Increase / (Decrease) in cash and cash equivalents		(164,607)	121,210
Opening balance of cash and cash equivalents		265,097	143,887
Closing balance of cash and cash equivalents		**100,490**	**265,097**
Breakdown of cash and cash equivalents			
Cash		1,294	5,143
Balances with the National Bank of Hungary		34,585	194,678
Due from banks with a maturity of less than 90 days		64,611	65,276
Closing balance of cash and cash equivalents		**100,490**	**265,097**

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

Separate Statement of Changes in Equity for the year ended 31 December 2023

	Notes	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	(-) Treasury shares	Total equity
1 January 2022 – Opening		**3,390**	**3,479**	**(1,398)**	**26,052**	**5,536**	**(2,539)**	**34,520**
Loss for the year		-	-	-	(5,977)	-	-	(5,977)
Other comprehensive income for the year	13	-	-	704	-	-	-	704
General reserve		-	-	-	5,528	(5,528)	-	-
At 31 December 2022		**3,390**	**3,479**	**(694)**	**25,603**	**8**	**(2,539)**	**29,247**
1 January 2023 – Opening		**3,390**	**3,479**	**(694)**	**25,603**	**8**	**(2,539)**	**29,247**
Profit for the year		-	-	-	6,300	-	-	6,300
Other comprehensive income for the year	13	-	-	(179)	-	-	-	(179)
General reserve formation		-	-	-	(630)	630	-	-
At 31 December 2023		**3,390**	**3,479**	**(873)**	**31,273**	**638**	**(2,539)**	**35,368**

After 2023, the Bank did not pay dividends to the owner.

All figures in tables are in HUF million except otherwise noted

1. DESCRIPTION OF THE BANK

The separate financial statements of MBH Investment Bank Co. Ltd. (MTB Bank of Hungarian Saving Cooperatives Co. Ltd. until 1 May, 2023) (hereinafter Bank, Company) for the year ended 31 December 2023 was approved on 3 April 2024. The final approval on the separate financial statements is provided by the General Meeting.

Name:	MBH Investment Bank Co. Ltd.
Seat:	1117 Budapest, Magyar Tudósok körútja 9. G. ép.
Website adress:	www.mbhbefektetesibank.hu
Mailing adress:	1525 Budapest, Pf.:775
Phone number:	06- 1- 202-3777
Registration number:	01-10-041206
Tax number:	10241662-4-44
KSH statistical number sign:	10241662-6419-114-01
Year of foundation:	1989.

Chairman of the Supervisory Board:	Ádám Egerszegi
Chairman of the Board:	Dr. Zsolt Barna

The MBH Investment Bank Co. Ltd. is the business management organisation of the Integration of Cooperative Credit Institutions ensuring the competitive and prudent operation of the integration, whose most important customers were the cooperative credit institutions that founded the Bank.

Significant services are beyond the basic financial services (lending, deposit collection, account management) by the Bank:
- Business managing organizational tasks of the Integration’s credit institutions
- Bank card issue, acceptance
- Trading of investments
- Custody services
- Securities and customer account management
- Cash processing

According to the Takarék Group's new business strategy for the period 2019-2023, which have been adopted by the General Meeting of the Bank on 30 November 2018, in 2019 was established a new, universal, commercial bank in which the savings cooperatives merged and hereinafter the new bank serves the customers of all savings as the national commercial bank of the Takarék Group.

All figures in tables are in HUF million except otherwise noted

On 9 December 2022, the supreme bodies of MKB Bank and Takarékbank Ltd. adopted the proposals for the merger of the two member banks as part of the implementation of the second step of the merger schedule of Magyar Bankholding. According to the decisions of the General Meetings, the two member banks of the banking group, MKB Bank Nyrt. and Takarékbank Zrt., will merge on 30 April 2023 and will then continue their operations under the name MBH Bank Plc, with a single brand name and image. In February 2023, the MNB approved the merger of Takarékbank Ltd. into MKB Bank Plc. with effect from 30 April 2023, and the merger was registered by the Court of Registration. The merger was completed on 30 April 2023.

In line with the strategic plans, the newly established banking group intends to sell its versatile investment product portfolio uniformly through MBH Investment Bank Ltd. After the merger, the Bank will continue its activities under the name MBH Investment Bank Ltd. through a financial institution focusing on investment services.

2. BASIS OF PREPARATION SEPARATE FINANCIAL STATEMENT

2.1. Statement of Compliance

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

2.2. Functional and presentation currency

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

2.3. Basis of measurment

The separate financial statements have been prepared on a historical cost basis, except for financial assets and liabilities held for trading, financial assets mandatorily at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI), that are recorded at fair value in the financial statements.

2.4 Change in accounting policies

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

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

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

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

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

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

- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments specify how to account for deferred tax on transactions such as leases and decommissioning obligations.

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

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

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

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

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

2.4.3 New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for IAS 39 Financial Instruments: Recognition and Measurement (as adopted by the EU with carve-out) and the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of financial statements:

- **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures:** Supplier Finance Arrangements (issued on 25 May 2023 and effective for annual periods beginning on or after 1 January 2024).

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Cash and cash equivalents

Cash and cash equivalents include liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

3.2. Initial recognition and measurement of Financial Instruments

Financial assets are recognized by the Bank on settlement date. All financial instruments measured at fair value at initial recognition. If accounts payables do not contain significant financing component, they are recognized at transaction price by the Bank. The Group's financial assets are measured at amortised cost if it is consistent with the business model and meet the criteria of the SPPI test. Interest income and interest expense should be determined using the effective interest rate method and then recognized in the Profit or Loss statement.

A simplified approach for financial contractual instruments and lease receivables

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

3.3. Classification and subsequent measurement of Financial Instruments

Based on the principles of IFRS 9 standard the Bank applies the following three main categories to classify and measure the financial assets: amortised cost (AC), fair value through other comprehensive income (FVTOCI) and fair value through Profit and Loss (FVTPL).

The Bank uses in accordance with IFRS 9 standard the following business models to manage its financial instruments.

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

The listing in the business model reflects the expectations of the Bank, not just the intent, but also the ability. The classification is not based on scenarios that are not reasonably expected ('worst case' or 'stress case' scenario). If the Group sells a particular portfolio or financial asset in a ‘stress case’ scenario, it does not affect the evaluation of the business model. Classification not only depends on the business model but also on the cash flow related characteristics associated with the financial instrument.

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

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

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

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

3.4. Classification and subsequent measurement of financial liabilities

The Bank classifies its financial liabilities into the following categories:

- Mandatory FVTPL measurement (FVTPL category) measurement if liabilities are held for trading,
- Amortised cost – other financial liabilities.

3.5. Determination and recognition of the Expected Credit Loss

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

The Bank assigns exposures at each reporting period – in this case monthly – during which the exposures are allocated to the segments and to the so-called 'stages' (stage 1, stage 2, stage 3 and / or POCI) in accordance with the principles of IFRS 9 standard. The Bank assesses at each reporting date whether the credit risk of the financial asset has increased significantly since the initial recognition.

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

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

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

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

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

Factors taken into account when determining expected credit loss:

- remaining lifetime in years,
- exposure at default (EaD),
- loss given default (LGD),
- probability of default (PD),
- credit conversion-factor (CCF),
- discount rate calculated on the remaining lifetime.

The amount of impairment and allowance equals to amount of expected credit loss. In Stage 1 the impairment is equal to the 12-Month expected credit loss. In Stage 2 and Stage 3 the impairment is equal to the lifetime expected credit loss.
The applied risk parameters are determined on the basis of statistical models for homogeneous groups and transaction groups. The models are validated at least once a year, and if necessary they will be revised.

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

- debt securities (mainly government bonds) with low credit risk at the reporting date,
- financial instruments except for lease receivables and trade receivables, which credit risk do not significantly increased compared to initial recognition.

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

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

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

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

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

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

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

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

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

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

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

3.6. Determination of fair value

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

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

3.7. Derecognition of financial assets

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

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

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

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

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

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

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

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

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

Write-off of financial assets under legal proceeding

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

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

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

When the Bank can reasonably not expect to recover part of the financial asset while maintaining the legal claim it is considered as a partial derecognition. In such cases, the Bank directly derecognises the gross carrying amount of the financial asset.
After the legal waiver of the claim, the Bank may write down the total gross carrying amount of the financial asset if it is not able to be recovered and void according to the relevant internal rules (in this case there is no legal claim).

3.8. Derecognition of financial liabilities

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

3.9. Financial guarantee contracts

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

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

3.10. Financial assets and liabilities held for trading

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

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.

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

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

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

3.12. Securities measured at FVTOCI

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

3.13. Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis. Interest income on derivatives are recognized in Other interest income/expenses. Fair value differences related to derivatives are recognized in Results from financial instruments measured at FVTPL.

3.14. Hedging transactions

The Bank offsets the fluctuating net income effects of the fair value and the cash flow changes of certain financial instruments through hedge transactions and related hedge accounting. Based on the used hedge methodology there are two types of hedge in th e Bank: micro hedge. The Bank prepares hedging documentation containing the purpose of the hedge relationship, the ID codes, the terms and conditions of the hedged and hedge transactions, the risk intended to be hedged and the method for measuring hedging efficiency. The Bank assesses hedging efficiency on the day of the creation of the hedge and monthly thereafter, at the end of the month. Assessment methods used: dollar offset and scenario analysis (parallel changing the interest rates of the transactions under the terms and conditions by +/-250 basis points). The Bank 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 Statement of Profit or Loss the following lines contain the gains and losses in connection with the hedging instruments (including the ineffective part):

- Other interest income / expense
- Results from hedge accounting

Changes in the fair value of derivatives classified as a hedge, which, according to the definition of the hedging transaction is presented in “Results from hedge accounting”. In the Statement of Financial Position the fair value change of hedging instruments recorded in Hedging Derivative assets/liabilities.

Micro hedge transaction

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. These transactions fall under IFRS 9. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.
For the calculation of fair value change of the hedged instruments the Bank uses a so called hypothetical transaction; each parameter of this transaction is identical to that of the original transaction. Upon the valuation at fair value of the instruments included in the hedge relationship, the Bank only considers the impacts attributable to interest rate risk, while excluding the effect of credit risk of customers. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Statement of Financial Position along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in other comprehe nsive income re-mains in other comprehensive income until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the net profit/loss for the period. The fair value change of hedged item is recorded in the same Statement of Financial Position line as the underlying transaction.

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

In 2023 the Bank has not got any micro hedge transaction.

3.15. Leases

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

At the commencement date, the Bank assesses whether the lessee is reasonably certain to exercise an option to extend or not to exercise an option to terminate the lease. The Bank considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option. The Bank recognises the right-of-use asset and the lease liability as at the commencement date of the lease, at the cost determins the IFRS 16. On subsequent measurement, the Bank recognises depreciation on the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. After the commencement date of the lease term, the Bank depreciates the asset on a straight-line basis. After the commencement date, the Bank measures the lease liability at amortised cost using the effective interest rate method.
The Bank as the lessor classifes its leasig contracts as financial or operative leasing based on requirements of the standard.

Presentation in the financial statements

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

3.16. Investments in subsidiaries, jointly controlled entities and associates

Subsidiaries are entities controlled by the MKB Bank. The Bank measures investments in subsidiaries, joint ventures and associates at cost or in accordance with IFRS 9.

These investments are presented under financial assets that are realistically measured against profit or loss.

3.17. Intangible assets

Intangible assets that have a finite useful life are measured initially at costs and subsequently carried at costs less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over their estimated useful from the date when the asset is available for use, applying the straight-line method. The useful lives are reviewed annually.

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

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

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. Expenditure on internally developed intangible asset (software) is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

3.18. Tangible assets

Items of property and equipment including leasehold improvements are measured initially at cost, including transaction cost, then subsequently cost less accumulated depreciation and impairment losses. Depreciation of property, plant and equipment are included in "Operating expense" line in Statement of Profit or Loss and Other Comprehensive Income.

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

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

3.19. Fixed assets held for sale and discontinued operations

Financial assets that meet the criteria of IFRS 5 are recorded as assets held for sale by the Bank. The Bank presents fixed assets or disposal groups classified as held for sale separately in the Financial Position Statement. A divestiture group classified as held for sale may meet the definition of a discontinued operation. The profit or loss on discontinued operations and any gain or loss on sale are shown separately on a separate line at the bottom of the statement for profit or loss and other comprehensive income.

3.20. Impairment of non-financial assets

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

All figures in tables are in HUF million except otherwise noted

Each asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the stand-alone statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

3.21. 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 Bank to fair value through profit or loss category.

3.22. Provisions

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

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

3.23. Income tax

Income tax comprises of current tax and deferred tax.

By accounting treatment for current and future income tax, the Bank recognises the tax consequences of the future recovery / settlement of the carrying amount of assets, liabilities, transactions and other events of the current period that are recognised in the statement of financial position.

From 2022 the Bank applies the corporate income tax, local business tax and innovation contribution as income tax.

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

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

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

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

3.24. Interest and similar to interest income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. The Bank has recorded the modification loss of stage 1 financial asset among the interest income.

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

3.25. 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 EIR calculation are presented as interest income and expense.

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

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

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

The Bank provides investment services to its clients, and shows fees and commission income and expenses arising from the service as commission income and fees of the Securities service. These include income and expenses related to account management, client orders and distribution. Fees and expenses for Treasury transactions include the results of IRS and options related to investment services.
The Bank applies simplified approach for financial assets, that have no payment schedule (e.g. revolving loans, overdaft, or credit cards), or the short-term financial assets (maximum

12 month maturity), if the effect is not material. According to the simplified approach no fee and commission items (received or paid) are taken into account when calculating the effective interest. These items are recognized as revenue or expense at arisen date.

3.26. Results from financial instruments

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

3.27. Dividends

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

3.28. Employee benefits

Short-term employee benefits

Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service.

Long-term employee benefits

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

Termination benefits

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

3.29. Bank tax,e xtra profit tax

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

Credit institutions and financial institutions are obliged by law (Htv.) to pay extra profit tax based on the net turnover in 2022 and 2023. The extra profit tax is calculated on the basis of previous year's net turnover in accordance with Htv. (ie. net turnover in 2021 provided the basis for 2022). Extra profit tax obligation has to be paid in two instalments during the year. The extra profit tax liability is presented among the operating expense. (see note 10)

3.30. Foreign currencies

Items included in the financial statements of each of the Bank’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’).

Transactions in foreign currencies are translated to the respective functional currencies of Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the official exchange rate of the NBH at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the official exchange rate of the NBH at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. The Bank currently does not apply this accounting policy.

3.31. Share capital

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

3.32. Treasury shares

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

3.33. Contingent liabilities / contingent assets

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

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

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

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

3.34. Post balance sheet events

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

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

3.35. Offsetting

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

3.36. Trade date and settlement date accounting

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

3.37. Critical accounting judgements and estimates

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

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

Deferred tax assets
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 3.14)

Loan impairment test and its result
The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral. For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a

portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of non-financial assets

The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.

When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.

Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

The Bank shall recover impairments in accordance in Note 19.

3.38. Error

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

3.39. Changes in the legal and regulatory environment and its effect on the stand-alone 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 extraprofit taxes Decree No 206/2023 (31.V.) and 317/2023 (17.VII.), changing the relevant regulation of the special tax for Credit Institutions and Financial Enterprises;
- Government Decree 522/2023 (30.XI.) amending Government Decree 782/2021 (24.XII.) on the different application of Act CLXII of 2009 on credit to consumers in emergency situations, extending the “interest rate cap” until 30 June 2024 under unchanged conditions.
- MNB Decree 58/2022. XII.22.) amendment of MNB Decree 22/2022. (VI.11.) regulating the maturity match of the mortgage-backed assets and liabilities of credit institutions (JMM Decree).

3.40. Change in estimates

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

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Interest income		
Financial assets at amortised cost	68,374	49,082
Financial assets at fair value through other comprehensive income	1,543	2,642
Interest income calculated using the effective interest method	**69,917**	**51,724**
Financial assets held for trading	41,461	36,187
Derivatives – Hedge accounting, interest rate risk	-	10
Interest income on financial liabilities	82	335
Other assets	5,837	-
Other interest income	**47,380**	**36,532**
Interest income and similar to interest income	**117,297**	**88,256**

**In the context of a significant change in the yield environment and an increase in key interest rates, interest and similar income increased significantly.*

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Interest expense		
Financial liabilities measured at amortised cost*	73,779	55,488
Interest expense calculated using the effective interest method	**73,779**	**55,488**
Financial liabilities held for trading	40,857	36,984
Other liabilities	120	-
Interest expense on financial assets	27	226
Other interest expense	**41,004**	**37,210**
Interest expense and similar to interest expense	**114,783**	**92,698**

Interest and similar to interest expense increased significantly in the context of the high yield environment and key interest rates prevailing for a significant part of the year under review.
** In 2020, the MNB introduced a new fixed-rate secured loan facility to cushion the negative consequences on the money market and the real economy (LTRO – Long Term Refinanicing Operations program). The interest expense on the stock of funds borrowed from the MNB appears in the interest expense on financial liabilities measured at amortised cost.*
Further explanation of the change in profit or loss is given in note 30.

All figures in tables are in HUF million except otherwise noted

5. FEE AND COMMISSION INCOME AND EXPENSE

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Fee and commission income		
Account maintenance commission income	1,145	2,333
Lending commission income	506	1,158
Security services commission income	8,974	7,856
Card business commission	545	1,592
Guarantee fees	15	31
Agency commission income	27	85
Treasury services	8,690	4,536
Total	**19,902**	**17,591**

Compared to the previous year, revenues from investment banking activities increased (revenues from securities services and treasury transactions), while due to the reorganization of banking functions according to the strategic plan, bank card activities were handed over to MBH Bank Plc. as of April 30, 2023.

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Fee and commission expense		
Agency fee expense	4,615	4,699
Security services fee expense	2,010	900
Treasury services	10,428	7,176
Fees to banks and to clearing house	277	120
Lending fee expense	-	11
Postal giro (PEK) fee	364	1,105
Other	317	183
Total	**18,011**	**14,194**

**Similarly to revenues, on the expense side, there is also a significant increase in revenues from investment banking. With regard to the card business, it should be noted that in 2022 the Bank received a significant refund of card service provider fees for bank card transactions, therefore last year it did not incur any expenses related to the card business. While in the current year only a small expense was recorded in connection with the bank card business in accordance with the strategic plan. In addition, due to the restructuring of banking functions, payment fees paid to the Postal Clearing Centre have also fallen significantly.*

All figures in tables are in HUF million except otherwise noted

6. RESULTS FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

	1 January 2023-31 December 2023	1 January 2022-31 December 2022
Earnings from financial assets and liabilities held for trading	6,946	15,634
from: Securities for trading	1,283	3,138
from: Derivatives	5,663	12,168
Earnings on non-traded financial instruments measured against fair profit or loss	(1,627)	40
Total	**5,319**	**15,674**

*In the note 30 in stocks related to the contract transfer described in the note and the settlement of hedging transactions with the legal predecessor of Takarékbank Plc. related to the merger of Takarékbank Zrt. induced the decline in derivatives-related results.

7. GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE TO OTHER COMPREHENSIVE INCOME AND AMORTISED COST

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Results from financial instruments measured at fair value through other comprehensive income, net	1,418	-
Results from financial instruments measured at amortized cost, net	11,653	638
of which: Financial assets measured at amortized cost	(42,152)	638
of which: Financial liabilities measured at amortized cost	53,805	-
Total	**13,071**	**638**

**Net results from financial instruments at fair value through other comprehensive income arose from sale of debt securities (bonds).*
*** A further justification for the change in the result shall be given in accordance with the procedure laid down in Note 30. Explanation of the transfer of contract set out in the note.*

All figures in tables are in HUF million except otherwise noted

8. EXCHANGE DIFFERENCE RESULT, NET

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
FX transactions realized result	(326)	(4,353)
FX transactions non-realized result	(1,500)	(3,270)
Result from foreign exchange transacti-ons	**(1,826)**	**(7,623)**

9. OTHER INCOME AND EXPENSE

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Other income		
Income on mediated services	284	1,341
Net profit or loss on sold property	2	-
Rental income on property	46	234
Profit or loss on derecognition of investments	-	1,115
Invoiced expenses and services*	9,125	9,094
Non-repayable assets received	8	88
Other income	114	41
Total	**9,579**	**11,913**

**Revenues from cost allocations resulting from SLA-based settlement agreements between banks of the banking group. The costs of the SLA service were settled on the basis of the SLA settlement agreement between Takarékbank Zrt. and its legal successor, MBH Bank Plc., MBH Investment Bank Zrt. and MBH Mortgagebank Plc. (among others, HR services, IT services, accounting services, compliance services, controlling management services, marketing services, legal services, background operations services).*

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Other expense		
Donation	412	400
Fines, late fees	-	19
Net profit or loss on sold property	86	24
Other	18	18
Total	**516**	**461**

**Tthe Bank recognises among other expenses the subsidy charged by law from bank tax.*

All figures in tables are in HUF million except otherwise noted

10. GENERAL AND ADMINISTRATIVE EXPENSES

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Staff costs	7,111	6,737
Material cost and expenses	833	958
Marketing and advertising	131	16
Data retrieval fees	61	262
Rental fee	50	56
Depreciation of tangible assets	1,035	1,036
Depreciation of intangible assets	819	719
Consultancy, advisory and legal fees	536	1,066
Expenses related to IT systems	2,453	2,710
Institutional protection fees, supervisory fees, membership fees	2,322	2,424
Bank security service fee	78	141
Affiliation fees	55	47
Insurance fees	25	37
Taxes, duties	8,152	6,115
Other	2	14
Total	**23,663**	**22,366**

** The reduction in experts' fees is in line with the Bank's strategic plan and the restructuring of processes within the group. The contractual fee for the annual audit of the audit company for 2023 is HUF 46 million + VAT. In addition, the auditor provided other non-audit services during the year in the amount of HUF 0,1 million + VAT.*
*** The item taxes and duties includes the extra profit special tax accounted for during the year in the amount of HUF 6,026 million (HUF 4,315 million in the previous year) and the items incurred as transaction duty in the amount of HUF 1,073 million (HUF 515 million in the previous year).*

11. STAFF COSTS

	1 January 2023 - 31 December 2023	1 January 2022 - 31 December 2022
Wages and salaries	5,923	5,820
Wages contribution	840	837
Other personnel related payments	348	80
Total	**7,111**	**6,737**

**Wages contribution is payable by the Bank based on gross wages and salaries paid to employees. The consolidated full time head count of the Bank at the end of the reporting period was 412 (2022: 414 person).*

All figures in tables are in HUF million except otherwise noted

12. INCOME TAX

Income tax expense recognized in the Statement of Profit or Loss and Other Comprehensive Income

	2023	2022
Current tax expense	211	-
Corporate tax charge – on current year profit	211	-
Deffered tax (income) / expense	67	59
Origination (reversal) of temporary differences	67	59
Local tax	4,134	2,798
Innovation fee	620	420
Income tax (income) / expense	**5,032**	**3,277**

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

Reconciliation of effective tax rate

	2023		2022	
	%	HUF million	%	HUF million
Profit before income tax		11,332		(2,700)
Results from discontinued operations		-		-
Income tax using the domestic corporation tax rate	9.00%	1,020	9.00%	(243)
Local tax	32,48%	4,134	(103.63%)	2,798
Innovation fee	5,47%	620	(15.56%)	420
Previous year's deferred tax adjustment	0,67%	76	-	-
Permanent difference	(4,99%)	(566)	11.81%	(319)
Effect of accrued losses not recognised as deferred taxes	(2,05%)	(232)	-	-
Re-assessment of unrecognised tax losses carryforwards	-	-	(20.26%)	547
Effect of transition	-	-	(2.74%)	74
Tao Group Confusion	(0,18%)	(20)	-	-
Income tax (income) / expense	**44,40%**	**5,032**	**(121.37%)**	**3,277**

The Bank relied on its available business plans for calculating the amount of tax losses that can be offset against future tax bases. Tax losses can be offset against up to 50% of future tax bases.

On 31 December 2023, the Bank had unused tax losses amounting to HUF 1,514 million (2022: HUF 4,086 million) with the following maturity:

	2023	2022
Maturity up to 2026	1,514	4,086
Tax loss carryforwards	**1,514**	**4,086**

No deferred tax was accured to the loss carried forward.

The rules of utilization of tax losses carried forward have tax losses arising in following years, can be utilized solely in the subsequent five years following the tax year in which they were generated.

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

2023 P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences				
Assets				
Impairment on receivables	3	-	-	3
Tangible assets	8	(8)	-	-
Liabilities				
Provisions	8	2	-	10
Deffered Tax Assets – due to tax losses	19	(6)	-	13
Deffered Tax Liabilities- due to taxable temporary differences				
Assets				
Securities	-	(14)	-	(14)
Tangible assets	-	(66)	-	(66)
Intangible asstes	(16)	5	-	(11)
Subtotal Deffered Tax Liabiltities before netting	**(16)**	**(75)**	**-**	**(91)**
Subtotal Deffered Tax Assets after netting of balance sheet position	**3**	**(81)**	**-**	**(78)**

All figures in tables are in HUF million except otherwise noted

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

2022 P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences				
<u>Assets</u>				
Impairment on receivables	-	3	-	3
Tangible assets	6	2	-	8
<u>Liabilities</u>				
Provisions	59	(51)	-	8
Deffered Tax Assets – due to tax losses	65	(46)	-	19
Deffered Tax Liabilities- due to taxable temporary differences				
<u>Assets</u>				
Intangible asstes	(3)	(13)		(16)
Subtotal Deffered Tax Liabiltities before netting	**(3)**	**(13)**	**-**	**(16)**
Subtotal Deffered Tax Assets after netting of balance sheet position	**62**	**(59)**	**-**	**3**

Tax audits for closed periods

There was no tax authority investigation at the Bank. The tax authority may examine books and records at any time within 6 years after the 2023 tax year.

All figures in tables are in HUF million except otherwise noted

13. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	31 December 2023	31 December 2022
Items that will not be reclassified to profit or loss	**67**	**1**
Fair value changes of equity instruments measured at fair value through other comprehensive income	67	1
Items that may be reclassified to profit or loss	**(246)**	**703**
Cash flow hedges (effective portion)	-	150
Debt instruments at fair value through other comprehensive income	(232)	553
Income tax relating to items that may be reclassified to profit or (-) loss	(14)	-
Total comprehensive income	**(179)**	**704**

14. CASH AND CASH EQUIVALENTS

The most part of Cash reserves are the bank account and term deposits at MNB, the rest of it are the nostro accounts at other banks, cash on hand and sweep account related to cash reserves.

	31 December 2023	31 December 2022
Cash on hand	1,294	5,143
Cash balances at central banks	34,585	194,678
Other demand deposits	64,611	65,276
Total	**100,490**	**265,097**

** In Note 30 the reduction in staff is related tot he transfer of contracts described in the note.*

All figures in tables are in HUF million except otherwise noted

15. SECURITIES HELD FOR TRADING AND DERIVATIVE FINANCIAL ASSETS

	31 December 2023	31 December 2022
Total financial derivative instruments	**22,159**	**94,794**
Derivatives**	22,159	94,794
Total trading securities	**1,624**	**41,502**
Equity instruments*	136	204
from this: listed shares	*135*	*204*
from this: open-ended investment funds	*1*	*-*
Debt securities	1,488	41,298
of which: Discount treasury bills	*116*	*1,447*
*of which: Government bonds****	*1,352*	*39,837*
of which: Mortgage bonds	*-*	*10*
of which: Other bonds	*20*	*4*
Total	**23,783**	**136,296**

** See details about financial assets and financial liabilities from Derivatives held for trading in Note 30.3. The reason for the decrease in stocks is given 30. Note explains.*
***Among the equity instruments the Bank shows shares held for trading and open-end units in investment funds.*
*** See details about financial assets and financial liabilities from Derivatives held for trading in Note 30.3. The reason for the decrease in stocks is given 30. Note explains.*
****Due to the cleaning of the Bank's balance sheet, the free excess liquidity over and above the liquidity required for operational operation was reduced, thus the stock of government bonds for trading was reduced to a minimum.*

During the reporting preiod, the Bank recognised dividents in the amount of HUF 4million related to investments in tading equity instruments.

16. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2023	31 December 2022
Equity instruments	10,456	11,707
Loans*	49	85
Total	**10,505**	**11,792**

** Loans included in non-trading financial assets that are necessarily valued at fair against profit or loss are the class of loans that do not pass the cash flow characteristics test.*

The mandatory equity instruments measured at fair value through profit or loss as of 31 December 2023 MBH include private equity funds and Visa shares.

All figures in tables are in HUF million except otherwise noted

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2023	31 December 2022
Equity instruments*	138	119
Government bonds**	5,294	44,396
*of which: credit institution bonds**	5,294	44,396
Total	**5,432**	**44,515**

** There was a significant decrease in the stock of securities. (the reason can be read in more detail in the explanation related to conctract transfer expalined in note 30). In line with its strategic objectives, the Bank holds securities measured at fair value against other comprehensive income, modest compared to the previous year, which represent only bond-type securities of credit institutions.*

Shares	Fair Value at 31 December 2023
Garantiqua Hitelgarancia Ltd.	10
S.W.I.T. SCRL	6
Visa Inc. Class C Series/Common Stock	122
Total	**138**

During the reporting period, the Bank did not recognise dividends on investments in equity instruments measured at fair value as opposed to other comprehensive income.

Shares	Fair value at 2022. december 31.
Garantiqua Hitelgarancia Ltd.	10
Takarék Egyesült Szövetkezet	30
S.W.I.T. SCRL	6
Visa Inc. Class C Series/Common Stock	73
Total	**119**

All figures in tables are in HUF million except otherwise noted

18. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2023	31 December 2022
Debt securities gross*	**-**	**233,323**
from this: Government bonds	*-*	*214,441*
from this: Other bonds	*-*	*12,640*
from this: Credit institution bonds	*-*	*6,242*
Impairment of debt securities	**-**	**(192)**
Loans at amortized cost gross	**62,777**	**572,276**
*from this: Credit institution loans***	*5,792*	*468,564*
from this: Repurchase	*56,985*	*103,712*
Impairment of loans and repurchase at amortized cost	**-**	**(841)**
from this: Credit institution loans	*-*	*(813)*
from this: Repurchase	*-*	*(28)*
Central bank and interbank deposits gross	**106,272**	**375,651**
Impairment of interbank deposits and loans	**(2)**	**(100)**
Advances gross	**1,535**	**3,600**
Impairment on advances	**(636)**	**(535)**
Total	**169,946**	**1,183,182**

** In the Note 30 the loss of exposure was due to transactions related to the transfer of contracts set out in the note.*
***In the Note 30.exposured decreased as a result of transfer-related transactions as set out.*

All figures in tables are in HUF million except otherwise noted

Impairment under collective and individual assessment

31 December 2023	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	-	-	-
Collective	16	-	636	652
Total	**16**	**-**	**636**	**652**

In addition to the impairment of financial assets measured at amortised cost (HUF 638 million), the table above also includes impairment of other demand deposits (HUF 13 million) and impairment of debt securities measured at fair value against other comprehensive income (HUF 1 million), which amount to HUF 652 million in total. The gross exposure of financial assets with group impairments measured at amortised cost is HUF 170,584 million as at December 31, 2023. The related group impairment is HUF 638 million.

Impairment under collective and individual assessment

31 December 2022	Stage 1	Stage 2	Stage 3	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	
Individual	-	-	-	-
Collective	1,210	-	535	1,745
Total	**1,210**	**-**	**535**	**1,745**

All figures in tables are in HUF million except otherwise noted

19. INVESTMENTS IN SUBSIDARIES AND ASSOCIATES

Equity interests of the Bank in subsidiaries and associates:

	31 December 2023		31 December 2022	
	Gross book value	Held %	Gross book value	Held %
Takarék Faktorház Ltd.	591	*100%*	591	100%
TAKINFO Ltd.	110	*52%*	110	52%
Takarék Ingatlan Ltd.	407	*100%*	407	100%
MBH Bank Plc. „A" ordinary share	8	*0,001%*	14	0,01%
MBH Investment Bank Plc.	32,562	*48%*	32,562	48%
MBH Szolgáltatások Ltd.(formerly: TIHASZ Takarék Ingatlanhasznosító Ltd.) **	28,351	*87%*	23,419	90%
TIFOR Takarék Ingatlanforgalmazó Ltd.	-	-%	4,931	77%
Takarék Kockázati Tőkealap	2,804	23%	2,804	23%
Takarék Mezőgazdasági Tőkealap	11,434	31%	11,434	49%
Takarék Zártkörű Befektetési Alap	14,320	93%	11,820	93%
MITRA Informatikai Ltd. (formerly :Takarékinfo Központi Adatfeldolgozó Ltd.)*	700	2%	700	2%
HUN Bankbiztosítás Ltd.	56	25%	56	25%
Takarék Central Debt Management Ltd.	30	1%	-	-
Subsidiaries and associates gross	**91,373**	**-**	**88,849**	**-**
Impairment	(8,495)	-	(10,212)	-
Total	**82,878**	**-**	**78,637**	**-**

** The related company group is determined by MBH Bank Plc. as the parent company, MITRA Informatics Zrt. is a subsidiary from the point of view of MBH Bank Plc.*
*** TIFOR Takarek Real Estate Ltd. was merged into MBH Services Zrt. (legal successor of TIHASZ Takarek Real Estate Utilisation Plc.) on 01.01.2023.*

There have been no major changes to the Bank's investments in 2023. No shares, sales or acquisitions took place in the year under review.

All figures in tables are in HUF million except otherwise noted

	31 December 2023	31 December 2022
Balance as at 1 January	10,212	11,991
Loss allowance	579	5,454
Reversal of loss allowance	(2,296)	(1,446)
Release of loss allowance	-	(5,787)
Closing balance	**8 495**	**10,212**

The Bank measures its investments in subsidiaries, jointly controlled entities and associates at cost based on its accounting policy decision, in accordance with IAS 27. IAS 36 takes into account impairment of assets when determining whether the shareholding has any signs of impa-irment and whether it is necessary to account for impairment at the end of the 2023 reporting peri-od. Impairments should be recognised if the recoverable amount is less than the carrying amount of the investment, the amount of impairment is the difference between the carrying amount and the recoverable amount. The change that arose under IAS 36 is considered to be an impairment circumstance, which reduces the recoverable amount of the investment by the Bank. Overall, impairment and reversals were realized on the shares. The more emphasized items were as fol-lows. An impairment reversal of HUF 2,227 million was made on the share in Takarek Private Investment Fund, and a more significant impairment impairment was made in respect of Takarék Kockázati Tőkealap (HUF 321 million) and Takarek Factorház Zrt. (HUF 246 million).
Dividends received from subsidiaries and associates generated revenues of HUF 1,486 million in 2023, while no items were generated in 2022.

All figures in tables are in HUF million except otherwise noted

20. TANGIBLE ASSETS

31 December 2023	Property	Plant and equipment	Total
Gross value			
Opening balance	2,379	2,257	4,636
Increase	204	138	342
Decrease	-	(204)	(204)
Closing balance	**2,583**	**2,191**	**4,774**
Depreciation			
Opening balance	831	1,860	2,691
Annual depreciation	52	207	259
Decrease	(198)	198	-
Closing balance	**685**	**2,265**	**2,950**
Impairment			
Opening balance	-	90	90
Increase	-	-	-
Decrease	-	-	-
Closing balance	**-**	**90**	**90**
Net value	**1,898**	**(164)**	**1,734**

The tables contains the tangible assets of the Bank expected the right-of-use assets.
The tangible assets line of the Separate Statement of Financial Position includes also the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 1,454 million as at 31 December 2023 and HUF 512 million as at 31 December 2022.
The right-of-use assets under IFRS 16 have been reported in Note 22.
The Bank has carried out an estimate of recoverable amount of the tangible assets. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised for the asset. In 2023, no impairment recognition was made for tangible assets.

All figures in tables are in HUF million except otherwise noted

31 December 2022	Property	Plant and equ-ipment	Total
Gross value			
Opening balance	2,375	2,254	4,629
Increase	4	38	42
Decrease	-	(35)	(35)
Closing balance	**2,379**	**2,257**	**4,636**
Depreciation			
Opening balance	777	1,666	2,443
Annual depreciation	50	222	272
Decrease	4	(28)	(24)
Closing balance	**831**	**(1,860)**	**2,691**
Impairment			
Opening balance	-	90	90
Increase	-	-	-
Decrease	-	-	-
Closing balance	**-**	**90**	**90**
Net value	**1,548**	**307**	**1,855**

All figures in tables are in HUF million except otherwise noted

21. INTANGIBLE ASSETS

31 December 2023	Property rights	Investment intangible assets	Total
Gross value			
Opening balance	5,615	813	6,428
Increase	1,996	1,741	3,737
Decrease	(16)	(2,167)	(2,183)
Closing balance	**7,595**	**387**	**7,982**
Depreciation			
Opening balance	2,714	-	2,714
Annual depreciation	819	-	819
Decrease	(2)	-	(2)
Closing balance	**3,531**	**-**	**3,531**
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Reversal	-	-	-
Closing balance	-	-	-
Net value	**4,064**	**387**	**4,451**

31 December 2022	Property rights	Investment intangible assets	Total
Gross value			
Opening balance	3,962	113	4,075
Increase	1,824	700	2,524
Decrease	(171)	-	(171)
Closing balance	**5,615**	**813**	**6,428**
Depreciation			
Opening balance	2,158	-	2,158
Annual depreciation	719	-	719
Decrease	(163)	-	(163)
Closing balance	**2,714**	**-**	**2,714**
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Reversal	-	-	-
Closing balance	-	-	-
Net value	**2,901**	**813**	**3,714**

All figures in tables are in HUF million except otherwise noted

The Bank estimates the recoverable amount of the intangible asset. Based on this were not such an asset by the Bank, where the recoverable amount would have been lower than the the carrying amount of an asset, therefore impairment have not been recognised on intangible assets in 2023 and 2022.

22. IFRS 16 LEASES

Right-of-use assets

	31 December 2023	31 December 2022
Owned property, plant and equipment	1,734	1,855
Right-of-use assets, expect investment properties	1,454	512
Total property, plant and equipment	**3,188**	**2,367**

Lease liabilities

Lease liabilities presented in the statement of financial position

	31 December 2023	31 December 2022
Short term	582	353
Long term	925	198
Total lease liabilities	**1,507**	**551**

Maturity analysis - undiscounted contractual payments

	31 December 2023	31 December 2022
Up to 1 year	704	364
1 year to 5 years	994	203
Over 5 years	-	-
Total undiscounted lease liabilities	**1,698**	**567**

All figures in tables are in HUF million except otherwise noted

Right-of-use assets

	Property	Company Car	Total
Balance at 1 January 2022	**623**	**460**	**1,083**
Increase	952	154	1,106
Amortization for the year	(536)	(227)	(763)
Decrease	(866)	(48)	(914)
Balance at 31 December 2022	**173**	**339**	**512**
Increase	3,510	77	3,587
Amortization for the year	(555)	(221)	(776)
Decrease	(1,847)	(22)	(1,869)
Balance at 31 December 2023	**1,281**	**173**	**1,454**

** The increase in real estate is due to the repricing of leases.*

Total cash outflow for leases

	31 December 2023	31 December 2022
Total cash outflow for leases	(958)	(597)

Items related to lease liabilities presented in profit or loss

	31 December 2023	31 December 2022
Interest expense on the lease liabilities	(120)	(1)
Expenses related to short-term leases	(1)	(1)
Total	**(121)**	**(2)**

Items presented in the statement of cash flows

	31 December 2023	31 December 2022
Interest expense on the lease liabilities	(120)	(1)
Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability	(1)	(1)
Cash payments for the principal portion of the lease liability	(838)	(747)

The Bank, as a lessee, did not apply a practical solution under the lease modifications resulting from the lease facilitation in any lease agreement, as no rental facilities were granted as a direct consequence of the Covid19 pandemic.

All figures in tables are in HUF million except otherwise noted

23. OTHER ASSETS

	31 December 2023	31 December 2022
Mediated services	303	286
Other inventories (materials, goods)	113	101
Prepaid expenses*	7,508	13,117
Reclaimable taxes**	726	1,840
Accrued amount of fair value difference at initial recognition of loans under Funding for Growth Scheme	-	623
Receivables from Health Insurance	13	13
Other	538	693
Total	**9,201**	**16,673**

** A significant part of the Prepaid expenses are accruals due to cost sharing based on the framework of SLA settlement aggrement among the members of the Bank group.*
*** A significant amount from reclaimable taxes has been deferred due to the special epidemiological tax, as 108/2020 on the special tax related to the epidemiological situation of credit institutions for replenishing the Epidemiological Fund in order to implement the Economic Protection Action Plan (IV.14.), The tax paid can be deducted from the special tax liability of financial institutions in the next 5 years.*
**** The reason for the change in Note 30 to the explanation of the transfer of contract.*

24. FINANCIAL LIABILITIES HELD FOR TRADING

	31 December 2023	31 December 2022
Derivatives	21,586	95,718
Short positions	880	34,091
Total	**22,466**	**129,809**

Financial instruments arising from derivative contracts for trading purposes, as well as financial liabiltites, are described in detail in Note 30.3. Furthermore, the reason for the change is set out in Note 30. Note to the explanation of the transfer of contract.

All figures in tables are in HUF million except otherwise noted

25. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31 December 2023	31 December 2022
Deposits	242,919	1,474,534
Repurchase liabilities	16,615	22,201
Subordinated liabilities	8,742	8,708
Other financial liabilities	76,782	68,210
Total	**345,058**	**1,573,653**

** In 2020 the Hungarian Central Bank decided to introduce a new, fixed-rate collateralized credit tool to moderate the negative economic and financial consequences of the turbulences. (Long Term Refinancing Operations (LTRO)). The interest expense on the stock of funds raised from the MNB is reflected in the interest expense on cash liabilities measured at amortised cost. The reason for the change is Note 30. to the explanation of the transfer of contract.*
***In 2022, the Bank received subordinated loan from MKB Bank Plc. The principal amount of the loan is HUF 8,000 million, maturing on July 2, 2029. The transaction interest rate is 1 month BUBOR + 4.9%, while the interest period is 1 month.*
****The largest share of Other Financial Liabilities is accounted for by client cash account balances related to investment services in the amount of HUF 62,140 million (HUF 59,924 million in 2022), balance of bank card turnover settlement of HUF 11,350 million (HUF 3,095 million in 2022), and leasing liabilities of HUF 1,507 million (last year: HUF 551 million). The remainder represents various other financial liabilities.*

26. PROVISIONS

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

2023	Credit risk provision	Provision for amounts relating to accrued vacation pay	Other provision*	Total
Opening balance at 1 January 2023	**284**	**91**	**-**	**375**
Increase in the period*	336	109	-	445
Utilization in the period	(620)	(91)	-	(711)
Closing balance at 31 December 2023	**-**	**109**	**-**	**109**

**The amount of the provisions for holidays not taken was updated at the end of 2023 based ont he actual data, resulting in a total on HUF 18 million being decommissioned.*

All figures in tables are in HUF million except otherwise noted

2022	Credit risk provision	Provision for amounts relating to accrued vacation pay	Other provision*	Total
Opening balance at 1 January 2022	**544**	**251**	**411**	**1,206**
Increase in the period*	21	91	-	112
Utilization in the period	(281)	(251)	(411)	(943)
Closing balance at 31 December 2022	**284**	**91**	**-**	**375**

27. OTHER LIABILITIES

	31 December 2023	31 December 2022
Taxes payable	670	359
Accrued expenses*	2,402	4,824
Jubilee benefit obligation	73	10
Accured part of disbursed liabilities under Funding for Growth Scheme	-	1,805
Total	**3,145**	**6,998**

** A significant part of accruals relates to building rent (headquarters) expenses and accruals for general expenses.*
*** The reason for the change is Note 30. Note to the explanation of the transfer of contract.*

All figures in tables are in HUF million except otherwise noted

28. SHARE CAPITAL

28.1. Ownership structure

The table shows the structure of the shares as follows:

Type of shares	Number of shares (pieces)		Face value (thousand HUF/pieces)		Total face value of shares (thousand HUF)	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Ordinary shares	1,695,118	1,695,118	2	2	3,390,236	3,390,236
from: treasury shares held by MBH Bank Plc.	329,629	329,629	-	-	-	-
Total	**1,695,118**	**1,695,118**	**-**	**-**	**3,390,236**	**3,390,236**

Shareholder	31 December 2023 Holding (%)	31 December 2022 Holding (%)
MBH Bank Plc.	80.55	75.91
Takarékbank Plc. (merged into MBH Bank Plc)	-	4.65
MBH Investment Bank Ltd. (Treasury shares)	19.45	19.45
Total	**100.00**	**100.00**

Shareholders' name, and voting rights on 31 December 2023:

Name	Preference shares (pieces)	Ordinary shares (pieces)	Shares (pieces)	Face value (thousand HUF)	Holding (%)	Voting share (%)
MBH Bank Plc.	-	1,365,456	1,365,456	2,730,912	80,55	100
MBH Investment Bank Ltd.	-	329,659	329,659	659,318	19,45	0
Takarék Egyesült Szövet-kezet	-	1	1	2	0,00	-
MBH Duna Takarék Bank Ltd.	-	1	1	2	0,00	-
Takarék Mortgage Bank Co.Plc.	-	1	1	2	0,00	-

Shareholders' name, and voting rights on 31 December 2022:

Name	Preference shares (pieces)	Ordinary shares (pieces)	Shares (pieces)	Face value (thousand HUF)	Holding (%)	Voting share (%)
MKB Bank Ltd.	-	1,286,694	1,286,694	2,573,388	75,91	94,23
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	-	329,659	329,659	659,318	19,45	-
Takarék Egyesült Szövet-kezet	-	1	1	2	0,00	-
Takarékbank Ltd.	-	78,763	78,763	157,526	4,65	5,77
Takarék Mortgage Bank Co.Plc.	-	1	1	2	0,00	-

In MBH Investment Bank Magyar Bank Plc., 1 member has an ownership share above 10%, the number of shares is 1,365,456, the ownership share: 80.55%, and the voting share is 100%. In addition, no other member holds more than 5% of the shares.

28.2. Treasury shares purchased

	31 December 2023	31 December 2022
Opening balance	2,539	2,539
Repurchase	-	-
Closing balance	**2,539**	**2,539**

In its Resolution No. 10/2017 accepted adopted on 26 April 2017, the General Meeting of MTB Bank of Hungarian Saving Cooperatives Co. Ltd. authorized the Board of Directors of the Bank to repurchase a maximum of 422,714 Series "A" ordinary shares by 26 October 2018 at the latest. During the above period, the Bank repurchased a total of 329,659 shares from cooperative credit institutions from the authorized facility. In 2023, the stock of repurchased shares did not change.

28.3. Other reserve

	31 December 2023	31 December 2022
General reserve	630	-
Other capital reserve	8	8
Closing balance	**638**	**8**

28.3.1. General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 630 million at 31 December 2023 (General reserve was HUF 0 million as at 31 December 2022).

28.4. Cumulated other comprehensive income

	31 December 2023	31 December 2022
Opening balance at the beginning of the period	(694)	(1,398)
Cumulated other comprehensive income	**(179)**	**704**
Items that will not be reclassified to profit or loss	**67**	**1**
Fair value changes in equity instruments measured at fair value against other comprehensive income	67	1
Items that may be reclassified to profit or loss	**(246)**	**703**
Effective portion cash flow hedges	-	150
Debt instruments at fair value through other comprehensive income	(232)	553
Income tax relating to items that may be reclassified to profit or loss	(14)	-
Closing balance	**(873)**	**(694)**
Direct equity effect of derecognition of equity instruments sold int he current year	-	-
Other capital movements	-	-
Closing balance at the end of the period	**(873)**	**(694)**

29. CONTINGENT LIABILITY

All figures in tables are in HUF million except otherwise noted

As a result of the transfers of assets, the Bank no longer has off-balance sheet liabilities. More information on transfers of assets can be found in Note 30. can be found in the explanation relating to the transfer of contract set out in the note.

	31 December 2023	31 December 2022
Guarantees	-	5,824
Loan commitments	-	19,000
Letter of credit	-	74
Contingent liabilities from other contracts	-	10
Total	**-**	**24,908**

In addition, the Bank records securities with customers at year-end in an amount of HUF 1,556,538 million as off-balance-sheet items (HUF 2,161,738 million in 2022).

30. MBH INVESTMENT BANK PLC. TRANSFER OF ASSETS RELATED TO ASSET-LIABILITY MANAGEMENT

In order to integrate the MBH Group and develop the business strategy of the new group, on 20 April 2023 the Asset Resource Committee of MBH Bank Plc. (hereinafter EFM) ordered the transfer of MBH Investment Bank Zrt.'s assets and liabilities related to asset-liability management in its decision no. 9/2023 (04.20)-MKB-EFB. Accordingly, securities linked to SSM (amount included in the contract transfer HUF 236 576 million), their liability (LTRO) (amount included in the contract transfer is HUF 222 790 million), derivative contracts related to SSM activities (the amount included in the contract transfer is MIRS transactions HUF 17 257 million, and derivative transactions linked to other partners were also transferred), the Funding for Growth Programme opposite the MNB (amount included in the contract transfer HUF 304,927 million) and its holdings vis-à-vis MBH Bank (the amount included in the contract transfer is HUF 304,930 million) were transferred to the books of MBH Bank Plc. With regard to LTRO, the Bank transferred its contractual position to MBH Bank Plc. by a contract transfer pursuant to Section 6:208 of the Civil Code concluded on 24 April 2023, signed by the MNB as a claim-making party. On the working day following 30 April 2023, MBH Bank Plc. replaced the Company in all respects (both entitlements and obligations) in relation to the Framework Contracts, and which was accepted by the MNB as the remaining party to the contract. As a result of the contract transfer, MBH Bank Plc. is entitled to all rights and obligations that the Company had and had towards the MNB under the Framework Agreements.
The result effect of the above shall be that in Note 7. it is presented in a comment.

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Financial instruments stated at amortized cost: due to short-term maturity profiles, the carrying values of certain financial assets and liabilities were assumed to approximate their fair values.

All figures in tables are in HUF million except otherwise noted

These include cash and due from banks and with the National Bank of Hungary as well as deposits.

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

31.1. Fair value of financial assets measured at amortised cost

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

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

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

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

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

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

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

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

	31 December 2023		31 December 2022	
	Net book value	Fair value	Net book value	Fair value
Loans and advances	169,946	169,946	1,183,182	1,137,320

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

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

31.3. Fair value of financial instruments carried at fair value

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

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

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

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

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

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

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

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

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

All figures in tables are in HUF million except otherwise noted

- there are entity-specific factors, in which the entity operates.

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

When a quoted price of an equity instrument is not available the Bank shall measure during the selection of appropriate valuation techniques that primarily takes into account the future cash flows that a market participant would expect to receive from holding the equity instruments. Dividend and cash flow expectations are available from market reporting agent (Bloomberg, Reuters, S&P Market Intelligence), business reports, management letter of intent, etc.

The following table shows an analysis of financial instruments carried at fair value.

	31 December 2023		
	Level 1	Level 2	Level 3
Assets			
Derivative financial assets	1,604	22,180	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	10,505
Securities at fair value through other comprehensive income	-	5,294	138
Hedging derivative assets	-	-	-
Total assets carried at fair value	**1,604**	**27,474**	**10,643**

	31 December 2023		
	Level 1	Level 2	Level 3
Liabilities			
Derivative financial liabilities	10,316	12,150	-
Total liabilities carried at fair value	**10,316**	**12,150**	**-**

There were no transfers between the levels of the fair value hierarchy in 2023.

	31 December 2022		
	Level 1	Level 2	Level 3
Assets			

All figures in tables are in HUF million except otherwise noted

Derivative financial assets	41,404	94,892	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	11,792
Securities at fair value through other comprehensive income	44,396	-	119
Hedging derivative assets	-	-	-
Total assets carried at fair value	**85,800**	**94,892**	**11,911**

	31 December 2022		
	Level 1	Level 2	Level 3
Liabilities			
Derivative financial liabilities	34,280	95,529	-
Total liabilities carried at fair value	**34,280**	**95,529**	**-**

Instruments' movements in Level 3 2023	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Securities at fair value through other comprehensive income
Opening balance at 1 January 2023	**-**	**85**	**119**
Total comprehensive income			
Profit/(Loss)	-	(4)	-
Other comprehensive income	-	-	67
Transactions			
Purchase/portfolio growth	-	-	-
Sale of assets/Settlement/ Derecognition/	-	(32)	(48)
Closing balance at 31 December 2022	**-**	**49**	**138**

Instruments' movements in Level 3 2022	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Securities at fair value through other comprehensive income
Opening balance at 1 January 2022	**3,476**	**115**	**157**
Total comprehensive income			

All figures in tables are in HUF million except otherwise noted

Profit/(Loss)	-	15	11
Other comprehensive income	-	-	1
Transactions			
Purchase/portfolio growth	-	-	-
Sale of assets/Settlement/ Derecognition/	(3,476)	(45)	(50)
Transfers	**-**	**85**	**119**
Transfer to Level 3	**3,476**	**115**	**157**
Transfer from Level 3			
Closing balance at 31 December 2022	-	15	11

31.4. Fair value of derivative transactions

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

	Fair value		Notional amount	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Swap deals	190	1,989	38,674	134,389
FX futures deals	-	-	38	-
FX margin deals	578	1,193	60,065	46,038
Government bonds margin deals	-	399	0	17,270
IRS deals	6,861	60,778	65,145	279,536
MIRS deals	-	21,560	0	74,511
CCIRS deals	3,354	7,004	24,696	29,126
FX options	868	605	314,844	111,565
Futures government bonds	10,301	1,265	4,762	5,756
Other derivative deals	7	-	359	-
Total trading derivative assets	**22,159**	**94,794**	**508,583**	**698,191**
Total derivative financial assets	**22,159**	**94,794**	**508,583**	**698,191**

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Swap deals	337	829	46,699	77,913
FX futures deals	17	189	421	5,112
FX margin deals	1 106	1,958	95,757	85,297
Government bonds margin deals	0	556	883	18,074
IRS deals	6,662	84,667	65,145	361,274
MIRS deals	-	-	0	-
CCIRS deals	2,370	5,896	22,883	24,342
FX options	792	351	314,740	112,758
Futures government bonds	10,299	1,268	4,717	5,743
Other derivative deals	3	4	644	824
Total trading derivative liabilities	**21,586**	**95,718**	**551,889**	**691,337**
Total derivative financial liabilities	**21,586**	**34,770**	**551,889**	**651,027**

All figures in tables are in HUF million except otherwise noted

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

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position		Net amount after potential offsetting
			Financial instruments	Cash collateral received	
Financial assets for trading	22,159	22,159	21,586	-	573
Repurchase liabilities	56,985	56,985	-	56,985	-
Total	**79,144**	**79,144**	**21,586**	**56,985**	**573**

Liabilities subject to offsetting and potential offsetting agreements – 2023

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position		Net amount after potential offsetting
			Financial instruments	Cash collateral received	
Financial liabilities for trading	21,586	21,586	21,586	-	-
Repo agreements	16,615	16,615	-	16,615	-
Total	**38,201**	**38,201**	**21,586**	**16,615**	**-**

All figures in tables are in HUF million except otherwise noted

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

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position		Net amount after potential offsetting
			Financial instruments	Cash collateral received	
Financial assets for trading	73,233	73,233	96,917	-	(23,684)
Repurchase liabilities	103,684	103,684	-	103,684	-
Total	**176,917**	**176,917**	**96,917**	**103,684**	**(23,684)**

Liabilities subject to offsetting and potential offsetting agreements – 2022

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position		Net amount after potential offsetting
			Financial instruments	Cash collateral received	
Financial liabilities for trading	96,917	96,917	96,917	-	-
Repo agreements	22,201	22,201	-	22,201	-
Total	**119,118**	**119,118**	**96,917**	**22,201**	**-**

Bank employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column ‘Financial instruments’. If the net position is further secured by cash collateral or non-cash financial collaterals the effects are disclosed in columns ‘Cash collateral received / pledged’ and ‘Non-cash financial collateral received / pledged’ respectively.

All figures in tables are in HUF million except otherwise noted

Repurchase agreements are primarily financing transactions consisting of the sale of securities and their subsequent repurchase at a predetermined date and price. The essence of the transaction is that the transferred security remains with the lending party and serves as security if the debtor is unable to meet its obligations. The effect of netting repurchase agreements is shown in the column "Non-cash financial collateral received". The collateral is presented at the fair value of the securities transferred. In the event that the fair value of the collateral exceeds the carrying amount of the repurchase transaction, the recognised value should be reduced to its carrying amount. The remaining position can be secured with cash. The use of cash and non-cash collateral involved in such transactions shall not be permitted as long as it is designated as collateral.

32. RISK MANAGEMENT

32.1. Overview

MBH Investment Bank Co. Ltd. (in the following: Bank) is a member of the Integration Organization, as well as the management organization of the Integration under Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions (in the following: Szhitv.). As a consequence of its Integration membership, the Bank is subject to the risk management policies of the Integration. The Bank is a member of the MBH Group, therefore its operation must also comply with the group-wide internal regulations of MBH Bank Plc.

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

Based on the Section 5 of Article 1 of Szhitv. the Integration Organisation and its members are under the combined supervision according to Credit Institution Act. The Bank forms an independent (sub)consolidation group (MBH Integration Group) with subsidiaries subject to consolidated supervision, which is also part of the MBH Group controlled by MBH Bank Plc. In cooperation with MBH Bank Plc. as the main owner and with the Integration Organization, the Bank continued to perform the management functions of the MBH Integration Group during 2023.

As part of the merger processes taking place in the MBH Group, MKB Bank Plc. as MBH Bank Plc. (hereinafter MBH Bank), MTB Ltd. as MBH Investment Bank Ltd., and Takarek Mortgagebank Plc. as MBH Mortgagebank Plc. continue its activities from 01.05.2023. Duna Takarek Bank joined the Integration on 01.08.2023 and became a member of MBH Bank Prudential Group from 29.09.2023. From 01.12.2023, the group member continue its activities under the name MBH Dunabank Ltd.

If the conditions are met in the Article 10 of the EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council based on the Section 5 of Article 1 of Szhitv the integration of cooperative credit istitutions is exempted from individual applying of the requirements are defined in the Section (2)-(8) of CRR. According to the resolution no. H-JÉ-I-209/2014 (on 3 March 2014) the National Bank of Hungary (MNB) authorized the members of the Integration to apply individual exemption based on the Article 10 of CRR. MBH Dunabank was granted an individual exemption under Article 10 of the CRR by the National Bank of Hungary in its decision H-EN-I-397/2023 dated 03.08.2023.

MBH Bank's group-level risk strategy defines the range of risks that the Bank and other members of the MBH Integration Group can take on, the risk management and measurement tools to be applied, and defines the general risk-taking principles and rules to be followed by the Bank. In the course of its operations, the Bank strives to maintain a risk culture that ensures the identification, measurement and management of emerging risks in accordance with risk appetite. Internal policies, strategies, regulations and guidelines, communication and employee training are the primary tools for a corresponding risk culture. The Integration and its member institutions seek to create an integrated and Integration-wide risk culture that ensures the identification, measurement and management of emerging risks in accordance with their risk appetite and their level of risk tolerance.

The risk capacity of the Bank should be in line with the financial resources that are available to cover potential losses.
Prudent risk taking is a fundamental value for the Bank. In order to this risk management identifies, evaluates and analyses the exposures. It processes the information gained, develops risk guidelines, and operates risk management systems.

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

- applying best market practice approaches and methodologies in risk management
- identification and continuous monitoring of risk and yield profile of segments, products and risk positions
- consideration of the risks in business decisions
- separation the risk management organisation from the business division
- the importance of all stages of the risk management process
- the risk management process is the part of the Bank Group's management system, its aspects are integrated into the strategic and annual planning.

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

The Bank does not carry out lending activities towards non-financial counterparties and new credit risk exposure towards them does not form part of its core business, but it still has the right to do so and its internal regulatory background is in place.
However the services under the Act on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (Bszt.), and treasury activities continue to be provided by the Bank.

32.2. Risk management structure

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

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

Board of Directors
The Board of Directors is responsible for the MBHBB Bank's risk management policy and strategy. The Board of Directors approves the basic framework rules for risk management and guidelines of applicable methodologies. Due to the Integration Membership the Bank follows the Integration Risk Policy/ Strategy, applies uniform risk management policies and reports about its risks to the Board of Directors and the Integration Organisation.
Based on regular risk exposure reports, the Board of Directors evaluate the risk management activities and the level of exposure of the Bank. If the level of exposure undertaken by the Bank does not correspond to the strategy the Board takes measures to mitigate the risks.

Risk Taking-Risk Management Committee
The members of the Committee are members of the Board of Directors who are not employed by MBHBB. The Committee is responsible in particular for:
a) preparing an expert opinion for senior executives on MBHBB's current and future risk-taking strategy and risk appetite,
b) supporting the Board of Directors in supervising the implementation of the risk-taking strategy,
(c) an examination of the consistency between the pricing principles and MBHBB's business model and risk-taking strategy; and
(d) an examination of the remuneration policy in terms of whether the incentive elements of the remuneration system established take into account MBHBB's risks, capital and liquidity position, and the probability and timing of incomes.
The Commission was dissolved on 21 June 2023.

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

Assets and Liabilities Committe (ALCO)
The Assets and Liabilities Committee exercise its authority relating to the asset and liability management, planning/controlling management, pricing and sales, product development, liquidity risk management, market risk management, credit and counterparty risk, concentration risks, operational risk, risk policy / risk strategy, capital management and other categories defined in the internal policies entrusted to the Committee.
The Assets and Liabilities Committee (ALCO) has the right make decisions according to the defined categories. The Committee determines the direction and proportions of the Bank's interest-bearing assets and liabilities business within the framework of the strategic and business plan. The Committee has different tasks related to the asset and liability management (ensuring liquidity, interest rate risk, exchange rate risk, capital adequacy, interest margin and funding risk management). Continuously monitors the liquidity position of the MBHBB and the Integration, makes suggestion for the interest rate policy. It creates and continuously maintains a balance between income and liquidity, always adhering to the principles of prudent operation.

Credit and Receivables Committee (CRC)
The committee makes decisions as it is determined in the internal regulation, it has competency for decisions in cases handled by the Credit Risk Management Regulation (Annex for Risk Decision Competence Order), and also acts as claims management committee.

Methodology Committee (MB)
The Methodology Committee exercise its authority at MBH group level and at individual bank level.
The Methodology Committee performs all the tasks required by law or supervisory recommendations from a risk control, a risk methodology, an operational risk management and an NPL committee in the areas specified in the Rules of Procedure of the Standing Committees. In detail:

- Defining risk strategy, risk self-assessment, risk appetite and related limits - proposing to the Board of Directors, allocating limits to group members

- Setting concentration and country risk limits, approving risk management principles, allocating and re-measuring limits
- Approval of changes in risk parameters affecting risk appetite, including risk methodological proposals related to product development
- Approval of risk regulations
- Regular and adhoc risk reports (credit risk, operational risk, large exposures, internal credit, other risks, except market and liquidity, which is the responsibility of the EFB)
- ICAAP-SREP methodological changes, parameters, credit ratings, etc. approval (Pillar 1 and Pillar 2, including market risk topics), monitoring, supervisory control
- Develop and monitor an SREP action plan
- Modeling framework changes, model validation system approval

Internal Audit

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

Risk evaluation and reporting system

The MBHBB measures its credit risk exposure in accordance with the methods defined in laws and integration policies. It also calculates the loss under different stress scenarios.
In terms of liquidity as well as interest, shares and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. The MBHBB collects and analyses data about events and losses related to operational risk. As a result of risk assessment the MBHBB determines the level of capital justified by the level of acceptable exposure.
Risk Taking-Risk Management Committee, the Boards of Directors and the Supervisory Board evaluate the reports on risks of the MBHBB and its subsidiaries on a quarterly basis.

32.3. Risk mitigation

Interest rate and exchange rate risks

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

Credit risk

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

The Bank transferred its loan portfolio to Takarékbank Ltd. on 1 May 2019, so its credit risk exposure has largely been ceased, and the assumption of new credit risks is not part of its core business. However, the right exists furthermore, the internal regulatory background is given.

The Bank minimizes risks towards partner banks by means of bilateral agreements.

32.4. Credit risk

32.4.1. Credit rating

Impairment

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

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

Staged Approach to the Determination of Expected Credit Losses

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

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

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

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

Financial Assets that are credit impaired upon initial recognition are categorised purchased or originated credit-impaired (POCI) with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these (POCI) assets is discussed further below.

Significant Increase in Credit Risk

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

Credit Impaired Financial Assets in Stage 3

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

Specifically, a Financial Asset is credit impaired and in Stage 3 when:

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

For Financial Assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. The estimation of ECLs is done on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual Financial Assets in these portfolios via the Bank's ECL model for homogeneous portfolios.

Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Group expects to receive.

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

Default

The Bank classifies and treats customers and exposures as defaults under Article 178 (1) of CRR. A default of a particular customer shall be deemed to have occurred if one or both of the following occurs:

(a) the Institution considers that the counterparty is unlikely to meet its credit obligations (UTP) to the institution, its parent undertaking or any of its subsidiaries in full, unless the institution seeks recourse to call the collateral;

(b) a significant credit obligation of the obligor to the Institution, the parent undertaking or any of its subsidiaries is past due for more than 90 days.

Purchased or Originated Credit Impaired Financial Assets

A Financial Asset is considered purchased or originated credit-impaired if there is objective evidence of impairment at the time of initial recognition (i.e., rated in default by Credit Risk Management). Such defaulted Financial Assets are termed POCI Financial Assets. Typically the purchase price or fair value at origination embeds expectations of lifetime expected credit losses and therefore no separate credit loss allowance is recognised on initial recognition. Subsequently, POCI

Financial Assets are measured to reflect lifetime expected credit losses (LTECL), and all subsequent changes in lifetime expected credit losses, whether positive or negative, are recognised in the income statement as a component of the provision for credit losses.

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

32.4.2. Model Descriptions - Expected Credit Loss

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

Rating-Related Indicators:

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

Process-Related Indicators:

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

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

Expected Lifetime model
The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.

Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk.
The expected lifetime is estimated by taking into consideration historical information and the Bank's Credit Risk Management actions such as credit limit reductions and facility cancellation. Where such facilities are subject to an individual review by Credit Risk Management, the lifetime for calculating expected credit losses.

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

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

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

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

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

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

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

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

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

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

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

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

LGD is defined as the likely loss intensity in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. Conceptually, LGD estimates are independent of a customer's probability of default. The LGD models ensure that the main drivers for losses (i.e., different levels and quality of collateralization and customer or product types or seniority of facility) are reflected in specific LGD factors. In our LGD models we assign collateral type specific LGD parameters to the collateralized exposure.
The EAD over the lifetime of a Financial Asset is modelled taking into account expected repayment profiles. We apply specific Credit Conversion Factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as the expected amount of the credit exposure to a counterparty at the time of its default. In instances where a transaction involves an unused limit, a percentage share of this unused limit is added to the outstanding amount in order to appropriately reflect the expected outstanding amount in case of a counterparty default.

Impact of the pandemic on credit risk management
In addition to the above, the Bank has updated the macro parameters for the entire portfolio, using the latest parameters available in the MNB Inflation Report. The updated risk parameters have also been implemented in the lifetime ECL calculation.

In addition, MNB expects that the risk arising from modelling uncertainty needs to be mitigated.

In summary, the Bank's current modelling methodology, using the above information, provides the opportunity to develop risk profiles that are well-defined from a client management perspective. The management overlays have been created due to the uncertainties arising from the current economic situation, the expectations of the regulatory environment and the future volatility of the economic situation.

IFRS 9 credit risk tables are presented below.

Credit risk exposure 2023

31 December 2023	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired financial asset	Total
Gross carrying amount per asset type					
Cash on hand	1,294	-	-	-	1,294
Investment grade	*1,294*	-	-	-	*1,294*
Cash balances at central banks	34,595	-	-	-	34,595
Investment grade	*34,595*	-	-	-	*34,595*
Other demand deposits	64,614	-	-	-	64,614
Investment grade	*64,614*	-	-	-	*64,614*
Securities at fair value through other comprehensive income	5,295	-	-	-	5,295
Investment grade	5,295	-	-	-	5,295
Due from banks	169,049	-	-	-	169,049
Investment grade	*169,049*	-	-	-	*169,049*

All figures in tables are in HUF million except otherwise noted

Credit risk exposure 2023 (continued)

31 December 2023 (continued)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired financial asset	Total
Gross carrying amount per asset type					
Advances	899	-	636	-	1,535
Investment grade	*899*	-	-	-	*899*
Default grade	-	-	*636*	-	*636*
Total gross carrying amount	**275,746**	**-**	**636**	**-**	**276,382**
Loss allowance	16	-	636	-	652
Total carrying amount	**275,730**	**-**	**-**	**-**	**275,730**

31 December 2023	Gross exposure	Impairment	Carrying amount	Fair value of collateral held
Credit-impaired assets (stage 3)				
Advances	636	636	-	-
Total credit-impaired assets	636	636	**-**	**-**

All figures in tables are in HUF million except otherwise noted

IFRS 9 credit risk tables are presented below.

Credit risk exposure 2022

31 December 2022	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired financial asset	Total
Gross carrying amount per asset type					
Cash on hand	5,143	-	-	-	5,143
Investment grade	*5,143*	-	-	-	*5,143*
Cash balances at central banks	194,730	-	-	-	194,730
Investment grade	*194,730*	-	-	-	*194,730*
Other demand deposits	65,299	-	-	-	65,299
Investment grade	*65,299*	-	-	-	*65,299*
Securities at fair value through other comprehensive income	44,397	-	-	-	44,397
Investment grade	44,397	-	-	-	44,397
Securities measured at amortised cost	233,323	-	-	-	233,323
Investment grade	*233,323*	-	-	-	*233,323*
Due from banks	947,927	-	-	-	947,927
Investment grade	*947,927*	-	-	-	*947,927*
Default grade	-	-	-	-	-
Non-investment grade	-	-	-	-	-

All figures in tables are in HUF million except otherwise noted

Credit risk exposure 2022 (continued)

31 December 2022 (continued)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired financial asset	Total
Gross carrying amount per asset type					
Advances	3,065	-	535	-	3,600
Investment grade	*3,065*	-	-	-	*3,065*
Default grade	-	-	*535*	-	*535*
Total gross carrying amount	**1,493,884**	**-**	**535**	**-**	**1,494,419**
Loss allowance	1,210	-	535	-	1,745
Total carrying amount	**1,492,674**	**-**	**-**	**-**	**1,492,674**

31 December 2022	Gross exposure	Impairment	Carrying amount	Fair value of collateral held
Credit-impaired assets (stage 3)				
Advances	535	535	-	-
Total credit-impaired assets	**535**	**535**	**-**	**-**

All figures in tables are in HUF million except otherwise noted

Impairment movement table

Type of device	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired financial assets	
Impairment loss as at 1 January 2023	**1,210**	**-**	**535**	**-**	**1,745**
New financial assets originated or purchased	-	-	-	-	-
Changes in PDs/LGDs/EADs	(431)	-	101	-	(330)
Exchange rate and other movements	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	(763)	-	-	-	(763)
Impairment loss as at 31 December 2023	**16**	**-**	**636**	**-**	**652**

All figures in tables are in HUF million except otherwise noted

Impairment movement table

Type of device	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired financial assets	
Impairment loss as at 1 January 2022	**1,933**	**-**	**496**	**-**	**2,429**
New financial assets originated or purchased	-	-	-	-	-
Changes in PDs/LGDs/EADs	(723)	-	39	-	(684)
Exchange rate and other movements	-	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	-	-	-	-
Impairment loss as at 31 December 2022	**1,210**	**-**	**535**	**-**	**1,745**

Provision movement table

Asset type	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Provision at 1 January 2023	**266**	**104**	**(86)**	**284**
Movements with P&L impact				
New financial assets originated or purchased	-	-	-	-
Changes in PDs/LGDs/EADs	-	-	-	-
Exchange rate and other movements	-	-	-	-
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(284)	-	-	(284)
Provision as at 31 December 2023	**(18)**	**104**	**(86)**	**-**

All figures in tables are in HUF million except otherwise noted

Provision movement table

Asset type	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Provision at 1 January 2022	**282**	**348**	**(86)**	**544**
Movements with P&L impact				
New financial assets originated or purchased	-	-	-	-
Changes in PDs/LGDs/EADs	(12)	(244)	-	(256)
Exchange rate and other movements	-	-	-	-
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(4)	-	-	(4)
Provision as at 31 December 2022	**266**	**104**	**(86)**	**284**

All figures in tables are in HUF million except otherwise noted

Credit risk exposure on loan commitments and financial guarantees

31 December 2023	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Interbank credit risk exposure	-	-	-	-
Total credit risk exposure	**-**	**-**	**-**	**-**

Credit risk exposure on loan commitments and financial guarantees

31 December 2022	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	Total
Interbank credit risk exposure	337,763	-	-	337,763
Total credit risk exposure	**337,763**	**-**	**-**	**337,763**

All figures in tables are in HUF million except otherwise noted

32.4.3. Collaterals and other means for improving the loans portfolio

As a result of asset transfers, the Bank no longer records collateral. More information on transfers of assets can be found in Note 30. can be found in the explanation relating to the transfer of contract set out in the note.

The table below shows the structure of the collaterals:

	31 December 2023	31 December 2022
Mortgage	-	-
Deposit	-	22,927
from: securities	-	22,927
Total	**-**	**22,927**

The table below shows the maximum credit risk exposure:

	31 December 2023	31 December 2022
Other demand deposit	64,611	65,276
Financial assets at fair value through other comprehensive income	5,294	44,396
Debt securities measured at amortized cost	-	233,323
Loans from banks	62,777	572,276
Due from banks	106,272	375,651
Advances	1,535	3,600
Off-balance sheet commitments	-	24,898
Total gross credit risk exposure	**240,489**	**1,319,420**

32.5. Market risk

Market risks are including the interest rate risk and equity risk in the trading book (position risk), furthermore foreign exchange rate risk from the complete banking activity.
The MTB leads trading book, maintains low its interest rate-, equity-, and foreign exchange rate risk exposure by means of eligible limit system and test of key controls.

32.6. Interest risk

Interest risk derives from interest rate changes, which affect the value of financial instruments. A bank is also exposed to interest risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The MTB Bank assess interest risk on a continuous basis with the help of Gap-analysis and sensitivity analysis. Besides the effect of the unbeneficial interest rate scenarios is monitored continuously with stress testing: how can change the MTB's interest income and expense, or the long term economic capital value. The Bank manages market risk mainly by natural hedging through the eligible content of securities and derivative portfolio.

All figures in tables are in HUF million except otherwise noted

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

	Sensitivity of interest income 12/31/2022+1 bp	Sensitivity of interest income 12/31/2021+1 bp	Sensitivity of interest income 12/31/2022 +10 bp	Sensitivity of interest income 12/31/2022 +25 bp
HUF	(1)	(42)	(31)	(69)
EUR	-	-	(1)	-

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.
The sensitivity of net income is the estimated effect of a 1 basis point increase in interest rates on interest income for one year, which is based on the change in net interest income on floating rate financial assets and liabilities on the last day of the current year or revalued in the following year. This means that one year in advance from 31 December 2023, with an increase in interest rates of 1 basis point, the estimated net interest income for HUF items may decrease by about HUF 1 million, and for EUR, and CHF the change is negligible.

32.7. Share risk management

The Bank assumes a trading position in equities. The Bank basically holds hedging equity positions in investment services, while it holds a minimum of speculative equity positions.

32.8. Exchange rate risk management

According to Bank's business policy intention, it intends to keep the risk arising from different currencies at a low level, and to hold an open currency position up to the limit specified in the trading book.
The business policy of the Bank is to keep exchange rate risk at a low level.
The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. The Bank applies VAR calculations and stress tests on the measurement of the foreign exchange exposures.

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

FX	Effect on earning before income tax (31 December 2023)	Effect on capital (31 December 2023)	Effect on earning before income tax (31 December 2022)	Effect on capital (31 December 2022)
EUR	(870)	(870)	(1,756)	(1,756)
USD	49	49	(793)	(793)
CHF	113	113	140	140
Other	(469)	(469)	(580)	(580)

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

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax and the share capital could decrease with HUF 870 thousand, in case of USD items with HUF 469 thousand, and in case of other foreign currency items with HUF 49 thousand, while it could increase in case of CHF items with HUF 113 thousand.

Separate FX financial position of the bank in terms of main currencies:

31 December 2023	HUF	EUR	CHF	Other	Total
Total assets and derivatives	325,536	60,419	3,439	20,482	409,876
Total liabilities and derivatives	(293,166)	(63,540)	(3,715)	(14,087)	(374,508)
Shareholders' equity	(35,368)	-	-	-	(35,368)
Off-balance sheet items	-	-	-	-	-
Position	**(2,998)**	**(3,121)**	**(276)**	**6,395**	**-**

Separate FX financial position of the bank in terms of main currencies:

31 December 2022	HUF	EUR	CHF	Other	Total
Total assets and derivatives	1,664,521	61,931	814	15,013	1,742,279
Total liabilities and derivatives	(1,635,756)	(66,093)	(920)	(10,019)	(1,713032)
Shareholders' equity	(29,491)	-	-	-	(29,247)
Off-balance sheet items	(23,978)	(74)	-	-	(24,052)
Position	**(24,704)**	**(4,236)**	**(106)**	**4,994**	**(24,052)**

32.9. Liquidity and maturity risk

The liquidity is the ability of the institute to fund its asset increasing and to serve its payment obligations entirely as they fall due without having unplanned liquidation losses.
Liquidity risk is associated with maturity transfers for profitability, long-term placements of short-term funds, environmental impacts and the behavior of other market participants.

The Bank is responsible for the liquidity of the Integration. The most common method of measuring and analyzing liquidity risk is based on cash flow analysis. In the liquidity risk analysis, the Bank analyzes the funding needs arising from the balance of outflows and inflows into maturity bands and compares the accumulated funding gap measured over different time horizons with the level of balancing capacities. The Bank tends to perform the analysis not only on the total cash movements converted into HUF, but also on the most important foreign currencies for the institution.

The Bank characterizes liquidity risks with several indicators and limits, the most important of which are based on regulatory indicators (DMM, JMM, LCR, NSFR, required reserve ratio) and various liquidity stress tests. In addition,the Bank operates an early warning system to detect liquidity disturbances in a timely manner.

Non-discounted contractual maturity breakdown of liabilities (In the table, the interest maturity breakdown includes only the value of accrued interest)

31 December 2023	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Financial liabilities held for trading	-	2,193	11,945	4,991	3,337	-	**22,466**
Deposits	65,174	27,409	-	-	-	-	**92,583**
Due to banks	-	16,901	6	150,039	4	1	**166,951**
Subordinated liabilities	-	742	-	0	8,000	-	**8,742**
Other financial liabilities	62,140	13,295	463	882	2	-	**76,782**
Provisions	-	0	109	-	-	-	**109**
Tax liabilities	-	-	3,652	14	-	64	**3,730**
Other liabilities	-	3,145	-	-	-	-	**3,145**
Total banking liabilities	**127,314**	**63,685**	**16,175**	**155,926**	**11,343**	**65**	**374,508**

All figures in tables are in HUF million except otherwise noted

Non-discounted contractual maturity breakdown of liabilities (In the table, the interest maturity breakdown includes only the value of accrued interest)

31 December 2022	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Total
Banking liabilities							
Financial liabilities held for trading	-	34,091	4,963	3,519	22,588	64,648	**129,809**
Deposits	182,419	276,368	-	245,776	-	-	**704,563**
Due to banks	-	23,201	7,235	457,279	28,074	276,383	**792,172**
Subordinated liabilities	-	708		-	8,000		**8,708**
Synthetic EUR loan	-	14	-	-	1,429	-	**1,443**
Other financial liabilities	65,792	596	182	197	-	-	**66,767**
Provisions	-	-	375	-	-	-	**375**
Tax liabilities	-	-	2,197	-	-	-	**2,197**
Other liabilities	-	5,156	6	1,836	-	-	**6,998**
Contingent liabilities (off-balance-sheet item)	-	24,908	-	-	-	-	**24,908**
Total banking liabilities	**248,211**	**365,042**	**14,958**	**708,607**	**60,091**	**341,031**	**1,737,940**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2023

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	100,490	-	**100,490**
Financial assets held for trading	13,333	10,450	**23,783**
Non-trading financial assets mandatorily at fair value through profit or loss	7	10,498	**10,505**
Financial assets at fair value through other comprehensive income	-	5,432	**5,432**
Financial assets at amortised cost	164,942	5,004	**169,946**
Investments in subsidaries, joint ventures and associates	-	82,878	**82,878**
Tangible assets	-	3,188	**3,188**
Intangible assets	-	4,451	**4,451**
Tax assets	2	-	**2**
Other assets	9,196	5	**9,201**
Total assets	**287,970**	**121,906**	**409,876**
Liabilities			
Financial liabilities held for trading	14,138	8,328	**22,466**
Financial liabilities measured at amortised cost	186,130	158,928	**345,058**
Provisions	109	-	**109**
Tax liabilities	3,652	78	**3,730**
Other liabilities	3,145	-	**3,145**
Total liabilities	**207,174**	**167,334**	**374,508**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2022

	Less than 12 months	Over 12 months	Total
Assets			
Cash, cash balances at central banks and other demand deposits	265,097	-	**265,097**
Financial assets held for trading	33,772	102,524	**136,296**
Non-trading financial assets mandatorily at fair value through profit or loss	10	11,782	**11,792**
Financial assets at fair value through other comprehensive income	-	44,515	**44,515**
Financial assets at amortised cost	607,053	576,129	**1,183,182**
Investments in subsidaries, joint ventures and associates	-	78,637	**78,637**
Tangible assets	-	2,367	**2,367**
Intangible assets	-	3,714	**3,714**
Tax assets	3	3	**6**
Other assets	16,668	5	**16,673**
Total assets	**922,603**	**819,676**	**1,742,279**
Liabilities			
Financial liabilities held for trading	39,054	90,755	**129,809**
Financial liabilities measured at amortised cost	556,515	1,017,138	**1,573,653**
Provisions	375	-	**375**
Tax liabilities	2,197	-	**2,197**
Other liabilities	5,162	1,836	**6,998**
Total liabilities	**603,303**	**1,109,729**	**1,713,032**

The members of Integration Organisation of Cooperative Credit Institution (SZHISZ) should – with regard to the several responsibility system of the Integration – examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured for the members of SZHISZ by the relevant statutory and resolution of the National Bank of Hungary. The MBH Investment Bank of Hungarian Saving Cooperatives Co. Ltd. is member of the SZHISZ, as a result above exemption also applies to them, according to this the individual liquidity ratios (LCR and NSFR) are not presented in the separate financial statement.

32.10. Management of operational risk

Operational risk is managed primarily by improving internal rules and regulations, training of staff involved in the various processes, and further enhancement of built-in control mechanisms. The exploration and measurement of the risks is performed by the Bank through the collection of the data of the operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment.
The Bank performed the oprisk self-assessment referring to the key activities, and identified rare but severe loss events that will be assessed by scenario analysis.

All figures in tables are in HUF million except otherwise noted

In accordance with the supervisory expectations the Bank are compiled an inventory of the models used to assess model risks and a product inventory to identify the risks inherent in the products.

32.11. Treatment of risk concentration

The Bank, given that real estate does not account for a significant proportion of collateral, was not exposed to developments in the real estate market on the collateral side.

33. CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

The members of Integration Organisation of Cooperative Credit Institution (SZHISZ) should examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured by the relevant statutory and resolution of the National Bank of Hungary.

The audited financial statements' data of the integration members' capital adequacy will be published by the MTB Ltd. in the Disclosure documents of the business year.

34. RELATED PARTY TRANSACTION

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

The list of the related parties, - including the subsidiaries, associates and other shares of the Takarek Mortgage Bank Plc. - as at 31 December 2023 is the following. They are presented from the perspective of **the main parent company, MBH Bank Ltd**.:

Company	Classification	Share%	Core business
MBH Bank Plc.	**Main parent company**	**-%**	Other monetary intermediation
MBH Blue Sky Ltd.	Subsidiary	-%	Asset management
MBH Duna Bank Plc.	Subsidiary	-%	Other monetary intermediation
Mitra Informatikai Plc	Subsidiary	2%	Data services, web hosting services
MBH Jelzálogbank Plc.	Subsidiary	48%	Other lending
Euroleasing Ingatlan Plc.	Related company	-%	Other lending
Takarék Ingatlan Plc.	Subsidiary	100%	Estate agent service
MBH Szolgáltatások Plc.	Subsidiary	87%	Own renting and operating real estate
MBH Domo Ltd.	Subsidiary	-%	Own property real estate buying and selling
Takarék Faktorház Plc.	Subsidiary	100%	Other lending
Takarékszövetkezeti Informatikai Ltd.	Subsidiary	52%	IT service
Takarék Zártkörű Befektetési Alap	Subsidiary	93%	Investment fund
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Subsidiary	31%	Investment fund
OPUS TM1 Ingatlan Befektetési Alap	Subsidiary	-%	Investment fund
MBH Vállalati Abszolút Hozamú Kötvény Bef. Alap	Subsidiary	-%	Investment fund
Magyar Strat-Alfa Plc.	Associate	-%	Own property real estate buying and selling
MBH Ingatlanfejlesztő Ltd.	Subsidiary	-%	Own renting and operating real estate
Euroleasing Plc.	Subsidiary	-%	Financial leasing
MBH Bank MRP Szervezet	Subsidiary	-%	Other activities auxiliary to financial services
Retail Prod Plc.	Subsidiary	-%	Other lending
Budapest Eszközfinanszírozó Plc.	Subsidiary	-%	Other tangible assets leasing
Budapest Lízing Plc.	Subsidiary	-%	Financial leasing
MBH Befektetési Alapkezelő Plc.	Subsidiary	-%	Fund Management

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

31 December 2023	Outstanding capital	Interest	Type of loans
Loans with maturity within the year	-	-	-
Loans with maturity beyond the year	-	-	-
Total	**-**	**-**	**-**

31 December 2022	Outstanding capital	Interest	Type of loans
Loans with maturity within the year	-	-	-
Loans with maturity beyond the year	-	-	-
Total	**-**	**-**	**-**

	31 December 2023		31 December 2022	
	Head-count	The amount of emoluments	Head-count	The amount of emoluments
Members of Board of Directors	11	58	6	28
Members of Supervisory Board	10	38	6	18
Total payments	**21**	**96**	**12**	**46**

Compensation for managers in a key position includes only short-term benefits.

All figures in tables are in HUF million except otherwise noted

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

31 December 2023	Parent	Subsidiearies and Related companies	Key management
Due from banks	222,066	131	-
Other assets	16,254	4,350	-
Total assets	**238,320**	**4,481**	**-**
Due to banks	(233,236)	(29,683)	-
Other liabilities	(8,947)	(1,083)	-
Total liabilities	**(242,183)**	**(30,766)**	**-**
Interest income	47,100	24,169	-
Interest expense	(53,672)	(39,682)	-
Net interest income	**(6,572)**	**(15,513)**	**-**
Dividend income	-	887	**-**
Dividend income	**-**	**887**	**-**
Fee and commission income	1,348	1,695	-
Fee and commission expense	(1,614)	(1,038)	-
Net fee and commission income	**(266)**	**657**	**-**
Other income	102,981	17,193	-
Other expense	(62,032)	(9,228)	-
Operating income	**40,949**	**7,965**	**-**
Operating expense	(21)	(2,447)	(96)
Profit/loss on transactions with related parties	**34,089**	**(8,451)**	**(96)**

All figures in tables are in HUF million except otherwise noted

31 December 2022	Parent	Subsidiearies and Related companies	Key management
Due from banks	259,608	671,538	-
Other assets	1,401	30,258	-
Total assets	**261,009**	**701,796**	**-**
Due to banks	314,478	507,536	-
Other liabilities	10,035	46,243	-
Total liabilities	**324,513**	**553,779**	**-**
Interest income	6,999	17,200	-
Interest expense	(12,152)	(38,629)	-
Net interest income	**(5,153)**	**(21,429)**	**-**
Fee and commission income	-	4,571	-
Fee and commission expense	(35)	(1,965)	-
Net fee and commission income	**(35)**	**2,606**	**-**
Other income	2,548	31,221	-
Other expense	(1,508)	(37,811)	-
Operating income	**1,040**	**(6,590)**	**-**
Operating expense	(229)	86	(46)
Profit/loss on transactions with related parties	**(4,377)**	**(25,327)**	**(46)**

All figures in tables are in HUF million except otherwise noted

Subsidiaries and related companies financial data preliminary, data

Related party	31 December 2023				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
HUN Bankbiztosítás Ltd.	25%	1 012	143	869	839
Mitra Informatikai Plc.	2%	27,564	20,421	7,143	1,691
MBH Mortgage Bank Plc.	48%	906,587	828,382	78,205	6,663
Takarék Ingatlan Plc.	100%	697	40	657	57
MBH Szolgáltatások Plc.	87%	35,132	2 110	33,022	396
Takarék Faktorház Plc.	100%	454	54	400	105
Takarékszövetkezeti Informatikai Ltd.	52%	1,183	3	1,180	48
Takarék Zártkörű Befektetési Alap	93%	16,337	8	16,329	4,039
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	31%	37,460	28	37,432	45
MBH Bank Plc.	0,001%	11,008,621	10,027,989	980,632	118,316
Takarék Kockázati Tőkealap	23%	11,158	112	11,046	(612)
Takarék Egyesült Szövetkezet	2%	1,713	147	1,566	170

All figures in tables are in HUF million except otherwise noted

Subsidiaries and related companies financial data preliminary, data

Related party	31 December 2022				
	Direct holding %	Assets	Liabilities	Equity	Profit or loss
Mitra Informatikai Plc. (Takarékinfo Központi Adatfeldolgozó Zrt. jogutód)	2%	31,030	24,480	6,550	386
Takarék Jelzálogbank Plc.	48%	813,948	742,911	71,037	1,811
Takarék Ingatlan Plc.	100%	727	127	600	13
TIFOR Takarék Ingatlanforgalmazó Plc.	77%	6,476	94	6,382	219
TIHASZ Takarék Ingatlanhasznosító Plc.	90%	26,679	534	26,145	(122)
Takarék Faktorház Plc.	100%	9,647	8,752	895	253
Takarékszövetkezeti Informatikai Ltd.	52%	1,691	6	1,685	(17)
Takarék Zártkörű Befektetési Alap	93%	10,715	6	10,709	51
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	49%	24,119	7	24,112	705
Takarék Kockázati Tőkealap	23%	11,936	109	11,827	169

All figures in tables are in HUF million except otherwise noted

35. NET GAINS

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

1 January 2023 – 31 December 2023	Financial assets/liabilities held for sale	Non-trading financial assets/ liabilities mandatory at fair value through profit or loss	Financial assets/ liabilities at fair value through other comprehensive income	Financial assets/liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liablities	Not linked to financial instruments	Total
Interest income	41,534	-	1,543	68,383	-	5,837	-	117,297
Interest expenses	(40,881)	-	-	(73,782)	-	(120)	-	(114,783)
NET INTEREST INCOME	**653**	**-**	**1,543**	**(5,399)**	**-**	**5,717**	**-**	**2,514**
Fee and commission income	-	-	-	-	-	19,902	-	19,902
Fee and commission expenses	-	-	-	-	-	(18,011)	-	(18,011)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**1,891**	**-**	**1,891**
DIVIDEND INCOME	**4**	**-**	**-**	**-**	**-**	**0**	**1,486**	**1,490**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	0	-	1,418	11,653	-	-	-	13,071
Gains on financial assets and liabilities held for trading, net	6,946	-	-	-	-	-	-	6,946
Gains on non-trading financial assets mandatorily at fair value through profit or loss	-	(1,231)	-	-	-	-	-	(1,231)
Other income	-	-	-	-	-	-	9,579	9,579
Other expense	-	-	-	-	-	-	(516)	(516)
OPERATING INCOME	**7,603**	**(1,231)**	**2,961**	**6,254**	**-**	**7,608**	**10,549**	**33,744**

All figures in tables are in HUF million except otherwise noted

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

1 January 2022 – 31 December 2022	Financial assets/liabilities held for sale	Non-trading financial assets/ liabilities mandatory at fair value through profit or loss	Financial assets/ liabilities at fair value through other comprehensive income	Financial assets/liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liablities	Not linked to financial instruments	Total
Interest income	36,187	-	2,642	49,082	10	-	335	88,256
Interest expenses	(36,984)	-	-	(55,488)	-	-	(226)	(92,698)
NET INTEREST INCOME	**(797)**	**-**	**2,642**	**(6,406)**	**10**	**-**	**109**	**(4,442)**
Fee and commission income	-	-	-	-	-	17,591	-	17,591
Fee and commission expenses	-	-	-	-	-	(14,194)	-	(14,194)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**3,397**	**-**	**3,397**
DIVIDEND INCOME	**11**	**-**	**12**	**-**	**-**	**-**	**-**	**23**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	638	-	-	-	638
Gains on financial assets and liabilities held for trading, net	15,634	-	-	-	-	-	-	15,634
Gains on non-trading financial assets mandatorily at fair value through profit or loss	-	40	-	-	-	-	-	40
(Losses) from hedge accounting, net	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	1,115	10,798	11,913
Other expense	-	-	-	-	-	-	(461)	(461)
OPERATING INCOME	**14,848**	**40**	**2,654**	**(5,768)**	**10**	**4,512**	**10,446**	**26,742**

All figures in tables are in HUF million except otherwise noted

36. EQUITY CORRELATION TABLE

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

31 December 2023	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	Treasury shares (-)	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	***3,390***	***-***	***3,479***	***-***	***24,738***	***-***	***-***	***(2,539)***	***6,300***	***35,368***
Accumulated other comprehensive income	-	-	-	-	873	(873)	-	-	-	-
Repurchased treasury shares	-	-	-	-	(2,539)	-	2,539	-	-	-
General reserve	-	-	-	638	(638)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	***3,390***	***-***	***3,479***	***638***	***22,434***	***(873)***	***2,539***	***(2,539)***	***6,300***	***35,368***

All figures in tables are in HUF million except otherwise noted

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

31 December 2022	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	Treasury shares (-)	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	***3,390***	***-***	***3,479***	***-***	***30,894***	***-***	***-***	***(2,539)***	***(5,977)***	***29,247***
Accumulated other comprehensive income	-	-	-	-	694	(694)	-	-	-	-
Repurchased treasury shares	-	-	-	-	(2,539)	-	2,539	-	-	-
General reserve	-	-	-	8	(8)	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	***3,390***	***-***	***3,479***	***8***	***29,041***	***(694)***	***2,539***	***(2,539)***	***(5,977)***	***29,247***

All figures in tables are in HUF million except otherwise noted

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

	31 December 2023	31 December 2022
Share capital in accordance with IFRS adopted by EU	3,390	3,390
Share capital registered on the Registry Court	3,390	3,390
Difference	**-**	**-**

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

	31 December 2023	31 December 2022
Retained earnings and other reserves	24,738	30,894
Unused portion of reserve for developments	-	-
Other capital reserve	-	-
Accumulated other comprehensive income	873	694
Repurchased treasury shares	(2,539)	(2,539)
General reserve	(638)	(8)
Net profit for the year	6,300	(5,977)
Untied retained earnings available for the payment of dividends	**28,734**	**23,064**

All figures in tables are in HUF million except otherwise noted

37. POST BALANCE SHEET EVENTS

There have been no significant events after the balance sheet date and no presentation is required.

MBH Investment Bank

BUSINESS REPORT FOR 2023

Szabolcs Károly Brezina
Chief Executive Officer

Péter Krizsanovich
Deputy Chief Financial and Strategy Officer

Budapest, 3 April 2024

1. HISTORY OF MBH INVESTMENT BANK

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 Takarékbank 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 sells its highly diversified investment services uniformly 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.

2. THE OPERATIONAL ENVIRONMENT OF MBH INVESTMENT BANK

The international and domestic economic developments in 2023 continued to be affected by the military conflict between Russia and Ukraine, 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 oil's risk premium, which partly curbed the decrease in crude oil prices in the last quarter of 2023. In addition, since late December, Houthi rebels in the Red Sea have started attacking merchant ships bound for Israel, as a result of which some ships can only safely carry goods around Africa, which could increase inflation risks in Europe in 2024 and potentially cause disruptions in supply chains.

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

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

The 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 had converged to the base rate by September 2023. By the end of 2023, the base rate had fallen to 10.75%; the rate cut was facilitated by a steeper-than-expected fall in inflation in the second half of last year, a spectacular improvement in the external balance and a more favourable global investor mood towards the end of the year.
According to the January release of the Ministry of Finance, the central budget cash deficit in 2023 was HUF 4,593.4 billion, 135% of the revised estimate. The cash balance of the budget is worsened by the fact that in 2023, pre-financing of EU tenders exceeded the payments received from the EU, without which the cash deficit would have been HUF 573 billion lower. The fiscal picture is also affected by indirect acquisitions of public assets. The deficit is also influenced by the burden of household utility expense subsidies for the protection of the population. Based on the financial accounts, the budget could reach an accrual deficit of around 6.5% of GDP in 2023. The reduction in the debt-to-GDP ratio could continue despite the large government deficit, with the ratio falling to close to 72% by the end of 2023, thanks in large part to strong nominal GDP growth.

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

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

3. THE PROFITS AND PROFITABILITY OF MBH INVESTMENT BANK IN 2023

The transformation of MBH Investment Bank towards a new operating model has started in Q2 2023. In order to develop the new business strategy of the MBH Group, the asset and liability management activities of MBH Investment Bank Ltd. have been transferred to MBH Bank Plc. MBH Investment Bank transferred the contracts related to monetary policy instruments, as well as the performance agreements related to the fulfilment of reserve obligations and bank card settlement to MBH Bank Plc. by contract on 31 May 2023, thus operating only the Money and Capital Markets and Investment Services (Markets) business line in terms of its business functions.

The impact of the transformation towards the new operating model is reflected in a significant reorganisation of the Bank's balance sheet and profit and loss structure.

In accordance with the IFRS individual annual report, the total assets of MBH Investment Bank amounted to HUF 409.9 billion at the end of 2023, down significantly from the previous year due to the model change.

With the merger of Takarékbank and MBH Bank, MBH Investment Bank no longer performs the account-keeping banking function of Takarékbank, no longer fulfils its reserve obligations towards the NBH, no longer borrows the refinancing funds for the loan transactions concluded by Takarékbank as a partner of the NBH within the framework of the Funding for Growth Program (NHP), which it had transferred to the Bank in the form of a loan facility. These functions are now performed by MBH Bank.

On the liabilities side, the decrease in amounts due to banks was accompanied by a decrease in deposits on the assets side, which were placed to NBH and credit institutions, and the securities portfolio and derivatives were also emptied by the transfer of holdings. However, the amount of investments in subsidiaries increased during the year.

ASSETS (HUF million)	31.12.2023.	31.12.2022.	Change	Change%
Cash and cash equivalents	**100,490**	**265,097**	**-164,607**	**-62.1%**
Financial assets measured at fair value through profit or loss	**34,288**	**148,088**	**-113,800**	**-76.8%%**
Financial assets measured at fair value through other comprehensive income	**5,432**	**44,515**	**-39,083**	**-87.8%**
Financial assets measured at amortised cost	**169,946**	**1,183,182**	**-1,013,236**	**-85.6%**
Loans and advances to banks	112,062	843,302	-731,240	-86.7%
Repurchase assets	56,985	103,684	-46,699	-45.0%
Securities	0	233,131	-233,131	-100.0%
Other financial assets	899	3,065	-2,166	-70.7%
Investments in subsidiaries and associates	**82,878**	**78,637**	**4,241**	**5.4%**
Property, plant and equipment	**3,188**	**2,367**	**821**	**34.7%**
Intangible assets	**4,451**	**3,714**	**737**	**19.8%**
Income tax assets	**2**	**6**	**-4**	**-66.7%**
Other assets	**9,201**	**16,673**	**-7,472**	**-44.8%**
Total assets	**409,876**	**1,742,279**	**-1,332,403**	**-76.5**

Total liabilities and equity (HUF million)	31.12.2023.	31.12.2022.	Change	Change%
Financial liabilities measured at fair value through profit or loss	**22,466**	**129,809**	**-107,343**	**-82.7%**
Derivative financial liabilities	21,586	95,718	-74,132	-77.4%
Short positions	880	34,091	-33,211	-97.4%
Financial liabilities measured at amortised cost	**345,058**	**1,573,653**	**-1,228,595**	**-78.1%**
Amounts due to banks	242,919	1,474,534	-1,231,615	-83.5%
Repurchase liabilities	16,615	22,201	-5,586	-25.2%
Subordinated debt	8,742	8,708	34	0.4%
Other financial liabilities	76,782	68,210	8,572	12.6%
Provisions	**109**	**375**	**-266**	**-70.9%**
Income tax liabilities	**3,730**	**2,197**	**1,533**	**69.8%**
Current income tax liabilities	3,652	2,197	1,455	66.2%
Deferred income tax liabilities	78	0	78	-
Other liabilities	**3,145**	**6,998**	**-3,853**	**-55.1%**
Total liabilities	**374,508**	**1,713,032**	**-1,338,524**	**-78.1%**

Share capital	3,390	3,390	0	0.0%
Treasury shares	-2,539	-2,539	0	0.0%
Share premium	3,479	3,479	0	0.0%
Retained earnings	24,973	31,580	-6,607	-20.9%
Other reserve	638	8	630	-
Profit for the year	6,300	-5,977	12,277	-205.4%
Accumulated other comprehensive income	-873	-694	-179	25.8%
Total equity	**35,368**	**29,247**	**6,121**	**20.9%**
Total liabilities and equity	**409,876**	**1,742,279**	**-1,332,403**	**-76.5%**

The **after-tax profit** (profit for the year) of MBH Investment Bank was HUF 6.3 billion in 2023. **Other comprehensive income** amounted to only HUF -0.2 million, which put **total comprehensive income** for 2023 at HUF 6.1 billion.

Return on Assets (ROA) increased from -0.37% to 0.59% due to the profit for the year. The Return on Equity (ROE) boosted to 19.5%.

Statement of profit and loss (HUF million)	31.12.2023.	31.12.2022.	Change	Change%
Interest and similar to interest income	117,297	88,256	29,041	32.9%
Interest and similar to interest expense	-114,783	-92,698	-22,085	23.8%
Net interest income	**2,514**	**-4,442**	**6,956**	**-156.6%**
Income from fees and commissions	19,902	17,591	2,311	13.1%
Expense from fees and commissions	-18,011	-14,194	-3,817	26.9%
Net income from commissions and fees	**1,891**	**3,397**	**-1,506**	**-44.3%**
Results from financial instruments measured at fair value through profit or loss, net	5,715	15,674	-9,959	-63.5%
Results from financial instruments measured at fair value through other comprehensive income, net	1,418	0	1,418	-
Results from financial instruments measured at amortized cost, net	11,653	638	11,015	-
of which financial assets measured at amortised cost	-42,152	638	-42,790	-
of which financial liabilities measured at amortised cost	53,805	0	53,805	-
Exchange differences result, net	-1,826	-7,623	5,797	-76.0%
Results from financial instruments	**16,960**	**8,689**	**8,271**	**95.2%**
(Impairment) / Reversal on financial instruments held for credit risk management	1,081	497	584	117.5%
Provision (loss) / gain	284	284	0	0.0%
(Impairment) / Reversal on investments in subsidiaries and associates	1,711	-5,052	6,763	-133.9%
(Impairment) / Reversal on other financial and non-financial instruments	1	-3	4	-133.3%
(Impairment) / Reversal on financial and non-financial instruments	**3,077**	**-4,274**	**7,351**	**-172.0%**
Dividend income	1,490	23	1,467	-
Operating expense	-23,663	-22,366	-1,297	5.8%
Other income	9,579	11,913	-2,334	-19.6%
Other expense	-516	-461	-55	11.9%
Result from assets held for sale	0	4,821	-4,821	-100.0%
Profit before taxation	**11,332**	**-2,700**	**14,032**	**-**
Income tax income / (expense)	-5,032	-3,277	-1,755	53.6%
Profit for the year	**6,300**	**-5,977**	**12,277**	**-205.4%**

Other comprehensive income (HUF million)	31.12.2023.	31.12.2022.	Change	Change%
Profit for the year	6,300	-5,977	12,277	-205.4%
Other comprehensive income	-179	704	-883	-125.4%
Items that may not be reclassified to profit or loss	67	1	66	-
Items that may be reclassified to profit or loss	-246	703	-949	-135.0%

Total comprehensive income for the year	**6,121**	**-5,273**	**11,394**	**-216.1%**

Net interest income amounted to HUF 2.5 billion in 2023, with a significant increase in net interest income despite the significant decrease in interbank portfolios. Falling central bank base rate and market interest rates reduced interest paid on funds from credit institutions more than interest income from NBH lending, with securities interest income rising further year-on-year.

The drop in **net income from commissions and fees** is due to a decrease in commissions related to cash flow (account management, bank card) in line with the restructuring of MBH Investment Bank. Commission income from treasury transactions, option fees and commission income from securities services increased during the year.

The **result from financial operations** show a significant increase in 2023 due to the income achieved on FX transactions on the one hand, and on the other hand, MBH Investment Bank recorded a result of HUF 13.0 billion as a one-off result of the transfer of the portfolio to MBH Bank Plc. related to the transformation of its operating model.

Provisioning and impairment improved the result by HUF 3.1 billion in 2023. An impairment loss of HUF 2.2 billion was reversed on the stake in the Takarék Zártkörű Befektetési Alap.

Dividends from subsidiaries and associates amounted to HUF 1.5 billion in 2023.

The **operating expense** increased by 5.8% compared to the previous year. In 2023, there was a wage increase for the impact of inflation, but at the same time HUF 6.0 billion extra profit tax of was charged this year. The reduction in expert fees is in line with the Bank's strategic plan and the reorganisation of processes within the Group.

Other operational profits include, among other things, income from intermediary services, and internal service level agreements. The amount of other operational profits decreased from HUF 11.9 billion in 2022 to HUF 9.6 billion. The Bank recognises the subsidy from bank tax as **other expenses**.

In 2023, the total shareholder equity of the MBH Investment Bank increased from HUF 29.2 billion to HUF 35.4 billion. The members of the integration warranty community (forming a capital community) shall meet prudential capital requirements in common, which MBH Investment Banking Group continued to satisfy in 2023 (the Group's capital adequacy ratio was 44.6% at the end of the year).

4. THE CORPORATE GOVERNANCE POLICY OF MBH INVESTMENT BANK IN 2023

From April 2022, the main owner of MBH Investment Bank Ltd. (former MTB Ltd.) will be MBH Bank Plc. MBH Investment Bank will perform the management functions of the Group in cooperation with MBH Bank Plc. and the Integration Organisation, in accordance with the group regulations issued by MBH Bank.

As for business activities, the capital market and treasury areas are still operated within MBH Investment Bank just as the unified investment service provider function.

4.1. 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.

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 MBH 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 has passed, new companies have entered the market to exchange money. Temporarily closed exchange offices have reopened and new branches have 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 Investment Bank Ltd. 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, Granit 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 Banking Group:

- 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.

5. INVESTMENT

Until 2021, MBH Investment Bank (before 01.05.2023 MTB) operated the investment division as an independent unit within the MTB Group in order to fulfil its business management function, focusing on the optimisation and restructuring of the subsidiary system of Takarék Group, the management of the subsidiary portfolio and the execution of transactions in order to implement the long-term strategy of the former Takarék Group.

As of 2022, the uniform management of the subsidiaries, including the subsidiaries of MBH Investment Bank (before 01.05.2023 MTB), was elevated to the level of the Banking Group, which was accompanied by the group-wide standardisation of tasks and the streamlining of the subsidiary structure. In 2023, there were no significant changes in the subsidiary portfolio, however, as a result of the consolidation and insourcing of certain bank group functions, the business activities of Takarék Faktorház and Takarék Ingatlan were transferred to MBH Bank and were spun off. By the end of 2023, the total investment portfolio of MBH Investment Bank increased from HUF 90.4 billion to HUF 94.8 billion, thanks to the growth in the stock and value of investment units.

The main factors behind the increase in the portfolio are the HUF 2.5 billion capital increase in the Takarék Zártkörű Befektetési Alap and the increase in the net asset value of the Fund MBH Investment Bank by more than HUF 2.2 billion, allowing for the reversal of the full impairment.

On 31 December 2023, the following companies were included in the priority investments of MBH Investment Bank:

- Takarék Faktorház Ltd.
- Takinfo Llc.
- MITRA Informatikai Ltd. (formerly Takarékinfo Központi Adatfeldolgozó Ltd.)
- MBH Jelzálogbank Plc. (formerly Takarék Jelzálogbank Plc.)
- Takarék Ingatlan Ltd.
- MBH Szolgáltatások Ltd.

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

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 customers to MITRA Ltd. (formerly Takarékinfo), and its assets consist of real estate property.

MITRA Informatikai Ltd. (formerly: **Takarékinfo Központi Adatfeldolgozó Ltd.**) is a company majority-owned by MBH Bank Plc., in which MBH Investment Bank holds a direct 2.45% stake, the main activity of which is the provision of IT services (primarily to the members of Banking Group, 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.

MBH Investment Bank continued to hold a 48.42% stake in **MBH Mortgage Bank Plc**. at the end of 2023.

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 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.

On 4 October 2019, Takarékbank established TIHASZ Takarék Ingatlanhasznosító Ltd. with HUF 50 million equity capital, with the aim of incorporating the banking properties of the cooperative integration into this company and the main task of the company to manage and lease these properties to Takarékbank Ltd.

As a result of the repeated capital increases through (real estate) recapitalisation, TIHASZ Takarék Ltd.'s equity increased to HUF 25.8 billion in 2020 and reached HUF 26.1 billion at the end of 2022. On 25 September 2020, MBH Investment Bank Ltd. (before 01.05.2023 MTB) purchased 23,419 ordinary shares of series 'A' in TIHASZ Takarék Ingatlanforgalmazó Ltd. from Takarékbank Ltd. for Takarékbank Ltd. on behalf of TIHASZ Takarék (total offer price HUF 23,419 million).

During 2022, the liquidation of the former real estate management company Hajdú-Rent Llc. "v.a.", 100% owned by Takarékbank (which became a property management company after the merger of Savings Cooperatives), was completed, as a result of which the ownership share of Takarékbank Ltd. in the company increased to 9.21%.

As of 31 December 2022, TIFOR Ltd. was merged - together with two other MKB subsidiaries with a real estate profile - into TIHASZ Ltd., which took the name MBH Szolgáltatások Ltd. as of 01.05.2023.

6. THE RISK POSITION OF MBH INVESTMENT BANK LTD.

The risk management activities of Bank are regulated by the Hungarian and EU legislation in force and by other 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.

Risk Strategy

MBH's Group level Risk Strategy defines the scope of risks that can take and the risk management and measurement tools to be applied, as well as the general risk-taking principles and rules to be followed by the Bank.

In its operations, Banking 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 Banking risk management activities are to protect the Bank's financial strength and reputation and to contribute to the use of capital for competitive business activities that enhance shareholder value.

The Bank's risk appetite should be consistent with the financial resources available to cover potential losses. In order to ensure this, the Bank calculates 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, the main factor influencing the change in credit risk was the change in methodologies due to the Russian-Ukrainian war and the evolving geopolitical and economic situation.

The Bank 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.

The Bank's current modelling and impairment methodology provides the opportunity to develop risk profiles that are well-defined from a client management perspective and to set aside 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 Bank continues to manage operational risk primarily through internal policies, rules of procedure and the operation of built-in control mechanisms in line with defined supervisory requirements. MBH's Group Level Operational Risk Management Policy and Operational Risk Management Rules set out the methodology for the operational risk management framework tools used by the Bank.
The operational risk loss data collection is based on uniform definitions and limits. The Bank promotes the recognition and identification of operational risks with internal training.

The adequacy of key risk indicators (KRIs) is reviewed by the Bank every year, several KRIs were modified in 2023 and new group level KRIs defined by MBH were implemented.

The Bank conducts operational risk self-assessments for its key activities, and uses scenario analysis to assess the impact of events that occur infrequently but could result in severe losses if they were to occur.

The Bank’s operational risk events and the results of operational risk monitoring are reported on a quarterly basis.

With regard to operational risk, the Bank's management attaches great importance to feedback. An essential aspect is the implementation and monitoring of the effectiveness of the measures taken to eliminate operational risks.

7. DEVELOPMENT PROSPECTS, EXPECTATIONS AND PLANS FOR 2024

MBH Bank's strategic objective was to create an integrated bank with unified management from the merging credit institutions by the second half of 2023, building on the strengths and the prominent market positions of the merging credit institutions in each segment. It can also be resilient in the face of challenges such as rapidly changing customer needs, unprecedented speed of technological development, or increasing market competition.
With the integration of Budapest Bank, MKB Bank and Takarékbank, a single financial institution will serve Hungary's residents and businesses from 2023 under the name of MBH Bank, and is set to transform the traditional image of banks. After the transformation, the new bank will continue to operate the largest branch network in Hungary, will remain committed to serving people in small and medium-sized towns and will become a major market player with a strong digital orientation.

MBH Bank is building its strategy around a 4-element vision, with national champion positioning at its core:

- National champion positioning by serving all customer segments while maintaining local community values.
- Building an integrated bank by 2023 to maximize synergies and reduce uncertainties.
- A modern banking culture and workforce strategy to retain and continuously develop employees.

- Sustainable value creation in line with ownership expectations by managing banking market risks.

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 and continuous capability development.
- 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.
- To increase profitability in the medium term, supported by the exploitation of synergies and capital position.
- Setting a new, growth-based financial path with significant earnings, an efficient capital course and major cost reductions.

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, streamlining corporate processes. The focus in the next period will be on improving internal performance in key areas: catching up revenue potential with customer-base 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 owns a huge amount of data, the effective use of which is essential to exploit business opportunities. Analytical methods should be used to use the data assets to create business value: by increasing margins, strengthening cross-selling, reactivating inactive customers and cost optimisation.

Economic environment and 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 spillover 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. Al 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.

8. ENVIRONMENTAL PROTECTION

Although the Bank does not pursue business or non-profit activities related to environmental protection, it strives to ensure an environmentally conscious workplace, maintains and cares for the natural vegetation and ornamental plants in its direct environment. It pursues to apply energy-saving solutions during its operation. In its internal trainings it emphasizes the importance of energy and environmentally conscious corporate and employee behaviour.

9. HUMAN RESOURCES POLICY

The full-time equivalent employment of MBH Investment Bank at the end of 2023 was 412, below the same figure in 2022 (2022: 414).

Talent management at MBH Bank:

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.

10. SERVICES OF THE AUDITING COMPANY

The fee for the auditing company as stipulated by the relevant 2023 auditing contract is HUF 46 million (excluding VAT). No additional audit fees were incurred for other audit services in 2023. In addition, the auditor provided other non-audit services during the year.

11. MAJOR POST BALANCE SHEET DATE EVENTS

There have been no significant events after the balance sheet date and no presentation is re-quired.