



OPENING NEW ROADS

MFB Hungarian Development Bank Private Development Company

Annual Report

31 December 2023

Contents of annual report:

**Consolidated Financial Statements and related documents as at
31 December 2023**

Declaration for Consolidated Financial Statements

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**Annual Stand-alone Financial Statements and related documents as at 31
December 2023**

Declaration for Annual Stand-alone Financial Statements

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Stand-alone Management Report

Stand-alone Corporate Governance Report

DECLARATION

MFB Hungarian Development Bank Private Limited Company (hereinafter: “Bank” or “MFB Zrt.”) fulfils its obligation to prepare consolidated annual financial statements pursuant to Article 10 paragraph (2) of Act C of 2000 on Accounting by preparing consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) published in the form of a regulation in the Official Journal of the European Union.

On behalf of MFB Zrt., we hereby declare that the consolidated annual financial statements for the year 2023, prepared in accordance with IFRS as adopted by the EU contain true data and statements, and do not fail to disclose any fact that may be of relevance for assessing the financial position of the Group. The consolidated financial statements for the year 2023 prepared in accordance with the applicable accounting standards and to our best knowledge, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the consolidated management report gives a fair view of the position, development and performance of the Group, together with a description of the principal risks and uncertainties that they face.

The Bank has prepared its consolidated financial statements in the format prescribed by the COMMISSION DELEGATED REGULATION (EU) 2019/815 of 17 December 2018 on supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format. The digitally signed version of the consolidated financial statements – as part of the annual report – available for inspection at the Bank's registered office (H-1051 Budapest, Nádor utca 31., Hungary), and can be downloaded from the official website of MFB Zrt. at the following link:

<https://www.mfb.hu/en/reports-s2012>

Budapest, 8 April 2024

dr. Levente Sipos - Tompa
Chairman and Chief Executive Officer

Vojnits Tamás Péter
Managing Director

**MFB HUNGARIAN DEVELOPMENT BANK
PRIVATE LIMITED
COMPANY AND ITS SUBSIDIARIES**

Consolidated Financial Statements

in accordance with International Financial Reporting Standards
as adopted by the EU

31 December 2023

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MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Statement of Financial Position - 31 December 2023
(amounts presented in million HUF)

ASSETS	Notes	2023	2022
Cash, cash balances at central banks and other demand deposits	4	404 217	99 001
Financial assets held for trading	9	2 715	2 454
Derivatives		2 715	2 454
Non-trading financial assets mandatorily at fair value through profit or loss	5	639 722	407 465
Debt securities		603 156	369 647
Loans		36 566	37 818
<i>Loans to customers</i>		5 316	6 459
<i>Loans to banks</i>		31 250	31 359
Financial assets at fair value through other comprehensive income	6	91 317	92 026
<i>Of which assets encumbered</i>		890	729
Equity instruments		40 263	31 489
Debt securities		51 054	60 537
Financial assets at amortized cost	7	1 870 770	1 849 096
<i>Of which assets encumbered</i>		302 255	319 668
Debt securities		443 550	439 103
Loans		1 376 709	1 378 824
<i>Loans to customers</i>		1 298 418	1 298 497
<i>Loans to banks</i>		78 291	80 327
Other financial assets		23 510	4 322
Deposits at central and other banks		27 001	26 847
Derivatives – Hedge accounting	9, 10	7 831	15 128
Fair value changes of the hedged items in portfolio hedge of interest rate risk	10	11 550	0
Investments in associates	8	335 965	267 935
Property, plant and equipment	11	6 215	6 579
Investment property	11.1	33 941	33 750
Intangible assets	12	7 312	6 815
Tax assets	33	885	72
Current tax assets		696	0
Deferred tax assets		189	72
Other assets	13	26 718	31 441
Receivables from the state due to currency-hedging agreement	14	166 085	182 040
TOTAL ASSETS		3 605 243	2 993 802

The accompanying notes to financial statements on pages 8 to 158 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Statement of Financial Position - 31 December 2023
(amounts presented in million HUF)

LIABILITIES	Notes	2023	2022
Financial liabilities held for trading	9	8 508	4 062
Derivatives		8 508	4 062
Financial liabilities measured at amortized cost	15	2 819 352	2 257 815
Customer deposits		110 936	48 520
Loan from banks		933 853	786 907
Debt securities issued	15.1	1 762 504	1 402 562
Other financial liabilities		12 059	19 826
Derivatives – Hedge accounting	9, 10	14 187	0
Provisions	16	6 346	4 940
Tax liabilities	33	4 012	4 288
Current tax liabilities		264	1 263
Deferred tax liabilities		3 748	3 025
Other liabilities	17	28 445	33 431
TOTAL LIABILITIES		2 880 850	2 304 536
Share capital	18	519 900	519 900
Share premium	18	84 773	81 870
Valuation reserve		(653)	(5 505)
Retained earnings		119 081	91 943
Other reserves	19	1 292	1 058
Equity attributable to the owner		724 393	689 266
Non-controlling interest	20	0	0
TOTAL EQUITY		724 393	689 266
TOTAL EQUITY AND LIABILITIES		3 605 243	2 993 802

Budapest, 8 April 2024

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Tamás Péter Vojnits
Managing Director

The accompanying notes to financial statements on pages 8 to 158 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Income Statements - 31 December 2023
(amounts presented in million HUF)

	Notes	2023	2022
Interest income calculated using the effective interest method		137 055	106 569
Other similar income		80 799	10 115
Interest expenses		(193 998)	(71 004)
Net interest income	22	23 856	45 680
Dividend income	23	946	5
Fee and commission income		6 732	6 182
Fee and commission expenses		(982)	(1 004)
Net Fee and commission income or expenses	24	5 750	5 178
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		126	485
Gains or (-) losses on financial assets and liabilities held for trading, net	25	(6 420)	(1 254)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	26	21 128	10 385
Gains or (-) losses from hedge accounting, net	10	(1 743)	652
Exchange differences [gain or (-) loss], net		5 841	3 781
Gains or (-) losses on derecognition of non-financial assets, net		220	480
Other operating revenue and income	27	13 513	14 242
Total operating income		63 217	79 634
Salaries and employee benefits		(17 153)	(16 264)
Other administrative expenses		(8 330)	(7 204)
Administrative expenses	28	(25 483)	(23 468)
Depreciation		(2 448)	(2 475)
Other operating expenses	27	(14 973)	(16 408)
Contract modification loss, net	7.1.1	(3 230)	(3 018)
Impairment (-) or reversal of impairment of financial instruments	30	3 938	(17 561)
Impairment (-) or reversal of impairment of investments in exempted associates	31	(2 060)	(2 163)
Impairment (-) or reversal of impairment of non-financial instruments	32	(40)	(7)
Profit or (-) loss from associates	8	12 390	14 884
Profit before tax		31 311	29 418
Tax expense related to profit or loss	33	(2 694)	(2 571)
Profit for the year		28 617	26 847
Profit attributable to non-controlling interest	20	0	0
Profit attributable to the owner		28 617	26 847

The accompanying notes to financial statements on pages 8 to 158 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Other Comprehensive Income Statements - 31 December 2023
(amounts presented in million HUF)

	Notes	2023	2022
Profit for the year		28 617	26 847
Other comprehensive income	6	4 852	(3 163)
Items that will not be reclassified to profit or loss		(1)	375
Change in fair value of equity instruments at fair value through other comprehensive income		(1)	411
Tax impact of items that will not be reclassified to profit and loss		0	(36)
Items that may be reclassified to profit or loss		4 853	(3 538)
Debt instruments at fair value through other comprehensive income		4 942	(3 538)
Fair value change		4 9420	(3 538)
Profit recognized in the income statements		0	0
Tax impact of items that will be reclassified to profit and loss		(89)	0
Total comprehensive income for the year		33 469	23 684
<i>Comprehensive income, (-) expense attributable to non-controlling interest</i>		0	0
Comprehensive income, (-) expense attributable to the owner		33 469	23 684

The accompanying notes to financial statements on pages 8 to 158 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Statement of Changes in Shareholder's Equity - 31 December 2023
(amounts presented in million HUF)

	Notes	Share Capital 18	Share premium 19	Other Reserves 19	Retained earnings	Valuation reserve 6	Non- controlling interest 20	Total
Balance at 1 January 2022		349 900	81 870	439	66 228	(2 342)	0	496 095
Profit for the year					26 847			26 847
Other comprehensive income						(3 163)		(3 163)
Total comprehensive income					26 847	(3 163)		23 684
General reserve allocation	19			619	(619)			0
Capital increase	18	170 000						170 000
Changes in ownership					(208)			(208)
Sale of FVOCI investments					(305)			(305)
Balance at 31 December 2022		519 900	81 870	1 058	91 943	(5 505)	0	689 266
Profit for the year					28 617			28 617
Other comprehensive income						4 852		4 852
Total comprehensive income					28 617	4 852		33 469
General reserve allocation	19			234	(234)			0
Capital increase	18	0						0
Capital contribution	18		2 903					2 903
Changes in ownership					(1 167)			(1 167)
Sale of FVOCI investments					(78)			(78)
Balance at 31 December 2023		519 900	84 773	1 292	119 081	(653)	0	724 393

The accompanying notes to financial statements on pages 8 to 158 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Statement of Cash Flows - 31 December 2023
(amounts presented in million HUF)

	Notes	2023	2022
Operating cash flow			
Profit/(loss) before tax		31 311	29 418
<i>Adjustments to profit before tax</i>			
Depreciation and amortization		2 448	2 475
Fair valuation impact		(12 969)	(9 783)
Impact of equity method applied for associates		(14 308)	(14 884)
Net profit/loss on sale of non-financial instruments		(220)	(480)
Net interest income	22	(23 856)	(45 680)
Dividend income	23	(946)	(5)
Change in provisions		1 649	819
Change in impairment		(3 522)	18 912
Operating cash flow		(20 413)	(19 208)
<i>Decrease/(increase) in operating assets</i>			
Non-trading financial assets mandatorily at fair value through profit or loss		(207 847)	(231 132)
Financial assets at fair value through other comprehensive income		7 382	(49 842)
Financial assets at amortized cost, except debt securities		515	(158 894)
Other assets		5 748	(3 130)
Receivables from the State due to currency-hedging agreement		15 954	(19 959)
<i>Increase/(decrease) in operating liabilities</i>			
Financial liabilities measured at amortized cost, except issued bonds		205 061	96 720
Other liabilities		(44 346)	41 907
<i>Actual cash flow movements</i>			
Interest received		213 371	98 396
Dividend received	23	2 864	5
Interest paid		(193 698)	(44 939)
Income tax paid		(3 288)	(2 095)
Net cash provided by/ (used in) operating activities		(18 697)	(292 171)

The accompanying notes to financial statements on pages 8 to 158 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Statement of Cash Flows - 31 December 2023
(amounts presented in million HUF)

	Notes	2023	2022
Cash flow from investing activities			
Payments for debt securities held at amortized cost	7.2	(20 781)	(90 478)
Proceeds from debt securities held at amortized cost	7.2	15 858	37 676
Investments in associates		(64 083)	(150 557)
Proceeds from sale of investments in subsidiaries and associates		363	565
Payments for property, plant and equipment and intangible assets and investment properties		(2 778)	(3 045)
Proceeds from sale of property, plant and equipment		32	29
Net cash (used in) / provided by investing activities		(71 389)	(205 810)
Cash flow from financing activities			
Capital increase		0	170 000
Capital contribution		2 903	0
Proceeds from bond issuance	15.1	723 986	382 821
Repayments for issued bond at maturity	15.1	(330 363)	(124 673)
Finance lease liability payments		(702)	(707)
Net cash provided by financing activities		395 824	427 441
Gross change in cash and cash equivalents		305 738	(70 540)
<i>Cash and cash equivalents as at 1 January</i>	4	99 011	169 551
<i>Cash and cash equivalents as at 31 December</i>	4	404 749	99 011

The accompanying notes to financial statements on pages 8 to 158 form an integral part of these consolidated financial statements

1. PRINCIPAL ACTIVITIES OF THE GROUP

MFB Hungarian Development Bank Private Limited Company (the “Bank” or “HDB”) is registered as a single, stock company under Hungarian law and is licensed to conduct specialized banking activities. The Bank and its subsidiaries represent the MFB Group (hereinafter referred to “the Group”).

The legal status, the role, and the activities of the Bank are regulated by Act XX of 2001 on Hungarian Development Bank Ltd., Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, and the Articles of Association.

MFB Zrt. is responsible for providing the necessary development resources to achieve the economic development objectives set out in the Government's medium- and long-term economic strategy, partly independently and partly in cooperation with other domestic and international organizations in the following activities:

- a) the sourcing and mediation of medium and long term domestic and foreign funding and subsidies to achieve economic development aims;
 - b) loan and capital financing of investments in connection with – from a national economic aspect – preferential cases, and other state or local government developments and investments, and other developments and investments in connection or for the enlargements of these;
 - c) financing loans and capital for companies resident in Hungary – primarily small and medium enterprises sector –, holding funds established by law, agricultural businesses and farmers,
 - d) the financial execution of state and local government developments and investments related to EU membership, and the Bank participates in tasks related to the drawing of European Community funds (including mediation of subsidies and sourcing and mediation of resources from international economic or financial institutions);
 - e) attend in tasks related to state, communal and international development disbursements (especially management of mediation and use of development disbursements and subsidies, attend in relating contributory tasks, settlement and valuation of used disbursements);
 - f) the mediation of EU funds and in connection with this, loan and equity financing, providing guarantee and surety;
 - g) the exercising of owners’ rights in the name of the Hungarian State, and in case of State owned companies– participate in the realization of significant developments, investments, expansion, increasing of effectiveness and improvement of competitiveness and other roles defined in the HDB Law (see Note 40)
- to ensure sufficient development funding to achieve the economic development aims determined by the Government’s medium and long term economic strategy.

The Bank’s registered office is located at Nádor street 31, 1051 Budapest, Hungary. The Bank operates in Hungary. The Bank’s website address is www.mfb.hu

The Hungarian State has a 100% ownership share in the Bank. As of the State, as a shareholder, is represented by the minister responsible for national economy.

MFB Hungarian Development Bank Private Limited Company
Notes to Consolidated Financial Statements for the year ended 31 December 2023
(amounts presented are expressed in HUF million unless otherwise noted)

The Bank is obliged to have its consolidated financial statements audited. The details of the auditor are as follows:

Emese Tatár registered auditor
Registration number: 006433
K-E-S AUDIT Ltd.
20. Báthory Street, Budapest, 1054
Firm registration number: 001587

The person in charge to direct and manage the related accounting services
Krisztina Sulyok director
Chartered accountant registration number:006660

Those entitled to sign the consolidated financial statements
dr. Levente Sipos-Tompa Chairman and Chief Executive Officer
(15/A Táltos Street Budapest, 1123)
and
Tamás Péter Vojnits Managing Director
(22. Pozsonyi Street, Budapest, 1039)

A. Members of the Group (subsidiaries)

Name of the subsidiary	Activity	Owner	Voting power	
			2023	2022
MFB-Ingatlanfejlesztő Zrt.	Real estate portfolio management	MFB	100%	100%
MKK Magyar Követeléskezelő Zrt.	Workout/Factoring	MFB	100%	100%
MFB Növekedési Tőkealap ("NTA")	Venture capital fund	MFB	100%	100%
MFB Vállalati Beruházási és Tranzakciós Magántőkealap	Venture capital fund	MFB	100%	100%
MFB Invest Befektetési és Vagyonkezelő Zrt.	Investment portfolio management	MFB	99.99%	99.99%
Hiventures Kockázati tőkealap-kezelő Zrt.	Venture capital and private equity fund management	Invest	99.99%	99.99%
Divat&Design Tőkealap	Venture capital fund	Invest	99.99%	99.99%
FOCUS VENTURES Tőkealap-kezelő Zrt.	Private equity fund management			99.99%
Debrecen Városi Tőkealap	Private equity capital fund			99.99%
Székesfehérvár Városi Tőkealap	Private equity capital fund			99.99%
Veszprém Városi Tőkealap	Private equity capital fund			99.99%
Kaposvár Városi Tőkealap	Private equity capital fund			99.99%
Nyíregyháza Városi Tőkealap	Private equity capital fund			99.99%
Pécs Városi Tőkealap	Private equity capital fund			99.99%
Vidékfejlesztési Tőkealap	Private equity capital fund			99.99%

All the above companies are incorporated in Hungary.

MFB-Ingatlanfejlesztő Zrt. (MFB-Property Development Private Company Limited by Shares)

One of the company's activities is to register the real estates transferred from other MFB Group members, in addition to monitor the legal, technical and market status. It is also the company competence to decide on utilization or sale of those real estates. In line with its vision and approved strategy by MFB Zrt, in case of tenants or other potential utilization intention that fit into the Group's strategy it carries out such value-added developments at its own risk and expense that makes the real estates in all other respects suitable for functions according to the end-user's needs i.e., where necessary performs targeted property development activities.

MKK Magyar Követeléskezelő Zrt. (MKK Hungarian Claim Work-out Private Limited Company)

Financial enterprise responsible for purchasing of receivables, collection management, factoring activity. The company also acts as the Group's work out department, but mainly buys claims from other market players.

MFB Növekedési Tőkealap (MFB Growth Fund)

The purpose of the Fund is to finance such micro and small and medium enterprise (or in some cases large corporates) that are at the very beginning of their development phase. According to the usual venture capital terminology, these are the incubation-sized enterprises in the seed and occasionally growth phases. In particular, the Fund intends to build a portfolio of companies that develop and sell innovative products and services. The fund is managed by Hiventures Zrt.

MFB Vállalati Beruházási és Tranzakciós Magántőkealap (MFB Company Investment and Transaction Private Equity Fund) (former MFB KKV Tőkealap (MFB SME Fund))

MFB SME FUND was established in 2019 September and its main goals were to finance the M&A activities of the medium and small enterprises, strengthening and increasing the competitiveness and the productivity of the sector. The MFB SME Fund was transformed and renamed to MFB Company Investment and Transaction Private Equity Fund in the end of 2020. The new Fund dispose above HUF 75 billion, and its purposes meet the ones of the previous Funds. Accordingly, the following sub-markets can be considered as target groups:

- (i) the generation change,
- (ii) focusing M&A transactions
- (iii) develop economy
- (iv) restructuring and
- (v) turnaround.

The yields from the investments could be validated only on longer period. The fund is managed by Hiventures Zrt.

MFB Invest Befektetési és Vagyonkezelő Zrt. (MFB Investment and Asset Management Private Limited Company)

Private Equity firm responsible for financing of medium-sized and larger companies' development-type projects. It performs investments directly with acquiring shareholdings in enterprises or indirectly with investing to Funds. In accordance with the Government Decree No. 1512/2022. (X.24.) on the prospective scheme of how ownership rights and competences adhering to the State's direct and indirect investments in collective portfolio investments, NTH National Capital Holding Private Limited Company – obtaining one preference share within the company in December 2022, consequently, became a shareholder. In the new operational model MFB Invest Zrt. has signed a contract, based on which MFB Invest exercise the Bank's investor's rights in the funds where MFB participates as an investor, and maintain relationships with the different actors in connection of the state-owned funds from 2023.

Hiventures Kockázati Tőkealap-kezelő Zrt. (Hiventures Venture Capital Fund Management Company Limited by Shares)

Fund management company that primarily focused on Venture Capital investments until 2019. Since 2019, Hiventures Zrt. also participates in the establishment of private equity funds, which made it possible to finance large companies as well as SMEs, contributing to decreasing the private capital gap in the corporate sector as compared to the EU average. The fund manager is responsible for the management of funds directly and indirectly financed by MFB or directly by Eximbank Zrt. and also responsible for the management of EU-financed funds.

Divat&Design Tőkealap (Fashion & Design Fund)

The purpose of the Fund is to finance innovative, high growth, incubation, seed and growth/startup companies in the fashion and design sector. The fund is managed by Hiventures Zrt.

Sales, derecognitions

Debrecen Városi Tőkealap (Debrecen Urban Fund)

Székesfehérvár Városi Tőkealap (Székesfehérvár Urban Fund)

Kaposvár Városi Tőkealap (Kaposvár Urban Fund)

Veszprém Városi Tőkealap (Veszprém Urban Fund)

Nyíregyháza Városi Tőkealap (Nyíregyháza Urban Fund)

Pécs Városi Tőkealap (Pécs Urban Fund)

Vidékfejlesztési Tőkealap (Fund of Rural Development)

On February 1, 2023 the management of the urban funds that had been done formally by Focus Ventures Plc. was handed over to Global Capital Venture Management Plc, which fund manager does not belong to the Group, thus the urban funds were derecognized from the scope of the consolidation. The new management company worked out a more efficient and successful conception for the operation, and based on this merged the Székesfehérvár Urban Fund, the Kaposvár Urban Fund, the Veszprém Urban Fund, the Nyíregyháza Urban Fund, the Pécs Urban Fund and the Fund of Rural Development into the Debrecen Urban Fund on 17 April 2023, creating the Economic Development Capital Fund.

FOCUS VENTURES Tőkealap-kezelő Zrt. (FOCUS VENTURES Venture Capital Fund Management Company Limited by Shares)

NTH National Capital Holding Plc., who is responsible for co-ordination of and professional monitoring on the state funds, have bought 100% of the shares of Focus Ventures in November 2023.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) as adopted by the EU and in accordance with the provisions of act C of 2000 on accounting in force in Hungary for companies preparing their annual accounts under IFRS and in accordance with the provisions of act C of 2000 on accounting in force in Hungary for companies preparing their annual accounts under IFRS.

Consolidated financial statements were approved by the Board of Directors on 8 April 2024. The Separate Financial Statements were approved by the Board of Directors also on 8 April 2024.

The Bank’s consolidated and separate financial statements will be published on the same day. The accounting principles applied in the Bank’s separate financial statements do not differ from those used in the consolidated financial statements.

Basis of measurement

These consolidated financial statements have been prepared on historical cost or amortized cost basis except for those, which are measured at fair value. The Group measures the following assets and liabilities at their fair value:

- derivative financial instruments,
- financial assets or liabilities measured at fair value through profit or loss, and
- financial assets at fair value through other comprehensive income

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

Functional currency

Items included in the consolidated financial statements are measured using Hungarian Forint, the currency of the primary economic environment in which the entities of the Group operate (‘the functional currency’). These consolidated financial statements are presented in Hungarian Forints rounded to the nearest million (“HUF million”).

Foreign exchange rates used in these consolidated financial statements were the following:

	31 December 2023	31 December 2022
	(HUF)	(HUF)
EUR	382.78	400.25
USD	346.44	375.68
JPY	2.4414	2.8437
GBP	440.19	451.98
PLN	88.04	85.35
CHF	412.28	406.93
CZK	15.48	16.58

Reporting period

These consolidated financial statements are prepared for the reporting period between 1 January 2023 and 31 December 2023. The end of the reporting period is the reporting date.

Use of estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of income, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the financial statements with substantial management judgement and/or estimates are summarized below with respect to judgements/estimates involved.

Impairment

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of contractual future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by several factors, in which changes can result in different levels of allowances. The Group's expected credit loss calculations (ECL) are outputs of complex models with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns default probability to each rating category
- The Group's criteria for assessing if there has been a significant increase in credit risk and thus allowances for financial assets should be measured on a lifetime expected credit loss basis and the qualitative assessment
- Development of ECL models, including different ones: formulas, relationships between macroeconomic scenarios and economic inputs, collateral values; Impact on the probability of defaults, expected exposures at defaults and loss given defaults

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Further details see in note 3. c) vi) and note 36.

The cash flow estimations of the purchased credit impaired receivables are calculated in a model using 24–40-week periods depending on the type of receivables. During the applied recovery process, the receivables run out over 2-10 years on average, the return is concentrated for this period. The amount and timeliness of cash inflows is affected by the current market conditions, regulations in effect, the work of the courts, liquidators and the liquidation and final settlement procedures. The recovery rate is higher at the first period after the purchase (12-36 months) because the transactions of well-performing debtors run out sooner. This is followed by a period with lower recovery rate because of the inherent features of the recovery and the liquidation and final settlement procedures. The management regularly monitors and, if needed, adjusts the cash flow estimations and at the reporting date there is a complete review and update the estimation for the expected future cash flows. During the review all available past information and future expectations, which can affect the recovery of the purchased receivables, are taken into consideration.

Fair value

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 36.

Legal risk

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings arising in the ordinary course of the Group's business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group considers several factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and other contingencies see Note 16.

Exempted associates

On materiality basis and the usefulness of the information, the Bank exempts some associated companies from being consolidated by using equity method and presents them as not consolidated associates on their cost less accumulated impairment. The primary reason for the exemption is that these entities are immaterial therefore does not have impact on the financials. These associates are included in these financials with a 100% impairment. Companies in venture capital funds are also exempted from consolidation, as these firms do not have significant capital and their activities are not significant for the whole of the consolidated accounts of the Group. For these exempted companies, the numbers representing the extent of their activities are presented (see Note 8).

The effects of Covid-19 and the war emergency

The Covid-19 pandemic and the war emergency affected many areas of the economy, in response to which each country has made its own packages and rules to help and restart the economy. The Group assessed the impact on its own activities and on the activities of its clients and took them into account where it considered it necessary. The Group's management has assessed its ability to sustainably continue the operation of the business and is satisfied that it has the resources necessary to continue business activities for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. The measures taken due to Covid-19 and the war emergency, and any effects were presented in the appropriate locations of the report, so see notes 7.1.1, 13 and 36 for details.

3. MATERIAL ACCOUNTING POLICIES

a) Basis of consolidation

Subsidiaries

Subsidiaries are enterprises controlled by the Group. Control exists when the Group has power over the investee, has exposure, or rights, to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until that control effectively ceases.

Associates

Associates are those enterprises in which the Group has significant influence. Investments in associates are accounted for under the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of the investee's net assets. The Group's profit or loss includes its share of the investee's profit or loss and the Group's other comprehensive income includes its share of the investee's other comprehensive income.

Funds are treated as subsidiaries when the Fund manager is owned by the Group and the Group has exposures to the Fund as in this case the Group has the control over the Fund manager. When the Fund manager does not belong to the Group the fund is treated as an associate as though the control is not within the Group, but as the foundation of the given fund and therefore the setting of the basic management/investment policies give rise to the significant influence to the Group, and usually it also ensured that the Group get a seat in the Investment Committee. When the Fund manager is owned by the Group but the Group has no exposures to the Fund and/or the Fund manager can be replaced by anytime by the majority owner the given Fund is not considered to be part of the Group.

Transactions eliminated during consolidation

Intercompany assets, liabilities, income, expenses and costs, and any intercompany gains and losses are eliminated in preparing the consolidated financial statements.

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates of the National Bank of Hungary (NBH) prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except cash flow hedges and net investment hedges which are recognized in other comprehensive income and accumulated in reserves in equity. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to HUF at the foreign exchange rates quoted by the National Bank of Hungary at that date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined.

c) Financial assets and liabilities

Financial assets and liabilities, except for derivative financial instruments are initially recognized on the settlement date, i.e., the date that the Bank transfers the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Derivative instruments are recognized on trade date when the Group becomes a party of the contractual provisions of the instruments.

i. Recognition

The Group only measures its “financial assets at amortized cost” if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (hereinafter referred to “SPPI”) on the principal amount outstanding. The details of these conditions are outlined below.

The Group classifies the following instruments in the FVOCI financial instruments category:

- equity instruments that have been marked in this way at initial recognition;
- debt instruments for which, as a result of the business model test, it has been established that the business model is intended to collect contractual cash flows related to the debt instrument and at the same time to sell financial instruments, and as a result of the SPPI test, the contractual terms of the financial instrument at specified times result in cash flows that are only payments of principal and interest on outstanding principal amounts.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- the expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Group has included its full loan portfolio into the "held to collect" business model, since its primary objective is to collect capital and interest cash flows. Those securities which are held in order to maintain the long-term liquidity, or which has been deposited (pledged) behind credit programs, were classified in the "held to collect" business model, while the securities which used for shorter liquidity purposes were classified into "held to collect and sale" business model. The Group does not have any securities in the "held for sale" category, given its operational specialities, thus this business model category is irrelevant.

SPPI test

As a second step of its classification process the Group assesses the contractual terms of its financial assets to identify whether they meet the criteria of the SPPI test. The Group must consider the contractual terms of the financial instruments in order to be able to determine whether the contractual cash flows consist solely of capital and interest payments. This implies an assessment of whether the financial instrument is linked to such a contractual condition based on which the amount of the contractual cash flows or the timing of those may ultimately not pass the SPPI test. The SPPI test is carried out at instrument level (one by one) and, where applicable, at the level of the homogenous products (combined). The most important elements of the interest included in the loan agreement are the time value of money, the costs incurred by the Group and the credit risk. To perform the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending agreement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at Fair Value through Profit and Loss (hereafter referred to as "FVTPL").

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value. Except for financial assets and financial liabilities measured at fair value through profit and loss (FVTPL), transaction costs are added to (in case of financial assets) or subtracted from (in case of financial liabilities), this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the day one profit or loss, as described below.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

ii. Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Group has transferred the financial asset if, and only if, either:

- the Group has transferred its contractual rights to receive cash flows from the financial asset or
- it retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation

to pay those cash flows to one or more entities (the 'eventual recipients'), when all the following three conditions are met:

- the Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset,
- the Group cannot sell or pledge the original asset other than as security to the eventual recipients,
- the Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either (i) the Group has transferred substantially all the risks and rewards of the asset or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset. The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Group's continuing involvement, in which case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires. The difference between the carrying value of the original financial liability and the consideration paid (including the newly recognized financial liability) is recognized in profit or loss.

Modifications subject to derecognition of financial assets and liabilities

Debt instruments exchanged to another one under substantially modified terms and conditions is treated as a derecognition of the existing financial asset or liability and a re-recognition of a new financial instrument. Similarly, a substantial modification of the terms of an existing financial asset or financial liability or part thereof (whether or not it has been caused by the counterparty's financial difficulties) is treated as derecognition of the original financial asset or liability and a new financial instrument is recognized. The new financial liability based on the modified terms is recognised at fair value. The new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset,
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The basic terms of a financial instrument changes significantly when the main risk factors behind the original instrument are modified. In particular, the Group considers, but not limited to, the following factors when assessing whether the modification is subject to a derecognition and a re-recognition:

- the extent of the difference between the modified and the original cash flows, where a change is more than 10%
- change of borrower with a new risk profile (only in case of financial assets)
- change in SPPI result due to the effect of modified contractual terms
- change in currency

When comparing the modified and original cash flows, the Group examines the extent of the difference between the discounted present value of the changed cash flows - including paid fees in case of liabilities and in case of assets deducting, the fees paid and including the fees received - under the new conditions and the discounted present value of the remaining original contractual cash flows by using the original effective interest rate in both cases.

Fees received include, in case of assets, amounts paid by the borrower to the Group or on its behalf, and in case of liabilities, amounts paid by the lender to or on behalf of the Group. The fees paid include, in the case of assets, amounts paid by the Group to or on behalf of the borrower, and in case of liabilities, amounts paid by the borrower to the Group or on its behalf, whether or not they are described as a fee, as part of the exchange or modification. Fees do not include any payments made by the borrower or lender to its own advisers or agents, or other transaction costs incurred by the borrower or lender.

Modifications not subject to derecognition of financial assets and liabilities

When the Group renegotiates or amends the contractual cash flows of a financial instrument and the renegotiation or modification does not result in the derecognition of the financial instruments, the Group recalculates the financial instruments gross amortized cost and the difference is recognized in the profit or loss on the line "Contract modification loss, net". The new gross amortized cost is recalculated by the Group as the present value of renegotiated or modified contractual cash flows, using the original effective interest rate of the financial instruments (in case of purchased or originated credit impaired assets the credit-adjusted effective interest rate is used).

Any modification fee applied is amortized over the remaining life of the financial instruments which is achieved by the recalculation of EIR at modification to reflect the modification fee received. The impact of any additional fees incurred at modification but not directly related to it (e.g., prepayment fees) are recognized directly on "Fee and commission income" when incurred.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss line „Contract modification loss, net”. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iii. Measurement

The Group classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms (SPPI test) and measured as follows.

Profit or loss on **a financial instrument mandatorily measured at fair value through profit or loss** shall be recognized in income statements in such a way that the Group recognizes interest income on those assets as „Other similar income”, while changes in fair value is recognized as „gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net” line within income statements.

A gain or loss on **debt instruments at fair value through other comprehensive income** shall be recognized in other comprehensive income, through the statement of changes in equity, except for impairment losses, interest income amortized based on effective interest and foreign exchange gains and losses which are recognized in profit or loss, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. All valuation movements for **equity instruments at fair value through other comprehensive income** are recognized directly in equity (Other Comprehensive Income) and on derecognition, the cumulative amount is only transferred to retained earnings but is not transferred to profit or loss, except the dividend received which is always recorded in the profit and loss. The difference between the fair value at the date of derecognition and the selling price is recognized in profit or loss.

For financial assets and financial liabilities carried at **amortized cost**, a gain or loss is recognized in profit or loss when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

iv. Classification

Financial assets or liabilities held for trading are derivatives which are not part of a designated hedge relationship.

Cash, cash balances at central banks and other demand deposits are cash and bank accounts held with the National Bank of Hungary or with other credit institutions, as well as overnight deposits.

Financial assets measured at amortized cost include debt instruments that are included in such business model whose objective is to hold financial assets in order to collect contractual cash flows („held to collect business model”) and have passed the SPPI test. In this category, the Group classifies its refinancing and direct loans that have passed the SPPI test. Also, this category includes those purchased debt securities that the Group has classified as held to collect.

Non-trading financial assets that are mandatorily measured at fair value through profit or loss includes debt instruments that are included in the held to collect business model but failed the SPPI test. In this category, the Group presents its refinancing and direct loans that failed the SPPI test. It also includes those venture capital investments that do not meet the definition of equity instruments under IAS 32.

Financial assets measured at fair value through other comprehensive income include debt instruments that the Group has classified into a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset („held to collect and sale business model”) and have passed the SPPI test. In this category, the Group shows the portion of its securities that it has classified as a held to collect and sale business model. Equity instruments for which the Group has chosen the fair value through other comprehensive income option at initial recognition are presented in this category. These are other investments that do not qualify as associates.

Derivatives - hedge accounting includes derivative transactions designated by the Bank into hedge relationship.

Among the **financial liabilities measured at amortised cost**, the Group presents customer deposits (collaterals behind loans), loans taken, short-term interbank deposits, issued debt securities and other financial liabilities.

v. Amortized cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and in case of financial assets minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses.

The Group recognizes POCI (Purchased or Originated Credit Impaired) financial assets in its books at their initial fair value, which, unless otherwise stated, is equal to the purchase price of the asset or. In calculating the credit-adjusted effective interest rate on POCI assets at initial recognition, the Group considers the initial estimated credit loss in the estimated cash flows (i.e., life expected credit losses are deducted from estimated contractual cash flows).

vi. Impairment of financial assets

The Group is applying a forward-looking expected credit loss (hereinafter ECL) approach for its impairment calculation. From 1 January 2019, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL (but including debt securities at fair value through other comprehensive income), together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL impairment/provision is the expected credit loss for 12 months (hereinafter 12mECL) if there has been no significant increase in credit risk since the initial recognition of the asset (liability) or it is considered to be low credit risk at the time of valuation. If there has been a significant increase in credit risk since initial recognition or since the previous valuation, the ECL impairment/provision is the loss calculated over the expected life of the asset.

The 12mECL is the portion of lifetime expected credit loss that represent the ECLs that result from default events on a financial instrument possibly within 12 months after the reporting date.

ECL impairment is calculated for both 12mECL and lifetime expected credit losses on a group basis or, in exceptional cases, on an individual basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. To carry out the evaluation, the Group compares the non-performance risk of the financial instrument at the reporting date and as of the initial recognition, taking into consideration information that is reasonable and justifiable - without undue cost or effort – and indicates significant

increase in credit risk since initial recognition. The Group assumes that the credit risk of a financial instrument has not increased significantly since the initial recognition if the financial instrument is considered low credit risk at the reporting date.

If the credit risk of a financial instrument has not increased significantly at the reporting date since initial recognition, the Group calculates the impairment of the financial instrument based on the 12-month expected credit loss (hereinafter: Stage 1). At each reporting date, the Group calculates the impairment of the financial instrument based on the lifetime expected credit loss if the credit risk of the financial instrument, whether assessed on an individual or group basis, has increased significantly since initial recognition, considering all reasonable and justifiable information, including forward-looking ones (hereinafter: Stage 2 or Stage 3).

Regardless of the above, the Group always calculates the impairment based on the lifetime expected credit losses for receivables where the IFRS 15 Revenues from contracts with customer standard is applicable and the receivables do not include significant financing components. These include other financial assets where the Group uses this simplified approach.

Based on the above process, the Group classifies its loans into stages, as described below.

Stage 1 (performing credit risk category)

Performing asset category, if there is no significant increase in credit risk compared to the initial recognition, or the asset is considered by the Group to have a low credit risk at the time of valuation. In this stage 1 category, the Group calculates the expected credit loss based on the 12-month PD (Probability of Default) for all such deals where there was no significant increase in credit risk since initial recognition. This way, the 12-month expected credit loss indicates a lifetime cash flow deficit that occurs as a result of default within a maximum of 12 months after the reporting date, weighted by the probability of default.

Deals are reclassified from this stage only when the credit risk increases significantly since origination and the deal is not considered as low risk. The stage categorization is therefore determined by the Group at deal level rather than by a borrower level.

Stage 2 (increased credit risk category)

Significant increase in credit risk (deals where the Group has become aware of negative information about the exposure but does not yet have objective evidence of impairment). The Group considers a significant increase in credit risk if it becomes aware of negative information about the exposure, but there is no objective and material evidence of impairment yet. Such negative information may include, but is not limited to, the Customer's delay not reaching a significant credit obligation¹ to the Group or any of its Subsidiaries, a significant deterioration in the probability of the Customer's default, or becoming insolvent. Information received by the Group during Customer monitoring that relates to the probable future default of the customer is also considered negative information. Furthermore, restructuring where the transaction was performing at the time of the restructuring is considered negative information. The Group continuously monitors and records the defined criteria for the increase in credit risk. Lifetime credit loss is determined by the Group using specified risk vectors, lifetime PD (Probability of Default), constant loss given default (hereinafter „LGD”) and changing exposure at default (hereinafter „EAD”). When calculating EAD, account shall be taken of the expected change in the exposure of the transaction until maturity.

Stage 3 (impaired credit risk category)

Default (non-performing), credit-impaired category. The third stage includes defaulted transactions for which there is either objective evidence of impairment or a probable future default of the debtor. To classify into this category, the Group monitors the various default events (e.g., delay exceeding the threshold for significant credit default, termination, liquidation proceedings ordered by law, bankruptcy proceedings, forced liquidation proceedings, or other proceedings aimed at terminating the activity, reorganization or restructuring proceedings are in progress, as well as forced restructuring, if the transaction was in default at the time of the restructuring, etc.). The Group also classifies significant receivables purchased at a discount of more than 20% (POCI) as well as products that it classifies as impaired (e.g., redeemed guarantees) in the category of impaired credit risk. All these marked events are stored in the banking system and ensure traceability of what events led to the classification.

POCI

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest income is subsequently recognized based on a credit adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses. The Group only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the scenarios, discounted by the credit adjusted EIR. For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition (write-off) of the financial asset.

¹A credit default delay is considered significant if:

a) in the case of non-retail exposure:

- the amount of the customer's liabilities to the Bank or any of its Subsidiaries overdue for more than 90 days (principal, interest or fee payment) exceeds HUF 200 000 (absolut limit),
- the amount of liabilities overdue for more than 90 days exceeds 1% (relative limit) of the amount of the Bank's or any of its Subsidiaries' gross balance sheet receivables from the customer (excluding equity exposures).

b) in the case of retail exposure:

- the amount of the customer's liabilities to the Bank or any of its Subsidiaries overdue for more than 90 days (principal, interest or fee payment) exceeds HUF 40 000 (absolut limit),
- the amount of liabilities overdue for more than 90 days exceeds 1% (relative limit) of the amount of the Bank's or any of its Subsidiaries' gross balance sheet receivables from the customer (excluding equity exposures).

Individual and collective impairment

The Group applies an individual impairment calculation for exposures classified in Stage 3 exceeding HUF 100 million and for transactions exceeding HUF 1 billion that have been placed under Intensive Management. Exposures in Stage 3 that do not reach HUF 100 million are normally subject to collective valuation.

In Stage 1 and Stage 2 categories, transactions are primarily measured on a collective valuation basis, but the Group may choose individual valuation as well if transaction exceeds the material threshold value set by the Group, which also relies on quantitative and qualitative factors.

The Group also uses both collective and individual valuation for its debt securities and loans. In all cases, the impairment is recognized against the „Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss”.

The carrying amount of the financial assets is reduced by using an impairment account, and the loss is recognized in the income statement. If, in subsequent years, due to certain events, the estimated amount of impairment increases or decreases, the accumulated impairment loss previously recognized is increased or decreased using the impairment allowance account. If a previously written off amount subsequently recovers, the amount is also recorded within „Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss”

The calculation of ECLs

The Group calculates ECLs based on a minimum of three (if this is not possible, at least of two) probability-weighted scenarios in the case of individual valuation to measure the expected cash shortfalls, discounted with the original EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will recover and the value of collateral or the amount that might be received for selling the asset.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest and principals from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Purchased receivables

The Group recognizes the amount of the expected recovery –that is based on historical collection statistics - on the purchased receivables above the purchase price by using the effective interest method. The Group reestimates the expected recovery on purchased receivables for each reporting date. The effects resulting from the change in estimates are reflected in the results of the current period. Decrease is achieved by using the impairment account, while in case of increase first the previously created impairment is reversed then the gross book value of the asset is adjusted.

Where a significant negative/positive change in the future cash flow estimation is occurring, the carrying amount of the purchased receivables is increased/decreased with the difference between carrying amount of the financial asset and the present value of the future cash flows, discounted at the effective interest rate at the reporting date. Decrease is achieved by using the impairment account, while in case of increase first the previously created impairment is reversed then the gross book value of the asset is adjusted.

Loan commitments and letters of credit

When estimating the lifetime credit loss for undrawn loan commitments, the Group quantifies the part of the commitment that is expected to be drawn during the maturity period. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the scenarios. The expected cash shortfalls are discounted at the EIR that will be applied to the loan resulting from the loan commitments.

For credit lines, commitments and letters of credit, the ECL is recognized within “Impairment (-) or reversal of impairment of financial instruments” line in the income statements and “Provisions” line within statements of financial position.

Financial guarantee contracts

The Group’s liability under each guarantee is measured at the higher of initially recognized amount less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of the scenarios. The ECL related to financial guarantee contracts are recognized within “Impairment (-) or reversal of impairment of financial instruments”.

vii. Collateral valuation

To mitigate its credit risks on financial assets, the Group requires collaterals, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, chattels, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group’s statement of financial position. However, the fair value of collateral affects the calculation of ECLs. Collaterals are generally assessed at inception and are revalued on a regular basis. However, some collateral, for example, cash or securities relating to margining requirements, are valued daily. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent appraisers or based on housing price indices.

Collateral repossessed

During the normal course of business, the Group sometimes repossess real estate collaterals. The Group’s policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial

assets at the repossession date in, line with the Group's policy. If the repossessed asset is utilized until the sale, it is presented as investment property.

viii. Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group, based on reliable information, 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. This assessment is carried out at the individual asset level. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

ix. Forborne and modified loans

Except for the application of special rules for transactions subject to the payment moratorium, the Group classifies a loan in a restructured category if it makes a concession or makes a contractual change because of the borrower's current or anticipated financial difficulties that it would not have made if the borrower were financially sound. Indicators of financial difficulties include defaults on covenants, or facts and expectations indicating a significant increase in credit risk, which may result in postponement of payment deadlines or taking out a new loan. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms, given that no derecognition and re-recognition took place and no transaction cost was related to it.

The Group assessed the specific time spent in the moratorium, as well as participation in several moratoriums, as a significant increase in credit risk, and therefore assumed that the obligor has, or is expected to have, financial difficulties in meeting its financial obligations. Therefore, it classified the transactions concerned as restructured, except for documented exceptions supported by evidence. The classification into stages was based on an examination of the unique characteristics of the client and the transaction.

The Group considers forced restructuring as a factor indicating the occurrence of a default event if it is likely to result in a significant reduction in the financial liability due to the waiver or deferral of the principal, the interests or the fees. A waiver or deferral is considered to be significant if the decrease in the present value of the financial liability exceeds 1%.

The Group continuously monitors its restructured loans to ensure that the current status of the restructured loans is recorded in accordance with applicable regulations. In case the transaction status in the monitoring system changes to the 'Special' category, the loan is presented in Stage 2 or Stage 3, depending on whether the transaction was performing at the time of the restructuring and whether the customer complies with the amended payment obligations. All its impaired (Stage 3) exposures are considered as non-performing exposures by the Group.

If an asset has been rated as non-performing due to restructuring, it may be considered performing again if all the following conditions are met:

- at least 365 days have passed since the date of the restructuring and since the end of the grace period provided for in the restructuring agreement and
- there is no delay (principal, interest, commission, fee) at the time of qualification and no concerns arise that would call into question the repayment of the full amount of the claim and
- repayment of the claim that was past due (if there was a delay) or that was written off during the restructuring (if there was no delay) through repayments under the restructuring conditions

The restructured status of a claim may be terminated if the following conditions are met:

- the claim is performing;

- a probationary period of at least two years has passed since the restructured claim was recognized as performing;
- regular repayments of principal or interest have been made in excess of an insignificant amount for at least half of the probationary period;
- at the end of the probationary period there is no delay of more than 30 days in respect of any obligation of the obligor.

d) Leasing

Accounting for leases by the Group as a lessee

The Group leases office premises and parking lots. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognized at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost.

As an exception to the above, the Group accounts for short-term leases and leases of low-value assets by recognizing the lease payments as an operating expense on a straight-line basis. Short-term leases are leases where the lease term on the starting date is not more than 12 months. The threshold for low-value assets is set by the Group at HUF 1.500.000

e) *Impairment of non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

The recoverable amount of an asset or CGU (Cash Generating Unit) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The objective of the model used is to estimate the recoverable amount from the use of shareholdings based on discounted cash flow ("DCF") from five years long business plans of the subsidiaries adopted by the owner.

The main output of the model is an indication of the impairment of the investment held, that is, the cash-generating unit ("CGU") based on the inputs provided. Further analysis is needed to make the final management decision on impairment, considering the specific situation of CGU and other considerations.

The model calculates the amount of free cash flow underlying the DCF valuation until the end of the explicit business plan based on the accepted valid 5–10-year business plan. Based on the business characteristics of each CGU, the model determines the recoverable amount from using the owner's free cash flow ("FCFE") method.

FCFE expresses the cash flow that is available to owners after investments, meeting working capital needs, paying installments and interest on foreign capital, and taking on new debt.

The FCFE methods assumes that the owner will continuously realize the cash flows available from the CGU.

In the case of the FCFE – as owner's free cash flow – method, the Bank uses the cost of equity (CoE) as a discount factor. The definition of CoE is based on the capital asset pricing model (CAPM), which is widely used in international assessment practice. The CAPM model is based on the assumption that, in addition to the risk-free government bond yield, the investor also expects an extra yield typical of the industry.

When assessing investments on a plan-fact basis, the primary consideration is the likelihood and magnitude of expected loss that can reasonably be expected from the investment's business and the changes in the legal and market environment.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined without impairment loss recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories within the scope of IAS 2 are measured at the lower of cost and net realizable value. The Group makes estimates for the realizable amount on a quarterly basis. Impairments are recognized or reversed according to these estimates in profit or loss.

f) Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank or other financial institutions and overnight deposits. This line includes placements with other banks payable on demand, including nostro and other accounts in HUF and foreign exchange with domestic banks, foreign central banks and institutions registered abroad as bank. These items are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

g) Loans and advances to banks and to customers

The Group's lending activities can be grouped by method (indirectly through commercial banks in the form of refinancing loans and direct lending) and by type (program and non-program loans).

The balance of loans and advances to banks includes refinancing program loans granted through commercial banks.

Loans and advances to customers contain receivables from legal entities, licensed traditional small-scale producers and employees. Agricultural loans with mainly fixed interest rate are also recognized as loans and advances to customers.

The balance of Deposits at central and other banks contains the interbank placements used in the course of liquidity management.

Loans and advances to banks and to customers are carried either at amortized cost or fair valued through profit and loss in the statement of financial position dependent whether the SPPI test is passed or failed.

h) Securities

Securities contain government bonds and other debt securities, interest bearing or discount treasury bills, mortgage bonds, debt securities including fixed-income securities that are listed on stock exchange or traded on a regulated market (controlled by regulation or by stock exchange), and other debt securities regardless their name, including debt securities took over in return for receivables to minimize loss.

Venture capital investments that cannot be classified as equity instruments under IAS 32 in which the Bank has no significant influence are also presented here. Since these instruments do not meet the SPPI test, the Group presents them within debt instrument, mandatorily fair valued through profit and loss. The related subscribed but not yet paid capital increase of these venture capital investments/notes that is payable as required by the investment plans is recognized among the capital commitments within off balance sheet items if the investment is closer to a loan commitment. Otherwise the not yet paid capital is recognized among the "Other liabilities" and be part of the investments initial cost.

Securities that were classified into “held to collect and sell” business category are measured at fair value through other comprehensive income. The basis of measurement is the average of best bid and ask prices published on the website of Government Debt Management Agency Ltd. on the reporting date.

Securities classified as held to collect are measured at amortized cost, calculated by using the effective interest rate method.

The Group applies impairment calculation for all its debt securities (except those fair valued through profit and loss) and the expected credit loss is recognized in profit and loss.

i) *Encumbered assets*

The encumbrance of the Bank’s eligible assets is mainly for ensuring the collateral for Funding for growth (“FGS”) program. The encumbered assets can be government securities, mortgage bonds and loans. The Bank does not present as encumbered assets those securities which are to ensure the continuity of liquidity management - including the ensurance of continuous transfers (Giro) and the possibility of a secured loan (repo) transaction with the Hungarian National Bank - as the Bank may also release the blocking of these securities.

j) *Investments*

Equity investments classified as **controlling interest** (subsidiaries) comprise those investments where the Bank is exposed to, or has rights to, variable returns from the involvement with the investee and has the ability to affect those returns through its power over the investee. These investments are fully consolidated in these consolidated financial statements.

Equity investments classified as **significant influence** (associates) comprise those investments where the Bank through its direct ownership interest has the power to participate in the financial and operating policies of the investee, but not to control those activities. These associates are consolidated by using the equity method.

Other equity investments comprise other shareholdings, which do not meet the above criteria. Other equity investments are accounted for in accordance with IFRS 9 at fair value through other comprehensive income unless they do not meet the equity instrument conditions set in IAS 32, in which case they are classified as debt instruments mandatorily fair valued through profit and loss.

The investment portfolio includes investments that the Group intends to hold long term. The HDB Law determines the companies in which the Group can obtain controlling interest. The Group does not hold equity investments for trading purposes.

k) *Derivative financial instruments*

The Group uses derivative financial instruments, interest rate swaps, foreign exchange swaps and forward exchange contracts to manage its exposure to foreign exchange and interest rate risks arising from business activities. The recognition of interest income/expenses relating to derivative transactions are recognized in profit and loss as interest income and expense. Fair value changes are immediately recognized in the statement of comprehensive income on the “Gains or (-) losses on financial assets and liabilities held for trading, net” line.

The Group does not undertake exposures for trading (speculative) purposes, the Treasury department enters into transactions with the purpose of risk hedging, liquidity management and limit management. The purpose of market instruments is solely the hedging of risks deriving from the portfolio, the Group does not enter into transactions with speculative purposes.

To reduce the interest rate risk, the Group exchanges the financial instruments with fixed interest rate to floating interest rate in the course of an **interest rate swap**. The interest rate swap deals are accounted for as fair value hedges. The realized fair value changes on the hedging instruments are presented as “Derivatives – Hedge accounting” (see Note 10).

Foreign exchange swap deals are the exchanges of different foreign exchanges on a predetermined exchange rate. Foreign exchange swap deals are concluded with liquidity and risk management purposes and are presented as Derivative assets or liabilities (see Note 9).

Cross currency interest rate swap deals (CCIRS) are interest rate swaps and foreign exchange swap deals made in a single transaction. The **CCIRS deals** are classified as at fair value through profit or loss upon initial recognition as a Derivative asset or liability.

l) Hedge accounting

The Group uses derivative instruments to manage exposures to interest rate risk and partially foreign currency risk. The Group only enters into economic hedging transactions only and, if this hedging relationship is properly documented, the hedge accounting is applied for them. The Group applies IFRS 9 rules for its hedge accounting. Based on IFRS9 rules at inception of a hedge relationship the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method to be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Fair value hedges are concluded to reduce market risk. For qualifying and designated fair value hedges, the change in fair value of hedging instruments is recognized in the income statement on the line “Gains or (-) losses from hedge accounting, net“. The change in the fair value of the hedged item attributable to the hedged risk is also recognized in the same income statement line and the carrying amount of the hedged item is adjusted in the statement of the financial position. If the hedging instrument expires, is sold, terminated or exercised, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item shall be amortized to the income statement in the net interest income until maturity of the underlying financial instrument (hedged item).

Where the hedged item is a financial instrument (or component thereof) for which the effective interest method of accounting is used, the adjustment is amortised to the income statement based on a recalculated effective interest rate at the date amortisation begins. The purpose of the amortisation is to reflect the effect of the fair value hedge in the profit and loss, but also to ensure the adjustment is fully amortised by maturity. If the critical terms of the hedged item and the hedging instrument match and the hedge relationship remains in place to its maturity, there is no additional amortisation be required as the cumulative fair value adjustment to the hedged item will naturally revert to the hedged item’s carrying amount through ongoing fair value hedge accounting adjustments. Otherwise the amortisation begin as soon as the hedged item ceases to be adjusted for hedging gains and losses, being the date of termination of the hedge relationship. If the hedged item is derecognised, the unamortised fair value is recognised immediately into the income statement.

Cash flow hedge

Currently the Group is not involved in any cash flow hedge relationship.

m) *Investment property*

Investment property is property (land and building or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of a partial own use, the property is an investment property only if the owner-occupied portion is insignificant.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Rental income is recognized in the income statement as other operating income. Depreciation is accounted for by using the straight-line method over the estimated useful life of the asset. The useful life of the asset is identical to those of buildings reported under property and equipment.

n) *Bonds issued*

Bonds issued contain the obligations arising from HUF, EUR and USD issued bonds.

Issued bonds are measured at amortized cost. That part of the issued bonds of which interest rate risk is hedged using interest rate swaps are measured at amortized cost with fair value adjustment.

o) *Provisions*

A provision is recognized, when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed quarterly and adjusted to reflect the best estimate of the expenditure required to settle the present obligation. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. A provision should be used only for expenditures for which the provision was originally recognized.

p) *Offsetting*

Financial assets and financial liabilities are offsetted in the statement of financial position when and only when the Group has a legally enforceable right to set off the amounts and intends to settle them either on a net basis or at the same time intend to realise the assets and settle liabilities at the same time. The Group has various netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include repo and reverse repo transactions, securities borrowing and lending arrangements, and over-the-counter and exchange traded derivatives. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

q) Commitments and contingencies

Commitments and contingencies are a probable obligation that derives from a past event, and its existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not entirely controlled by the Group, or a present obligation that derives from a past event, but is not recognized because it is not likely that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be reliably estimated.

r) Interest income and expense

In accordance with IFRS 9 interest income and expense are recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 are also recorded by using the EIR method.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the income statement.

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets recover and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

The Group also holds investments in assets with negative interest rates. The Group discloses interest paid on these assets as an interest expense.

The Group has decided to include interest received and paid arising from financial instruments classified as FVTPL (including trading instruments) and from derivative instruments designated as hedge among "interest income" and "interest expense", i.e., the so-called "clean price" (net price) presentation method is applied.

Interest income and expense include:

- interest income or expense for financial assets and liabilities at amortized cost accounted by using effective interest method (including interest received or paid to banks or customers, interest received on purchase securities, interest paid on issued securities and negative interest of financial assets and liabilities),
- interest income on financial assets at fair value through other comprehensive income accounted by using the effective interest method (including coupon interest received on securities and their discount/premium amortization),
- contractual interest income received on financial assets mandatorily fair valued through profit and loss that are presented among Other similar income,
- contractual interest income received on cash balances at central banks and other demand deposits are presented among Other similar income,
- interest income from derivative transactions, also presented among Other similar income, while interest expense from derivative transactions are presented among Interest expense.

s) Fee and commission income and expense

Fee and commission income and expense include amounts from financial activities of the Bank that are not included in interest income and expense, nor are they considered as incremental costs at the initial recognition, for example transaction fees, postal fees, guarantee fees, loan examination fees and other financial service fees. The lending related fee and commission income and expense of those loans which failed the SPPI test is also presented in these lines.

t) Current and other taxes

Current tax assets and liabilities for the current year and prior years are measured at the amounts expected to be recovered from or to be paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted as of the balance sheet date. Current tax comprises income tax, such as corporate income tax, local business tax and innovation contributions.

The amount of **corporate tax** payable is based on the tax obligations determined in accordance with Hungarian laws and it is adjusted by the deferred tax. Corporate tax and deferred tax are recognized in the income statements, except when tax relates to items recognized directly in equity, in which case it is recognized in the statement of other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date. The base of the income tax is the profit before tax adjusted by the tax base modifying items. The corporate tax was unified at a flat rate of 9% both in 2023 and in 2022.

The **local tax and the innovation contribution** established based on the Hungarian tax legislation in force are calculated for the same basis, their applicable rates are different being 2% for the former and 0.3% for the latter. Since their basis is based on net revenue, these were also classified among income taxes.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group recognizes deferred tax asset if it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. An exception is where the deferred tax asset is a result of the initial recognition of an asset or liability in such a transaction that is not a business combination and does not affect either accounting profit or taxable profit (negative tax base) at the time of the transaction. Whether future taxable profits available are primarily determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets and liabilities are netted against each other at each consolidated entity level if the company has a legally enforceable right to set off current tax receivable and liabilities and deferred tax receivable and liabilities relate to income taxes levied by the same taxation authority but are not netted among Group entities.

The **special bank tax of financial institutions** is presented among other expenses. The tax is in effect since 2010. The base of the special tax is the adjusted balance sheet total of the second preceding year (meaning 2021 for year 2023 and 2020 for year 2022), the rate was 0.15% under HUF 50 billion, and 0.20% above HUF 50 billion both in 2023 and 2022. The Group recognizes the special bank tax of financial institutions when it becomes legally enforceable (i.e., when the obligating event arises) which is on 1 January each year.

In order to implement the Economic Protection Action Plan, a **special credit institution tax on the epidemiological situation** for replenishing the Epidemiological Fund was introduced for banks in 2020. The basis for this special tax equals to the base for the special bank tax of financial institution that exceed the HUF 50 billion and the applicable rate is 0.19%. Under the special tax act, the next 5 years of bank special tax liability will be deducted with this amount in five equal annual instalments therefore was not recognized in the profit and loss of 2020 (see note 13).

An **extra profit tax** was introduced during 2022 that aimed to keep public finances in balance. The tax base of this extra profit was the adjusted net revenue calculated from the financial statements of the preceding year and the applicable tax rate was 10%. In 2023, due to a change in legislation, the tax base for the first half year was determined by the adjusted net revenue calculated from the financial statements of the preceding year but the pro rata 50% of this base must be taken into account. The calculation of the tax base for the second half of 2023 was the 50% of the adjusted pre-tax profit calculated from the financial statements of the preceding year. The tax rate is 8% for the tax base part falling into the first half of the year, and 13% for the tax base part for the second half of the year, for an amount not exceeding HUF 10 billion, and 30% above that. From 2024 onwards, the tax base will be the adjusted profit before tax included in the financial statements of the preceding year. Tax rate will be 13% for the part not exceeding HUF 20 billion, and 30% above that. The Group recognizes this extra profit tax when it becomes legally enforceable (i.e., when the obligating event arises).

u) Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. These events are adjusting and non-adjusting events.

All adjusting events after reporting date have been considered in the preparation of the consolidated financial statements of the Group. The material non-adjusting events after the reporting date are presented in Note 41.

v) New standards and interpretations

Standards and Interpretations effective in the current period

- *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)*

The above amendment to IAS 1 required entities to disclose their **material** accounting policy information, instead of **significant** accounting policies. Information is material if, when considered together with other information included in the Group's financial statements, it can reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements. The application of this amendment resulted that the above list of material accounting policies was changed as compared to the prior year one and the accounting policies that was considered only significant but not material was eliminated from the above list.

Several other amendments are effective from 1 January 2023 that do not have a material effect on the Group's financial statements.

- *IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)*
- *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)*
- *Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)*
- *Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)*
- *Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023 and endorsed on 8 November 2023 and effective immediately)*

Standards issued by IASB and adopted by EU but their application date is after 31 December 2023

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- i. *Amendments to IAS 1 Presentation of Financial Statements (all effective for annual periods beginning on or after 1 January 2024):*
 - *Classification of Liabilities as Current or Non-current Date (issued on 23 January 2020)*
 - *Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 15 July 2020); and*
 - *Non-current Liabilities with Covenants (issued on 31 October 2022)*
- ii. *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)*

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

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

- i. *Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (issued on 15 August 2023)*
- ii. *Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (issued on 25 May 2023)*

The implementation of these amendments, new standards and interpretations are not expected to affect significantly the annual financial statements of the Group.

4. CASH, CASH BALANCES AT THE CENTRAL BANKS AND OTHER DEMAND DEPOSIT

	<u>2023</u>	<u>2022</u>
Cash	0	6
Cash balances with National Bank of Hungary (NBH)	397 975	89 392
<i>Overnight deposits</i>	0	57 908
<i>Statutory reserve</i>	397 975	31 484
Other demand deposits	6 774	9 619
Gross balances	404 749	99 011
Impairment	(532)	(10)
Total	404 217	99 001

The Bank is obliged to keep a minimum reserve at the central bank, which equals to certain percentage of the short term (within a year category) deposits of its domestic and foreign customers and the currency deposits of foreign customers. According to the regulations of the National Bank of Hungary, the required reserve ratio was 1% till 30 September 2022, and 5% from 1 October 2022. As a further provision, the minimum reserve rate has become optional for quarterly periods in the range of 5-10%. In the IVth quarter of 2022, the Bank opted for a reserve obligation of 6% which had to be met on a monthly average, while observing the daily minimum that was HUF 25 493 million (5% obligation).

As of 1 April 2023, the required minimum level of mandatory reserves has increased to 10% and the Bank opted 11%. With effect from 1 July 2023, the rule on mandatory reserves has been amended again, and from July 2023 until withdrawal (planned until the end of 2023), the NBH fixed the base of the mandatory reserve, being the statistical balance sheet data as of 31 March 2023 and the opted 11% reserve was HUF 42 131 million, while the daily minimum reserve (10% obligation) was HUF 38 301 million.

The line *Other demand deposits* contains HUF 530 million in an account held in Russia thus access to it is uncertain, therefore 100% impairment was recognized on it and it is not included in the cash flow statement as a free cash equivalent.

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

5.1 DEBT SECURITIES

	<u>2023</u>	<u>2022</u>
<i>Debt securities</i>		
Venture capital note – investment type	4 037	4 364
Venture capital note – loan type	599 119	365 283
Total	603 156	369 647

Loan type venture capital note represents such funds where a capital and also a yield guarantee is involved to the Group, therefore these investments have loan features as well. All the other type of venture capital notes belongs to the investment type subheading. At year end 2023 HUF 1 919 million (2022: HUF 2 335 million) from the above balance of “*Venture capital note – investment type*” representing Central European Fund of Funds is attributable to subscribed but not yet paid capital increase that is payable as required by the investment plans. The unpaid capital increase will be paid in accordance with the drawdowns of fund managers to finance the investments made.

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The Group's total exposure to equity funds recognised in the financial statements as associates, equity investments or loans amounts to HUF 1 121.1 billion (2022: HUF 839.9 billion). In this portfolio of the Bank, the 3 largest non-group fund managers have a total exposure of HUF 739.5 billion (2022: HUF 629.8 billion) (as associates, equity investments and loans). Based on section 8 (1b) of the MFB Act there is no client group consideration if MFB Zrt. provided a loan to them for the purpose of subscribing or purchasing investment units and which would constitute a single risk factor with regard to the investment fund, the fund manager, interlinks of the fund managers or any right or obligation related to assets in the portfolio of the investment fund.

5.2 LOANS

	2023			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Municipality loan program	21 026	0	0	21 026
Business development loan program	1 945	404	0	2 349
Agricultural development loan program	7 795	15	0	7 810
Retail loan program	64	1	0	65
	30 830	420	0	31 250
Loans and advances to customers				
General governments	424	0	0	424
Other financial corporations	451	594	0	1 045
Non-financial corporations	2 260	1 313	183	3 756
Households	0	84	7	91
	3 135	1 991	190	5 316
Total	33 965	2 411	190	36 566

	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Municipality loan program	22 511	0	0	22 511
Business development loan program	3 384	0	0	3 384
Agricultural development loan program	5 355	14	0	5 369
Retail loan program	95	0	0	95
	31 345	14	0	31 359
Loans and advances to customers				
General governments	484	0	0	484
Other financial corporations	1 386	672	55	2 113
Non-financial corporations	2 584	1 064	99	3 747
Households	98	4	13	115
	4 552	1 740	167	6 459
Total	35 897	1 754	167	37 818

Non trading financial assets mandatorily at fair value through profit or loss includes those financial instruments that were classified as held to collect business model but failed the SPPI test as the interest rate is based on EURIBOR while the loans are denominated in Hungarian forint. Also, the loans with equity features were classified here.

Loans and advances to banks are exclusively the refinancing loans to commercial banks that are the sources of the customer loans at those commercial banks.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2023</u>	<u>202</u>
Equity instruments		
Listed on stock exchange	24 928	17 694
Not listed on stock exchange	15 335	13 795
	<u>40 263</u>	<u>31 489</u>
Debt securities		
Hungarian government bonds	42 246	40 694
Bank bonds	8 808	0
Hungarian discount treasury bills	0	19 843
	<u>51 054</u>	<u>60 537</u>
<i>from this encumbered assets</i>	890	729
Total	91 317	92 026

	<u>2023</u>			
	Gross carrying amount	Impairment	Fair value adjustment	Fair value
Debt securities				
Hungarian government bonds	43 637	0	(1 391)	42 246
Bank bonds	8 562	(8)	254	8 808
Hungarian discount treasury bills	0	0	0	0
	<u>52 199</u>	<u>(8)</u>	<u>(1 137)</u>	<u>51 054</u>
Equity instruments				
European Investment Fund			178	570
Other			1 636	16 355
Kall Ingredients Kft.			915	6 699
OTP OJSC (Investberbank)			0	522
Other investments by venture capitals			(2 101)	16 117
			<u>628</u>	<u>40 263</u>
Fair value adjustment recognized in valuation reserve			(509)	
Valuation reserve after deferred tax adjustment			(653)	

	<u>2022</u>			
	Gross carrying amount	Impairment	Fair value adjustment	Fair value
Debt securities				
Hungarian government bonds	46 596	0	(5 902)	40 694
Treasury bills	20 018	0	(175)	19 843
	<u>66 614</u>	<u>0</u>	<u>(6 077)</u>	<u>60 537</u>
Equity instruments				
European Investment Fund			204	596
Other			0	9 949
Kall Ingredients Kft.			1 221	7 004
OTP OJSC (Investberbank)			0	522
Other investments by venture capitals			(796)	13 418
			<u>629</u>	<u>31 489</u>
Fair value adjustment recognized in valuation reserve			(5 448)	
Valuation reserve after deferred tax adjustment			(5 505)	

All debt securities are classified as stage 1 both as at 31 December 2023 and 2022.

Equity instruments for which the Group has chosen the fair value through other comprehensive income option at IFRS 9 transition are presented in this category. Other investments that do not qualify as associates are presented here, as the Bank does not have trading intent with them therefore fair valuation through profit and loss was not applied.

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The Venture capital investment line includes investments by Group owned venture capital funds. These entities on the one hand have a few years of business history, or even those that do not have a business history, which does not allow the acquisition of funds from the credit market or traditional capital markets. In addition to the start-up companies, the development-phase companies are also part of this investment portfolio. In addition, small and medium-sized enterprises that have been operating for a long time are also included in the portfolio, where the aim of the investment is to increase the competitiveness and productivity of enterprises. The projected average maturity is 3-7 years, and the ownership share acquired is between 9-50%.

7. FINANCIAL ASSETS AT AMORTIZED COST

		<u>2023</u>	<u>2022</u>
Debt securities			
Hungarian government bonds		26 389	42 158
Corporate bonds		409 776	390 765
Mortgage bonds		7 385	6 180
	7.2	<u>443 550</u>	<u>439 103</u>
<i>from this encumbered assets</i>		<i>114 854</i>	<i>114 211</i>
Customer loans			
General governments		64 609	53 603
Other financial corporations		303 990	294 608
Other non-financial corporations		791 450	818 040
Households		138 369	132 246
	7.1	<u>1 298 418</u>	<u>1 298 497</u>
<i>from this encumbered assets</i>		<i>164 408</i>	<i>202 254</i>
Loans to banks			
Refinancing loans		0	346
Other loans		78 291	79 981
	7.1	<u>78 291</u>	<u>80 327</u>
Deposits at central and other banks			
Central bank deposits		0	0
Other bank deposits		27 001	26 847
	7.3	<u>27 001</u>	<u>26 847</u>
Other financial assets			
Trade receivables		517	1 119
Margin accounts		22 993	3 203
	7.4	<u>23 510</u>	<u>4 322</u>
<i>from this encumbered assets</i>		<i>22 993</i>	<i>3 203</i>
Total		<u>1 870 770</u>	<u>1 849 096</u>
<i>from this encumbered assets</i>		<i>302 255</i>	<i>319 668</i>

The encumbered assets among “Debt securities” and “Loans and receivables” include assets offered as collateral for the National Bank of Hungary and these assets were collateralized under the Hungarian National Bank Funding for Growths (FGS) program and represent the current net book value of the customer loans disbursed under this scheme. The new FGS scheme, which was launched in 2020, was also collateralized by the loans disbursed, supplemented with individual corporate loans that was also possible to be collateralized for this purpose, which the Bank took advantage of. The current net book value of these disbursed loans is presented as encumbered assets within „Customers loans” line. For the other two previous FGS programs, government bonds were offered as collateral. The year end net book value of these government bonds is shown as encumbered asset under „Debt securities” line. From the line “Other financial assets” the margin accounts are shown as encumbered assets. The remaining encumbered assets represent the pledge on the subsidiaries assets being the collateral for their external loans.

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7.1 LOANS

	2023				
GROSS OUTSTANDING	Stage 1	Stage 2	Stage 3	POCI	Total
Customer loans					
General governments	64 735	0	0	17	64 752
Other financial corporations	189 432	111 198	22 114	0	322 744
Other non-financial corporations	451 548	344 361	40 033	10 375	846 317
Households	55 880	16 568	222	72 400	145 070
	761 595	472 127	62 369	82 792	1 378 883
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	78 293	0	0	0	78 293
	78 293	0	0	0	78 293
IMPAIRMENT					
Customer loans					
General governments	(129)	0	0	(14)	(143)
Other financial corporations	(335)	(2 271)	(16 148)	0	(18 754)
Other non-financial corporations	(3 810)	(20 600)	(28 184)	(2 273)	(54 867)
Households	(18)	(61)	(9)	(6 613)	(6 701)
	(4 292)	(22 932)	(44 341)	(8 900)	(80 465)
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	(2)	0	0	0	(2)
	(2)	0	0	0	(2)
NET CARRYING AMOUNT					
Customer loans					
General governments	64 606	0	0	3	64 609
Other financial corporations	189 097	108 927	5 966	0	303 990
Other non-financial corporations	447 738	323 761	11 849	8 102	791 450
Households	55 862	16 507	213	65 787	138 369
	757 303	449 195	18 028	73 892	1 298 418
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	78 291	0	0	0	78 291
	78 291	0	0	0	78 291
TOTAL NET CARRYING AMOUNT	835 594	449 195	18 028	73 892	1 376 709

Due to the Bank's role as a development bank, the loan portfolio is concentrated, the 10 largest utilisation represents 45.7% (2022: 47.9%) the direct loan portfolio, of which 19.1% (2022: 10.7%) of exposure is provided by a state guarantee.

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	2022				
GROSS OUTSTANDING	Stage 1	Stage 2	Stage 3	POCI	Total
Customer loans					
General governments	53 549	0	0	142	53 691
Other financial corporations	204 499	93 613	10 472	0	308 584
Other non-financial corporations	483 638	351 821	26 617	6 972	869 048
Households	57 893	19 405	11	66 397	143 706
	799 579	464 839	37 100	73 511	1 375 029
Loans to banks					
Refinancing loans	346	0	0	0	346
Other loans	79 986	0	0	0	79 986
	80 332	0	0	0	80 332
IMPAIRMENT					
Customer loans					
General governments	(88)	0	0	0	(88)
Other financial corporations	(760)	(4 785)	(8 431)	0	(13 976)
Other non-financial corporations	(3 309)	(31 199)	(14 393)	(2 107)	(51 008)
Households	(3)	(69)	(7)	(11 381)	(11 460)
	(4 160)	(36 053)	(22 831)	(13 488)	(76 532)
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	(5)	0	0	0	(5)
	(5)	0	0	0	(5)
NET CARRYING AMOUNT					
Customer loans					
General governments	53 461	0	0	142	53 603
Other financial corporations	203 739	88 828	2 041	0	294 608
Other non-financial corporations	480 329	320 622	12 224	4 865	818 040
Households	57 890	19 336	4	55 016	132 246
	795 419	428 786	14 269	60 023	1 298 497
Loans to banks					
Refinancing loans	346	0	0	0	346
Other loans	79 981	0	0	0	79 981
	80 327	0	0	0	80 327
TOTAL NET CARRYING AMOUNT	875 746	428 786	14 269	60 023	1 378 824

Information about modifications of loans that have not resulted in derecognition is as follows:

	<u>2023</u>	<u>2022</u>
Amortized cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	96 279	121 640
<i>from this resulted from the moratorium settlement</i>	14 797	25 474
Gains less losses recognized in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(3 022)	(2 284)
<i>from this resulted from the moratorium settlement</i>	(89)	(471)
<i>from this interest freeze rule impact</i>	(2 328)	(1 633)
Gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year	5 154	1 601

The Group does not have any such outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity neither as at 31 December 2023 nor at 31 December 2022.

7.1.1 INFORMATION ON THE RULES OF THE PAYMENT MORATORIUM INTRODUCED IN THE CONTEXT OF COVID-19

I. Period of the payment moratorium from the 19th of March 2020 until the 31st of December 2020 (Moratorium 1)

In order to avert the consequences of the COVID-19 pandemic, causing mass illness endangering life and property, and to protect the health and lives of Hungarian citizens, the Government has declared a state of emergency throughout Hungary by Government Decree 40/2020. (III.11.).

According to the legislations the Group granted the debtors a capital moratorium, an interest moratorium and a fee moratorium (Moratorium 1) with respect to the debtor's obligation to pay capital, interest and/or fees arising from a loan under a loan/credit agreement that has been already contracted, disbursed and not yet terminated at midnight on the 18th of March 2020.

Main rules of Moratorium 1

The moratorium on payments may be applied to loans already disbursed by the debtor under its contract by midnight on the 18th of March 2020. The moratorium on payments extends to retail and corporate debtors, excluding the Hungarian state, local governments, and except for financial enterprises, entities² as defined in paragraph 39 of Act CXXXIX of 2013 on the National Bank of Hungary. However, the Bank extended the payment moratorium to its financial enterprises due to refinanced loans and loans channelled through intermediaries.

According to the resolution of the Managing Authorities, the Group also applies the legal moratorium to payment obligations arising from transactions provided by the Bank covered from EU funds. The Bank, as fund-implementing organization, performs these activities and conducts analytics for the disposal of the Managing Authority, thus these items are processed by the Bank, as well, albeit these transactions are excluded from the Group's balance sheet, thereby excluded from this report, as well.

The Group also applied the moratorium on receivables that were already due at midnight on the 18th of March 2020 - in the case of loans in connection with the Growth Loan Program, on the 16th of March 2020- if the contract had not been terminated. Claims arising from a contract terminated for reasons other than late payment, including instalment payment agreements concluded between the Group and the customer, are not covered by the moratorium. These receivables are subjects to being enforced directly by the Group. Moratorium on payment is automatically due to the eligible debtor. The debtor subject to a payment moratorium may, at any time, by implied conduct, decide that it will fulfil its payment obligations in accordance with the original terms of the contract in its entirety or partially only.

In case the debtor has availed itself of the payment moratorium, the principal debt may not be increased by the amount of interest or fees not paid during the moratorium, nor during the moratorium, nor after the expiry of the moratorium. Interest or fees accumulated and not duly paid during the moratorium, combined with the instalments due during the remaining term, shall be paid in equal annual instalments during its term after the termination of the moratorium. Upon the aforementioned termination of the moratorium, the term itself shall be extended in order that the sum of the instalments due and the interest or fees payable in instalments arising under the moratorium does not exceed the amount of the instalments under the original contract.

² Enterprises supervised by the Hungarian National Bank are, in particular, credit institutions, mortgage credit institutions, housing savings banks, insurance companies and private pension funds.

Due to the moratorium, credit agreements, loan agreements, guarantee agreements and ancillary collateral agreements are getting automatically amended by the force of law, i.e., they had not have to be formally amended and notarized.

Moratorium 1 got terminated on the 31st of December 2020. In January 2021 the Bank sent information notice to customers who have participated in the payment moratorium about the possible changes in the term and grace period due to the unpaid interest, fee and principal debts accumulated during the term of the moratorium.

II. Period of the payment moratorium from the 1st of January 2021 until the 31st of October 2021 (Moratorium 2)

According to the decision of the Government, it has been considered justified to maintain the protection provided by Moratorium 1. With this in mind, from the 1st of January 2021 until the 30th of June 2021, that was later modified until the 31st of October 2021, the Group had granted a moratorium on capital, interest and fee (Moratorium 2) arising from a loan under a loan/credit agreement that has been already contracted and disbursed at midnight on the 18th of March 2020 to certain priority social groups and enterprises in financial difficulties

Main rules of Moratorium 2

Bearing that in mind that Moratorium 1 has gotten terminated on the 31st of December 2020, Moratorium 2 had been due to eligible debtors availing themselves of the Moratorium previously, with unchanged conditions. A debtor who has been otherwise entitled to use Moratorium 2, nevertheless has not availed itself of the payment deferral during Moratorium 1, had to declare its intention of taking advantage of the moratorium explicitly. Otherwise, Moratorium 2 had been regulated led by the very same rules as set out in point I.

III. Period of the payment moratorium from the 1st of November 2021 until the 31st of July 2022 (Moratorium 3)

Following the expiry of the Moratorium 2, the Government considered it necessary to further ensure a moratorium on payments for certain social groups, consequently, Government Decree 536/2021. (IX.15.) amending Government Decree 637/2020 (XII. 22.) on the introduction of special emergency rules for loan repayment moratorium allows a moratorium on payment to be maintained from the 1st of November 2021 until the 30th of June 2022 that was later amended until 31st of July 2022, for the debtor, on application submitted to the creditor, in case the eligibility conditions are met, who/which has availed itself of the moratorium in the month of September 2021, i.e., has been entitled to avail itself of the moratorium on payment from the 1st of January 2021 and the payment of the principal, interest or fee debt became due during the period of the moratorium until the 31st of October 2021.

Main rules of Moratorium 3

Moratorium 3 was regulated led by the very same rules as set out in point I, except for that the debtor entitled to avail itself of Moratorium 3 had to submit a request to the Group to maintain the payment moratorium by the 31st of October 2021.

In the case of natural persons, persons who, at the time of the submission of the application, are pregnant, raising a child, seeking employment, having a public employment legal relationship, or receiving pension are entitled to benefit from the Moratorium 3. A natural person debtor has been entitled to file an application for Moratorium 3 even if the eligibility conditions were met in the case of a close relative living together with it under the Civil Code.

A debtor who qualifies as a business was entitled to use Moratorium 3 if its net sales from the activities of the business have decreased by at least 25% in the 18 months prior to the application for availing itself of Moratorium 3 and the company applying for availing itself of Moratorium 3 has

not entered into a new agreement to take a soft loan (discounted loan for economic recovery) or another type of loan during the period in between.

The debtor had to declare the fulfilment of the conditions of eligibility in the awareness of its criminal liability, and/or it had to declare in statement that it is in possession of any kind of documents of probative value supporting and corroborating the eligibility.

The Board of Directors of the Bank approved the continuous application of the decisions of the Board of Directors previously taken in respect of Moratorium 1 and Moratorium 2 with respect to Moratorium 3, as well, by its decision 199/2021 (XI.24).

IV. Period of the payment moratorium from the 1st of August 2022 until the 31st of December 2022 (Moratorium 4)

The Government has not changed its stance concerning considering it necessary to further ensure a moratorium on payments, in accordance with the provisions of Government Decree 216/2022. (VI. 17.) on the derogation of Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties that has allowed to sustain the moratorium from the 1st of August 2022 until the 31st of December 2022, on the basis of an application to the creditor by the debtor who had requested an extension of the moratorium in a declaration and had made use of the moratorium in June 2022.

Main rules of Moratorium 4

Moratorium 4 was subject to the rules described above in Section I, except that the debtor entitled to benefit from Moratorium 4 had been obliged to send the Group a request for the sustenance of the moratorium on payments until the 31st of July 2022.

The Board of Directors of the Bank have approved by its Resolution 126/2022 (VIII.30.) that the Board of Directors' decisions taken in respect of Moratorium 1, Moratorium 2 and Moratorium 3 shall be applied mutatis mutandis by the Group in respect of Moratorium 4.

V. The agricultural credit moratorium until the 31st of December 2023 (agricultural credit moratorium)

By Government Decree 292/2022. (VIII. 8.) on the introduction of special rules for the moratorium on loan repayments in the event of the state of emergency due to damage to agriculture caused by extreme weather conditions, the Government granted the possibility of a moratorium on payments, on application to the creditor, from the 1st of September 2022 until the 31st of December 2023 for loans disbursed under a loan or credit agreement outstanding on the 31st of August 2022, if

- a) the debtor's net turnover in 2021 originated from the crop, animal production, hunting and related service activities (TEÁOR: 01 and ÖVTJ: 01), forestry (TEÁOR: 02 and ÖVTJ: 02) and fish farming (TEÁOR: 03 and ÖVTJ: 03) sectors, excluding the purchase value of goods sold, amounts to at least 50% of its net turnover in 2021, or
- b) the purpose of the credit/loan corresponds to one of the categories referred to in point (a) above.

Main rules of Agricultural credit Moratorium

The agricultural credit moratorium is available if the eligibility criteria are met, provided that the debtor has submitted an application for the moratorium to the Group by the 15th of September 2022.

The agricultural credit moratorium also constitutes a prohibition on the cancellation of the loan at the very same time: the credit and loan contracts cannot be terminated by notice of cancellation for non-payment of principal, interest and charges from the date of entry into force of Government Decree 292/2022. (VIII. 8.) until the 31st of December 2023, which applied to all eligible debtors under the conditions described above. In addition to the above, the prohibition on the cancellation of the loan also applied to a debtor who has not declared that it wishes to be a subject to a moratorium on payments.

The Board of Directors of the Bank have approved by its Resolution 126/2022 (VIII.30.) that the Board of Directors' decisions taken in respect of Moratorium 1, Moratorium 2 and Moratorium 3 shall be applied mutatis mutandis by the Group in respect of the agricultural credit moratorium.

VI. Impact of the moratoria for the loans presented in these financial statements

The table below includes information on loans and advances **measured at amortized cost** and subject to legislative moratoria and those subject to the Group extension when it was used actually by the customers. The modification loss column contains the loss calculated for the agricultural moratorium(2022: all the agricultural moratorium, moratorium 3 and moratorium 4). The presented loan balances for 2022 also includes the subportfolio for which moratorium was closed and cleared (moratorium 3), while the column "of which" shows the subportfolio still under moratorium as at the end of the year (agricultural moratorium for 2022). As at the end of 2023 the former moratorium rules were closed thus all related balances were cleared with the impacted customers.

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2023						Contract modification loss
GROSS OUTSTANDING	Stage 1	Stage 2	Stage 3	POCI	Total	
Customer loans						
General government	0	0	0	0	0	
Other financial corporations	0	186	0	0	186	
Other non-financial corporations	0	4 009	0	0	4 009	
Households	0	10 161	0	0	10 161	
	0	14 357	0	0	14 357	
IMPAIRMENT						
Customer loans						
General government	0	0	0	0	0	
Other financial corporations	0	(2)	0	0	(2)	
Other non-financial corporations	0	(39)	0	0	(39)	
Households	0	(1)	0	0	(1)	
	0	(42)	0	0	(42)	
NET CARRYING AMOUNT						
Customer loans						
General government	0	0	0	0	0	0
Other financial corporations	0	184	0	0	184	(5)
Other non-financial corporations	0	3 971	0	0	3 971	0
Households	0	10 160	0	0	10 160	(5)
TOTAL NET CARRYING AMOUNT	0	14 315	0	0	14 315	(10)
Other modification losses						(739)
Interest rate freeze rule impact (Note 7.1.2)						(2 481)
CONTRACT MODIFICATION LOSS TOTAL						(3 230)

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GROSS OUTSTANDING	2022						Contract modification loss	from this agricult. moratorium
	Stage 1	Stage 2	Stage 3	POCI	Total	from this agricult. moratorium		
Customer loans								
General government*	0	0	0	0	0	0		
Other financial corporations	6 190	6 670	1 657	0	14 517	180		
Other non-financial corporations	0	6 822	0	0	6 822	3 563		
Households	171	10 258	2	176	10 607	10 132		
	6 361	23 750	1 659	176	31 946	13 875		
Loans to banks								
Refinancing loans	13	0	0	0	13	0		
Other loans	0	0	0	0	0	0		
	13	0	0	0	13	0		
IMPAIRMENT								
Customer loans								
General government	0	0	0	0	0	0		
Other financial corporations	(16)	(1 313)	(1 280)	0	(2 609)	(2)		
Other non-financial corporations	0	(826)	0	0	(826)	(4)		
Households	0	(2)	(1)	(80)	(83)	(3)		
	(16)	(2 141)	(1 281)	(80)	(3 518)	(9)		
Loans to banks								
Refinancing loans	0	0	0	0	0	0		
Other loans	0	0	0	0	0	0		
	0	0	0	0	0	0		
NET CARRYING AMOUNT								
Customer loans								
General government	0	0	0	0	0	0	0	0
Other financial corporations	6 174	5 357	377	0	11 908	178	(115)	(3)
Other non-financial corporations	0	5 996	0	0	5 996	3 559	(339)	(11)
Households	171	10 256	1	96	10 524	10 129	(99)	(97)
	6 345	21 609	378	96	28 428	13 866	(553)	(111)
Loans to banks								
Refinancing loans	13	0	0	0	13	0	0	0
Other loans	0	0	0	0	0	0	0	0
	13	0	0	0	13	0	0	0
TOTAL NET CARRYING AMOUNT	6 358	21 609	378	96	28 441	13 866	(553)	(111)
Other modification losses							(226)	0
Interest rate freeze rule impact (Note 7.1.2)							(2 239)	(394)
CONTRACT MODIFICATION LOSS TOTAL							(3 018)	(505)

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The table below includes information on loans and advances **valued at fair value through profit or loss** and subject to legislative moratoria and those subject to the Group extension when it was used actually by the customers.

	2023			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Municipality loan program	0	0	0	0
Business development loan program	0	60	0	60
Agricultural development loan program	531	15	0	546
Retail loan program	0	0	0	0
	531	75	0	607
Loans and advances to customers				
General governments	0	0	0	0
Other financial corporations	0	0	0	0
Non-financial corporations	0	0	0	0
Households	0	1	0	1
	0	1	0	1
Total	531	76	0	608

	2022				from this Agricult. moratorium
	Stage 1	Stage 2	Stage 3	Total	
Loans and advances to banks					
Municipality loan program	0	0	0	0	<i>0</i>
Business development loan program	813	0	0	813	<i>56</i>
Agricultural development loan program	519	14	0	533	<i>516</i>
Retail loan program	3	0	0	3	<i>0</i>
	1 335	14	0	1 349	<i>572</i>
Loans and advances to customers					
General governments	0	0	0	0	<i>0</i>
Other financial corporations	317	55	0	372	<i>0</i>
Non-financial corporations	0	44	0	44	<i>0</i>
Households	0	1	0	1	<i>1</i>
	317	100	0	417	<i>1</i>
Total	1 652	114	0	1 766	<i>573</i>

7.1.2 INFORMATION ON THE RULES OF THE INTEREST RATE FREEZE MECHANISM

I. Period of the interest rate freeze from the 15th of November 2022 until the 30th of June 2023 that was later amended first to 31st of December 2023 and then to 1 April 2024 (Interest rate freeze)

The Government, by Government Decree 415/2022. (X. 26.) on the measures necessary to mitigate the negative economic impact on micro, small and medium-sized enterprises due to the state of emergency, has imposed an interest rate freeze on debtors that qualify as SMEs under the Act on small and medium-sized enterprises (SME) and support for their development.

The interest rate freeze applies to SME debtors concerning HUF-based loan and credit agreements and financial leasing agreements with variable interest rates not covered by a state aid granted by the creditor on a commercial basis for the period stretching from the 15th of November 2022 originally until the 30th of June 2023. The interest rate freeze also applies in the case of refinancing granted to a non-group financial undertaking to finance a contract in accordance with Government Decree 415/2022 (X. 26.), i.e., where the contract concluded between the financial undertaking and the debtor falls within the scope of Government Decree 415/2022 (X. 26.). With the amendments to the referenced Government Decree, the deadline for the interest rate freeze was extended for the first time until 31 December 2023, and for the second time until 1 April 2024 under unchanged conditions.

Main rules of Interest Rate Freeze:

During the interest rate freeze period

- a. the interest rate applicable from the contractual reference date following the 15th of November 2022 shall be set at the reference rate that,
- b. the reference rate of interest from the contractual reference date preceding the 15th of November 2022 shall be set at the reference rate that

shall not exceed the amount of reference rate contractually determined that were in force on the 28th of June 2022.

The principal and interest due shall not be increased by the amount of interest not paid during the period of the interest rate freeze.

II. Impact of the interest rate freeze mechanism for the loans presented in these financial statements

The table below includes information on loans and advances **measured at amortized cost** and subject to interest rate freeze mechanism when it was used actually by the customers. The modification loss column contains the loss calculated for these loans as at the year end. There was not any impacted loans and advances **valued at fair value through profit or loss**.

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2023					
GROSS OUTSTANDING	Stage 1	Stage 2	Stage 3	Total	Contract modification loss
Customer loans					
General government	0	0	0	0	
Other financial corporations	1 721	12 720	162	14 603	
Other non-financial corporations	1 004	35 224	1 474	37 702	
Households	0	46	0	46	
	2 725	47 990	1 636	52 351	
IMPAIRMENT					
Customer loans					
General government	0	0	0	0	
Other financial corporations	(4)	(45)	(73)	(121)	
Other non-financial corporations	(1)	(895)	(1 323)	(2 219)	
Households	0	(1)	0	(1)	
	(5)	(941)	(1 396)	(2 342)	
NET CARRYING AMOUNT					
Customer loans					
General government	0	0	0	0	0
Other financial corporations	1 717	12 675	89	14 482	(674)
Other non-financial corporations	1 003	34 329	151	35 483	(1 806)
Households	0	44	0	44	(1)
TOTAL NET CARRYING AMOUNT / LOSS	2 721	47 048	240	50 009	(2 481)

2022					
GROSS OUTSTANDING	Stage 1	Stage 2	Stage 3	Total	Contract modification loss
Customer loans					
General government	0	0	0	0	
Other financial corporations	15 057	2 296	0	17 353	
Other non-financial corporations	1 542	38 308	5 764	45 614	
Households	0	37	0	37	
	16 599	40 641	5 764	63 004	
IMPAIRMENT					
Customer loans					
General government	0	0	0	0	
Other financial corporations	(20)	(26)	0	(46)	
Other non-financial corporations	(5)	(999)	(3 030)	(4 034)	
Households	0	(2)	0	(2)	
	(25)	(1 027)	(3 030)	(4 082)	
NET CARRYING AMOUNT					
Customer loans					
General government	0	0	0	0	0
Other financial corporations	15 037	2 270	0	17 307	(657)
Other non-financial corporations	1 537	37 309	2 734	41 580	(1 578)
Households	0	35	0	35	(4)
TOTAL NET CARRYING AMOUNT / LOSS	16 574	39 614	2 734	58 922	(2 239)

7.2 DEBT SECURITIES

Debt securities	2023			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Hungarian government bonds	26 389	0	0	26 389
Corporate bonds	363 245	50 057	0	413 302
Mortgage bonds	7 388	0	0	7 388
	397 022	50 057	0	447 079
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(1 910)	(1 616)	0	(3 526)
Mortgage bonds	(3)	0	0	(3)
	(1 913)	(1 616)	0	(3 529)
NET CARRYING AMOUNT				
Hungarian government bonds	26 389	0	0	26 389
Corporate bonds	361 335	48 441	0	409 776
Mortgage bonds	7 385	0	0	7 385
	395 109	48 441	0	443 550

The 5 largest exposures of corporate bonds represent 88.9% (2022: 92.7%) of the total, of which 15.4% (2022: 14.3%) are guaranteed by State guarantees, all of which are stage 1 rated.

Debt securities	2022			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Hungarian government bonds	42 158	0	0	42 158
Corporate bonds	394 004	482	493	394 979
Mortgage bonds	6 181	0	0	6 181
	442 343	482	493	443 318
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(3 625)	(96)	(493)	(4 214)
Mortgage bonds	(1)	0	0	(1)
	(3 626)	(96)	(493)	(4 215)
NET CARRYING AMOUNT				
Hungarian government bonds	42 158	0	0	42 158
Corporate bonds	390 379	386	0	390 765
Mortgage bonds	6 180	0	0	6 180
	438 717	386	0	439 103

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Reconciliation of assets arising from investing activities

	<u>2022</u>	<u>Proceeds from maturity or sale</u>	<u>Discount/ Premium</u>	<u>Acquisition cost</u>	<u>2023</u>
Hungarian government bonds	42 158	(14 888)	(881)	0	26 389
Corporate bonds	394 979	(970)	(374)	19 667	413 302
Mortgage bonds	6 181	0	93	1 114	7 388
Total	443 318	(15 858)	(1 162)	20 781	447 079

	<u>2021</u>	<u>Proceeds from maturity or sale</u>	<u>Discount/ Premium</u>	<u>Acquisition cost</u>	<u>2022</u>
Hungarian government bonds	53 494	(18 860)	(1 453)	8 977	42 158
Corporate bonds	327 982	(18 816)	4 312	81 501	394 979
Mortgage bonds	6 148	0	33	0	6 181
Total	387 624	(37 676)	2 892	90 478	443 318

HUF 14 938 million from the total amounts presented in column “*Proceeds from maturity or sale*” relates to maturity (2022: HUF 18 816 million).

7.3 DEPOSITS AT CENTRAL AND OTHER BANKS

	2023			
	Stage 1	Stage 2	Stage 3	Total
Deposits at central and other banks				
GROSS VALUE				
Central bank deposits	0	0	0	0
Other bank deposits	27 002	0	0	27 002
	27 002	0	0	27 002
IMPAIRMENT				
Central bank deposits	0	0	0	0
Other bank deposits	(1)	0	0	(1)
	(1)	0	0	(1)
NET CARRYING AMOUNT				
Central bank deposits	0	0	0	0
Other bank deposits	27 001	0	0	27 001
	27 001	0	0	27 001

	2022			
	Stage 1	Stage 2	Stage 3	Total
Deposits at central and other banks				
GROSS VALUE				
Central bank deposits	0	0	0	0
Other bank deposits	26 853	0	0	26 853
	26 853	0	0	26 853
IMPAIRMENT				
Central bank deposits	0	0	0	0
Other bank deposits	(6)	0	0	(6)
	(6)	0	0	(6)
NET CARRYING AMOUNT				
Central bank deposits	0	0	0	0
Other bank deposits	26 847	0	0	26 847
	26 847	0	0	26 847

7.4 OTHER FINANCIAL ASSETS

	2023			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
GROSS VALUE				
Trade receivables	0	519	0	519
Margin accounts	22 997	0	0	22 997
	22 997	519	0	23 516
IMPAIRMENT				
Trade receivables	0	(2)	0	(2)
Margin accounts	(4)	0	0	(4)
	(4)	(2)	0	(6)
NET CARRYING AMOUNT				
Trade receivables	0	517	0	517
Margin accounts	22 993	0	0	22 993
	22 993	517	0	23 510

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Other financial assets	2022			Total
	Stage 1	Stage 2	Stage 3	
GROSS VALUE				
Trade receivables	0	1 120	0	1 120
Margin accounts	3 204	0	0	3 204
	3 204	1 120	0	4 324
IMPAIRMENT				
Trade receivables	0	(1)	0	(1)
Margin accounts	(1)	0	0	(1)
	(1)	(1)	0	(2)
NET CARRYING AMOUNT				
Trade receivables	0	1 119	0	1 119
Margin accounts	3 203	0	0	3 203
	3 203	1 119	0	4 322

8. INVESTMENTS IN ASSOCIATES

	2023		
	gross value	impairment	net value
Associates	318 830		318 830
Exempted associates	23 728	(6 593)	17 135
Total	342 558	(6 593)	335 965

	2022		
	gross value	impairment	net value
Associates	248 566		248 566
Exempted associates	28 118	(8 749)	19 369
Total	276 684	(8 749)	267 935

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	<u>2023</u>	<u>2022</u>
Carrying amount at 1 January	267 935	169 870
Fair value of net assets of associate acquired	23 809	71 780
Share of profit of associates	12 390	14 884
Share of capital increase of associates	43 040	79 709
Share of other equity movements of associates	(1 168)	(206)
Dividends from associates	(1 918)	0
FX impact of associates	(3 696)	2 793
Impairment of investments in associates	(2 060)	(2 163)
Kikerülés	(1 367)	0
Reclassification to FVTPL instruments	(1 000)	(68 732)
Carrying amount at 31 December	335 965	267 935

The ownership in the table below represents the share from the capital. In case of the funds the voting power is a different percentage as these funds are managed by a fund manager where the majority ownership is not within the Group, therefore the equity method was used for the consolidation of these funds. The actual voting power is limited to the significant influence level between 20-50%.

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The Group's interest in its associates as at 31 December 2023 and 2022 were as follows.

<u>Name of the company</u>	<u>Activities</u>	<u>Fund manager</u>	2023			2022
			Own equity	Subscribed capital *	Owner ship	Owner ship
Enter Tomorrow Kockázati Tőkealap	Venture capital fund	Lead Ventures Alapkezelő Zrt.	14 534	14 283	49.00%	49.00%
Impact Ventures I. Magántőkealap	Private equity fund	Impact Ventures Kockázati Tőkealap-kezelő Zrt.	3 551	4 315	39.50%	39.50%
Impact Ventures II. Magántőkealap	Private equity fund	Impact Ventures Kockázati Tőkealap-kezelő Zrt.	834	1 005	29.63%	29.63%
Debreceni Iparfejlesztési Alap*	Private equity fund	XANGA Ventures Magántőkealap-kezelő Zrt.	18 048	19 440	66.67%	66.67%
Nyíregyházi Iparfejlesztési Alap	Private equity fund	XANGA Ventures Magántőkealap-kezelő Zrt.	2 011	2 200	90.90%	90.90%
Tranzakciós és Vállalatfejlesztési Alap	Private equity fund	XANGA Ventures Magántőkealap-kezelő Zrt.	16 136	16 705	90.00%	90.00%
Sycamore Buyout Fund I. Magántőkealap	Private equity fund	XANGA Ventures Magántőkealap-kezelő Zrt.	3 572	3 859	69.93%	69.93%
Chi Fu Hungarian Economic Opportunity Fund	Private equity fund	Chi Fu Investment Fund Management Zrt.	20 342	26 795	50.00%	50.00%
Kék Bolygó Víz Alap	Private equity fund	KBKB Kék Bolygó Klímavédelmi Befektetési Alapkezelő Zrt	1 144	2 367	100.00%	100.00%
Valor Zöld Alap	Private equity fund	Valor Capital Kockázati Tőkealap-kezelő Zrt	2 222	2 209	49.00%	49.00%
Kecskeméti Prémium Ipari Park Magántőkealap	Private equity fund	Liberty Assets Zrt.	8 572	8 607	80.00%	80.00%
Finext HelloParks Alapok Alapja Értékpapír Befektetési Alap	Private equity fund	FINEXT Befektetési Alapkezelő Zrt.	45 282	31 800	65,68%	74.57%
MKB Magántőkealap	Private equity fund	MKB Befektetési Alapkezelő Zrt.	81 394	88 992	70.00%	70.00%
Klasszikus Iparágak Magántőkealap	Private equity fund	GB & Partners Kockázati Tőkealap-kezelő Zrt.	20 459	14 300	69.93%	69.93%
Ramóna Ingatlanforgalmazó és Ingatlanfejlesztő Alap	Real estate fund	CARION Befektetési Alapkezelő Zrt.	14 190	16 876	65.02%	65.02%
Diorit Magántőkealap	Private equity fund	Diófa Alapkezelő Zrt.	48 978	48 230	90.00%	90.00%
Biggeorge 25. Ingatlanfejlesztő Ingatlanbefektetési Alap	Real estate fund	Biggeorge Alapkezelő Zrt.	19 910	16 198	74.45%	74.45%
Bonitas Magántőkealap	Private equity fund	Bonitas Befektetési Alapkezelő Zrt.	1 770	2 000	70.00%	70.00%
Vespucci Deep Tech Kockázati Tőkealap	Venture capital fund	Vespucci Partners Zrt.	950	1 043	70.00%	70.00%
DBH Magántőkealap	Private equity fund	DBH Investment Kockázati Tőkealap-kezelő Zrt.	6 711	6 821	69.72%	69.72%
CLM Future Magántőkealap	Private equity fund	Indotek-Investments Alapkezelő Zrt.	5 000	50 000	70.00%	
Trustify Impact I. Magántőkealap	Private equity fund	Trustify Befektetési Alapkezelő Zrt.	5 000	50 000	70.00%	
Biggeorge 40. Ingatlanfejlesztő Ingatlanbefektetési Alap	Real estate fund	Biggeorge Alapkezelő Zrt	15 531	13 060	69.99%	
GloCap I. Gazdaságfejlesztési Magántőkealap	Private equity fund	Global Capital Kockázati Tőkealap-kezelő Zrt.	8 995	11 604	100.00%	
Platina Digitalizációs Magántőkealap	Private equity fund	Platina Capital Kockázati Tőkealap-kezelő Zrt.	1 415	1 429	70.00%	
BBCA Szolnok Biokémiai Zrt.	Organic chemical producer		21 439	17 410	48,93%	48.93%
Garantiqa Hitelgarancia Zrt	Guarantee provider		103 387	9 652	38,04%	38.04%
WX-INNOCARGO Kft.	Real estate lending		3 601	4 207	47,54%	47.54%
Szatmári Konzervgyár Kft.	Fruit and vegetable processing		3 326	908	40,00%	40.00%
EKO Konzervipari Kft.	Fruit and vegetable processing		5 366	1 396	24,99%	24.99%
SajóSolar Villamosenergetikai Kft.	Electricity generation		6 276	2 658	24,46%	24.46%
IHT Informatika Zrt.	IT services		20	20	25.00%	
EU-Fire Ingatlanfejlesztő Kft.	Engeneering activity		5 720	2 328	32.22%	

* Subscribed capital represents the paid in capital in case of Venture capital funds.

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Summarised financial information of each material associate is as follows at 31 December 2023:

	Garantiqa	Direct venture capital funds	Other venture capital funds	Other individually immaterial associates	Total associates
Current assets	13 020	65 885	99 415	41 916	220 236
Non-current assets	155 172	74 628	158 904	79 090	467 794
Total Assets	168 192	140 513	258 319	121 006	686 030
Current liabilities	64 805	121	27 921	38 450	131 297
Non-current liabilities	0	0	4 220	36 829	41 049
Total Liabilities	64 805	121	32 141	75 279	172 346
Own Equity	103 387	140 392	226 178	45 727	515 684
Revenue	55 286	0	5 403	23 334	84 023
Profit or loss from continuing operations	37 023	(8 323)	844	(12)	29 532
Profit or loss from discontinued operations	0	0	0	0	0
Other comprehensive income	0				
Total comprehensive income	37 023				

Summarised financial information of each material associate is as follows at 31 December 2022:

	Garantiqa	Direct venture capital funds	Other venture capital funds	Other individually immaterial associates	Total associates
Current assets	12 841	76 470	81 339	30 561	201 210
Non-current assets	117 835	46 893	91 743	62 999	319 470
Total Assets	130 676	123 363	173 082	93 560	520 680
Current liabilities	64 312	29	12 370	14 344	91 055
Non-current liabilities	0	0	0	37 552	37 552
Total Liabilities	64 312	29	12 370	51 896	128 607
Own Equity	66 364	123 334	160 712	41 664	392 073
Revenue	44 299	0	196	20 544	65 038
Profit or loss from continuing operations	7 792	1 658	11 794	5 001	26 245
Profit or loss from discontinued operations	0	0	0	0	0
Other comprehensive income	0				
Total comprehensive income	7 792				

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Associates exempted from consolidation, therefore are treated at cost less impairment are presented below in descending order of the voting power, indicating the current subscribed capital as at 31 December 2023.

		2023		2022
	Owner	Subscribed capital	Voting power	Voting power
Exempted associates – under liquidation procedure				
Blogter.com Nemzetközi Információszoigálató Kft. "f.a."	NTA	58	48.28%	48.28%
Pure Sound Media Szoligálató Kft. "v.a."	NTA	5	35.00%	35.00%
Koin Europe Kft. "v.a."	NTA	5	32.00%	32.00%
Filipper Kft. "v.a."	NTA	3	27.20%	27.20%
Chatler.ai Informatikai és Szoligálató Kft. "kt.a."	NTA	4	25.00%	25.00%
Multipass Solutions Zrt."f.a."	NTA	23	22.21%	22.21%
Other exempted associates				
PanIQ Franchising Inc.	NTA és VBTMA	21	49.77%	49.77%
Cukovy Europe Kft.	Divat&Design TA	4	49.50%	22.92%
Bankmonitor Holding Kft.	VBTMA	10	49.00%	49.00%
Royalpack Group Holding Kft.	VBTMA	6	49.00%	49.00%
Monsun Kft.	NTA	3	48.08%	48.08%
Pannon Green Power VPP Kft.	VBTMA	50	48.00%	48.00%
Pinetime International Kft.	Divat&Design TA	3	46.00%	33.00%
SCOLVO Zrt.	NTA	12	45.42%	45.42%
Dome Capital Kft.	VBTMA	20	45.00%	
FilmFinity Filmgyártó és Forgalmazó Zrt.	NTA	9	44.88%	44.88%
Zsigmond International Kft.	Divat&Design TA	3	44.62%	44.62%
Thriveo Central Europe Kft.	Divat&Design TA	35	43.88%	43.88%
DAIGE Kft.	NTA és Divat&Design TA	4	41.32%	33.34%
Pastarte Kft.	VBTMA	10	40.00%	40.00%
PELSO Look Kereskedelmi Kft.	Divat&Design TA	3	36.33%	22.22%
CX-Ray Kft.	NTA	20	36.00%	36.00%
Vág-Tech Projekt Kft.	VBTMA	5	34.04%	34.04%
Harmony Holding Kft.	VBTMA	5	34.00%	34.00%
DreamJo.bs Zrt.	NTA	8	33.87%	33.87%
Gravoform Projekt Kft.	VBTMA	5	33.33%	33.33%
Vajda Real Estate Kft.	VBTMA	6	33.33%	33.33%
Cakebox Kft.	NTA	3	32.73%	32.73%
Cargo-Viszed Kft.	NTA	3	32.42%	32.42%
SmartFront Kft.	NTA	10	31.00%	31.00%

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		2023		2022
	Owner	Subscribed capital	Voting power	Voting power
CodeBerry School Kft.	NTA	12	30.00%	30.00%
Automizy Marketing-technológiai Zrt.	NTA	7	29.55%	29.55%
POST FOR RENT International Zrt.	NTA	7	29.31%	29.31%
MAKERSMARKET.XYZ.Kft..	Divat&Design TA	4	28.63%	28.63%
StyleHub Eccommerce Kft	NTA	5	28.52%	28.52%
RiskCover Hungary Zrt.	NTA	5	28.00%	28.00%
Neticle Zrt.	NTA	79	27.38%	27.38%
Local's Lore Kft.	NTA	3	27.20%	27.20%
Duelbox Interaktív Rendezvénytechnika Kft.	NTA	5	26.95%	26.95%
Chameleon Smart Home Nyrt.	NTA	28	26.42%	26.42%
Airmoniq Pro Kft.	NTA	5	25.51%	1.00%
Greenstic Kft.	NTA	3	25.11%	
Realindustry Magyarország Kft.	Divat&Design TA	4	25.00%	20.00%
Electron Ventures Kft.	VBTMA	24	25.00%	
SM Fejlesztési Holding Kft.	VBTMA	30	25.00%	25.00%
Detka Oktató Kft.	VBTMA	207	24.91%	24.91%
Parafix Management Kft.	VBTMA	4	24.88%	24.88%
Dataxo Group Zrt. (volt SDSYS Zrt.)	NTA	460	23.87%	23.87%
Bagabags Trade Kft.	Divat&Design TA	4	23.86%	23.86%
OPLÍZ HOLDING Kft.	VBTMA	6	23.41%	
AP Plast Holding Kft.	VBTMA	44	23.09%	23.09%
POLCZ FOOD Kft.	NTA	5	22.84%	12.38%
szereldmagad.hu Kft.	NTA	18	22.64%	22.64%
Móra-BookR Kids Gyermek és Ifjúsági Digitális Kiadó Kft.	NTA	126	22.22%	23.60%
Sörműves Kft.	NTA	21	21.74%	1.00%
Rollet Kft.	NTA	14	21.73%	21.73%
ORIANA International Tanácsadó, Fejlesztő és Szolgáltató Zrt.	NTA	18	21.42%	21.42%
Flight Refund Kft.	NTA	16	21.17%	21.17%
Innovatív Térburkolatfejlesztő Kft.	NTA	20	20.95%	17.16%
Supp.li Kft.	NTA	5	20.50%	20.50%
ChemPass Kft.	NTA	6	20.00%	20.00%
4D Interactive Anatomy Zrt.	NTA	6	20.00%	20.00%
Kwindoo Magyarország Kft.	NTA	4	20.00%	20.00%

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The Bank has no commitment or intention to grant financial or other assistance to any associates and there is no restriction on the ability of these associates to pay dividends or repay loans.

Decreases in 2023 indicating the Group's voting power on the year end before derecognition.

<u>Company name</u>	<u>Business activity</u>	<u>Voting power</u>	
		<u>2023</u>	<u>2022</u>
Középületépítő Zrt. "f.a."	Real estate trading		47.89%
Concrate Style Kft.	Production of concrete and plaster products		40.00%
MFA Alternatív Energia Műszaki- és Fejlesztési Kft	Technical analysis		40.00%
TrustAir Aviation Kft.	Health care		40.00%
Meditcom EMER Kft. "f.a."	IT programing		37.50%
Bakering International Kft.	Restaurant catering		30.23%
KU-NA Kft.	Agency wholesale		30.00%
iWelcome2 Tourniform Kft. "v.a."	World wide web portal service		28.50%
Flying Birds Entertainment Kft.	World wide web portal service		27.00%
IB Math Club Kft. "v.a."	Education		26.52%
ClipWareHouse Zrt. "f.a."	Data processing		25.01%
Liber8Tech Hungary Kft. "f.a"	Machine manufacturing		22.12%
Continest Technologies Zrt. *	Other supplementary business services	12.22%	27.26%

Fund managers belonging to the Group also manage funds in which the Group does not have any investment. These funds are not included into the consolidation of the Group. As at the end of 2023 the Group manages 3 such funds with total net assets value of HUF 22 347 million.

9. DERIVATIVES

The Group enters into derivatives for risk management purposes including hedges that either meet the hedge accounting requirements or are hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount is a gross amount which is the quantity of the underlying derivative contracts that indicates the volume of transactions outstanding as at the year end and are not indicative of either the market or credit risk.

	2023			
	Assets		Liabilities	
	fair value	notional	fair value	notional
Derivatives in economic hedge relationship				
Interest rate swaps	751	13 142	(625)	3 763
Cross currency interest rate swaps	765	8 315	(7 052)	400 332
Foreign currency swaps	1 199	284 392	(831)	205 050
Total derivatives in economic hedge relationship	2 715	305 849	(8 508)	609 145
Fair value hedge derivatives				
Interest rate swaps	7 831	36 472	(14 187)	745 588
Total hedge derivatives	7 831	36 472	(14 187)	745 588

	2022			
	Assets		Liabilities	
	fair value	notional	fair value	notional
Derivatives in economic hedge relationship				
Interest rate swaps	1 502	4 564	(1 367)	4 564
Cross currency interest rate swaps	65	9 016	0	0
Foreign currency swaps	887	42 542	(2 695)	133 493
Total derivatives in economic hedge relationship	2 454	56 122	(4 062)	138 057
Fair value hedge derivatives				
Interest rate swaps	15 128	39 599	0	0
Total hedge derivatives	15 128	39 599	0	0

As part of its asset-liability management, the Group enters into derivative transactions in order to cover risks inherent in the interest or maturity inconsistency of the asset and liability portfolio. Whenever possible, these derivative positions are effectively hedged with an existing asset or liability (see hedge accounting section). When it is not possible to implement effective hedge accounting in accordance with IFRS 9, the Group classifies its derivative contracts into the financial assets and liabilities held for trading categories but does not open derivative positions for trading purposes only, all its positions are considered as economic hedging positions. Foreign exchange swaps are concluded for instruments in a different currency other than the source of financing, solely for short term maturity and for the purpose of daily liquidity management.

10. HEDGE ACCOUNTING

Fair value hedges

To protect itself against changes in the fair value of financial assets or liabilities due to movements in interest rates, the Bank enters into fair value hedges. The Bank primarily designates the benchmark rate as the hedged risk therefore enters into interest rate swaps whereby the fixed leg represents the economic risk of the hedged item.

The Bank has determined individual hedge relationships and started hedge accounting with its interest rate swap deals to cover the interest rate risk on one large loan in 2020. On 30 June 2022, the Bank terminated the former hedge relationship for the interest rate risk of this loan in accordance with paragraph B6.5.23 of IFRS 9, as it no longer met the risk management objective under which the Bank deemed it suitable for hedge accounting. Following the termination, the Bank established a new hedging relationship in which groups of 11 loan transactions were micro-hedged, all which are characterized by long maturities and fixed interest rates. These transactions carry a significant interest rate risk, as such long-term, fixed-rate funds not available to the Bank in this volume. Hedged items are designated as amounts equal to the current IRS notional value, including the amortization of IRS transactions (using a layer approach), where the amount of interest due on the principal amount that represents the amounts that first become due after the cash flow dates of the hedging IRS transactions ("bottom layer") is indicated. The volume of the remaining capital of the 11 loans involved is more than double the notional amount of the two market swaps previously concluded, so even with the contractual principal repayments, the expected prepayment volume and the amount of credit losses, they are expected to exceed the volume of hedging transactions over the entire term.

The Bank accounts these hedge relationships as fair value hedges. Hedge effectiveness is measured by the Bank using the hypothetical derivatives approach under IFRS9, which is a derivative with the same basic characteristics as the covered item. With this, the hypothetical derivative mirrors the hedged items, where the fixed rate on credit transactions is expected to reach or exceed the fixed rate component of IRS transactions (i.e., fixed leg minus fixed spread of the variable leg). The initial fair value of a hypothetical IRS is zero, as opposed to the fair value of IRS transactions for hedging purposes at the time of the designation of the hedging relationship.

The ineffectiveness of the hedging relationship is recognized in the income statement on "Gains or (-) losses from hedge accounting net " line and amounted to HUF 1 743 million (2022: HUF 652 million, from which the amount recognized on cancellation amounted to HUF 723 million profit). The main source of ineffectiveness is the effect of the counterparty and the Bank's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item, additional ineffectiveness arose from the timing difference of the swap deal date and the designation date.

At the termination of the hedge relationship the fair value adjustment was recognized as part of the amortized amount of the single loan and effective interest rate was recalculated. Due to termination of previous hedge relationship HUF 1 572 million (2022: 867 million) was recognized as effective interest rate amortization in the profit and loss.

In May 2023 the Bank issued fixed interest rate bonds, nominated in USD and amounted to USD 1 125 million. As the Bank lending is denominated mainly in HUF or in EUR the Bank swapped the USD fix interest and the USD notional as well into EUR risk by contracting a fix-to-floating USD IRS, float-to-float CCIRS and float-to-fix EUR IRS. For accounting purposes two hedge relationship was set by hedging the fair value of the fixed interest rate USD bond and the fair value of the fixed interest rate EUR loans where the hedging instruments are the USD and the EUR IRS respectively. The fair value hedge on the USD bond is a micro hedge relationship under IFRS 9 rules, while the fair value hedge on the fixed EUR loans is a macro hedge relationship under IAS 39 rules and is accounted for a separate line within the statements of financial position (Fair value changes of the

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hedged items in portfolio hedge of interest rate risk). To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk. In case of macro hedge relationship the hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

In the table below the Bank sets out the accumulated fair value adjustment arising from the continuing hedge relationship.

Hedged item	2023			
	Assets		Liabilities	
	Carrying value of hedged item	from this accumulated fair value adjustment	Carrying value of hedged item	from this accumulated fair value adjustment
HUF loans	74 412	4 043		
EUR loans	337 365	11 550		
Debt securities issued			385 372	(975)
Total	411 777	15 593	385 372	(975)

Hedged item	2022			
	Assets		Liabilities	
	Carrying value of hedged item	from this accumulated fair value adjustment	Carrying value of hedged item	from this accumulated fair value adjustment
HUF loans	75 126	(2 632)		
Debt securities issued			0	0
Total	75 126	(2 632)	0	0

	2023			2022		
	Less than 1 year	1-5 year	More than 5 years	Less than 1 year	1-5 year	More than 5 years
HUF loans						
Nominal amount (HUF million)	-	-	120 560	-	-	120 560
Principal repayable (HUF million)			84 772	-	-	89 512
Average fixed interest rate	-	-	3.37%	-	-	3.37%
EUR loans						
Principal repayable (HUF million)	-	-	359 864			
Contracted but not yet drawn amounts (HUF million)	-	-	108 674			
Average fixed interest rate	-	-	4,74%			
Debt securities issued						
Notional amount	-	-	389 745			
fixed interest rate	-	-	6.5%			

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2023					Gains or (-) losses from hedge accounting, net			Fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit and loss
	2023 Fair value	2022 Fair value	Change in fair value	Change in interest accrual	Gains or (-) losses from hedge deal	Gains or (-) losses from hedged item	Total		
Asset side hedge deal	7 831	15 128	(7 297)	(117)	(7 180)	6 676	(504)	4 043	(3 137)
Macro hedge deal	(5 302)	0	(5 302)	5 977	(11 280)	11 513	233	11 550	270
Liability side hedge deal	(8 885)	0	(8 885)	(8 435)	(450)	(1 022)	(1 472)	(975)	(1 425)
Total hedge interest rate swaps	(6 356)	15 128	(21 484)	(2 575)	(18 910)	17 167	(1 743)	14 618	(4 292)

2022					Gains or (-) losses from hedge accounting, net			Fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit and loss
	2022 Fair value*	2021 Fair value	Change in fair value	Change in interest accrual	Gains or (-) losses from hedge deal	Gains or (-) losses from hedged item	Total		
Asset side hedge deal	15 128	7 849	7 279	218	7 061	(6 409)	652	(2 632)	(194)
Liability side hedge deal	0	0	0	0	0	0	0	0	0
Total hedge interest rate swaps	15 128	7 849	7 279	218	7 061	(6 409)	652	(2 632)	(194)

*: At the time of establishing the new hedging relationship, the fair value of the hedging instrument was HUF 13 157 million.

11. PROPERTY, PLANT AND EQUIPMENT

	<u>2023</u>	<u>2022</u>
Property, plant and equipment	4 856	4 778
Right of use assets	1 359	1 801
Net book value	6 215	6 579

Property, plant and equipment

	Real estates	Production machinery	Equipment	Total
Gross value				
Opening balance 2023	6 164	0	4 075	10 239
Additions	33	0	785	818
Disposals	(15)	0	(300)	(315)
Closing balance 2023	6 182	0	4 560	10 742
Depreciation				
Opening balance 2023	(2 687)	0	(2 774)	(5 461)
Charge for the year	(79)	0	(603)	(682)
Disposals	16	0	241	257
Closing balance 2023	(2 750)	0	(3 136)	(5 886)
Net book value				
31 December 2022	3 477	0	1 301	4 778
31 December 2023	3 432	0	1 424	4 856

	Real estates	Production machinery	Equipment	Total
Gross value				
Opening balance 2022	6 111	0	4 047	10 158
Additions	97	0	280	377
Disposals	(44)	0	(252)	(296)
Closing balance 2022	6 164	0	4 075	10 239
Depreciation				
Opening balance 2022	(2 634)	0	(2 338)	(4 972)
Charge for the year	(80)	0	(633)	(713)
Disposals	27	0	197	224
Closing balance 2022	(2 687)	0	(2 774)	(5 461)
Net book value				
31 December 2021	3 477	0	1 709	5 186
31 December 2022	3 477	0	1 301	4 778

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Right of use assets

	Real estates	Parking places	Cars, trucks	Total
Gross value				
Opening balance 2023	3 005	376	71	3 452
Additions	232	40	0	272
Disposals	0	(175)	(14)	(189)
Closing balance 2023	3 237	241	57	3 535
Depreciation				
Opening balance 2023	(1 466)	(154)	(31)	(1 651)
Charge for the year	(547)	(98)	(12)	(657)
Disposals	0	130	2	132
Closing balance 2023	(2 013)	(122)	(41)	(2 176)
Net book value				
31 December 2022	1 539	222	40	1 801
31 December 2023	1 224	119	16	1 359

	Real estates	Parking places	Cars, trucks	Total
Gross value				
Opening balance 2022	2 790	279	57	3 126
Additions	430	118	25	573
Disposals	(215)	(21)	(11)	(247)
Closing balance 2022	3 005	376	71	3 452
Depreciation				
Opening balance 2022	(1 136)	(101)	(26)	(1 263)
Charge for the year	(545)	(74)	(14)	(633)
Disposals	215	21	9	245
Closing balance 2022	(1 466)	(154)	(31)	(1 651)
Net book value				
31 December 2021	1 654	178	31	1 863
31 December 2022	1 539	222	40	1 801

Expenses relating to short-term leases and to leases of low-value assets that are not shown as right to use assets are included in general and administrative expenses:

	<u>2023</u>	<u>2022</u>
Short-term leases	136	111
Leases of low-value assets	45	42
	<u>181</u>	<u>153</u>

11.1 INVESTMENT PROPERTIES

	<u>2023</u>	<u>2022</u>
Cost	35 963	35 627
Reclassification	0	0
Accumulated impairment	0	0
Accumulated depreciation	(2 022)	(1 877)
Net book value	33 941	33 750
Net opening balance	33 750	33 567
Reclassification	0	0
Additions	361	342
Disposal – net	(22)	0
Impairment	0	0
Depreciation charge	(148)	(159)
Closing net balance	33 941	33 750

The fair value of the investment properties presented in the table above is HUF 36 070 million (2022: 36 120 million) and is classified as level 3 in the fair value hierarchy. The fair value of investment properties were determined by external valuers using methods based on income approach or market comparative data approach.

The following table presents the results related to investment properties.

	<u>2023</u>	<u>2022</u>
<i>Impairment on investment properties</i>	0	0
Additions	0	0
Reversal	0	0
Total impairment	0	0
<i>Expenses from investment properties</i>		
Acquisition cost	0	0
Maintenance expenses	(807)	(602)
Sale related cost	0	0
Total	(807)	(602)

12. INTANGIBLE ASSETS

	Property rights	Intellectual properties	Total
<i>Gross value</i>			
Opening balance 2023	888	13 840	14 728
Additions	36	1 423	1 459
Disposals	(4)	(16)	(20)
Closing balance 2023	920	15 247	16 167
<i>Amortization</i>			
Opening balance 2023	(721)	(7 192)	(7 913)
Charge for the year	(73)	(893)	(966)
Disposals	0	24	24
Closing balance 2023	(794)	(8 061)	(8 855)
<i>Net book value</i>			
31 December 2022	167	6 648	6 815
31 December 2023	126	7 186	7 312

	Property rights	Intellectual properties	Total
<i>Gross value</i>			
Opening balance 2022	871	12 314	13 185
Additions	50	1 757	1 807
Disposals	(33)	(231)	(264)
Closing balance 2022	888	13 840	14 728
<i>Amortization</i>			
Opening balance 2022	(679)	(6 548)	(7 227)
Charge for the year	(76)	(864)	(940)
Disposals	34	220	254
Closing balance 2022	(721)	(7 192)	(7 913)
<i>Net book value</i>			
31 December 2021	192	5 766	5 958
31 December 2022	167	6 648	6 815

13. OTHER ASSETS

	<u>2023</u>	<u>2022</u>
Accrued income from reimbursed cost	3 736	6 965
Accrued fund management fee	1 181	1 089
Deferred expenses	2 189	1 935
Intermediated services	0	761
Deferred initial fair value adjustment	13 556	16 321
Interest subsidy settlements	3 399	2 222
Reposessed assets	71	105
Deferred income	551	451
Advance payments	980	119
Other	354	422
Special bank tax due to Covid-19	701	1 051
Total	26 718	31 441

Cost Reimbursement

In the 2014-2020 programming period, the European Union is encouraging the expansion and more active use of financial instruments. The section 24/B of the government decree 272/2014. (XI. 5.) appointed MFB Zrt. as a fund of funds organization to carry out the professional use of the refundable EU resource amounting to HUF 650 billion. In the 2021-2027 programming period, the section 31 of the government decree 256/2021. (V. 18.), appointed MFB Zrt. as the organization implementing the holding fund for the delivery of the EU subsidies to the final beneficiaries.

In the 2014-2020 and 2021-2027 programming periods, the distribution of credit products is achieved through the "MFB Points" mediation system, which allows for a more efficient allocation of resources. Intermediaries ensures physical availability, and their staff carries out a significant part of the credit valuation, disbursement and monitoring activities for which the counterparty receives a specific intermediary remuneration. MFB points are operated by intermediary partners, therefore their costs and assets/liabilities are not included in the Group's records.

MFB Zrt. is entitled to get compensation for the costs incurred in carrying out the activities detailed in the Financing Contract concluded with the Hungarian State, which is paid by the Managing Authority to the Bank in accordance with specific rules and procedures. The remuneration is a set of justified and certified expenditure relating directly or indirectly - primarily for the Bank's organizational and infrastructure costs - to the implementation of the Financing Contract, recorded separately in the Bank accounting register. According to the Financing Agreement the Bank is not entitled to any additional fee or reimbursement from the Managing Authority. The Bank cannot have a profit from the remuneration.

The amount presented in the table includes certified costs already incurred by the Bank and partially reimbursed by the Managing Authority.

Deferred initial fair value adjustment

In 2013 the National Bank of Hungary launched its so called Funding for Growth Scheme and in 2020 the FGS Hajrá program (both called FGS) in order to finance the operation and investments of small- and medium size businesses (SMB) as an economic development activity. Within both of these programs, SME's fulfilling some present conditions were able to receive a preferential loan at a maximum interest rate of 2.5%, which was then refinanced by the National Bank of Hungary at 0% interest rate. The interest rates of these loans were lower than the interest rate of similar loans available in the market (off-market), therefore the initial fair value of loans received and provided were lower than their transaction value. This initial fair value difference was determined by the Bank however it was not accounted for in the profit or loss immediately given the unobservable inputs used in the calculation, but was accrued for the lifetime of the underlying deal. In accordance with

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the IFRS standards part of the related loan provided was reclassified to other assets, while part of the received loan with the same amount approximately as on the asset side was reclassified to other liabilities. The unobservable input during the determination of the initial fair value difference was the differences customers' credit risk and the Bank's own credit risk.

	<u>2023</u>	<u>2022</u>
Opening balance	16 321	17 334
Addition from new loans	16	2 873
Decrease due to sales	(561)	(903)
Annual amortisation	(2 220)	(2 983)
Closing balance	13 556	16 321

Reposessed real estates

These reposessed real estates used to be served as a collateral behind loans provided by the Group. The Group primary aim with these real estates to sell. There was no provision created for these properties at 31 December 2023 (2022: HUF 12 million)

Special bank tax due to Covid-19

In order to implement the Economic Protection Action Plan, a one-time special credit institution tax on the epidemiological situation for replenishing the Epidemiological Fund was introduced in 2020 amounting to HUF 1.7 billion for the Bank, which was paid in three equal instalments during the year. The profit and loss impact of it under the IFRS rules did not have to be shown in 2020, as under the special tax act the next 5 years of bank special tax liability will be deducted with this amount in five equal annual instalments, therefore this amount will reduce bank special tax expenditure for these years.

14. RECEIVABLES ON THE STATE DUE TO CURRENCY-HEDGING AGREEMENT

The Bank's foreign exchange risk originated from the foreign currency liabilities is hedged by the Foreign Exchange Guarantee Frame Agreement (FX Agreement) signed by the Hungarian Ministry of Finance originally in 2004 and later modified in 2014. This FX Agreement manages foreign exchange risks of the Bank's foreign currency borrowings (EUR) and the State compensates any foreign exchange loss incurred on these borrowings and the Bank is required to pay to the State the amount of realized foreign exchange gains on these transactions. Under the agreement early financial settlement is possible for programs where asset-side final beneficiaries made repayment in excess of 20% of the original program framework actually used.

The FX state guarantee frame for the Bank declared by the law was HUF 2 000 billion.

	<u>2023</u>		<u>2022</u>	
Guarantee frame maximum amount	2 000 000		2 000 000	
Programmed amounts within the frame	1 477 809		1 477 809	
Free frame	522 191		522 191	
Sum used from the frame amount	830 487		836 796	

	<u>2023</u>		<u>2022</u>	
	Opening FX rates	Year end NBH FX rate	Opening FX rates	Year end NBH FX rate
Converted amount	632 622	830 487	621 709	836 796
<i>from this amount already repaid by customers on which the balance is fixed</i>	384 430	455 212	373 183	441 193
Foreign exchange losses		197 865		215 087
Amount already received from the State (relating to the not yet closed program)		(60 976)		(60 976)
<i>received during the year</i>		0		11 489
Foreign exchange losses of FX state guarantee		136 889		154 111
Interest foreign exchange losses of FX state guarantee		29 195		27 928
Total foreign exchange losses on the converted amount		166 085		182 039
<i>from this amount already repaid by customers on which the balance is fixed</i>		(99 978)		(95 938)

In 2023, the business activity covered by the hedging agreement was not significant, but the EUR/HUF exchange rate decreased significantly as a result of which the receivables on the State was reduced. However, without this exchange rate hedging mechanism, the Bank's open currency position would be significant. This increase is recognized in the income statement on the „Exchange differences [gain or (-) loss], net” line, thereby neutralizing the effect of the revaluation of foreign currency liabilities. The receivable is against the Hungarian State therefore the credit risk is marginal.

15. FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

	<u>2023</u>	<u>2022</u>
Deposits		
Interbank deposits	37 365	23 859
Customer deposits (collateral behind loans)	26 321	19 264
Other customer deposits	47 250	5 397
	<u>110 936</u>	<u>48 520</u>
Loans taken		
Refinancing loans	201 519	230 171
Other loans taken	732 334	556 736
	<u>933 853</u>	<u>786 907</u>
Debt securities issued		
Listed HUF bonds	581 522	579 192
Listed FX bonds	1 180 982	823 370
<i>from this listed on foreign stock exchange</i>	<u>866 148</u>	<u>501 049</u>
	<u>1 762 504</u>	<u>1 402 562</u>
Other financial liabilities		
Margin accounts	8 137	15 696
Creditors	2 522	2 244
Finance leases liabilities	1 400	1 886
	<u>12 059</u>	<u>19 826</u>
Total	<u>2 819 352</u>	<u>2 257 815</u>

The Bank does not collect retail deposits. The corporate deposits contain such term deposits that are offered as collateral for the underlying loans or were collected for liquidity purposes. Also the line "deposits" includes inter-bank deposits used for liquidity management.

"Loans taken" includes long-term liabilities in FGS programs. This category also includes the external loans of the subsidiaries.

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15.1. DEBT SECURITIES ISSUED

Name of bond	ISIN code	Issue	Maturity	Interest rate	2023		2022	
					Nominal value	Carrying value	Nominal value	Carrying value
Foreign currency bonds								
MFB BOND EUR 750M	XS2010030752	2020.06.24	2025.06.24	fix 1.375% (annually)	287 085	288 450	300 188	301 150
MFB BOND EUR 500M	XS2348280707	2021.06.09	2026.06.09	fix 0.375% (annually)	191 390	191 352	200 125	199 899
MFB BOND EUR 398.32M	HU0000360821	2021.09.29	2023.06.28	fix 0.010% (annually)	0	0	35 802	35 801
		2021.10.13			0	0	46 949	46 941
		2022.05.19			0	0	21 501	21 356
		2022.06.15			0	0	55 174	54 618
		2022.07.21			34 786	35 095	36 374	36 359
MFB BOND EUR 301.68M	HU0000361779	2022.09.14	2024.06.26	fix 2.5% (annually)	50 887	51 193	53 209	52 732
		2022.09.28			19 066	19 109	19 936	19 537
		2022.11.16			10 737	10 721	11 227	10 878
		2022.10.19			0	0	44 317	44 099
MFB BOND EUR 110.72M	HU0000361928	2022.10.19	2023.10.26	fix 3.8% (annually)	0	0		
MFB BOND USD 1 125M	XS2630760796	2023.05.31	2028.06.29	fix 6.5% (annually)	389 745	386 346		
MFB BOND EUR 139.6M	HU0000362934	2023.09.13	2027.06.29	fix 5.5% (annually)	53 428	53 721		
		2023.10.12			13 321	13 313		
MFB BOND EUR 62.9M	HU0000362983	2023.09.28	2024.09.26	fix 5.3% (annually)	61 581	62 234		
MFB BOND EUR 179.9M	HU0000363072	2023.10.27	2024.10.25	fix 5.3% (annually)	68 881	69 448		
Total foreign currency bonds					1 180 907	1 180 982	824 802	823 370
HUF bonds								
MFB202710	HU0000357892	2017.10.04	2027.10.27	fix 3.00% (annually)	4 180	4 229	4 180	4 235
		2019.10.09			16 890	17 642	16 890	17 808
		2021.10.06			13 175	13 087	13 175	13 049
		2021.11.04			34 910	33 958	34 910	33 688
MFB202406	HU0000358700	2019.02.06	2024.06.26	fix 2.6% (annually)	15 000	15 219	15 000	15 259
		2019.03.06			13 300	13 490	13 300	13 517
		2022.05.18			15 070	14 899	15 070	14 186
MFB202311	HU0000359138	2019.09.25	2023.11.24	fix 1.0% (annually)	0	0	17 110	17 130
		2021.10.20			0	0	18 905	18 692
		2021.11.04			0	0	3 171	3 132
		2022.02.16			0	0	4 294	4 148
		2022.10.26			0	0	5 703	5 001
MFB202506	HU0000359674	2020.05.27	2025.06.24	fix 1.7% (annually)	35 000	35 363	35 000	35 402
MFB202604	HU0000360037	2020.10.21	2026.04.22	fix 1.9% (annually)	34 706	35 181	34 706	35 190
		2023.09.14			63 306	54 446		
MFB203110	HU0000360771	2021.09.15	2031.10.22	fix 2.9% (annually)	33 950	33 357	33 950	33 270
		2021.10.20			24 035	22 302	24 035	22 103

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Name of bond	ISIN code	Issue	Maturity	Interest rate	2023		2022	
					Nominal value	Carrying value	Nominal value	Carrying value
MFB203304	HU0000360896	2021.11.11	2033.04.20	fix 4.2% (annually)	9 600	9 647	9 600	9 802
MFB202810	HU0000360912	2021.11.17	2028.10.22	fix 3.9% (annually)	34 550	34 628	34 550	34 596
		2021.12.01			23 495	22 789	23 495	22 631
MFB202410	HU0000361027	2021.12.08	2024.10.24	fix 4.3% (annually)	12 441	12 480	12 441	12 414
		2022.02.02			16 550	16 589	16 550	16 484
		2022.10.06			4 900	4 578	4 900	4 189
MFB202910	HU0000361035	2021.12.08	2029.10.24	fix 4.6% (annually)	10 680	10 540	10 680	10 507
		2022.02.02			24 100	23 159	24 100	22 997
MFB202704	HU0000361092	2021.12.15	2027.04.22	fix 4.5% (annually)	24 575	25 248	24 575	25 607
		2022.01.19			9 600	9 717	9 600	9 817
		2022.02.16			9 453	9 502	9 453	9 583
		2023.10.26			29 000	25 745		
MFB202301	HU0000360888	2021.11.11	2023.01.25	fix 2.0% (annually)	0	0	27 504	28 115
		2021.12.01			0	0	23 956	24 466
		2022.01.19			0	0	39 584	40 415
MFB202511	HU0000361761	2022.06.15	2025.11.26	fix 7.8% (annually)	13 500	13 355	13 500	13 682
		2022.09.15			6 700	6 216	6 700	6 194
		2022.11.17			2 000	1 880	2 000	1 883
MFB202803	HU0000362975	2023.09.27	2028.03.23	fix 8.2% (annually)	48 115	47 857		
MFB202610	HU0000363064	2023.10.11	2026.10.21	fix 9.2% (annually)	14 625	14 419		
Total HUF bonds					597 406	581 522	582 587	579 192
Total bonds					1 778 313	1 762 504	1 407 389	1 402 562

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In 2023 the Bank issued one fix interest bearing USD bond with a nominal value of USD 1 125 million and three new EUR bonds at a nominal value of EUR 382.4 million as well as two new HUF bonds at a nominal value of HUF 62.7 billion and additional issuance of HUF 92.3 billion occurred at two HUF bonds. Two EUR denominated bonds totalling to EUR 700 million and two HUF denominated bonds at a nominal amount of HUF 140 227 million were expired during the year.

In 2022 the Bank issued two new fix interest bearing EUR bond with a nominal value of EUR 412.4 million, and one new HUF bonds at a nominal value of HUF 22.2 billion. There was additional issuance on one existing EUR bonds amounting to EUR 191.57 million, while in case of HUF bonds five was involved totalling to HUF 105.2 billion face value. One EUR bond with a nominal value of EUR 95.2 million and two HUF bonds with a nominal value of HUF 85.5 billion expired during the year.

Reconciliation of liabilities arising from financing activities

	<u>2022</u>	<u>Proceeds from bond issuance</u>	<u>Discount/ Premium</u>	<u>Repayments at maturity</u>	<u>Exchange rate change</u>	<u>Hedge impact</u>	<u>2023</u>
HUF bonds	579 192	139 202	3 355	(140 227)	0	0	581 522
USD bonds		386 503	1 023	0	(2 154)	974	386 346
EUR bonds	823 370	198 281	6 164	(190 136)	(43 043)	0	794 636
Total	1 402 562	723 986	10 542	(330 363)	(45 197)	974	1 762 504

	<u>2021</u>	<u>Proceeds from bond issuance</u>	<u>Discount/ Premium</u>	<u>Repayments at maturity</u>	<u>Exchange rate change</u>	<u>Hedge impact</u>	<u>2022</u>
HUF bonds	512 116	144 448	8 149	(85 521)	0	0	579 192
EUR bonds	572 914	238 373	3 084	(39 152)	48 151	0	823 370
Total	1 085 030	382 821	11 233	(124 673)	48 151	0	1 402 562

16. PROVISIONS

Provisions by title	<u>2023</u>	<u>2022</u>
Financial guarantees	780	210
Capital commitment	156	208
Loan commitments	4 920	3 997
Subtotal for IFRS9 provision method	5 856	4 415
Legal cases	100	56
Other	390	469
Total (Note 29)	6 346	4 940

Based on the judgement of the legal department the amount of provision regarding legal cases are expected to be settled in more than twelve months after the reporting period.

Other provisions include provision allocated for the employee jubilee program.

17. OTHER LIABILITIES

	<u>2023</u>	<u>2022</u>
Non-income taxes	1 583	1 370
Settlement from wages	1 849	1 750
Deferred income	3 520	3 527
Accrued costs	1 447	691
Lending related liabilities	2 092	1 020
Liabilities related to factoring activity	192	132
Liabilities to managing authorities	1 285	5 110
Fees due before disbursement but not paid	75	81
Debtors' advance payments	456	454
Venture capital note payment obligation	1 918	2 335
Deferred initial fair value adjustment	13 522	16 269
Other	506	692
Total	28 445	33 431

Liabilities to managing authorities include advances on expenditure reimbursement relating to the EU programming period 2007-2013, 2014-2020 and 2021-2027 (see Note 13).

Venture capital note payment obligation related to the subscribed but not yet paid capital increase of Central European Fund of Funds. The amount is payable as required by the investment plans.

The deferred initial fair value adjustment line represents the initial fair value adjustment which is determined based on the internal models and is therefore deferred and amortized to the profit and loss in parallel to the amortization of the underlying instruments (loans taken in FGS and NHP Hajrá programs, see Note 13).

18. SHARE CAPITAL AND SHARE PREMIUM

The last share capital increase was during 2022 when the Bank received HUF 70 billion as at 27 October 2022 and an additional HUF 100 billion as at 23 December 2022.

100% of the shares are owned by the Hungarian State. The total value of the 519 900 ordinary shares with HUF 1 million nominal value each was HUF 519 900 million.

Share premium represents the difference between the nominal value of the subscribed share and the amount received at subscription. The Bank's share premium both as at 31 December 2023 and 2022 was HUF 81 870 million, that was increased on Group level with HUF 2.9 billion paid to MFB Invest Zrt. on 27 December 2023 by the final owner, being the Hungarian State. The amount was used for capital increase in Divat & Design Tőkealap.

19. OTHER RESERVES

General reserve

Other reserve includes general reserve that is in accordance with Section 83 of Act No. CCXXXVII of 2013 equal to ten percent of the net profit after tax located in the individual financial statements and is used in loss making years. The general reserve as calculated under Hungarian Accounting and Banking Rules is treated as appropriations from retained earnings.

The Bank is not allowed to pay dividend from the statutory reserves.

20. NON-CONTROLLING INTEREST

NTH National Capital Holding Private Limited Company acquired a preferred share in MFB Invest during capital increase in December 2022. NTH subscribed 1 preferred share with a nominal value of 1 HUF and issue price 1 HUF. The preferred share assures the right for its owner to appoint the Executive Chairman and the majority of the Supervisory Board. Given that the 1 preferred share represents a very immaterial share from the company's net asset the value of non-controlling interest is zero.

21. CONTINGENT LIABILITIES, COMMITMENTS

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees and other undrawn commitments to lend. Other non-financial guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees carries a similar credit risk to loans. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	<u>2023</u>	<u>2022</u>
Loan commitments	332 785	214 366
Capital commitments	153 932	210 938
Guarantees	860 233	799 175
Guarantees and loan commitments total	1 346 950	1 224 479
Legal cases	309	304
Other commitments	1 531	1 601
Total	1 348 790	1 226 384

Capital commitments represents the subscribed but not yet paid capital increase of venture capital investments/notes that is payable as required by the investment plans if the investment is closer to a loan commitment.

Other commitments represent potential further capital increase for the Central European Fund of Funds that is not included in the investment plans but its maximum amount was set in the foundation indeed of the fund. As owners' decision is necessary to determine the actual need and amount therefore this amount is not yet an obligation.

22. NET INTEREST INCOME

	<u>2023</u>	<u>2022</u>
Financial assets at fair value through other comprehensive income	3 413	603
Financial assets at amortized cost	133 640	105 797
Negative interest from financial liabilities	2	169
Interest income calculated using the effective interest method	137 055	106 569
Financial assets held for trading	26 336	1 740
Non-trading financial assets mandatorily at fair value through profit or loss	3 086	1 205
Derivatives – Hedge accounting	6 822	2 915
Other assets	44 555	4 255
Other similar income	80 799	10 115
Total interest income	217 854	116 684
Interest expense		
Financial liabilities held for trading	(50 429)	(9 738)
Financial liabilities at amortized cost	(139 044)	(61 053)
Derivatives – Hedge accounting	(4 000)	0
Other liabilities	(523)	(161)
Negative interest from financial assets	(2)	(52)
Total interest expense	(193 998)	(71 004)
Net interest income	23 856	45 680

Net interest income analysis by customer types:

	<u>2023</u>	<u>2022</u>
<i>Interest income</i>		
Customers	103 137	74 131
National Bank of Hungary	44 704	9 078
Other banks	42 246	9 892
Securities	27 767	23 583
Total	217 854	116 684
<i>Interest expense</i>		
Customers	(2 565)	(1 608)
National Bank of Hungary	(2 918)	(4 227)
Other banks	(134 288)	(35 967)
Securities	(54 227)	(29 202)
Total	(193 998)	(71 004)
Net interest income	23 856	45 680

23. DIVIDEND INCOME

	<u>2023</u>	<u>2022</u>
Other investments	946	5
Total	946	5

The Group recognized HUF 1 918 million as dividends received from associated enterprises in the income statement "Profit or (loss) from associates".

24. NET FEE AND COMMISSION INCOME / EXPENSES

	<u>2023</u>	<u>2022</u>
Fee and commission income		
Fund management fees	1 272	1 096
Guarantee fees	5 206	4 771
Loan servicing fees	242	310
Other fees and commission	12	5
Total	6 732	6 182
Fee and commission expenses		
Agent fees	(140)	(157)
Guarantee fees	(774)	(775)
Bank account commission	(66)	(63)
Other fees and commission	(2)	(9)
Total	(982)	(1 004)
Net fee and commission income / (expenses)	5 750	5 178

25. GAINS OR (-) LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET

	<u>2023</u>	<u>2022</u>
Interest rate swaps	(5)	(48)
Cross currency interest rate swaps	(8 841)	87
Foreign currency swaps	2 426	(1 293)
Total	(6 420)	(1 254)

26. GAINS OR (-) LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

	<u>2023</u>	<u>2022</u>
Loans and advances to customers	(1 081)	(627)
Loans and advances to banks	(25)	(93)
Venture capital note – investment type	(134)	47
Venture capital note – loan type	22 368	11 058
Total	21 128	10 385

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27. OTHER OPERATING INCOME/EXPENSES

	<u>2023</u>	<u>2022</u>
<i>Other income</i>		
Compensation received	4 820	4 978
Recovery of previous years costs	52	209
Rental and management income from investment properties	3 787	3 129
Rental income	114	51
Revenue from consultancy	721	506
Deferred initial fair value of borrowings	2 735	4 076
Other	1 284	1 293
Total other operating income	13 513	14 242
<i>Other expenses</i>		
Donations	(347)	(86)
Expenses related to previous years	(93)	(301)
Taxes – except income tax and special bank tax	(2 489)	(2 187)
Special bank tax	(4 622)	(3 901)
Extra profit tax	(4 012)	(5 194)
Other expenses related to lending and borrowing not part of effective interest	(392)	(260)
Deferred initial fair value of loans granted	(2 755)	(4 154)
Expenses from legal cases	0	(4)
Other	(263)	(321)
Total other operating expense	(14 973)	(16 408)

The Bank receives compensations for performing the tasks in connection with 2007-2013, 2014-2020 and 2021-2027 EU programming periods (further details in Note 13). The Bank did not receive any consideration from the State for the exercising of owner's rights as determined in the XXII chapter of the central budget (2022: HUF 5 million).

Donations were provided to the below companies or foundations.

<u>Name</u>	<u>Headquarters</u>	<u>Tax number</u>	<u>2023</u>	<u>2022</u>
Bethesda KIDsz Pedagógiai Szakszolgáltató	1146 Budapest, Hungária körút 200. B	19167161-1-42	3	0
Családpárti Alapítvány	6720 Szeged, Arany János utca 14. I/1.	19354981-2-06	15	0
Heller Farkas Szakkollégium Alapítvány	1093 Budapest, Fővám tér 8.	18259797-1-43	2	0
Magyar Ökumenikus Segélyszervezet	1221 Budapest, Kossuth Lajos utca 64.	19662927-1-43	4	13
Príma Prímissima	1051 Budapest, Nádor utca 21.	18180963-2-41	23	23
Szent Márton Gyermekmentő Szolgálat Közhasznú Alapítvány	1089 Budapest, Orczy út 32/B	18162785-2-42	0	50
Nemzeti Vállalkozásfejlesztési Tudásközpont Alapítvány	1051 Budapest, Hercegprímás u. 12. főemelet 4	in progress	300	0
Total			347	86

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28. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2023</u>	<u>2022</u>
Wages and salaries	(12 707)	(12 324)
Compulsory social security	(2 152)	(1 868)
Other personnel expenses	(2 294)	(2 072)
Personnel expenses	(17 153)	(16 264)
Marketing	(1 330)	(1 656)
Office and property maintenance	(1 495)	(1 115)
System support and maintenance	(1 144)	(961)
Expert fees	(994)	(879)
Rental expense	(559)	(532)
Post, newspapers and document filing	(323)	(285)
Other material type services	(248)	(489)
Electricity, water, gas supply	(418)	(190)
Education	(128)	(145)
Labour mediation	(55)	(34)
Legal costs	(67)	(86)
Media	(128)	(123)
Membership fees	(80)	(76)
Insurances	(111)	(84)
Bank cost	(140)	(123)
Traveling	(89)	(57)
Other welfare services	(57)	(42)
Other	(964)	(327)
Other general administrative expenses	(8 330)	(7 204)
Total general and administrative expenses	(25 483)	(23 468)

The average number of the employees in 2023 was 817 (2022: 838).

Expert fees include HUF 160.14 million gross fees paid to the auditor for the 2023 annual audit and other audit related services (2022: HUF 116.99 million). Audit fees paid to K-E-S Audit Ltd. amounted HUF 80 million (2022 HUF 103.03 million to KPMG Hungary Ltd.). There was no fee paid to the statutory auditor neither in 2023 nor in 2022 for any non-audit services. Statutory auditor's group members provided non-audit services to the Group during 2023 amounted to gross HUF 18,9 million (2022: HUF 4.7 million).

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29. PROVISIONS OR (-) REVERSAL OF PROVISIONS

	2023				2022			
	Other items	Guarantees and loan commitments	Capital commitments	Total	Other items	Guarantees and loan commitments	Capital commitments	Total
1. Opening balance as 1 January	(525)	(4 207)	(208)	(4 940)	(298)	(3 170)	(79)	(3 547)
2. Charge	(269)	(1 988)		(2 257)	(393)	(2 482)	(129)	(3 004)
3. Release	166	252	52	470	108	1 792	0	1 900
4. Utilization	138			138	58	0	0	58
5. Foreign exchange difference	0	243		243	0	(347)	0	(347)
6. Closing balance at 31 December	(490)	(5 700)	(156)	(6 346)	(525)	(4 207)	(208)	(4 940)
Net movement (excluding item 5.)	35	(1 736)	52	(1 649)	(227)	(690)	(129)	(1 046)
Balance in the Profit or loss statement								
Other income (legal cases)	69			69				
Impairment (-) or reversal of impairment of financial instruments		(1 736)	52	(1 684)		(690)	(129)	(819)
Amounts charged to wages	(99)			(99)	(65)			(65)
Amount charged to other expenses	65			65	(162)			(162)

The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2023 by credit risk stages. The movements represent every change during the year.

	Opening balance as at 1 January 2023	Net charge without stage transfer	Charge due to origin	Utilization and expiries	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	FX impact	Closing balance as at 31 December 2023
Guarantees	(210)	(470)	(116)	12	0	0	0	4	(780)
Stage 1	(189)	(379)	(36)	7	341	0		4	(252)
Stage 2	(21)	(91)	(79)	5	(341)	0	0	0	(528)
Stage 3	0	0	0	0			0	0	0
Loan commitments	(3 997)	(1 057)	(128)	22	0	0	0	239	(4 920)
Stage 1	(29)	(143)	(44)	9	94	0	0	7	(105)
Stage 2	(3 723)	(1 161)	(1)	13	(94)	0	0	235	(4 731)
Stage 3	(245)	247	(83)	0			0	(3)	(84)
Capital commitments	(208)	52	0	0	0	0	0	0	(156)
Stage 1	(208)	52	0	0	0	0	0	0	(156)
TOTAL	(4 415)	(1 475)	(244)	34	0	0	0	243	(5 856)

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The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2022 by credit risk stages.

	Opening balance as at 1 January 2022	Net charge without stage transfer	Charge due to origin	Utilization and expiries	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	FX impact	Closing balance as at 31 December 2022
Guarantees	(1 621)	1 768	(112)	1	0	0	0	(246)	(210)
Stage 1	(1 455)	1 621	(112)	1	18	(16)		(246)	(189)
Stage 2	(166)	147	0	0	(18)	16	0	0	(21)
Stage 3	0	0	0	0			0	0	0
Loan commitments	(1 549)	(823)	(1 740)	216	0	0	0	(101)	(3 997)
Stage 1	(417)	73	(98)	212	194	0	0	7	(29)
Stage 2	(1 132)	(896)	(1 482)	4	(194)	0	85	(108)	(3 723)
Stage 3	0	0	(160)	0			(85)	0	(245)
Capital commitments	(79)	0	(129)	0	0	0	0	0	(208)
Stage 1	(79)	0	(129)	0				0	(208)
TOTAL	(3 249)	945	(1 981)	217	0	0	0	(347)	(4 415)

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30. IMPAIRMENT (-) OR REVERSAL OF IMPAIRMENT OF FINANCIAL INSTRUMENTS

	2023			2022		
	Charge due to origin	Net charge without stage transfer	Total as at 31 December	Charge due to origin	Net charge without stage transfer	Total as at 31 December
Customer loans	(4 065)	285	(3 780)	(839)	(22 864)	(23 703)
Loans to banks	0	3	3	0	0	0
Debt securities	(48)	(268)	(316)	(893)	(1 226)	(2 119)
Deposits at Central and other banks	(1)	6	5	0	25	25
Other financial receivables	0	(4)	(4)	0	2	2
Other demand deposits	(530)	8	(522)	0	19	19
Guarantees	(116)	(458)	(574)	(112)	1 769	1 657
Loan commitments	(128)	(1 034)	(1 162)	(1 740)	(607)	(2 347)
Capital commitments	0	52	52	(129)	0	(129)
Subtotal	(4 888)	(1 410)	(6 298)	(3 713)	(22 882)	(26 595)
Recovery of purchased receivables			10 236			9 034
Total profit and loss impact			3 938			(17 561)

Recovery on purchased receivables represents the actual recovery since initial recognition or planned recovery due to the change in the assumptions in the model used to estimate the future recovery.

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The table below presents the changes in the impairment for financial assets during 2023 by credit risk stages. The movements represent every change during the year.

LOANS	Opening balance as at 1 January 2023	Charge due to origin	Utilizati on	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin ding	FX impact	Closing balance as at 31 December 2023
Customer loans – Stage 1	(4 160)	(863)	0	44	568	0	0			119	(4 292)
General governments	(88)	0	0	(43)	0	0	0			2	(129)
Other financial corporations	(760)	(59)	0	254	230	0	0			0	(335)
Other non-financial corporations	(3 309)	(804)	0	(152)	338	0	0			117	(3 810)
Households	(3)	0	0	(15)	0	0	0			0	(18)
Loans to banks – Stage 1	(5)	0	0	0	3	0	0			0	(2)
Refinancing loans	0	0	0	0	0	0	0			0	0
Other loans	(5)	0	0	0	3	0	0			0	(2)
Customer loans – Stage 2	(36 053)	(63)	0	(5 050)	(568)	18 324	0	(227)		705	(22 932)
General governments	0	0	0	0	0	0	0	0		0	0
Other financial corporations	(4 785)	(32)	0	(1 615)	(230)	4 346	0	(22)		67	(2 271)
Other non-financial corporations	(31 199)	(31)	0	(3 442)	(338)	13 977	0	(205)		638	(20 600)
Households	(69)	0	0	7	0	1	0	0		0	(61)
Loans to banks – Stage 2	0	0	0	0	0	0	0	0		0	0
Refinancing loans	0	0	0	0	0	0	0	0		0	0
Other loans	0	0	0	0	0	0	0	0		0	0

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LOANS	Opening balance as at 1 January 2023	Charge due to origin	Utilizati on	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin ding	FX impact	Closing balance as at 31 December 2023
Customer loans – Stage 3	(22 831)	(2 047)	66	(389)		(18 324)	0	227	(1 998)	955	(44 341)
General governments	0	0	0	0		0	0	0	0	0	0
Other financial corporations	(8 431)	(112)	0	(3 018)		(4 346)	0	22	(263)	0	(16 148)
Other non-financial corporations	(14 393)	(1 935)	66	2 630		(13 977)	0	205	(1 735)	955	(28 184)
Households	(7)	0	0	(1)		(1)	0	0	0	0	(9)
Customer loans – POCI	(13 488)	(1 092)	0	5 680					0	0	(8 900)
General governments	0	0	0	(14)					0	0	(14)
Other financial corporations	0	0	0	0					0	0	0
Other non-financial corporations	(2 107)	(355)	0	189					0	0	(2 273)
Households	(11 381)	(737)	0	5 505					0	0	(6 613)
Loans to banks – Stage 3	0	0	0	0		0	0	0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0	0	0
Other loans	0	0	0	0		0	0	0	0	0	0
Customer loans - TOTAL	(76 532)	(4 065)	66	285					(1 998)	1 779	(80 465)
General governments	(88)	0	0	(57)					0	2	(143)
Other financial corporations	(13 976)	(203)	0	(4 379)					(263)	67	(18 754)
Other non-financial corporations	(51 008)	(3 125)	66	(775)					(1 735)	1 710	(54 867)
Households	(11 460)	(737)	0	5 496					0	0	(6 701)
Loans to banks - TOTAL	(5)	0	0	3					0	0	(2)
Refinancing loans	0	0	0	0					0	0	0
Other loans	(5)	0	0	3							(2)

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DEBT SECURITIES	Opening balance as at 1 January 2023	Charge due to origin	Utilizati on	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2023
Stage 1	(3 626)	(48)	0	893	839	0	0		29	(1 913)
Hungarian government bonds	0	0	0	0	0	0	0		0	0
Corporate bonds	(3 625)	(48)	0	895	839	0	0		29	(1 910)
Mortgage bonds	(1)	0	0	(2)	0	0	0		0	(3)
Stage 2	(96)	0	480	(1 161)	(839)	0	0		0	(1 616)
Hungarian government bonds	0	0	0	0	0	0	0		0	0
Corporate bonds	(96)	0	480	(1 161)	(839)	0	0		0	(1 616)
Mortgage bonds	0	0	0	0	0	0	0		0	0
Stage 3	(493)	0	493	0		0	0		0	0
Hungarian government bonds	0	0	0	0		0	0		0	0
Corporate bonds	(493)	0	493	0		0	0		0	0
Mortgage bonds	0	0	0	0		0	0		0	0

DEPOSITS AT CENTRAL AND OTHER BANKS	Opening balance as at 1 January 2023	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Stage 1*	(6)	(1)	6					(1)
Central bank deposits	0	0	0					0
Other bank deposits	(6)	(1)	6					(1)

*: Only stage 1 deposits were at the Group portfolio in 2023.

OTHER FINANCIAL ASSETS	Opening balance as at 1 January 2023	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Stage 2*	(2)	0	(4)					(6)
Trade receivables	(1)	0	(1)					(2)
Margin accounts	(1)	0	(3)					(4)

*: Only stage 2 receivables were at the Group portfolio in 2023.

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OTHER DEMAND DEPOSITS	Opening balance as at 1 January 2023	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2023
Stage 1	(10)	0	8					0	(2)
Cash balances with National Bank of Hungary	(9)	0	7					0	(2)
Other demand deposits	(1)	0	1					0	0
Stage 3	0	(530)	0					0	(530)
Cash balances with National Bank of Hungary	0	0	0					0	0
Other demand deposits	0	(530)	0					0	(530)

The table below presents the changes in the impairment for financial assets during 2022 by credit risk stages.

LOANS	Opening balance as at 1 January 2022	Charge due to origin	Utilization	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwinding	FX impact	Closing balance as at 31 December 2022
Customer loans – Stage 1	(2 192)	(368)	0	(2 741)	1 315	0	0			(174)	(4 160)
General governments	(136)	0	0	53	0	0	0			(5)	(88)
Other financial corporations	(348)	(169)	0	(330)	87	0	0			0	(760)
Other non-financial corporations	(1 704)	(151)	0	(2 513)	1 228	0	0			(169)	(3 309)
Households	(4)	(48)	0	49	0	0	0			0	(3)
Loans to banks – Stage 1	(5)	0	0	0	0	0	0			0	(5)
Refinancing loans	0	0	0	0	0	0	0			0	0
Other loans	(5)	0	0	0	0	0	0			0	(5)
Customer loans – Stage 2	(23 882)	(65)	0	(18 554)	(1 315)	9 380	0	(3)		(1 614)	(36 053)
General governments	0	0	0	0	0	0	0	0		0	0
Other financial corporations	(2 025)	(65)	0	(9 084)	(87)	6 524	0	(3)		(45)	(4 785)
Other non-financial corporations	(21 778)	0	0	(9 476)	(1 228)	2 852	0	0		(1 569)	(31 199)
Households	(79)	0	0	6	0	4	0	0		0	(69)
Loans to banks – Stage 2	0	0	0	0	0	0	0	0		0	0
Refinancing loans	0	0	0	0	0	0	0	0		0	0
Other loans	0	0	0	0	0	0	0	0		0	0

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LOANS	Opening balance as at 1 January 2022	Charge due to origin	Utilizati on	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin ding	FX impact	Closing balance as at 31 December 2022
Customer loans – Stage 3	(12 099)	(111)	0	(76)		(9 380)	0	3	(260)	(908)	(22 831)
General governments	0	0	0	0		0	0	0	0	0	0
Other financial corporations	0	(78)	0	(1 845)		(6 524)	0	3	13	0	(8 431)
Other non-financial corporations	(12 092)	(33)	0	1 765		(2 852)	0	0	(273)	(908)	(14 393)
Households	(7)	0	0	4		(4)	0	0	0	0	(7)
Customer loans – POCI	(11 700)	(295)	0	(1 493)					0	0	(13 488)
General governments	0	0	0	0					0	0	0
Other financial corporations	(45)	0	0	45					0	0	0
Other non-financial corporations	(1 858)	(46)	0	(203)					0	0	(2 107)
Households	(9 797)	(249)	0	(1 335)					0	0	(11 381)
Loans to banks – Stage 3	0	0	0	0		0	0	0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0	0	0
Other loans	0	0	0	0		0	0	0	0	0	0
Customer loans - TOTAL	(49 873)	(839)	0	(22 864)	0	0	0	0	(260)	(2 696)	(76 532)
General governments	(136)	0	0	53	0	0	0	0	0	(5)	(88)
Other financial corporations	(2 418)	(312)	0	(11 214)	0	0	0	0	13	(45)	(13 976)
Other non-financial corporations	(37 432)	(230)	0	(10 427)	0	0	0	0	(273)	(2 646)	(51 008)
Households	(9 887)	(297)	0	(1 276)	0	0	0	0	0	0	(11 460)
Loans to banks - TOTAL	(5)	0	0	0	0	0	0	0	0	0	(5)
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0
Other loans	(5)	0	0	0	0	0	0	0	0	0	(5)

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DEBT SECURITIES	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2022
Stage 1	(1 938)	(893)	(833)	48	0	0		(10)	(3 626)
Hungarian government bonds	0	0	0	0	0	0		0	0
Corporate bonds	(1 935)	(893)	(835)	48	0	0		(10)	(3 625)
Mortgage bonds	(3)	0	2	0	0	0		0	(1)
Stage 2	(148)	0	(48)	(48)	148	0		0	(96)
Hungarian government bonds	0	0	0	0	0	0		0	0
Corporate bonds	(148)	0	(48)	(48)	148	0		0	(96)
Mortgage bonds	0	0	0	0	0	0		0	0
Stage 3	0	0	(345)		(148)	0	0	0	(493)
Hungarian government bonds	0	0	0		0	0	0	0	0
Corporate bonds	0	0	(345)		(148)	0	0	0	(493)
Mortgage bonds	0	0	0		0	0	0	0	0

DEPOSITS AT CENTRAL AND OTHER BANKS	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Stage 1*	(31)	0	25					(6)
Central bank deposits	(3)	0	3					0
Other bank deposits	(28)	0	22					(6)

*: Only stage 1 deposits were at the Group portfolio in 2022.

OTHER FINANCIAL ASSETS	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Stage 2*	(4)	0	2					(2)
Trade receivables	(4)	0	3					(1)
Margin accounts	0	0	(1)					(1)

*: Only stage 2 receivables were at the Group portfolio in 2022.

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OTHER DEMAND DEPOSITS	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2022
Stage 1*	(25)	0	19					(4)	(10)
Cash balances with National Bank of Hungary	(25)	0	16					0	(9)
Other demand deposits	0	0	3					(4)	(1)

*: Only stage 1 deposits were at the Group portfolio in 2022.

31. IMPAIRMENT OR (-) REVERSAL OF IMPAIRMENT OF INVESTMENTS IN EXEMPTED ASSOCIATES

	2023	2022
1. Opening balance as at 1 January	(2 163)	(6 938)
2. Charge	(2 407)	(2 288)
3. Release and utilization	4 668	853
3.a. Release	347	125
3.b. Utilization	4 321	728
4. Foreign exchange difference	0	0
5. Reclassification	(105)	(376)
6. Closing balance as at 31 December	(6 593)	(8 749)
Net movement	2 156	(1 811)
Balance in the Income statements (2+3a)	(2 060)	(2 163)

32. IMPAIRMENT (-) OR REVERSAL OF IMPAIRMENT OF NON-FINANCIAL INSTRUMENTS

	2023	2022
Property, plant and equipment (Note 11)	0	0
Intangibles (Note 12)	0	0
Other assets	(40)	(7)
Total	(40)	(7)

The impairment movements related to other assets are presented in the below table.

	2023			2022		
	Other assets	Reposs essed assets	Total	Other assets	Reposs essed assets	Total
1. Opening balance as at 1 January	(102)	(12)	(114)	(109)	(1)	(110)
2. Charge	(45)	0	(45)	0	(11)	(11)
3. Release and utilization	43	12	55	7	0	7
3.a. Release	5	0	5	4	0	4
3.b. Utilization	38	12	50	3	0	3
4. Closing balance as at 31 December	(104)	0	(104)	(102)	(12)	(114)
Net movement	(2)	12	10	7	(11)	(4)
Balance in the Income statements	(40)	0	(40)	4	(11)	(7)

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33. TAXATION

Income tax expenses include current taxes and deferred taxes. In both 2023 and 2022 the corporate tax rate was 9%, the local tax rate was 2%, and the innovation contribution rate was 0.3%.

	<u>2023</u>	<u>2022</u>
Current tax	2 177	3 013
<i>from this corporate tax</i>	864	1 133
<i>from this local tax and innovation contribution</i>	1 313	1 880
Deferred tax	517	(442)
Total	2 694	2 571

The following table represents deferred tax asset and liability movements reported either in the income statement or in the other comprehensive income.

	<u>2023</u>				<u>2022</u>			
	Recognized in profit or loss	Recognized in OCI	Deferred tax liability	Deferred tax asset	Recognized in profit or loss	Recognized in OCI	Deferred tax liability	Deferred tax asset
Tax expense	2 177				3 013			
Deferred tax by titles								
Property, plant and equipment	10		84		14		74	
Provisions	(10)		(31)		(6)		(21)	
Financial instruments	551	89	3 765	(189)	(444)	36	3 008	(72)
Tax loss carry forward	(34)		(70)		(6)		(36)	
Total	517	89	3 748	(189)	(442)	36	3 025	(72)
Total tax expense in the Income statements	2 694				2 571			

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The following table represents deferred tax asset and liability movements during the year.

2023		Opening		Increases		Decreases		Closing	
Type of deferred tax	Asset/Liability	base	tax	base	tax	base	tax	base	tax
Property, plant and equipment	Liability	822	74	116	10	0	0	938	84
Provision	Asset	(247)	(22)	(109)	(9)	0	0	(356)	(31)
Financial instruments	Asset	(800)	(72)	(1 305)	(117)			(2 105)	(189)
Financial instruments	Liability	33 419	3 008	8 548	786	(332)	(30)	41 635	3 764
Tax loss carry forward	Asset	(390)	(35)	(383)	(34)			(773)	(69)
Total		32 804	2 953	6 867	636	(332)	(30)	39 339	3 559
<i>from this related to corporate income tax</i>			2 953		618		(30)		(3 541)

2022		Opening		Increases		Decreases		Closing	
Type of deferred tax	Asset/Liability	base	tax	base	tax	base	tax	base	tax
Property, plant and equipment	Liability	655	59	167	15	0	0	822	74
Provision	Asset	(175)	(16)	(71)	(6)	0	0	(247)	(22)
Financial instruments	Asset	(620)	(56)	(180)	(16)	0	0	(800)	(72)
Financial instruments	Liability	37 759	3 399	584	52	(4 924)	(443)	33 419	3 008
Tax loss carry forward	Asset	(323)	(29)	(67)	(6)	0	0	(390)	(35)
Total		37 296	3 357	433	39	(4 924)	(443)	32 804	2 953
<i>from this related to corporate income tax</i>			3 357		39		(443)		2 953

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The following table reconciles income taxes as reported in the income statement.

Reconciliation of effective tax rate	2023		2022	
	Tax rate	Amount	Tax rate	Amount
Profit before income taxes		31 311		29 418
Corporate tax	9.00%	2 818	9.00%	2 648
Local tax and innovation contribution impact	4.19%	1 313	6.39%	1 880
Corporate tax impact of subsidiaries negative result	1.92%	600	1.56%	458
Tax loss carry forward	1.19%	374	(0.92%)	(272)
Subsidiary and equity consolidation impact	(6.54%)	(2 049)	(6.24%)	(1 835)
Effect of other tax base modifying items	(1.16%)	(362)	(1.05%)	(308)
Effective tax		2 694	8.74%	2 571

No deferred tax liability was recorded on profits generated by the consolidation of subsidiaries and associates, since the Bank can influence the timing of the use of these temporary differences through its control or significant influence and it is probable that the resulting temporary differences will not be revised in the foreseeable future. If a loss has been incurred, no deferred tax asset has been recorded either, as it is not probable that sufficient taxable profits will be available against which the resulting deductible temporary difference may be used. The “other” line of tax reconciliation mostly includes the net effect of these items.

The accumulated amount of tax losses carries forward in 2023 was HUF 68 079 million (2022: HUF 74 833 million). The tax losses originated until 2014 (HUF 51 477 million) can be carried forward until 31 December 2030. Those which are originated from 2015 can be carried forward in the next 5 years after origination (2023: 2 407 million, 2024: 1 516 million, 2025: 12 283 million, 2028: 396 million).

The future realization of the tax loss carries forward is uncertain and therefore a deferred tax asset is only recognized in an amount that compensates 50% of the deferred tax liability since according to the Hungarian tax legislation in force the losses that can be utilized on annual basis shall not be more than the 50% of the positive tax base. The amount of the not recognized deferred tax asset on tax loss carry forward as at 31 December 2023 is HUF 6 127 million (2022: HUF 6 735 million).

34. RELATED PARTIES

The Bank is owned by the Hungarian State. The Bank identifies associates as related parties that are part of the MFB Group. The related parties also include members of the Executive board and the Board of Supervisors as well as companies over which these persons have control or significant influence. Transactions between the Bank and its consolidated companies are eliminated from the consolidated accounts. Related party transactions are carried out under normal market conditions.

The Group using the option provided in IAS 24.25 and does not disclose its transactions with other state-owned companies and disclose only the most significant transactions with the Hungarian State such as state securities taxes and reimbursements.

The definitions of the headings used in the table below are as follows.

State: The ultimate controlling party. The State column in the below table includes the major items due to or from the various state bodies. The rows of securities include government securities issued by the Central Government Debt Management Agency (ÁKK). Tax payable or refundable to the National Tax and Customs Administration (NAV) is included in the tax receivables/liabilities lines. Other assets/liabilities include reimbursement from the Managing Authorities and advances received. Receivables from the State due to currency-hedging agreement include the claim on the Ministry of Finance. The income statement lines include the effects of the above items such as interest income, tax payments, or reimbursement income.

Associates: Any company where the Bank has significant influence but has no control over financial and operational policies.

	2023		2022	
	Associates	State	Associates	State
ASSETS				
Non-trading financial assets mandatorily at fair value through profit or loss	1 198	0	855	0
<i>Loans to customers</i>	1 198	0	855	0
Financial assets at fair value through other comprehensive income	0	42 762	0	60 537
<i>Debt securities</i>	0	42 762	0	60 537
Financial assets at amortized cost	41 229	28 121	33 572	44 655
<i>Debt securities</i>	0	27 869	0	42 158
<i>Loans to customers</i>	41 229	226	33 572	1 202
<i>Other financial receivables</i>	0	26	0	1 295
Investments in associates	335 965		267 935	
Tax assets		696		0
<i>Current tax assets</i>		696		0
Other assets	2 377	4 103	2 784	8 386
Receivables from the state due to currency-hedging agreement*		177 228		193 162

*: from the presented amount HUF 17 236 million (2021: HUF 31 300 million) was presented in the income statements' line "Exchange differences [gain or (-) loss], net".

MFB Hungarian Development Bank Private Limited Company and its subsidiaries

Notes to Consolidated Financial Statements for the year ended 31 December 2023

(amounts presented are expressed in HUF million unless otherwise noted)

	2023		2022	
	Associates	State	Associates	State
LIABILITIES				
Financial liabilities measured at amortized cost	1 033	0	1 094	0
<i>Deposits</i>	<i>1 033</i>	<i>0</i>	<i>1 094</i>	<i>0</i>
Tax liabilities		264		1 297
<i>Current tax liabilities</i>		<i>264</i>		<i>1 297</i>
Other liabilities	3	2 976	23	6 616
 Guarantees and loan commitments	 224 131	 0	 56 574	 0
INCOME STATEMENTS				
Interest income	4 467	4 267	512	1 691
Interest expense	(57)		(25)	
Dividend income	0		0	
Fee and commission income	37		4	
Fee and commission expense	(2)		(2)	
Other operating income	6	4 826	174	4 920
Other operating expense	(407)	(7 059)	(258)	(8 726)
Impairment (-) or reversal of impairment of financial instruments *	(2 798)	0	(2 508)	0
Impairment or (-) reversal of impairment of investments in exempted associates	(2 060)	0	(2 163)	0
Tax expense related to profit or loss		(2 169)		(3 013)

**: the presented data excludes the collective impairment and provision created in accordance with the provision of IFRS 9*

The key management personnel compensation in 2023 and 2022 was the following:

	<u>2023</u>	<u>2022</u>
Members of the Board of Directors	26	29
Members of the Supervisory Board	23	19
CEOs and deputy CEOs	162	138
Total	211	186

The table above includes the short-term benefits paid to the key management personnel. There was not any post employment benefit, long term benefit or termination benefit paid to the key management personnel and there is no share-based payment programme operated by the Bank. There was also no loan disbursement to the key management personnel.

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35. SEGMENT REPORTING

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Group.

The Group's segment reporting is based on the following operating segments.

Segments	Activity
Banking:	Loans, deposits and other transactions and balances with customers and banks
Investment:	Activities related to securities and investments
EU fund management:	Activities related to the mediation of EU funds by the Bank
Debt management:	Activities related to purchase, debt management, factoring
Venture capital funding:	Activities related to venture capital funding
Property utilization:	Activities related to management of properties owned by the Group

The Group does not prepare geographical breakdowns because its primary business is carried out in Hungary and it has no significant foreign operations.

The results of the segments include the revenue and expenditure directly linked to that segment and the relevant part of the revenue and expenditure which may be assigned to a segment whether from external transactions or from other segments of the Group. Income statement items were broken down based on the principle that if an item is clearly assigned to the segment the total amount was presented there and where it cannot be clearly categorized the net segment's asset-based allocation was followed.

The banking and investment assets are clearly identifiable into the segments based on the Financial position statements lines. Liabilities and equity were separated into allocated and not-allocated parts. Not-allocated part represents the intangibles, property, plant and equipment, receivables from the state due to FX hedge agreement (those part which was already closed, no unpaid loan contract behind it) and the liquidity reserve set by internal policy (5% of the total assets). The remainder was allocated proportionally to each segment.

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(amounts presented are expressed in HUF million unless otherwise noted)

2023	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Total segment income and gain							
Interest income	204 567	0	0	10 766	2 386	135	217 854
<i>from this interest income calculated using the effective interest method</i>	123 768	0	0	10 766	2 386	135	137 055
<i>from this other similar income</i>	80 799	0	0	0	0	0	80 799
Fee and commission income	5 460	0	0	0	1 272	0	6 732
<i>from this fund management fee</i>	0	0	0	0	1 272	0	1 272
<i>from this guarantee fees</i>	5 206	0	0	0	0	0	5 206
<i>from this loan servicing fees</i>	242	0	0	0	0	0	242
<i>from this other fees and commission</i>	12	0	0	0	0	0	12
Dividend income	0	3	0	0	943	0	946
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	56	4	0	0	66	0	126
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	71	(100)	0	0	21 157	0	21 128
Gains on derecognition of non-financial assets, net	5 280	2 431	0	(125)	(1 745)	0	5 841
Exchange differences [profit], net	1	(1 118)	0	6	1 328	3	220
Other operating income	2 230	168	4 795	77	2 303	3 940	13 513
Total segment income and gain	217 665	1 388	4 795	10 724	27 710	4 078	266 360
Interest expenses	(129 710)	(2 265)	0	(2 650)	(58 898)	(475)	(193 998)
Fee and commission expenses	(982)	0	0	0	0	0	(982)
<i>from this agent fees</i>	(140)	0	0	0	0	0	(140)
<i>from this guarantee fees</i>	(774)	0	0	0	0	0	(774)
<i>from this bank account commission</i>	(66)	0	0	0	0	0	(66)
<i>from this other fees and commission</i>	(2)	0	0	0	0	0	(2)
Losses on financial assets and liabilities held for trading, net	(4 396)	(2 024)	0	0	0	0	(6 420)
Losses from hedge accounting, net	(1 194)	(549)	0	0	0	0	(1 743)
Contract modification loss, net	(3 230)	0	0	0	0	0	(3 230)
Other operating expenses	(8 842)	(3 397)	(103)	(2 262)	(191)	(178)	(14 973)
Administrative expenses	(3 883)	(2 914)	(4 368)	(6 538)	(6 415)	(1 365)	(25 483)
Depreciation	(626)	(288)	(426)	(275)	(677)	(156)	(2 448)
Segment profit before impairment and provisions	64 802	(10 049)	(102)	(1 001)	(38 471)	1 904	17 083

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(amounts presented are expressed in HUF million unless otherwise noted)

2023	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Impairment (-) or reversal of impairment on financial instruments	(10 234)	48	0	15 476	(1 352)	0	3 938
Impairment (-) or reversal of impairment of investments in exempted associates	0	(37)	0	917	(2 940)	0	(2 060)
Impairment of non-financial instruments	0	0	0	0	(40)	0	(40)
Profit or (-) loss from associates	0	14 085	0	0	(1 695)	0	12 390
Segment income before tax	54 568	4 047	(102)	15 392	(44 498)	1 904	31 311
Income tax expense	(371)	(171)	0	(1 277)	(728)	(147)	(2 694)
Profit for the year	54 197	3 876	(102)	14 115	(45 226)	1 757	28 617

2023	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Segment revenue							
Interest income	204 567	0	0	10 766	2 386	135	217 854
Fee and commission income	5 460	0	0	0	1 272	0	6 732
Dividend income	0	3	0	0	943	0	946
Other operating income	2 230	168	4 795	77	2 303	3 940	13 513
Total segment revenue	212 257	171	4 795	10 843	6 904	4 075	239 045

Timing of revenue

Point in time	7 690	171	4 795	77	4 518	3 940	21 191
Over time	204 567	0	0	10 766	2 386	135	217 854

2023	Banking	Investment	Not allocated	Debt management	Venture capital funding	Property management	Total
Segment assets	2 219 352	862 125	288 047	85 382	148 380	1 957	3 605 243
Participation of segment from total assets	61.56%	23.91%	7.99%	2.37%	4.12%	0.05%	100.00%
Segment liabilities	1 913 154	743 180	21 319	73 602	127 908	1 687	2 880 850
Participation of segment from total liabilities	66.41%	25.80%	0.74%	2.55%	4.44%	0.06%	100.00%

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(amounts presented are expressed in HUF million unless otherwise noted)

2022	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Total segment income and gain							
Interest income	106 650	0	0	7 941	2 036	57	116 684
<i>from this interest income calculated using the effective interest method</i>	96 535	0	0	7 941	2 036	57	106 569
<i>from this other similar income</i>	10 115	0	0	0	0	0	10 115
Fee and commission income	5 081	0	5	0	1 096	0	6 182
<i>from this fund management fee</i>	0	0	0	0	1 096	0	1 096
<i>from this guarantee fees</i>	4 771	0	0	0	0	0	4 771
<i>from this loan servicing fees</i>	310	0	0	0	0	0	310
<i>from this other fees and commission</i>	0	0	5	0	0	0	5
Dividend income	0	5	0	0	0	0	5
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	171	58	0	0	256	0	485
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	(9)	0	0	0	10 394	0	10 385
Gains or (-) losses from hedge accounting, net	488	164	0	0	0	0	652
Gains on derecognition of non-financial assets, net	0	33	0	8	414	25	480
Exchange differences [profit], net	730	370	0	0	2 681	0	3 781
Other operating income	4 440	213	4 722	97	1 596	3 174	14 242
Total segment income and gain	117 551	843	4 727	8 046	18 473	3 256	152 896
Interest expenses	(51 636)	0	0	(1 467)	(17 440)	(461)	(71 004)
Fee and commission expenses	(1 004)	0	0	0	0	0	(1 004)
<i>from this agent fees</i>	(157)	0	0	0	0	0	(157)
<i>from this guarantee fees</i>	(775)	0	0	0	0	0	(775)
<i>from this bank account commission</i>	(63)	0	0	0	0	0	(63)
<i>from this other fees and commission</i>	(9)	0	0	0	0	0	(9)
Losses on financial assets and liabilities held for trading, net	(939)	(315)	0	0	0	0	(1 254)
Contract modification loss, net	(3 018)	0	0	0	0	0	(3 018)
Other operating expenses	(10 782)	(2 272)	(110)	(2 962)	(139)	(143)	(16 408)
Administrative expenses	(6 259)	(2 102)	(4 041)	(5 663)	(4 095)	(1 308)	(23 468)
Depreciation	(666)	(223)	(429)	(304)	(686)	(167)	(2 475)
Segment profit before impairment and provisions	43 247	(4 069)	147	(2 350)	(3 887)	1 177	34 265

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(amounts presented are expressed in HUF million unless otherwise noted)

2022	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Impairment (-) or reversal of impairment on financial instruments	(23 516)	(139)	0	6 854	(760)	0	(17 561)
Impairment (-) or reversal of impairment of investments in exempted associates	0	3 990	0	0	(6 153)	0	(2 163)
Impairment of non-financial instruments	0	0	0	(11)	4	0	(7)
Profit or (-) loss from associates	0	2 825	0	0	12 059	0	14 884
Segment income before tax	19 731	2 607	147	4 493	1 263	1 177	29 418
Income tax expense	(982)	(333)	(5)	(1 404)	247	(94)	(2 571)
Profit for the year	18 749	2 274	142	3 089	1 510	1 083	26 847

2022	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Segment revenue							
Interest income	106 650	0	0	7 941	2 036	57	116 684
Fee and commission income	5 081	0	5	0	1 096	0	6 182
Dividend income	0	5	0	0	0	0	5
Other operating income	4 440	213	4 722	97	1 596	3 174	14 242
Total segment revenue	116 171	218	4 727	8 038	4 728	3 231	137 113

Timing of revenue

Point in time	9 521	218	4 727	97	2 692	3 174	20 429
Over time	106 650	0	0	7 941	2 036	57	116 684

2022	Banking	Investment	Not allocated	Debt management	Venture capital funding	Property management	Total
Segment assets	1 962 991	603 111	259 940	68 788	97 057	1 915	2 993 802
Participation of segment from total assets	65.57%	20.15%	8.68%	2.30%	3.24%	0.06%	100.00%
Segment liabilities	1 643 514	502 190	28 144	57 277	80 816	1 595	2 034 536
Participation of segment from total liabilities	70.93%	21.79%	1.22%	2.49%	3.51%	0.07%	100.00%

36. FINANCIAL RISK MANAGEMENT

The Group's internal governance is consistent with its market weight and prominent business role, as well as its approved business model, and it incorporates the relevant risk principles, organizational structure, decision-making structures (including boards and committees), risk management rules, models and methodologies. The Group operates reporting lines that enable the monitoring of risk performance.

Pursuant to Act XX of 2001 on the Hungarian Development Bank Joint Stock Company, the Bank (hereinafter: MFB Act) strives to balance business and risk management aspects.

The Group is continually developing its comprehensive risk culture that, in line with the Group's risk appetite, ensures compliance with international standards and best practices, as well as applicable domestic regulatory conditions and recommendations, and the identification, measurement and management of risks related to banking operations.

The Group has an approved credit risk policy in line with the Bank's strategic objectives, comprehensive risk management policies and other policies covering different segments of risks (operational risk, market risk, etc.).

Defining risk management principles includes defining risk appetite, risk management strategy and risk management policy, setting risk limits, defining and documenting risk management system processes, procedures, tasks, decision and control powers, identifying risks in a continuous, timely manner, development of procedures and methods for measuring risks, measuring, assessing and monitoring risks, preparing reports on risk management activities, and establishing procedures to be followed in the event of exceeding established risk limits.

The Bank has a strategy and processes in order to determine and maintain the capital adequacy of the size and composition necessary to cover its current and future risks. It is the Government's legal obligation to ensure the long-term and stable functioning of the Bank, and it also monitors in detail the Bank's risk-taking activities, the expediency and profitability of management. The Bank quantifies all arising risks and presents them to its management bodies, despite the fact that, based on Section 8 (2) of the MFB Act, the Bank was exempted from the internal assessment of capital adequacy required by Section 97 of the CCXXXVII Act of 2013 on Credit Institutions and Financial Enterprises procedure and the excess capital requirement from formation and maintenance.

Group's risk management framework is based on a coherent, integrated approach:

- Due to its core business, the Group consciously assumes risks (lending, investment transactions) and manages the risks associated with core business.
- A well-structured regulatory hierarchy provides the framework for risk management and control.
- As part of its risk management activities, the Group identifies, measures and manages relevant risks that are critical to its operations, considering the overall risk profile.
- Methodological knowledge extends to the volatility of risks in stress situations, i.e., the size of a capital buffer needed to keep risk plan values safe.
- Key risk indicators to monitor each type of risk (limits, processes, measures) are used to return the value of the indicators to the expected zone.
- The Group operates a management information system as part of its reporting lines to support efficient risk decision-making while an external reporting service operates for supervisory purposes.

The primary tools for developing a risk and risk management culture are the regular review and updating of risk and risk management policies and internal regulatory documents, the continuous communication

of the defined value system and the regular training of employees in line with their roles and responsibilities in risk-taking, risk management and risk control. This way an informed risk culture is embedded in the day-to-day operations of the Group.

The risk principles and strategies are approved by the Bank's Board of Directors. The Board of Directors performing the management tasks and the Supervisory Board regularly receive reports prepared by the Risk Management Division on the composition and development of the Group's portfolio. On this basis the implementation of the risk strategy can be evaluated.

The risk management governance model defines the responsibilities and duties of different bodies and individuals within each organization, with the aim of ensuring the sound and efficient management of activities and the management of different types of risk.

The decision-making process defines, in a consistent manner, the responsibilities and powers of decision-making, consistent with the complexity of its decision-making areas and its financial impact.

The key decision-making bodies and decision-makers are listed in the Decision-making Agenda, and their powers, organization and procedures are defined in the Articles of Association, the Rules of Procedure of the Board of Directors and the Decision-making Agenda.

Decision - making Bodies

- Owner of property rights,
- Board of Directors
- Executive Board,
- Assets-Liabilities Management Committee,
- Individual Loans Committee,
- EU Steering Committee,
- Irregularities Management Committee,
- Development Steering Committee.
- Sustainable Finance Committee,
- Monitoring Committee.

Bodies with specific powers defined in the Bank's regulatory document are also considered as Decision-making Bodies (e.g., Crisis Committee).

The powers and responsibilities of each committee are contained in the Bank's Articles of Association, the Rules of Procedure of the Board of Directors and the Decision-Making Rules of Procedure.

The determination of decision levels depends on the size of the commitment, the score and the level of coverage.

Risk Management Division and Strategic Risk Management Directorate

The Risk Management Division is completely separated from the Business Areas organizationally. The Head of the Division is a member of the Executive Board and reports directly to the CEO.

The Group exercises the Group's risk control function through a dedicated organizational unit, the Strategic Risk Management Directorate, which is independent of the business areas and the operational risk management area. In view of the aspects of proportionality, it is not justified to operate the risk control area as an independent division, therefore, assessing the advantages and disadvantages, the Bank operates the Strategic Risk Management Directorate within the framework of the Risk Management Division. The organizational unit performing the risk control function is responsible for defining the Group's risk management framework, enforcing external and internal limits and controls, and monitoring the implementation of the above within the Group and through intermediaries. In line with this, the Division is responsible for the risk oversight of the Strategic Group and the operating of Group-level risk management.

Departments of the Risk Management Division:

- ***Operative Credit Risk Management Directorate***

The activities of the Operative Credit Risk Management Directorate include the identification and reduction of risks and the setting of risk limits in the preparation of credit and investment decisions. It is the responsibility of the Operative Credit Risk Management Directorate to monitor the risk assumptions at the time of contracting and disbursement and after the risk assumption. The Bank monitors the contractual obligations of its customers.

- ***Risk Analysis Department***

The responsibilities of the Risk Analysis Department include the performance of risk analysis and risk control tasks for loans, investment transactions, fund managers and funds, the review and approval of customer ratings/limits, financial and sector analyses, checking the fulfillment of contract and disbursement conditions, making recommendations for impairment and provisioning.

- ***Monitoring and EU Data Service Department***

Monitoring the exposures of clients in the portfolio owned by the Bank, developing and implementing approved action plans for clients with abnormal status.

- ***Strategic Risk Management Directorate***

The Strategic Risk Management Directorate is responsible for the development and regulation of risk identification and measurement methodologies, the transparent presentation and application of risks, and the overall determination of risk losses.

- ***Special Credit Risk Management Directorate***

During its restructuring, pre-recovery and preparatory activities, the Special Credit Risk Management Directorate is responsible for the pre-work out activities within the Bank, i.e., the design and management of risk mitigation and reimbursement processes and the determination of risk losses (impairment, provisions).

- ***Financial Instruments Control Directorate***

The Financial Instruments Control Directorate carries out on-the-spot checks on loans refinanced from its own resources or outsourced to ensure compliance with credit targets.

- **Quality Assurance Methodology Department**

Development and implementation of mid-term audit strategy and annual audit plan, preparation of internal auditing policies and methodology, and follow-up of audit findings.

- **Irregularity Management Department**

It performs tasks related to unauthorized use of resources in the EU programming periods: identification of responsibilities, registration, and reporting. Participates in the investigation of irregularities and unauthorized use of resources.

- **Financial Instruments Closing Directorate**

During its activities, helps the closure of the 2007-2013, 2014-2020 EU programming periods and coordinates the investigations initiated by external inspection bodies in connection with the resource management activities of the 2021-2027 EU programming period, and also reviews and monitors the progress of the closing processes of the 2014-2020 programming period. In addition it performs tasks related to the closure of EU financial instruments.

The most significant risks arising from financial instruments to which the Group is exposed are credit risk, liquidity risk, market risk (currency exchange rate risk and banking book interest rate risks), climate change-related and environmental risk, operational risk. Risk management policies are set by the Board of Directors of the Bank in accordance with the rules and regulations set by the National Bank of Hungary. The application of and compliance to these policies is supervised by the Board. The Group has established reporting systems for continuous monitoring of these risks.

A. CREDIT RISK

a) Credit risk management

Credit risk is the risk of financial loss to the Group if the client fails to meet its contractual obligations. Credit risk arises principally from the Group's lending and investment activities, including the acquisition of investment certificates.

The Group prepares and applies internal policies approved by the Board of Directors to achieve its strategy. These policies are intended to ensure the established and transparent risk exposure the control of assessment and decrease of risks. The risk-taking regulations and policies developed for the safe management and prudent operation of the Group are based on international and domestic professional practice, relevant legislation and supervisory recommendations and guidelines,

Customer rating

Customer and partner ratings must be performed during the decision-making process for all customers against whom the Group intends to take risks. Beyond that the Group rates its clients at least once per year and performs extra reviews when appropriate.

The customer rating procedures applied by the Group are as follows:

- customer qualification of new companies and project companies,
- customer rating of operating companies,
- classification based on consolidated financial statements,
- customer rating in a standardized lending process,
- customer rating of local government,
- simplified customer rating based on objective and subjective criteria (under HUF 50 million. excluding new businesses or project companies),
- Rating of venture capital funds and private equity funds,

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- country and customer rating (countries, national and international financial institutions, insurance companies)

Customers are classified into customer rating categories based on objective and subjective factors. The Group uses the so-called slotting method for customer ratings of new companies and project companies, in accordance with the Basel recommendation. The customer rating of operating companies and customers subject to rating based on consolidated financial statements is based on a PD-based rating model. This rating may be modified by a maximum of one category in each direction by subjective evaluation. A simplified rating is prepared using an expert model for the customer rating of individual entrepreneurs and primary producers in the standardized lending process, and for the rating of customers of exposures below HUF 50 million outside the standardized lending process. Simplified rating procedures are also largely based on objective indicators. The rating of local governments and budgetary institutions is based on the analysis of defined objective indicators and subjective indicators.

The Group uses an expert model to rate venture capital funds and private equity funds.

The applied ratings are the following:

Rating category	PD average (corporate)	Credit quality
1	0.003%	outstanding
2	0.008%	strong
3	0.205%	good
4	0.700%	average
5	2.500%	acceptable
6	6.000%	weak
7	26.359%	insolvent
8	100.000%	default

The default category includes a retail or corporate customer against whom the Group or any of its subsidiaries has a non-performing exposure, i.e., who is more than 90 days in arrears with respect to a significant payment obligation to the Group or its subsidiary. The default category also includes a customer against whom a legally binding bankruptcy, liquidation, debt settlement, forced liquidation procedure or other procedure aimed at the termination of his activity, or a reorganization or restructuring procedure is in progress, or who is likely not to fulfill his payment obligations in full against the Group or any of its subsidiaries.

In determining the default category, the Group considers compliance with Article 178 of the CRR and the relevant MNB regulations. For the application of the criterion in Article 178 (1) (a) of CRR, we apply the Special and Workout monitoring statuses applied by the Group, which induce a non-performing category.

Evaluation of collateral

The main types of collaterals accepted by the Group are as follows:

- surety (surety of State (central budget), surety of guarantee institutions),
- guarantee,
- deposit (cash, security),
- mortgage or pledges on property, plant and equipment,
- pledge on rights, receivables, purchase price claims and equity interests.

The market value of the collateral is adjusted by the coverage ratio. This ratio expresses the probable amount of recovery from the collateral and this adjusted collateral value is applied in the collateral registry and is considered in the impairment calculation.

The Group performs quarterly monitoring and – if appropriate – the remeasurement of collaterals. When remeasurement occurred the collateral registry is adjusted.

Customer and Customer group limits, sector limits

The customer limit is defined as the amount of the highest risk against one customer that can be undertaken. The maximum limit for a customer or customer group is the Bank's large exposures limit. Pursuant to Section 8 (1c) of the MFB Act, the large exposures limit does not apply to companies in the direct majority ownership of MFB, as well as to companies as defined in Annex 1 to the Act. Irrespective of the legal provision, the Group also applies customer and customer group limits to these companies.

The determination of customer and customer group limits depends on, among other things, the result of customer and partner ratings, the amount of equity or net income according to the closed financial statements of companies and the amount of interest-bearing liabilities. The sectoral limit depends on the financial situation of the sector.

Pursuant to Section 8(1b) of Act XX of 2001 on Hungarian Development Bank, notwithstanding Article 4(1)(39) of Regulation (EU) No 575/2013, MFB Zrt. does not consider as a client group those clients to whom MFB Zrt. has provided loans for the purpose of subscribing or purchasing investment units and which constitute a single risk factor just with respect to the investment funds, fund manager, fund manager's their interlinks or to a right or obligation related to the assets in the investment fund's portfolio.

The Bank classifies the sectors into eight risk groups by their financial position and determines limits for these groups. The sector group limits are the maximum of risk undertaken against clients classified into a given risk group.

Staging Criteria

For assets where there has been no significant credit risk increase since the initial recognition or are classified as low credit risk assets are classified in the performing credit risk category – Stage 1.

Those transactions where significant credit risk increases have occurred since the initial recognition are classified into the increased credit risk category – Stage 2 - as far as the criteria for significant credit risk increase are met.

The Group considers the following cases to be a significant increase in credit risk:

- significant deterioration in customer ratings or falling into category 7, insolvent;
- delays in the amount of the Bank's or any of its Subsidiaries' claims against the Customer for more than 30 days, exceeding the absolute or relative thresholds specified for retail and corporate clients,
- delays in payments the Bank's or any of its Subsidiaries' receivables from the Customer that exceed 90 days and do not reach the significant credit obligation threshold and
- change in other monitoring information,
- restructuring, if the transaction was performing at the time of the restructuring.

Information to be considered include the Group's information about the customer transactions that are observable in the course of the business, but not accessible from a system, however indicate an increase in credit risk.

Impaired credit risk category – Stage 3 - is used for all transaction for which there is objective evidence of the default. These are the following:

- transactions above the significant credit obligation threshold that are more than 90 days overdue,
- transactions with status “special” or “workout” in the "early warning indicator" system,
- transactions for which coercive measures have been taken against the customer (e.g., liquidation, bankruptcy, etc.) and terminated transactions
- the customer has committed fraud in connection with the contract, has seriously breached any of its contractual obligations to the Group or a third party, a contractual security has been called, the customer has been liquidated.

Credit impaired loans (purchased or incurred) are categorized as POCI and will remain in this category until their maturity or derecognition.

In Stage 1 category the Group quantifies the 12-month expected credit loss, while in Stage 2 and Stage 3 it calculates the lifetime expected credit loss. Credit losses on financial assets equal to the present value of the difference between the contractual cash flows and the cash flows expected by the Group.

The 12-month expected credit losses are part of the lifetime expected credit losses and indicate the lack of those lifetime cash flow that may occur due to the default of the counterparty within 12 months after the reporting date or if the expected life of the financial instrument is less than 12 months then a shorter period weighted with the probability of default (PD).

Expected credit losses are the probability-weighted estimates of credit losses incurred during the expected life of the financial instrument (i.e., the present value of all cash flow deficits). The estimation of expected credit losses always reflects the potential for credit loss to occur or does not occur, even if the most likely result is that no credit loss occurs. The individually assessed estimate of expected credit losses shall reflect an unbiased and probability-weighted amount determined by evaluating a minimum of three (if it is not possible, at least of two) possible outcomes.

When determining the probability of default, the Group classifies credit institutions with external credit ratings and those credit institutions and financial undertakings that do not have external credit ratings, individual corporate loans, agricultural loans, loans through agents, municipalities and parties into different valuation groups based on partner and customer types. When segmenting the portfolio, the Group considers the credit risk categories by product type and sector code in order to determine the value of probability of default (PD), the loss given default (LGD) and the credit conversion factor (CCF), considering also the transactions covered by the State guarantee. During the corporate PD modeling, we modeled the probability of default according to the well-known function $1/(1+\exp(Z))$, where Z is the linear combination of the explanatory variables. We identified 9 explanatory variables.

With respect to the LGD parameter, segmentation in accordance with best practice was also implemented. We identified a total of 8 segments for which we developed the LGD models separately. As in the case of the PD parameter, we also had expert segments. During the LGD modelling, a weighted average calculation was essentially performed in the given segment, using the appropriately discounted collection cash flows.

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For the purposes of determining PD, the Group treats an exposure as defaulted if one or more of the following conditions are met:

- the debtor has been overdue for more than 90 days exceeding the significant credit obligation threshold for any payment obligation to the Group or any of its subsidiaries,
- bankruptcy, liquidation, forced liquidation, debt settlement or other proceedings aimed at terminating the debtor's activities, or reorganization or restructuring proceedings are in progress against the debtor, the Group or any other bank granted a payment concession to the debtor in the light of its financial difficulties that it would not otherwise have made and the debtor was in default at the time of the restructuring,
- the Group terminated the loan agreement due to the debtor's breach of contract,
- the exposure was purchased by the Group at a significant discount (at least 20%),
- the full fulfilment of the debtor's payment obligation is unlikely due to the following:
 - the Group refused to restructure the transaction,
 - the debtor's income has fallen significantly or is below the level required to fulfil his obligations under the contract,
 - the debtor has liquidity problems,
 - the debtor has committed a serious breach of contract against the Group or another bank,
 - the debtor has committed fraud in connection with the contract,
 - the debtor's claim was sold at a significant discount.

In determining the credit conversion factor (CCF) used to determine the expected loss on off-balance sheet liabilities (guarantees, guarantee frames, unused credit lines), the Group classifies liabilities into four categories (1. Credit lines/guarantee frames; 2. Non financial not draw downed guarantees; 3. Financial not draw downed guarantees; 4. Draw downed guarantees).

Incorporation of forward-looking information

Forward-looking information for companies subject to collective impairment is included in the impairment through the PD values assigned to them. These risk parameters are obtained by multiplying the values provided by the corporate PD model by the macro-correction factor resulting from the macro model.

Based on historical data, we identified those macroeconomic variables that are relevant to the default rate and thus the PD. These are: the annual changes in unemployment ratio and the import. As required, we defined three scenarios based on the estimated future trajectories of these variables: a baseline trajectory, an optimistic trajectory, and a pessimistic trajectory. The model assigns a correction factor to each scenario, and the resulting macro-correction factor is the weighted average of the factors assigned to the three scenarios, using the trajectories and the weighting prescribed by the National Bank of Hungary.

The Bank examines the sensitivity of impairment to changes in scenarios during stress testing. According to the testing on the macro-correction factor relevant sub portfolio in case of the pessimistic scenario HUF 612 million additional impairment would be required while in case of the optimistic scenario HUF 604 million impairment would be released compared to the amount settled. The following table contains the details:

Impairment & Provisions stressed values table	EAD subject to FLI	Actual I&P	Optimistic I&P	Pessimistic I&P
Stage 1	1 188 279	4 158	354	359
Stage 2	185 756	2 933	250	253
Total	1 374 035	7 091	604	612

Forborne loans

Except in cases where special rules relating to the payment moratorium are applied, the Group classifies the debt as restructured if due to the deterioration of the client's or partner's financial problems or creditworthiness the risk-taking contract had to be amended by granting a discount in order to avoid non-payment. The reclassification of a restructured claim to a non-restructured claim is subject to the European Banking Authority's Guide on prudential requirements for defaulted exposure and restructuring.

Risk Management Aspects of COVID-19 and the war emergency

Pursuant to Government Decree No. 47/2020 (III. 18), the Group has implemented the 2020 payment moratorium. As part of this (unless otherwise provided by the Client), the automatic determination of payment due dates, calculation of default interest, default event and staging due to the number of days of delay was suspended during the payment moratorium period. The Group does not consider the use of the payment moratorium to be an independent factor increasing credit risk or a Stage2 indicator. When the moratorium came into force, the Group changed the rules for classification into the increased credit risk category (Stage2) in such a way that it suspended the monitoring of the number of days overdue (delay of more than 30 days, the amount of which exceeds HUF 30 thousand, and delay of more than 90 days, the amount of which does not exceed the significant credit default threshold) for the period spent in the moratorium, but left all other indicators unchanged.

The Group made all exposures subject to an individual examination that have been affected by the moratorium. During the regular monitoring activity, the Group individually reviewed whether the given obligor had difficulties in meeting its payment obligations, whether it was expected to have such difficulties, and whether it can be established that the debtor's financial situation has deteriorated. In the course of the investigation, the Group has considered the provisions of Article 178 (1) (a) of CRR and MNB Recommendation 13/2019 (VII.2).

After 1 November 2021, the Group continued to suspend the calculation of days past due for exposures affected by the credit repayment moratorium (Moratorium 3) and did not automatically establish a default event. However, in the light of the revised payment deadlines, it examined whether other conditions for the classification of these exposures as defaulted exposures (unlikely to pay) had been met.

After 1 November 2021, the Group assumed, as a general rule, that a debtor registered in Moratorium 3 had or will have experiencing difficulty meeting its financial obligations and had therefore classified such exposures as restructured and reclassified them as Stage 2 due to a significant increase in credit risk. It only deviated from this assumption and the recording of the exposure as a restructured exposure based on a detailed examination supported by evidence in individual cases.

The Group assessed participation in Moratorium 4 or the agricultural moratorium as a significant increase in credit risk, so the stage classification of the affected transactions according to IFRS could not be better than stage 2. In the case of corporate exposures, participation in Moratorium 4 only results in classification in stage 2 if there is a detailed, evidence-supported and documented justification.

The Group does not classify as repeatedly restructured exposures that:

- have been reclassified solely due to the expiry of the 9 months spent in Moratorium 1 and Moratorium 2 and receive payment relief (interest, principal payment rescheduling, extension of maturity) through debt modification schemes after Moratorium 2, and
- they have been restructured once since 1 January 2011 and it has become necessary to amend the contract to be restructured solely based on the time spent in the moratorium.

The use of Moratorium 4 is also not suitable for further multiple forced restructuring.

Following the procedure described above, the monitoring process is suitable for the Group to individually determine the need for classification as a defaulted exposure (including the “unlikely to pay” conditions) and the need for a restructuring schedule for repayment rescheduling, and to establish the adequate impairment/provision.

The effects of COVID-19 and the war emergency are considered in the group ECL calculation as follows. Forward-looking information is incorporated into the corporate PD values that determine the ECL, through the macro-correction multiplier resulting from the macro model. The strongest explanatory variable in the macro model is the GDP. Primarily, the drastic, negative change in the estimated future trajectory of GDP transmits COVID-19 and the war emergency to the model as a factor that increases the default probability. The source of the GDP forecasts, the baseline, optimistic and pessimistic trajectories defined by them, and the trajectory weighting are annexed to the MNB's quarterly circular 'Management Circular on the Use of Macroeconomic Information in the Application of IFRS 9 and Factors Indicating a Significant Increase in Credit Risk', which contains macroeconomic information. Such an annex shall be received at least 2 times and not more than 4 times a year.

The macro model represents the effects of COVID-19 and the war emergency as an external factor affecting the whole economy through its strongest explanatory variable. Some transactions, the probability of default of which is obviously extremely affected by COVID-19 and the war emergency, have been transferred to the set of transactions for which ECL is calculated individually.

Due to MFB's role as a development bank, the majority of its loan portfolio consists of large, long-term, loans with special conditions, provided directly to Clients, and their ECL is calculated on an individual basis. In 2022, the Group reviewed its large loans, which make up the most significant part of its portfolio and increased the ECL for those transactions for which the expected impact of the pandemic or the war emergency justified it.

In addition to the regular monitoring activity, the unique, large exposures were also subject to a regular individual, customer-level review based on the available and additionally requested information. The aspects of the review were the core risk factors, being the shortage of raw materials characteristic of the customer's area of operation, the rise in raw material prices, the drastic rise in energy prices, the analysis of the cost-bearing capacity of businesses, and the expected decrease in demand from households.

The pure COVID – or war-impact is hardly identifiable accurately in itself (*ceteris paribus*), rather we handle these features as an indication and guidance only, with emphasized importance in stricter monitoring of related clients and our planning of future cost of risk.

In order to manage the increased credit risk due to COVID-19 and the war emergency, the Group strengthened and supplemented its reporting function to the Executive Board and the Supervisory Board. The Bank does not apply portfolio level management corrections or overlays.

b) Exposure to credit risk

Gross book value of customer loans and loans to banks at amortized cost broken down into customer rating categories described under the risk management principles are as follows.

		2023				
	customer rating categories	Stage 1	Stage 2	Stage 3	POCI	Total
General governments	1 - 2	525	0	0	0	525
	3 - 6	64 210	0	0	0	64 210
	7 - 8	0	0	0	17	17
Total general governments		64 735	0	0	17	64 752
Other financial corporations	1 - 2	67 079	0	0	0	67 079
	3 - 6	122 353	111 198	0	0	233 551
	7 - 8	0	0	22 114	0	22 114
Total other financial corporations		189 432	111 198	22 114	0	322 744
Non-financial corporations	1 - 2	104 517	1 766	0	0	106 283
	3 - 6	347 031	339 848	152	0	687 031
	7 - 8	0	2 747	39 881	10 375	53 003
Total non-financial corporations		451 548	344 361	40 033	10 375	846 317
Households*	1 - 2	325	125	0	0	450
	3 - 6	55 351	14 087	49	0	69 487
	7 - 8	204	2 356	173	72 400	75 133
Total households		55 880	16 568	222	72 400	145 070
Total customer loans		761 595	472 127	62 369	82 792	1 378 883
Impairment		(4 292)	(22 932)	(44 341)	(8 900)	(80 465)
Maximum credit exposure		757 303	449 195	18 028	73 892	1 298 418

*: In case of family agricultural loans managed by intermediaries the Bank applies simplified staging rules which basically based on days past due and differ from the rules applicable to transactions directly managed by the Bank. Main reasons of this are the nature of this sub-portfolio and the limited information available for the intermediaries.

		2023				
	customer rating categories	Stage 1	Stage 2	Stage 3	POCI	Total
Banks	1 - 2	78 293	0	0	0	78 293
Total loans to banks		78 293	0	0	0	78 293
Impairment		(2)	0	0	0	(2)
Maximum credit exposure		78 291	0	0	0	78 291
Deposits at central and other banks	1 - 2	27 002	0	0	0	27 002
Total deposits at central and other banks		27 002	0	0	0	27 002
Impairment		(1)	0	0	0	(1)
Maximum credit exposure		27 001	0	0	0	27 001

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		2022				
	customer rating categories	Stage 1	Stage 2	Stage 3	POCI	Total
General governments	1 - 2	14 312	0	0	0	14 312
	3 - 6	39 237	0	0	0	39 237
	7 - 8	0	0	0	142	142
Total general governments		53 549	0	0	142	53 691
Other financial corporations	1 - 2	80 005	0	0	0	80 005
	3 - 6	124 494	93 613	28	0	218 135
	7 - 8	0	0	10 444	0	10 444
Total other financial corporations		204 499	93 613	10 472	0	308 584
Non-financial corporations	1 - 2	255 131	4 304	0	0	259 435
	3 - 6	228 507	347 517	3 695	0	579 719
	7 - 8	0	0	22 922	6 972	29 894
Total non-financial corporations		483 638	351 821	26 617	6 972	869 048
Households*	1 - 2	400	238	0	0	638
	3 - 6	42 304	17 011	1	0	59 316
	7 - 8	15 189	2 156	10	66 397	83 752
Total households		57 893	19 405	11	66 397	143 706
Total customer loans		799 579	464 839	37 100	73 511	1 375 029
Impairment		(4 160)	(36 053)	(22 831)	(13 488)	(76 532)
Maximum credit exposure		795 419	428 786	14 269	60 023	1 298 497

*: In case of family agricultural loans managed by intermediaries the Bank applies simplified staging rules which basically based on days past due and differ from the rules applicable to transactions directly managed by the Bank. Main reasons of this are the nature of this sub-portfolio and the limited information available for the intermediaries.

		2022				
	customer rating categories	Stage 1	Stage 2	Stage 3	POCI	Total
Banks	1 - 2	80 332	0	0	0	80 332
Total loans to banks		80 332	0	0	0	80 332
Impairment		(5)	0	0	0	(5)
Maximum credit exposure		80 327	0	0	0	80 327
Deposits at central and other banks	1 - 2	26 853	0	0	0	26 853
Total deposits at central and other banks		26 853	0	0	0	26 853
Impairment		(6)	0	0	0	(6)
Maximum credit exposure		26 847	0	0	0	26 847

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Undrawn loan commitments and guarantees broken down into customer rating categories described under the risk management principles are as follows.

		2023				
	customer rating categories	Stage 1	Stage 2	Stage 3	POCI	Total
Loan commitments	1 - 2	59 554	0	0	0	59 554
	3 - 6	144 316	128 730	0	0	273 046
	7 - 8	0	0	185	0	185
Total loan commitments		203 870	128 730	185	0	332 785
Capital commitments	1-2	153 932	0	0	0	153 932
Capital commitments		153 932	0	0	0	153 932
Guarantees	1 - 2	272 687	4 143	0	0	276 830
	3 - 6	508 944	74 163	0	0	583 107
	7 - 8	0	296	0	0	296
Total guarantees		781 631	78 602	0	0	860 233
Guarantees and capital and loan commitments total		1 139 433	207 332	185	0	1 346 950

		2022				
	customer rating categories	Stage 1	Stage 2	Stage 3	POCI	Total
Loan commitments	1 - 2	22 494	1 104	0	0	23 598
	3 - 6	51 669	137 990	1 109	0	190 768
	7 - 8	0	0	0	0	0
Total loan commitments		74 163	139 094	1 109	0	214 366
Capital commitments	1-2	210 938	0	0	0	210 938
Capital commitments		210 938	0	0	0	214 366
Guarantees	1 - 2	154 504	1 204	0	0	155 708
	3 - 6	632 740	2 840	0	0	635 580
	7 - 8	7 887	0	0	0	7 887
Total guarantees		795 131	4 044	0	0	799 175
Guarantees and capital and loan commitments total		1 080 232	143 138	1 109	0	1 224 479

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The table below represents the gross carrying amount transfers between impairment categories for customer loans valued at amortized cost and for undrawn loan commitments and guarantees. The movements represent every change during the year. See the impairment and provision transfers between impairment categories in note 30.

	Opening balance as at 1 January 2023	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Customer loans	799 579	135 556	0	(130 643)	(49 025)	(199)	6 327		761 595
General governments	53 549	213	0	10 973	0	0	0		64 735
Other financial corporations	204 499	32 594	0	(14 998)	(34 570)	0	1 907		189 432
Other non-financial corporations	483 638	102 685	0	(122 262)	(12 398)	(152)	37		451 548
Households	57 893	64	0	(4 356)	(2 057)	(47)	4 383		55 880
Loans to banks	80 332	0	0	(2 028)	(11)	0	0		78 293
Refinancing loans	346	0	0	(335)	(11)	0	0		0
Other loans	79 986	0	0	(1 693)	0	0	0		78 293
Customer loans	464 839	11 244	0	(15 465)	49 025	(31 822)	(6 327)	633	472 127
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	93 613	6 539	0	(8 316)	34 570	(13 428)	(1 907)	127	111 198
Other non-financial corporations	351 821	4 705	0	(6 820)	12 398	(18 143)	(37)	437	344 361
Households	19 405	0	0	(329)	2 057	(251)	(4 383)	69	16 568
Loans to banks	0	0	0	(11)	11	0	0	0	0
Refinancing loans	0	0	0	(11)	11	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0

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	Opening balance as at 1 January 2023	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Customer loans	37 100	3 532	(70)	(9 581)		32 021	0	(633)	62 369
General governments	0	0	0	0		0	0	0	0
Other financial corporations	10 472	0	0	(1 659)		13 428	0	(127)	22 114
Other non-financial corporations	26 617	3 532	(70)	(7 904)		18 295	0	(437)	40 033
Households	11	0	0	(18)		298	0	(69)	222
Loans to banks	0	0	0	0		0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0
Other loans	0	0	0	0		0	0	0	0
Customer loans	142	7 996	0	1 285					82 792
General governments	142	17	0	(142)					17
Other financial corporations	0	0	0	0					0
Other non-financial corporations	6 972	828	0	2 575					10 375
Households	66 397	7 151	0	(1 148)					72 400
Customer loans	1 375 029	158 328	(70)	(154 404)					1 378 883
General governments	53 691	230	0	10 831					64 752
Other financial corporations	308 584	39 133	0	(24 973)					322 744
Other non-financial corporations	869 048	111 750	(70)	(134 411)					846 317
Households	143 706	7 215	0	(5 851)					145 070
Loans to banks	80 332	0	0	(2 039)					78 293
Refinancing loans	346	0	0	(346)					0
Other loans	79 986	0	0	(1 693)					78 293

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	Opening balance as at 1 January 2023	New commitment s	Drawn / matured commitmen ts	Net movements without stage transfer	From stage 1 to stage 2. or 3	From stage 2 or 3 to stage 1	From stage 2 to stage 3	Closing balance as at 31 December 2023
Stage 1	1 080 232	467 784	(128 403)	(228 893)	(51 292)	5		1 139 433
Loan commitments	74 136	247 540	(124 952)	17 397	(10 283)	5		203 870
Capital commitments	210 938	167 179	0	(224 185)	0	0		153 932
Guarantees	795 131	53 065	(3 451)	(22 105)	(41 009)	0		781 631
Stage 2	143 138	16 361	(5 663)	2 209	51 292	(5)	0	207 332
Loan commitments	139 094	1 610	(4 459)	(17 793)	10 283	(5)	0	128 730
Guarantees	4 044	14 751	(1 204)	20 002	41 009	0	0	78 602
Stage 3	1 109	179	(1 109)	6		0	0	185
Loan commitments	1 109	179	(1 109)	6		0	0	185
Guarantees	0	0	0	0		0	0	0
Total	1 224 479	484 324	(135 175)	(226 678)	0	0	0	1 346 950
Loan commitments	214 366	249 329	(130 520)	(390)	0	0	0	332 785
Capital commitments	210 938	167 179	0	(224 185)	0	0	0	153 932
Guarantees	799 175	67 816	(4 655)	(2 103)	0	0	0	860 233

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	Opening balance as at 1 January 2022	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Customer loans	728 257	175 190	0	(3 109)	(103 517)	(112)	2 870		799 579
General governments	38 672	0	0	14 877	0	0	0		53 549
Other financial corporations	209 601	106 146	0	(101 667)	(9 581)	0	0		204 499
Other non-financial corporations	418 897	53 882	0	89 413	(78 442)	(112)	0		483 638
Households	61 087	15 162	0	(5 732)	(15 494)	0	2 870		57 893
Loans to banks	57 610	0	0	22 722	0	0	0		80 332
Refinancing loans	827	0	0	(481)	0	0	0		346
Other loans	56 783	0	0	23 203	0	0	0		79 986
Customer loans	379 171	4 811	0	(2 062)	103 517	(18 016)	(2 870)	288	464 839
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	96 764	4 611	0	(6 475)	9 581	(11 156)	0	288	93 613
Other non-financial corporations	274 731	200	0	5 296	78 442	(6 848)	0	0	351 821
Households	7 676	0	0	(883)	15 494	(12)	(2 870)	0	19 405
Loans to banks	0	0	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0

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	Opening balance as at 1 January 2022	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Customer loans	21 576	33	0	(2 349)		18 128	0	(288)	37 100
General governments	0	0	0	0		0	0	0	0
Other financial corporations	0	0	0	(396)		11 156	0	(288)	10 472
Other non-financial corporations	21 565	33	0	(1 941)		6 960	0	0	26 617
Households	11	0	0	(12)		12	0	0	11
Loans to banks	0	0	0	0		0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0
Other loans	0	0	0	0		0	0	0	0
Customer loans	18	6 899	0	(9 974)					142
General governments	142	142	0	(18)					0
Other financial corporations	7 403	0	0	(142)					6 972
Other non-financial corporations	68 853	260	0	(691)					66 397
Households	18	6 667	0	(9 123)					142
Customer loans	1 205 420	187 103	0	(17 494)	0	0	0	0	1 375 029
General governments	38 690	142	0	14 859	0	0	0	0	53 691
Other financial corporations	306 507	110 757	0	(108 680)	0	0	0	0	308 584
Other non-financial corporations	722 596	54 375	0	92 077	0	0	0	0	869 048
Households	137 627	21 829	0	(15 750)	0	0	0	0	143 706
Loans to banks	57 610	0	0	22 722	0	0	0	0	80 332
Refinancing loans	827	0	0	(481)	0	0	0	0	346
Other loans	56 783	0	0	23 203	0	0	0	0	79 986

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	Opening balance as at 1 January 2022	New commitment s	Drawn / matured commitmen ts	Net movements without stage transfer	From stage 1 to stage 2. or 3	From stage 2 or 3 to stage 1	From stage 2 to stage 3	Closing balance as at 31 December 2022
Stage 1	781 406	365 509	(90 658)	32 017	(28 382)	20 340		1 080 232
Loan commitments	205 350	69 892	(80 211)	(98 126)	(22 742)	0		74 136
Capital commitments	93 875	0	0	117 063	0	0		210 938
Guarantees	482 181	295 617	(10 447)	13 080	(5 640)	20 340		795 131
Stage 2	44 053	106 575	(3 630)	(10 793)	28 382	(20 340)	(1 109)	143 138
Loan commitments	21 283	106 575	(830)	(9 567)	22 742	0	(1 109)	139 094
Guarantees	22 770	0	(2 800)	(1 226)	5 640	(20 340)	0	4 044
Stage 3	0	0	0	0		0	1 109	1 109
Loan commitments	0	0	0	0		0	1 109	1 109
Guarantees	0	0	0	0		0	0	0
Total	825 459	472 084	(94 288)	21 224	0	0	0	1 224 479
Loan commitments	226 633	176 467	(81 041)	(107 693)	0	0	0	214 366
Capital commitments	93 875	0	0	117 063	0	0	0	210 938
Guarantees	504 951	295 617	(13 247)	11 854	0	0	0	799 175

MFB Hungarian Development Bank Private Limited Company and its subsidiaries

Notes to Consolidated Financial Statements for the year ended 31 December 2023

(amounts presented are expressed in HUF million unless otherwise noted)

Customer loans and loans to banks at fair value through profit and loss broken down into customer rating categories described under the risk management principles are as follows.

		2023			
	customer rating categories	Stage 1	Stage 2	Stage 3	Total
General government	1 - 2	0	0	0	0
	3 - 6	424	0	0	424
	7 - 8	0	0	0	0
Total general government		424	0	0	424
Other financial corporation	1 - 2	0	0	0	0
	3 - 6	451	594	0	1 045
	7 - 8	0	0	0	0
Total other financial corporations		451	594	0	1 045
Other non-financial corporation	1 - 2	777	0	0	777
	3 - 6	1 480	1 214	183	2 877
	7 - 8	3	99	0	102
Total other non-financial corporations		2 260	1 313	183	3 756
Household	1 - 2	0	0	0	0
	3 - 6	0	0	0	0
	7 - 8	0	84	7	91
Total household		0	84	7	91
Total customer loans		3 135	1 991	190	5 316
Loans to banks	1 - 2	30 822	420	0	31 242
	3 - 6	8	0	0	8
	7 - 8	0	0	0	0
Total loans to banks		30 830	420	0	31 250

		2022			
	customer rating categories	Stage 1	Stage 2	Stage 3	Total
General government	1 - 2	466	0	0	466
	3 - 6	18	0	0	18
	7 - 8	0	0	0	0
Total general government		484	0	0	484
Other financial corporation	1 - 2	0	0	0	0
	3 - 6	1 386	672	0	2 058
	7 - 8	0	0	55	55
Total other financial corporations		1 386	672	55	2 113
Other non-financial corporation	1 - 2	1 268	0	0	1 268
	3 - 6	1 309	1 010	58	2 377
	7 - 8	7	54	41	102
Total other non-financial corporations		2 584	1 064	99	3 747
Household	1 - 2	0	0	0	0
	3 - 6	98	2	0	100
	7 - 8	0	2	13	15
Total household		98	4	13	115
Total customer loans		4 552	1 740	167	6 459
Loans to banks	1 - 2	31 332	14	0	31 346
	3 - 6	13	0	0	13
	7 - 8	0	0	0	0
Total loans to banks		31 345	14	0	31 359

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The table below represents debt securities by external rating categories

	2023			2022		
	<i>S&P rating</i>	<i>Moody's rating</i>	Amount	<i>S&P rating</i>	<i>Moody's rating</i>	Amount
Amortized cost debt securities			443 550			439 103
Hungarian government bonds	<i>BBB</i>	<i>Baa2</i>	26 389	<i>BBB</i>	<i>Baa2</i>	42 158
Corporate bonds*			409 776			390 765
Mortgage bonds	<i>BBB</i>		7 385	<i>BBB</i>	-	6 180
FVOCI debt securities			51 054			60 537
Government bonds	<i>BBB</i>	<i>Baa2</i>	42 246	<i>BBB</i>	<i>Baa2</i>	40 694
Bank bonds		<i>Baa2</i>	8 808			
Discount treasury bills			0	<i>BBB</i>	<i>Baa2</i>	19 843
FVTPL debt securities			603 156			369 647
Venture capital notes – investment type **			4 037			4 364
Venture capital notes – loan type**			599 119			365 283

*: International rating is not available for these corporate bonds. According to the internal rating system allocation in 2023 AT2 HUF 251 147 million, AT3 HUF 72 106 million, AT4 HUF 37 376 million, AT5 HUF 48 441 million, AT6 HUF 706 million. Respectively the same amount in 2022 AT2 HUF 36 794 million, AT3 HUF 303 377 million, AT4 HUF 49 463 million, AT6 HUF 746 million, AT7 HUF 385 million.

** FVTPL debt securities have no international rating, their risk assessment is based on the investment policy and the performance of the target companies.

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Exposure to credit risk and collaterals

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan however, collateral provides additional security and the Group request that corporate borrowers provide it. The Group may take collateral in form of a first rank mortgage over real estate pledges on all corporate assets and other liens and guarantees (mostly state guarantees) as detailed in the next subsection.

The purpose of the table is to present a comparison between the net carrying amount of the customer loans and loans to bank at amortized cost and the corresponding collateral amounts to show the coverage. The fair value of the collaterals is limited by the net carrying amount of the loans and commitments.

LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		carrying value of loans	fair value of collateral
Customer loans	629 918	340 008	168 538	168 538	499 962	1 298 418	508 546
General governments	63 849	40 260	292	292	468	64 609	40 552
Other financial corporations	206 100	113 114	595	595	97 295	303 990	113 709
Other non-financial corporations	359 753	186 516	104 651	104 651	327 046	791 450	291 167
Households	216	118	63 000	63 000	75 153	138 369	63 118
Loans to banks	38 372	38 278	0	0	39 919	78 291	38 278
Refinancing loans	0	0	0	0	0	0	0
Other loans	38 372	38 278	0	0	39 919	78 291	38 278
Total	668 290	378 286	168 538	168 538	539 881	1 376 709	546 824

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LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2022	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
Customer loans	594 622	263 167	155 018	155 018	548 857	1 298 497	418 185
General governments	51 901	29 681	500	500	1 202	53 603	30 181
Other financial corporations	225 652	120 036	347	347	68 609	294 608	120 383
Other non-financial corporations	316 643	113 141	79 820	79 820	421 577	818 040	192 961
Households	426	309	74 351	74 351	57 469	132 246	74 660
Loans to banks	40 082	40 025	0	0	40 245	80 327	40 025
Refinancing loans	0	0	0	0	346	346	0
Other loans	40 082	40 025	0	0	39 899	79 981	40 025
Total	634 704	303 192	155 018	155 018	589 102	1 378 824	458 210

The following table includes the reconciliation of the collateral value and the net carrying value for credit impaired (stage 3 and POCI) loans only. The fair value of the collaterals is limited by the net carrying amount of the loans.

LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
Customer loans	12 045	5 656	14 358	14 358	65 517	91 920	20 014
General governments	0	0	0	0	3	3	0
Other financial corporations	4 927	2 576	311	311	728	5 966	2 887
Other non-financial corporations	6 918	2 978	8 383	8 383	4 650	19 951	11 361
Households	200	102	5 664	5 664	60 136	66 000	5 766
Loans to banks	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0
Total	12 045	5 656	14 358	14 358	65 517	91 920	20 014

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LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2022	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
Customer loans	6 522	4 588	22 825	22 825	44 945	74 292	27 413
General governments	0	0	0	0	142	142	0
Other financial corporations	1 792	985	249	249	0	2 041	1 234
Other non-financial corporations	4 344	3 330	10 379	10 379	2 366	17 089	13 709
Households	386	273	12 197	12 197	42 437	55 020	12 470
Loans to banks	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0
Total	6 522	4 588	22 825	22 825	44 945	74 292	27 413

The following table includes the carrying amount of the customer loans and loans to banks mandatorily at fair value through profit and loss and the corresponding collateral amounts. The fair value of the collaterals is limited by the net carrying amount of the loans.

LOANS AT FAIR VALUE	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
Loans and advances to banks	0	0	0	0	31 250	31 250	0
Municipality loan program	0	0	0	0	21 026	21 026	0
Business development loan program	0	0	0	0	2 349	2 349	0
Agricultural development loan program	0	0	0	0	7 810	7 810	0
Retail loan program	0	0	0	0	65	65	0
Customer loans	2 820	1 531	974	974	1 522	5 316	2 505
General governments	0	0	424	424	0	424	424
Other financial corporations	1 045	44	0	0	0	1 045	44
Other non-financial corporations	1 775	1 487	459	459	1 522	3 756	1 946
Households	0	0	91	91	0	91	91
Total	2 820	1 531	974	974	32 772	36 566	2 505

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LOANS AT FAIR VALUE	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2022	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		carrying value of loans	fair value of collateral
Loans and advances to banks	0	0	0	0	31 359	31 359	0
Municipality loan program	0	0	0	0	22 511	22 511	0
Business development loan program	0	0	0	0	3 384	3 384	0
Agricultural development loan program	0	0	0	0	5 369	5 369	0
Retail loan program	0	0	0	0	95	95	0
Customer loans	1 097	1 052	1 054	1 054	4 308	6 459	2 106
General governments	0	0	484	484	0	484	484
Other financial corporations	0	0	0	0	2 113	2 113	0
Other non-financial corporations	1 097	1 052	455	455	2 195	3 747	1 507
Households	0	0	115	115	0	115	115
Total	1 097	1 052	1 054	1 054	35 667	37 818	2 106

Exposure to credit risk and collaterals –off-balance sheet items

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral		carrying value of commitments	fair value of collateral
Loan commitments and guarantees	829 169	568 839	13 664	13 664	498 261	1 341 094	582 503
Loan commitments	35 111	19 809	1 715	1 715	291 039	327 865	21 524
Capital commitments	0	0	0	0	153 776	153 776	0
Guarantees	794 058	549 030	11 949	11 949	53 446	859 453	560 979

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2022	
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral		carrying value of commitments	fair value of collateral
Loan commitments and guarantees	747 168	517 997	16 807	16 807	456 297	1 220 272	534 804
Loan commitments	40 702	14 704	4 503	4 503	165 164	210 369	19 207
Capital commitments	0	0	0	0	210 938	210 938	0
Guarantees	706 466	503 293	12 304	12 304	80 195	798 965	515 597

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c) Collateral and other security enhancements

An estimate of the fair value of collateral and other security enhancements (up to the amount of receivables) is shown in the table below.

31 December 2023

LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans
Customer loans	170 810	154 357	276 767	210 812	202 548	111 508	148 331	31 598	798 456	508 275	499 962	1 298 418
General governments	11 642	11 621	52 499	28 930	0	0	0	0	64 141	40 551	468	64 609
Other financial corporations	65 646	64 645	0	0	126 468	42 994	14 581	6 069	206 695	113 708	97 295	303 990
Other non-financial corporations	93 522	78 091	215 398	173 111	21 734	14 168	133 750	25 529	464 404	290 899	327 046	791 450
Households	0	0	8 870	8 771	54 346	54 346	0	0	63 216	63 117	75 153	138 369
Loans to banks	38 372	38 278	0	0	0	0	0	0	38 372	38 278	39 919	78 291
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	0
Other loans	38 372	38 278	0	0	0	0	0	0	38 372	38 278	39 919	78 291

Other category mostly includes suretyship (HUF 2 913 million) and cash deposits (HUF 14 751 million), and it also includes other collaterals (HUF 13 934million).

31 December 2022

LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans
Customer loans	83 694	82 041	259 731	180 325	233 707	121 246	172 508	34 573	749 640	418 185	548 857	1 298 497
General governments	12 700	12 680	39 701	17 502	0	0	0	0	52 401	30 182	1 202	53 603
Other financial corporations	66 278	64 645	0	0	146 162	49 256	13 559	6 481	225 999	120 382	68 609	294 608
Other non-financial corporations	4 704	4 704	204 185	147 100	28 625	13 070	158 949	28 087	396 463	192 961	421 577	818 040
Households	12	12	15 845	15 723	58 920	58 920	0	5	74 777	74 660	57 469	132 246
Loans to banks	40 082	40 025	0	0	0	0	0	0	40 082	40 025	40 245	80 327
Refinancing loans	0	0	0	0	0	0	0	0	0	0	346	346
Other loans	40 082	40 025	0	0	0	0	0	0	40 082	40 025	39 899	79 981

Other category mostly includes suretyship (HUF 16 718 million) and cash deposits (HUF 6 994 million), and it also includes other collaterals (HUF 10 861 million).

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The following table includes an estimate of the fair value of collateral and other security enhancements (up to the amount of receivables) for credit impaired (stage 3 and POCI) loans only.

31 December 2023												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans
Customer loans	0	0	20 218	16 022	5 411	3 074	774	649	26 403	19 745	65 517	91 920
General governments	0	0	0	0	0	0	0	0	0	0	3	3
Other financial corporations	0	0	0	0	5 200	2 863	38	24	5 238	2 887	728	5 966
Other non-financial corporations	0	0	14 565	10 467	0	0	736	625	15 301	11 092	4 650	19 951
Households	0	0	5 653	5 555	211	211	0	0	5 864	5 766	60 136	66 000
Loans to banks	0	0	0	0	0	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0	0	0	0

31 December 2022												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans
Customer loans	0	0	26 697	25 703	1 926	1 164	724	544	29 347	27 411	44 945	74 292
General governments	0	0	0	0	0	0	0	0	0	0	142	142
Other financial corporations	0	0	0	0	1 926	1 164	115	69	2 041	1 233	0	2 041
Other non-financial corporations	0	0	14 114	13 238	0	0	609	470	14 723	13 708	2 366	17 089
Households	0	0	12 583	12 465	0	0	0	5	12 583	12 470	42 437	55 020
Loans to banks	0	0	0	0	0	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0	0	0	0

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The following table includes the carrying amount of the customer loans and loans to bank mandatorily at fair value through profit and loss and an estimate of the fair value of collateral and other security enhancements (up to the amount of receivables).

31 December 2023												
LOANS AT FAIR VALUE	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of loans	Total carrying value of loans
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		
Loans and advances to banks	0	0	0	0	0	0	0	0	0	0	31 250	31 250
Municipality loan program	0	0	0	0	0	0	0	0	0	0	21 026	21 026
Business development loan program	0	0	0	0	0	0	0	0	0	0	2 349	2 349
Agricultural development loan program	0	0	0	0	0	0	0	0	0	0	7 810	7 810
Retail loan program	0	0	0	0	0	0	0	0	0	0	65	65
Customer loans	519	456	822	822	0	0	2 453	1 228	3 794	2 506	1 522	5 316
General governments	0	0	424	424	0	0	0	0	424	424	0	424
Other financial corporations	0	0	0	0	0	0	1 045	44	1 045	44	0	1 045
Other non-financial corporations	518	455	314	314	0	0	1 402	1 178	2 234	1 947	1 522	3 756
Households	1	1	84	84	0	0	6	6	91	91	0	91

31 December 2022												
LOANS AT FAIR VALUE	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of loans	Total carrying value of loans
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		
Loans and advances to banks	0	0	0	0	0	0	0	0	0	0	31 359	31 359
Municipality loan program	0	0	0	0	0	0	0	0	0	0	22 511	22 511
Business development loan program	0	0	0	0	0	0	0	0	0	0	3 384	3 384
Agricultural development loan program	0	0	0	0	0	0	0	0	0	0	5 369	5 369
Retail loan program	0	0	0	0	0	0	0	0	0	0	95	95
Customer loans	497	464	977	977	0	0	677	666	2 151	2 107	4 308	6 459
General governments	0	0	484	484	0	0	0	0	484	484	0	484
Other financial corporations	0	0	0	0	0	0	0	0	0	0	2 113	2 113
Other non-financial corporations	496	463	390	390	0	0	666	655	1 552	1 508	2 195	3 747
Households	1	1	103	103	0	0	11	11	115	115	0	115

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Collateral and other security enhancements to credit risk and collaterals –off-balance sheet items

31 December 2023												
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	carrying value of commitments
Loan commitments and guarantees	561 177	505 403	13 048	5 737	91 944	34 799	176 664	36 565	842 833	582 504	498 261	1 341 094
Loan commitments	751	751	5 264	2 754	16 951	7 888	13 860	10 131	36 826	21 524	291 039	327 865
Capital commitments	0	0	0	0	0	0	0	0	0	0	153 776	153 776
Guarantees	560 426	504 652	7 784	2 983	74 993	26 911	162 804	26 434	806 007	560 980	53 446	859 453

31 December 2022												
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	carrying value of commitments
Loan commitments and guarantees	551 476	496 710	4 773	3 526	19 543	10 826	188 183	23 742	763 975	534 804	456 297	1 220 272
Loan commitments	1 408	1 408	4 450	3 213	12 999	4 282	26 348	10 304	45 205	19 207	165 164	210 369
Capital commitments	0	0	0	0	0	0	0	0	0	0	210 938	210 938
Guarantees	550 068	495 302	323	313	6 544	6 544	161 835	13 438	718 770	515 597	80 195	798 965

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The Central Budget determined a state guarantee frame for the Bank's asset side credit exposures (guarantee provided to the Bank) and also for liability side obligations (guarantee provided for the Bank). The amount and utilization (representing the amount allocated either to loan programs or individual loans) and the actual loan balance disbursed under the state guarantee frame and the related collaterals, being the state guarantee itself were the following.

	2023	2022
Asset side state guarantee frame	1 700 000	1 700 000
Utilization	1 183 089	867 496
from this actual loan balance at year end	725 073	651 703
Liability side guarantee frame	3 500 000	2 800 000
Utilization	2 741 349	2 015 526

d) Restructured loans

The Group classifies a loan in the restructured category if it makes a discount or modification due to the current or expected financial difficulties of the borrower, which it would not have done if the borrower were solvent. The Group individually examined the expected solvency of borrowers who spent a longer period of time in the payment moratorium, the significance of the increase in credit risk, and decided whether to classify them as restructured, as well as decided on the stage classification. The Group did not consider the fact of involvement with the moratorium as an event that automatically triggers restructuring.

	Gross	Impairment	Net
31 December 2021	203 981	(27 225)	176 756
New restructured transactions	46 543	(44)	46 499
Changes in existing restructured loans	(5 166)	(4 305)	(9 471)
Derecognition	0	0	0
Decrease due to repayment	(38 566)	1 633	(36 933)
Decrease due to recovery	(6)	0	(6)
FX change	9 982	(2 008)	7 974
31 December 2022	216 768	(31 949)	184 819
New restructured transactions	21 250	(3 179)	18 072
Changes in existing restructured loans	155	(649)	(494)
Derecognition	0	0	0
Decrease due to repayment	(4 734)	(439)	(5 174)
Decrease due to recovery	(83 738)	3 252	(80 486)
FX change	(7 132)	1 198	(5 934)
31 December 2023	142 570	(31 766)	110 804

Neither during 2023, nor during 2022 there was no such contract modification that would have led to derecognition and re-recognition implying derecognition gain or loss.

e) Concentration of credit risk

The below table includes the concentration of credit risk by industry on net carrying amount for customer loans.

Loans and advances to customers	2023				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial services	439 596	125 710	6 091	34	571 431
Property development	41 438	243 570	5 898	80	290 986
Other services (local governments, health-care, other services)	25 335	6 535	325	71 801	103 996
Construction (including motorway financing)	28 136	15 371	0	74	43 581
Industry	62 363	34 113	4 972	628	102 076
Agriculture	43 325	17 808	214	110	61 457
Transport, storage, post, telecoms	111 833	0	717	52	112 602
Trade	3 203	1 410	1	1 099	5 713
Accommodation, catering	5 209	6 669	0	14	11 892
Total	760 438	451 186	18 218	73 892	1 303 734
<i>of which amortized cost</i>	<i>757 303</i>	<i>449 195</i>	<i>18 028</i>	<i>73 892</i>	<i>1 298 418</i>
<i>of which FVTPL</i>	<i>3 135</i>	<i>1 991</i>	<i>190</i>	<i>0</i>	<i>5 316</i>

Loans and advances to customers	2022				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial services	500 054	95 716	2 096	115	597 981
Property development	45 141	244 178	9 339	0	298 658
Other services (local governments, health-care, other services)	25 202	5 249	192	57 590	88 233
Construction (including motorway financing)	32 925	12 713	0	3	45 641
Industry	63 673	43 174	2 110	709	109 666
Agriculture	45 895	21 503	5	237	67 640
Transport, storage, post, telecoms	60 422	353	686	21	61 482
Trade	20 784	1 376	3	1 190	23 353
Accommodation, catering	5 875	6 264	0	163	12 302
Total	799 971	430 526	14 431	60 028	1 304 956
<i>of which amortized cost</i>	<i>795 419</i>	<i>428 786</i>	<i>14 269</i>	<i>60 023</i>	<i>1 298 497</i>
<i>of which FVTPL</i>	<i>4 552</i>	<i>1 740</i>	<i>162</i>	<i>5</i>	<i>6 459</i>

B. LIQUIDITY RISK

a) Principles of liquidity risk management

The Group's principal objective is to carry out secure and established course of business and the prevention of liquidity issues which could threaten the Group to meet its obligations. The liquidity management is determined by the nature of the business, the strategy, the annual business plan, the legal regulations and the regulatory activities of National Bank of Hungary.

Liquidity means the availability of necessary funds in time needed to meet the obligations. Liquidity demand arises when the obligations become due. Liquidity risk is the gap between in and outflows in different amount and time.

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Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR) and Directive 2013/36 / EU (CRD IV) of 26 June 2013 have transposed the Basel III. Regulation into the European regulatory framework for credit institutions. The new requirements were introduced gradually, and 2019 was the first year that all requirements were fully met. At the same time, MFB Zrt. was exempted from the liquidity requirements, which is included in the MFB Act.

The Group has significant amount of primary liquidity reserves in the form of government securities and deposits with commercial banks, as well as other liquidity-providing Central Bank-eligible securities, therefore future cash outflows are continuously covered on the asset side.

The Bank's liquidity reserve as at 31 December 2023 and 2022

	2023			2022		
	Par value	Fair value	Free disposal	Par value	Fair value	Free disposal
Hungarian government bonds	70 257	67 200	65 057	89 595	76 680	84 395
Hungarian bank bonds	8 421	8 808	8 421	0	0	0
Hungarian discount bonds	0	0	0	20 485	19 843	20 485
Mortgage bonds issued by banks	7 785	7 385	7 785	6 285	5 044	6 285
Other Central Bank-eligible securities	304 960	282 616	136 960	304 960	236 241	136 960
Total	391 423	366 009	218 223	421 325	337 808	248 125

The members of the Group also had a significant amount of liquidity reserves, deposits of HUF 11.24 billion (2022: HUF 15.93 billion) were placed with domestic credit institutions.

The Group primarily manages liquidity risk in a preventive manner, and strives to provide financing with a source that ensures the most suitable balance in terms of maturity, principal repayment and interest payment. The Group's fund-raising opportunities are favorable both at home and abroad, but at the same time, the Group's cost of funds has increased significantly in the recent period - as a result of the war emergency. Thus, due to the expiration of previously borrowed funds, as well as new demands on the asset side, the funds to be raised became more expensive. In the second half of the year, however, the market interest rates in HUF decreased significantly, which is expected to have an impact during the next fundraising operations.

Cash flow statements are prepared at least on a monthly basis which contain all banking book cash flow items and credit and investment directorates predicted cash flow transactions considering different scenarios. For continuous liquidity management a liquidity forecast is prepared on a monthly basis.

The Bank specifies in an instruction in which instruments the members of the Group may invest their free liquidity and regulates the Group's credit institution exposures with bank limits. The members of the Group report their exposures to the Bank on a monthly basis, which is approved by the Bank's ALCO (Asset Liability Committee).

Pursuant to Article 8 (2) of the MFB Act, the Bank does not apply the rules on liquidity ratios and liquidity requirements set out in Articles 411-428 of CRR.

The Group measures its liquidity risks in the following ways:

- Quantification of dependence on large individual deposits;
- Comprehensive cash flow, liquidity forecast;
- Stress-test;
- Survival analysis;
- Quantification of liquidity ratios.

The Group manages its liquidity risks as follows:

- Where possible (market opportunities, pricing), using the most appropriate liabilities for the assets side;
- Designation and operation of appropriate processes and rules;
- Set up a limit system;
- Establishment of liquidity reserves;
- Effective asset-liability management;
- Provision of data by members of the Group.

Liquidity ratios and the results of stress testing confirmed that the short and long-term liquidity positions are adequate at all times, due to the significant amount of liquidity reserves and the funds involved during the year.

Risk Management Aspects of COVID-19

With regard to the Group's liquidity, neither COVID-19 nor the payment moratorium caused any difficulties. The liquidity reserve that the Bank holds in government securities and other Central Bank-eligible securities is well above the amount of exposures that could be affected by the payment moratorium at the worst case scenario.

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b) Remaining contractual maturities of financial liabilities

Maturities on contractual (principal and interest), undiscounted cash flows of financial liabilities were as follows. The guarantees were classified in the first category irrespective of the actual maturity of the instrument. Similarly, the loan commitments were also classified in the first category as they can be drawn down at request.

2023	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Customer deposits	110 936	(114 578)	(83 902)	(1 004)	(3 547)	(3 252)	(22 873)
Loans from banks	933 853	(968 509)	(4 011)	(16 828)	(278 834)	(550 488)	(118 348)
Debt securities issued	1 762 504	(2 025 385)	0	(1 920)	(386 402)	(1 526 038)	(111 025)
Other financial liabilities	12 059	(12 059)	(12 059)	0	0	0	0
Derivatives	8 508	64 510	1 445	2 406	7 469	53 190	0
inflow			213 665	9 547	25 399	524 280	0
outflow			(212 220)	(7141)	(17 930)	(471 090)	0
Hedge derivatives	14 187	(15 055)	1 529	(3 286)	(1 778)	(11 520)	0
inflow			22 641	6 170	44 433	162 009	0
outflow			(21 112)	(9 456)	(46 211)	(173 529)	0
Total financial liabilities and derivatives	2 842 047	(3 071 076)	(96 998)	(20 632)	(663 092)	(2 038 108)	(252 246)
Guarantees	860 233	860 233	860 233				
Capital commitments	153 932	153 932	9 714	79 018	56 616	8 584	0
Loan commitments	332 785	332 785	332 785				

2022	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Customer deposits	48 520	(62 253)	(24 658)	(4 525)	(555)	(5 803)	(26 712)
Loans from banks	786 907	(825 466)	(762)	(17 397)	(87 595)	(576 940)	(142 772)
Debt securities issued	1 402 562	(1 509 760)	(92 864)	0	(278 427)	(963 450)	(175 019)
Other financial liabilities	19 826	(19 826)	(19 826)	0	0	0	0
Derivatives	4 062	(5 608)	(463)	(2 901)	(263)	(1 794)	(187)
inflow			55 289	78 285	0	290	73
outflow			(55 752)	(81 186)	(263)	(2 084)	(260)
Hedge derivatives			0	0	0	0	0
inflow			0	0	0	0	0
outflow			0	0	0	0	0
Total financial liabilities and derivatives	2 261 877	(2 422 913)	(138 573)	(24 823)	(366 840)	(1 547 987)	(344 690)
Guarantees	799 175	799 175	799 175				
Capital commitments	210 938	210 938	0	31 983	122 222	56 733	0
Loan commitments	214 366	214 366	214 366				

The Group is subject to additional HUF 312 296 million (2022: 132 916 million HUF) venture capital note payment obligation related to the equity consolidated associates that is payable as required by the investment plans.

C. MARKET RISKS

Market risks are presented in the consolidated financial statements only for the Bank, because only the Bank has relevant exposure to market risk within the Group. The positions quantified accordingly and their effects adequately reflect the market risk exposure of the Group as a whole.

a) Currency risk management – basis of risk management

The Bank has assets and liabilities, both on and off-balance sheet, denominated in various foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank manages the currency structure of assets and liabilities on and off-balance sheet, utilizing forward foreign exchange transactions and other hedging instruments. It is the policy of the Bank that it should not speculate in currencies and should only take currency positions within strict limits. The Board of Directors establishes and monitors specific regulations based on statutory and internal limits and approves the overall strategy. Compliance to these limits is regularly monitored.

The Foreign Exchange Guarantee Frame Agreement (FX Agreement) between the Bank and the Hungarian Ministry of Finance was signed in 2004, the modification was signed with the Ministry for National Economy in 2014. This FX Agreement manages foreign exchange risks of the Bank's foreign currency borrowings (EUR). Based on this FX Agreement at the final maturity of the borrowings or upon introduction of EUR as the official currency of Hungary the State compensates any foreign exchange loss incurred on these borrowings and the Bank is required to pay to the State the amount of realized foreign exchange gains on these transactions in instalments. The amount of receivables from the State according to the FX Agreement is presented in Note 14.

Monthly stress tests quantify the impact of possible exchange rate movements (+/- 10% shift for EUR/HUF and EUR/USD).

The net exposure of the Bank is the total exposure decreased by the exposure fall under the FX state guarantee frame. The open position was long for EUR, CHF and GBP, and short for USD in 2023. With regard to the aggregate foreign exchange position, the strengthening of the HUF would increase the bank's profit. As for the USD position, a strengthening of the USD would have a negative impact on the Bank's earnings. The following table represents the Bank's foreign exchange position in which the effect of the currency hedging contract with the Hungarian State has been already adjusted.

2023	Absolute value	Net position
EUR	24 156	24 156
USD	7 401	(7 401)
Other currencies	35	35
Total	31 592	16 790

2022	Absolute value	Net position
EUR	16 311	16 311
USD	4 422	(4 422)
Other currencies	45	45
Total	20 778	11 934

According to the stress-tests, 10% change in HUF exchange rates in the worst direction would cause HUF 3 159 million decrease in the Bank's foreign exchange income and thus the own equity as well (2022: HUF 2 078 million).

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The Bank is exempted from keeping the trading book and does not take speculative positions due to a strategic decision. Accordingly, market risks (foreign exchange and interest rate) arise from the banking book, i.e., the normal operation of the bank (lending, raising funds). The Bank limits the amount of open foreign currency position and interest rate risk exposure by limits. Neither COVID-19 nor the related payment moratorium has an impact on the foreign exchange open position or the interest rate risk. The Bank closes the open foreign exchange position due to the possible increase in ECL due to COVID-19 with an appropriate market transaction. The Bank has set a limit of EUR 6 million for the foreign currency open position due to impairment/provision for foreign currency assets. If the amount of impairment/provision exceeds this limit, the Bank closes the position with a minimum of a market transaction equal to the amount of the overrun.

b) Foreign exchange risk analysis of financial assets and liabilities

2023	HUF	EUR	USD	Other currency	Total
Assets					
Cash, cash balances at central banks and other demand deposits	402 636	1 531	25	25	404 217
Financial assets held for trading	2 715	0	0	0	2 715
Non-trading financial assets mandatorily at fair value through profit or loss	545 845	93 877	0	0	639 722
Financial assets at fair value through other comprehensive income	74 905	16 077	335	0	91 317
Financial assets at amortized cost	1 281 648	566 991	22 130	0	1 870 769
Derivatives – Hedge accounting	7 831	0	0	0	7 831
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	11 550	0	0	11 550
Total financial assets (1)	2 315 581	690 025	22 490	25	3 028 121
Liabilities					
Financial liabilities held for trading	8 508	0	0	0	8 508
Financial liabilities at amortized cost	1 338 921	1 072 116	408 315	0	2 819 352
Derivatives – Hedge accounting	14 187	0	0	0	14 187
Total financial liabilities (2)	1 361 616	1 072 116	408 315	0	2 842 047
NET BALANCE SHEET POSITION (1) - (2)	953 965	(382 091)	(385 825)	25	186 074
Derivative notional amounts	(375 481)	(16 455)	382 554	0	(9 382)
NET FOREIGN EXCHANGE POSITION at 31 December	578 484	(398 546)	(3 271)	25	176 682
Impact of receivables from State due to currency-hedging agreement	0	375 275	0	0	375 275
ADJUSTED NET FOREIGN EXCHANGE POSITION at 31 December	578 484	(23 271)	(3 271)	25	551 967

The Bank manages foreign currency open positions (either short or long) within the strict limits approved by ALCO.

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(amounts presented are expressed in HUF million unless otherwise noted)

2022	HUF	EUR	USD	Other currency	Total
Assets					
Cash, cash balances at central banks and other demand deposits	98 623	319	16	43	99 001
Financial assets held for trading	2 454	0	0	0	2 454
Non-trading financial assets mandatorily at fair value through profit or loss	324 108	83 357	0	0	407 465
Financial assets at fair value through other comprehensive income	83 617	7 600	809	0	92 026
Financial assets at amortized cost	1 325 047	496 287	27 762	0	1 849 096
Derivatives – Hedge accounting	15 128	0	0	0	15 128
Total financial assets (1)	1 848 977	587 563	28 587	43	2 465 170
Liabilities					
Financial liabilities held for trading	4 062	0	0	0	4 062
Financial liabilities at amortized cost	1 130 451	1 106 890	20 465	9	2 257 815
Derivatives – Hedge accounting	0	0	0	0	0
Total financial liabilities (2)	1 134 513	1 106 890	20 465	9	2 261 877
NET BALANCE SHEET POSITION (1) - (2)	714 464	(519 327)	8 122	34	203 293
Derivative notional amounts	(94 861)	103 127	(9 514)	0	(1 248)
NET FOREIGN EXCHANGE POSITION at 31 December	619 603	(416 200)	(1 392)	34	202 045
Impact of receivables from State due to currency-hedging agreement	0	395 603	0	0	395 603
ADJUSTED NET FOREIGN EXCHANGE POSITION at 31 December	619 603	(20 597)	(1 392)	34	597 648

c) Principles of interest rate risk management

Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net interest income. Gaps in the value of assets, liabilities and off-balance sheet instruments that mature or reprice during a given period generate interest rate risk. The Bank gives special attention to the preventive management of interest rate risk. The Bank's objective is to harmonize loans and their resources already during the acquisition of funds regarding maturity, interest base and repricing periods to prevent significant repricing mismatches. The Bank does not undertake interest rate exposure for speculative purposes. If the interest of loans and fund of loans are in mismatches, the Bank concludes interest rate swap deals to ensure the proper closing of the position. Before signing an interest rate swap deal a detailed proposal is prepared for the Asset-Liability Committee which determines the parameters of the deal.

The analysis of interest rate risk exposure is prepared on a monthly basis. Regularly prepared reports in connection with interest rate risk management are the following:

- Repricing balance sheet concerning full-scale assets and liabilities.
- Calculation of BPV (Basis Point Value) and GAP
- Stress-tests on interest rate risk exposure.
- Stress-tests on the drastic changes of interest rates.
- Measurement of applied interest bases in case of interest bearing assets and liabilities.

d) Interest rate risk analysis

The interest rate risk analysis is presented only in relation to the Bank, as this risk is not relevant for the other members of the MFB Group.

The performed interest rate risk reports and stress-tests indicate that the Bank's exposure to interest rate risk according to market reference interest rates (EURIBOR, LIBOR, BUBOR) is low, greater changes in market rates - in any direction – do not cause great negative effect on the Bank's profit due to the repricing consonance.

According to stress-tests, 1% change in BUBOR and 0.25% change in EURIBOR and 0.25% in SOFR – at the same time and in the same direction - causes approximately HUF 1 945 million effect (2022: HUF 773 million), while 3% change in BUBOR and 1% change in EURIBOR and 1% in SOFR causes approximately HUF 5 287 million effect (2022: HUF 2 181 million) on the Bank's annual interest income (the effect is negative in case of interest rate increase, positive in case of interest rate decrease).

The Bank assess the possible effects of interest rate changes – considering different direction and degree – on the value of the Bank's portfolio and on the capital using BPV (basis point value) GAP on a monthly basis. A 200 basis point increase in interest rates on interest-bearing assets and liabilities would have the following effect on the value of the Bank's capital, adjusted by revaluation band:

31 December 2023									
	1-30 days	31-90 days	91 days - 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Total
HUF	154	689	(504)	137	1 107	5 017	4 272	(39 966)	(29 092)
EUR	(140)	352	2 868	7 521	7 905	5 520	27 534	(54 254)	(2 695)
USD	(66)	(15)	(17)	173	(80)	(82)	4	0	(82)

31 December 2022									
	1-30 days	31-90 days	91 days - 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	over 5 years	Total
HUF	159	47	380	(391)	342	(2 000)	3 938	(28 947)	(26 473)
EUR	(63)	(164)	2 431	4 013	12 834	11 780	2 568	(45 731)	(12 331)
USD	0	(9)	(16)	(51)	372	(113)	(103)	0	81

e) Market risk analysis

From market risk point of view, it is important that the Bank is not licensed for investment services, and does not undertake speculative positions. Trading position contains short-term government bonds and own foreign exchange exposures. The Bank is exempted from keeping a trading book and preparing reports.

The Bank performs VAR analysis for the FX position by its market risk management system. In the VAR calculations, the short government securities stock as well as the total open book foreign exchange position of the Bank are included. The VAR position calculated from the portfolio concerning 99% confidence level and 10 days holding period shows a low value, it was 0.07 % of the regulatory capital as at 31 December 2023 (2022: 0.12%). This means that the probability of a HUF 442 million losses in the Bank's FX position – concerning 10 days holding period – is only 1% as at 31 December 2023 (2022: HUF 720 million).

VAR position – 31 December 2023

Regulatory capital (million HUF): **626 713**

Absolute risk indicators	Interest	Foreign exchange	Diversification	Total	VAR expressed as a percentage of Regulatory capital
Net asset value	0	16 790	0	16 790	
Parametric VAR	0	442	0	442	0.07

VAR position – 31 December 2022

Regulatory capital (million HUF): **619 364**

Absolute risk indicators	Interest	Foreign exchange	Diversification	Total	VAR expressed as a percentage of Regulatory capital
Net asset value	19 908	11 935		31 843	
Parametric VAR	444	607	(331)	720	0.12

D. OPERATIONAL RISK

Operational risk refers to the probability of losses caused by inappropriately designed or incorrectly executed business processes, internal errors induced by people carelessly or deliberately, intentionally executed external attacks against banking systems or operational processes, inappropriate operating of IT infrastructure, effects of external environment. The operational risk loss data are presented in the consolidated financial statement on a Bank only basis as among the MFB Group members the Bank has a structured operational risk management framework that ensures systematic identification and assessment of operational risks, elaboration and implementation of measures for mitigation of such risks.

Framework of effective banking operational risk management is based on proper internal governance which ensures that risk management policies, internal regulatory documentation and systems remain effective in a constantly changing business and regulatory environment.

For the above reason the Bank builds its operational risk management activity on the following principles:

- Bank performs operational risk management in a decentralized way along central coordination. Operational risk management is coordinated by a designated colleague (OpRisk Coordinator) of

Strategic Risk Management Directorate within Risk Division; execution of operation risk management is responsibility of all areas of the Bank.

- Bank complies with the solvency capital requirement calculation concerning operational risk (CRR) by using basic indicator methodology. According to this method the capital requirement for operational risk is 15% of the CRR's benchmark indicator.
- Bank follows a comprehensive operational risk management approach:
 - Fully identifies and measures the risk elements inherent in the processes, systems, human activities and external environment (collection and analysis of loss data, based on the Operational Risk Management Regulations). Operational risk management also covers the core business of the bank and other (non-score banking) activities.
 - Process-focused, focusing on identifying losses and process efficiency improvement activity.
 - Methodology is proactive, collects potential risks as well not only already occurred and registered losses.
- Management of the Bank receives information on relevant operational risk management events in standalone form or as part of other management reports quarterly.
- The Bank provides education and training to all employees annually in order to improve risk awareness, general risk sensitivity and disseminate specific operational risk management knowledge.
- The framework provides a common model for group members (subsidiaries) in terms of definitions, identification, measurement, monitoring, management, and risk mitigation.
- Bank maintains a separate database about operational risks and losses, which enables to fulfil its internal and external obligations concerning identification, measurement, analysis, evaluation, management, reporting, monitoring and capital requirement calculation and supervisory reporting.
- Operational risk management responsibilities and related tasks are also reflected in the job descriptions of the OpRisk Coordinator and designated colleagues of all concerned areas of the Bank.

The Bank meets the solvency capital requirement for operational risks according to the basic indicator method, according to which the Bank's operational risk capital requirement was HUF 7 467 million on 31 December 2023 (2022: HUF 5 804 million). The Bank's operational risk losses are much lower than this on an annual basis. In 2023, the Bank incurred a gross operating risk loss of HUF 1.17 million (2022: HUF 2.49 million).

E. CAPITAL MANAGEMENT

According to Section 1 (7) of the HDB Law the Bank applies the regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR) in the respect of prudential requirements with the differences set out in HDB Law. The Bank's share capital must be at least HUF 100 billion according to the HDB Law. Among the Group members only the Bank falls under the CRR regulations. The HDB Law exempt the Group from consolidated supervision therefore consolidated adjusted capital and capital adequacy is not prepared. The data in this section is identical with the stand-alone Bank data.

In order to maintain its current solvency and to be able to meet its liabilities, the Bank must, at all times, have appropriate levels of primary core capital (i.e., Tier 1 capital: 4.5%), core capital (6.0%) and full regulatory capital (8.0%). Tier 1 capital has to contain the capital maintenance buffer (2.5%) mentioned in local Banking law. As of July 2022, the Bank was exempted from the internal capital adequacy assessment procedure prescribed in § 97 of the CCXXXVII Act of 2013 on credit institutions and financial enterprises based on § 8 (2) of the MFB Act. However the Bank determines the need for

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additional capital, which is a part of the internal capital adequacy assessment procedure, and presents it to its management bodies. The Bank meets the required capital requirements, so the capital position is considered stable.

According to the requirements of the CRR, credit institutions must have an adequate amount of own funds to cover the risk of the activity performed at all times in order to maintain their current solvency and meet their obligations. Together with the capital maintenance buffer, it must continuously maintain an adjusted core capital ratio of at least 7% and a total capital adequacy ratio of 10.5%, which the Bank continued to comply with in 2023 and 2022. Compliance with capital adequacy regulations is monitored by the National Bank of Hungary.

The Bank complied with the regulatory and prudential regulations and the limits. The capital adequacy ratio exceeded the minimum required ratio both in 2023 and in 2022. The Bank informs the Board of Directors quarterly about the activities and changes in the capital during the period. The regulatory capital is calculated and the compliance with limits is examined on a monthly basis.

	<u>2023</u>	<u>2022</u>
I. Calculation of Regulatory Capital		
Share capital	519 900	519 900
Share premium	81 870	81 870
Retained earnings	24 471	18 511
Accumulated other comprehensive income	(1 063)	(5 892)
General reserve	1 292	1 058
Net result for the year	2 345	6 194
Common equity Tier 1 capital before deduction	928 815	621 641
Total amount of deducted item		
Intangible assets	(2 102)	(2 277)
Common equity Tier 1 Capital (CET1)	626 713	619 364
Additional Tier1 Capital (AT1)	0	0
Tier 1 Capital (Tier1 or. T1)	626 713	619 364
General risk reserve	0	0
Tax impact of general risk reserve	0	0
Tier 2 Capital (T2)	0	0
Regulatory Capital (T1+T2)	626 713	619 364
II. Calculation of Capital Requirement		
Total capital requirement for credit risk	298 034	291 728
Total capital requirement for exchange rate risk	1 619	1 132
Total capital requirement for operating risk	7 467	5 804
Total capital requirement for credit valuation adjustment	2 642	505
Total Capital Requirement	309 762	299 169
Risk weighted exposure	3 872 025	3 739 608
III. Capital adequacy ratio	16.19%	16.56%

F. FAIR VALUE

In order to increase the consistency and comparability of the fair value measurement and related disclosures, IFRS 13 sets out a fair value hierarchy, categorizing the inputs applied at determination of the fair values into three levels.

The Group applies the following fair value hierarchy:

Level 1: The fair value of financial instruments is based on their quoted market price in active markets for identical instruments that are available for the Bank at the reporting date.

Level 2: The fair value of financial instruments is based on directly or indirectly observable data other than the quoted market price. The followings can be used for the valuation: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. Where discounted cash flow techniques are used, estimated future cash flows are based on the Bank's economic estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where valuation models are used, inputs are based on market related measures at the reporting date.

Level 3: The fair value of financial instruments is based on inputs other than observable market data. The valuation is based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group considers the fair value of its financial instruments to be level 1 if it was determined exclusively based on level 1 data. Level 2 category is applied when the measurement was based not only level 1 inputs, but no level 3 input, was required. When more fair values are available, the use of higher fair values hierarchy get priority, therefore if a security is primarily categorized as level 2 but level 1 data is also available the level 1 data will be applied automatically.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognized valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. For measuring derivatives both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) are taken into consideration when market participants would take this into consideration in pricing the derivatives.

Model inputs and values are calibrated against historical data and published forecasts and where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

The Group measures forward transactions (derivative transactions) and HUF loans to credit institutions at EURIBOR-based interest rates at fair value. As the Group does not provide investment services, it enters into forward transactions only with credit institution partners.

a) Financial instruments measured at fair value by the level of fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date by the level of the applied fair value hierarchy. The amounts are based on the values recognized in the statement of financial position.

	2023			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Derivatives		2 715		2 715
Non-trading financial assets mandatorily at fair value through profit or loss			639 722	639 722
Debt securities			603 156	603 156
Loans to customers			5 316	5 316
Loans to banks			31 250	31 250
Financial assets at fair value through other comprehensive income	51 054	24 928	15 335	91 317
Equity instruments		24 928	15 335	40 263
Debt instruments	51 054			51 054
Derivatives – Hedge accounting		7 831		7 831
FINANCIAL LIABILITIES				
Derivatives		8 508		8 508
Derivatives – Hedge accounting		14 187		14 187

	2022			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Derivatives		2 454		2 454
Non-trading financial assets mandatorily at fair value through profit or loss			407 465	407 465
<i>Debt securities</i>			369 647	369 647
<i>Loans to customers</i>			6 459	6 459
<i>Loans to banks</i>			31 359	31 359
Financial assets at fair value through other comprehensive income	60 537	17 694	13 795	92 026
Equity instruments		17 694	13 795	31 489
Debt instruments	60 537			60 537
Derivatives – Hedge accounting		15 128		15 128
FINANCIAL LIABILITIES				
Derivatives		4 062		4 062
Derivatives – Hedge accounting		0		0

The Bank uses the discounted future cash flows model for its derivatives that is adjusted by the credit risk of the counterparty (asset side) or the Bank's own credit risk (liability side). The fair value of derivatives in hedge accounting is also calculated by using the same method. The underlying transactions in hedge accounting, the hedged item, are not reclassified into a fair value category, but remain in the amortized cost category.

Assets included in the „mandatorily at fair value through profit or loss” category are those failed on the SPPI test established by IFRS 9. The fair value of these items is determined based on the Group’s internal model, which considers the value of future cash flows and expected market yield surcharge when discounting. The Group calculates the fair value of loans based on the discounted expected cash flow and discounts the contractual (capital, interest, interest subsidy) or individually determined future expected cash flows with the current yield curve or reference rate flat, increased by the product-level spread. In case of collective valuation, all contractual cash flows are considered and discounted. In case of individual valuation, the calculation includes the total expected cash flow. The fair value calculation is performed only for the already disbursed part, therefore the undrawn amount does not affect the fair value calculated. The main inputs used for venture capital investments in this category take into account the fair value of the net asset value to the Bank, adjusted for the maximized first yield guarantee. Venture capital fund units owned by the Bank are classified (determination of fair value) on a quarterly basis, in the initial phase of the capital funds, using the following methods. As the net asset value decreases in the years following the start-up of the equity fund due to the nature of the business and does not give an adequate picture of the potential of the investment, we assume that the entry value (cost) gives a good approximation of the fair value of the investment in the initial period. An alternative to determining fair value is the so-called plan performance model. The point is that it does not focus on an annual fact/fact-based assessment, but on a plan/fact-based assessment measured cumulatively from the start of the fund. The main parameters of the plan performance model are: fulfillment of placements, costs accounted for in the fund, expenses of financial operations / recognized impairment ratio, amount of exits, net asset value. Venture capital funds have no material liabilities and no other material assets.

For debt securities presented as financial instruments at fair value through other comprehensive income (formerly available for sale securities), the fair values are determined as the average of the best buy and sale price available publicly disclosed by Government debt management agency for the reporting date.

For the fair value determination of equity securities, the Group considers the expected return on the market, the marketability of the item, its mobilization (the supply and demand conditions and the available market prices, the proportion from the net equity of the investment) and the probability and magnitude of the loss.

There was no transfer among the different fair value hierarchy categories.

b) Movement of financial assets categorized into level 3

	2023			
	Customer loans	Loans to banks	Other equity instruments	Debt securities
Opening balance as at 1 January	6 459	31 359	13 795	369 647
New disbursements/acquisition/capital increases	1 797	1 864	1 009	215 053
Reclassification from Associates or to exempted associates			823	0
Sales	(26)	0	(88)	0
Repayments	(1 373)	(1 948)		
Profit or loss (fair value changes) during the year	(1 056)	(25)	(26)	18 456
Fair value changes during the year accounted into OCI			(464)	
Conversion from loans to other investments	(485)	0	286	0
Other reclassification	0	0	0	0
Transfers from/to level 3. hierarchy category	0	0	0	0
Closing balance at 31 December	5 316	31 250	15 335	603 156

	2022			
	Customer loans	Loans to banks	Other equity instruments	Debt securities
Opening balance as at 1 January	7 109	29 597	14 066	60 513
New disbursements/acquisition/capital increases	2 492	4 914	459	230 549
Reclassification from Associates or to exempted associates			(734)	68 457
Sales	0	0	(511)	0
Repayments	(1 267)	(2 964)		
Profit or loss (fair value changes) during the year	(627)	(93)	46	10 128
Fair value changes during the year accounted into OCI			60	
Conversion from loans to other investments	(1 343)	0	409	0
Other reclassification	95	(95)	0	0
Transfers from/to level 3. hierarchy category	0	0	0	0
Closing balance at 31 December	6 459	31 359	13 795	369 647

The Group used discounted cash flow model valuation technique to determine the fair value for customer and bank loans in level 3 category both as at 31 December 2023 and 2022. The significant unobservable inputs applied were the probability of default and the individual credit spread of the given customer, by the way they do not significantly affect the fair value measurement. For equity instruments the Group applied discounted cash flow model for the expected net cash flow derived from the entity.

Significant increase in any of the input parameters in isolation would result in lower fair values. In case of equity instruments increase in expected net cash flows would result in higher fair value.

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c) Financial instruments not measured at fair value by the level of fair value hierarchy

	2023				Carrying value
	Level 1	Level 2	Level 3	Total	
Cash, cash balances at central banks and other demand deposits		404 217		404 217	404 217
Financial asset at amortized cost	32 067		1 730 082	1 762 149	1 870 770
Debt securities	32 067		385 060	417 127	443 550
Hungarian government bonds	24 954			24 954	26 389
Corporate bonds			385 060	385 060	409 776
Mortgage bonds	7 113			7 113	7 385
Loans			1 294 511	1 294 511	1 376 709
Customer loans			1 220 968	1 220 968	1 298 418
General governments			68 404	68 404	64 609
Other financial corporations			297 438	297 438	303 990
Other non-financial corporations			735 501	735 501	791 450
Households			119 625	119 625	138 369
Loans to banks			73 543	73 543	78 291
Refinancing loans			0	0	0
Other loans			73 543	73 543	78 291
Other financial assets			23 510	23 510	23 510
Trade receivables			517	517	517
Margin accounts			22 993	22 993	22 993
Deposits at central and other banks			27 001	27 001	27 001
Central bank deposits			0	0	0
Other bank deposits			27 001	27 001	27 001
Financial liabilities at amortized cost		1 718 953	864 303	2 583 256	2 819 352
Customer deposits			101 304	101 304	110 936
Interbank deposits			37 358	37 358	37 365
Customer deposits (collateral behind loans)			16 965	16 965	26 321
Other customer deposits			46 981	46 981	47 250
Due from banks			750 940	750 940	933 853
Refinancing loans			146 850	146 850	201 519
Other loans taken			604 090	604 090	732 334
Debt securities issued		1 718 953		1 718 953	1 762 504
Listed HUF bonds		554 826		554 826	581 522
Listed CCY bonds		1 164 127		1 164 127	1 180 902
from this listed on foreign stock exchange		843 103		843 103	866 148
Other financial liabilities			12 059	12 059	12 059
Margin accounts			8 137	8 137	8 137
Creditors			2 522	2 522	2 522
Other financial liabilities			1 400	1 400	1 400

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	2022			
	Level 1	Level 2	Level 3	Carrying value
Cash, cash balances at central banks and other demand deposits		98 944		98 944
Financial asset at amortized cost	41 030	0	1 537 600	1 578 630
Debt securities	41 030		346 256	387 286
Hungarian government bonds	35 986			35 986
Corporate bonds			346 256	346 256
Mortgage bonds	5 044			5 044
Loans			1 160 197	1 160 197
Customer loans			1 093 419	1 093 419
General governments			49 661	49 661
Other financial corporations			243 737	243 737
Other non-financial corporations			699 340	699 340
Households			100 681	100 681
Loans to banks			66 778	66 778
Refinancing loans			345	345
Other loans			66 433	66 433
Other financial assets			4 322	4 322
Trade receivables			1 119	1 119
Margin accounts			3 203	3 203
Deposits at central and other banks			26 825	26 825
Central bank deposits			0	0
Other bank deposits			26 825	26 825
Financial liabilities at amortized cost		1 231 329	570 902	1 802 231
Customer deposits			41 055	41 055
Interbank deposits			23 849	23 849
Customer deposits (collateral behind loans)			12 615	12 615
Other customer deposits			4 591	4 591
Due from banks			510 021	510 021
Refinancing loans			140 787	140 787
Other loans taken			369 234	369 234
Debt securities issued		1 231 329		1 231 329
Listed HUF bonds		453 860		453 860
Listed CCY bonds		777 469		777 469
<i>from this listed on foreign stock exchange</i>		454 288		454 288
Other financial liabilities			19 826	19 826
Margin accounts			15 696	15 696
Creditors			2 244	2 244
Other financial liabilities			1 886	1 886

The fair value of cash and cash equivalents and demand and short-term bank deposits was considered to be equal to the carrying amount at the reporting date.

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on OTC trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

In case of purchased and issued debt securities measured at amortized cost, the fair value of the instrument is calculated based on the daily market closing rates available in the Inforex system. Where this information is not available, the securities are classified into level 2 or 3 fair value hierarchy and accordingly, discounted cash flow method is applied by using the current market yield curves. The fair

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value of issued bonds is determined based on data provided by market makers, however as there is no active market for these bonds therefore they were categorized into level 2.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

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37. OFFSETTINGS

The below tables include all repurchase agreements and all such derivatives where ISDA agreements allows the net settlements.

Financial assets subject to offsetting and potential offsetting agreements – 2023

	Gross carrying amount	Amounts set off against financial liabilities	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	10 546	0	10 546	(8 137)	0	0	2 409
Repurchase agreements	0	0	0	0	0	0	0
Total	10 546	0	10 546	(8 137)	0	0	2 409

Financial liabilities subject to offsetting and potential offsetting agreements - 2023

	Gross carrying amount	Amounts set off against financial assets	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral given	Non-cash financial collateral given	
Derivatives	22 695	0	22 695	(74)	0	0	22 621
Reverse repurchase agreements	0	0	0	0	0	0	0
Total	22 695	0	22 695	(74)	0	0	22 621

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Financial assets subject to offsetting and potential offsetting agreements - 2022

	Gross carrying amount	Amounts set off against financial liabilities	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	17 582	0	17 582	(15 696)	0	0	1 886
Repurchase agreements	0	0	0	0	0	0	0
Total	17 582	0	17 582	(15 696)	0	0	1 886

Financial liabilities subject to offsetting and potential offsetting agreements - 2022

	Gross carrying amount	Amounts set off against financial assets	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral given	Non-cash financial collateral given	
Derivatives	4 062	0	4 062	(3 203)	0	0	859
Reverse repurchase agreements	0	0	0	0	0	0	0
Total	4 062	0	4 062	(3 203)	0	0	859

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38. MATURITY TABLE

The following table shows the residual maturity breakdown of financial assets and liabilities. The guarantees were classified in the category „within a year”, irrespective of the actual maturity of the credit line holding period. The loan commitments were classified based on their actual maturity.

	2023			2022		
	Within a year	Over a year	Total	Within a year	Over a year	Total
Financial Assets						
Cash, cash balances at central banks and other demand deposits	404 217		404 217	99 001		99 001
Financial assets held for trading	2 715		2 715	2 454		2 454
Non-trading financial assets mandatorily at fair value through profit or loss	1 110	638 612	639 722	1 930	405 535	407 465
Financial assets at fair value through other comprehensive income	25 057	66 260	91 317	21 249	70 777	92 026
Financial assets at amortized cost	233 714	1 637 055	1 870 769	247 026	1 602 807	1 849 833
Derivatives – Hedge accounting	7 831		7 831	15 128		15 128
Total Financial Assets	674 644	2 341 927	3 016 571	386 788	2 079 119	2 465 907
Financial Liabilities						
Financial liabilities held for trading	8 508		8 508	4 062		4 062
Financial liabilities at amortized cost	607 563	2 211 789	2 819 352	458 491	1 799 324	2 257 815
Derivatives – Hedge accounting	14 187		14 187	0		0
Total Financial Liabilities	630 258	2 211 789	2 842 047	462 553	1 799 324	2 261 877
Guarantees	860 233		860 233	799 175		799 175
Capital commitments	145 348	8 584	153 932	154 205	56 733	210 938
Loan commitments	306 254	26 531	332 785	184 279	30 087	214 366

The Group manages liquidity risk through liquidity reserves (Central Bank eligible securities) and liquidity GAP limits. It provides timely renewal and replacement of expiring funds.

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39. EXERCISING OWNER'S RIGHTS

The Bank exercises the owner's rights in the name of the Hungarian State for state owned companies determined by the appendix 1. of the HDB Law and in venture capital funds determined by the decrees 8/2016. (IV.19.) and 64/2016. (XII.28.) of Ministry for National Development, furthermore 15/2022. (XII.6) of Ministry for Economic Development. Income and expenses arising from the management of State shares form the income and expenses, or financing income and expenses of the central budget. The Bank acts as an agent (not allowed to sell the entities and is not entitled for any dividend (unless has its own investment in the entity) in this relationship and received cost reimbursement from the State for fulfilling the owner's right activity till the end of 2022, from 2023 the amount received was nil (2022: HUF 5 million) presented on "Other operating income" line.

The companies and venture capital funds in which the Bank exercises the owner's rights at 31 December 2023 and 2022 are the following:

Name of the company / fund	Activity	State ownership		Share capital	
		2023	2022	2023	2022
ABC Kockázati Tőkealap	Venture capital fund		69.77%		4 300
AJH Növekedési Kockázati Tőkealap	Venture capital fund	69.99%	69.99%	4 286	4 286
Bonitás Kockázati Tőkealap	Venture capital fund	69.23%	69.23%	6 500	6 500
Bonitás Kockázati Tőkealap II	Venture capital fund	76.87%	76.87%	12 158	12 158
Capitalisatio Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Conor Seed Capital Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	2 150	2 150
Core Venture Közös Magvető Kockázati Tőkealap	Venture capital fund	69.93%	69.93%	1 319	1 319
Core Venture Közös Növekedési Kockázati Tőkealap	Venture capital fund	69.93%	69.93%	4 290	4 290
DBH Investment Kockázati Tőkealap	Venture capital fund		70.00%		5 000
Diákhitel Központ Zártkörűen Működő Részvénytársaság	Crediting	100.00%	100.00%	300	300
Finatech I. Kockázati Tőkealap	Venture capital fund		69.96%		4 288
Finatech II. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Forte Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	3 617	3 857
GRAN III. Kockázati Tőkealap	Venture capital fund	74.03%	74.03%	6 931	6 931
Kutatás-fejlesztési és Innovációs Állami Tőkealap	Venture capital fund	100.00%	100.00%	30 000	30 000
Infokommunikációs Állami Tőkealap	Venture capital fund	100.00%	100.00%	6 075	6 075
Innovation Europe Agrár Innovációs Magántőkealap (former Green Europe Agrár Tőkealap)	Capital fund	74.00%	74.00%	112 879	112 879
Morando Kockázati Tőkealap	Venture capital fund	69.94%	69.94%	6 506	6 506
OTP Kockázati Tőkealap I.	Venture capital fund	55.88%	55.88%	6 800	6 800
PBG FMC Tőkealap	Venture capital fund	69.77%	69.77%	4 300	4 300
Perion 2013. Kockázati Tőkealap	Venture capital fund	68.00%	68.00%	3 884	3 884
Prosperitás Profit Közös Növekedési Kockázati Tőkealap	Venture capital fund	69.98%	69.98%	6 430	6 430

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Name of the company / fund	Activity	State ownership		Share capital	
		2023	2022	2023	2022
Prosperitás Proseed Közös Magvető Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	2 150	2 150
Regionális Fejlesztési Holding Zártkörűen Működő Részvénytársaság	Economy development activities	100.00%	100.00%	23 842	23 842
Solus I. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Solus II. Kockázati Tőkealap	Venture capital fund	87.51%	87.51%	8 010	8 010
Takarék Kockázati Tőkealap I.	Venture capital fund	76.92%	76.92%	12 150	12 150
Üzleti Infokommunikációs, Digitalizációs Tőkealap	Venture capital fund	100.00%	100.00%	9 346	9 346
Valor Capital Közös Zártvégű Kockázati Tőkealap	Venture capital fund	69.99%	69.99%	2 934	2 934
Venturio 2013. Kockázati Tőkealap	Venture capital fund	68.00%	68.00%	4 411	4 411
X-VENTURES ALPHA I. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	2 492	2 492
X-Ventures Béta Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	3 280	3 280
Vespucci Capital I. Kockázati Tőkealap (former X-Ventures Delta Kockázati Tőkealap)	Venture capital fund	70.00%	70.00%	13 351	13 351
X-Ventures Gamma Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351

40. EVENTS AFTER THE REPORTING PERIOD

In line with the transformation concept - relating to the private equity funds that is extremely important both for economy development and for governmental purposes - that had been coordinated by the Nemzeti Tőkeholding Zrt. (National Capital Holding) above whom Ministry for National Economy (NGM) exercises the shareholders rights directly, NGM has issued a shareholder's resolution number 4/2024. (II.19.) that the management of MFB Corporate Investment and Transaction Private Equity Fund (founded 100% by MFB) has to be taken over from Hiventures Zrt. that is a part of the MFB Group to Focus Ventures Zrt. belongs 100% of National Capital Holding. The date of the shareholder's resolution was 19 February 2024, the takeover anticipated in the first quarter of 2004. This will result that the status of the MFB Corporate Investment and Transaction Private Equity Fund will change from subsidiary to associated company.

MFB Invest Zrt. owns 24.26% share and voting rights in SajóSolar Villamosenergetikai Kft on 31 December 2023. SajóSolar Villamosenergetikai Kft. had a call option and a right to nominate a buyer, that were exercised after the balance sheet date. As a result of that the investment of MFB Invest Zrt. was closed on 13 February 2024 and consequently the associated company status of SajóSolar Kft. was ceased.

**MFB Hungarian Development Bank Private Limited Company's
annual consolidated management report for 2023**

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Executive summary

The MFB Hungarian Development Bank Private Limited Company (hereinafter: MFB Zrt., MFB, Bank) has prepared its management report containing consolidated data for 2023 in accordance with Act CXX of 2001 on the Capital Market and Decree 24/2008. (VIII. 15.) of the Ministry of Finance on the detailed rules of reporting on publicly traded securities.

The purpose of the report is to allow MFB Zrt.'s governing bodies to learn the details of the operations and business processes of the Bank and its subsidiaries ("Group" or "MFB Group") in the reporting period, and, based on balance sheet and income statement data, to gain an accurate picture of the Group's financial management in 2023.

MFB Zrt.'s performance in 2023 was shaped by the goal of re-launching the economy, and creating and promoting the growth of sustainable activity, which was made more difficult to achieve by the general economic crisis that accompanied the prolongation of the war between Russia and Ukraine. In Hungary, the recession and high inflation during 2023 kept lending rates high, making domestic companies to be less able or willing to borrow. This is also confirmed by the MFB's company questionnaire surveys (MFB-INDIKÁTOR): by autumn 2023 the share of firms planning to raise some kind of external financing in the next 12 months fell from 23% in the previous year to 21%.

Despite this, the Bank continued to make new loan and capital placements in 2023 in an outstanding volume of over HUF 1,000 billion, following new commitments and new placements of nearly HUF 1,240 billion in the previous year.

In 2023, businesses continued to benefit from a number of own and EU-sourced MFB loan and capital programmes, individual loans and bonds, as well as guarantees complementing the lending activities, in order to fulfil their investment and working capital requirements, to address liquidity problems and ultimately to help the economy restart and regain stability.

In 2023 the group-level balance sheet total amounted to HUF 3,605 billion, which is 20% more than the 2022 figure. During the year, the increased balance sheet total was mainly due to an increase in lending activity, as well as capital placements and subscriptions for investment units, which can be attributed to the activities of MFB, the parent company.

The Bank financed its business activity in the reporting year through new bond issues, both domestically and internationally, and short and medium-term borrowing. MFB did not receive any capital contribution from its owner in the year under review; its total capital adequacy ratio fell to 16.19% by the end of 2023.

The deterioration of the economic environment due to the economic stagnation accompanying a high inflation environment had a negative impact on businesses, requiring the Bank to continue to make high provisions in 2023, although MFB's profit after tax is still positive. This was mainly due to higher dividend income compared to the previous year and accounting gain on market funds measured at fair value. Taking into account the changes due to consolidation, MFB's consolidated profit after tax for 2023 increased to HUF 28,617 million, which is mainly related to the results of associates in 2023.

In summary, MFB group had another successful year in 2023. Business activity continued to show growth, with MFB group being available to businesses with loan, capital and guarantee products; meanwhile, had a result exceeding that of the previous year.

1. Operating conditions

Macroeconomic factors

In the first three quarters of 2023 the Hungarian economy saw a 10.6% drop in the volume of capital investment year-on-year. While investment in machinery and equipment rose by 7.5%, construction projects, which are more dependent on EU funds, fell by 20.8%. Investment in manufacturing, the largest contributor, was up 9.6% in the first three quarters of 2023 (y/y), while most of the branches of the services sector saw year-on-year declines, with only administrative and support service activities (+3.7%) and financial and insurance activities (+13.4%) showing year-on-year growth, but the main reason for the increase was the low base in these sectors, too.

Gross corporate loans of the credit institutions (HUF 12,368 billion in November 2023) increased by 2.5% (+HUF +300 billion) in the first eleven months of 2023, which was significantly lower than the growth rate in the same period of 2022 (+18%). The increase was due to cheaper foreign currency loans (+HUF +577 billion), while the volume of forint loans decreased by HUF 376 billion.

In October 2023, the MNB's Monetary Council decided to implement monetary easing, and the base rate, which had been kept at 13.00% for 13 months, was cut to 10.75% in 75-basis-point-steps by the end of the year.

Legislative changes with a significant bearing on the operations of the MFB Group

The table below shows the year-end utilisation of the state guarantee and interest subsidy facilities approved for the Bank under Act XXV of 2022 on the Central Budget of Hungary for 2023 and under the provisions of Government Decree 158/2023 (IV.28.) on the different rules of Act XXV of 2022 on the Central Budget of Hungary for 2023 during the emergency period, in force since 3 November 2023:

data in HUF million	Limit	Drawn down	Available
Fundraising limit	3,500,000	2,741,349	758,651
Loan financing, surety and guarantee limit	1,700,000	1,183,886	516,114
Exchange rate hedging agreement limit	2,000,000	1,477,809	522,191
Interest subsidy limit	700,000	58,504	641,496

Among the legislative changes affecting MFB Zrt. in 2023, the amendments to Act XX of 2001 on the MFB Hungarian Development Bank Private Limited Company (hereinafter: **MFB Act**) effective from 30 November 2023 and 12 December 2023 deserve to be highlighted¹, which, among other things, will promote the expansion of MFB Zrt.'s scope of activities. In addition, the extraordinary legislation on the emergency situation(s) ordered by the Government (including in particular the provisions concerning the agri-loan moratorium and the freeze on reference and default interest rates) also affected the activity of MFB Zrt.

Founder's Resolutions

The Minister for Economic Development (Minister for National Economy with effect from 1 January 2024), who exercises shareholder rights over the Bank, has taken a number of important decisions concerning the Bank's operations. In the year 2023, the majority of the Founders' Resolutions adopted in 2023 by the founders – acting within the scope of their duties and powers as defined in the Articles of Association – were related to the taking of business decisions, specifying deadlines for their completion and describing the method for verifying their implementation, as well as the recall and election of executive officers.

¹ The Government has designated MFB Zrt. to implement the funds disbursed from the financial instruments of the 2014-2020 programming period and repaid by the final recipients, on the one hand, and the financial instrument provided for in the Government Decree 373/2022 (IX. 30.) on the basic rules and responsible institutions for the implementation of Hungary's Recovery and Resilience Plan, on the other hand. Since the above programmes are not 'operational' programmes, it was necessary to amend Article 3(3) of the MFB Act, as well as to supplement Article 2(h) of the MFB Act.

Given that the implementing of financial instruments is governed in part by public law, the regulation clarified MFB Zrt.'s locus standi with regard to the enforcement of claims.

The amendment allows MFB Zrt. to take over receivables and loan portfolios, provided that this is done for loss mitigation purposes.

The amendment clarifies that, when raising foreign currency funds with a maturity of more than one year, MFB Zrt. has an obligation to liaise and provide information prior to raising the funds, in particular with regard to the upper limit of the state payment guarantee set by the Budget Act in effect. The amendment also makes it possible for the Student Loan Company (Diákhitel Zrt.) to outsource its activities to MFB Zrt. going forward.

The amendment clarifies the content of the existing provision on the formation of client groups. The amendment clarifies the exception rule relating to the need for supervisory approval for the election or appointment of the executive officer/managing director of financial institutions directly or indirectly owned by MFB Zrt. and of institutions over which MFB Zrt. can exercise ownership rights.

2. Business events in 2023

MFB is the lead credit institution of a company group in long-term state ownership that provides a complex range of services. The core of the companies included in the scope of consolidation consists of MFB's strategic investments. The MFB Group (excluding MFB) included 7 companies or capital funds at the end of 2023.

The combined (pre-consolidation) net earnings of the MFB Group in 2023 (without MFB) was a profit of HUF 9,680 million. The largest profit in 2023 was also achieved by MKK Zrt., which had an annual profit of HUF 13,323 million on an IFRS basis. The main reason for the higher consolidated profit compared to the previous year is that the Company reversed a significant amount of impairment loss in respect of its receivables in 2023.

The individual companies' net earnings for the year, recognised for the purposes of consolidation and before adjustments, were as follows:

<i>HUF million</i>	2023	2022	Change
MKK Magyar Követeléskezelő Zrt. (IFRS)	13,323	5,547	7,776
MFB Ingatlanfejlesztő Zrt. (HAS)	1,757	1,118	638
MFB Invest Befektetési és Vagyonkezelő Zrt. (HAS)	686	46	640
Hiventures Kockázati Tőkealap-kezelő Zrt. (HAS)	591	422	169
MFB Growth Capital Fund (HAS)	-4,161	-2,369	-1,792
Fashion & Design Capital Fund (HAS)	-656	-190	-466
Debrecen City Capital Fund (HAS)*	-16	-276	260
Székesfehérvár City Capital Fund (HAS)*	-9	-135	125
Kaposvár City Capital Fund (HAS)*	-6	-91	85
Nyíregyháza City Capital Fund (HAS)*	-9	-110	102
Pécs City Capital Fund (HAS)*	-6	-48	43
Veszprém City Capital Fund (HAS)*	-6	-84	79
Rural Development Capital Fund (HAS)*	-3	0	-3
Focus Ventures Zrt. (MFB Invest Tőkealap-kezelő Zrt.) (HAS)**	44	156	-113
MFB Corporate Investment and Transaction Private Equity Fund (HAS)	-1,849	-1,612	-237
Total	9,680	2,374	7,307

* Included in the scope of consolidation until 31 January 2023

** Included in the scope of consolidation until 31 October 2023

The core activities of the companies differ, and so we have highlighted the key aspects of the operations of the various members of the MFB Group individually below.

2.1. MFB Hungarian Development Bank Private Limited Company

MFB was the dominant institution within the MFB Group in terms of both capitalisation and total assets.

Business processes

Lending, new guarantees

In 2023 the Bank **approved loan applications in a total value of HUF 276.7 billion**, of which HUF 235.9 billion were loan applications approved for large individual transactions and HUF 40.8 billion for loan programmes.

In 2023, **new loan disbursements and corporate bond subscriptions amounted to HUF 249 billion**; at the end of the year, the Bank's total loans and corporate bond² portfolio amounted to HUF 1,761 billion, up HUF 8 billion on year-end 2022 levels.

In 2023 the Bank granted its customers **new guarantees and guarantee limits of HUF 98 billion**; the year-end stock of guarantees and guarantee limits exceeded HUF 860 billion.

Equity interests

In 2023 MFB's subscriptions of investment units in the various capital funds and thus its support for the capital placements made through these funds continued to be heavily represented among its direct investments.

The main elements of **capital increases in its own businesses and investment unit subscription commitments** were the following:

- Subscription of investment units of MFB-funded Crisis capital funds.
- Subscription, and commitments to subscribe, for capital fund units under the Gábor Baross Capital Programme.
- Fulfilment of commitments previously made under MFB capital funds managed by Hiventures.
- Commitment to increase capital and execute capital placements to finance the activities of MFB Invest Zrt.

The Bank's net **equity interests portfolio grew by HUF 282 billion in 2023³**, to HUF 1,037 billion, actual capital placements and investment-unit subscriptions amounted to HUF 289 billion in 2023.

EU funds management

MFB was a funds management entity in the 2007-2013 programming period, and acts as the Fund of Funds implementing entity for the 2014-2020 European Union programming period; it disposes over the available funds in its own name, but for the benefit of the Managing Authorities. Consequently, it maintains separate records of the funds of programming periods; these do not form part of the Bank's balance sheet.

² This includes the aggregate value of the 'Loans' line in the balance sheet, and, in the case of corporate bonds, bonds issued by businesses and domestic credit institutions, debenture bonds of domestic credit institutions, and other financial intermediaries' bonds, included in Credit Securities under 'Financial assets measured at fair value through other comprehensive income' and 'Financial assets measured at amortised cost'.

³ Also presented in this part of the balance sheet are the capital fund units recognised among *Non-trading financial instruments mandatorily measured at fair value through profit or loss*. The volume amount is consistent with the balance sheet numbers in section V of the report; the balance sheet is presented in detail in that section.

The MFB Points network achieved a loan disbursement volume of HUF 305.03 billion in 2023. The total of EU loans disbursed by the nationwide MFB Points network operated by the domestic banks (Takarékbank Zrt., MKB Bank Nyrt. and Budapest Bank Zrt. – following the merger on 31 March 2023, this group of banks also includes Magyar Bankholding Zrt., as well as OTP Bank Nyrt. and Gránit Bank Zrt., with effect from 1 May 2023) exceeded HUF 1,011 billion in the period from its launch in 2016 to the end of 2023.

In 2023 the Bank **disbursed EU funds totalling HUF 317.29 billion** through intermediaries, including loans of HUF 305.03 billion and venture capital of HUF 12.26 billion. MFB Zrt.'s direct EU lending amounted to HUF 172 million. The total disbursement was thus amounted to HUF 317.46 billion.

Resource management

In 2023, MFB Zrt. raised medium and long-term external funds in the amount of HUF 977.9 billion. In terms of currency, the US dollar accounted for 40.0%, the euro for 26.2% and the forint for 33.8% of the funds. International bonds represented 40.0%, domestic bonds 36.3% and bilateral bank loans 23.7% of the funds raised.

Financial management

The Bank's **net interest income** (HUF 13,701 million) was **down on the previous year's level** due to the repricing of existing loans and the high interest expenses of newly raised funds. Net fee and commission income (HUF 4,485 million) came in higher than the previous year's figure due to a larger guarantee portfolio, and dividend income (HUF 8,019 million) was also significantly higher than in 2022.

During the year, the modelled accounting gain on market funds measured at fair value (HUF 22,234 million) was some of the larger items.

The **expenses of banking operations** (HUF 15,061 million) increased by 9.7% in 2023, in line with the increase in business activity and due to the impact of inflation, but still well below the annual average inflation rate.

The effect on profit of **changes in impairment/provisions** is lower (HUF 21,918 million) than in 2022, despite the impact of the prolonged economic crisis.

The Bank spent HUF 1,914 million on **bank-operation investments** in 2023. These capital investments were aimed at ensuring the necessary infrastructure, implementing developments required for performing the requisite range of tasks, and at replacing obsolete equipment.

Summary

The Bank's activities in 2023 were largely determined by its response to the emerging overall economic crisis, and the measures taken to maintain economic stability and to re-launch the economy. In 2023, the Bank provided significant funds to businesses to mitigate the economic damage and to expand investments to support economic growth. Accordingly, the **balance sheet total increased** in line with the expansion of the loan, corporate bond and investment portfolio. In addition, one of the key goals of the Bank in 2023 was to ensure the optimal and rational use of state assets, and in 2023 the Bank realised a **profit after tax of HUF 2.3 billion**.

2023 was the second year of implementation of the Bank's new medium-term strategy for 2022-2030. In the medium-term strategy, the Bank anticipated new commitments of HUF 1,600 billion up to 2025 and a further commitment of HUF 3,600 billion between 2025 and 2030. The commitment to be met by 2025 was already fulfilled by the Bank by the end of 2023.

Based on MFB's latest company questionnaire survey (MFB-INDIKÁTOR) conducted at the end of 2023, the Hungarian economy has an unmet lending gap of around HUF 520 billion (including investment loans, working capital loans and overdraft facilities). The size of the gap measured in the investment credit market, which is a priority area for monitoring, is estimated at HUF 400 billion, the gradual filling of which is a justifiable task, in line with EU principles as well.

2.2. Activities of the main companies included in the scope of consolidation

As of 31 December 2023, the key information relating to the subsidiaries included in the scope of consolidation was as follows:

MKK Magyar Követeléskezelő Zrt.

The management of retail-customer debt and of other, proprietary receivables continues to be predominant within the Company's business activity, and within this, its main activities include the management of tax and contribution claims purchased from the tax authority (in a decreasing extent in line with the depletion of the portfolio), workout activity, brokerage activity and factoring.

The Company's operations continued undisturbed in 2023 and its liquidity position remained stable. It also retained its market presence and share during the year. In 2023, the company continued to purchase secured and unsecured claims and to manage Széchenyi credit card type receivables.

In 2023, the bank derived the majority of its revenues from its core business, in particular yields on and revenues from secured and unsecured individual claims.

MKK Zrt.'s after-tax profit for the year 2023 under IFRS is HUF 13,323 million.

MFB Invest Befektetési és Vagyonkezelő Zrt.

The company's activities include the financing of development projects for medium and large companies. It carries out its activities directly, through individual investments, or indirectly, through investments in capital funds. In accordance with Government Decision 1512/2022 (X.24.) on the restructuring of the operating structure of state-backed capital funds, NTH Nemzeti Tőkeholding Zártkörűen Működő Részvénytársaság, designated as the central actor of the new structure, acquired ownership interest in MFB Invest Zrt. by acquiring 1 preference share in December 2022. According to the new operating model, from 2023 onwards, MFB Invest Zrt. will exercise the investor rights related to the investment units owned by the Bank (among other tasks) and will liaise with the actors involved in state-owned capital funds, based on an agreement with the Bank.

The company's placements amounted to HUF 51,895 million in 2023, as a result of which net long-term (invested) assets increased by HUF 193,158 million, or more than 33%, compared to 2022. Within the placements of 2023, a significant portion is accounted for by investments in capital funds managed by market-based fund managers as part of its fund-of-funds activity (HUF 44,367 million – 87% of the placements of the reporting year). The Company participated as an investor in the creation of a number of new capital funds implemented by external fund managers in 2023, where the resources provided by MFB Invest Zrt. were supplemented with market-based funding, thus providing a more substantial financing opportunity for businesses implementing developments – typically SMEs.

The company's after-tax profit for 2023 is HUF 686 million.

Hiventures Kockázati Tőkealap-kezelő Zrt.

The main objective of the strategy adopted by the MFB Group member Hiventures Kockázati Tőkealap-kezelő Zrt. for 2017-2021 was to build a venture capital fund management company that is able to provide venture capital investment from the incubation to the growth phase, using EU funds and MFB Zrt.'s own resources, thus contributing to the long-term growth of the

national economy. Over the years, the Fund Manager's activities have expanded significantly, first opening up to the traditional SME sector, then to large corporates, in the equity financing sector, helping to alleviate the shortage of private equity in the business sector compared to the EU average. In the wake of the COVID-19 crisis, to the provision of rescue financing to distressed economic operators. Hiventures Zrt., operating as a subsidiary of MFB Invest Zrt., is responsible for the management of the MFB Growth Capital Fund and the MFB Corporate, Investment and Transaction Private Equity Fund created through direct investment by the Bank, the Fashion&Design Capital Fund created through investment by MFB Invest Zrt., the EU capital funds (the State Capital Fund for Research, Development and Innovation – KFI, the Information and Communication Capital Fund – IKT, and the Digitalisation Capital Fund – DTA), as well as the Central Asia Private Equity Fund, the Hungarian-American Private Equity Fund and the Investment Development Private Equity Fund.

In 2023, the company's fee income increased due to the growing volume of the managed portfolio, while its operating expenses were at the same level as in 2022, resulting in an after-tax profit of HUF 591 million.

MFB Corporate Investment and Transaction Private Equity Fund

The MFB VBTMA fund has share capital of HUF 75 billion, and the following target markets can be considered as the target group:

- (i) Generational change – to provide an opportunity to ensure that family businesses affected by generational change, but which cannot be resolved by succession within the family, are sold in an orderly manner to the management of the company concerned or to external managements or investors, while preserving the viability of these companies.
- (ii) Transaction focus – to provide the opportunity to be an investment partner in corporate and real estate transactions, thereby facilitating acquisitions, successful corporate mergers or real estate transactions that substantially contribute to the domestic growth and the expansion of businesses – SMEs and large companies – abroad.
- (iii) Economic development – to provide capital financing for investments that, for whatever reason, cannot be financed solely through equity and debt, but are important from the aspect of the domestic economy (e.g. climate change, health, green energy, digitalisation, infrastructure).
- (iv) Restructuring – to provide equity financing to businesses – SMEs and large companies – that were previously prospering but are now temporarily in financial difficulty, in order to help them get back on a growth path.
- (v) SME and Company Rescue Capital Programme – to provide rapid (within 30 days) capital financing to businesses that are experiencing financial difficulties as a result of the economic situation caused by the coronavirus, but are essentially profitable and viable firms with insufficient or no access to loan or other financing.

As from October 2022, the previously established KKVPRO and InvestPRO businesses have been merged.

The loss of the Private Capital Fund in 2023 was HUF 1,849 million.

Fashion & Design Capital Fund

The aim of the Fashion & Design Capital Fund, which was launched in September 2019 with funding of HUF 5 billion, is to finance start-ups or young innovative companies with high growth potential in the fashion and design sector that, through the capital support, can create innovative products or services by implementing their ideas and refining prototypes that can then be taken to the international market. Through the new fund, the Hungarian economy and Hiventures will open up towards an industry in which there are substantial opportunities for

innovation and digital transformation, as well as for launching new clothing products and fashion accessories. To this end, as a first step, Hiventures entered into a strategic cooperation agreement with the Hungarian Fashion & Design Agency in 2019.

MFB Invest Zrt. increased the share capital of the Divat&Design Capital Fund by HUF 2,923 million on 27 December 2023.

The loss of the Capital Fund in 2023 was HUF 656 million.

MFB Growth Capital Fund

In terms of development stages, the Capital Fund finances micro, small and medium-sized enterprises (and in some cases, large companies) that are at the start of the development and financing chain.

Hiventures can make investments in three main phases within this framework, namely:

- pre-seed investments: the pre-seed phase is where visions at the idea stage are given business substance, and the idea owners are prepared to raise capital later;
- seed investments: the seed phase is where a significant part of product development takes place and, in some cases, where market validation begins; and
- growth investments: this is the stage when a product is launched to the market or its sales are increased, or new markets are entered.

In terms of investment focus, the MFB Growth Capital Fund takes an industry-flexible approach and thus has a broad industry focus, primarily aiming to build a portfolio of companies that mainly develop and sell innovative products and services. In terms of geographical focus, all regions of Hungary are eligible for funding, with the proviso that, in the case of investment in a foreign-based company, the resources made available must be used or benefited from domestically.

The loss of the Capital Fund in 2023 was HUF 4,161 million.

MFB-Ingatlanfejlesztő Zrt.

During the reporting period, the Company operated as the real estate competence centre of the MFB Group. As part of this, it performed the banking group's property management, development, utilisation and sales tasks, but under its new strategy from 2022, it also completed market-based purchases of properties that were consistent with its existing activities and portfolio (e.g. office buildings), which allowed it to stabilise its profit-generating capacity.

In 2023, the company continued to perform facilities management and utilisation tasks in respect of the properties taken over from the members of the MFB Group and those in its portfolio.

The Company's after-tax profit for the year 2023 was a profit of HUF 1,757 million.

2.3. Key features of the internal audit and risk management systems of the corporate group

According to Section 134 (3) of the Accounting Act relating to consolidated management reports, if the negotiable securities of a company included in consolidation have been admitted for trading on a regulated market of any country of the European Economic Area, it must include in the consolidated management report a description of the main features of the corporate group's internal audit and risk management systems in connection with the preparation of the consolidated annual accounts.

Given the fact that the bonds issued by MFB Hungarian Development Bank Private Limited Company had been admitted for trading on the Stock Exchange, we present below the main features of the corporate group's internal audit and risk management systems in connection with the preparation of the consolidated annual accounts:

- MFB's companies included in the consolidation circle are consolidated on the basis of reporting packages containing Hungarian annual accounts and IFRS adjustments audited by independent statutory auditors and, in the case of subsidiaries newly added to the consolidation circle, on the basis of a "purchase price allocation" (PPA) valuation prepared by an independent consultancy firm.
- In its consolidation accounting policy, MFB specifies the deadlines and the contents of the consolidation data reports.
- MFB decides on the business policy and business plans of the companies belonging to the MFB Group, and approves the founder's resolutions and general meeting mandates relating to these companies, including the election of the senior executives, supervisory board members, and the companies' chief executive officers.
- MFB delegates a representative to the Supervisory Board and Board of Directors of all the consolidated companies.
- MFB's Internal Audit Directorate may audit the members of MFB Group on the basis of the annual audit plan approved by MFB's Supervisory Board. In order to ensure the consistent quality of internal audit within the Group, the Bank applies a group-wide policy that sets out the internal control processes and the methodologies to be applied, and assures the independence of the internal audit function within the organisation.
- In accordance with Section 8 (2) of the MFB Act, MFB is exempt from the requirements relating to consolidated supervision. At the same time, MFB lays down, in Board directives, specific rules on group-level risk taking, which contain guidance for the risk management activities of the MFB Group in respect of lending, market and operational risk. The members of the MFB Group have integrated the provisions of the group-level rules into their own regulations.
- MFB exercises monitoring activity in respect of the members of the MFB Group through monthly and quarterly reporting.

The risk management policy of the MFB Group, the hedging policy, and the price, credit, interest rate, liquidity and cash flow risks are described in detail in Note 36 of the consolidated statements.

3. Main features of the consolidated accounts

MFB's consolidated annual accounts for the year 2023 contain the following key data in accordance with international accounting standards:

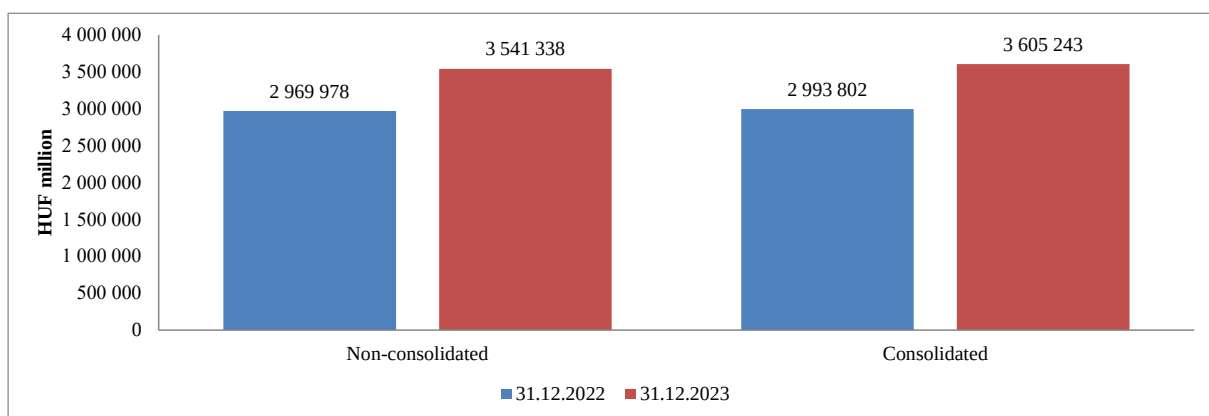
- The consolidated balance sheet total was HUF 3,605,243 million as at 31 December 2023.
- The value of consolidated shareholders' equity amounted to HUF 724,393 million at the end of 2023.
- Consolidated net profit for the year 2023 was HUF 31,360 million.

The explanations for the significant quantifiable features of the consolidated accounts are as follows:

3.1. Balance sheet total

The change in the balance sheet total under international accounting standards was the following:

Balance sheet total (IFRS)



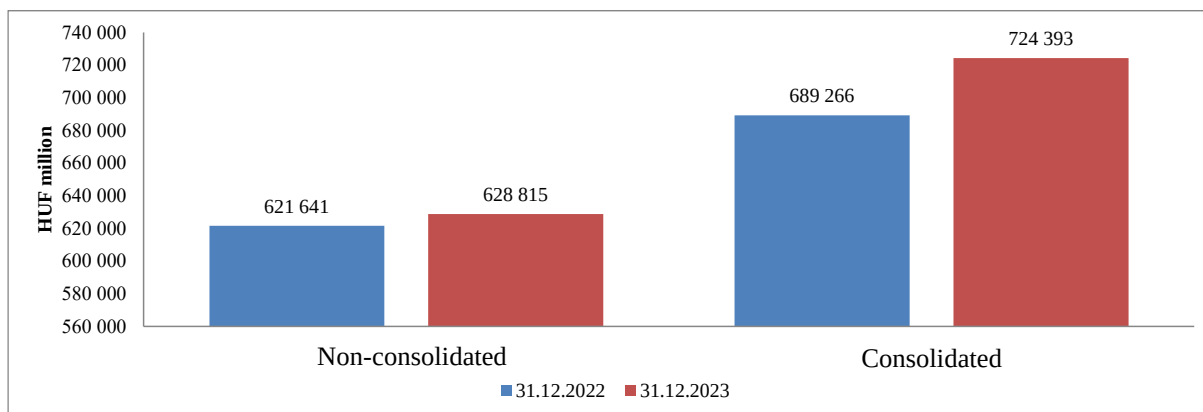
In 2023 the group-level balance sheet total amounted to HUF 3,605 billion, which is 20% more than the 2022 figure. During the year, the increased balance sheet total was mainly due to an increase in lending activity, as well as capital placements and subscriptions for investment units, which can be attributed to the activities of MFB, the parent company.

MFB's HUF 3,541 billion balance sheet total represents 98% of the group's balance sheet total.

3.2. Shareholders' equity

The capitalisation of the group provides sufficient funding for operations and assures the secure discharge of tasks. The value of, and the annual change in, shareholders' equity according to international accounting standards was as follows:

Shareholders' equity (IFRS)



The primary reason for the increase in consolidated shareholders' equity in 2023 is the increase in the retained earnings portion of the shareholder's equity due to the significant amount of consolidated profit in 2023.

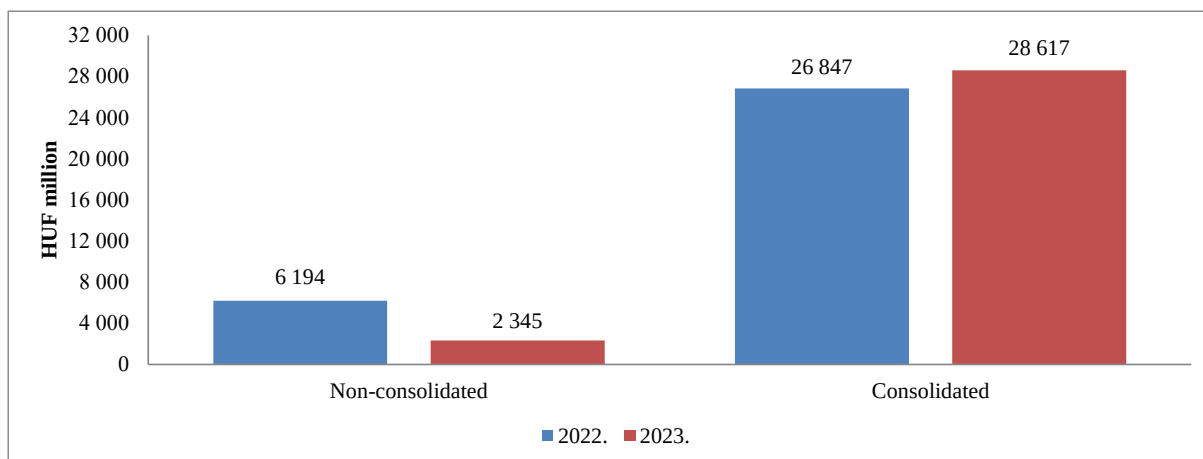
3.3. Net profit

MFB's non-consolidated 2023 profit after tax for the year under international accounting standards was HUF 2,345 million. Taking into account the changes due to consolidation, MFB's consolidated profit after tax for 2023 increased to HUF 28,617 million, which is mainly related to the results of associates in 2023.

The diagram below shows the changes in the stand-alone and consolidated profit figures (IFRS):

	2022	2023	Change
Stand-alone profit for the year	6,194	2 345	-3 850
Consolidated profit for the year	26,847	28 617	1 770
- of which: Profit attributable to the shareholder	26,847	28 617	1 770
- of which: Earnings attributable to minority interests	0	0	0

Profit for the financial year (IFRS)



The changes in the consolidated profit figures are summarised in the following table:

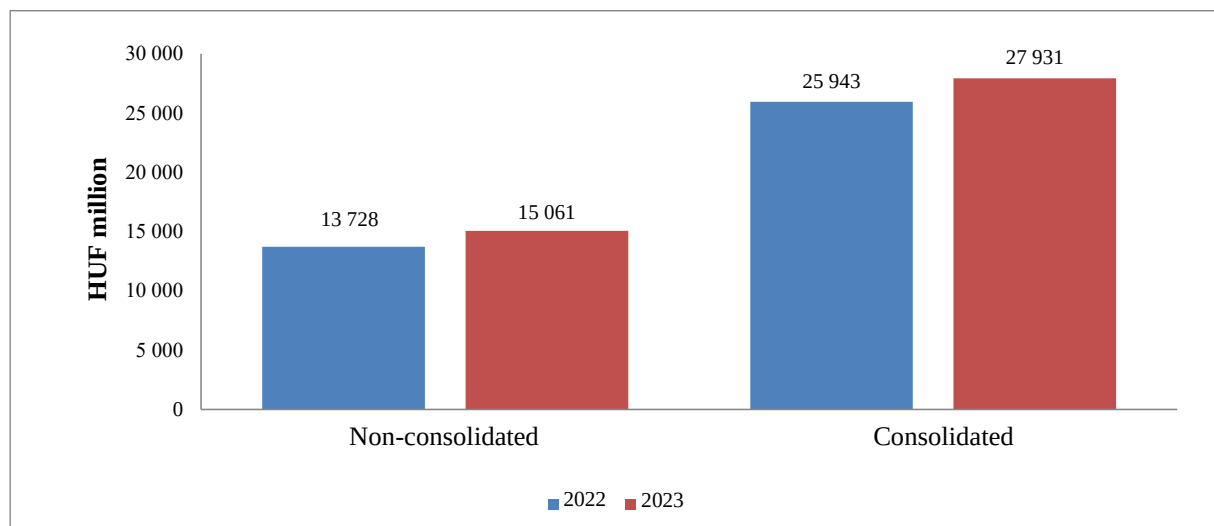
HUF million	2022	2023	Index
Net interest and commission income	50,858	29 606	58%
General and administrative expenses	(25,943)	(27 931)	108%
Expense reimbursement	4,978	4 820	97%
Effect of impairment and provisions	(19,731)	1 838	-9%
Other income/expenses	30,214	33 879	112%
Taxes	(13,529)	(13 595)	100%
Profit for the financial year	26,847	28 617	107%

MFB's consolidated profit after tax for the year is HUF 28,617 million. In examining the profit items, it should be noted that

- Net interest and commission income in 2023 is below the previous year's level. In 2022, the rising interest rate environment had a positive effect in the short term, and the revaluation of assets took place before the change in interest rates affecting liabilities. Conversely, in 2023, the parent company's net interest income deteriorated significantly due to the raising of new funds and the revaluation of existing funds, only partially offset by an increase in interest-bearing assets.
- Expenses exceed the amount of the previous year. The increase in personnel costs was mainly due to wage increases at group level, but the overall increase in personnel expenses was below the rate of inflation (17.6%) in 2023. The increase in costs of materials was mainly due to significant inflation in 2023.

Changes in general and administrative expenses are detailed in the following diagram:

General and administrative expenses (IFRS)



- The cost reimbursement line includes the reimbursement of costs related to tasks associated with the management of EU funds and to the exercise of state ownership rights. In 2023, the Bank was only reimbursed for costs associated with EU tasks, the amount of which was similar to 2022 levels.
- In the case of MKK Zrt., a significant amount of impairments was reversed in 2023, mainly due to a change in legislation, so that the amount recognised in the Impairment/Provisions

line also had a positive impact on the consolidated profit. In contrast, in 2022, the Bank recognised a higher amount of impairment losses due to business activity issues and the war, as well as COVID, and this also had a negative impact on the profit at group level.

- In 2023, the most significant item under 'Other income and expenses' was the result of equity consolidation (almost the same as in the previous year), while the increase compared to the previous year was mainly due to the accounting result of the recognition of the fair value of private equity securities in the market.
- The amount of taxes paid in 2023 (extra profit tax, special bank tax, bank supervision fee and corporate income tax) is essentially the same as last year.

3.4. Key indicators of MFB's consolidated operations

Financial indicators

ROA

HUF million, %

		2022	2023	Index
1.	Net profit	26,847	28,617	106.59%
2.	Balance sheet total	2,993,802	3,605,243	120.42%
3.=1/2	Return on assets (ROA)	0.90%	0.79%	88.51%

ROE

HUF million, %

		2022	2023	Index
1.	Net profit	26,847	28,617	106.59%
2.	Shareholders' equity	689,266	724,393	105.10%
3.=1/2	Return on equity (ROE)	3.90%	3.95%	101.42%

The ROA ratio deteriorated compared to 2022, because the higher net profit was completely offset by the increase in balance sheet total.

In contrast, the ROE ratio is more favourable than in 2022, because the positive impact of the more favourable profit on the indicator was only partly offset by the higher shareholders' equity resulting from the profit for the year.

Cost/income ratio

HUF million, %

		2022	2023	Index
1.	General and administrative expenses	25,943	27,931	107.66%
2.	Net interest and commission income	50,858	29,606	58.21%
3.=1/2	Cost/income ratio	51.01%	94.35%	184.96%

Expenses increased due to high inflation, while revenues were significantly below the previous year's value, mainly due to rising funding costs, and predominantly for MFB, so that the 2023 ratio is worse than the ratio in the base period.

Liquid assets ratio

		HUF million, %		
		2022	2023	Index
1.	Liquid assets (cash, MNB deposits, securities available for sale)	237,291	459,323	193.57%
2.	Total assets	2,993,802	3,605,243	120.42%
3.=1/2	Liquid assets ratio	7.93%	12.74%	160.74%

The ratio of government securities and interbank items (together: liquid assets) to total assets is higher than in the base period. This is because the growth rate of liquid assets exceeded the rate of asset growth, as the Bank raised more funds before use to fulfil planned larger disbursements, which temporarily increased central bank deposits at the end of 2023.

Leverage

		HUF million, %		
		2022	2023	Index
1.	Balance sheet total	2,993,802	3,605,243	120.42%
2.	Shareholders' equity	689,266	724,393	105.10%
3.=1/2	Leverage indicator	4.34	4.98	114.58%

As the balance sheet increased more than the shareholders' equity total during the year, the Bank's consolidated leverage indicator increased compared to 2022. However, the group has sufficient capital in consolidated terms to ensure its reliable operation.

Non-financial indicators

Headcount management in MFB and its subsidiaries

		persons, %		
		2022	2023	Index
1.	Closing headcount	823	818	99.4%
2.	Average headcount	835.4	821.5	98.3%

In 2023, despite the increase in business activity, both the closing headcount and the average headcount were similar to the previous year's levels.

Announced MFB programmes and sub-programmes

		no., HUF billion, %		
		2022	2023	Index
1.	MFB programmes (number)	6	4	66.7%
2.	Total programme funds (HUF billion)	224	109	48.7%

At the end of 2023, the following four loan programmes funded by MFB Zrt. were available:

- MFB Széchenyi Microcredit Refinancing Programme 2.0 announced for refinancing the Széchenyi Microcredit MAX and MAX+ scheme of KAVOSZ Zrt. (announced budget: HUF 80 billion)
- MFB Agri Working Capital Loan Programme 2020 (announced budget: HUF 15 billion)

- MFB Food Industry Working Capital Loan Programme 2020 (announced budget: HUF 6 billion)
- MFB TÉSZ Working Capital Loan Programme 2020 (announced budget: HUF 8 billion)

Of the above, the deadline for loan application in respect of the three agricultural working capital loan programmes (MFB Agricultural Working Capital Loan Programme 2020, MFB Food Industry Working Capital Loan Programme 2020, MFB TÉSZ Working Capital Loan Programme 2020), was 30 November 2023 (contracting date: 31 December 2023). The renewal of the latter three loan programmes has been initiated and the related discussions are underway between the Ministry of Finance and the Ministry of Agriculture.

- In addition to the above four loan schemes, the MFB Energy Efficiency Loan Programme for Businesses was announced on 29 December 2023; the effective date of the product documentation is 8 January 2024.

Announced EU programmes

		no., HUF billion, %		
		2022	2023	Index
1.	EU programmes (number)	29	30	103.4%
2.	Total EU programme funds (HUF billion)	1013	1236	122.0%

The gross increase in 2023 was due to the fourth sub-product of the GINOP 8.3.5-18/B loan product.

4. The MFB Group's strategic business policy concept for 2024

The core mission of MFB Group is to support domestic economic development, address market failures and provide market players with financing under favourable terms and conditions that enable investments and development projects.

In 2024, the activity of the MFB Group as a development bank group will continue to supplement the operation of the domestic financial system through its participation in financing transactions that although not implemented on a market basis, are still desirable in terms of the national economy. Based on the representative MFB-INDIKÁTOR questionnaire survey conducted among businesses in autumn 2023, the Hungarian economy has an unmet lending gap of around HUF 520 billion (including investment loans, working capital loans and overdraft facilities), which offers reasonable returns. The size of the gap measured in the investment credit market, which is a priority area for monitoring, is estimated at HUF 400 billion, the gradual filling of which is a justifiable task, in line with EU principles as well.

MFB Zrt. sees 2024 as the year of financial stability and maintained activity, and its goal is to maintain the financing of the economy by providing the necessary funding, ensuring a stable background for businesses.

The most important objectives for 2024:

- **Economic development:** In the midst of global financial and economic difficulties, the aim is to support the relaunch of economic growth, provide funding to address economic imbalances/deficiencies and take over part or all of the credit and capital risks from the market.
- **EU funds management:** To complete and accelerate the disbursement of EU funds under the RRF and the 2021-27 programming cycle
- **MFB-funded business activity:** To continue to expand MFB-funded lending in 2024
- **Stable banking operations:** To ensure the stability and profitable management of the outstanding stock following the significant new commitments of over HUF 4,500 billion in 2021-2023.
- **DHK integration, phase I:** Preparations for the integration of Diákhitel Központ Zrt. (Student Loan Centre) into MFB in the framework of the operation of the student and training loan system, and as part of this, the outsourcing of certain tasks to MFB Zrt. in 2024.
- **Creating sustainable profitability:** Implement measures to achieve medium-term profitability.
- The goal is to maintain the stability of the Hungarian economy in the face of global financial and economic difficulties, to facilitate the financing of businesses, and to ensure the continued availability of loan, guarantee and capital financing.

MFB' Zrt's main product development responses to the energy crisis are as follows:

- Within the loan programmes funded by itself, the Bank intended to focus on financing energy efficiency by further expanding the range of eligible borrowers and eligible loan objectives. In the future, the Bank intends to provide access to loan programmes not only through direct MFB lending or refinancing of credit institutions, but also through refinancing of financial businesses.

Nevertheless, in 2024 the Bank must continue to allow for financial and business risks that may affect the success of the business plan, including the protracted impact of the war, financial market volatility, interest rates that are higher than pre-crisis, the returns on the subsidiary

portfolio, the timely implementation of capital fund placements and the challenges of renewing channels and products. Managing these risks will remain a key task in the future.

5. Other key processes

Sustainability at MFB Zrt.

MFB Zrt.'s mission is to be a leader in promoting good practices and attitudes towards sustainability, as part of which it continuously expands its range of green and sustainable products, strives to reduce CO₂ emissions from its operations and services, and keeps its customers, partners and other stakeholders informed about the economic, environmental and social impacts and achievements of its business activities, and to continue to develop a range of green & social loan products, investments and other financial products linked to environmentally relevant objectives by reevaluating past lending and investment practices from a sustainability perspective.

In line with domestic and international trends, MFB Zrt. is continuously working on obtaining new ESG ratings and upgrading existing ones. With these ratings, it aims to demonstrate its environmental, social and governance-related business practices and performance to its domestic and international investors and business partners in a clear and transparent manner. In December 2023, one of the world's leading ESG rating agencies, Sustainalytics, conducted a review of MFB Zrt.'s previous ESG rating, which concluded that MFB Zrt. had achieved a very significant improvement, thanks to the efforts of the bank as a whole over the past year and a half, by being rated in the low-risk category and ranking 96th out of 1014 banks assessed at the time of the rating (and 50th out of 93 development banks rated).

Generation and publication of a Sustainability (ESG) Report

MFB Zrt. prepared and published its Sustainability (ESG) Report for the second time in 2023, which is designed to demonstrate the Bank's non-financial performance and sustainable operations. The Report provides a transparent insight into the development of topics and performance relevant to the sustainability of MFB Zrt for each year, covering, among others, the Bank's green financing activities (and the associated environmental burden), the development of financial literacy, gender equality, environmental awareness in the Bank's operations, environmental awareness, donations and compliance aspects. The Sustainability (ESG) Report published annually by the Bank complies with the GRI (Global Reporting Initiative) framework. The Bank's 2023 Sustainability (ESG) Report is expected to be published in Q3 2024. The Sustainability Reports are available on the Bank's website.

Developing a Sustainable Finance Framework

The Bank has developed a Sustainable Finance Framework, to finance 6 green and 3 social objectives. In addition to projects aimed at increasing the use of renewable energy and energy efficiency, the Bank, in the interests of transparency, also gives priority to supporting infrastructure that enables the diversification of its existing energy sources. It seeks to increase in its loan portfolio the share of sectors and projects that enable the reduction of GHG emissions. A Second-Party Opinion on the Framework was completed in 28 February 2023, whereby Sustainalytics Morningstar certified that MFB Zrt. met the expectations of the Standards and market practices with regard to the content of the eligibility criteria, its internal processes and related procedures.

Bank-wide compliance with the MNB Green Recommendation:

The Bank continued to implement the tasks set out in Recommendation No. 10/2022 (VIII.2) of the National Bank of Hungary on "climate-related and environmental risks and the integration of environmental sustainability considerations into the activities of credit institutions" (hereinafter: Green Recommendation), involving the relevant areas, in accordance with the action plan undertaken. Our aim is to integrate sustainability-related banking activities

into the operations and processes of existing organisations in the medium term. To this end, MFB Zrt has launched a separate project to carry out the relevant implementation tasks, involving the departments concerned and also external expertise. In accordance with the action plan formulated on the basis of the recommendation, a risk management strategy and policy has been approved.

In order to comply with the Green Recommendation, internal processes were put in place to ensure that the management team and key personnel are adequately trained and up-to-date on climate and environmental risks (ESG-focused training of the Bank's management was conducted in summer 2023). The Bank also provided training opportunities for employees with a sustainability focus in 2023 (e.g. MFB Academy training programmes were developed for employees on current sustainability issues, and the e-learning exam system now includes ESG considerations and the Bank's Green Office programme, etc.). In addition, the Bank continued to provide ESG information and development to its employees through a dedicated ESG interface (Green Zone) on the Bank's renewed intranet platform.

Green financial products

As a development bank, MFB Zrt. plays a key role in providing green and social financing. Through its green and social loan programmes and individual transactions, it supports the green sustainability transition of domestic actors. The portfolio of individual instruments (loans and bonds) supporting sustainability objectives increased more than sevenfold between 2019 and 2023. The portfolio of these loans exceeded HUF 92 billion in 2023. To date, MFB Zrt. has already supported nearly 29,000 projects through EU-funded disbursements promoting environmental and social objectives, with the total value of EU-funded disbursements reaching HUF 440 billion. Total annual lending to SMEs under MFB Zrt.-funded loan programmes more than doubled in 2022 compared to 2019, from HUF 46 billion to HUF 96 billion, bringing the total amount of loans disbursed to over HUF 312 billion. The Bank has begun to adapt its lending activities to align with the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement, in order to effectively demonstrate and measure the environmental and social impact of its green financing and risk-taking activities. As part of this, MFB Zrt has developed Hungary's first green and fully EU Taxonomy-compliant product in 2023, the Energy Efficiency Loan Programme for Businesses, in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).

Emissions from the Bank's own operations and reducing these

The Bank does not engage in any environmentally harmful or damaging activities. Its product portfolio is progressively and increasingly focusing on loan objectives for financing environmental investments. As a responsible state-owned institution, MFB Zrt. attaches great importance to ensuring that its operations fully meet the criteria of both economic and environmental sustainability. In this context, it quantifies its GHG emissions every year and publishes the results in its Carbon Footprint Report and Sustainability (ESG) Report (in 2022, it reduced its overall carbon footprint by 10% compared to 2021). In 2023, the Bank continued to implement the measures to improve the environmental impact of its office operations, as committed in the Green Office Programme, which was launched in connection with the Green Office label awarded to the Bank in 2022. The Bank does not conduct any research or experimental development activities of its own; the elements of product development are described in detail in the section on lending.

Responsible employer

In its human resource policy the Bank is committed to condemning any form of discrimination – based on sex, age, religion, race, political or trade union affiliation, language of other differences – and respecting the rights of the disabled.

MFB Zrt. directly supports the development of communities, the promotion of financial literacy and the creation of opportunities. Respect for human rights is an important consideration with regard to both business partners and employees, and the Bank places great emphasis on this issue in its regulations, the organisation of its operations, its communication, and its complaint handling processes. The Bank does not have a separate diversity policy applicable to the managing and supervisory bodies, as it is partly defined in the Code of Conduct and Ethics.

MFB Zrt. gives top priority to creating the conditions for a Family Friendly Workplace. In relation to this, employees expecting a baby or wishing to work while on maternity leave may choose to work part-time, while all employees have the option of occasionally working from home if they wish. As a tangible result of this effort, the Bank has been certified as a Family Friendly Workplace. MFB Zrt. also makes efforts to financially support married employees who are planning or already raising a family. The benefits provided by the Bank include one-off and regular allowances and other benefits (e.g. home loans).

The Bank continued to work on protecting the health of its employees in 2023: it financed occupational health and medical examinations.

Corporate social responsibility

In 2023, a programme was implemented with the involvement of MFB Zrt.'s employees, as a result of which packages of new, high quality school supplies were assembled from employee donations within the framework of the Ecumenical Charity Service's 'Back to School Together!' relief campaign, which aims to support the schooling of children in need.

In accordance with the "company tradition" established in previous years, in the run-up to Christmas 2023, a collection of non-perishable food items and gifts (toys, books, etc.) for families living in shelters run by the Ecumenical Charity Service was made for the fourth time with the assistance of MFB employees, who helped wrap and deliver the items. The Bank supplemented the collection of employees with donations of non-perishable food.

The following Companies have branch sites:

- MKK Zrt. – business address, as per the Articles of Association: 1138 Budapest, Madarász Viktor u. 47-49.
- MFB-Ingatlanfejlesztő Zrt.
 - The Company's business sites:
 - 1135 Budapest, Szegedi út 35-37.
 - 1134 Budapest, Dózsa György út 128-130.
 - The Company's branch offices:
 - 2800 Tatabánya, Bárdos László u. 2.
 - 9970 Szentgotthárd, Füzesi út 3/b.
 - 2700 Cegléd, Fürdő utca 24.
 - 3100 Salgótarján, Kassai sor 6.
 - 3100 Salgótarján, Alkotmány út 18. fszt.
 - 3100 Salgótarján, Alkotmány út 18. I. emelet

MFB and the other members of the MFB Group do not have any business sites outside their registered office.

6. Important events that have occurred since the balance sheet date

In line with the restructuring concept taking place under the professional coordination of NTH Nemzeti Tőkeholding Zrt. ('NTH'), over which the Ministry for National Economy ('NGM') exercises direct ownership rights, which also affects private equity funds of high importance for economic development and governmental interests, the NGM resolved in its Founder's Resolution No. 4/2024. (II.19.) that the management of the MFB Corporate Investment and Transaction Private Equity Fund, wholly owned by MFB Zrt, will be transferred from Hiventures Zrt, a member of the MFB Group, to FOCUS VENTURES Zrt, wholly owned by NTH. The Founder's Resolution is dated 19 February 2024 and the transfer is expected to take place in the first quarter of 2024, resulting in the change of the consolidation status of the MFB Corporate Investment and Transaction Private Equity Fund from Subsidiary to Associated Company.

As of 31 December 2023, MFB Invest Zrt had an ownership and voting interest of 24.26% in SajóSolar Villamosenergetikai Kft. The transaction was of a closed structure; SajóSolar Kft. had a call option and the right to nominate a buyer, and SajóSolar Kft. exercised this right during the period after the balance sheet date. As a result, MFB Invest Zrt.'s acquisition of interest was closed on 13 February 2024 and the consolidation status of SajóSolar Kft as an associated company was terminated.

Budapest, 8. April 2024

Dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Tamás Péter Vojnits
Managing Director

**Corporate Governance Report
(MFB Group)**

2023

Budapest, 8. April 2024

Introduction

Pursuant to Section 95/B(1) on the business report under Act C of 2000 on Accounting, any business whose negotiable securities have been admitted for trading on a regulated market of a Member State of the European Economic Area is required to publish a Corporate Governance Statement in its business report.

MFB Hungarian Development Bank Private Limited Company (hereinafter: MFB Zrt., Bank or the Company) is thus required to publish a statement with respect to the bonds it issues.

MFB Zrt. has published the following report on its corporate governance practices during the 2023 financial year.

The Company's internal system of governance and control is based on the Recommendations and Proposals for Corporate Governance, approved by the Budapest Stock Exchange on 8 December 2020. The corporate governance principles defined in the Recommendations have been adopted by the Company without any material differences.

It must be, however, taken into consideration that MFB Zrt. is a single-member private joint-stock company, where, on the basis of Section 1(2) of Act XX of 2001 on Magyar Fejlesztési Bank Részvénytársaság (hereinafter: MFB Act) and Section I of Annex 2 of Act CXCVI of 2011 on National Assets, 100% of the shares representing the Company are exclusively owned by the Hungarian State. Any alienation of the shares or offering of the same as security shall be deemed null and void. As part of its responsibilities under Sections 3(1) to (4a) of the MFB Act, the Company is required to proceed, both independently and in cooperation with other Hungarian and international organisations, in accordance with the requirements of transparency, expediency, economy, efficiency and prudence, with a view to securing the development funds required to achieve the economic development objectives defined by the medium and long-term economic strategy of the Government. The Company shall act on behalf of its sole shareholder, the Hungarian State. The objectives of the State and the acting Government are set out by the law or conveyed to the Company by a Government Resolution.

MFB Zrt. – as part of its responsibilities under in Section 3 (3) of the MFB Act – was a fund management organization in the 2007-2013 programming period, and in the 2014-2020 programing period is the implementing organization of the fund of funds, and in the 2021-2027 programing period will be the holding-fund implementing entity of the cohesion fund, while with regard the resources of the Recovery and Resilience (Resilience Building) Instrument will be the implementing body of the financial instrument, during which MFB Zrt. will dispose of the resources made available to in its own name, but the benefit of the Governing Authorities (National Authority). Accordingly MFB Zrt. keeps separate register of the sources of programming periods, but these registers do not form part of the Bank's balance sheet.

The shareholder's (owner's) rights of the State over MFB Zrt. shall be exercised by the Minister responsible for supervising state assets. On the basis of Section 103 (1) 8 of Government Decree No 182/2022 of (V.24.) setting out the duties and competences of the members of the Government, the Minister for Economic Development assets is a member of the Government, responsible for supervising state assets (hereinafter: the person exercising shareholder's rights).

The person exercising shareholder's rights shall issue the founder's resolution for the Company, thus determining the Company's strategic decisions. In a founder's resolution, the person exercising shareholder's rights shall require the Company to carry out the tasks set out in the Government's resolutions. The person exercising shareholder's rights shall decide on the selection, appointment,

recall and discharge of members of the Board of Directors, members and the Chair of the Supervisory Board and the Chief Executive Officer heading the Company's work organisation under an employment contract.

Pursuant to Act CXXII of 2009 on publicly owned companies (hereinafter: Kgtv. Act), MFB Zrt. is a publicly owned company.

For the purposes of the provisions of the Kgtv. Act, the Company is treated as a company of priority importance for the national economy.

In other words, MFB Zrt's corporate governance practices are determined by the economic development objectives set in the Government's medium and long-term economic strategy, its classification as a company of priority importance for the national economy, the characteristics of being a single-member private joint-stock company and the provisions of the MFB Act and the Statutes of MFB Zrt.

Based on its size and the number of its employees, the Company is a large enterprise. It has a formalised operation. In addition to Act CCXXXVII of 2013 on credit institutions and financial companies (hereinafter: Hpt. Act), the Company's Statutes and the provisions of the rules of procedure of the Board of Directors and the Supervisory Board, the governance and functioning of the Company are determined by the remuneration policy, which is under the competence of the person exercising shareholder's rights, and internal regulations required by EU and national legislation and provisions applicable to credit institutions.

1.1 A brief presentation of the operation of the Board of Directors / Governing Board, and the distribution of responsibilities and tasks between the Board of Directors / Governing Board and the management.

The Board of Directors is the Company's managing body. Members of the Board of Directors are the Company's executive officers.

The Board of Directors consists of 5 members. Members of the Board of Directors are appointed – for a 5-year term – and recalled by the person exercising shareholder's rights. The Board of Directors is headed by its Chair. The Chair of the Board is elected by the Board members from among themselves. During the term of his or her mandate, the CEO shall be a member of the Board of Directors, without a specific decision by the person exercising shareholder's rights. Notwithstanding the term specified in Article 14(4) of the MFB Act, the CEO shall remain a member of the Board for the entire duration of his or her mandate. In the event that the Chair of the Board of Directors and the CEO is the same person, pursuant to the third sentence of Section 15(2) of the MFB Act, the CEO shall be entitled to use the title of Chairman & CEO.

Members of the Board of Directors may be recalled from their office at any time by the person exercising shareholder's rights without further explanation. At least two members of the Board shall be employees of the Company (internal members). According to Section 149 (2) of the Hpt. Act, the directors of the company pursuant to the Hpt. Act may be elected as internal members of the Board of Directors. The Board membership of internal members shall cease immediately on the termination of their employment. Members of the Board of Directors and their family members may not be Members of the European Parliament, Members of Parliament, members of any municipal/local governments or spokespersons for a national or ethnic minority. The Chair of the Board of Directors and Board members shall make a declaration of property in accordance with the applicable statutory provisions.

The Board shall exercise its rights and responsibilities as a corporate body.

The Board shall draw up the Company's reports under the International Financial Reporting Standards (IFRS) in accordance with the Accounting Act and a proposal for the appropriation of net profit and submit them to the person exercising shareholder's rights for approval. The Board of Directors shall ensure that the Company's books are appropriately maintained. Moreover, the responsibilities of the Board shall include the approval of the Company's regulations on organisation and operation as well as any regulations assigned by the Rules of Procedure of the Board or by the law to the competence of the Board. Similarly, the Board of Directors shall make a decision on any major issues specified in the Board's Rules of Procedure.

The Company shall not have an appointing committee or a remuneration committee.

The person exercising shareholder's rights may not deprive the Board of Directors of its powers.

Meetings of the Board shall be convened as appropriate but at least once every three months. Board meetings shall be convened by the Chair of the Board through the forwarding of an invitation to Board members at least 8 days prior to the proposed date of the meeting. The invitation shall specify the venue, date and hour of the meeting and the proposed agenda of the meeting; any written documents relevant to the agenda shall be attached to the invitation as far as possible. Any issue that has not been included in the agenda of the meeting – excluding the case where a Board member makes a proposal to add to the agenda within 4 days of receiving the invitation – shall only be discussed by the Board of Directors if at least two-thirds of the Board members are present and all attending members unanimously agree that the agenda item in question should be discussed at the meeting. The representative of the party exercising ownership rights and the The Chair of the Supervisory Board shall be invited to any meeting of the Board of Directors.

Any member of the Board of Directors may request that a Board meeting be convened, specifying the agenda to be discussed by such meeting. The meeting shall be convened by the Chair of the Board of Directors for a day within 15 days of such request.

Meetings of the Board of Directors shall have a quorum if it is attended by the majority of Board members. Decisions shall be made by a simple majority of the votes of attending members. The unanimous vote of the Board of Directors shall be required for decisions provided for in Section 106 of the Hpt. Act (internal loans) and decisions under Section 144(3) of the Hpt. Act.

The Board may also adopt a decision without convening a meeting, in writing (by mail or fax) (urgent written procedure). Moreover, the Chair of the Board of Directors may convene an emergency Board meeting.

1.2 An introduction of the Board of Directors / Governing Board, Supervisory Board and management members (for board members, also indicating each member's status of independence), a presentation of the boards structures.

As at 31 December 2023, the members of the Board of Directors are as follows:

1. Dr. Levente Sipos-Tompa, internal member of the Board of Directors , Chairman & CEO,
2. Zsolt Demkó-Szekeres, internal member of the Board of Directors,
3. Balázs Benczédi, external member of the Board of Directors,
4. Zsolt Kovács, external member of the Board of Directors
5. Dr. Melinda Gitta Szeles, external member of the Board of Directors.

The start and end dates of the mandates are set out in detail under item 13 of the Company's

Certificate of Incorporation.

As at 31 December 2023, the Chair and the members of the Supervisory Board are as follows:

1. Dr.Péter Pataki, Chair of the Supervisory Board
2. Henriett Emese Jeneiné Gerőmember of the Supervisory Board,
3. Endre Vincze, member of the Supervisory Board
4. Zita Katalin Kékesiné Győrffy member of the Supervisory Board,
5. Ervin Gönczy, member of the Supervisory Board, employee representative
6. Dr. Anett Vékony, member of the Supervisory Board, employee representative

The start dates of the mandates are set out in detail under item 15 of the Company's Certificate of Incorporation.

The Bank's most senior officer responsible for operations is the Chief Executive Officer. The Company's Chief Executive Officer is Dr. Levente Sipos-Tompa.

The employee is entitled to substitute the Chief Executive Officer is Zsolt Demkó-Szekeres Deputy Chief Executive Officer and Ildikó Edit Zátrok Deputy Chief Executive Officer.

1.3 Specifying the number of meetings which the Board of Directors / Governing Board, Supervisory Board and committees held in the given period, completed with attendance rates.

In 2023, the Board of Directors had met 13 times and adopted decisions 38 times without holding a meeting by urgent written procedure, with the following participation rates:

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
1.	12 January2023-meeting	Of 5 members, 4 participated
2.	22 February 2023-meeting	Of 5 members, 4 participated
3.	05 April 2023-meeting	Of 5 members, 5 participated
4.	19 April 2023 - meeting	Of 5 members, 5 participated
5.	19 June 2023- meeting	Of 5 members, 5 participated
6.	26 July 2023- meeting	Of 5 members, 5 participated
7.	05 September 2023- meeting	Of 5 members, 4 participated
8.	13 September 2023- meeting	Of 5 members, 5 participated
9.	26 September 2023- meeting	Of 5 members, 4 participated
10,	24 October 2023- meeting	Of 5 members, 4 participated
11.	26 October 2023- meeting	Of 5 members, 4 participated
12.	29 November 2023- meeting	Of 5 members, 5 participated
13.	20 December 2023- meeting	Of 5 members, 5 participated
	Written procedure	
1.	6 January 2023	Of 5 members, 5 participated
2.	16 January 2023	Of 5 members, 5 participated
3.	20 January 2023	Of 5 members, 5 participated
4.	23 January 2023	Of 5 members, 5 participated
5.	25 January 2023	Of 5 members, 5 participated
6.	1 February 2023	Of 5 members, 5 participated
7.	10 Februay 2023	Of 5 members, 5 participated
8.	10 Februay 2023 – II.	Of 5 members, 5 participated

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
9.	23 February 2023	Of 5 members, 5 participated
10.	7 March 2023	Of 5 members, 5 participated
11.	13 March 2023	Of 5 members, 4 participated
12.	24 March 2023	Of 5 members, 5 participated
13.	30 March 2023	Of 5 members, 5 participated
14.	31 March 2023	Of 5 members, 5 participated
15.	24 April 2023	Of 5 members, 5 participated
16.	25 April 2023	Of 5 members, 5 participated
17.	27 April 2023	Of 5 members, 5 participated
18.	4 May 2023	Of 5 members, 5 participated
19.	5 May 2023	Of 5 members, 5 participated
20.	10 May 2023	Of 5 members, 4 participated
21.	18 May 2023	Of 5 members, 5 participated
22.	19 May 2023	Of 5 members, 5 participated
23.	24 May 2023	Of 5 members, 5 participated
24.	12 June 2023	Of 5 members, 5 participated
25.	27 June 2023	Of 5 members, 3 participated
26.	12 July 2023	Of 5 members, 4 participated
27.	19 July 2023	Of 5 members, 5 participated
28.	26 July 2023	Of 5 members, 5 participated
29.	1 August 2023	Of 5 members, 5 participated
30.	9 August 2023	Of 5 members, 4 participated
31.	15 August 2023	Of 5 members, 4 participated
32.	25 August 2023	Of 5 members, 4 participated
33.	6 November 2023	Of 5 members, 4 participated
34.	9 November 2023	Of 5 members, 5 participated
35.	14 November 2023	Of 5 members, 4 participated
36.	20 November 2023	Of 5 members, 5 participated
37.	5 December 2023	Of 5 members, 5 participated
38.	14 December 2023	Of 5 members, 4 participated

In 2023 the Supervisory Board had held 4 meetings and made decisions in 20 cases without holding a meeting, by written voting.

	Date of Supervisory Board meeting/ adopted a decision by written procedure	Participation rate
1.	12 January 2023-meeting	Of 6 members, 4 participated
2.	19 April 2023-meeting	Of 6 members, 5 participated
3.	26 Oktober 2023-meeting	Of 6 members, 6 participated
4.	20 December 2023 -meeting	Of 6 members, 6 participated
	Written procedure	
1.	2 January 2023	Of 6 members, 5 participated
2.	11 February 2023	Of 6 members, 6 participated
3.	21 February 2023	Of 6 members, 6 participated
4.	27 February 2023	Of 6 members, 6 participated
5.	7 March 2023	Of 6 members, 6 participated
6.	17 March 2023	Of 6 members, 5 participated
7.	27 March 2023	Of 6 members, 6 participated
8.	25 April 2023	Of 6 members, 6 participated
9.	26 April 2023	Of 6 members, 5 participated
10.	22 May 2023	Of 6 members, 4 participated
11.	19 June 2023	Of 6 members, 5 participated
12.	19 June 2023	Of 6 members, 5 participated
13.	11 July 2023	Of 6 members, 6 participated
14.	7 August 2023	Of 6 members, 5 participated
15.	21 August 2023	Of 6 members, 5 participated
16.	28 August 2023	Of 6 members, 6 participated
17.	13 Oktober 2023	Of 6 members, 4 participated
18.	15 November 2023	Of 6 members, 6 participated
19.	4 December 2023	Of 6 members, 6 participated
20.	7 December 2023	Of 6 members, 5 participated

1.4 A presentation of the work done by the Board of Directors / Governing Board, the Supervisory Board and the management as well as the considerations for assessing their individual members. Specifying if the assessment carried out in the given period resulted in any changes.

The Company has implemented a set of regulations drawn up by the person exercising shareholder's rights in consideration of the provisions of Act CXXII of 2009 on the more economical operation of publicly owned companies (hereinafter: Kgtv. Act) and Government Resolution No 1660/2015 (IX. 15.) regarding the renewal of the system of remuneration of management employees of companies in majority public ownership (hereinafter: Govt. Resolution), in respect of the method and amount of the remuneration of executive officers, members of the Supervisory Board and management employees and the system of their remuneration (hereinafter: Remuneration Policy).

The Remuneration Policy has been amended by the person exercising shareholder's rights as from 12 July 2021 by the Founder's Resolution No. 14/2021 (VII.12.).

The main rules for defining and assessing the system of performance requirements (annual bonuses) for executive employees are as follows:

- A bonus-based remuneration system shall be implemented for managers in order to encourage the successful achievement of business policy and economic targets for the year concerned and efficient operation;
- As a performance requirement, any target condition should be based on performance that can be objectively defined and be based on performing one's job with reasonable expertise and diligence. In case of a performance objective comprising the achievement of the key figure(s) of the business plan, the target conditions have to be set within ranges. A performance objective comprising the achievement of the key figure(s) of the business plan cannot be set solely if its fulfilment resulted in the 100% payment of the related bonus;
- The amount of the annual bonus of a manager shall not exceed the extent regulated in the relevant Government Decision. If the Company has made a loss, no bonus shall be paid to the manager;
- The performance requirements and conditions should preferably be defined simultaneously with or within 30 days of the adoption of the business plan for the year, unless under exceptional circumstances where they may be set at a later date;
- The performance requirements shall be assessed and settled simultaneously with or within 30 days of the adoption of the financial statement (balance sheet) for the financial year, unless under exceptional circumstances, where it may take place at a later date;
- If any of in the set performance requirements or not, or partially fulfilled, the employer's rights shall decide, on the amount and the payment of the bonus in proportion to the otherwise fulfilled performance requirements;
- Where the employment of a manager is terminated during the year, the bonus shall be payable on a pro rata basis simultaneously with the adoption of financial statement closing the financial year according to the Act on Accounting or within 30 days of the adoption of the financial statement;
- The circumstances listed in the Remuneration Policy may be considered as factors reducing or excluding the payment of a bonus. The person entitled to set the performance requirements may determine additional factors reducing or excluding the payment of a bonus.

1.5 A report on the operation of each committee, elaborating on the professional background of committee members, the number of and the attendance rate at the meetings held as well as the major topics discussed at the meetings and a presentation of the general operation of each committee. When presenting the operation of the Audit Committee, any decision by the Board of Directors / Governing Board against the proposal of the committee should be mentioned (also including the explanations offered by the Board of Directors / Governing Board). The Company website, where all tasks delegated to the committees and the dates of the members' appointment must be published, should also be mentioned. (If this information is not available on the Company website, it must be included in the Corporate Governance Report.)

Supervisory Board

The Supervisory Board consists of 6 members. The Chair and members of the Supervisory Board are appointed for a definite period of up to 5 years and are recalled by the person exercising shareholder's rights. At least one-third of the members of the Supervisory Board shall be employee representatives for as long as the Company has more than 200 (two hundred) full-time employees on an average annual basis. Only natural persons may be Supervisory Board members; other than employee representatives, they may not be employees of the Company.

The Supervisory Board shall supervise the Company's management. Within the frames of this authority, the Supervisory Board may request information from senior executives and employees of the company, may inspect the company's accounting records, registers, books and documents, may examine the company's payment account, cash register, securities and commodities, as well as its contracts, or may place them under examination by an expert. Such information may also be requested

or inspected or the Company's records may also be examined or ordered to be examined by individual members of the Supervisory Board.

The Supervisory Board shall have all rights and obligations set out for the supervisory boards of credit institutions by the applicable legislation in effect from time to time.

The Supervisory Board shall:

- a) ensure that the Bank has a comprehensive and fully functional control system;
- b) put forth a proposal for the Company's auditor and his or her fee;
- c) verify the Bank's annual and interim financial statements, including the annual publication information;
- d) technically manage and review the internal audit unit; as part of that function, the Supervisory Board shall
 1. adopt the annual review plan of the internal audit unit,
 2. discuss, at least once every six months, the reports drawn up by internal audit and review the implementation of the required measures,
 3. assist, where appropriate, the efforts of internal audit by inviting external experts,
 4. put forth proposals for adjusting the number of staff of the internal audit unit,
- e) draw up recommendations and proposals on the basis of the findings of inspections by internal audit;
- f) decide with respect to any preliminary agreement related to the establishment, or the termination by the Bank, of the employment of the internal auditor and the head of the internal audit unit.

Without the application of Section 3:123 of the Civil Code, the Supervisory Board is obliged to examine all relevant business policy reports requiring the decision of the holder of ownership rights, as well as all submissions relating to matters within the competence of the holder of ownership rights. The holder of ownership rights may decide on the reports pursuant to the Accounting Act only in the possession of the written report of the Supervisory Board. Decisions regulated in Section 106 (1) of the Hpt. Act (internal loan) require, in addition to the unanimous decision of the Board of Directors of the company, the consent of the Supervisory Board.

Meetings of the Supervisory Board shall be convened by the Chair of the Supervisory Board in writing (by mail, email or fax sent to members), the invitation being conveyed to the members of the Supervisory Board at least eight (8) days before the date of the meeting. The invitation shall include the agenda of the meeting along with the proposals for the issues concerning the agenda items. Any two Supervisory Board members may request in writing the Chair to convene a Supervisory Board meeting, specifying the reason and the goal of the proposed meeting. Where the Chair fails to convene a meeting within 5 (five) days of receipt thereof, such meeting may be convened by any member having requested that the meeting be convened.

The Supervisory Board shall have a quorum if more than two-thirds of its members or at least 3 (three) members are present at the meeting. Decisions of the Supervisory Board shall be adopted by a majority of votes by members of the Supervisory Board. The Supervisory Board may also adopt a decision without convening a meeting, in writing (by mail or fax) exceptionally, in particularly and immensely justified cases. A decision shall have been adopted if, within 3 (three) days of dispatch (or, in exceptional cases, within a shorter period specified by the Chair), at least 2/3 (two-thirds) of the members of the Supervisory Board (but a minimum of 3 members) have sent their votes to the Bank's registered office in the form of a private deed of full probative value. There shall be no need to wait for the vote of a member of the Supervisory Board if such member previously notified the Chair of the Supervisory Board of the fact that, during the period concerned, he/she would not be able to participate

in the work of the Supervisory Board, in person or through a written voting procedure, due to another engagement.

The rules of procedure of the Supervisory Board shall be determined by the Supervisory Board and approved by the person exercising shareholder's rights. The Chair of the Supervisory Board and Supervisory Board members shall make a declaration of property in accordance with the applicable legislation.

Audit Committee

The Audit Committee shall:

- a) assist the Supervisory Board in its activities, including
 - the review of the system of financial reporting,
 - the selection of an auditor, and
 - cooperation with the auditor;
- b) review and monitor the independence of the auditor, including in particular compliance with Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC;
- c) monitor the statutory audit of the annual and consolidated annual financial statements, taking into account the findings and conclusions made during the quality review of statutory public oversight auditing, conducted by an authority carrying out public oversight auditing duties (Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors (hereafter: Kkt. Act));
- d) monitor the efficiency of the Bank's internal control and risk management systems, putting forward recommendations where appropriate;
- e) monitor the process of financial reporting, putting forward recommendations where appropriate.

The functions and competences of the Audit Committee are set out in detail in the rules of procedure of the Audit Committee.

As at 31 December 2023, the Chair and the members of Audit Committee are as follows:

1. Dr. Péter Pataki, Chair of the Audit Committee,
2. Endre Vincze, member of the Audit Committee,
3. Zita Katalin Kékesiné Györffy, member of the Audit Committee.

In 2023, the Audit Committee held 2 meetings and made decisions in 18 times without holding a meeting by written voting. The participation rate was as follows.

	Date of Audit Committee meeting/ adopted a decision by written procedure	Participation rate
1.	19 April 2023	Of 3 members, 2 participated
2.	19 June 2023	Of 3 members, 2 participated
	Written procedure	
1.	5 January 2023	Of 3 members, 3 participated
2.	11 January 2023	Of 3 members, 2 participated
3.	7 February 2023	Of 3 members, 3 participated
4.	16 February 2023	Of 3 members, 3 participated
5.	22 February 2023	Of 3 members, 3 participated
6.	3 March 2023	Of 3 members, 3 participated

	Date of Audit Committee meeting/ adopted a decision by written procedure	Participation rate
7.	8 March 2023	Of 3 members, 2 participated
8.	13 April 2023	Of 3 members, 3 participated
9.	7 April 2023	Of 3 members, 2 participated
10.	26 April 2023	Of 3 members, 3 participated
11.	24 May 2023	Of 3 members, 2 participated
12.	7 August 2023	Of 3 members, 3 participated
13.	28 September 2023	Of 3 members, 3 participated
14.	6 November 2023	Of 3 members, 3 participated
15.	21 November 2023	Of 3 members, 3 participated
16.	30 November 2023	Of 3 members, 3 participated
17.	12 December 2023	Of 3 members, 3 participated
18.	18 December 2023	Of 3 members, 3 participated

Detailed information on the 2023 meetings of the Board of Directors and the Supervisory Board is set out in section 1.3.

The Company's internal decision-making bodies include:

- a) the person exercising shareholder's rights,
- b) Board of Directors,
- c) Management Body,
- d) Asset-Liability Management Committee,
- e) Individual Credit Committee,
- f) EU Management Committee,
- g) Sustainable Financing Committee
- h) Infringement Management Committee,
- i) Developmental Management Committee.
- j) Monitoring Committee

Other internal decision-making bodies of the Company by individual power (eg. Crisis Committee) are regulated by the regulation documents of the Bank.

The Company's internal decision preparation bodies include the:

- a) Support Committee,
- b) Housing Committee,
- c) Aid Committee,
- d) Public Procurement Preparation and Assessment Committee,
- e) Workplace Health and Safety Committee,
- f) Health and Safety Parity Body,
- g) Ethics Committee,
- h) Scrapping Committee.

The Company shall publish on its website information on the names and positions of the managers and members of its government bodies.

1.6 A description of the system of internal controls, an evaluation of the activities performed in the given period. A report on the efficiency and effectiveness of the risk management procedures. (Information about where shareholders can access the Board of Directors / Governing Board report on the operation of internal controls.)

The Bank shall develop and operate its internal audit system in accordance with the characteristics, scope, complexity and risks of its activities with a view to ensuring that it conducts its activities under an appropriate management system and appropriate controls in order to achieve the objectives of the organisation.

Organisational structure and the defining of functions and responsibilities

In terms of its organisational structure and within the specific organisational units, the Bank shall define competences in order to delimit the functions and responsibilities related to specific processes as well as the specific functions and responsibilities pertaining to cross-organisational processes, isolating those functions that are incompatible from the point of view of the process. The processes, responsibilities and controls are set out in the regulatory documents, whereas the functions and responsibilities pertaining to each job are set out in the job descriptions.

Decision-making system

In addition to defining the functions and competences, it is of priority importance to exactly define the competences related to the making of personal and committee decisions in order to ensure that a clear, transparent and consistent framework system, commensurate with the complexity and the financial consequences of each topic is in place to assist the decision-making process during day-to-day operation.

Regulatory framework system

By setting up the area focusing on the adoption of a consistent Group-level regulatory concept and process control, the Bank intends to ensure that the regulatory structure concerning the processes and activities is suitably consistent and uniform and that sufficiently detailed regulatory documents that cover the entire process are drawn up for each process. When drawing up the regulatory documents, the Legal Directorate and in addition the Operational Development and Regulatory Directorate the Compliance Directorate ensure that they fully comply with the statutory provisions.

Internal defence lines

Within its organisation, the Bank has implemented a three-tier risk protection system. Keeping the proportionality principle in mind, in order to execute the internal control, the Bank has implemented efficient, comprehensive internal control functions (risk control function, compliance function, internal audit function, information security and prevention of fraud functions).

Board of Directors/Suversivory Board

- I. Chief Executive Officer
 - A) Mangement
 - 1. Internal procedure, controls built in the procedure and management controls
 - B) Risk management, Compliance, Bank- and Information Security/ BCP/ DRP, Prevention of fraud
- II. Audit Comitee
 - A) Internal Audit,
 - B) Audit

In order to ensure the independence of control functions,

- 1) the control function's staff shall not engage in any activities under their control;
- 2) it shall be organisationally separate from the functional and organisational areas it controls;
- 3) its remuneration shall not be dependent on the performance of the areas controlled;
- 4) the control function shall have access to the resources required for its operation.

Risk management

The Bank's risk control function is carried out by within the Risk Management Division, a dedicated organisational unit independent from the business areas. The framework of risk management and control is provided by an appropriately structured regulatory hierarchy, ensuring prudent banking operation through abstract guidelines at a high level and through increasingly detailed instructions and rules of procedure at the lower levels. In order to reasonably limit the assumption of risks, limits are applied in order to observe risk levels so as to ensure that targets are achieved in accordance with the relevant risk appetite.

The function is given sufficient priority during the decision-making process in order to ensure that risk criteria are assessed and sufficiently considered when making any decision.

Compliance

The compliance function covers the institution as a whole as well as each organisational unit, business area and activity, in particular with regard to ethic, conflict of interest issues, market abuses and the prevention of money laundering. The Compliance Directorate, an organisational unit independent of business and other banking area, performs the compliance function of the Bank. The activities of the Compliance Directorate are determined by compliance statute issued as a group-level directive also contains the expectations of MFB Zrt. regarding the compliance activities of the companies belonging to the MFB Group.

Internal audit

The Bank maintains an autonomous internal audit department, which is structurally and functionally independent of its other areas; the resources required for internal audit activities are made available on a continuous basis. Internal audit is an independent and objective activity aiming to provide reasonable assurance (verification) and advice with a view to improving the Bank's operation and increase its success. As part of its activities, it examines and provides reasonable assurance, supported by sufficient evidence, on whether the risk management, governance and control systems, and processes developed and operated by management, comply with the relevant requirements. It promotes the achievement of the Bank's objectives through an appropriate and efficient methodology and through risk-based control activities.

Information system

In addition to the regulation of processes and the conscious separation of functions and responsibilities, the level of control of processes is also improved within the information systems. In the majority of its basic processes, the Bank applies information systems that purposefully support the strengthening of the control environment of processes, thus ensuring the appropriate implementation of processes through various built-in automated mechanisms. Access to the information system is granted through multi-level filters (business manager, data owner), which are regularly reviewed. Authorisations are assigned in a way that ensures that each employee is granted active authorisation only to applications that are relevant to his or her duties, and in addition, staff responsible for data-entry and approval functions are separated from each other.

Built-in and follow-up controls

The Bank designs its administrative processes and regulatory documents are a way that enables controls

to be built into the various processes. Controls are thus incorporated into the various processes in order to ensure that any task should only be carried out once the previous task has been verified and corrected where appropriate, in order to ensure the conformity of the inputs of complementary tasks. No single operation may be carried out, processed and verified by the same person, as that would not ensure the identification and correction of errors detected during implementation.

The Bank's regulatory documents set out the task and process-specific control points, i.e. the control activities. The Bank's procedures are developed in a way that ensures that any transaction is only implemented after a documented review.

At the Bank, the heads of the competent organisational units are responsible for the implementation of built-in control and management control.

Management control

The various management levels and the organisational structure aim to facilitate the efficient achievement of the Bank's objectives and strategy. Management control functions must be carried out at each level of management. Management control tools include requiring employees to report, requesting reports, exercising the right to sign documents, the verification of the fulfilment of tasks from a formal and substantive point of view, on-site reviews carried out in person and the operation of the management information system. The heads of individual organisational units shall oversee their team members and require them to report on a regular basis, as provided for in internal regulations and rules of procedure. The detailed rules for management control, including reports and business trips, are set out in the regulatory documents.

Management information system

The development and operation of a management information system encompassing all of its activities are an important element of the Bank's control system. The purpose of the management information system is to ensure that consistent and comprehensive information are available for the various levels of management during governance and control.

The Bank's management information system includes the entirety of Bank and Group-level information generated for the management on a timely basis at sufficient depth as well as the system that forwards such collected and properly processed information to the user in due time, while being capable of responding to changes.

The internal reports constituting the management information system, the frequency of submission of such reports and the indication of the relevant management level shall be set out in a regulatory document and be regularly reviewed.

Exercising shareholder control

The Bank shall exercise control over the organisations belonging to the MFB Group. As part of such shareholder supervision, the Bank extends the elements of its internal control system listed above to an extent that ensures that the operation of the various companies is appropriately monitored and governed, and that the common goals of the MFB Group are achieved, as well as ensuring the requisite and sufficient exchange of information between the Bank and other Group companies.

1.7. Information on whether the auditor performed any activities not related to auditing.

The Bank's auditor for the 2023 financial year was the K-E-S AUDIT Könyvvizsgáló, Könyvvezető és Adószakértő Korlátolt Felelősségű Társaság.

The MFB Group availed itself of certain non-audit services (other than prohibited non-audit services) from the K-E-S AUDIT Könyvvizsgáló, Könyvvezető és Adószakértő Korlátolt Felelősségű Társaság Network.

1.8. An overview of the Company's publication policy and its insider trading policy.

A separate policy provides for the prohibition of insider trading and market manipulation, stipulating that persons performing managerial duties and persons closely associated with them and employees having access to inside information are prohibited from entering into transactions or charging other persons with entering into transactions involving securities issued by the Bank or derivatives or other financial instruments related to said securities. The Company has not implemented a share-based incentive scheme.

With regard to the publishing of information, the Company acts in accordance with the applicable laws and stock exchange regulations.

1.9. An overview of the method of exercising shareholder rights.

The Company's capital stock amounts to HUF 519,900,000,000 (Five Hundred and Nineteen Billion Nine Hundred Million Forints), which consists of 519,900 printed registered ordinary shares of a nominal value of HUF 1,000,000 each. The Company's shares are non-transferable. Each share embodies the same rights.

Where the Company's capital stock is increased from assets additional to the capital stock, the new shares are acquired by the State without consideration. Depending on the decision of the person exercising shareholder's rights, the capital stock may be reduced by reducing the number or the nominal value of the shares, or both. The person exercising shareholder's rights shall not pay any amount out of the capital stock before the reduction in the capital stock has been registered in the Companies Register.

The Board of Directors shall be entitled to issue shares of combined denomination and to break up shares of combined denomination. The Board of Directors shall keep the register of shareholders on the registered shares in accordance with the provisions of the Hpt. Act and Act V of 2013 on the Civil Code (hereinafter: Civil Code). The register of shareholders shall be accessible to any person.

1.10. A brief presentation of the rules for the conduct of the General Meeting.

Since the Company is a single-member joint-stock company, it has no shareholders' meeting; matters under the competence of the founder are decided upon by the person exercising shareholder's rights in writing, by a founder's resolution, subject to the provisions applicable to the Company. Proposals for the person exercising shareholder's rights shall be approved by the Company's Board of Directors and discussed by the Supervisory Board. Any decision shall take effect on its communication to the executive officers.

1.11 Presentation of the issuer's compliance with Section IV. of Act 67 of 2019 on the incentivisation of long-term shareholder participation and harmonization of particular other acts.

The company is not subject to Act LXVII of 2019 on the Promotion of Long-Term Shareholder Participation and the Amendment of Certain Acts for the Purpose of Legal Harmonization, so the regulations in question do not apply to the company.

Corporate Governance Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance Report, the Company makes a statement regarding the extent to which it has implemented in its own corporate governance practice the recommendations and proposals specified in the relevant sections of the Corporate Governance Recommendations issued by the Budapest Stock Exchange Ltd., by completing the following tables. These tables provide an overview for the investors of the extent of the compliance - by the relevant company - with certain requirements set out in the Corporate Governance Recommendations at glance, and enable easy comparison of the practices of the specific companies.

Level of compliance with the Recommendations

The Company indicates whether it follows the relevant recommendation or not, and if not, briefly explains the reasons why it did not follow that specific recommendation.

R 1.1.1 Does the Company have an organisational unit dealing with investor relationship management, or a designated person to perform these tasks?

Yes.

R 1.1.2 Are the Company's Articles of Association available on the Company's website?

Yes.

R 1.1.4 If the Company's Articles of Association allow shareholders to exercise their rights in their absence, did the Company publish the methods and conditions of doing so, including all necessary documents?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting. In lieu of the shareholder's meeting, matters under the competence of the supreme decision-making body are decided on by a founder's resolution issued by the person exercising shareholder's rights, which decision is equivalent to the decision of the shareholder's meeting.

R 1.2.1 Did the Company publish on its website a summary document containing the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.2 Did the Company publish the exact date when the range of those eligible to participate in a given company event is set (record date), and also the last day when the shares granting eligibility for participating in a given company event are traded?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.3 Did the Company hold its General Meetings in a manner providing for maximum shareholder participation?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.6 The Company did not restrict the shareholders' right to designate a different representative for each of their securities accounts to represent them at any General Meeting. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.7 For proposals for the agenda items, were the Board of Directors' draft resolution and also the Supervisory Board's opinion disclosed to the shareholders?

Yes.

R 1.3.3 The Company did not restrict the right of its shareholders attending a General Meeting to request information, add comments and submit proposals, or set any preconditions for these with the exception of some measures taken to conduct the General Meeting in a correct manner and as intended. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.4 By answering the questions raised at the General Meeting, did the Company ensure compliance with the information provision and disclosure principles set out in legal regulations and BSE requirements? (If no such question arose the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.5 Did the Company publish on its website the answers to the questions that the representatives of the Company's boards or its auditor present at the General Meeting could not satisfactorily answer at the meeting within 3 working days following the General Meeting, or an official statement explaining why it refrained from giving answers? (If there was no such event the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.7 Did the Chairman of the General Meeting order a recess or suggest that the General Meeting be postponed when a proposal or proposal relating to a particular issue on the agenda was submitted which the shareholders hadn't had a chance to become familiar with before the General Meeting? (If there was no such submission the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.8.1 The Chairman of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling executive officers and Supervisory Board members. (If there was no election or recall the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's

meeting, but the above principle was observed in respect of the decision of the person exercising shareholder's rights.

R 1.3.8.2 For executive officers or Supervisory Board members, whose nominations were supported by shareholders, did the Company disclose the identity of the supporting shareholder(s)? (If there was no supporting shareholder the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.9 Prior to discussing agenda items concerning the amendment of the Articles of Association, did the General Meeting pass a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific way? (If the Articles of Association has not been modified the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.10 Did the Company publish the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.6.1.1 Do the Company's publication guidelines cover the procedures for electronic, online disclosure?

Yes.

R 1.6.1.2 Does the Company design its by considering the aspects of disclosure and the information of investors?

Yes.

R 1.6.2.1 Does the Company have an internal publication policy in place which covers the processing the information listed in Section 1.6.2 of the Recommendations document?

Yes.

R 1.6.2.2 Do the internal regulations of the Company cover the methods for the assessment of events judged to be important for publication?

Yes.

R 1.6.2.3 Did the Board of Directors/Governing Board assess the efficiency of the publication processes?

No. Explanation: the Company's internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company's website as well as in the

places of mandatory publication prescribed by law. The shareholder is notified by the Board of Directors in the annual financial report.

R 1.6.2.4 Did the Company publish the findings of the efficiency assessment of the publication process?

No. Explanation: the Company's internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company's website as well as in the places of mandatory publication prescribed by law. The shareholder is notified by the Board of Directors in the annual report.

R 1.6.3 Did the Company publish its annual company event calendar?

No. Explanation: since the Company is a single-member joint-stock company, no corporate events calendar has been drawn up. On the company website, market operators are notified of any major announcements (loan schemes and financing opportunities), financial statements, press releases, events and publications. Since the strategic objectives and main activities of MFB Zrt. are set out for the public in the MFB Act, any information for the public is only required in the case of a change in such objectives and activities. The Company's strategic objectives and their implementation are described in the annual report, which is published on the company website in Hungarian and English.

R 1.6.4 Did the Company publish its strategy, business ethics and policies regarding other stakeholders?

No. Explanation: Since the strategic objectives and main activities of MFB Zrt. are set out for the public by law (MFB Act), no specific information for the public needs to be published. The Company's strategic objectives and the implementation of these are described in the annual report, which is published on the company website. The major detailed conditions of the Company's main activities, the rules for credit products, their rules of procedure and the names of refinancing partners involved in the implementation of specific loan programmes are published on the company website on a continuous basis. The Company's Ethics Statement and the Anti-Corruption Policy adopted by the Board of Directors of MFB Zrt are available on the company website.

R 1.6.5 Did the Company publish career information about Executive Board/ Board of Directors / Supervisory Board and management members in its annual report or on the company website? (If it wasn't published in the current year, but in the year of the election and only in the GM proposals (not on the website), then the answer is: YES)

No.

R 1.6.6 Did the Company publish all relevant information about the internal organisation and the operation of the Board of Directors / Governing Board and the Supervisory Board, about the work of the management, the assessments of these and the changes in the current year?

No. Explanation: Due to the fact that the Company is privately held, it is not subject to such disclosure obligation.

R 1.6.8 Did the Company publish its risk management guidelines and information about its system of internal controls, the main risks and the principles for their management?

Yes.

R 1.6.9.1 Did the Company publish its guidelines relating to the trading of its shares by insiders?

No. Explanation: The shares of the Company are non-negotiable and, therefore, no policies have been drawn up regarding the trading of shares. Members of the Board of Directors, the Supervisory Board and the management may not acquire an interest in the Company's securities. There is no share-based incentive scheme.

R 1.6.9.2 Did the Company disclose the share of the Board of Directors / Governing Board, Supervisory Board and management members in the securities issued by the Company in the annual report or in some other way? (If the above mentioned senior officers do not have any share the answer is: YES)

No. Explanation: Members of the Board of Directors, the Supervisory Board and the management may not acquire shares in the company's securities.

R 1.6.10 Did the Company publish the relationship of Board of Directors / Governing Board, Supervisory Board and management members may have with third parties which could affect the operation of the Company?

No. Explanation: the conflict of interest rules concerning employees and members of the Board of Directors and the Supervisory Board are provided for in the MFB Act, the Hpt. Act and the Civil Code, whereas an internal policy ensures compliance with such rules.

R 2.1.1 Does the Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors / Governing Board?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the supreme decision-making body are decided on by a founder's resolution issued by the person exercising shareholder's rights, which is equivalent to a resolution of the shareholder's meeting. The article of association contains clear provisions regarding the responsibilities of the founder and the Board of directors.

R 2.2.1 Does the Board of Directors / Governing Board have a rules of procedure in place defining the organisational structure, the actions for arranging for and conducting the meetings and the tasks regarding the adopted resolutions, as well as other issues related to the operation of the Board of Directors / Governing Board?

Yes.

R 2.2.2 Does the Company publish the procedure used for nominating Executive Board/ Board of Directors members and the principles for determining their remuneration?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and discharge of members of the Board of Directors fall under the competence of the person exercising shareholder's rights.

R 2.3.1 Does the Supervisory Board provide a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it, in its rules of procedure and work plan?

Yes.

R 2.4.1.1 Did the Board of Directors / Governing Board and the Supervisory Board hold meetings periodically at a predefined interval?

Yes.

R 2.4.1.2 Did the rules of procedure of the Board of Directors / Governing Board and the Supervisory Board provide rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic telecommunications means?

Yes.

R 2.4.2.1 Did board members have access to the proposals to be presented at the meeting of the respective board at least five days prior to the meeting?

Yes.

R 2.4.2.2 Did the Company arrange the proper conduct of the meetings, the drawing up of the meeting minutes and management of the resolutions made by the Board of Directors / Governing Board and the Supervisory Board?

Yes.

R 2.4.3 Do the rules of procedure provide for the regular or ad hoc participation of non-board members at respective board's meetings?

Yes.

R 2.5.1 Were the members of the Board of Directors / Governing Board and the Supervisory Board nominated and elected in a transparent process, and was the information about the candidates made public in due time before the General Meeting? (If there was no nomination and election the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and discharge of members of the Board of Directors and the Supervisory Board and determining the remuneration of the members and Chair of the Board fall under the competence of the person exercising shareholder's rights.

A 2.5.2 Does the composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations?

Yes.

A 2.5.3 Did the Company ensure that the newly elected Board of Directors / Governing Board

and Supervisory Board members became familiar with the structure and operation of the Company and their tasks were carried out as members of the respective boards? (If there was no newly elected member in the current year: YES)

Yes.

R 2.6.1 Did the Governing Board / Supervisory Board request (in the context of preparing the annual corporate governance report) its members considered to be independent to confirm their independence at regular intervals? (If there is no independent member the answer is: YES)

No. Explanation: The Board of Directors does not request its members, considered to be independent, to confirm their independence at regular intervals.

R 2.6.2 Does the Company provide information about the tools which ensure that the Board of Directors / Governing Board assesses objectively the management's activities?

No. Explanation: The Company is a single-person joint-stock company, where the Board of Directors is responsible for monitoring the management's performance. Fees are determined by the person exercising employer's rights. The employer's rights over the CEO are exercised by the Minister exercising the government's exclusive shareholder's (owner's) rights. The Minister decides on the selection, appointment, recall and discharge of the Chair and the members of the Board of Directors, members and the Chair of the Supervisory Board, members of the Audit Committee and the Chief Executive Officer.

R 2.6.3 Did the Company publish its guidelines concerning the independence of its Governing Board / Supervisory Board members and the applied independence criteria on its website?

No. Explanation: On its website, the Company does not specifically publish the guidelines concerning the independence of the Board of Directors and the Supervisory Board and the relevant independence criteria, as they are provided for in the Hpt. Act, the Civil Code, the MFB Act and the Kgtv. Act.

R 2.6.4 Does the Supervisory Board of the Company have any members who has held any position in the Board of Directors or in the management of the Company in the previous five years, not including cases when they were involved to ensure employee participation?

Yes.

R 2.7.1 Did members of the Board of Directors / Governing Board inform the Board of Directors / Governing Board and (if applicable) the Supervisory Board (or the Audit Committee if a uniform governance system is in place) if they, or individuals they have business relations with, or their relatives have interest in any business transactions of the Company (or any subsidiaries thereof) which excludes their independence? (If there was no such transaction the answer is: YES)

Yes.

R 2.7.2 Were transactions and assignments between members of boards/ members of the management/individuals closely associated with them and the Company/subsidiaries of the Company carried out in accordance with the Company's general business practice but applying more stringent transparency rules compared to general business practice, and were

they approved? (If there was no such transaction the answer is: YES)

Yes.

R 2.7.3 Did board members inform the Supervisory Board / Audit Committee (Nominating Committee) if they had received an appointment for board membership or management position of a company not belonging to the Company Group? (If there was no such appointment, the answer is YES)

No. Explanation: members of the Company's Board of Directors and Supervisory Board may only be executive officers or Supervisory Board members as specified by the MFB Act. When they are elected, members must issue a statement on their existing status as an executive officer and their Supervisory Board membership, and must notify the competent organisational unit of the Company of any change to such status in accordance with MFB Zrt's relevant policy.

R 2.7.4 Did the Board of Directors / Governing Board develop guidelines for the flow of information and the management of insider information within the Company, and monitor compliance with them?

Yes.

R 2.8.1 Did the Company create an independent internal audit function that reports directly to the Audit Committee / Supervisory Board?

Yes.

R 2.8.2 Does Internal Audit have unrestricted access to all information necessary for carrying out audits?

Yes.

R 2.8.3 Did shareholders receive information about the operation of the system of internal controls?

Yes.

R 2.8.4 Does the Company have a function ensuring compliance (compliance function)?

Yes.

R 2.8.5.1 Is the Board of Directors / Governing Board or a committee operated by it responsible for the supervision and management of the entire risk management of the Company?

Yes.

R 2.8.5.2 Did the relevant organisation of the Company and the General Meeting received information about the efficiency of the risk management procedures? (If such information has been received by the relevant organisation or the GM, but not in the current year, the answer is: YES)

Yes.

R 2.8.6 With the involvement of the relevant areas, did the Board of Directors / Governing Board develop the basic principles of risk management taking into account the special idiosyncrasies of the industry and the Company?

Yes.

R 2.8.7 Did the Board of Directors / Governing Board define the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives?

Yes.

R 2.8.8 Did internal control systems functions report about the operation of internal control mechanisms and corporate governance functions to the competent board at least once a year?

Yes.

R 2.9.2 Did the Board of Directors / Governing Board invite the Company's auditor in an advisory capacity to the meetings on financial reports?

Yes.

Level of compliance with proposals

P 1.1.3 Does the Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights also when they are not present in person?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.4 Did the Company determine the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.5 Does the voting procedure used by the Company ensure a clear, unambiguous and fast determination of voting results, and in the case of electronic voting, also the validity and reliability of the results?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.1.1 Were the Board of Directors/Governing Board and the Supervisory Board represented at the General Meeting?

No. While the Company has no shareholders' meeting, the Board of Directors and the Supervisory Board submit their opinion on the founder's resolutions issued by the person exercising shareholder's rights.

P 1.3.1.2 In the event the Board of Directors/Governing Board and the Supervisory Board was absent, was it disclosed by the Chairman of the General Meeting before discussion of the agenda began?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.1 The Articles of Association of the Company did not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments there if that person's presence and expert opinion is presumed to be necessary or help provide information to the shareholders and help the General Meeting make decisions. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.2 The Articles of Association of the Company did not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments there. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.6 Does the annual report of the Company prepared as specified in the Accounting Act contain a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's annual operation?

Yes.

P 1.4.1 In line with Section 1.4.1, did the Company pay dividend within 10 working days to those of its shareholders who had submitted all the necessary information and documents?

No. Explanation: no dividends were paid by the Company.

P 1.6.11 Did the Company publish its information in English as well, in line with the provisions of Section 1.6.11?

Yes

P 1.6.12 Did the Company inform its investors about its operation, financial situation and assets on a regular basis, but at least quarterly?

Yes.

P 2.9.1 Does the Company have in place internal procedures regarding the use of external advisors and outsourced activities?

No. Based on the provisions of Act CXX of 2001 on capital market MFB Zrt. is not obliged to prepare a half-yearly report, therefore the Bank's investors can find out about the operation, financial and property status of MFB Zrt. from the annual audited individual and consolidated reports – regularly published on the Bank's websites and in the places of mandatory publication – and from the half-yearly unaudited, non-consolidated financial statements.

DECLARATION

On behalf of MFB Hungarian Development Bank Private Limited Company (hereinafter: “Bank” or “MFB Zrt.”), we hereby declare that the stand-alone financial statements for the year 2023, prepared in accordance with International Financial Reporting Standards as adopted by the EU contain true data and statements, and do not fail to disclose any fact that may be of relevance for assessing the financial position of the Bank. The annual stand-alone financial statements for the year 2023, prepared in accordance with the applicable accounting standards and to our best knowledge, give a true and fair view of the assets, liabilities, financial position and profit of the Bank, and the annual stand-alone management report gives a fair view of the position, development and performance of the Bank, together with a description of the principal risks and uncertainties that they face.

The Bank has prepared its annual stand-alone financial statements in the format prescribed by the COMMISSION DELEGATED REGULATION (EU) 2019/815 of 17 December 2018 on supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: “ESEF”). The digitally signed version of the annual stand-alone financial statements – as part of the annual report – available for inspection at the Bank's registered office (H-1051 Budapest, Nádor utca 31., Hungary), and can be downloaded from the official website of MFB Zrt. at the following link:

<https://www.mfb.hu/en/reports-s2012>

Budapest, 8 April 2024

dr. Levente Sipos - Tompa
Chairman and Chief Executive Officer

Vojnits Tamás Péter
Managing Director

**MFB HUNGARIAN DEVELOPMENT BANK
PRIVATE LIMITED
COMPANY**

Annual Stand-alone Financial Statements

in accordance with International Financial Reporting Standards
as adopted by the EU

31 December 2023

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MFB Hungarian Development Bank Private Limited Company
Statement of Stand-alone Financial Position – 31 December 2023
(amounts presented in million HUF)

ASSETS	Notes	2023	2022
Cash, cash balances at central banks and other demand deposits	4	400 036	96 028
Financial assets held for trading	9	2 715	2 454
Derivatives		2 715	2 454
Non-trading financial assets mandatorily at fair value through profit or loss	5	638 196	405 265
Debt securities		603 156	369 647
Loans		35 040	35 618
<i>Loans to customers</i>		3 790	4 259
<i>Loans to banks</i>		31 250	31 359
Financial assets at fair value through other comprehensive income	6	51 624	61 133
<i>Of which assets encumbered</i>		890	729
Equity instruments		570	596
Debt securities		51 054	60 537
Financial assets at amortized cost	7	1 794 576	1 783 518
<i>Of which assets encumbered</i>		302 255	316 275
Debt securities		436 980	432 195
Loans		1 314 303	1 332 881
<i>Loans to customers</i>		1 236 012	1 252 554
<i>Loans to banks</i>		78 291	80 327
Other financial assets		23 033	4 220
Deposits at central and other banks		20 260	14 222
Derivatives – Hedge accounting	9, 10	7 831	15 128
Fair value changes of the hedged items in portfolio hedge of interest rate risk	10	11 550	0
Investments in subsidiaries and associates	8	433 214	384 650
Property, plant and equipment	11	4 535	4 503
Intangible assets	12	6 462	5 924
Tax assets		673	0
Current tax assets		673	0
Deferred tax assets		0	0
Other assets	13	23 841	29 335
Receivables from the state due to currency-hedging agreement	14	166 085	182 040
TOTAL ASSETS		3 541 338	2 969 978

The accompanying notes to annual financial statements on pages 8 to 140
form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Stand-alone Financial Position – 31 December 2023
(amounts presented in million HUF)

LIABILITIES	Notes	2023	2022
Financial liabilities held for trading	9	8 508	4 062
Derivatives		8 508	4 062
Financial liabilities measured at amortized cost	15	2 818 041	2 256 124
Customer deposits		111 256	48 855
Loan from banks		933 746	786 491
Debt securities issued	15.1	1 762 504	1 402 562
Other financial liabilities		10 535	18 216
Derivatives – Hedge accounting	9, 10	14187	0
Provisions	16	6 246	4 706
Tax liabilities	31	88	594
Current tax liabilities		0	559
Deferred tax liabilities		88	35
Other liabilities	17	65 453	82 851
TOTAL LIABILITIES		2 912 523	2 348 337
Share capital	18	519 900	519 900
Share premium	18	81 870	81 870
Valuation reserve		(1 063)	(5 892)
Retained earnings		26 816	24 705
Other reserves	19	1 292	1 058
TOTAL EQUITY		628 815	621 641
TOTAL EQUITY AND LIABILITIES		3 541 338	2 969 978

Budapest, 8 April 2024

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Tamás Péter Vojnits
Managing Director

The accompanying notes to annual financial statements on pages 8 to 140
form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Stand-alone Income Statement - 31 December 2023
(amounts presented in million HUF)

	Notes	2023	2022
Interest income calculated using the effective interest method		127 265	98 798
Other similar income		80 456	9 813
Interest expenses		(194 020)	(71 033)
Net interest income	21	13 701	37 578
Dividend income	22	8 019	1 405
Fee and commission income		5 467	5 094
Fee and commission expenses		(982)	(1 004)
Net Fee and commission income or expenses	23	4 485	4 090
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		60	229
Gains or (-) losses on financial assets and liabilities held for trading, net	24	(6 420)	(1 254)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	25	22 305	11 096
Gains or (-) losses from hedge accounting, net	10	(1 743)	652
Exchange differences [gain or (-) loss], net		7 711	975
Gains or (-) losses on derecognition of non-financial assets, net		2	0
Other operating revenue and income	26	7 842	9 410
Total operating income		55 962	64 181
Salaries and employee benefits		(9 096)	(8 360)
Other administrative expenses		(4 625)	(4 050)
Administrative expenses	27	(13 721)	(12 410)
Depreciation		(1 340)	(1 318)
Other operating expenses	26	(12 866)	(13 198)
Contract modification loss, net	7.1.1	(3 230)	(3 018)
Impairment (-) or reversal of impairment of financial instruments	29	(10 198)	(23 645)
Impairment (-) or reversal of impairment of investments in subsidiaries and associates	30	(11 720)	(3 077)
Impairment (-) or reversal of impairment of non-financial instruments	11, 12	0	0
Profit before tax		2 887	7 515
Tax expense related to profit or loss	31	(542)	(1 321)
Profit for the year		2 345	6 194

The accompanying notes to annual financial statements on pages 8 to 140 form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Stand-alone Other Comprehensive Income - 31 December 2023
(amounts presented in million HUF)

	Notes	2023	2022
Profit for the year		2 345	6 194
Other comprehensive income	6	4 829	(3 503)
Items that will not be reclassified to profit or loss		(24)	35
Change in fair value of equity instruments at fair value through other comprehensive income		(26)	38
Tax impact of items that will not be reclassified to profit and loss		2	(3)
Items that may be reclassified to profit or loss		4 853	(3 538)
Debt instruments at fair value through other comprehensive income		4 942	(3 538)
Fair value change		4 942	(3 538)
Profit recognized in the income statements		0	0
Tax impact of items that will be reclassified to profit and loss		(89)	0
Total comprehensive income for the year		7 174	2 691

The accompanying notes to annual financial statements on pages 8 to 140 form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Stand-alone Changes in Shareholder's Equity - 31 December 2023
(amounts presented in million HUF)

	Notes	Share Capital 18	Share premium 18	Other Reserves 19	Retained earnings	Valuation reserve 6	Total
Balance at 1 January 2022		349 900	81 870	439	19 121	(2 389)	448 941
Profit for the year					6 194		6 194
Other comprehensive income						(3 503)	(3 503)
Total comprehensive income					6 194	(3 503)	2 691
General reserve allocation	19			619	(619)		0
Sale of FVOCI investments					9		9
Capital increase	18	170 000					170 000
Balance at 31 December 2022		519 900	81 870	1 058	24 705	(5 892)	621 641
Profit for the year					2 345		2 345
Other comprehensive income						4 829	4 829
Total comprehensive income					2 345	4 829	628 815
General reserve allocation	19			234	(234)		0
Sale of FVOCI investments					0		0
Capital increase	18	0					0
Balance at 31 December 2023		519 900	81 870	1 292	26 816	(1 063)	628 815

The accompanying notes to annual financial statements on pages 8 to 140
form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Stand-alone Cash Flows - 31 December 2023
(amounts presented in million HUF)

	Notes	2023	2022
Operating cash flow			
Profit/(loss) before tax		2 887	7 515
<i>Adjustments to profit before tax</i>			
Depreciation and amortization		1 340	1 305
Fair valuation impact	9, 10	(14 146)	(10 494)
Net profit/loss on sale of non-financial instruments		(2)	0
Net interest income	21	(13 701)	(37 578)
Dividend income	22	(8 019)	(1 405)
Change in provisions		1 783	884
Change in impairment		20 231	25 884
Operating cash flow		(9 627)	(13 889)
<i>Decrease/(increase) in operating assets</i>			
Non-trading financial assets mandatorily at fair value through profit or loss		(207 890)	(230 609)
Financial assets at fair value through other comprehensive income		15 439	(32 489)
Financial assets at amortized cost, except debt securities		(4 011)	(161 918)
Other assets		1 932	1 136
Receivables from the State due to currency-hedging agreement	14	15 954	(19 959)
<i>Increase/(decrease) in operating liabilities</i>			
Financial liabilities measured at amortized cost, except issued bonds		198 636	82 209
Other liabilities		(5 738)	42 919
<i>Actual cash flow movements</i>			
Interest received		204 175	90 750
Dividend received	22	8 019	1 405
Interest paid		(194 310)	(44 706)
Income tax paid		(1 224)	(760)
Net cash provided by/ (used in) operating activities		21 355	(285 911)

The accompanying notes to annual financial statements on pages 8 to 140
form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Stand-alone Cash Flows - 31 December 2023
(amounts presented in million HUF)

	Notes	2022	2021
Cash flow from investing activities			
Payments for debt securities held at amortized cost	7.2	(20 742)	(90 478)
Proceeds from debt securities held at amortized cost	7.2	14 888	37 676
Investments in subsidiaries and associates		(103 081)	(155 188)
Proceeds from sale of investments in subsidiaries and associates		0	0
Payments for property, plant and equipment and intangible assets		(1 914)	(1 800)
Proceeds from sale of property, plant and equipment		5	0
Net cash (used in) / provided by investing activities		(110 844)	(209 790)
Cash flow from financing activities			
Capital increase	18	0	170 000
Proceeds from bond issuance	15.1	723 986	382 821
Repayments for issued bond at maturity	15.1	(330 363)	(124 673)
Finance lease liability payments		(134)	(159)
Net cash provided by financing activities		393 489	427 989
Gross change in cash and cash equivalents		304 000	(67 712)
<i>Cash and cash equivalents as at 1 January</i>	4	96 038	163 750
<i>Cash and cash equivalents as at 31 December</i>	4	400 038	96 038

The accompanying notes to annual financial statements on pages 8 to 140
form an integral part of these annual financial statements

1. PRINCIPAL ACTIVITIES

MFB Hungarian Development Bank Private Limited Company (the “Bank” or “HDB”) is registered as a single, stock company under Hungarian law and is licensed to conduct specialized banking activities.

The legal status, the role, and the activities of the Bank are regulated by Act XX of 2001 on Hungarian Development Bank Ltd., Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, and the Articles of Association.

MFB Zrt. is responsible for providing the necessary development resources to achieve the economic development objectives set out in the Government's medium- and long-term economic strategy, partly independently and partly in cooperation with other domestic and international organizations in the following activities:

- a) the sourcing and mediation of medium and long term domestic and foreign funding and subsidies to achieve economic development aims;
- b) loan and capital financing of investments in connection with – from a national economic aspect – preferential cases, and other state or local government developments and investments, and other developments and investments in connection or for the enlargements of these;
- c) financing loans and capital for companies resident in Hungary – primarily small and medium enterprises sector –, holding funds established by law, agricultural businesses and farmers,
- d) the financial execution of state and local government developments and investments related to EU membership, and the Bank participates in tasks related to the drawing of European Community funds (including mediation of subsidies and sourcing and mediation of resources from international economic or financial institutions);
- e) attend in tasks related to state, communal and international development disbursements (especially management of mediation and use of development disbursements and subsidies, attend in relating contributory tasks, settlement and valuation of used disbursements);
- f) the mediation of EU funds and in connection with this, loan and equity financing, providing guarantee and surety;
- g) the exercising of owners’ rights in the name of the Hungarian State, and in case of State owned companies participate in the realization of significant developments, investments, expansion, increasing of effectiveness and improvement of competitiveness and other roles defined in the HDB Law (see Note 37)

to ensure sufficient development funding to achieve the economic development aims determined by the Government’s medium and long term economic strategy.

The Bank’s registered office is located at Nádor street 31, 1051 Budapest, Hungary. The Bank operates in Hungary. The Bank’s website address is www.mfb.hu.

The Hungarian State has a 100% ownership share in the Bank. As of the State, as a shareholder, is represented by the minister responsible for national economy.

The Bank is obliged to have its annual financial statements audited. The details of the auditor are as follows:

Emese Tatár registered auditor
Registration number: 006433
K-E-S AUDIT Ltd.
20. Báthory Street, Budapest 1054
Firm registration number: 001587

The person in charge to direct and manage the related accounting services
Krisztina Sulyok director
Chartered accountant registration number: 006660

Those entitled to sign the annual financial statements
dr. Levente Sipos-Tompa Chairman and Chief Executive Officer
(15/A Táltos Street Budapest, 1123)
and
Tamás Péter Vojnits Managing Director
(22. Pozsonyi Street, Budapest, 1039)

2. BASIS OF PREPARATION

Statement of compliance

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) as adopted by the EU and in accordance with the provisions of act C of 2000 on accounting in force in Hungary for companies preparing their annual accounts under IFRS.

These Annual Financial Statements were approved by the Board of Directors on 8 April 2024.

The Bank prepares and discloses its statutory annual report in accordance with Act C of 2000 on Accounting. The Bank is required to prepare its consolidated financial statements in accordance with EU IFRSs. The Consolidated Financial Statements of the Bank prepared in accordance with EU IFRSs for 2023 - which are the statutory consolidated financial statements of the Bank – was also approved by the Board of Directors on 8 April 2024.

The Bank’s consolidated and separate financial statements will be published on the same day.

Basis of measurement

These annual financial statements have been prepared on historical cost or amortized cost basis except for those, which are measured at fair value. The Bank measures the following assets and liabilities at their fair value:

- derivative financial instruments,
- financial assets or liabilities measured at fair value through profit or loss, and
- financial assets at fair value through other comprehensive income.

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

Functional currency

Items included in the annual financial statements are measured using Hungarian Forint, the currency of the primary economic environment in which the Bank operates ('the functional currency'). These annual financial statements are presented in Hungarian Forints rounded to the nearest million ('HUF million').

Foreign exchange rates used in these annual financial statements were the following:

	31 December 2023	31 December 2022
	(HUF)	(HUF)
EUR	382.78	400.25
USD	346.44	375.68
JPY	2.4414	2.8437
GBP	440.19	451.98
PLN	88.04	85.35
CHF	412.28	406.93
CZK	15.48	16.58

Reporting period

These annual financial statements are prepared for the reporting period between 1 January 2023 and 31 December 2023. The end of the reporting period is the reporting date.

Use of estimates and judgements

The preparation of the Bank's annual financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of income, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the annual financial statements with substantial management judgement and/or estimates are summarized below with respect to judgements/estimates involved.

Impairment

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of contractual future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by several factors, in which changes can result in different levels of allowances. The Bank's expected credit loss calculations (ECL) are outputs of complex models with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit rating model, which assigns default probability to each rating category

- The Bank's criteria for assessing if there has been a significant increase in credit risk and thus allowances for financial assets should be measured on a lifetime expected credit loss basis and the qualitative assessment
- Development of ECL models, including different ones: formulas, relationships between macroeconomic scenarios and economic inputs, collateral values; Impact on the probability of defaults, expected exposures at defaults and loss given defaults

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Further details see in note 3. b) vi) and note 34.

Fair value

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 34.

Legal risk

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank considers several factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and other contingencies see Note 16.

The effects of Covid-19 and the war emergency

The Covid-19 pandemic and the war emergency affected many areas of the economy, in response to which each country has made its own packages and rules to help and restart the economy. The Bank assessed the impact on its own activities and on the activities of its clients and took them into account where it considered it necessary. The Bank's management has assessed its ability to sustainably continue the operation of the business and is satisfied that it has the resources necessary to continue business activities for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. The measures taken due to Covid-19 and the war emergency, and any effects were presented in the appropriate locations of the report, so see notes 7.1.1, 13 and 34 for details.

3. MATERIAL ACCOUNTING POLICIES

a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates of the National Bank of Hungary (NBH) prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except cash flow hedges and net investment hedges which are recognized in other comprehensive income and accumulated in reserves in equity. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to HUF at the foreign exchange rates quoted by the National Bank of Hungary at that date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined.

b) Financial assets and liabilities

Financial assets and liabilities, except for derivative financial instruments are initially recognized on the settlement date, i.e., the date that the Bank transfers the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Derivative instruments are recognized on trade date when the Bank becomes a party of the contractual provisions of the instruments.

i. Recognition

The Bank only measures its “financial assets at amortized cost” if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (hereinafter referred to “SPPI”) on the principal amount outstanding. The details of these conditions are outlined below.

The Bank classifies the following instruments in the FVOCI financial instruments category:

- equity instruments that have been marked in this way at initial recognition;
- debt instruments for which, as a result of the business model test, it has been established that the business model is intended to collect contractual cash flows related to the debt instrument and at the same time to sell financial instruments, and as a result of the SPPI test, the contractual terms of the financial instrument at specified times result in cash flows that are only payments of principal and interest on outstanding principal amounts.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- the expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank has included its full loan portfolio into the "held to collect" business model, since its primary objective is to collect capital and interest cash flows. Those securities which are held in order to maintain the long-term liquidity or which has been deposited (pledged) behind credit programs, were classified in the "held to collect" business model, while the securities which used for shorter liquidity purposes were classified into "held to collect and sale" business model. The Bank does not have any securities in the "held for sale" category, given its operational specialities, thus this business model category is irrelevant.

SPPI test

As a second step of its classification process the Bank assesses the contractual terms of its financial assets to identify whether they meet the criteria of the SPPI test. The Bank must consider the contractual terms of the financial instruments in order to be able to determine whether the contractual cash flows consist solely of capital and interest payments. This implies an assessment of whether the financial instrument is linked to such a contractual condition based on which the amount of the contractual cash flows or the timing of those may ultimately not pass the SPPI test. The SPPI test is carried out at instrument level (one by one) and, where applicable, at the level of the homogenous products (combined). The most important elements of the interest included in the loan agreement are the time value of money, the costs incurred by the Bank and the credit risk. To perform the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending agreement - do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at Fair Value through Profit and Loss (hereafter referred to as "FVTPL").

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value. Except for financial assets and financial liabilities measured at fair value through profit and loss (FVTPL), transaction costs are added to (in case of financial assets), or subtracted from (in case of financial liabilities), this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the day one profit or loss, as described below.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

ii. Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Bank has transferred the financial asset if, and only if, either:

- the Bank has transferred its contractual rights to receive cash flows from the financial asset or
- it retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the ‘original asset’), but assumes a contractual obligation to pay those cash flows to one or more entities (the ‘eventual recipients’), when all the following three conditions are met:

- the Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset,
- the Bank cannot sell or pledge the original asset other than as security to the eventual recipients,
- the Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either (i) the Bank has transferred substantially all the risks and rewards of the asset or (ii) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank’s continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires. The difference between the carrying value of the original financial liability and the consideration paid (including the newly recognized financial liability) is recognized in profit or loss.

Modifications subject to derecognition of financial assets and liabilities

Debt instruments exchanged to another one under substantially modified terms and conditions is treated as a derecognition of the existing financial asset or liability and a re-recognition of a new financial instrument. Similarly, a substantial modification of the terms of an existing financial asset or financial liability or part thereof (whether or not it has been caused by the counterparty's financial difficulties) is treated as derecognition of the original financial asset or liability and a new financial instrument is recognized. The new financial liability based on the modified terms is recognised at fair value. The new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset,
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The basic terms of a financial instrument changes significantly when the main risk factors behind the original instrument are modified. In particular, the Bank considers, but not limited to, the following factors when assessing whether the modification is subject to a derecognition and a re-recognition:

- the extent of the difference between the modified and the original cash flows, where a change is more than 10%
- change of borrower with a new risk profile (only in case of financial assets)
- change in SPPI result due to the effect of modified contractual terms
- change in currency

When comparing the modified and original cash flows, the Bank examines the extent of the difference between the discounted present value of the changed cash flows – including paid fees in case of liabilities and in case of assets deducting the fees paid and including the fees received – under the new conditions and the discounted present value of the remaining original contractual cash flows by using the original effective interest rate in both cases.

Fees received include, in case of assets, amounts paid by the borrower to the Bank or on its behalf, and in case of liabilities, amounts paid by the lender to or on behalf of the Bank. The fees paid include, in the case of assets, amounts paid by the Bank to or on behalf of the borrower, and in case of liabilities, amounts paid by the borrower to the Bank or on its behalf, whether or not they are described as a fee, as part of the exchange or modification. Fees do not include any payments made by the borrower or lender to its own advisers or agents, or other transaction costs incurred by the borrower or lender.

Modifications not subject to derecognition of financial assets and liabilities

When the Bank renegotiates or amends the contractual cash flows of a financial instrument and the renegotiation or modification does not result in the derecognition of the financial instruments, the Bank recalculates the financial instruments gross amortized cost and the difference is recognized in the profit or loss on the line "Contract modification loss, net". The new gross amortized cost is recalculated by the Bank as the present value of renegotiated or modified contractual cash flows, using the original effective interest rate of the financial instruments (in case of purchased or originated credit impaired assets the credit-adjusted effective interest rate is used).

Any modification fee applied is amortized over the remaining life of the financial instruments which is achieved by the recalculation of EIR at modification to reflect the modification fee received. The impact of any additional fees incurred at modification but not directly related to it (e.g. prepayment fees) are recognized directly on "Fee and commission income" when incurred.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss line „Contract modification loss, net". Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iii. Measurement

The Bank classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms (SPPI test) and measured as follows.

Profit or loss on **a financial instrument mandatorily measured at fair value through profit or loss** shall be recognized in income statements in such a way that the Bank recognizes interest income on those assets as „Other similar income", while changes in fair value is recognized as „gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net" line within income statements.

A gain or loss on **debt instruments at fair value through other comprehensive income** shall be recognized in other comprehensive income, through the statement of changes in equity, except for impairment losses, interest income amortized based on effective interest and foreign exchange gains and losses which are recognized in profit or loss, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. All valuation movements for **equity instruments at fair value through other comprehensive income** are recognized directly in equity (Other Comprehensive Income) and on derecognition, the cumulative amount is only transferred to retained earnings but is not transferred to profit or loss, except the dividend received which is always recorded in the profit and loss. The difference between the fair value at the date of derecognition and the selling price is recognized in profit or loss.

For financial assets and financial liabilities carried at **amortized cost**, a gain or loss is recognized in profit or loss when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

iv. Classification

Financial assets or liabilities held for trading are derivatives which are not part of a designated hedge relationship.

Cash, cash balances at central banks and other demand deposits are cash and bank accounts held with the National Bank of Hungary or with other credit institutions, as well as overnight deposits.

Financial assets measured at amortized cost include debt instruments that are included in such business model whose objective is to hold financial assets in order to collect contractual cash flows („held to collect business model”) and have passed the SPPI test. In this category, the Bank classifies its refinancing and direct loans that have passed the SPPI test. Also this category includes those purchased debt securities that the Bank has classified as held to collect.

Non-trading financial assets that are mandatorily measured at fair value through profit or loss includes debt instruments that are included in the held to collect business model but failed the SPPI test. In this category, the Bank presents its refinancing and direct loans that failed the SPPI test. It also includes those venture capital investments that do not meet the definition of equity instruments under IAS 32.

Financial assets measured at fair value through other comprehensive income include debt instruments that the Bank has classified into a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset („held to collect and sale business model”) and have passed the SPPI test. In this category, the Bank shows the portion of its securities that it has classified as a held to collect and sale business model. Equity instruments for which the Bank has chosen the fair value through other comprehensive income option at initial recognition are presented in this category. These are other investments that do not qualify as associates.

Derivatives – hedge accounting includes derivative transactions designated by the Bank into hedge relationship.

Among the **financial liabilities measured at amortised cost**, the Bank presents customer deposits (collaterals behind loans), loans taken, short-term interbank deposits, issued debt securities and other financial liabilities.

v. Amortized cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and in case of financial assets minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses.

The Bank recognizes POCI (Purchased or Originated Credit Impaired) financial assets in its books at their initial fair value, which, unless otherwise stated, is equal to the purchase price of the asset. In calculating the credit-adjusted effective interest rate on POCI assets at initial recognition, the Bank considers the initial estimated credit loss in the estimated cash flows (i.e., life expected credit losses are deducted from estimated contractual cash flows).

vi. Impairment of financial assets

The Bank is applying a forward-looking expected credit loss (hereinafter ECL) approach for its impairment calculation. From 1 January 2019, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL (but including debt securities at fair value through other comprehensive income), together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL impairment/provision is the expected credit loss for 12 months (hereinafter 12mECL) if there has been no significant increase in credit risk since the initial recognition of the asset (liability) or it is considered to be low credit risk at the time of valuation. If there has been a significant increase in credit risk since initial recognition or since the previous valuation, the ECL impairment/provision is the loss calculated over the expected life of the asset.

The 12mECL is the portion of lifetime expected credit loss that represent the ECLs that result from default events on a financial instrument possibly within 12 months after the reporting date.

ECL impairment is calculated for both 12mECL and lifetime expected credit losses on a group basis or, in exceptional cases, on an individual basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. To carry out the evaluation, the Bank compares the non-performance risk of the financial instrument at the reporting date and as of the initial recognition, taking into consideration information that is reasonable and justifiable – without undue cost or effort – and indicates significant increase in credit risk since initial recognition. The Bank assumes that the credit risk of a financial instrument has not increased significantly since the initial recognition if the financial instrument is considered low credit risk at the reporting date.

If the credit risk of a financial instrument has not increased significantly at the reporting date since initial recognition, the Bank calculates the impairment of the financial instrument based on the 12-month expected credit loss (hereinafter: Stage 1). At each reporting date, the Bank calculates the impairment of the financial instrument based on the lifetime expected credit loss if the credit risk of the financial instrument, whether assessed on an individual or group basis, has increased significantly since initial recognition, considering all reasonable and justifiable information, including forward-looking ones (hereinafter: Stage 2 or Stage 3).

Regardless of the above, the Bank always calculates the impairment based on the lifetime expected credit losses for receivables where the IFRS 15 Revenues from contracts with customer standard is applicable and the receivables do not include significant financing components. These include other financial assets where the Bank uses this simplified approach.

Based on the above process, the Bank classifies its loans into stages, as described below:

Stage 1 (performing credit risk category)

Performing asset category, if there is no significant increase in credit risk compared to the initial recognition, or the asset is considered by the Bank to have a low credit risk at the time of valuation. In this stage 1 category, the Bank calculates the expected credit loss based on the 12-month PD (Probability of Default) for all such deals where there was no significant increase in credit risk since initial recognition. This way, the 12-month expected credit loss indicates a lifetime cash flow deficit that occurs as a result of default within a maximum of 12 months after the reporting date, weighted by the probability of default.

Deals are reclassified from this stage only when the credit risk increases significantly since origination and the deal is not considered as low risk. The stage categorization is therefore determined by the Bank at deal level rather than by a borrower level.

Stage 2 (increased credit risk category)

Significant increase in credit risk (deals where the Bank has become aware of negative information about the exposure but does not yet have objective evidence of impairment). The Bank considers a significant increase in credit risk if it becomes aware of negative information about the exposure, but there is no objective and material evidence of impairment yet. Such negative information may include, but is not limited to, the Customer's delay not reaching a significant credit obligation¹ to the Bank or any of its Subsidiaries, a significant deterioration in the probability of the Customer's default, or becoming insolvent. Information received by the Bank during Customer monitoring that relates to the probable future default of the customer is also considered negative information. Furthermore, restructuring where the transaction was performing at the time of the restructuring is considered negative information. The Bank continuously monitors and records the defined criteria for the increase in credit risk. Lifetime credit loss is determined by the Bank using specified risk vectors, lifetime PD, constant loss given default (hereinafter „LGD”) and changing exposure at default (hereinafter „EAD”). When calculating EAD, account shall be taken of the expected change in the exposure of the transaction until maturity.

¹A credit default delay is considered significant if:

a) in the case of non-retail exposure:

- the amount of the customer's liabilities to the Bank or any of its Subsidiaries overdue for more than 90 days (principal, interest or fee payment) exceeds HUF 200 000 (absolut limit),
- the amount of liabilities overdue for more than 90 days exceeds 1% (relative limit) of the amount of the Bank's or any of its Subsidiaries' gross balance sheet receivables from the customer (excluding equity exposures).

b) in the case of retail exposure:

- the amount of the customer's liabilities to the Bank or any of its Subsidiaries overdue for more than 90 days (principal, interest or fee payment) exceeds HUF 40 000 (absolut limit),
- the amount of liabilities overdue for more than 90 days exceeds 1% (relative limit) of the amount of the Bank's or any of its Subsidiaries' gross balance sheet receivables from the customer (excluding equity exposures).

Stage 3 (impaired credit risk category)

Default (non-performing), credit-impaired category. The third stage includes defaulted transactions for which there is either objective evidence of impairment or a probable future default of the debtor. To classify into this category, the Bank monitors the various default events (e.g. delay exceeding the threshold for significant credit default, termination, liquidation proceedings ordered by law, bankruptcy proceedings, forced liquidation proceedings, or other proceedings aimed at terminating the activity, reorganization or restructuring proceedings are in progress, as well as forced restructuring, if the transaction was in default at the time of the restructuring, etc.). The Bank also classifies significant receivables purchased at a discount of more than 20% (POCI) as well as products that it classifies as impaired (e.g. redeemed guarantees) in the category of impaired credit risk. All these marked events are stored in the banking system and ensure traceability of what events led to the classification.

POCI

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest income is subsequently recognized based on a credit adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the scenarios, discounted by the credit adjusted EIR. For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition (write-off) of the financial asset.

Individual and collective impairment

The Bank applies an individual impairment calculation for exposures classified in Stage 3 exceeding HUF 100 million and for transactions exceeding HUF 1 billion that have been placed under Intensive Management. Exposures in Stage 3 that do not reach HUF 100 million are normally subject to collective valuation.

In Stage 1 and Stage 2 categories, transactions are primarily measured on a collective valuation basis, but the Bank may choose individual valuation as well if transaction exceeds the material threshold value set by the Bank, which also relies on quantitative and qualitative factors.

The Bank also uses both collective and individual valuation for its debt securities and loans. In all cases, the impairment is recognized against the „Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss”.

The carrying amount of the financial assets is reduced by using an impairment account, and the loss is recognized in the income statement. If, in subsequent years, due to certain events, the estimated amount of impairment increases or decreases, the accumulated impairment loss previously recognized is increased or decreased using the impairment allowance account. If a previously written off amount subsequently recovers, the amount is also recorded within „Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss”

The calculation of ECLs

The Bank calculates ECLs based on a minimum of three (if this is not possible, at least of two) probability-weighted scenarios in the case of individual valuation to measure the expected cash shortfalls, discounted with the original EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will recover and the value of collateral or the amount that might be received for selling the asset.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest and principals from missed payments.

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Loan commitments and letters of credit

When estimating the lifetime credit loss for undrawn loan commitments, the Bank quantifies the part of the commitment that is expected to be drawn during the maturity period. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the scenarios. The expected cash shortfalls are discounted at the EIR that will be applied to the loan resulting from the loan commitments.

For credit lines, commitments and letters of credit, the ECL is recognized within "Impairment (-) or reversal of impairment of financial instruments" line in the income statements and "Provisions" line within statements of financial position.

Financial guarantee contracts

The Bank's liability under each guarantee is measured at the higher of initially recognized amount less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of the scenarios. The ECL related to financial guarantee contracts are recognized within "Impairment (-) or reversal of impairment of financial instruments".

vii. Collateral valuation

To mitigate its credit risks on financial assets, the Bank requires collaterals, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, chattels, receivables, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. Collaterals are generally assessed at inception and are revalued on a regular basis. However, some collateral, for example, cash or securities relating to margining requirements, are valued daily. To the extent possible, the

Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent appraisers or based on housing price indices.

Collateral repossessed

During the normal course of business, the Bank sometimes repossess real estate collaterals. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

viii. Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank, based on reliable information, 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. This assessment is carried out at the individual asset level. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

ix. Forborne and modified loans

Except for the application of special rules for transactions subject to the payment moratorium, the Bank classifies a loan in a restructured category if it makes a concession or makes a contractual change because of the borrower's current or anticipated financial difficulties that it would not have made if the borrower were financially sound. Indicators of financial difficulties include defaults on covenants, or facts and expectations indicating a significant increase in credit risk, which may result in postponement of payment deadlines or taking out a new loan. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms, given that no derecognition and re-recognition took place and no transaction cost was related to it.

The Bank assessed the specific time spent in the moratorium, as well as participation in several moratoriums, as a significant increase in credit risk, and therefore assumed that the obligor has, or is expected to have, financial difficulties in meeting its financial obligations. Therefore, it classified the transactions concerned as restructured, except of documented exceptions supported by evidence. The classification into stages was based on an examination of the unique characteristics of the client and the transaction.

The Bank considers forced restructuring as a factor indicating the occurrence of a default event if it is likely to result in a significant reduction in the financial liability due to the waiver or deferral of the principal, the interests or the fees. A waiver or deferral is considered to be significant if the decrease in the present value of the financial liability exceeds 1%.

The Bank continuously monitors its restructured loans to ensure that the current status of the restructured loans is recorded in accordance with applicable regulations. In case the transaction status in the monitoring system changes to the 'Special' category, the loan is presented in Stage 2 or Stage 3, depending on whether the transaction was performing at the time of the restructuring and whether the customer complies with the amended payment obligations. All its impaired (Stage 3) exposures are considered as non-performing exposures by the Bank.

If an asset has been rated as non-performing due to restructuring, it may be considered performing again if all the following conditions are met:

- at least 365 days have passed since the date of the restructuring and since the end of the grace period provided for in the restructuring agreement and
- there is no delay (principal, interest, commission, fee) at the time of qualification and no concerns arise that would call into question the repayment of the full amount of the claim and
- repayment of the claim that was past due (if there was a delay) or that was written off during the restructuring (if there was no delay) through repayments under the restructuring conditions

The restructured status of a claim may be terminated if the following conditions are met:

- the claim is performing
- a probationary period of at least two years has passed since the restructured claim was recognized as performing;
- regular repayments of principal or interest have been made in excess of an insignificant amount for at least half of the probationary period;
- at the end of the probationary period there is no delay of more than 30 days in respect of any obligation of the obligor

c) Leasing

Accounting for leases by the Bank as a lessee

The Bank leases office premises and parking lots. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognized at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost.

As an exception to the above, the Bank accounts for short-term leases and leases of low-value assets by recognizing the lease payments as an operating expense on a straight-line basis. Short-term leases are leases where the lease term on the starting date is not more than 12 months. The threshold for low-value assets is set by the Bank at HUF 1 500 000.

d) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

The recoverable amount of an asset or CGU (Cash Generating Unit) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The objective of the model used is to estimate the recoverable amount from the use of shareholdings based on discounted cash flow ("DCF") from five years long business plans of the subsidiaries adopted by the owner.

The main output of the model is an indication of the impairment of the investment held, that is, the cash-generating unit ("CGU") based on the inputs provided. Further analysis is needed to make the final management decision on impairment, considering the specific situation of CGU and other considerations.

The model calculates the amount of free cash flow underlying the DCF valuation until the end of the explicit business plan based on the accepted valid 5-10-year business plan. Based on the business characteristics of each CGU, the model determines the recoverable amount from using the owner's free cash flow ("FCFE") method.

FCFE expresses the cash flow that is available to owners after investments, meeting working capital needs, paying installments and interest on foreign capital, and taking on new debt.

The method assumes that the owner will continuously realize the cash flows available from the CGU.

In the case of the FCFE – as owner's free cash flow – method, the Bank uses the cost of equity (CoE) as a discount factor. The definition of CoE is based on the capital asset pricing model (CAPM), which is widely used in international assessment practice. The CAPM model is based on the assumption that, in addition to the risk-free government bond yield, the investor also expects an extra yield typical of the industry.

When assessing investments on a plan-fact basis, the primary consideration is the likelihood and magnitude of expected loss that can reasonably be expected from the investment's business and the changes in the legal and market environment.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined without impairment loss recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories within the scope of IAS 2 are measured at the lower of cost and net realizable value. The Bank makes estimates for the realizable amount on a quarterly basis. Impairments are recognized or reversed according to these estimates in profit or loss.

e) Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank or other financial institutions and overnight deposits. This line includes placements with other banks payable on demand, including nostro and other accounts in HUF and foreign exchange with domestic banks, foreign central banks and institutions registered abroad as bank. These items are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

f) Loans and advances to banks and to customers

The Bank's lending activities can be grouped by method (indirectly through commercial banks in the form of refinancing loans and direct lending) and by type (program and non-program loans).

The balance of loans and advances to banks includes refinancing program loans granted through commercial banks.

Loans and advances to customers contain receivables from legal entities, licensed traditional small-scale producers and employees. Agricultural loans with mainly fixed interest rate are also recognized as loans and advances to customers.

The balance of Deposits at central and other banks contains the interbank placements used in the course of liquidity management.

Loans and advances to banks and to customers are carried either at amortized cost or fair valued through profit and loss in the statement of financial position dependent whether the SPPI test is passed or failed.

g) Securities

Securities contain government bonds and other debt securities, interest bearing or discount treasury bills, mortgage bonds, debt securities including fixed-income securities that are listed on stock exchange or traded on a regulated market (controlled by regulation or by stock exchange), and other debt securities regardless their name, including debt securities took over in return for receivables to minimize loss.

Venture capital investments that cannot be classified as equity instruments under IAS 32 in which the Bank has no significant influence are also presented here. Since these instruments do not meet the SPPI test, the Bank presents them within debt instrument, mandatorily fair valued through profit and loss. The related subscribed but not yet paid capital increase of these venture capital investments/notes that is payable as required by the investment plans is recognized among the capital commitments within off balance sheet items if the investment is closer to a loan commitment. Otherwise the not yet paid capital is recognized among the "Other liabilities" and be part of the investments initial cost.

Securities that were classified into “held to collect and sell” business category are measured at fair value through other comprehensive income. The basis of measurement is the average of best bid and ask prices published on the website of Government Debt Management Agency Ltd. on the reporting date.

Securities classified as held to collect are measured at amortized cost, calculated by using the effective interest rate method.

The Bank applies impairment calculation for all its debt securities (except those fair valued through profit and loss) and the expected credit loss is recognized in profit and loss.

h) Encumbered assets

The encumbrance of the Bank’s eligible assets is mainly for ensuring the collateral for Funding for growth (“FGS”) program. The encumbered assets can be government securities, mortgage bonds and loans. The Bank does not present as encumbered assets those securities which are to ensure the continuity of liquidity management – including the ensurance of continuous transfers (Giro) and the possibility of a secured loan (repo) transaction with the Hungarian National Bank – as the Bank may also release the blocking of these securities.

i) Investments in subsidiaries and associates

Equity investments classified as **controlling interest** (subsidiaries) comprise those investments where the Bank is exposed to or has rights to variable returns from the involvement with the investee and has the ability to affect those returns through its power over the investee.

Equity investments classified as **significant influence** (associates) comprise those investments where the Bank through its direct ownership interest has the power to participate in the financial and operating policies of the investee, but not to control those activities.

Other equity investments comprise other shareholdings, which do not meet the above criteria.

The investment portfolio includes investments that the Bank intends to hold on a long term. The HDB Law determines the companies in which the Bank can obtain controlling interest. The Bank does not hold equity investments for trading purposes.

In these annual financial statements, investments in subsidiaries and associates are accounted for at cost less impairment in accordance with IAS 27. Impairment is charged and released through profit or loss in accordance with IAS 36. Other equity investments are accounted for in accordance with IFRS 9 at fair value through other comprehensive income unless they do not meet the equity instrument conditions set in IAS 32, in which case they are classified as debt instruments mandatorily fair valued through profit and loss.

j) Derivative financial instruments

The Bank uses derivative financial instruments, interest rate swaps, foreign exchange swaps and forward exchange contracts to manage its exposure to foreign exchange and interest rate risks arising from business activities. The recognition of interest income/expenses relating to derivative transactions are recognized in profit and loss as interest income and expense. Fair value changes are immediately recognized in the statement of comprehensive income on the “Gains or (-) losses on financial assets and liabilities held for trading, net” line.

The Bank does not undertake exposures for trading (speculative) purposes, the Treasury department enters into transactions with the purpose of risk hedging, liquidity management and limit

management. The purpose of market instruments is solely the hedging of risks deriving from the portfolio, the Bank does not enter into transactions with speculative purposes.

To reduce the interest rate risk, the Bank exchanges the financial instruments with fixed interest rate to floating interest rate in the course of an **interest rate swap**. The interest rate swap deals are accounted for as fair value hedges. The realized fair value changes on the hedging instruments are presented as “Derivatives – Hedge accounting” (see Note 10).

Foreign exchange swap deals are the exchanges of different foreign exchanges on a predetermined exchange rate. Foreign exchange swap deals are concluded with liquidity and risk management purposes and are presented as Derivative assets or liabilities (see Note 9).

Cross currency interest rate swap deals (CCIRS) are interest rate swaps and foreign exchange swap deals made in a single transaction. The **CCIRS deals** are classified as at fair value through profit or loss upon initial recognition as a Derivative asset or liability.

k) Hedge accounting

The Bank uses derivative instruments to manage exposures to interest rate risk and partially foreign currency risk. The Bank only enters into economic hedging transactions only and, if this hedging relationship is properly documented, the hedge accounting is applied for them. The Bank applies IFRS 9 rules for its hedge accounting. Based on IFRS9 rules at inception of a hedge relationship the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method to be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Fair value hedges are concluded to reduce market risk. For qualifying and designated fair value hedges, the change in fair value of hedging instruments is recognized in the income statement on the line “Gains or (-) losses from hedge accounting, net “. The change in the fair value of the hedged item attributable to the hedged risk is also recognized in the same income statement line and the carrying amount of the hedged item is adjusted in the statement of the financial position. If the hedging instrument expires, is sold, terminated or exercised, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item shall be amortized to the income statement in the net interest income until maturity of the underlying financial instrument (hedged item).

Where the hedged item is a financial instrument (or component thereof) for which the effective interest method of accounting is used, the adjustment is amortised to the income statement based on a recalculated effective interest rate at the date amortisation begins. The purpose of the amortisation is to reflect the effect of the fair value hedge in the profit and loss, but also to ensure the adjustment is fully amortised by maturity. If the critical terms of the hedged item and the hedging instrument match and the hedge relationship remains in place to its maturity, there is no additional amortisation be required as the cumulative fair value adjustment to the hedged item will naturally revert to the hedged item’s carrying amount through ongoing fair value hedge accounting adjustments. Otherwise the amortisation begin as soon as the hedged item ceases to be adjusted for hedging gains and losses, being the date of termination of the hedge relationship. If the hedged item is derecognised, the unamortised fair value is recognised immediately into the income statement.

Cash flow hedge

Currently the Bank is not involved in any cash flow hedge relationship

l) Bonds issued

Bonds issued contain the obligations arising from HUF, EUR and USD issued bonds.

Issued bonds are measured at amortized cost. That part of the issued bonds of which interest rate risk is hedged using interest rate swaps are measured at amortized cost with fair value adjustment.

m) Provisions

A provision is recognized, when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed quarterly and adjusted to reflect the best estimate of the expenditure required to settle the present obligation. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. A provision should be used only for expenditures for which the provision was originally recognized.

n) Offsetting

Financial assets and financial liabilities are offsetted in the statement of financial position when and only when the Bank has a legally enforceable right to set off the amounts and intends to settle them either on a net basis or at the same time intend to realise the assets and settle liabilities at the same time. The Bank has various netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include repo and reverse repo transactions, securities borrowing and lending arrangements, and over-the-counter and exchange traded derivatives. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

o) Commitments and contingencies

Commitments and contingencies are a probable obligation that derives from a past event, and its existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not entirely controlled by the Bank, or a present obligation that derives from a past event, but is not recognized because it is not likely that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be reliably estimated.

p) Interest income and expense

In accordance with IFRS 9 interest income and expense are recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 are also recorded by using the EIR method.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the income statement.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as ‘Stage 3’, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets recover and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

The Bank also holds investments in assets with negative interest rates. The Bank discloses interest paid on these assets as an interest expense.

The Bank has decided to include interest received and paid arising from financial instruments classified as FVTPL (including trading instruments) and from derivative instruments designated as hedge among “interest income” and “interest expense”, i.e., the so-called “clean price” (net price) presentation method is applied.

Interest income and expense include:

- interest income or expense for financial assets and liabilities at amortized cost accounted by using effective interest method (including interest received or paid to banks or customers, interest received on purchase securities, interest paid on issued securities and negative interest of financial assets and liabilities),
- interest income on financial assets at fair value through other comprehensive income accounted by using the effective interest method (including coupon interest received on securities and their discount/premium amortization),
- contractual interest income received on financial assets mandatorily fair valued through profit and loss that are presented among Other similar income,
- contractual interest income received on cash balances at central banks and other demand deposits are presented among Other similar income,
- interest income from derivative transactions, also presented among Other similar income, while interest expense from derivative transactions are presented among Interest expense.

q) Fee and commission income and expense

Fee and commission income and expense include amounts from financial activities of the Bank that are not included in interest income and expense, nor are they considered as incremental costs at the initial recognition, for example transaction fees, postal fees, guarantee fees, loan examination fees and other financial service fees. The lending related fee and commission income and expense of those loans which failed the SPPI test is also presented in these lines.

r) Current and other taxes

Current tax assets and liabilities for the current year and prior years are measured at the amounts expected to be recovered from or to be paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted as of the balance sheet date. Current tax comprises income tax, such as corporate income tax, local business tax and innovation contributions.

The amount of **corporate tax** payable is based on the tax obligations determined in accordance with Hungarian laws and it is adjusted by the deferred tax. Corporate tax and deferred tax are recognized in the income statements, except when tax relates to items recognized directly in equity, in which case it is recognized in the statement of other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date. The base of the income tax is the profit before tax adjusted by the tax base modifying items. The corporate tax was unified at a flat rate of 9% both in 2023 and in 2022.

The **local tax and the innovation contribution** established based on the Hungarian tax legislation in force are calculated for the same basis, their applicable rates are different being 2% for the former and 0.3% for the latter. Since their basis is based on net revenue, these were also classified among income taxes.

Deferred tax is calculated using the balance sheet liability 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 recognizes deferred tax asset if it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. An exception is where the deferred tax asset is a result of the initial recognition of an asset or liability in such a transaction that is not a business combination and does not affect either accounting profit or taxable profit (negative tax base) at the time of the transaction. Whether future taxable profits available are primarily determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the Bank business plan. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets and liabilities are netted against each other if the Bank has a legal enforceable right to set off the current tax receivable and liabilities and deferred tax receivable and liabilities relate to income taxes levied by the same taxation authority.

The **special bank tax of financial institutions** is presented among other expenses. The tax is in effect since 2010. The base of the special tax is the adjusted balance sheet total of the second preceding year (meaning 2021 for year 2023 and 2020 for year 2022), the rate was 0.15% under HUF 50 billion, and 0.20% above HUF 50 billion both in 2023 and 2022. The Bank recognizes the special bank tax of financial institutions when it becomes legally enforceable (i.e., when the obligating event arises) which is on 1 January each year.

In order to implement the Economic Protection Action Plan, a **special credit institution tax on the epidemiological situation** for replenishing the Epidemiological Fund was introduced for banks in 2020. The basis for this special tax equals to the base for the special bank tax of financial institution that exceed the HUF 50 billion and the applicable rate is 0.19%. Under the special tax act the next 5 years of bank special tax liability will be deducted with this amount in five equal annual instalments therefore was not recognized in the profit and loss of 2020 (see note 13).

An **extra profit tax** was introduced during 2022 that aimed to keep public finances in balance. The tax base of this extra profit was the adjusted net revenue calculated from the financial statements of the preceding year and the applicable tax rate was 10%. In 2023, due to a change in legislation, the tax base for the first half year was determined by the adjusted net revenue calculated from the financial statements of the preceding year but the pro rata 50% of this base must be taken into account. The calculation of the tax base for the second half of 2023 was the 50% of the adjusted pre-tax profit calculated from the financial statements of the preceding year. The tax rate is 8% for the tax base part falling into the first half of the year, and 13% for the tax base part for the second half of the year, for an amount not exceeding HUF 10 billion, and 30% above that. From 2024 onwards, the tax base will be the adjusted profit before tax included in the financial statements of the preceding year. Tax rate will be 13% for the part not exceeding HUF 20 billion, and 30% above that. The Bank recognizes this extra profit tax when it becomes legally enforceable (i.e., when the obligating event arises).

s) Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the annual financial statements are authorized for issue. These events are adjusting and non-adjusting events.

All adjusting events after reporting date have been considered in the preparation of the annual financial statements of the Bank. The material non-adjusting events after the reporting date are presented in Note 38.

t) New standards and interpretations

Standards and Interpretations effective in the current period

- *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)*

The above amendment to IAS 1 required entities to disclose their **material** accounting policy information, instead of **significant** accounting policies. Information is material if, when considered together with other information included in the Bank's financial statements, it can reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements. The application of this amendment resulted that the above list of material accounting policies was changed as compared to the prior year one and the accounting policies that was considered only significant but not material was eliminated from the above list.

Several other amendments are also effective from 1 January 2023 that do not have a material effect on the Bank's financial statements.

- *IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)*
- *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)*
- *Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)*
- *Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)*
- *Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023 and endorsed on 8 November 2023 and effective immediately)*

Standards issued by IASB and adopted by EU but their application date is after 31 December 2023

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- i. *Amendments to IAS 1 Presentation of Financial Statements (all effective for annual periods beginning on or after 1 January 2024):*
 - *Classification of Liabilities as Current or Non-current Date (issued on 23 January 2020)*
 - *Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 15 July 2020); and*
 - *Non-current Liabilities with Covenants (issued on 31 October 2022)*
- ii. *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)*

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

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

- i. *Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (issued on 15 August 2023)*
- ii. *Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (issued on 25 May 2023)*

The implementation of these amendments, new standards and interpretations are not expected to affect significantly the annual financial statements of the Bank.

4. CASH, CASH BALANCES AT THE CENTRAL BANKS AND OTHER DEMAND DEPOSIT

	<u>2023</u>	<u>2022</u>
Cash	0	0
Cash balances with National Bank of Hungary (NBH)	397 975	89 392
<i>Overnight deposits</i>	0	57 908
<i>Statutory reserve</i>	397 975	31 484
Other demand deposits	2 063	6 646
Gross balances	400 038	96 038
Impairment	(2)	(10)
Total	400 036	96 028

The Bank is obliged to keep a minimum reserve at the central bank, which equals to certain percentage of the short term (within a year category) deposits of its domestic and foreign customers and the currency deposits of foreign customers. According to the regulations of the National Bank of Hungary the required reserve ratio was 1% till 30 September 2022, and 5% from 1 October 2022. As a further provision, the minimum reserve rate has become optional for quarterly periods in the range of 5-10%.

In the IVth quarter of 2022, the Bank opted for a reserve obligation of 6% which had to be met on a monthly average, while observing the daily minimum that was HUF 25 493 million (5% obligation). As of 1 April 2023, the required minimum level of mandatory reserves has increased to 10% and the Bank opted 11%. With effect from 1 July 2023, the rule on mandatory reserves has been amended again, and from July 2023 until withdrawal (planned until the end of 2023), the NBH fixed the base of the mandatory reserve, being the statistical balance sheet data as of 31 March 2023 and the opted 11% reserve was HUF 42 131 million, while the daily minimum reserve (10% obligation) was HUF 38 301 million.

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

5.1 DEBT SECURITIES

	<u>2023</u>	<u>2022</u>
<i>Debt securities</i>		
Venture capital note – investment type	4 037	4 364
Venture capital note – loan type	599 119	365 283
Total	603 156	369 647

Loan type venture capital note represents such funds where a capital and also a yield guarantee is involved to the Bank, therefore these investments have loan features as well. All the other type of venture capital notes belongs to the investment type subheading. At year end 2023 HUF 1 919 million (2022: HUF 2 335 million) from the above balance of “*Venture capital note – investment type*” representing Central European Fund of Funds is attributable to subscribed but not yet paid capital increase that is payable as required by the investment plans. The unpaid capital increase will be paid in accordance with the drawdowns of fund managers to finance the investments made.

The Bank's total exposure to equity funds recognised in the financial statements as associates, equity investments or loans amounts to HUF 972.7 billion (2022: HUF 729.6 billion). In this portfolio of the Bank, the 3 largest non-group fund managers have a total exposure of HUF 739.5 billion (2022: HUF 629.8 billion) (as associates, equity investments and loans). Based on section 8 (1b) of the MFB Act there is no client group consideration if MFB Zrt. provided a loan to them for the purpose of subscribing

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or purchasing investment units and which would constitute a single risk factor with regard to the investment fund, the fund manager, interlinks of the fund managers or any right or obligation related to assets in the portfolio of the investment fund.

5.2 LOANS

	2023			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Municipality loan program	21 026	0	0	21 026
Business development loan program	1 945	404	0	2 349
Agricultural development loan program	7 795	15	0	7 810
Retail loan program	64	1	0	65
	30 830	420	0	31 250
Loans and advances to customers				
General governments	424	0	0	424
Other financial corporations	451	594	0	1 045
Non-financial corporations	2 135	99	0	2 234
Households	0	84	3	87
	3 010	777	3	3 790
Total	33 840	1 197	3	35 040

	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Municipality loan program	22 511	0	0	22 511
Business development loan program	3 384	0	0	3 384
Agricultural development loan program	5 355	14	0	5 369
Retail loan program	95	0	0	95
	31 345	14	0	31 359
Loans and advances to customers				
General governments	484	0	0	484
Other financial corporations	1 386	672	55	2 113
Non-financial corporations	1 426	86	40	1 552
Households	98	4	8	110
	3 394	762	103	4 259
Total	34 739	776	103	35 618

Non trading financial assets mandatorily at fair value through profit or loss includes those financial instruments that were classified as held to collect business model but failed the SPPI test as the interest rate is based on EURIBOR while the loans are denominated in Hungarian forint.

Loans and advances to banks are exclusively the refinancing loans to commercial banks that are the sources of the customer loans at those commercial banks.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2023</u>	<u>2022</u>
Equity instruments		
Listed on stock exchange	0	0
Not listed on stock exchange	570	596
	<u>570</u>	<u>596</u>
Debt securities		
Hungarian government bonds	42 246	40 694
Hungarian bank bonds	8 808	0
Hungarian discount treasury bills	0	19 843
	<u>51 054</u>	<u>60 537</u>
<i>from this encumbered assets</i>	890	729
Total	51 624	61 133

	<u>2023</u>		
	Gross carrying amount	Impairment	Fair value adjustment
Debt securities			
Hungarian government bonds	43 637	0	(1 391)
Hungarian bank bonds	8 562	(8)	254
Hungarian discount treasury bills	0	0	0
	<u>52 199</u>	<u>(8)</u>	<u>(1 137)</u>
Equity instruments			
European Investment Fund			178
Other			0
			<u>178</u>
			570
Fair value adjustment recognized in valuation reserve			(959)
Valuation reserve after deferred tax adjustment			(1 063)

	<u>2022</u>		
	Gross carrying amount	Impairment	Fair value adjustment
Debt securities			
Hungarian government bonds	46 596	0	(5 902)
Treasury bills	20 018	0	(175)
	<u>66 614</u>	<u>0</u>	<u>(6 077)</u>
Equity instruments			
European Investment Fund			204
Other			0
			<u>204</u>
			596
Fair value adjustment recognized in valuation reserve			(5 873)
Valuation reserve after deferred tax adjustment			(5 892)

All debt securities are classified as stage 1 both as at 31 December 2023 and 2022.

Equity instruments for which the Bank has chosen the fair value through other comprehensive income option at IFRS 9 transition are presented in this category. Other investments that do not qualify as associates are presented here, as the Bank does not have trading intent with them therefore fair valuation through profit and loss was not applied.

7. FINANCIAL ASSETS AT AMORTIZED COST

	<u>2023</u>	<u>2022</u>
Debt securities		
Hungarian government bonds	26 389	42 158
Corporate bonds	403 206	383 857
Mortgage bonds	7 385	6 180
	7.2 436 980	432 195
<i>from this encumbered assets</i>	<i>114 854</i>	<i>114 211</i>
Customer loans		
General governments	64 141	52 401
Other financial corporations	325 122	307 542
Other non-financial corporations	774 239	815 461
Households	72 510	77 150
	7.1 1 236 012	1 252 554
<i>from this encumbered assets</i>	<i>164 408</i>	<i>198 861</i>
Loans to banks		
Refinancing loans	0	346
Other loans	78 291	79 981
	7.1 78 291	80 327
Deposits at central and other banks		
Central bank deposits	0	0
Other bank deposits	20 260	14 222
	7.3 20 260	14 222
Other financial assets		
Trade receivables	40	1 017
Margin accounts	22 993	3 203
	7.4 23 033	4 220
<i>from this encumbered assets</i>	<i>22 993</i>	<i>3 203</i>
Total	1 794 576	1 783 518
<i>from this encumbered assets</i>	<i>302 255</i>	<i>316 275</i>

The encumbered assets among “Debt securities” and “Loans and receivables” include assets offered as collateral for the National Bank of Hungary and these assets were collateralized under the Hungarian National Bank Funding for Growths (FGS) program and represent the current net book value of the customer loans disbursed under this scheme. The new FGS scheme, which was launched in 2020, was also collateralized by the loans disbursed, supplemented with individual corporate loans that was also possible to be collateralized for this purpose, which the Bank took advantage of. The current net book value of these disbursed loans is presented as encumbered assets within „Customers loans” line. For the other two previous FGS programs, government bonds were offered as collateral. The year end net book value of these government bonds is shown as encumbered asset under „Debt securities” line. From the line “Other financial assets” the margin accounts are shown as encumbered assets.

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7.1 LOANS

GROSS OUTSTANDING	2023				
	Stage 1	Stage 2	Stage 3	POCI	Total
Customer loans					
General governments	64 210	0	0	0	64 210
Other financial corporations	210 458	111 198	22 114	0	343 770
Other non-financial corporations	445 842	340 329	39 508	420	826 099
Households	55 808	16 568	222	0	72 599
	776 318	468 095	61 844	420	1 306 677
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	78 293	0	0	0	78 293
	78 293	0	0	0	78 293
IMPAIRMENT					
Customer loans					
General governments	(69)	0	0	0	(69)
Other financial corporations	(229)	(2 271)	(16 148)	0	(18 648)
Other non-financial corporations	(3 822)	(20 169)	(27 659)	(210)	(51 860)
Households	(18)	(61)	(9)	0	(89)
	(4 137)	(22 501)	(43 816)	(210)	(70 665)
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	(2)	0	0	0	(2)
	(2)	0	0	0	(2)
NET CARRYING AMOUNT					
Customer loans					
General governments	64 141	0	0	0	64 141
Other financial corporations	210 229	108 927	5 966	0	325 122
Other non-financial corporations	442 020	320 160	11 849	210	774 239
Households	55 790	16 507	213	0	72 510
	772 180	445 594	18 028	210	1 236 012
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	78 291	0	0	0	78 291
	78 291	0	0	0	78 291
TOTAL NET CARRYING AMOUNT	850 472	445 594	18 028	210	1 314 303

Due to the Bank's role as a development bank, the loan portfolio is concentrated, the 10 largest utilisation represents 48.1% (2022: 49.6%) the direct loan portfolio, of which 19.1% (2022: 10.7%) of exposure is provided by a state guarantee.

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GROSS OUTSTANDING	2022			
	Stage 1	Stage 2	Stage 3	Total
Customer loans				
General governments	52 438	0	0	52 438
Other financial corporations	216 876	93 613	10 472	320 961
Other non-financial corporations	488 486	348 663	26 568	863 717
Households	57 813	19 405	11	77 229
	815 613	461 681	37 051	1 314 345
Loans to banks				
Refinancing loans	346	0	0	346
Other loans	79 986	0	0	79 986
	80 332	0	0	80 332
IMPAIRMENT				
Customer loans				
General governments	(37)	0	0	(37)
Other financial corporations	(203)	(4 785)	(8 431)	(13 419)
Other non-financial corporations	(3 309)	(30 603)	(14 344)	(48 256)
Households	(3)	(69)	(7)	(79)
	(3 552)	(35 457)	(22 782)	(61 791)
Loans to banks				
Refinancing loans	0	0	0	0
Other loans	(5)	0	0	(5)
	(5)	0	0	(5)
NET CARRYING AMOUNT				
Customer loans				
General governments	52 401	0	0	52 401
Other financial corporations	216 673	88 828	2 041	307 542
Other non-financial corporations	485 177	318 060	12 224	815 461
Households	57 810	19 336	4	77 150
	812 061	426 224	14 269	1 252 554
Loans to banks				
Refinancing loans	346	0	0	346
Other loans	79 981	0	0	79 981
	80 327	0	0	80 327
TOTAL NET CARRYING AMOUNT	892 388	426 224	14 269	1 332 881

Information about modifications of loans that have not resulted in derecognition is as follows:

	<u>2023</u>	<u>2022</u>
Amortized cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	96 279	121 640
from this resulted from the moratorium settlement	14 797	25 474
Gains less losses recognized in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(3 022)	(2 284)
from this resulted from the moratorium settlement	(89)	(471)
from this interest freeze rule impact	(2 328)	(1 633)
Gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year	5 154	1 601

The Bank does not have any such outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity neither as at 31 December 2023 nor at 31 December 2022.

7.1.1 INFORMATION ON THE RULES OF THE PAYMENT MORATORIUM INTRODUCED IN THE CONTEXT OF COVID-19

I. Period of the payment moratorium from the 19th of March 2020 until the 31st of December 2020 (Moratorium 1)

In order to avert the consequences of the COVID-19 pandemic, causing mass illness endangering life and property, and to protect the health and lives of Hungarian citizens, the Government has declared a state of emergency throughout Hungary by Government Decree 40/2020. (III.11.).

According to the legislations the Bank granted the debtors a capital moratorium, an interest moratorium and a fee moratorium (Moratorium 1) with respect to the debtor's obligation to pay capital, interest and/or fees arising from a loan under a loan/credit agreement that has been already contracted, disbursed and not yet terminated at midnight on the 18th of March 2020.

Main rules of Moratorium 1

The moratorium on payments may be applied to loans already disbursed by the debtor under its contract by midnight on the 18th of March 2020.

The moratorium on payments extends to retail and corporate debtors, excluding the Hungarian state, local governments, and, except for financial enterprises, entities² as defined in paragraph 39 of Act CXXXIX of 2013 on the National Bank of Hungary. However, the Bank extended the payment moratorium to its financial enterprises due to refinanced loans and loans channelled through intermediaries.

According to the resolution of the Managing Authorities, the Bank also applies the legal moratorium to payment obligations arising from transactions provided by the Bank covered from EU funds. The Bank, as fund-implementing organization, performs these activities and conducts analytics for the disposal of the Managing Authority, thus these items are processed by the Bank, as well, albeit these transactions are excluded from the Bank's balance sheet, thereby excluded from this report, as well.

The Bank also applied the moratorium on receivables that were already due at midnight on the 18th of March 2020 - in the case of loans in connection with the Growth Loan Program, on the 16th of March 2020- if the contract had not been terminated. Claims arising from a contract terminated for reasons other than late payment, including instalment payment agreements concluded between the Bank and the customer, are not covered by the moratorium. These receivables are subjects to being enforced directly by the Bank. Moratorium on payment is automatically due to the eligible debtor. The debtor subject to a payment moratorium may, at any time, by implied conduct, decide that it will fulfil its payment obligations in accordance with the original terms of the contract in its entirety or partially only.

² Enterprises supervised by the Hungarian National Bank are, in particular, credit institutions, mortgage credit institutions, housing savings banks, insurance companies and private pension funds.

In case the debtor has availed itself of the payment moratorium, the principal debt may not be increased by the amount of interest or fees not paid during the moratorium, nor during the moratorium, nor after the expiry of the moratorium. Interest or fees accumulated and not duly paid during the moratorium, combined with the instalments due during the remaining term, shall be paid in equal annual instalments during its term after the termination of the moratorium. Upon the aforementioned termination of the moratorium, the term itself shall be extended in order that the sum of the instalments due and the interest or fees payable in instalments arising under the moratorium does not exceed the amount of the instalments under the original contract.

Due to the moratorium, credit agreements, loan agreements, guarantee agreements and ancillary collateral agreements are getting automatically amended by the force of law, i.e. they had not have to be formally amended and notarized.

Moratorium 1 got terminated on the 31st of December 2020. In January 2021 the Bank sent information notice to customers who have participated in the payment moratorium about the possible changes in the term and grace period due to the unpaid interest, fee and principal debts accumulated during the term of the moratorium.

II. Period of the payment moratorium from the 1st of January 2021 until the 31st of October 2021 (Moratorium 2)

According to the decision of the Government, it has been considered justified to maintain the protection provided by Moratorium 1. With this in mind, from the 1st of January 2021 until the 30th of June 2021, that was later modified until the 31st of October 2021, the Bank had granted a moratorium on capital, interest and fee (Moratorium 2) arising from a loan under a loan/credit agreement that has been already contracted and disbursed at midnight on the 18th of March 2020 to certain priority social groups and enterprises in financial difficulties.

Main rules of Moratorium 2

Bearing that in mind that Moratorium 1 has gotten terminated on the 31st of December 2020, Moratorium 2 had been due to eligible debtors availing themselves of the Moratorium previously, with unchanged conditions. A debtor who has been otherwise entitled to use Moratorium 2, nevertheless has not availed itself of the payment deferral during Moratorium 1, had to declare its intention of taking advantage of the moratorium explicitly. Otherwise, Moratorium 2 had been regulated led by the very same rules as set out in point I.

III. Period of the payment moratorium from the 1st of November 2021 until the 31st of July 2022 (Moratorium 3)

Following the expiry of the Moratorium 2, the Government considered it necessary to further ensure a moratorium on payments for certain social groups, consequently, Government Decree 536/2021. (IX.15.) amending Government Decree 637/2020 (XII. 22.) on the introduction of special emergency rules for loan repayment moratorium allows a moratorium on payment to be maintained from the 1st of November 2021 until the 30th of June 2022 that was later amended until 31st of July 2022, for the debtor, on application submitted to the creditor, in case the eligibility conditions are met, who/which has availed itself of the moratorium in the month of September 2021, i.e., has been entitled to avail itself of the moratorium on payment from the 1st of January 2021 and the payment of the principal, interest or fee debt became due during the period of the moratorium until the 31st of October 2021.

Main rules of Moratorium 3

Moratorium 3 was regulated led by the very same rules as set out in point I, except for that the debtor entitled to avail itself of Moratorium 3 had to submit a request to the Bank to maintain the payment moratorium by the 31st of October 2021.

In the case of natural persons, persons who, at the time of the submission of the application, are pregnant, raising a child, seeking employment, having a public employment legal relationship, or receiving pension are entitled to benefit from the Moratorium 3. A natural person debtor has been entitled to file an application for Moratorium 3 even if the eligibility conditions were met in the case of a close relative living together with it under the Civil Code.

A debtor who qualifies as a business was entitled to use Moratorium 3 if its net sales from the activities of the business have decreased by at least 25% in the 18 months prior to the application for availing itself of Moratorium 3 and the company applying for availing itself of Moratorium 3 has not entered into a new agreement to take a soft loan (discounted loan for economic recovery) or another type of loan during the period in between.

The debtor had to declare the fulfilment of the conditions of eligibility in the awareness of its criminal liability, and/or it had to declare in statement that it is in possession of any kind of documents of probative value supporting and corroborating the eligibility.

The Board of Directors of the Bank approved the continuous application of the decisions of the Board of Directors previously taken in respect of Moratorium 1 and Moratorium 2 with respect to Moratorium 3, as well, by its decision 199/2021 (XI.24).

IV. Period of the payment moratorium from the 1st of August 2022 until the 31st of December 2022 (Moratorium 4)

The Government has not changed its stance concerning considering it necessary to further ensure a moratorium on payments, in accordance with the provisions of Government Decree 216/2022. (VI. 17.) on the derogation of Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties that has allowed to sustain the moratorium from the 1st of August 2022 until the 31st of December 2022, on the basis of an application to the creditor by the debtor who had requested an extension of the moratorium in a declaration and had made use of the moratorium in June 2022.

Main rules of Moratorium 4

Moratorium 4 was subject to the rules described above in Section I, except that the debtor entitled to benefit from Moratorium 4 had been obliged to send the Bank a request for the sustenance of the moratorium on payments until the 31st of July 2022.

The Board of Directors of the Bank have approved by its Resolution 126/2022 (VIII.30.) that the Board of Directors' decisions taken in respect of Moratorium 1, Moratorium 2 and Moratorium 3 shall be applied mutatis mutandis by the Bank in respect of Moratorium 4.

V. The agricultural credit moratorium until the 31st of December 2023 (agricultural credit moratorium)

By Government Decree 292/2022. (VIII. 8.) on the introduction of special rules for the moratorium on loan repayments in the event of the state of emergency due to damage to agriculture caused by extreme weather conditions, the Government granted the possibility of a moratorium on payments, on application to the creditor, from the 1st of September 2022 until the 31st of December 2023 for loans disbursed under a loan or credit agreement outstanding on the 31st of August 2022, if

- a) the debtor's net turnover in 2021 originated from the crop, animal production, hunting and related service activities (TEÁOR: 01 and ÖVTJ: 01), forestry (TEÁOR: 02 and ÖVTJ: 02) and fish farming (TEÁOR: 03 and ÖVTJ: 03) sectors, excluding the purchase value of goods sold, amounts to at least 50% of its net turnover in 2021, or
- b) the purpose of the credit/loan corresponds to one of the categories referred to in point (a) above.

Main rules of Agricultural credit Moratorium

The agricultural credit moratorium is available if the eligibility criteria are met, provided that the debtor has submitted an application for the moratorium to the Bank by the 15th of September 2022.

The agricultural credit moratorium also constitutes a prohibition on the cancellation of the loan at the very same time: the credit and loan contracts cannot be terminated by notice of cancellation for non-payment of principal, interest and charges from the date of entry into force of Government Decree 292/2022. (VIII. 8.) until the 31st of December 2023, which applied to all eligible debtors under the conditions described above. In addition to the above, the prohibition on the cancellation of the loan also applied to a debtor who has not declared that it wishes to be a subject to a moratorium on payments.

The Board of Directors of the Bank have approved by its Resolution 126/2022 (VIII.30.) that the Board of Directors' decisions taken in respect of Moratorium 1, Moratorium 2 and Moratorium 3 shall be applied mutatis mutandis by the Bank in respect of the agricultural credit moratorium.

VI. Impact of the moratorias for the loans presented in these financial statements

The table below includes information on loans and advances **measured at amortized cost** and subject to legislative moratoria and those subject to the Bank extension when it was used actually by the customers. The modification loss column contains the loss calculated for the agricultural moratorium (2021: all the agricultural moratorium, moratorium 3 and moratorium 4). The presented loan balances for 2022 also includes the subportfolio for which moratorium was closed and cleared (moratorium 3), while the column "of which" shows the subportfolio still under moratorium as at the end of the year (agricultural moratorium for 2022). As at the end of 2023 the former moratorium rules were closed thus all related balances were cleared with the impacted customers.

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GROSS OUTSTANDING	Stage 1	Stage 2	Stage 3	Total	Contract modification loss
Customer loans					
General government	0	0	0	0	
Other financial corporations	0	186	0	186	
Other non-financial corporations	0	4 009	0	4 009	
Households	0	10 161	0	10 161	
	0	14 357	0	14 357	
IMPAIRMENT					
Customer loans					
General government	0	0	0	0	
Other financial corporations	0	(2)	0	(2)	
Other non-financial corporations	0	(39)	0	(39)	
Households	0	(1)	0	(1)	
	0	(42)	0	(42)	
NET CARRYING AMOUNT					
Customer loans					
General government	0	0	0	0	0
Other financial corporations	0	184	0	184	(5)
Other non-financial corporations	0	3 971	0	3 971	0
Households	0	10 160	0	10 160	(5)
TOTAL NET CARRYING AMOUNT	0	14 315	0	14 315	(10)
					Other modification losses (739)
					Interest freeze rule impact (Note 7.1.2) (2 481)
CONTRACT MODIFICATION LOSS TOTAL					(3 230)

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GROSS OUTSTANDING	2022					Contract modification loss	from this agricult moratorium
	Stage 1	Stage 2	Stage 3	Total	from this agricult moratorium		
Customer loans							
General government	0	0	0	0	0		
Other financial corporations	6 190	6 670	1 657	14 517	180		
Other non-financial corporations	0	6 822	0	6 822	3 563		
Households	171	10 258	2	10 431	10 132		
	6 361	23 750	1 659	31 770	13 875		
Loans to banks							
Refinancing loans	13	0	0	13	0		
Other loans	0	0	0	0	0		
	13	0	0	13	0		
IMPAIRMENT							
Customer loans							
General government	0	0	0	0	0		
Other financial corporations	(16)	(1 313)	(1 280)	(2 609)	(2)		
Other non-financial corporations	0	(826)	0	(826)	(4)		
Households	0	(2)	(1)	(3)	(3)		
	(16)	(2 141)	(1 281)	(3 438)	(9)		
Loans to banks							
Refinancing loans	0	0	0	0	0		
Other loans	0	0	0	0	0		
	0	0	0	0	0		
NET CARRYING AMOUNT							
Customer loans							
General government	0	0	0	0	0	0	0
Other financial corporations	6 174	5 357	377	11 908	178	(115)	(3)
Other non-financial corporations	0	5 996	0	5 996	3 559	(339)	(11)
Households	171	10 256	1	10 428	10 129	(99)	(97)
	6 345	21 609	378	28 332	13 866	(553)	(111)
Loans to banks							
Refinancing loans	13	0	0	13	0	0	0
Other loans	0	0	0	0	0	0	0
	13	0	0	13	0	0	0
TOTAL NET CARRYING AMOUNT	6 358	21 609	378	28 345	13 866	(553)	(111)
						Other modification losses	0
						Interest freeze rule impact (Note 7.1.2)	(394)
CONTRACT MODIFICATION LOSS TOTAL						(3 018)	(505)

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The table below includes information on loans and advances **valued at fair value through profit or loss** and subject to legislative moratoria and those subject to the Bank extension when it was used actually by the customers.

2023					
	Stage 1	Stage 2	Stage 3	Total	
Loans and advances to banks					
Municipality loan program	0	0	0	0	
Business development loan program	0	60	0	60	
Agricultural development loan program	531	15	0	546	
Retail loan program	0	0	0	0	
	531	75	0	607	
Loans and advances to customers					
General governments	0	0	0	0	
Other financial corporations	0	0	0	0	
Non-financial corporations	0	0	0	0	
Households	0	1	0	1	
	0	1	0	1	
Total	531	76	0	608	

2022					
	Stage 1	Stage 2	Stage 3	Total	from this Agricuilt moratorium
Loans and advances to banks					
Municipality loan program	0	0	0	0	0
Business development loan program	813	0	0	813	56
Agricultural development loan program	519	14	0	533	516
Retail loan program	3	0	0	3	0
	1 335	14	0	1 349	572
Loans and advances to customers					
General governments	0	0	0	0	0
Other financial corporations	317	55	0	372	0
Non-financial corporations	0	44	0	44	0
Households	0	1	0	1	1
	317	100	0	417	1
Total	1 652	114	0	1 766	573

7.1.2 INFORMATION ON THE RULES OF THE INTEREST RATE FREEZE MECHANISM

I. Period of the interest rate freeze from the 15th of November 2022 until the 30th of June 2023 that was later amended first to 31st of December 2023 and then to 1 April 2024 (Interest rate freeze)

The Government, by Government Decree 415/2022. (X. 26.) on the measures necessary to mitigate the negative economic impact on micro, small and medium-sized enterprises due to the state of emergency, has imposed an interest rate freeze on debtors that qualify as SMEs under the Act on small and medium-sized enterprises (SME) and support for their development.

The interest rate freeze applies to SME debtors concerning HUF-based loan and credit agreements and financial leasing agreements with variable interest rates not covered by a state aid granted by the creditor on a commercial basis for the period stretching from the 15th of November 2022 originally until the 30th of June 2023. The interest rate freeze also applies in the case of refinancing granted to a non-group financial undertaking to finance a contract in accordance with Government Decree 415/2022 (X. 26.), i.e., where the contract concluded between the financial undertaking and the debtor falls within the scope of Government Decree 415/2022 (X. 26.). With the amendments to the referenced Government Decree, the deadline for the interest rate freeze was extended for the first

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time until 31 December 2023, and for the second time until 1 April 2024 under unchanged conditions.

Main rules of Interest Rate Freeze:

During the interest rate freeze period

- a. the interest rate applicable from the contractual reference date following the 15th of November 2022 shall be set at the reference rate that,
- b. the reference rate of interest from the contractual reference date preceding the 15th of November 2022 shall be set at the reference rate that

shall not exceed the amount of reference rate contractually determined that were in force on the 28th of June 2022.

The principal and interest due shall not be increased by the amount of interest not paid during the period of the interest rate freeze.

II. Impact of the interest rate freeze mechanism for the loans presented in these financial statements

The table below includes information on loans and advances **measured at amortized cost** and subject to interest rate freeze mechanism when it was used actually by the customers. The modification loss column contains the loss calculated for these loans as at the year end. There was not any impacted loans and advances **valued at fair value through profit or loss**.

	2023				
GROSS OUTSTANDING	Stage 1	Stage 2	Stage 3	Total	Contract modification loss
Customer loans					
General government	0	0	0	0	
Other financial corporations	1 721	12 720	162	14 603	
Other non-financial corporations	1 004	35 224	1 474	37 702	
Households	0	46	0	46	
	2 725	47 990	1 636	52 351	
IMPAIRMENT					
Customer loans					
General government	0	0	0	0	
Other financial corporations	(4)	(45)	(73)	(121)	
Other non-financial corporations	(1)	(895)	(1 323)	(2 219)	
Households	0	(1)	0	(1)	
	(5)	(941)	(1 396)	(2 342)	
NET CARRYING AMOUNT					
Customer loans					
General government	0	0	0	0	0
Other financial corporations	1 717	12 675	89	14 482	(674)
Other non-financial corporations	1 003	34 329	151	35 483	(1 806)
Households	0	44	0	44	(1)
TOTAL NET CARRYING AMOUNT / LOSS	2 721	47 048	240	50 009	(2 481)

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GROSS OUTSTANDING	2022				Contract modification loss
	Stage 1	Stage 2	Stage 3	Total	
Customer loans					
General government	0	0	0	0	
Other financial corporations	15 057	2 296	0	17 353	
Other non-financial corporations	1 542	38 308	5 764	45 614	
Households	0	37	0	37	
	16 599	40 641	5 764	63 004	
IMPAIRMENT					
Customer loans					
General government	0	0	0	0	
Other financial corporations	(20)	(26)	0	(46)	
Other non-financial corporations	(5)	(999)	(3 030)	(4 034)	
Households	0	(2)	0	(2)	
	(25)	(1 027)	(3 030)	(4 082)	
NET CARRYING AMOUNT					
Customer loans					
General government	0	0	0	0	0
Other financial corporations	15 037	2 270	0	17 307	(657)
Other non-financial corporations	1 537	37 309	2 734	41 580	(1 578)
Households	0	35	0	35	(4)
	16 574	39 614	2 734	58 922	(2 239)
TOTAL NET CARRYING AMOUNT / LOSS	16 574	39 614	2 734	58 922	(2 239)

7.2 DEBT SECURITIES

Debt securities	2023			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Hungarian government bonds	26 389	0	0	26 389
Corporate bonds	356 598	50 057	0	406 655
Mortgage bonds	7 388	0	0	7 388
	390 375	50 057	0	440 432
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(1 833)	(1 616)	0	(3 449)
Mortgage bonds	(3)	0	0	(3)
	(1 836)	(1 616)	0	(3 452)
NET CARRYING AMOUNT				
Hungarian government bonds	26 389	0	0	26 389
Corporate bonds	354 765	48 441	0	403 206
Mortgage bonds	7 385	0	0	7 385
	388 539	48 441	0	436 980

The 5 largest exposures of corporate bonds represent 90.34% (2022: 94.4%) of the total, of which 14.98% (2022: 14.6%) are guaranteed by State guarantees, all of which are stage1 rated.

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Debt securities	2022			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Hungarian government bonds	42 158	0	0	42 158
Corporate bonds	387 482	0	0	387 482
Mortgage bonds	6 181	0	0	6 181
	435 821	0	0	435 821
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(3 625)	0	0	(3 625)
Mortgage bonds	(1)	0	0	(1)
	(3 626)	0	0	(3 626)
NET CARRYING AMOUNT				
Hungarian government bonds	42 158	0	0	42 158
Corporate bonds	383 857	0	0	383 857
Mortgage bonds	6 180	0	0	6 180
	432 195	0	0	432 195

Reconciliation of assets arising from investing activities

	<u>2022</u>	<u>Proceeds from maturity or sale</u>	<u>Discount/ Premium</u>	<u>Acquisition cost</u>	<u>2023</u>
Hungarian government bonds	42 158	(14 888)	(881)	0	26 389
Corporate bonds	387 482	0	(455)	19 628	406 655
Mortgage bonds	6 181	0	93	1 114	7 388
Total	435 821	(14 888)	(1 243)	20 742	440 432

HUF 14 888 million from the total amounts presented in column “*Proceeds from maturity or sale*” relates to maturity (2022: 18 816 million).

	<u>2021</u>	<u>Proceeds from maturity or sale</u>	<u>Discount/ Premium</u>	<u>Acquisition cost</u>	<u>2022</u>
Hungarian government bonds	53 494	(18 860)	(1 453)	8 977	42 158
Corporate bonds	320 508	(18 816)	4 289	81 501	387 482
Mortgage bonds	6 148	0	33	0	6 181
Total	380 150	(37 676)	2 869	90 478	435 821

7.3 DEPOSITS AT CENTRAL AND OTHER BANKS

Deposits at central and other banks	2023			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Central bank deposits	0	0	0	0
Other bank deposits	20 261	0	0	20 261
	20 261	0	0	20 261
IMPAIRMENT				
Central bank deposits	0	0	0	0
Other bank deposits	(1)	0	0	(1)
	(1)	0	0	(1)
NET CARRYING AMOUNT				
Central bank deposits	0	0	0	0
Other bank deposits	20 260	0	0	20 260
	20 260	0	0	20 260

Deposits at central and other banks	2022			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Central bank deposits	0	0	0	0
Other bank deposits	14 228	0	0	14 228
	14 228	0	0	14 228
IMPAIRMENT				
Central bank deposits	0	0	0	0
Other bank deposits	(6)	0	0	(6)
	(6)	0	0	(6)
NET CARRYING AMOUNT				
Central bank deposits	0	0	0	0
Other bank deposits	14 222	0	0	14 222
	14 222	0	0	14 222

7.4 OTHER FINANCIAL ASSETS

Other financial assets	2023			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Trade receivables	0	40	0	40
Margin accounts	22 997	0	0	22 997
	22 997	40	0	23 037
IMPAIRMENT				
Trade receivables	0	0	0	0
Margin accounts	(4)	0	0	(4)
	(4)	0	0	(4)
NET CARRYING AMOUNT				
Trade receivables	0	40	0	40
Margin accounts	22 993	0	0	22 993
	22 993	40	0	23 033

Other financial assets	2022			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Trade receivables	0	1 017	0	1 017
Margin accounts	3 204	0	0	3 204
	3 204	1 017	0	4 221
IMPAIRMENT				
Trade receivables	0	0	0	0
Margin accounts	(1)	0	0	(1)
	(1)	0	0	(1)
NET CARRYING AMOUNT				
Trade receivables	0	1 017	0	1 017
Margin accounts	3 203	0	0	3 203
	3 203	1 017	0	4 220

8. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2023		
	gross value	impairment	net value
Subsidiaries	343 549	(26 617)	316 932
Associates	116 282	0	116 282
Total	459 831	(26 617)	433 214

	2022		
	gross value	impairment	net value
Subsidiaries	300 648	(14 897)	285 751
Associates	102 157	(3 258)	98 899
Total	402 805	(18 155)	384 650

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The Banks' controlling and significant interests as at 31 December 2023 and 2022 were as follows.

<u>Name of the company</u>	<u>Activities</u>	<u>Fund manager</u>	<u>Voting power</u>	
			2023	2022
<u>Subsidiaries</u>				
MFB-Ingatlanfejlesztő Zrt	Real estate portfolio management		100%	100%
MFB Invest Befektetési és Vagyonkezelő Zrt	Investment portfolio management		99.99%	99.99%
MKK Magyar Követeléskezelő Zrt	Claim management		100%	100%
MFB Növekedési Tőkealap	Venture capital fund	Hiventures Kockázati Tőkealap-kezelő Zrt.	100%	100%
MFB Vállalati Beruházási és Tranzakciós Magántőkealap	Capital fund	Hiventures Kockázati Tőkealap-kezelő Zrt.	100%	100%
<u>Associates</u>				
Garantiqa Hitelgarancia Zrt	Financial services		38.04%	38.04%
IHT Informatika Zrt.	IT services		25%	
MHB Magántőkealap (former MKB Magántőkealap)	Capital fund	MKB Befektetési Alapkezelő Zrt.	20-50%	20-50%
Diorit Magántőkealap	Capital fund	Diófa Alapkezelő Zrt.	20-50%	20-50%
TRUSTIFY IMPACT I. Magántőkealap	Capital fun	Trustify Befektetési Alapkezelő Zrt.	20-50%	
CLM Future Magántőkealap	Capital fun	Indotek Investments Alapkezelő Zrt.	20-50%	

All the above companies are incorporated in Hungary.

9. DERIVATIVES

The Bank enters into derivatives for risk management purposes including hedges that either meet the hedge accounting requirements or are hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount is a gross amount which is the quantity of the underlying derivative contracts that indicates the volume of transactions outstanding as at the year end and are not indicative of either the market or credit risk.

	2023			
	Assets		Liabilities	
	fair value	notional	fair value	notional
Derivatives in economic hedge relationship				
Interest rate swaps	751	13 142	(625)	3 763
Cross currency interest rate swaps	765	8 315	(7 052)	400 332
Foreign currency swaps	1 199	284 392	(831)	205 050
Total derivatives in economic hedge relationship	2 715	305 849	(8 508)	609 145
Fair value hedge derivatives				
Interest rate swaps	7 831	36 472	(14 187)	745 588
Total hedge derivatives	7 831	36 472	(14 187)	745 588

	2022			
	Assets		Liabilities	
	fair value	notional	fair value	notional
Derivatives in economic hedge relationship				
Interest rate swaps	1 502	4 564	(1 367)	4 564
Cross currency interest rate swaps	65	9 016	0	0
Foreign currency swaps	887	42 542	(2 695)	133 493
Total derivatives in economic hedge relationship	2 454	56 122	(4 062)	138 057
Fair value hedge derivatives				
Interest rate swaps	15 128	39 599	0	0
Total hedge derivatives	15 128	39 599	0	0

As part of its asset-liability management, the Bank enters into derivative transactions in order to cover risks inherent in the interest or maturity inconsistency of the asset and liability portfolio. Whenever possible, these derivative positions are effectively hedged with an existing asset or liability (see hedge accounting section). When it is not possible to implement effective hedge accounting in accordance with IFRS 9, the Bank classifies its derivative contracts into the financial assets and liabilities held for trading categories but does not open derivative positions for trading purposes only, all its positions are considered as economic hedging positions. Foreign exchange swaps are concluded for instruments in a different currency other than the source of financing, solely for short term maturity and for the purpose of daily liquidity management.

10. HEDGE ACCOUNTING

Fair value hedges

To protect itself against changes in the fair value of financial assets or liabilities due to movements in interest rates, the Bank enters into fair value hedges. The Bank primarily designates the benchmark rate as the hedged risk therefore enters into interest rate swaps whereby the fixed leg represents the economic risk of the hedged item.

The Bank has determined individual hedge relationships and started hedge accounting with its interest rate swap deals to cover the interest rate risk on one large loan in 2020.

On 30 June 2022, the Bank terminated the former hedge relationship for the interest rate risk of this loan in accordance with paragraph B6.5.23 of IFRS 9, as it no longer met the risk management objective under which the Bank deemed it suitable for hedge accounting. Following the termination, the Bank established a new hedging relationship in which groups of 11 loan transactions were micro-hedged, all which are characterized by long maturities and fixed interest rates. These transactions carry a significant interest rate risk, as such long-term, fixed-rate funds not available to the Bank in this volume. Hedged items are designated as amounts equal to the current IRS notional value, including the amortization of IRS transactions (using a layer approach), where the amount of interest due on the principal amount that represents the amounts that first become due after the cash flow dates of the hedging IRS transactions (“bottom layer”) is indicated. The volume of the remaining capital of the 11 loans involved is more than double the notional amount of the two market swaps previously concluded, so even with the contractual principal repayments, the expected prepayment volume and the amount of credit losses, they are expected to exceed the volume of hedging transactions over the entire term.

The Bank accounts these hedge relationships as fair value hedges. Hedge effectiveness is measured by the Bank using the hypothetical derivatives approach under IFRS9, which is a derivative with the same basic characteristics as the covered item. With this, the hypothetical derivative mirrors the hedged items, where the fixed rate on credit transactions is expected to reach or exceed the fixed rate component of IRS transactions (i.e.: fixed leg minus fixed spread of the variable leg). The initial fair value of a hypothetical IRS is zero, as opposed to the fair value of IRS transactions for hedging purposes at the time of the designation of the hedging relationship.

The ineffectiveness of the hedging relationship is recognized in the income statement on “Gains or (-) losses from hedge accounting, net “ line and amounted to HUF 1 743 million (2022: HUF 652 million, from which the amount recognized on cancellation amounted to HUF 723 million profit). The main source of ineffectiveness is the effect of the counterparty and the Bank’s own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item, additional ineffectiveness arose from the timing difference of the swap deal date and the designation date.

At the termination of the hedge relationship the fair value adjustment was recognized as part of the amortized amount of the single loan and effective interest rate was recalculated. Due to termination of previous hedge relationship HUF 1 572 million (2022: HUF 867 million) was recognized as effective interest rate amortization in the profit and loss.

In May 2023 the Bank issued fixed interest rate bonds, nominated in USD and amounted to USD 1 125 million. As the Bank lending is denominated mainly in HUF or in EUR the Bank swapped the USD fix interest and the USD notional as well into EUR risk by contracting a fix-to-floating USD IRS, float-to-float CCIRS and float-to-fix EUR IRS. For accounting purposes two hedge relationship was set by hedging the fair value of the fixed interest rate USD bond and the fair value of the fixed interest rate EUR loans where the hedging instruments are the USD and the EUR IRS respectively. The fair value hedge on the USD bond is a micro hedge relationship under IFRS 9 rules, while the fair value hedge on the fixed EUR loans is a macro hedge relationship under IAS 39 rules and is accounted for a separate line within the statements of financial position (*Fair value changes of the*

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hedged items in portfolio hedge of interest rate risk). To test the hedge effectiveness, the Bank uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk. In case of macro hedge relationship the hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

In the table below the Bank sets out the accumulated fair value adjustment arising from the continuing hedge relationship.

2023				
Hedged item	Assets		Liabilities	
	Carrying value of hedged item	from this accumulated fair value adjustment	Carrying value of hedged item	from this accumulated fair value adjustment
HUF loans	74 412	4 043		
EUR loans	337 365	11 550		
Debt securities issued			385 372	(975)
Total	411 777	15 593	385 372	(975)

2022				
Hedged item	Assets		Liabilities	
	Carrying value of hedged item	from this accumulated fair value adjustment	Carrying value of hedged item	from this accumulated fair value adjustment
HUF loans	75 126	(2 632)		
Debt securities issued			0	0
Total	75 126	(2 632)	0	0

	2023			2022		
	Less than 1 year	1-5 year	More than 5 years	Less than 1 year	1-5 year	More than 5 years
HUF loans						
Nominal amount (HUF million)	-	-	120 560	-	-	120 560
Principal repayable (HUF million)			84 772			89 512
Average fixed interest rate	-	-	3.37%	-	-	3.37%
EUR loans						
Principal repayable (HUF million)	-	-	359 864			
Contracted but not yet drawn amounts (HUF million)	-	-	108 674			
Average fixed interest rate	-	-	4,74%			
Debt securities issued						
Notional amount	-	-	389 745			
fixed interest rate	-	-	6.5%			

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2023					Gains or (-) losses from hedge accounting, net				
	2023 Fair value	2022 Fair value	Change in fair value	Change in interest accrual	Gains or (-) losses from hedge deal	Gains or (-) losses from hedged item	Total	Fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit and loss
Asset side hedge deal	7 831	15 128	(7 297)	(117)	(7 180)	6 676	(504)	4 043	(3 137)
Macro hedge deal	(5 302)	0	(5 302)	5 977	(11 280)	11 513	233	11 550	270
Liability side hedge deal	(8 885)	0	(8 885)	(8 435)	(450)	(1 022)	(1 472)	(975)	(1 425)
Total hedge interest rate swaps	(6 356)	15 128	(21 484)	(2 575)	(18 910)	17 167	(1 743)	14 618	(4 292)

2022					Gains or (-) losses from hedge accounting, net				
	2022 Fair value	2021 Fair value	Change in fair value	Change in interest accrual	Gains or (-) losses from hedge deal	Gains or (-) losses from hedged item	Total	Fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit and loss
Asset side hedge deal	15 128	7 849	7 279	218	7 061	(6 409)	652	(2 632)	(194)
Liability side hedge deal	0	0	0	0	0	0	0	0	0
Total hedge interest rate swaps	15 128	7 849	7 279	218	7 061	(6 409)	652	(2 632)	(194)

*: At the time of establishing the new hedging relationship, the fair value of the hedging instrument was HUF 13 157 million.

11. PROPERTY PLANT AND EQUIPMENT

	<u>2022</u>	<u>2021</u>
Property, plant and equipment	4 157	4 019
Right of use assets	378	484
Net book value	4 535	4 503

Property, plant and equipment

	Real estates	Equipments	Total
Gross value			
Opening balance 2023	5 613	2 450	8 063
Additions	23	562	585
Disposals	0	(121)	(121)
Closing balance 2023	5 636	2 891	8 527
Depreciation			
Opening balance 2023	(2 481)	(1 563)	(4 044)
Charge for the year	(40)	(401)	(441)
Disposals	0	115	115
Closing balance 2023	(2 521)	(1 849)	(4 370)
Net book value			
31 December 2022	3 132	887	4 019
31 December 2023	3 115	1 042	4 157

	Real estates	Equipments	Total
Gross value			
Opening balance 2022	5 565	2 513	8 078
Additions	74	85	159
Disposals	(26)	(148)	(174)
Closing balance 2022	5 613	2 450	8 063
Depreciation			
Opening balance 2022	(2 474)	(1 297)	(3 771)
Charge for the year	(33)	(384)	(417)
Disposals	26	118	144
Closing balance 2022	(2 481)	(1 563)	(4 044)
Net book value			
31 December 2021	3 092	1 216	4 307
31 December 2022	3 132	887	4 019

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Right of use assets

	Real estates	Parking places	Total
Gross value			
Opening balance 2023	710	27	737
Additions	28	0	28
Disposals	0	0	0
Closing balance 2023	738	27	765
Depreciation			
Opening balance 2023	(244)	(9)	(253)
Charge for the year	(131)	(3)	(134)
Disposals	0	0	0
Closing balance 2023	(375)	(12)	(387)
Net book value			
31 December 2022	466	18	484
31 December 2023	363	15	378

	Real estates	Parking places	Total
Gross value			
Opening balance 2022	691	23	714
Additions	19	4	23
Disposals	0	0	0
Closing balance 2022	710	27	737
Depreciation			
Opening balance 2022	(122)	(7)	(128)
Charge for the year	(122)	(2)	(124)
Disposals	0	0	0
Closing balance 2022	(244)	(9)	(253)
Net book value			
31 December 2021	569	16	586
31 December 2022	466	18	484

Expenses relating to short-term leases and to leases of low-value assets that are not shown as right to use assets are included in general and administrative expenses:

	<u>2023</u>	<u>2022</u>
Short-term leases	136	109
Leases of low-value assets	43	40
	<u>179</u>	<u>149</u>

12. INTANGIBLE ASSETS

	<u>2023</u>	<u>2022</u>
Opening net book value	5 924	5 040
<i>Gross value</i>		
Opening balance	12 465	10 982
Reclassification	0	0
Additions	1 301	1 642
Disposals	(16)	(159)
Closing balance	13 750	12 465
<i>Amortization</i>		
Opening balance	(6 541)	(5 942)
Charge for the year	(763)	(744)
Impairment	0	0
Disposals	16	145
Closing balance	(7 288)	(6 541)
Closing net book value	6 462	5 924

The Bank records software and intellectual property as intangible assets.

13. OTHER ASSETS

	<u>2023</u>	<u>2022</u>
Deferred income from reimbursed cost	3 736	6 965
Deferred expenses	1 983	1 797
Intermediated services	0	761
Deferred initial fair value adjustment	13 556	16 321
Interest subsidy settlements	3 399	2 222
Other	466	218
Special bank tax due to Covid-19	701	1 051
Total	23 841	29 335

Cost Reimbursement

In the 2014-2020 programming period, the European Union is encouraging the expansion and more active use of financial instruments. The section 24/B of the government decree 272/2014. (XI. 5.) appointed MFB Zrt. as a fund of funds organization to carry out the professional use of the refundable EU resource amounting to HUF 650 billion. In the 2021-2027 programming period, the section 31 of the government decree 256/2021. (V. 18.), appointed MFB Zrt. as the organization implementing the holding fund for the delivery of the EU subsidies to the final beneficiaries.

In the 2014-2020 and the 2021-2027 programming periods, the distribution of credit products is achieved through the "MFB Points" mediation system, which allows for a more efficient allocation of resources. Intermediaries ensures physical availability, and their staff carries out a significant part of the credit valuation, disbursement and monitoring activities for which the counterparty receives a specific intermediary remuneration. MFB points are operated by intermediary partners, therefore their costs and assets/liabilities are not included in the Bank's records.

MFB Zrt. is entitled to get compensation for the costs incurred in carrying out the activities detailed in the Financing Contract concluded with the Hungarian State, which is paid by the Managing Authority to the Bank in accordance with specific rules and procedures. The remuneration is a set of justified and certified expenditure relating directly or indirectly - primarily for the Bank's

organizational and infrastructure costs - to the implementation of the Financing Contract, recorded separately in the Bank's accounting register. According to the Financing Agreement the Bank is not entitled to any additional fee or reimbursement from the Managing Authority. The Bank cannot have a profit from the remuneration.

The amount presented in the table includes certified costs already incurred by the Bank and partially reimbursed by the Managing Authority.

Deferred initial fair value adjustment

In 2013 the National Bank of Hungary launched its so called Funding for Growth Scheme and in 2020 the FGS Hajrá program (both called FGS) in order to finance the operation and investments of small- and medium size businesses (SMB) as an economic development activity. Within both of these programs, SME's fulfilling some present conditions were able to receive a preferential loan at a maximum interest rate of 2.5%, which was then refinanced by the National Bank of Hungary at 0% interest rate. The interest rates of these loans were lower than the interest rate of similar loans available in the market (off-market), therefore the initial fair value of loans received and provided were lower than their transaction value. This initial fair value difference was determined by the Bank, however it was not accounted for in the profit or loss immediately given the unobservable inputs used in the calculation, but was accrued for the lifetime of the underlying deal. In accordance with the IFRS standards part of the related loan provided was reclassified to other assets, while part of the received loan with the same amount approximately as on the asset side was reclassified to other liabilities. The unobservable input during the determination of the initial fair value difference was the differences customers' credit risk and the Bank's own credit risk.

	<u>2023</u>	<u>2022</u>
Opening balance	16 321	17 344
Additions from new loans	16	2 873
Decrease due to sales	(561)	(903)
Annual amortisation	(2 220)	(2 983)
Closing balance	13 556	16 321

Special bank tax due to Covid-19

In order to implement the Economic Protection Action Plan, a one-time special credit institution tax on the epidemiological situation for replenishing the Epidemiological Fund was introduced in 2020 amounting to HUF 1.7 billion for the Bank, which was paid in three equal instalments during the year. The profit and loss impact of it under the IFRS rules did not have to be shown in 2020, as under the special tax act the next 5 years of bank special tax liability will be deducted with this amount in five equal annual instalments, therefore this amount will reduce bank special tax expenditure for these years.

14. RECEIVABLES ON THE STATE DUE TO CURRENCY-HEDGING AGREEMENT

The Bank's foreign exchange risk originated from the foreign currency liabilities is hedged by the Foreign Exchange Guarantee Frame Agreement (FX Agreement) signed by the Hungarian Ministry of Finance originally in 2004, and later modified in 2014. This FX Agreement manages foreign exchange risks of the Bank's foreign currency borrowings (EUR) and the State compensates any foreign exchange loss incurred on these borrowings and the Bank is required to pay to the State the amount of realized foreign exchange gains on these transactions. Under the agreement early financial settlement is possible for programs where asset-side final beneficiaries made repayment in excess of 20% of the original program framework actually used.

The FX state guarantee frame for the Bank, declared by the law was HUF 2 000 billion.

	<u>2023</u>	<u>2022</u>
Guarantee frame maximum amount	2 000 000	2 000 000
Programmed amounts within the frame	1 477 809	1 477 809
Free frame	522 191	522 191
Sum used from the frame amount	830 487	836 796

	<u>2023</u>		<u>2022</u>	
	Opening FX rates	Year end NBH FX rate	Opening FX rates	Year end NBH FX rate
Converted amount	632 622	830 487	621 709	836 796
<i>from this amount already repaid by customers on which the balance is fixed</i>	384 430	455 212	373 183	441 193
Foreign exchange losses		197 865		215 087
Amount already received from the State (relating to the not yet closed program)		(60 976)		(60 976)
<i>received during the year</i>		0		11 489
Foreign exchange losses of FX state guarantee		136 889		154 111
Interest foreign exchange losses of FX state guarantee		29 195		27 928
Total foreign exchange losses on the converted amount		166 085		182 039
<i>from this amount already repaid by customers on which the balance is fixed</i>		(99 978)		(95 938)

In 2023, the business activity covered by the hedging agreement was not significant, but the EUR/HUF exchange rate decreased significantly as a result of which the receivables on the State was reduced. However without this exchange rate hedging mechanism, the Bank's open currency position would be significant. This increase is recognized in the income statement on the „Exchange differences [gain or (-) loss], net” line, thereby neutralizing the effect of the revaluation of foreign currency liabilities. The receivable is against the Hungarian State therefore the credit risk is considered to be marginal.

15. FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

	<u>2023</u>	<u>2022</u>
Deposits		
Interbank deposits	37 365	23 859
Customer deposits (collateral behind loans)	26 641	19 599
Other customer deposits	47 250	5 397
	<u>111 256</u>	<u>48 855</u>
Loans taken		
Refinancing loans	201 519	230 171
Other loans taken	732 227	556 320
	<u>933 746</u>	<u>786 491</u>
Debt securities issued		
Listed HUF bonds	581 522	579 192
Listed FX bonds	1 180 982	823 370
from this listed on foreign stock exchange	866 148	501 049
	<u>1 762 504</u>	<u>1 402 562</u>
Other financial liabilities		
Margin accounts	8 137	15 696
Creditors	2 008	2 012
Finance leases liabilities	390	508
	<u>10 535</u>	<u>18 216</u>
Total	<u>2 818 041</u>	<u>2 256 124</u>

The Bank does not collect retail deposits. The corporate deposits contain such term deposits that are offered as collateral for the underlying loans or were collected for liquidity purposes. Also the line "deposits" includes inter-bank deposits used for liquidity management.

"Loans taken" includes long-term liabilities in FGS programs.

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15.1. DEBT SECURITIES ISSUED

Name of bond	ISIN code	Issue	Maturity	Interest rate	2023		2022	
					Nominal value	Carrying value	Nominal value	Carrying value
Foreign currency bonds								
MFB BOND EUR 750M	XS2010030752	2020.06.24	2025.06.24	fix 1.375% (annually)	287 085	288 450	300 188	301 150
MFB BOND EUR 500M	XS2348280707	2021.06.09	2026.06.09	fix 0.375% (annually)	191 390	191 352	200 125	199 899
MFB BOND EUR 398.32M	HU0000360821	2021.09.29	2023.06.28	fix 0.010% (annually)	0	0	35 802	35 801
		2021.10.13			0	0	46 949	46 941
		2022.05.19			0	0	21 501	21 356
		2022.06.15			0	0	55 174	54 618
		2022.07.21			2024.06.26	fix 2.5% (annually)	34 786	35 095
2022.09.14	50 887	51 193	53 209	52 732				
2022.09.28	19 066	19 109	19 936	19 537				
2022.11.16	10 737	10 721	11 227	10 878				
MFB BOND EUR 110,72M	HU0000361928	2022.10.19	2023.10.26	fix 3.8% (annually)	0	0	44 317	44 099
MFB BOND USD 1 125M	XS2630760796	2023.05.31	2028.06.29	fix 6.5% (annually)	389 745	386346		
MFB BOND EUR 139.6M	HU0000362934	2023.09.13	2027.06.29	fix 5.5% (annually)	53 428	53 721		
		2023.10.12			13 321	13 313		
MFB BOND EUR 62.9M	HU0000362983	2023.09.28	2024.09.26	fix 5.3% (annually)	61 581	62 234		
MFB BOND EUR 179.9M	HU0000363072	2023.10.27	2024.10.25	fix 5.3% (annually)	68 881	69 448		
Total foreign currency bonds					1 180 907	1 180 982	824 802	823 370
HUF bonds								
MFB202710	HU0000357892	2017.10.04	2027.10.27	fix 3.00% (annually)	4 180	4 229	4 180	4 235
		2019.10.09			16 890	17 642	16 890	17 808
		2021.10.06			13 175	13 087	13 175	13 049
		2021.11.04			34 910	33 958	34 910	33 688
MFB202406	HU0000358700	2019.02.06	2024.06.26	fix 2.6% (annually)	15 000	15 219	15 000	15 259
		2019.03.06			13 300	13 490	13 300	13 517
		2022.05.18			15 070	14 899	15 070	14 186
MFB202311	HU0000359138	2019.09.25	2023.11.24	fix 1.0% (annually)	0	0	17 110	17 130
		2021.10.20			0	0	18 905	18 692
		2021.11.04			0	0	3 171	3 132
		2022.02.16			0	0	4 294	4 148
		2022.10.26			0	0	5 703	5 001
MFB202506	HU0000359674	2020.05.27	2025.06.24	fix 1.7% (annually)	35 000	35 363	35 000	35 402
MFB202604	HU0000360037	2020.10.21	2026.04.22	fix 1.9% (annually)	34 706	35 181	34 706	35 190
		2023.09.14			63 306	54 446		
MFB203110	HU0000360771	2021.09.15	2031.10.22	fix 2.9% (annually)	33 950	33 357	33 950	33 270
		2021.10.20			24 035	22 302	24 035	22 103
MFB203304	HU0000360896	2021.11.11	2033.04.20	fix 4.2% (annually)	9 600	9 647	9 600	9 802

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Name of bond	ISIN code	Issue	Maturity	Interest rate	2023		2022	
					Nominal value	Carrying value	Nominal value	Carrying value
MFB202810	HU0000360912	2021.11.17	2028.10.22	fix 3.9% (annually)	34 550	34 628	34 550	34 596
		2021.12.01			23 495	22 789	23 495	22 631
MFB202410	HU0000361027	2021.12.08	2024.10.24	fix 4.3% (annually)	12 441	12 480	12 441	12 414
		2022.02.02			16 550	16 589	16 550	16 484
		2022.10.06			4 900	4 578	4 900	4 189
MFB202910	HU0000361035	2021.12.08	2029.10.24	fix 4.6% (annually)	10 680	10 540	10 680	10 507
		2022.02.02			24 100	23 159	24 100	22 997
MFB202704	HU0000361092	2021.12.15	2027.04.22	fix 4.5% (annually)	24 575	25 248	24 575	25 607
		2022.01.19			9 600	9 717	9 600	9 817
		2022.02.16			9 453	9 502	9 453	9 853
		2023.10.26			29 000	25 745		
MFB202301	HU0000360888	2021.11.11	2023.01.25	fix 2.0% (annually)	0	0	27 504	28 115
		2021.12.01			0	0	23 956	24 466
		2022.01.19			0	0	39 584	40 415
MFB202511	HU0000361761	2022.06.15	2025.11.26	fix 7.8% (annually)	13 500	13 355	13 500	13 682
		2022.09.15			6 700	6 216	6 700	6 194
		2022.11.17			2 000	1 880	2 000	1 883
MFB202803	HU0000362975	2023.09.27	2028.03.23	fix 8.2% (annually)	48 115	47 857		
MFB202610	HU0000363064	2023.10.11	2026.10.21	fix 9.2% (annually)	14 625	14 419		
Total HUF Bonds					597 406	581 522	582 587	579 192
Total Bonds					1 778 313	1 762 504	1 407 389	1 402 562

In 2023 the Bank issued one fix interest bearing USD bond with a nominal value of USD 1 125 million and three new EUR bonds at a nominal value of EUR 382.4 million as well as two new HUF bonds at a nominal value of HUF 62.7 billion and additional issuance of HUF 92.3 billion occurred at two HUF bonds. Two EUR denominated bonds totalling to EUR 700 million and two HUF denominated bonds at a nominal amount of HUF 140 227 million were expired during the year.

In 2022 the Bank issued two new fix interest bearing EUR bond totalling EUR 412.4 million, and one new HUF bonds at a nominal value of HUF 22.2 billion. There was additional issuance on one existing EUR bonds amounting to EUR 191.57 million, while in case of HUF bonds five was involved totalling to HUF 105.2 billion face value. One EUR bond with a nominal value of EUR 95.2 million and two HUF bonds with a nominal value of HUF 85.5 billion expired during the year.

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Reconciliation of liabilities arising from financing activities

	<u>2022</u>	<u>Proceeds from bond issuance</u>	<u>Discount/ Premium</u>	<u>Repayments at maturity</u>	<u>Exchange rate change</u>	<u>Hedge impact</u>	<u>2023</u>
HUF bonds	579 192	139 202	3 355	(140 227)	0	0	581 522
USD bonds	0	386 503	1 023	0	(2 154)	974	386 346
EUR bonds	823 370	198 281	6 164	(190 136)	(43 043)	0	794 636
Total	1 085 030	723 986	10 542	(330 363)	(45 197)	974	1 762 504

	<u>2021</u>	<u>Proceeds from bond issuance</u>	<u>Discount/ Premium</u>	<u>Repayments at maturity</u>	<u>Exchange rate change</u>	<u>Hedge impact</u>	<u>2022</u>
HUF bonds	512 116	144 448	8 149	(85 521)	0	0	579 192
EUR bonds	572 914	238 373	3 084	(39 152)	48 151	0	823 370
Total	1 085 030	382 821	11 233	(124 673)	48 151	1 402 562	0 1 085 030

16. PROVISIONS

Provisions by title	<u>2023</u>	<u>2022</u>
Financial guarantees	780	210
Capital commitment	156	208
Loan commitments	4 920	3 997
<i>Subtotal for IFRS 9 provision method</i>	<i>5 856</i>	<i>4 415</i>
Legal cases	0	0
Other	390	291
Total (Note 28)	6 246	4 706

Based on the judgement of the legal department the amount of provision regarding legal cases are expected to be settled in more than twelve months after the reporting period.

Other provisions include provision allocated for the employee jubilee program.

17. OTHER LIABILITIES

	<u>2023</u>	<u>2022</u>
Non- income taxes	1 185	1 015
Settlement from wages	947	970
Deferred income	3 325	3 394
Accrued costs	938	341
Lending related liabilities	2 092	1 020
Liabilities to managing authorities	1 285	5 110
Fees due before disbursement but not paid	75	81
Venture capital note payment obligation	41 827	54 295
Deferred initial fair value adjustment	13 522	16 269
Other	257	356
Total	65 453	82 851

Liabilities to managing authorities include advances on expenditure reimbursement relating to the EU programming period 2007-2013, 2014-2020 and 2021-2027 (see Note 13).

Venture capital note payment obligation related to MFB Növekedési Tőkealap, Central European Fund of Funds and MFB Vállalati Beruházási és Tranzakciós Magántőkealappal. The amounts are payable as required by the investment plans.

The deferred initial fair value adjustment line represents the initial fair value adjustment, which is determined based on the internal models, and is therefore deferred and amortized to the profit and loss in parallel to the amortization of the underlying instruments (loans taken in FGS program, see Note 13).

18. SHARE CAPITAL AND SHARE PREMIUM

The last share capital increase was during 2022 when the Bank received HUF 70 billion as at 27 October 2022 and an additional HUF 100 billion as at 23 December 2022.

100% of the shares are owned by the Hungarian State. The total value of the 519 900 ordinary shares, with HUF 1 million nominal value each was HUF 519 900.

Share premium represents the difference between the nominal value of the subscribed share and the amount received at subscription. The Bank's share premium both as at 31 December 2023 and 2022 was HUF 81 870 million.

Hungarian Accounting Act (Act C of 2000, section 114/B)

Pursuant to section 114/B of the Hungarian Accounting Act, the Bank shall present a specific equity reconciliation table for the reporting date and present it as part of the notes.

The equity reconciliation table contains the opening and closing information for each component of IFRS equity, and the opening and closing information for certain specified equity components, as well as the amount of the retained earnings available for payment of dividends. This amount can be determined from the last row of the equity reconciliation table and consists of retained earnings and after-tax profit for the year, less any increase in the valuation reserve for investment properties and increased by its tax impact. This section of the Accounting Act defines the content of the free profit reserve available for payment of dividends.

Parts of the reconciliation table

Share capital: as defined in the articles of association to the extent that it is an equity instrument.

Capital reserve: the sum of all components of equity that do not meet the definition of IFRS share capital, subscribed but not paid-up capital, retained earnings, valuation reserve, after-tax profit or allocated reserve.

Retained earnings: accumulated profit of the previous years that was not paid as dividends to shareholders.

Valuation reserve: the sum of other comprehensive income, including cumulative and other comprehensive income for the year, plus the amount of the valuation reserve created before the transition to IFRS.

Allocated reserve: includes amounts appropriated from the capital reserve and the retained earnings. Pursuant to the provisions of the Hungarian Credit Institutions Act, a credit institution is required to set aside 10% of its after-tax profit for the year, which it may use only to offset losses from its activities. In accordance to the section 83 (7) of the Credit Institution Act, if a credit institution prepares its annual financials in accordance with IFRS, it must separate the general reserve from the retained earnings and presents it as an Allocated reserve in the equity reconciliation table.

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Based on section 114/B of the Hungarian Accounting Act, the Bank's equity reconciliation table for 31 December 2023 is as follows:

31 December 2023	Share Capital	Capital Reserve	Retained earnings	Other Reserves	Valuation reserve	Allocated reserve	Profit after tax	Total
Own equity under IFRS rules	519 900	81 870	26 816	1 292	(1 063)	0	0	628 815
General reserve				(1 292)		1 292		0
Profit after tax			(2 345)				2 345	0
Other comprehensive income								0
Own equity under Hungarian Accounting Act rules (section 114/B)	519 900	81 870	24 471	0	(1 063)	1 292	2 345	628 815

The registered share capital by the Court is HUF 519 900 million. The reserve available for dividend payment is HUF 26 816 million.

Based on section 114/B of the Hungarian Accounting Act, the Bank's equity reconciliation table for 31 December 2022 is as follows:

31 December 2022	Share Capital	Capital Reserve	Retained earnings	Other Reserves	Valuation reserve	Allocated reserve	Profit after tax	Total
Own equity under IFRS rules	519 900	81 870	24 705	1 058	(5 892)	0	0	621 641
General reserve				(1 058)		1 058		0
Profit after tax			(6 194)				6 194	0
Other comprehensive income			(9)		9			0
Own equity under Hungarian Accounting Act rules (section 114/B)	519 900	81 870	18 502	0	(5 883)	1 058	6 194	621 641

The registered share capital by the Court is HUF 519 900 million. The reserve available for dividend payment is HUF 24 696 million.

19. OTHER RESERVES

General reserve

Other reserve includes general reserve that is in accordance with Section 83 of Act No. CCXXXVII of 2013 equal to ten percent of the net profit after tax. The general reserve, as calculated under Hungarian Accounting and Banking Rules, is treated as appropriations from retained earnings.

The Bank is not allowed to pay dividend from the statutory reserves.

20. CONTINGENT LIABILITIES, COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees and other undrawn commitments to lend. Other non-financial guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees carries a similar credit risk to loans. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

	<u>2023</u>	<u>2022</u>
Loan commitments	340 389	227 846
Capital commitments	351 816	243 543
Guarantees	860 233	799 175
Guarantees and loan commitments total	1 552 438	1 270 564
Legal cases	309	304
Other commitments	1 531	1 601
Total	1 554 278	1 272 469

Capital commitments represents the subscribed but not yet paid capital increase of venture capital investments/notes that is payable as required by the investment plans if the investment is closer to a loan commitment.

Other commitments represent potential further capital increase for the Central European Fund of Funds that is not included in the investment plans but its maximum amount was set in the foundation indeed of the fund. As owners' decision is necessary to determine the actual need and amount therefore this amount is not yet an obligation.

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21. NET INTEREST INCOME

	<u>2023</u>	<u>2022</u>
Financial assets at fair value through other comprehensive income	3 413	603
Financial assets at amortized cost	123 850	98 026
Negative interest from financial liabilities	2	169
Interest income calculated using the effective interest method	127 265	98 798
Financial assets held for trading	26 336	1 740
Non-trading financial assets mandatorily at fair value through profit or loss	2 743	903
Derivatives – Hedge accounting	6 822	2 915
Other assets	44 555	4 255
Other similar income	80 457	9 813
Total interest income	207 722	108 611
Interest expense		
Financial liabilities held for trading	(50 429)	(9 738)
Financial liabilities at amortized cost	(139 066)	(61 082)
Derivatives – Hedge accounting	(4 000)	0
Other liabilities	(523)	(161)
Negative interest from financial assets	(2)	(52)
Total interest expense	(194 020)	(71 033)
Net interest income	13 701	37 578

Net interest income analysis by customer types:

	<u>2023</u>	<u>2022</u>
Interest income		
Customers	94 165	67 420
National Bank of Hungary	44 704	9 078
Other banks	41 491	9 020
Securities	27 361	23 093
Total	207 721	108 611
Interest expense		
Customers	(2 600)	(1 649)
National Bank of Hungary	(2 918)	(4 227)
Other banks	(134 275)	(35 955)
Securities	(54 227)	(29 202)
Total	(194 020)	(71 033)
Net interest income	13 701	37 578

22. DIVIDEND INCOME

	2023	2022
Dividend received from subsidiaries	8 016	1 400
MKK Zrt.	8 016	1 400
Dividend received from Other investments	3	5
Other investments	3	5
Total	8 019	1 405

23. NET FEE AND COMMISSION INCOME / EXPENSES

	<u>2023</u>	<u>2022</u>
Fee and commission income		
Guarantee fees	5 206	4 771
Loan servicing fees	249	318
Other fees and commission	12	5
Total	5 467	5 094
Fee and commission expenses		
Agent fees	(140)	(157)
Guarantee fees	(774)	(775)
Bank account commission	(66)	(63)
Other fees and commission	(2)	(9)
Total	(982)	(1 004)
Net fee and commission income / (expenses)	4 485	4 090

24. GAINS OR (-) LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET

	<u>2023</u>	<u>2022</u>
Interest rate swaps	(5)	(48)
Cross currency interest rate swaps	(8 841)	87
Foreign currency swaps	2 426	(1 293)
Total	(6 420)	(1 254)

25. GAINS OR (-) LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

	<u>2023</u>	<u>2022</u>
Loans and advances to customers	96	84
Loans and advances to banks	(25)	(93)
Venture capital note – investment type	(134)	47
Venture capital note – loan type	22 368	11 058
Total	22 305	11 096

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26. OTHER OPERATING INCOME/EXPENSES

	<u>2023</u>	<u>2022</u>
Other income		
Compensation received	4 820	4 978
Recovery of previous years costs	36	209
Rental income	114	51
Deferred initial fair value of borrowings	2 375	4 076
Other	137	96
Total other operating income	7 842	9 410
Other expenses		
Donations	(347)	(86)
Expenses related to previous years	(93)	(301)
Taxes – except income tax and special bank tax	(2 229)	(1 954)
Special bank tax	(4 122)	(3 504)
Extra profit tax	(2 234)	(2 779)
Other expenses related to lending and borrowing not part of effective interest	(935)	(295)
Deferred initial fair value of loans granted	(2 755)	(4 154)
Expense on legal cases	(20)	(4)
Other	(131)	(121)
Total other operating expense	(12 866)	(13 198)

The Bank receives compensations for performing the tasks in connection with 2007-2013, 2014-2020 and 2021-2027 EU programming periods (further details in Note 13). The Bank did not receive any consideration from the State for the exercising of owner's rights as determined in the XXII chapter of the central budget (2022: HUF 5 million).

Donations were provided to the below companies or foundations.

<u>Name</u>	<u>Headquarters</u>	<u>Tax number</u>	<u>2023</u>	<u>2022</u>
Bethesda KIDsz Pedagógiai Szakszolgáltató	1146 Budapest, Hungária körút 200. B	19167161-1-42	3	0
Családpárti Alapítvány	6720 Szeged, Arany János utca 14. I/1.	19354981-2-06	15	0
Heller Farkas Szakkollégium Alapítvány	1093 Budapest, Fővám tér 8.	18259797-1-43	2	0
Magyar Ökumenikus Segélyszervezet	1221 Budapest, Kossuth Lajos utca 64.	19662927-1-43	4	13
Príma Prímissima	1051 Budapest, Nádor utca 21.	18180963-2-41	23	23
Szent Márton Gyermekmentő Szolgálat Közhasznú Alapítvány	1089 Budapest, Orczy út 32/B	18162785-2-42	0	50
Nemzeti Vállalkozásfejlesztési Tudásközpont Alapítvány	1051 Budapest, Hercegprímás u. 12. félemelet 4	in progress	300	0
		Total	347	86

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27. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2023</u>	<u>2022</u>
Wages and salaries	(6 749)	(6 371)
Compulsory social security	(1 209)	(951)
Other personnel expenses	(1 138)	(1 038)
Personnel expenses	(9 096)	(8 360)
Marketing	(1 147)	(1 362)
Expert fees	(591)	(459)
Rental expense	(553)	(462)
System support and maintenance	(845)	(704)
Office maintenance	(381)	(329)
Traveling	(76)	(45)
Media	(104)	(97)
Other material type costs	(62)	(72)
Post and newspapers	(100)	(84)
Electricity, water, gas supply	(416)	(120)
Membership fees	(63)	(59)
Education	(70)	(82)
Insurances	(77)	(53)
Other welfare services	(51)	(39)
Other	(89)	(83)
Other general administrative expenses	(4 625)	(4 050)
Total general and administrative expenses	(13 721)	(12 410)

The average number of the employees in 2023 was 391 (2022: 385.3).

Expert fees include HUF 80 million gross fees paid to the auditor for the 2023 annual audit and other audit related services (2022: HUF 56 million). There was no fee paid to the statutory auditor neither in 2023 nor in 2022 for any non-audit services. There was HUF 21.6 million paid to group members of statutory auditor for non-audit services provided to the Bank during 2023 (2022: nil).

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28. PROVISIONS OR (-) REVERSAL OF PROVISIONS

	2023				2022			
	Other items	Guarantees and loan commitments	Capital commitments	Total	Other items	Guarantees and loan commitments	Capital commitments	Total
1. Opening balance as 1 January	(291)	(4 207)	(208)	(4 706)	(226)	(3 170)	(79)	(3 475)
2. Charge	(140)	(1 988)	0	(2 128)	(118)	(2 482)	(129)	(2 729)
3. Release	41	252	52	345	53	1 792	0	1 845
4. Utilization	0	0	0	0	0	0	0	0
5. Foreign exchange difference	0	243	0	243	0	(347)	0	(347)
6. Closing balance at 31 December	(390)	(5 700)	(156)	(6 246)	(291)	(4 207)	(208)	(4 706)
Net movement (excluding item 5.)	(99)	(1 736)	52	(1 783)	(65)	(690)	(129)	(884)
Balance in the Profit or loss statement								
Other income (legal cases)	0	0	0	0	0	0	0	0
Impairment (-) or reversal of impairment of financial instruments	0	(1 736)	52	(1 684)	0	(690)	(129)	(819)
Amounts charged to wages	(99)			(99)	(65)			(65)

The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2023 by credit risk stages. The movements represent every change during the year.

	Opening balance as at 1 January 2023	Net charge without stage transfer	Charge due to origin	Utilization and expiries	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	FX impact	Closing balance as at 31 December 2023
Guarantees	(210)	(470)	(116)	12	0	0	0	4	(780)
Stage 1	(189)	(379)	(36)	7	341	0		4	(252)
Stage 2	(21)	(91)	(79)	5	(341)	0	0	0	(528)
Stage 3	0	0	0	0			0	0	0
Loan commitments	(3 997)	(1 057)	(128)	22	0	0	0	239	(4 920)
Stage 1	(29)	(143)	(44)	9	94	0		7	(105)
Stage 2	(3 723)	(1 161)	(1)	13	(94)	0	0	235	(4 731)
Stage 3	(245)	247	(83)	0			0	(3)	(84)
Capital commitments	(208)	52	0	0	0	0	0	0	(156)
Stage 1	(208)	52	0	0	0	0	0	0	(156)
TOTAL	(4 415)	(1 475)	(244)	34	0	0	0	243	(5 856)

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The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2022 by credit risk stages.

	Opening balance as at 1 January 2022	Net charge without stage transfer	Charge due to origin	Utilization and expiries	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	FX impact	Closing balance as at 31 December 2022
Guarantees	(1 621)	1 768	(112)	1	0	0	0	(246)	(210)
Stage 1	(1 455)	1 621	(112)	1	18	(16)		(246)	(189)
Stage 2	(166)	147	0	0	(18)	16	0	0	(21)
Stage 3	0	0	0	0			0	0	0
Loan commitments	(1 549)	(823)	(1 740)	216	0	0	0	(101)	(3 997)
Stage 1	(417)	73	(98)	212	194	0	0	7	(29)
Stage 2	(1 132)	(896)	(1 482)	4	(194)	0	85	(108)	(3 723)
Stage 3	0	0	(160)	0			(85)	0	(245)
Capital commitments	(79)	0	(129)	0	0	0	0	0	(208)
Stage 1	(79)	0	(129)	0				0	(208)
TOTAL	(3 249)	945	(1 981)	217	0	0	0	(347)	(4 415)

29. IMPAIRMENT (-) OR REVERSAL OF IMPAIRMENT OF FINANCIAL INSTRUMENTS

	2023			2022		
	Charge due to origin	Net charge without stage transfer	Total as at 31 December	Charge due to origin	Net charge without stage transfer	Total as at 31 December
Customer loans	(3 184)	(5 489)	(8 672)	(544)	(20 599)	(21 143)
Loans to banks	0	3	3	0	0	0
Debt securities	(48)	193	145	(893)	(833)	(1 726)
Deposits at Central and other banks	(1)	6	5	0	25	25
Other financial receivables	0	(3)	(3)	0	(1)	(1)
Other demand deposits	0	8	8	0	19	19
Guarantees	(116)	(458)	(574)	(112)	1 769	1 657
Loan commitments	(128)	(1 034)	(1 162)	(1 740)	(607)	(2 347)
Capital commitments	0	52	52	(129)	0	(129)
Total profit and loss impact	(3 476)	(6 722)	(10 198)	(3 418)	(20 227)	(23 645)

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Recovery on purchased receivables represents the actual recovery since initial recognition or planned recovery due to the change in the assumptions in the model used to estimate the future recovery.

The table below presents the changes in the impairment for financial assets during 2023 by credit risk stages. The movements represent every change during the year.

LOANS	Opening balance as at 1 January 2023	Charge due to origin	Utili- zation	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin- ding	FX impact	Closing balance as at 31 December 2023
Customer loans – Stage 1	(3 552)	(863)	0	(410)	568	0	(0)			120	(4 137)
General governments	(37)	0	0	(34)	0	0	0			2	(69)
Other financial corporations	(203)	(59)	0	(196)	230	0	(0)			0	(229)
Other non-financial corporations	(3 309)	(804)	0	(165)	338	0	(0)			118	(3 822)
Households	(3)	0	0	(16)	0	0	(0)			0	(18)
Loans to banks – Stage 1	(5)	0	0	3	0	0	0			0	(2)
Refinancing loans	0	0	0	0	0	0	0			0	0
Other loans	(5)	0	0	3	0	0	0			0	(2)
Customer loans – Stage 2	(35 457)	(63)	0	(4 916)	(568)	18 025	0	(227)		705	(22 501)
General governments	0	0	0	0	0	0	0	0		0	0
Other financial corporations	(4 785)	(32)	0	(1 615)	(230)	4 346	0	(22)		67	(2 271)
Other non-financial corporations	(30 603)	(31)	0	(3 308)	(338)	13 678	0	(205)		638	(20 169)
Households	(69)	0	0	7	0	1	0	(0)		0	(61)
Loans to banks – Stage 2	0	0	0	0	0	0	0	0		0	0
Refinancing loans	0	0	0	0	0	0	0	0		0	0
Other loans	0	0	0	0	0	0	0	0		0	0

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(amounts presented are expressed in HUF million unless otherwise noted)

LOANS	Opening balance as at 1 January 2023	Charge due to origin	Utili- zation	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin- ding	FX impact	Closing balance as at 31 December 2023
Customer loans – Stage 3	(22 782)	(2 046)	16	(163)		(18 025)	0	227	(1 998)	955	(43 816)
General governments	0	0	0	0		0	0	0	0	0	0
Other financial corporations	(8 431)	(112)	0	(3 019)		(4 346)	0	22	(263)	0	(16 148)
Other non-financial corporations	(14 344)	(1 935)	16	2 857		(13 678)	0	205	(1 735)	955	(27 659)
Households	(7)	0	0	(1)		(1)	0	0	0	0	(9)
Customer loans – POCI	0	(210)	0	0					0	0	(210)
General governments	0	0	0	0					0	0	0
Other financial corporations	0	0	0	0					0	0	0
Other non-financial corporations	0	(210)	0	0					0	0	(210)
Households	0	0	0	0					0	0	0
Loans to banks – Stage 3	0	0	0	0		0	0	0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0	0	0
Other loans	0	0	0	0		0	0	0	0	0	0
Customer loans - TOTAL	(61 791)	(3 184)	16	(5 489)	0	0	0	0	(1 998)	1 781	(70 664)
General governments	(37)	0	0	(34)	0	0	0	0	0	2	(69)
Other financial corporations	(13 419)	(203)	0	(4 830)	0	0	0	0	(263)	67	(18 648)
Other non-financial corporations	(48 256)	(2 981)	16	(616)	0	0	0	0	(1 735)	1 712	(51 859)
Households	(79)	0	0	(10)	0	0	0	0	0	0	(89)
Loans to banks - TOTAL	(5)	0	0	3	0	0	0	0	0	0	(2)
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0
Other loans	(5)	0	0	3	0	0	0	0	0	0	(2)

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DEBT SECURITIES	Opening balance as at 1 January 2023	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2023
Stage 1	(3 626)	(48)	970	839	0	0		29	(1 836)
Hungarian government bonds	0	0	0		0	0		0	0
Corporate bonds	(3 625)	(48)	972	839	0	0		29	(1 833)
Mortgage bonds	(1)	0	(2)	0	0	0		0	(3)
Stage 2	0	0	(777)	(839)	0	0		0	(1 616)
Hungarian government bonds	0	0	0	0	0	0		0	0
Corporate bonds	0	0	(777)	(839)	0	0		0	(1 616)
Mortgage bonds	0	0	0	0	0	0		0	0
Total	(3 626)	(48)	193	0	0	0		29	(3 452)
Hungarian government bonds	0	0	0	0	0	0		0	0
Corporate bonds	(3 625)	(48)	195	0	0	0		29	(3 449)
Mortgage bonds	(1)	0	(2)	0	0	0		0	(3)

DEPOSITS AT CENTRAL AND OTHER BANKS	Opening balance as at 1 January 2023	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Stage 1*	(6)	(1)	6					(1)
Central bank deposits	0	0	0					0
Other bank deposits	(6)	(1)	6					(1)

*: Only stage 1 deposits were at the Bank portfolio in 2023.

OTHER FINANCIAL ASSETS	Opening balance as at 1 January 2023	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Stage 2*	(1)	0	(3)					(4)
Trade receivables	0	0	0					0
Margin accounts	(1)	0	(3)					(4)

*: Only stage 2 receivables were at the Bank portfolio in 2023.

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OTHER DEMAND DEPOSITS	Opening balance as at 1 January 2023	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2023
Stage 1*	(10)	0	8					0	(2)
Cash balances	(9)	0	7					0	(2)
with National Bank of Hungary									
Other demand deposits	(1)	0	1					0	(0)

*: Only stage 1 deposits were at the Bank portfolio in 2023.

The table below presents the changes in the impairment for financial assets during 2022 by credit risk stages.

LOANS	Opening balance as at 1 January 2022	Charge due to origin	Utilization	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwinding	FX impact	Closing balance as at 31 December 2022
Customer loans – Stage 1	(1 976)	(368)	0	(2 348)	1 315	0	0			(174)	(3 552)
General governments	(96)	0	0	64	0	0	0			(5)	(37)
Other financial corporations	(173)	(169)	0	52	87	0	0			0	(203)
Other non-financial corporations	(1 704)	(151)	0	(2 513)	1 228	0	0			(169)	(3 309)
Households	(4)	(48)	0	49	0	0	0			0	(3)
Loans to banks – Stage 1	(5)	0	0	0	0	0	0			0	(5)
Refinancing loans	0	0	0	0	0	0	0			0	0
Other loans	(5)	0	0	0	0	0	0			0	(5)
Customer loans – Stage 2	(23 664)	(65)	0	(18 175)	(1 315)	9 380	0	(3)		(1 614)	(35 457)
General governments	0	0	0	0	0	0	0	0		0	0
Other financial corporations	(2 025)	(65)	0	(9 084)	(87)	6 524	0	(3)		(45)	(4 785)
Other non-financial corporations	(21 561)	0	0	(9 097)	(1 228)	2 852	0	0		(1 569)	(30 603)
Households	(79)	0	0	6	0	4	0	0		0	(69)
Loans to banks – Stage 2	0	0	0	0	0	0	0	0		0	0
Refinancing loans	0	0	0	0	0	0	0	0		0	0
Other loans	0	0	0	0	0	0	0	0		0	0

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LOANS	Opening balance as at 1 January 2022	Charge due to origin	Utili- zation	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin- ding	FX impact	Closing balance as at 31 December 2022
Customer loans – Stage 3	(12 050)	(111)	0	(76)		(9 380)	0	3	(260)	(908)	(22 782)
General governments	0	0	0	0		0	0	0	0	0	0
Other financial corporations	0	(78)	0	(1 845)		(6 524)	0	3	13	0	(8 431)
Other non-financial corporations	(12 043)	(33)	0	1 765		(2 852)	0	0	(273)	(908)	(14 344)
Households	(7)	0	0	4		(4)	0	0	0	0	(7)
Loans to banks – Stage 3	0	0	0	0		0	0	0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0	0	0
Other loans	0	0	0	0		0	0	0	0	0	0
Customer loans - TOTAL	(37 692)	(544)	0	(20 599)	0	0	0	0	(260)	(2 696)	(61 791)
General governments	(96)	0	0	64	0	0	0	0	0	(5)	(37)
Other financial corporations	(2 198)	(312)	0	(10 877)	0	0	0	0	13	(45)	(13 419)
Other non-financial corporations	(35 308)	(184)	0	(9 845)	0	0	0	0	(273)	(2 646)	(48 256)
Households	(90)	(48)	0	59	0	0	0	0	0	0	(79)
Loans to banks - TOTAL	(5)	0	0	0	0	0	0	0	0	0	(5)
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0
Other loans	(5)	0	0	0	0	0	0	0	0	0	(5)

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DEBT SECURITIES	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2022
Stage 1*	(1 890)	(893)	(833)					(10)	(3 626)
Hungarian government bonds	0	0	0					0	0
Corporate bonds	(1 887)	(893)	(835)					(10)	(3 625)
Mortgage bonds	(3)	0	2					0	(1)

*: Only stage 1 securities were at the Bank portfolio in 2022.

DEPOSITS AT CENTRAL AND OTHER BANKS	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Stage 1*	(31)	0	25					(6)
Central bank deposits	(3)	0	3					0
Other bank deposits	(28)	0	22					(6)

*: Only stage 1 deposits were at the Bank portfolio in 2022.

OTHER FINANCIAL ASSETS	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Stage 2*	0	0	(1)					(1)
Trade receivables	0	0	0					0
Margin accounts	0	0	(1)					(1)

*: Only stage 2 receivables were at the Bank portfolio in 2022.

OTHER DEMAND DEPOSITS	Opening balance as at 1 January 2022	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	FX impact	Closing balance as at 31 December 2022
Stage 1*	(25)	0	19					(4)	(10)
Cash balances with National Bank of Hungary	(25)	0	16					0	(9)
Other demand deposits	0	0	3					(4)	(1)

*: Only stage 1 deposits were at the Bank portfolio in 2022.

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30. IMPAIRMENT OR (-) REVERSAL OF IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	<u>2023</u>	<u>2022</u>
1. Opening balance as at 1 January	(18 155)	(15 078)
2. Charge	(11 720)	(3 077)
3. Release through profit and loss	0	0
4. Utilization	3 258	0
5. Foreign exchange difference	0	0
6. Reclassification	0	0
7. Closing balance as at 31 December	(26 617)	(18 155)
Net movement	(8 462)	(3 077)
Balance in the Income statements	(11 720)	(3 077)

31. TAXATION

Income tax expenses include current taxes, and deferred taxes. In both 2023 and 2022 the corporate tax rate was 9%, the local tax rate was 2%, and the innovation contribution rate was 0.3%.

	<u>2023</u>	<u>2022</u>
Current tax	576	1 318
<i>from this corporate tax</i>	24	203
<i>from this local tax and innovation contribution</i>	552	1 115
Deferred tax	(34)	3
Total	542	1 321

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The following table represents deferred tax asset and liability movements reported either in the income statement or in the other comprehensive income.

	2023			2022		
	Recognized in profit or loss	Recognized in OCI	Deferred tax liability	Recognized in profit or loss	Recognized in OCI	Deferred tax liability
Tax expense	576			1 318		
Deferred tax by titles						
Property, plant and equipment	10	0	84	15		74
FVOCI debt securities, equity instruments	0	87	104	0	3	18
Other provisions	(10)	0	(31)	(6)		(22)
Tax loss carry forward	(34)	0	(69)	(6)		(35)
Total	(34)	87	88	3	3	35
Total tax expense in the Income statements	542			1 321		

The following table represents deferred tax asset and liability movements during the year.

2023		Opening		Increases		Decreases		Closing	
Type of deferred tax	Asset/Liability	base	tax	base	tax	base	tax	base	tax
Property, plant and equipment	Liability	822	74	116	10	0	0	938	84
Other provision	Asset	(247)	(22)	(109)	(9)	0	0	(356)	(31)
FVOCI debt securities	Liability	0	0	785	88	0	0	785	88
FVOCI equity investments	Liability	204	18	0	0	(26)	(2)	178	16
Tax loss carry forward	Asset	(390)	(35)	(383)	(34)	0	0	(773)	(69)
Total		389	35	409	55	(26)	(2)	772	88
<i>from this related to corporate income tax</i>			35		37		(2)		70

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2022		Opening		Increases		Decreases		Closing	
Type of deferred tax	Asset/Liability	base	tax	base	tax	base	tax	base	tax
Property, plant and equipment	Liability	655	59	167	15	0	0	822	74
Other provision	Assets	(175)	(16)	(71)	(6)	0	0	(247)	(22)
FVOCI debt securities	Liability	0	0	0	0	0	0	0	0
FVOCI equity investments	Liability	166	15	38	3	0	0	204	18
Tax loss carry forward	Asset	(323)	(29)	(67)	(6)	0	0	(390)	(35)
Total		323	29	67	6	0	0	389	35
<i>from this related to corporate income tax</i>			29		6		0		35

The following table reconciles income taxes as reported in the income statement.

Reconciliation of effective tax rate	2023		2022	
	Tax rate	Amount	Tax rate	Amount
Profit (loss) before income taxes		2 887		7 515
Corporate tax	9.00%	260	9.00%	676
Local tax and innovation contribution impact	19.07%	550	14.84%	1 115
Permanent differences				
Local tax	(1.72%)	(50)	(1.34%)	(100)
Tax loss carry forward	15.89%	459	(2.79%)	(209)
Non-tax deductible items	0.13%	4	0.11%	8
Dividend	(25.00%)	(722)	(1.68%)	(126)
Other	1.41%	41	(0.57%)	(43)
Effective tax	19.81%	542	17.58%	1 321

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The accumulated amount of tax losses carries forward in 2023 was HUF 64 597 million (2022: HUF 65 550 million). The tax losses originated until 2014 (HUF 51 357 million) can be carried forward until 31 December 2030. Those which are originated from 2015 can be carried forward in the next 5 years after origination (2023: HUF 2 407 million, 2025: HUF 10 833 million).

The future realization of the tax loss carries forward is uncertain and therefore a deferred tax asset is only recognized in an amount that compensates 50% of the deferred tax liability, since, according to the Hungarian tax legislation in force, the losses that can be utilized on annual basis shall not be more than the 50% of the positive tax base. The amount of the not recognized deferred tax asset on tax loss carry forward as at 31 December 2023 is HUF 5 744 million (2022: HUF 5 864 million).

32. RELATED PARTIES

The Bank is owned by the Hungarian State. The Bank identifies subsidiaries and associates as related parties that are part of the MFB Group. The related parties also include members of the Executive board and the Board of Supervisors, as well as companies over which these persons have control or significant influence. Related party transactions are carried out under normal market conditions.

The Bank using the option provided in IAS 24.25 and does not disclose its transactions with other state-owned companies and disclose only the most significant transactions with the Hungarian State, such as state securities, taxes and reimbursements.

The definitions of the headings used in the table below are as follows.

State: The ultimate controlling party. The State column in the below table includes the major items due to or from the various state bodies. The rows of securities include government securities issued by the Central Government Debt Management Agency (ÁKK). Tax payable or refundable to the National Tax and Customs Administration (NAV) is included in the tax receivables/liabilities lines. Other assets/liabilities include reimbursement from the Managing Authorities and advances received. Receivables from the State due to currency-hedging agreement include the claim on the Ministry of Finance. The income statement lines include the effects of the above items such as interest income, tax payments, or reimbursement income.

Subsidiaries: Any company where the Bank has managing control. The Bank has control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Associates: Any company where the Bank has significant influence but has no control over financial and operational policies.

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	2023			2022		
	Subsidiaries	Associates	State	Subsidiaries	Associates	State
ASSETS						
Financial assets at fair value through other comprehensive income	0	0	42 762	0	0	60 537
Debt securities	0	0	42 762	0	0	60 537
Financial assets at amortized cost	32 747	28 381	27 895	28 157	29 968	43 453
Debt securities			27 869	0	0	42 158
Loans to customers	32 747	28 381	0	28 157	29 968	0
Other financial receivables	0	0	26	0	0	1 295
Investments in subsidiaries and associates	343 549	116 282		300 649	102 157	
Tax assets			673			0
Current tax assets			673			0
Other assets	276	2 377	4 080	0	2 784	8 363
Receivables from the state due to currency-hedging agreement¹			177 228			193 162
LIABILITIES						
Financial liabilities at amortized cost	320	1 033	0	335	1 094	0
Deposits	320	1 033	0	335	1 094	0
Other financial liabilities	0	0	0	0	0	0
Tax liabilities			0			593
Current tax liabilities			0			593
Other liabilities	40 389	3	2 520	51 967	23	6 261
Guarantees and loan commitments	7 739	224 131	0	13 977	56 574	0
PROFIT AND LOSS						
Interest income	3 113	3 287	4 267	1 916	23	1 691
Interest expense	(42)	(57)		(45)	(25)	
Dividend income	8 016	0		1 400	0	
Fee and commission income	7	37		9	4	
Fee and commission expense	0	(2)		0	(2)	
Other operating income	6	1	4 826	1	2	4 920
Other operating expense	(544)	(407)	(6 709)	(45)	(258)	(8 565)
Contract modification loss, net	0	(426)		0	(28)	0
Impairment (-) or reversal of impairment of financial instruments ²		(2 798)		0	(2 508)	
Impairment or (-) reversal of impairment of investments in subsidiaries and associates	(11 720)	0		(3 077)	0	
Tax expense or (-) income related to profit or loss from continuing operations			(576)			(1 318)

1: from the presented amount HUF 17 236 million (2022: HUF 31 300 million) was presented in the income statements' line "Exchange differences [gain or (-) loss], net".

2: the presented data excludes the collective impairment and provision created in accordance with the provision of IFRS 9

The key management personnel compensation in 2023 and 2022 was the following:

	<u>2023</u>	<u>2022</u>
Members of the Board of Directors	26	29
Members of the Supervisory Board	23	19
CEOs and deputy CEOs	162	138
Total	211	186

The table above includes the short-term benefits paid to the key management personnel. There was not any post-employment benefit, long term benefit or termination benefit paid to the key management personnel and there is no share-based payment programme operated by the Bank. There was also no loan disbursement to the key management personnel.

33. SEGMENT REPORTING

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Bank.

The Bank's segment reporting is based on the following operating segments.

Segments	Activity
Banking:	Loans, deposits and other transactions and balances with customers and banks.
Investment:	Activities related to securities and investments.
EU fund management:	Activities related to the mediation of EU funds by the Bank.

The Bank does not prepare geographical breakdowns because its primary business is carried out in Hungary and it has no significant foreign operations.

The results of the segments include the revenue and expenditure directly linked to that segment and the relevant part of the revenue and expenditure which may be assigned to a segment, whether from external transactions or from other segments of the Bank. Income statement items were broken down based on the principle that if an item is clearly assigned to the segment, the total amount was presented there, and where it cannot be clearly categorized the net segment's asset-based allocation was followed.

The banking and investment assets are clearly identifiable into the segments based on the Financial position statements lines. Liabilities and equity were separated into allocated and not-allocated parts. Not-allocated part represents the intangibles, property, plant and equipment, receivables from the state due to FX hedge agreement (those parts which were already closed, no unpaid loan contract behind it) and the liquidity reserve set by internal policy (5% of the total assets). The remainder was allocated proportionally to each segment.

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2023	Banking	Investment	EU fund management	Total
Total segment income and gain				
Interest income	207 721	0	0	207 721
<i>from this interest income calculated using the effective interest method</i>	127 265	0	0	127 265
<i>from this other similar income</i>	80 456	0	0	80 456
Fee and commission income	5 467	0	0	5 467
<i>from this guarantee fees</i>	5 206	0	0	5 206
<i>from this loan servicing fees</i>	249	0	0	249
<i>from this other fees and commission</i>	12	0	0	12
Dividend income	0	8 019	0	8 019
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	56	4	0	60
Gains on non-trading financial assets mandatorily at fair value through loss, net	71	22 234	0	22 305
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	1	1	0	2
Exchange differences [profit], net	5 280	2 431	0	7 711
Other operating income	2 877	169	4 796	7 842
Total segment income and gain	221 473	32 858	4 796	259 127
Interest expenses	(132 864)	(61 156)	0	(194 020)
Fee and commission expenses	(982)	0	0	(982)
<i>from this agent fees</i>	(140)	0	0	(140)
<i>from this guarantee fees</i>	(774)	0	0	(774)
<i>from this bank account commission</i>	(66)	0	0	(66)
<i>from this other fees and commission</i>	(2)	0	0	(2)
Gains on financial assets and liabilities held for trading, net	(4 398)	(2 023)	1	(6 420)
Loss from hedge accounting, net	(1 194)	(549)	0	(1 743)
Administrative expenses	(9 366)	(3 397)	(103)	(12 866)
Depreciation	(6 406)	(2 947)	(4 368)	(13 721)
Other operating expenses	(624)	(289)	(427)	(1 340)
Segment profit before impairment and provisions	65 639	(37 503)	(101)	28 035
Impairment (-) or reversal of impairment of financial instruments	(10 246)	48	0	(10 198)
Impairment (-) or reversal of impairment of investments in subsidiaries and associates	0	(11 720)	0	(11 720)
Impairment of non-financial instruments	0	0	0	0
Contract modification loss, net	(3 230)	0	0	(3 230)
Segment income before tax	52 163	(49 175)	(101)	2 887
Income tax expense				(542)
Profit for the year				2 345
Segment revenues				
Interest income	207 721	0	0	207 721
Fee and commission income	5 467	0	0	5 467
Dividend income	0	8 019	0	8 019
Other operating income	2 877	169	4 796	7 842
Total segment revenue	216 065	8 188	4 796	229 049
Timing of revenue				
Point in time	8 344	169	4 796	13 309
Over time	207 721	0	0	207 721

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2023	Banking	Investment	Not allocated	Total
Segment assets	2 252 822	1 036 940	251 576	3 541 338
Participation of segment from total assets	63.61%	29.28%	7.10%	100.00%
Segment liabilities	2 036 725	851 284	24 514	2 912 523
Participation of segment from total liabilities	69.93%	29.23%	0.84%	100.00%

2022	Banking	Investment	EU fund management	Total
Total segment income and gain				
Interest income	108 611	0	0	108 611
<i>from this interest income calculated using the effective interest method</i>	98 798	0	0	98 798
<i>from this other similar income</i>	9 813	0	0	9 813
Fee and commission income	5 094	0	0	5 094
<i>from this guarantee fees</i>	4 775	0	0	4 775
<i>from this loan servicing fees</i>	318	0	0	318
<i>from this other fees and commission</i>	1	0	0	1
Dividend income	0	1 405	0	1 405
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	171	58	0	229
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	(9)	11 105	0	11 096
Gains from hedge accounting, net	488	164	0	652
Exchange differences [profit], net	730	245	0	975
Other operating income	4 475	213	4 722	9 410
Total segment income and gain	119 560	13 190	4 722	137 472
Interest expenses	(53 597)	(17 436)	0	(71 033)
Fee and commission expenses	(1 004)	0	0	(1 004)
<i>from this agent fees</i>	(158)	0	0	(158)
<i>from this guarantee fees</i>	(775)	0	0	(775)
<i>from this bank account commission</i>	(13)	0	0	(13)
<i>from this other fees and commission</i>	(58)	0	0	(58)
Gains on financial assets and liabilities held for trading, net	(939)	(315)	0	(1 254)
Administrative expenses	(6 267)	(2 102)	(4 041)	(12 410)
Depreciation	(666)	(223)	(429)	(1 318)
Other operating expenses	(10 816)	(2 272)	(110)	(13 198)
Segment profit before impairment and provisions	46 271	(9 158)	142	37 255
Impairment (-) or reversal of impairment of financial instruments	(23 506)	(139)	0	(23 645)
Impairment (-) or reversal of impairment of investments in subsidiaries and associates	0	(3 077)	0	(3 077)
Impairment of non-financial instruments	0	0	0	0
Contract modification loss, net	(3 018)	0	0	(3 018)
Segment income before tax	19 747	(12 374)	142	7 515
Income tax expense				(1 321)
Profit for the year				6 194

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2022	Banking	Investment	EU fund management	Total
Segment revenues				
Interest income	108 611	0	0	108 611
Fee and commission income	5 094	0	0	5 094
Dividend income	0	1 405	0	1 405
Other operating income	4 475	213	4 722	9 410
Total segment revenue	118 180	1 618	4 722	124 520
Timing of revenue				
Point in time	9 569	213	4 722	14 504
Over time	108 611	0	0	108 611

2022	Banking	Investment	Not allocated	Total
Segment assets	1 991 862	754 893	223 223	2 969 978
Participation of segment from total assets	67.07%	25.42%	7.52%	100.00%
Segment liabilities	1 749 765	569 237	29 335	2 348 337
Participation of segment from total liabilities	74.51%	24.24%	1.25%	100.00%

34. FINANCIAL RISK MANAGEMENT

The Bank's internal governance is consistent with its market weight and prominent business role, as well as its approved business model, and it incorporates the relevant risk principles, organizational structure, decision-making structures (including boards and committees), risk management rules, models and methodologies. The Bank operates reporting lines that enable the monitoring of risk performance.

Pursuant to Act XX of 2001 on the Hungarian Development Bank Joint Stock Company, the Bank (hereinafter: MFB Act) strives to balance business and risk management aspects.

The Bank is continually developing its comprehensive risk culture that, in line with the Bank's risk appetite, ensures compliance with international standards and best practices, as well as applicable domestic regulatory conditions and recommendations, and the identification, measurement and management of risks related to banking operations.

The Bank has an approved credit risk policy in line with the Bank's strategic objectives, comprehensive risk management policies and other policies covering different segments of risks (operational risk, market risk, etc.).

Defining risk management principles includes defining risk appetite, risk management strategy and risk management policy, setting risk limits, defining and documenting risk management system processes, procedures, tasks, decision and control powers, , identifying risks in a continuous, timely manner, development of procedures and methods for measuring risks, measuring, assessing and monitoring risks, preparing reports on risk management activities, and establishing procedures to be followed in the event of exceeding established risk limits.

The Bank has a strategy and processes in order to determine and maintain the capital adequacy of the size and composition necessary to cover its current and future risks. It is the Government's legal obligation to ensure the long-term and stable functioning of the Bank, and it also monitors in detail the Bank's risk-taking activities, the expediency and profitability of management. The Bank quantifies all arising risks and presents them to its management bodies, despite the fact that, based on Section 8 (2) of the MFB Act, the Bank was exempted from the internal assessment of capital adequacy required by Section 97 of the CCXXXVII Act of 2013 on Credit Institutions and Financial Enterprises procedure and the excess capital requirement from formation and maintenance.

Bank's risk management framework is based on a coherent, integrated approach:

- Due to its core business, the Bank consciously assumes risks (lending, investment transactions) and manages the risks associated with core business.
- A well-structured regulatory hierarchy provides the framework for risk management and control.
- As part of its risk management activities, the Bank identifies, measures and manages relevant risks that are critical to its operations, considering the overall risk profile.
- Methodological knowledge extends to the volatility of risks in stress situations, i.e., the size of a capital buffer needed to keep risk plan values safe.
- Key risk indicators to monitor each type of risk (limits, processes, measures) are used to return the value of the indicators to the expected zone.
- The Bank operates a management information system as part of its reporting lines to support efficient risk decision-making while an external reporting service operates for supervisory purposes.

The primary tools for developing a risk and risk management culture are the regular review and updating of risk and risk management policies and internal regulatory documents, the continuous communication of the defined value system and the regular training of employees in line with their roles and responsibilities in risk-taking, risk management and risk control. This way an informed risk culture is embedded in the day-to-day operations of the Bank.

The risk principles and strategies are approved by the Bank's Board of Directors. The Board of Directors performing the management tasks and the Supervisory Board regularly receive reports prepared by the Risk Management Division on the composition and development of the banking portfolio. On this basis the implementation of the risk strategy can be evaluated.

The risk management governance model defines the responsibilities and duties of different bodies and individuals within each organization, with the aim of ensuring the sound and efficient management of activities and the management of different types of risk.

The decision-making process defines, in a consistent manner, the responsibilities and powers of decision-making, consistent with the complexity of its decision-making areas and its financial impact.

The key decision-making bodies and decision-makers are listed in the Decision-making Agenda, and their powers, organization and procedures are defined in the Articles of Association, the Rules of Procedure of the Board of Directors and the Decision-making Agenda.

Decision - making Bodies

- Owner of property rights,
- Board of Directors
- Executive Board,
- Assets-Liabilities Management Committee,
- Individual Loans Committee,
- EU Steering Committee,
- Irregularities Management Committee,
- Development Steering Committee,
- Sustainable Finance Committee,
- Monitoring Committee.

Bodies with specific powers defined in the Bank's regulatory document are also considered as Decision-making Bodies (e.g. Crisis Committee).

The powers and responsibilities of each committee are contained in the Bank's Articles of Association, the Rules of Procedure of the Board of Directors and the Decision-Making Rules of Procedure.

The determination of decision levels depends on the size of the commitment, the score and the level of coverage.

Risk Management Division and Strategic Risk Management Directorate

The Risk Management Division is completely separated from the Business Areas organizationally. The Head of the Division is a member of the Executive Board and reports directly to the CEO.

The Bank exercises risk control function through a dedicated organizational unit, the Strategic Risk Management Directorate, which is independent of the business areas and the operational risk management area. In view of the aspects of proportionality, it is not justified to operate the risk control area as an independent division, therefore, assessing the advantages and disadvantages, the Bank operates the Strategic Risk Management Directorate within the framework of the Risk Management Division. The organizational unit performing the risk control function is responsible for defining the Bank's risk management framework, enforcing external and internal limits and controls, and monitoring the implementation of the above within the Bank and through intermediaries. In line with this, the Division is responsible for the risk oversight of the Strategic Group and operating of Group-level risk management.

Departments of the Risk Management Division:

- ***Operative Credit Risk Management Directorate***

The activities of the Operative Credit Risk Management Directorate include the identification and reduction of risks and the setting of risk limits in the preparation of credit and investment decisions. It is the responsibility of the Operative Credit Risk Management Directorate to monitor the risk assumptions at the time of contracting and disbursement and after the risk assumption. The Bank monitors the contractual obligations of its customers.

- ***Risk Analysis Department***

The responsibilities of the Risk Analysis Department include the performance of risk analysis and risk control tasks for loans, investment transactions, fund managers and funds, the review and approval of customer ratings/limits, financial and sector analyses, checking the fulfillment of contract and disbursement conditions, making recommendations for impairment and provisioning.

- **Monitoring and EU Data Service Department**
Monitoring the exposures of clients in the portfolio owned by the Bank, developing and implementing approved action plans for clients with abnormal status.
- **Strategic Risk Management Directorate**
The Strategic Risk Management Directorate is responsible for the development and regulation of risk identification and measurement methodologies, the transparent presentation and application of risks, and the overall determination of risk losses.
- **Special Credit Risk Management Directorate**
During its restructuring, pre-recovery and preparatory activities, the Special Credit Risk Management Directorate is responsible for the pre-work out activities within the Bank, i.e., the design and management of risk mitigation and reimbursement processes and the determination of risk losses (impairment, provisions).
- **Financial Instruments Control Directorate**
The Financial Instruments Control Directorate carries out on-the-spot checks on loans refinanced from its own resources or outsourced to ensure compliance with credit targets.
- **Quality Assurance Methodology Department**
Development and implementation of mid-term audit strategy and annual audit plan, preparation of internal auditing policies and methodology, and follow-up of audit findings.
- **Irregularity Management Department**
It performs tasks related to unauthorized use of resources in the EU programming periods: identification of responsibilities, registration, and reporting. Participates in the investigation of irregularities and unauthorized use of resources.
- **Financial Instruments Closing Directorate**
During its activities, it helps the closure of the 2007-2013, 2014-2020 EU programming periods and coordinates the investigations initiated by external inspection bodies in connection with the resource management activities of the 2021-2027 EU programming period, and also reviews and monitors the progress of the closing processes of the 2014-2020 programming period. In addition it performs tasks related to the closure of EU financial instruments.

The most significant risks arising from financial instruments to which the Bank is exposed are credit risk, liquidity risk, market risk (currency exchange rate risk and banking book interest rate risks), climate change-related and environmental risk, operational risk. Risk management policies are set by the Board of Directors of the Bank in accordance with the rules and regulations set by the National Bank of Hungary. The application of and compliance to these policies is supervised by the Board. The Bank has established reporting systems for continuous monitoring of these risks.

A. CREDIT RISK

a) Credit risk management

Credit risk is the risk of financial loss to the Bank if the client fails to meet its contractual obligations. Credit risk arises principally from the Bank's lending and investment activities, including the acquisition of investment certificates.

The Bank prepares and applies internal policies approved by the Board of Directors to achieve its strategy. These policies are intended to ensure the established and transparent risk exposure, the control of assessment and decrease of risks. The risk-taking regulations and policies developed for the safe management and prudent operation of the Bank are based on international and domestic professional practice, relevant legislation and supervisory recommendations and guidelines.

Customer rating

Customer and partner ratings must be performed during the decision-making process for all customers against whom the Bank intends to take risks. Beyond that, the Bank rates its clients at least once per year and performs extra reviews when appropriate.

The customer rating procedures applied by the Bank are as follows:

- customer qualification of new companies and project companies,
- customer rating of operating companies,
- classification based on consolidated financial statements,
- customer rating in a standardized lending process,
- customer rating of local government,
- simplified customer rating based on objective and subjective criteria (under HUF 50 million, excluding new businesses or project companies),
- Rating of venture capital funds and private equity funds,
- country and customer rating (countries, national and international financial institutions, insurance companies)

Customers are classified into customer rating categories based on objective and subjective factors. The Bank uses the so-called slotting method for customer ratings of new companies and project companies, in accordance with the Basel recommendation. The customer rating of operating companies and customers subject to rating based on consolidated financial statements is based on a PD-based rating model. This rating may be modified by a maximum of one category in each direction by subjective evaluation. A simplified rating is prepared using an expert model for the customer rating of individual entrepreneurs and primary producers in the standardized lending process, and for the rating of customers of exposures below HUF 50 million outside the standardized lending process. Simplified rating procedures are also largely based on objective indicators. The rating of local governments and budgetary institutions is based on the analysis of defined objective indicators and subjective indicators. The Bank uses an expert model to rate venture capital funds and private equity funds.

The applied ratings are the following:

Rating category	PD average (corporate)	Credit quality
1	0.003%	outstanding
2	0.008%	strong
3	0.205%	good
4	0.700%	average
5	2.500%	acceptable
6	6.000%	weak
7	26.359%	insolvent
8	100.000%	default

The default category includes customers against whom the Bank or any of its subsidiaries has a non-performing exposure, i.e., who is more than 90 days in arrears with respect to a significant payment obligation to the Bank or its subsidiary. The default category also includes a customer against whom a legally binding bankruptcy, liquidation, debt settlement, forced liquidation procedure or other procedure aimed at the termination of his activity, or a reorganization or restructuring procedure is in progress, or who is likely not to fulfill his payment obligations in full against the Bank or any of its subsidiaries.

In determining the default category, the Bank considers compliance with Article 178 of the CRR and the relevant MNB regulations. For the application of the criterion in Article 178 (1) (a) of CRR, we apply the Special and Workout monitoring statuses applied by the Bank, which induce a non-performing category.

Evaluation of collateral

The main types of collaterals accepted by the Bank are as follows:

- surety (surety of State (central budget), surety of guarantee institutions),
- guarantee,
- deposit (cash, security),
- mortgage or pledges on property, plant and equipment,
- pledge on rights, receivables, purchase price claims and equity interests.

The market value of the collateral is adjusted by the coverage ratio. This ratio expresses the probable amount of recovery from the collateral, and this adjusted collateral value is applied in the collateral registry and is considered in the impairment calculation.

The Bank performs quarterly monitoring and – if appropriate – the remeasurement of collaterals. When remeasurement occurred the collateral registry is adjusted.

Customer and Customer group limits, sector limits

The customer limit is defined as the amount of the highest risk against one customer that can be undertaken. The maximum limit for a customer or customer group is the Bank's large exposures limit. Pursuant to Section 8 (1c) of the MFB Act, the large exposures limit does not apply to companies in the direct majority ownership of MFB, as well as to companies as defined in Annex 1 to the Act. Irrespective of the legal provision, the Bank also applies customer and customer group limits to these companies. The determination of customer and customer group limits depends on, among other things, the result of customer and partner ratings, the amount of equity or net income according to the closed financial statements of companies and the amount of interest-bearing liabilities. The sectoral limit depends on the financial situation of the sector.

Pursuant to Section 8(1b) of Act XX of 2001 on Hungarian Development Bank, notwithstanding Article 4(1)(39) of Regulation (EU) No 575/2013, MFB Zrt. does not consider as a client group those clients to

whom MFB Zrt. has provided loans for the purpose of subscribing or purchasing investment units and which constitute a single risk factor just with respect to the investment funds, fund manager, fund manager's interlinks or to a right or obligation related to the assets in the investment fund's portfolio.

The Bank classifies the sectors into eight risk groups by their financial position and determines limits for these groups. The sector group limits are the maximum of risk undertaken against clients classified into a given risk group.

Staging Criteria

For assets where there has been no significant credit risk increase since the initial recognition or are classified as low credit risk assets, are classified in the performing credit risk category – Stage 1.

Those transactions where significant credit risk increases have occurred since the initial recognition are classified into the increased credit risk category – Stage 2 - as far as the criteria for significant credit risk increase are met.

The Bank considers the following cases to be a significant increase in credit risk:

- significant deterioration in customer ratings or falling into category 7, insolvent;
- delays in the amount of the Bank's or any of its Subsidiaries' claims against the Customer for more than 30 days, exceeding the absolute or relative thresholds specified for retail and corporate clients,
- delays in payments the Bank's or any of its Subsidiaries' receivables from the Customer that exceed 90 days and do not reach the significant credit obligation threshold and
- change in other monitoring information,
- restructuring, if the transaction was performing at the time of the restructuring.

Information to be considered include the Bank's information about the customer, transactions that are observable in the course of the business, but not accessible from a system, however, indicate an increase in credit risk.

Impaired credit risk category – Stage 3 - is used for all transaction for which there is objective evidence of the default. These are the following:

- transactions above the significant credit obligation threshold that are more than 90 days overdue,
- transactions with status “special” or “workout” in the Bank's "early warning indicator" system,
- transactions for which coercive measures have been taken against the customer (e.g. liquidation, bankruptcy, etc.) and terminated transactions
- the customer has committed fraud in connection with the contract, has seriously breached any of its contractual obligations to the Bank or a third party, a contractual security has been called, the customer has been liquidated.

Credit impaired loans (purchased or incurred) are categorized as POCI and will remain in this category until their maturity or derecognition.

In Stage 1 category the Bank quantifies the 12-month expected credit loss, while in Stage 2 and Stage 3 it calculates the lifetime expected credit loss. Credit losses on financial assets equal to the present value of the difference between the contractual cash flows and the cash flows expected by the Bank.

The 12-month expected credit losses are part of the lifetime expected credit losses and indicate the lack of those lifetime cash flow that may occur due to the default of the counterparty within 12 months after the reporting date, or if the expected life of the financial instrument is less than 12 months then a shorter period, weighted with the probability of default (PD).

Expected credit losses are the probability-weighted estimates of credit losses incurred during the expected life of the financial instrument (i.e., the present value of all cash flow deficits). The estimation of expected credit losses always reflects the potential for credit loss to occur or does not occur, even if the most likely result is that no credit loss occurs. The individually assessed estimate of expected credit losses shall reflect an unbiased and probability-weighted amount determined by evaluating a minimum of three (if it is not possible, at least of two) possible outcomes.

When determining the probability of default, the Bank classifies credit institutions with external credit ratings and those credit institutions and financial undertakings that do not have external credit ratings, individual corporate loans, agricultural loans, loans through agents, municipalities and parties into different valuation groups based on partner and customer types. When segmenting the portfolio, the Bank considers the credit risk categories by product type and sector code in order to determine the value of probability of default (PD), the loss given default (LGD) and the credit conversion factor (CCF), considering also the transactions covered by the State guarantee. During the corporate PD modeling, we modeled the probability of default according to the well-known function $1/(1+\exp(Z))$, where Z is the linear combination of the explanatory variables. We identified 9 explanatory variables.

With respect to the LGD parameter, segmentation in accordance with best practice was also implemented. We identified a total of 8 segments for which we developed the LGD models separately. As in the case of the PD parameter, we also had expert segments. During the LGD modelling, a weighted average calculation was essentially performed in the given segment, using the appropriately discounted collection cash flows.

For the purposes of determining PD, the Bank treats an exposure as defaulted if one or more of the following conditions are met:

- the debtor has been overdue for more than 90 days exceeding the significant credit obligation threshold for any payment obligation to the Bank or any of its subsidiaries,
- bankruptcy, liquidation, forced liquidation, debt settlement or other proceedings aimed at terminating the debtor's activities, or reorganization or restructuring proceedings are in progress against the debtor, the Bank or any other bank granted a payment concession to the debtor in the light of its financial difficulties that it would not otherwise have made and the debtor was in default at the time of the restructuring,

- the Bank terminated the loan agreement due to the debtor's breach of contract,
- the exposure was purchased by the Bank at a significant discount (at least 20%),
- the full fulfilment of the debtor's payment obligation is unlikely due to the following:
 - the Bank refused to restructure the transaction,
 - the debtor's income has fallen significantly or is below the level required to fulfil his obligations under the contract,
 - the debtor has liquidity problems,
 - the debtor has committed a serious breach of contract against the Bank or another bank;
 - the debtor has committed fraud in connection with the contract
 - the debtor's claim was sold at a significant discount.

In determining the credit conversion factor (CCF) used to determine the expected loss on off-balance sheet liabilities (guarantees, guarantee frames, unused credit lines), the Bank classifies liabilities into four categories (1. Credit lines/guarantee frames; 2. Non-financial not draw downed guarantees; 3. Financial not draw downed guarantees; 4. Draw downed guarantees).

Incorporation of forward-looking information

Forward-looking information for companies subject to collective impairment is included in the impairment through the PD values assigned to them. These risk parameters are obtained by multiplying the values provided by the corporate PD model by the macro-correction factor resulting from the macro model.

Based on historical data, we identified those macroeconomic variables that are relevant to the default rate and thus the PD. These are: the annual changes in unemployment ratio and the import. As required, we defined three scenarios based on the estimated future trajectories of these variables: a baseline trajectory, an optimistic trajectory, and a pessimistic trajectory. The model assigns a correction factor to each scenario, and the resulting macro-correction factor is the weighted average of the factors assigned to the three scenarios, using the trajectories and the weighting prescribed by the National Bank of Hungary.

The Bank examines the sensitivity of impairment to changes in scenarios during stress testing. According to the testing on the macro-correction factor relevant sub portfolio in case of the pessimistic scenario HUF 612 million additional impairment would be required while in case of the optimistic scenario HUF 604 million impairment would be released compared to the amount settled. The following table contains the details:

Impairment & Provisions stressed values table	EAD subject to FLI	Actual I&P	Optimistic I&P	Pessimistic I&P
Stage 1	1 188 279	4 158	354	359
Stage 2	185 756	2 933	250	253
Total	1 374 035	7 091	604	612

Forborne loans

Except in cases where special rules relating to the payment moratorium are applied, the Bank classifies the debt as restructured if due to the deterioration of the client's or partner's financial problems or creditworthiness the risk-taking contract had to be amended by granting a discount in order to avoid non-payment. The reclassification of a restructured claim to a non-restructured claim is subject to the European Banking Authority's Guide on prudential requirements for defaulted exposure and restructuring.

Risk Management Aspects of COVID-19 and the war emergency

Pursuant to Government Decree No. 47/2020 (III. 18), the Bank has implemented the 2020 payment moratorium. As part of this (unless otherwise provided by the Client), the automatic determination of payment due dates, calculation of default interest, default event and staging due to the number of days of delay was suspended during the payment moratorium period. The Bank does not consider the use of the payment moratorium to be an independent factor increasing credit risk or a Stage2 indicator. When the moratorium came into force, the Bank changed the rules for classification into the increased credit risk category (Stage2) in such a way that it suspended the monitoring of the number of days overdue (delay of more than 30 days, the amount of which exceeds HUF 30 thousand, and delay of more than 90 days, the amount of which does not exceed the significant credit default threshold) for the period spent in the moratorium but left all other indicators unchanged.

The Bank made all exposures subject to an individual examination that have been affected by the moratorium. During the regular monitoring activity, the Bank individually reviewed whether the given obligor had difficulties in meeting its payment obligations, whether it was expected to have such difficulties, and whether it could be established that the debtor's financial situation has deteriorated. In the course of the investigation, the Bank has considered the provisions of Article 178 (1) (a) of CRR and MNB Recommendation 13/2019 (VII.2).

After 1 November 2021, the Bank continued to suspend the calculation of days past due for exposures affected by the credit repayment moratorium (Moratorium 3) and did not automatically establish a default event. However, in the light of the revised payment deadlines, it examined whether other conditions for the classification of these exposures as defaulted exposures (unlikely to pay) had been met.

After 1 November 2021, the Bank assumed, as a general rule, that a debtor registered in Moratorium 3 had or will have experiencing difficulty meeting its financial obligations and had therefore classified such exposures as restructured and reclassified them as Stage 2 due to a significant increase in credit risk. It only deviated from this assumption and the recording of the exposure as a restructured exposure based on a detailed examination supported by evidence in individual cases.

The Bank assessed participation in Moratorium 4 or the agricultural moratorium as a significant increase in credit risk, so the stage classification of the affected transactions according to IFRS could not be better than stage 2. In the case of corporate exposures, participation in Moratorium 4 only results in classification in stage 2 if there is a detailed, evidence-supported and documented justification.

The Bank does not classify as repeatedly restructured exposures that:

- have been reclassified solely due to the expiry of the 9 months spent in Moratorium 1 and Moratorium 2 and receive payment relief (interest, principal payment rescheduling, extension of maturity) through debt modification schemes after Moratorium 2, and
- they have been restructured once since 1 January 2011 and it has become necessary to amend the contract to be restructured solely based on the time spent in the moratorium.
- The use of Moratorium 4 is also not suitable for further multiple forced restructuring.

Following the procedure described above, the monitoring process is suitable for the Bank to individually determine the need for classification as a defaulted exposure (including the “unlikely to pay” conditions) and the need for a restructuring schedule for repayment rescheduling, and to establish the adequate impairment/provision.

The effects of COVID-19 and the war emergency are considered in the group ECL calculation as follows. Forward-looking information is incorporated into the corporate PD values that determine the ECL, through the macro-correction multiplier resulting from the Bank’s macro model. The strongest

explanatory variable in the macro model is the GDP. Primarily, the drastic, negative change in the estimated future trajectory of GDP transmits COVID-19 and the war emergency to the model as a factor that increases the default probability. The source of the GDP forecasts, the baseline, optimistic and pessimistic trajectories defined by them, and the trajectory weighting are annexed to the MNB's quarterly circular 'Management Circular on the Use of Macroeconomic Information in the Application of IFRS 9 and Factors Indicating a Significant Increase in Credit Risk', which contains macroeconomic information. Such an annex shall be received at least 2 times and not more than 4 times a year.

The Bank's macro model represents the effects of COVID-19 and the war emergency as external factors affecting the whole economy through its strongest explanatory variable. Some transactions, the probability of default of which is obviously extremely affected by COVID-19 and the war emergency, have been transferred to the set of transactions for which ECL is calculated individually.

Due to MFB's role as a development bank, the majority of its loan portfolio consists of large, long-term, loans with special conditions, provided directly to Clients, and their ECL is calculated on an individual basis. In 2022, the Bank reviewed its large loans, which make up the most significant part of its portfolio and increased the ECL for those transactions for which the expected impact of the pandemic or the war emergency justified it.

In addition to the regular monitoring activity, the unique, large exposures were also subject to a regular individual customer-level review based on the available and additionally requested information. The aspects of the review were the core risk factors, being the shortage of raw materials characteristic of the customer's area of operation, the rise in raw material prices, the drastic rise in energy prices, the analysis of the cost-bearing capacity of businesses, and the expected decrease in demand from households.

The pure COVID – or war-impact is hardly identifiable accurately in itself (*ceteris paribus*), rather we handle these features as an indication and guidance only, with emphasized importance in stricter monitoring of related clients and our planning of future cost of risk.

In order to manage the increased credit risk due to COVID-19 and the war emergency, the Bank strengthened and supplemented its reporting function to the Executive Board and the Supervisory Board.

The Bank does not apply portfolio level management corrections or overlays.

b) Exposure to credit risk

Gross book value of customer loans and loans to banks at amortized cost broken down into customer rating categories described under the risk management principles are as follows.

	customer rating categories	2023				
		Stage 1	Stage 2	Stage 3	POCI	Total
General governments	1 - 2	0	0	0	0	0
	3 - 6	64 210	0	0	0	64 210
	7 - 8	0	0	0	0	0
Total general governments		64 210	0	0	0	64 210
Other financial corporations	1 - 2	88 105	0	0	0	88 105
	3 - 6	122 353	111 198	0	0	233 551
	7 - 8	0	0	22 114	0	22 114
Total other financial corporations		210 458	111 198	22 114	0	343 770
Non-financial corporations	1 - 2	104 517	1 766	0	0	106 283
	3 - 6	341 325	335 816	0	0	677 141
	7 - 8	0	2 747	39 508	420	42 675
Total non-financial corporations		445 842	340 329	39 508	420	826 099
Households*	1 - 2	253	125	0	0	377
	3 - 6	55 352	14 087	49	0	69 488
	7 - 8	204	2 356	173	0	2 733
Total households		55 808	16 568	222	0	72 599
Total customer loans		776 318	468 095	61 844	420	1 306 677
Impairment		(4 137)	(22 501)	(43 816)	(210)	(70 665)
Maximum credit exposure		772 180	445 594	18 028	210	1 236 012

*: In case of family agricultural loans managed by intermediaries the Bank applies simplified staging rules which basically based on days past due and differ from the rules applicable to transactions directly managed by the Bank. Main reasons of this are the nature of this sub-portfolio and the limited information available for the intermediaries.

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	customer rating categories	2023			
		Stage 1	Stage 2	Stage 3	Total
Banks	1 - 2	78 293	0	0	78 293
Total loans to banks		78 293	0	0	78 293
Impairment		(2)	0	0	(2)
Maximum credit exposure		78 291	0	0	78 291
Deposits at central and other banks	1 - 2	20 261	0	0	20 261
Total deposits at central and other banks		20 261	0	0	20 261
Impairment		(1)	0	0	(1)
Maximum credit exposure		20 260	0	0	20 260

	customer rating categories	2022			
		Stage 1	Stage 2	Stage 3	Total
General governments	1 - 2	13 201	0	0	13 201
	3 - 6	39 237	0	0	39 237
	7 - 8	0	0	0	0
Total general governments		52 438	0	0	52 438
Other financial corporations	1 - 2	92 382	0	0	92 382
	3 - 6	124 494	93 613	28	218 135
	7 - 8	0	0	10 444	10 444
Total other financial corporations		216 876	93 613	10 472	320 961
Non-financial corporations	1 - 2	266 917	4 304	0	271 221
	3 - 6	221 569	344 359	3 695	569 623
	7 - 8	0	0	22 873	22 873
Total non-financial corporations		488 486	348 663	26 568	863 717
Households*	1 - 2	320	238	0	558
	3 - 6	42 304	17 011	1	59 316
	7 - 8	15 189	2 156	10	17 355
Total households		57 813	19 405	11	77 229
Total customer loans		815 613	461 681	37 051	1 314 345
Impairment		(3 552)	(35 457)	(22 782)	(61 791)
Maximum credit exposure		812 061	426 224	14 269	1 252 554

*: In case of family agricultural loans managed by intermediaries the Bank applies simplified staging rules which basically based on days past due and differ from the rules applicable to transactions directly managed by the Bank. Main reasons of this are the nature of this sub-portfolio and the limited information available for the intermediaries.

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	customer rating categories	2022			
		Stage 1	Stage 2	Stage 3	Total
Banks	1 - 2	80 332	0	0	80 332
Total loans to banks		80 332	0	0	80 332
Impairment		(5)	0	0	(5)
Maximum credit exposure		80 327	0	0	80 327
Deposits at central and other banks	1 - 2	14 230	0	0	14 230
Total deposits at central and other banks		14 230	0	0	14 230
Impairment		(8)	0	0	(8)
Maximum credit exposure		14 222	0	0	14 222

Undrawn loan commitments and guarantees broken down into customer rating categories described under the risk management principles are as follows.

	customer rating categories	2023			
		Stage 1	Stage 2	Stage 3	Total
Loan commitments	1 - 2	67 158	0	0	67 158
	3 - 6	144 316	128 730	0	273 046
	7 - 8	0	0	185	185
Total loan commitments		211 474	128 730	185	340 389
Capital commitments	1 - 2	351 816	0	0	351 816
Capital commitments		351 816	0	0	351 816
Guarantees	1 - 2	272 687	4 143	0	276 829
	3 - 6	508 944	74 163	0	583 108
	7 - 8	0	296	0	296
Total guarantees		781 631	78 602	0	860 233
Guarantees, capital and loan commitments total		1 344 921	207 331	185	1 552 438

	customer rating categories	2022			
		Stage 1	Stage 2	Stage 3	Total
Loan commitments	1 - 2	36 471	1 104	0	37 575
	3 - 6	51 172	137 990	1 109	190 271
	7 - 8	0	0	0	0
Total loan commitments		87 643	139 094	1 109	227 846
Capital commitments	1 - 2	243 543	0	0	243 543
Capital commitments		243 543	0	0	243 543
Guarantees	1 - 2	154 504	1 204	0	155 708
	3 - 6	632 740	2 840	0	635 580
	7 - 8	7 887	0	0	7 887
Total guarantees		795 131	4 044	0	799 175
Guarantees, capital and loan commitments total		1 126 317	143 138	1 109	1 270 564

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The table below represents the gross carrying amount transfers between impairment categories for customer loans valued at amortised cost and for undrawn loan commitments and guarantees. The movements represent every changes during the year. See the impairment and provision transfers between impairment categories in note 29.

	Opening balance as at 1 January 2023	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Customer loans	815 613	125 665	0	(122 769)	(48 472)	(47)	6 328		776 318
General governments	52 438	0	0	11 772	0	0	0		64 210
Other financial corporations	216 876	32 594	0	(6 349)	(34 570)	0	1 907		210 458
Other non-financial corporations	488 486	93 008	0	(123 845)	(11 845)	0	37		445 842
Households	57 813	64	0	(4 347)	(2 057)	(47)	4 383		55 808
Loans to banks	80 332	0	0	(2 028)	(11)	0	0		78 293
Refinancing loans	346	0	0	(335)	(11)	0	0		0
Other loans	79 986	0	0	(1 693)	0	0	0		78 293
Customer loans	461 681	10 844	0	(15 758)	48 472	(31 449)	(6 328)	632	468 095
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	93 613	6 539	0	(8 316)	34 570	(13 428)	(1 907)	127	111 198
Other non-financial corporations	348 663	4 305	0	(7 113)	11 845	(17 770)	(37)	437	340 329
Households	19 405	0	0	(329)	2 057	(251)	(4 383)	69	16 568
Loans to banks	0	0	0	(11)	11	0	0	0	0
Refinancing loans	0	0	0	(11)	11	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0

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	Opening balance as at 1 January 2023	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2023
Customer loans	37 051	3 532	(70)	(9 532)		31 495	0	(632)	61 844
General governments	0	0	0	0		0	0	0	0
Other financial corporations	10 472	0	0	(1 659)		13 428	0	(127)	22 114
Other non-financial corporations	26 568	3 532	(70)	(7 855)		17 770	0	(437)	39 508
Households	11	0	0	(17)		298	0	(69)	222
Loans to banks	0	0	0	0		0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0
Other loans	0	0	0	0		0	0	0	0
Customer loans	0	465	0	(45)				0	420
General governments	0	0	0	0					0
Other financial corporations	0	0	0	0					0
Other non-financial corporations	0	465	0	(45)					420
Households	0	0	0	0					0
Customer loans	1 314 345	140 506	(70)	(148 105)	0	0	0	0	1 306 677
General governments	52 438	0	0	11 772	0	0	0	0	64 210
Other financial corporations	320 961	39 133	0	(16 324)	0	0	0	0	343 770
Other non-financial corporations	863 717	101 309	(70)	(138 858)	0	0	0	0	826 099
Households	77 229	64	0	(4 694)	0	0	0	0	72 599
Loans to banks	80 332	0	0	(2 039)	0	0	0	0	78 293
Refinancing loans	346	0	0	(346)	0	0	0	0	0
Other loans	79 986	0	0	(1 693)	0	0	0	0	78 293

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	Opening balance as at 1 January 2023	New commitments	Drawn/ matured commitments	Net movements without stage transfer	From stage 1 to stage 2. or 3	From stage 2 or 3 to stage 1	From stage 2 to stage 3	Closing balance as at 31 December 2023
Stage 1	1 126 317	634 488	(128 403)	(236 194)	(51 292)	5		1 344 921
Loan commitments	87 643	247 540	(124 952)	11 520	(10 283)	5		211 474
Capital commitments	243 543	333 882	0	(225 609)	0	0		351 816
Guarantees	795 131	53 065	(3 451)	(22 105)	(41 009)	0		781 631
Stage 2	143 138	16 360	(5 663)	2 209	51 292	(5)	0	207 332
Loan commitments	139 094	1 610	(4 459)	(17 793)	10 283	(5)	0	128 730
Guarantees	4 044	14 751	(1 204)	20 002	41 009	0	0	78 602
Stage 3	1 109	179	(1 109)	6		0	0	185
Loan commitments	1 109	179	(1 109)	6		0	0	185
Guarantees	0	0	0	0		0	0	0
Total	1 2670 564	651 027	(135 175)	(233 979)	0	0	0	1 552 438
Loan commitments	227 846	249 329	(130 520)	(6 267)	0	0	0	340 389
Capital commitments	243 543	333 882	0	(225 609)	0	0	0	351 816
Guarantees	799 175	67 816	(4 655)	(2 103)	0	0	0	860 233

	Opening balance as at 1 January 2022	New loans	Derecognition	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Customer loans	754 661	172 739	0	(13 592)	(100 953)	(112)	2 870		815 613
General governments	36 757	0	0	15 681	0	0	0		52 438
Other financial corporations	228 087	106 146	0	(107 776)	(9 581)	0	0		216 876
Other non-financial corporations	428 848	51 431	0	84 197	(75 878)	(112)	0		488 486
Households	60 969	15 162	0	(5 694)	(15 494)	0	2 870		57 813
Loans to banks	57 609	0	0	22 723	0	0	0		80 332
Refinancing loans	827	0	0	(481)	0	0	0		346
Other loans	56 782	0	0	23 204	0	0	0		79 986
Customer loans	378 654	4 811	0	(2 139)	100 953	(18 016)	(2 870)	288	461 681
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	96 764	4 611	0	(6 475)	9 581	(11 156)	0	288	93 613
Other non-financial corporations	274 214	200	0	5 219	75 878	(6 848)	0	0	348 663
Households	7 676	0	0	(883)	15 494	(12)	(2 870)	0	19 405
Loans to banks	0	0	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0

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	Opening balance as at 1 January 2022	New loans	Derecognition	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2022
Customer loans	21 527	33	0	(2 349)		18 128	0	(288)	37 051
General governments	0	0	0	0		0	0	0	0
Other financial corporations	0	0	0	(396)		11 156	0	(288)	10 472
Other non-financial corporations	21 516	33	0	(1 941)		6 960	0	0	26 568
Households	11	0	0	(12)		12	0	0	11
Loans to banks	0	0	0	0		0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0
Other loans	0	0	0	0		0	0	0	0
Customer loans	1 154 842	177 583	0	(18 080)	0	0	0	0	1 314 345
General governments	36 757	0	0	15 681	0	0	0	0	52 438
Other financial corporations	324 851	110 757	0	(114 647)	0	0	0	0	320 961
Other non-financial corporations	724 578	51 664	0	87 475	0	0	0	0	863 717
Households	68 656	15 162	0	(6 589)	0	0	0	0	77 229
Loans to banks	57 609	0	0	22 723	0	0	0	0	80 332
Refinancing loans	827	0	0	(481)	0	0	0	0	346
Other loans	56 782	0	0	23 204	0	0	0	0	79 986

	Opening balance as at 1 January 2022	New commitments	Drawn/ matured commitments	Net movements without stage transfer	From stage 1 to stage 2. or 3	From stage 2 or 3 to stage 1	From stage 2 to stage 3	Closing balance as at 31 December 2022
Stage 1	978 711	398 114	(188 158)	(54 308)	(28 382)	20 340		1 126 317
Loan commitments	226 112	69 892	(80 211)	(105 408)	(22 742)	0		87 643
Capital commitments	270 418	32 605	(97 500)	38 020	0	0		243 543
Guarantees	482 181	295 617	(10 447)	13 080	(5 640)	20 340		795 131
Stage 2	44 053	106 575	(3 630)	(10 793)	28 382	(20 340)	(1 109)	143 138
Loan commitments	21 283	106 575	(830)	(9 567)	22 742	0	(1 109)	139 094
Guarantees	22 770	0	(2 800)	(1 226)	5 640	(20 340)	0	4 044
Stage 3	0	0	0	0		0	1 109	1 109
Loan commitments	0	0	0	0		0	1 109	1 109
Guarantees	0	0	0	0		0	0	0
Total	1 022 764	504 689	(191 788)	(65 101)	0	0	0	1 270 564
Loan commitments	247 395	176 467	(81 041)	(114 975)	0	0	0	227 846
Capital commitments	270 418	32 605	(97 500)	38 020	0	0	0	243 543
Guarantees	504 951	295 617	(13 247)	11 854	0	0	0	799 175

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Customer loans and loans to banks at fair value through profit and loss broken down into customer rating categories described under the risk management principles are as follows.

	customer rating categories	2023			
		Stage 1	Stage 2	Stage 3	Total
General government	1 - 2	0	0	0	0
	3 - 6	424	0	0	424
	7 - 8	0	0	0	0
Total general government		424	0	0	424
Other financial corporation	1 - 2	0	0	0	0
	3 - 6	451	594	0	1 045
	7 - 8	0	0	0	0
Total other financial corporations		451	594	0	1 045
Other non-financial corporation	1 - 2	777	0	0	777
	3 - 6	1 355	0	0	1 355
	7 - 8	3	99	0	101
Total other non-financial corporations		2 135	99	0	2 234
Household	1 - 2	0	0	0	0
	3 - 6	0	0	0	0
	7 - 8	0	84	3	87
Total household		0	84	3	87
Total customer loans		3 010	777	3	3 790
Loans to banks	1 - 2	30 822	420	0	31 242
	3 - 6	8	0	0	8
	7 - 8	0	0	0	0
Total loans to banks		30 830	420	0	31 250

	customer rating categories	2022			
		Stage 1	Stage 2	Stage 3	Total
General government	1 - 2	466	0	0	466
	3 - 6	18	0	0	18
	7 - 8	0	0	0	0
Total general government		484	0	0	484
Other financial corporation	1 - 2	0	0	0	0
	3 - 6	1 386	672	0	2 058
	7 - 8	0	0	55	55
Total other financial corporations		1 386	672	55	2 113
Other non-financial corporation	1 - 2	1 268	0	0	1 268
	3 - 6	151	32	0	183
	7 - 8	7	54	40	101
Total other non-financial corporations		1 426	86	40	1 552
Household	1 - 2	0	0	0	0
	3 - 6	98	2	0	100
	7 - 8	0	2	8	10
Total household		98	4	8	110
Total customer loans		3 394	762	103	4 259
Loans to banks	1 - 2	31 332	14	0	31 346
	3 - 6	13	0	0	13
	7 - 8	0	0	0	0
Total loans to banks		31 345	14	0	31 359

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The table below represents debt securities by external rating categories

	2023			2022		
	<i>S&P rating</i>	<i>Moody's rating</i>	Amount	<i>S&P rating</i>	<i>Moody's rating</i>	Amount
Amortized cost debt securities			436 980			432 195
Hungarian government bonds	<i>BBB</i>	<i>Baa2</i>	26 389	<i>BBB</i>	<i>Baa2</i>	42 158
Corporate bonds*			403 206			383 857
Mortgage bonds	<i>BBB</i>	-	7 385	<i>BBB</i>	-	6 180
FVOCI debt securities			51 054			60 537
Government bonds	<i>BBB</i>	<i>Baa2</i>	42 246	<i>BBB</i>	<i>Baa2</i>	40 694
Bank bonds		<i>Baa2</i>	8 808			0
Discount treasury bills			0	<i>BBB</i>	<i>Baa2</i>	19 843
FVTPL debt securities			603 156			369 647
Venture capital notes – investment type**			4 037			4 364
Venture capital notes – loan type**			599 119			365 283

*: International rating is not available for these corporate bonds. According to the internal rating system allocation in 2023 AT2 HUF 248 163 million, AT3 HUF 69 471 million, AT4 HUF 37 131 million and AT5 HUF 48 441 million. Respectively the same amount in 2022 AT2 HUF 36 794 million, AT3 HUF 297 845 million, AT4 HUF 49 218 million.

** FVTPL debt securities have no international rating, their risk assessment is based on the investment policy and the performance of the target companies.

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Exposure to credit risk and collaterals

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan, however collateral provides additional security and the Bank request that corporate borrowers provide it. The Bank may take collateral in form of a first rank mortgage over real estate, pledges on all corporate assets and other liens and guarantees (mostly state guarantees) as detailed in the next subsection.

The purpose of the table is to present a comparison between the net carrying amount of the customer loans and loans to bank at amortized cost and the corresponding collateral amounts to show the coverage. The fair value of the collaterals is limited by the net carrying amount of the loans and commitments.

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
LOANS AT AMORTIZED COST							
Customer loans	626 129	338 125	171 982	171 982	437 901	1 236 012	510 107
General governments	63 849	40 260	292	292	0	64 141	40 552
Other financial corporations	204 848	111 905	595	595	119 679	325 122	112 500
Other non-financial corporations	357 414	185 943	113 620	113 620	303 205	774 239	299 563
Households	18	17	57 475	57 475	15 017	72 510	57 492
Loans to banks	38 372	38 278	0	0	39 919	78 291	38 278
Refinancing loans	0	0	0	0	0	0	0
Other loans	38 372	38 278	0	0	39 919	78 291	38 278
Total	664 501	376 403	171 982	171 982	477 820	1 314 303	548 385

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LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2022	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		carrying value of loans	fair value of collateral
Customer loans	588 926	258 698	154 336	154 336	509 292	1 252 554	413 034
General governments	51 901	29 681	500	500	0	52 401	30 181
Other financial corporations	222 430	117 368	347	347	84 765	307 542	117 715
Other non-financial corporations	314 555	111 613	91 414	91 414	409 492	815 461	203 027
Households	40	36	62 075	62 075	15 035	77 150	62 111
Loans to banks	40 082	40 025	0	0	40 245	80 327	40 025
Refinancing loans	0	0	0	0	346	346	0
Other loans	40 082	40 025	0	0	39 899	79 981	40 025
Total	629 008	298 723	154 336	154 336	549 537	1 332 881	453 059

The following table includes the reconciliation of the collateral value and the net carrying value for credit impaired (stage 3 and POCI) loans only. The fair value of the collaterals is limited by the net carrying amount of the loans.

LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		carrying value of loans	fair value of collateral
Customer loans	9 508	4 982	7 792	7 792	938	18 238	12 774
General governments	0	0	0	0	0	0	0
Other financial corporations	4 927	2 576	311	311	726	5 964	2 887
Other non-financial corporations	4 579	2 405	7 270	7 270	210	12 059	9 675
Households	2	1	211	211	2	215	212
Loans to banks	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0
Total	9 508	4 982	7 792	7 792	938	18 238	12 774

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LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2022	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		carrying value of loans	fair value of collateral
Customer loans	4 048	2 787	10 217	10 217	4	14 269	13 004
General governments	0	0	0	0	0	0	0
Other financial corporations	1 792	985	249	249	0	2 041	1 234
Other non-financial corporations	2 256	1 802	9 967	9 967	1	12 224	11 769
Households	0	0	1	1	3	4	1
Loans to banks	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0
Total	4 048	2 787	10 217	10 217	4	14 269	13 004

The following table includes the carrying amount of the customer loans and loans to banks mandatorily at fair value through profit and loss and the corresponding collateral amounts. The fair value of the collaterals is limited by the net carrying amount of the loans.

LOANS AT FAIR VALUE	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		carrying value of loans	fair value of collateral
Loans and advances to banks	0	0	0	0	31 250	31 250	0
Municipality loan program	0	0	0	0	21 026	21 026	0
Business development loan program	0	0	0	0	2 349	2 349	0
Agricultural development loan program	0	0	0	0	7 810	7 810	0
Retail loan program	0	0	0	0	65	65	0
Customer loans	2 820	1 531	970	970	0	3 790	2 501
General governments	0	0	424	424	0	424	424
Other financial corporations	1 045	44	0	0	0	1 045	44
Other non-financial corporations	1 775	1 487	459	459	0	2 234	1 946
Households	0	0	87	87	0	87	87
Total	2 820	1 531	970	970	31 250	35 040	2 501

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LOANS AT FAIR VALUE	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2022	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		carrying value of loans	fair value of collateral
Loans and advances to banks	0	0	0	0	31 359	31 359	0
Municipality loan program	0	0	0	0	22 511	22 511	0
Business development loan program	0	0	0	0	3 384	3 384	0
Agricultural development loan program	0	0	0	0	5 369	5 369	0
Retail loan program	0	0	0	0	95	95	0
Customer loans	1 097	1 052	1 049	1 049	2 113	4 259	2 101
General governments	0	0	484	484	0	484	484
Other financial corporations	0	0	0	0	2 113	2 113	0
Other non-financial corporations	1 097	1 052	455	455	0	1 552	1 507
Households	0	0	110	110	0	110	110
Total	1 097	1 052	1 049	1 049	33 472	35 618	2 101

Exposure to credit risk and collaterals – off balance sheet items

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2023	
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral		carrying value of commitments	fair value of collateral
Loan commitments and guarantees	829 169	568 839	13 664	13 664	703 749	1 546 582	582 503
Loan commitments	35 111	19 809	1 715	1 715	298 643	335 469	21 524
Capital commitments	0	0	0	0	351 660	351 660	0
Guarantees	794 058	549 030	11 949	11 949	53 446	859 453	560 979

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	<u>Under collateralized</u>		<u>Full or over collateralized</u>		<u>Uncollateralized</u>	<u>Total 31 December 2022</u>	
	<u>carrying value of commitments</u>	<u>fair value of collateral</u>	<u>carrying value of commitments</u>	<u>fair value of collateral</u>	<u>carrying value of commitments</u>	<u>carrying value of commitments</u>	<u>fair value of collateral</u>
Loan commitments and guarantees	747 168	517 997	16 807	16 807	502 382	1 266 357	534 804
Loan commitments	40 702	14 704	4 503	4 503	178 644	223 849	19 207
Capital commitments	0	0	0	0	243 543	243 543	0
Guarantees	706 466	503 293	12 304	12 304	80 195	798 965	515 597

c) Collateral and other security enhancements

An estimate of the fair value of collateral and other security enhancements (up to the net carrying amount of receivables) is shown in the table below.

31 December 2023												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans
Customer loans	170 810	154 357	277 399	213 536	202 870	111 830	147 032	30 383	798 111	510 106	437 901	1 236 012
General governments	11 642	11 621	52 499	28 930	0	0	0	0	64 141	40 551	0	64 141
Other financial corporations	65 646	64 645	0	0	126 467	42 994	13 329	4 860	205 442	112 499	119 680	325 122
Other non-financial corporations	93 522	78 091	221 753	181 460	22 057	14 490	133 703	25 523	471 035	299 564	303 204	774 239
Households	0	0	3 147	3 146	54 346	54 346	0	0	57 493	57 492	15 017	72 510
Loans to banks	38 372	38 278	0	0	0	0	0	0	38 372	38 278	39 919	78 291
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	0
Other loans	38 372	38 278	0	0	0	0	0	0	38 372	38 278	39 919	78 291

Other category mostly includes suretyship (HUF 2 913 million) and cash deposits (HUF 15 070 million), and it also includes other collaterals (HUF 12 400 million).

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31 December 2022												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans
Customer loans	83 694	82 041	256 196	177 420	234 098	121 637	169 274	31 936	743 262	413 034	509 292	1 252 554
General governments	12 700	12 680	39 701	17 502	0	0	0	0	52 401	30 182	0	52 401
Other financial corporations	66 278	64 645	0	0	146 162	49 256	10 337	3 813	222 777	117 714	84 765	307 542
Other non-financial corporations	4 704	4 704	213 312	156 739	29 016	13 461	158 937	28 123	405 969	203 027	409 492	815 461
Households	12	12	3 183	3 179	58 920	58 920	0	0	62 115	62 111	15 035	77 150
Loans to banks	40 082	40 025	0	0	0	0	0	0	40 082	40 025	40 245	80 327
Refinancing loans	0	0	0	0	0	0	0	0	0	0	346	346
Other loans	40 082	40 025	0	0	0	0	0	0	40 082	40 025	39 899	79 981

Other category mostly includes suretyship (HUF 16 718 million) and cash deposits (HUF 6 994 million), and it also includes other collaterals (HUF 8 224 million).

The following table includes an estimate of the fair value of collateral and other security enhancements (up to the amount of receivables) for credit impaired (stage 3 and POCI) loans only.

31 December 2023												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans
Customer loans	0	0	11 360	9 257	5 410	3 073	529	444	17 299	12 774	939	18 238
General governments	0	0	0	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	5 200	2 863	38	24	5 238	2 887	726	5 964
Other non-financial corporations	0	0	11 358	9 255	0	0	491	420	11 849	9 675	210	12 059
Households	0	0	2	2	210	210	0	0	212	212	3	215
Loans to banks	0	0	0	0	0	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0	0	0	0

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31 December 2022												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of loans	Total carrying value of loans
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		
Customer loans	0	0	11 833	11 470	1 926	1 165	506	369	14 265	13 004	4	14 269
General governments	0	0	0	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	1 926	1 165	115	69	2 041	1 234	0	2 041
Other non-financial corporations	0	0	11 832	11 469	0	0	391	300	12 223	11 769	1	12 224
Households	0	0	1	1	0	0	0	0	1	1	3	4
Loans to banks	0	0	0	0	0	0	0	0	0	0	0	0
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0	0	0	0

The following table includes the carrying amount of the customer loans and loans to bank mandatorily at fair value through profit and loss and an estimate of the fair value of collateral and other security enhancements (up to the amount of receivables).

31 December 2023												
LOANS AT FAIR VALUE	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of loans	Total carrying value of loans
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral		
Loans and advances to banks	0	0	0	0	0	0	0	0	0	0	31 250	31 250
Municipality loan program	0	0	0	0	0	0	0	0	0	0	21 026	21 026
Business development loan program	0	0	0	0	0	0	0	0	0	0	2 349	2 349
Agricultural development loan program	0	0	0	0	0	0	0	0	0	0	7 810	7 810
Retail loan program	0	0	0	0	0	0	0	0	0	0	65	65
Customer loans	519	456	817	817	0	0	2 453	1 228	3 789	2 501	1	3 790
General governments	0	0	423	423	0	0	0	0	423	423	1	424
Other financial corporations	0	0	0	0	0	0	1 045	44	1 045	44	0	1 045
Other non-financial corporations	518	455	314	314	0	0	1 402	1 178	2 234	1 947	0	2 234
Households	1	1	80	80	0	0	6	6	87	87	0	87

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31 December 2022												
LOANS AT FAIR VALUE	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla	Total
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	terialised carrying value of loans	carrying value of loans
Loans and advances to banks	0	0	0	0	0	0	0	0	0	0	31 359	31 359
Municipality loan program	0	0	0	0	0	0	0	0	0	0	22 511	22 511
Business development loan program	0	0	0	0	0	0	0	0	0	0	3 384	3 384
Agricultural development loan program	0	0	0	0	0	0	0	0	0	0	5 369	5 369
Retail loan program	0	0	0	0	0	0	0	0	0	0	95	95
Customer loans	497	464	972	971	0	0	677	666	2 146	2 101	2 113	4 259
General governments	0	0	484	484	0	0	0	0	484	484	0	484
Other financial corporations	0	0	0	0	0	0	0	0	0	0	2 113	2 113
Other non-financial corporations	496	463	390	389	0	0	666	655	1 552	1 507	0	1 552
Households	1	1	98	98	0	0	11	11	110	110	0	110

Collateral and other security enhancements to credit risk and collaterals –off-balance sheet items

31 December 2023												
Loan commitments and guarantees	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla	Total
	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	terialised carrying value of commit- ments	carrying value of commitme nts
Loan commitments and guarantees	561 177	505 403	13 048	5 737	91 944	34 799	176 664	36 565	842 833	582 504	703 749	1 546 582
Loan commitments	751	751	5 264	2 754	16 951	7 888	13 860	10 131	36 826	21 524	298 643	335 469
Capital commitments	0	0	0	0	0	0	0	0	0	0	351 660	351 660
Guarantees	560 426	504 652	7 784	2 983	74 993	26 911	162 804	26 434	806 007	560 980	53 446	859 453

31 December 2022												
Loan commitments and guarantees	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla	Total
	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	carrying value of commit- ments	fair value of collateral	terialised carrying value of commit- ments	carrying value of commitme nts
Loan commitments and guarantees	551 476	496 710	4 773	3 526	19 543	10 826	188 183	23 742	763 975	534 804	502 382	1 266 357
Loan commitments	1 408	1 408	4 450	3 213	12 999	4 282	26 348	10 304	45 205	19 207	178 644	223 849
Capital commitments	0	0	0	0	0	0	0	0	0	0	243 543	243 543
Guarantees	550 068	495 302	323	313	6 544	6 544	161 835	13 438	718 770	515 597	80 195	798 965

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The Central Budget determined a state guarantee frame for the Bank's asset side credit exposures (guarantee provided to the Bank) and also for liability side obligations (guarantee provided for the Bank). The amount and utilization (representing the amount allocated either to loan programs or individual loans) and the actual loan balance disbursed under the state guarantee frame and the related collaterals, being the state guarantee itself were the following.

	2023	2022
Asset side state guarantee frame	1 700 000	1 700 000
Utilization	1 183 089	867 496
<i>from this actual loan balance at yearend</i>	<i>725 073</i>	<i>651 703</i>
Liability side guarantee frame	3 500 000	2 800 000
Utilization	2 741 349	2 015 526

d) Restructured loans

The Bank classifies a loan in the restructured category if it makes a discount or modification due to the current or expected financial difficulties of the borrower, which it would not have done if the borrower were solvent. The Bank individually examined the expected solvency of borrowers who spent a longer period of time in the payment moratorium, the significance of the increase in credit risk, and decided whether to classify them as restructured, as well as decided on the stage classification. The Bank did not consider the fact of involvement with the moratorium as an event that automatically triggers restructuring.

	Gross	Impairment	Net
31 December 2021	203 981	(27 225)	176 756
New restructured transactions	46 543	(44)	46 499
Changes in existing restructured loans	(5 166)	(4 305)	(9 471)
Derecognition	0	0	0
Decrease due to repayment	(38 566)	1 633	(36 933)
Decrease due to recovery	(6)	0	(6)
FX change	9 982	(2 008)	7 974
31 December 2022	216 768	(31 949)	184 819
New restructured transactions	21 250	(3 179)	18 072
Changes in existing restructured loans	155	(649)	(494)
Derecognition	0	0	0
Decrease due to repayment	(4 734)	(439)	(5 174)
Decrease due to recovery	(83 738)	3 252	(80 486)
FX change	(7 132)	1 198	(5 934)
31 December 2023	142 570	(31 766)	110 804

Neither during 2023 nor during 2022 there was no such contract modification that would have led to derecognition and re-recognition implying derecognition gain or loss.

e) Concentration of credit risk

The below table includes the concentration of credit risk by industry on net carrying amount for customer loans.

Loans and advances to customers	2023				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial services	457 521	125 511	6 091	0	589 123
Property development	51 418	243 570	5 898	80	300 966
Other services (local governments, health-care, other services)	14 297	3 726	140	0	18 163
Construction (including motorway financing)	28 136	15 371	0	73	43 580
Industry	60 398	33 378	4 972	0	98 748
Agriculture	43 325	17 808	214	0	61 347
Transport, storage, post, telecoms	111 833	0	716	0	112 549
Trade	3 203	817	0	57	4 077
Accommodation, catering	5 061	6 188	0	0	11 249
Total	775 192	446 369	18 031	210	1 239 802
<i>of which amortized cost</i>	<i>772 181</i>	<i>445 594</i>	<i>18 028</i>	<i>210</i>	<i>1 236 012</i>
<i>of which FVTPL</i>	<i>3 011</i>	<i>775</i>	<i>3</i>	<i>0</i>	<i>3 790</i>

Loans and advances to customers	2022			
	Stage 1	Stage 2	Stage 3	Total
Financial services	514 932	94 794	2 096	611 822
Property development	57 058	244 181	9 339	310 578
Other services (local governments, health-care, other services)	15 500	3 750	133	19 383
Construction (including motorway financing)	32 925	12 713	0	45 638
Industry	62 425	42 943	2 110	107 478
Agriculture	45 895	21 503	5	67 403
Transport, storage, post, telecoms	60 422	0	686	61 108
Trade	20 784	1 095	3	21 882
Accommodation, catering	5 511	6 010	0	11 521
Total	815 452	426 989	14 372	1 256 813
<i>of which amortized cost</i>	<i>812 059</i>	<i>426 225</i>	<i>14 270</i>	<i>1 252 554</i>
<i>of which FVTPL</i>	<i>3 393</i>	<i>764</i>	<i>102</i>	<i>4 259</i>

B. LIQUIDITY RISK

a) Principles of liquidity risk management

The Bank's principal objective is to carry out secure and established course of business, and the prevention of liquidity issues which could threaten the Bank to meet its obligations. The liquidity management is determined by the nature of the business, the strategy, the annual business plan, the legal regulations and the regulatory activities of National Bank of Hungary.

Liquidity means the availability of necessary funds in time needed to meet the obligations. Liquidity demand arises when the obligations become due. Liquidity risk is the gap between in and outflows in different amount and time.

Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR) and Directive 2013/36 / EU (CRD IV) of 26 June 2013 have transposed the Basel III. Regulation into the European regulatory framework for credit institutions. The new requirements were introduced gradually, and 2019 was the first year that all requirements were fully met. At the same time, MFB Zrt. was exempted from the liquidity requirements, which is included in the MFB Act.

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The Bank has a significant amount of primary liquidity reserves in government securities and other liquidity-providing Central Bank-eligible securities, therefore future cash outflows are continuously covered on the asset side.

The Bank's liquidity reserve as at 31 December 2023 and 2022

	2023			2022		
	Par value	Fair value	Free disposal	Par value	Fair value	Free disposal
Hungarian government bonds	70 257	67 200	65 057	89 595	76 680	84 395
Hungarian bank bonds	8 421	8 808	8 421	0	0	0
Hungarian discount bonds	0	0	0	20 485	19 843	20 485
Mortgage bonds issued by banks	7 785	7 385	7 785	6 285	5 044	6 285
Other Central Bank-eligible securities	304 960	282 616	136 960	304 960	236 241	136 960
Total	391 423	366 009	218 223	421 325	337 808	248 125

The Bank primarily manages liquidity risk in a preventive manner, and strives to provide financing with a source that ensures the most suitable balance in terms of maturity, principal repayment and interest payment. The Bank's fund-raising opportunities are favorable both at home and abroad, but at the same time, the Bank's cost of funds has increased significantly in the recent period - as a result of the war emergency. Thus, due to the expiration of previously borrowed funds, as well as new demands on the asset side, the funds to be raised became more expensive. In the second half of the year, however, the market interest rates in HUF decreased significantly, which is expected to have an impact during the next fundraising operations.

Cash flow statements are prepared at least on a monthly basis which contain all banking book cash flow items and credit and investment directorates predicted cash flow transactions considering different scenarios. For continuous liquidity management a liquidity forecast is prepared on a monthly basis.

Pursuant to Article 8 (2) of the MFB Act, the Bank does not apply the rules on liquidity ratios and liquidity requirements set out in Articles 411-428 of CRR.

The Bank measures its liquidity risks in the following ways:

- Quantification of dependence on large individual deposits;
- Comprehensive cash flow, liquidity forecast;
- Stress-test;
- Survival analysis;
- Quantification of liquidity ratios.

The Bank manages its liquidity risks as follows:

- Where possible (market opportunities, pricing), using the most appropriate liabilities for the assets side;
- Designation and operation of appropriate processes and rules;
- Set up a limit system;
- Establishment of liquidity reserves;
- Effective asset-liability management.

Liquidity ratios and the results of stress testing confirmed that the short- and long term liquidity positions are adequate at all times, due to the significant amount of liquidity reserves and the funds involved during the year.

Risk Management Aspects of COVID-19

With regard to the Bank's liquidity, neither COVID-19 nor the payment moratorium caused any difficulties. The liquidity reserve that the Bank holds in government securities and other Central Bank-eligible securities is well above the amount of exposures that could be affected by the payment moratorium at the worst case scenario.

b) Remaining contractual maturities of financial liabilities

Maturities on contractual (principal and interest), undiscounted cash flows of financial liabilities were as follows. The guarantees were classified in the first category, irrespective of the actual maturity of the instrument. Similarly, the loan commitments were also classified in the first category as they can be drawn down at request.

2023		Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Customer deposits		111 256	(114 898)	(83 903)	(1 004)	(3 547)	(3 571)	(22 873)
Loans from banks		933 746	(968 402)	(4 011)	(16 828)	(278 727)	(550 488)	(118 348)
Debt securities issued		1 762 504	(2 025 385)	0	(1 920)	(386 402)	(1 526 038)	(111 025)
Other financial liabilities		10 535	(10 535)	(10 535)	0	0	0	0
Derivatives		8 508	64 510	1 445	2 406	7 469	53 190	0
	inflow			213 665	9 547	25 399	524 280	0
	outflow			(212 220)	(7 141)	(17 930)	(471 090)	0
Hedge derivatives		14 187	(15 055)	1 529	(3 286)	(1 778)	(11 520)	0
	inflow			22 641	6 170	44 433	162 009	0
	outflow			(21 112)	(9 456)	(46 211)	(173 529)	0
Total financial liabilities and derivatives		2 840 736	(3 069 765)	(95 475)	(20 632)	(662 985)	(2 038 427)	(252 246)
Guarantees		860 233	860 233	860 233				
Capital commitments		351 816	351 816	9 714	132 406	143 090	66 606	0
Loan commitments		340 389	340 389	340 389				

2022		Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Customer deposits		48 855	(62 588)	(24 993)	(4 525)	(555)	(5 803)	(26 712)
Loans from banks		786 491	(825 050)	(762)	(17 397)	(87 179)	(576 940)	(142 772)
Debt securities issued		1 402 562	(1 509 760)	(92 864)	0	(278 427)	(963 450)	(175 019)
Other financial liabilities		18 216	(18 216)	(18 216)	0	0	0	0
Derivatives		4 062	(5 608)	(463)	(2 901)	(263)	(1 794)	(187)
	inflow			55 289	78 285	0	290	73
	outflow			(55 751)	(81 186)	(263)	(2 085)	(260)
Hedge derivatives		0	0	0	0	0	0	0
	inflow			0	0	0	0	0
	outflow			0	0	0	0	0
Total financial liabilities and derivatives		2 260 186	(2 421 222)	(137 298)	(24 823)	(366 424)	(1 547 987)	(344 689)
Guarantees		799 175	799 175	799 175				
Capital commitments		243 543	243 543	0	31 983	147 906	63 654	0
Loan commitments		227 846	227 846	227 846				

C. MARKET RISKS

a) *Currency risk management – basis of risk management*

The Bank has assets and liabilities, both on and off-balance sheet, denominated in various foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank manages the currency structure of assets and liabilities on and off-balance sheet, utilizing forward foreign exchange transactions and other hedging instruments. It is the policy of the Bank that it should not speculate in currencies and should only take currency positions within strict limits. The Board of Directors establishes and monitors specific regulations based on statutory and internal limits, and approves the overall strategy. Compliance to these limits is regularly monitored.

The Foreign Exchange Guarantee Frame Agreement (FX Agreement) between the Bank and the Hungarian Ministry of Finance was signed in 2004, the modification was signed with the Ministry for National Economy in 2014. This FX Agreement manages foreign exchange risks of the Bank's foreign currency borrowings (EUR). Based on this FX Agreement, at the final maturity of the borrowings or upon introduction of EUR as the official currency of Hungary the State compensates any foreign exchange loss incurred on these borrowings and the Bank is required to pay to the State the amount of realized foreign exchange gains on these transactions in instalments. The amount of receivables from the State according to the FX Agreement is presented in Note 14.

Monthly stress tests quantify the impact of possible exchange rate movements (+/- 10% shift for EUR/HUF and EUR/USD).

The net exposure of the Bank is the total exposure decreased by the exposure fall under the FX state guarantee frame. The open position was long for EUR, CHF and GBP, and short for USD in 2023. With regard to the aggregate foreign exchange position, the strengthening of the HUF would increase the bank's profit. As for the USD position, a strengthening of the USD would have a negative impact on the Bank's earnings. The following table represents the Bank's foreign exchange position in which the effect of the currency hedging contract with the Hungarian State has been already adjusted.

2023	Absolute value	Net position
EUR	24 156	24 156
USD	7 401	(7 401)
Other currencies	35	35
Total	31 592	16 790

2022	Absolute value	Net position
EUR	16 311	16 311
USD	4 422	(4 422)
Other currencies	45	45
Total	20 778	11 934

According to the stress-tests, 10% change in HUF exchange rates in the worst direction would cause HUF 3 159 million decrease in the Bank's foreign exchange income and thus the own equity as well (2022: HUF 2 078 million).

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The Bank is exempted from keeping the trading book and does not take speculative positions due to a strategic decision. Accordingly, market risks (foreign exchange and interest rate) arise from the banking book, i.e., the normal operation of the bank (lending, raising funds). The Bank limits the amount of open foreign currency position and interest rate risk exposure by limits. Neither COVID-19 nor the related payment moratorium has an impact on the foreign exchange open position or the interest rate risk. The Bank closes the open foreign exchange position due to the possible increase in ECL due to COVID-19 with an appropriate market transaction. The Bank has set a limit of EUR 6 million for the foreign currency open position due to impairment/provision for foreign currency assets. If the amount of impairment/provision exceeds this limit, the Bank closes the position with a minimum of a market transaction equal to the amount of the overrun.

b) Foreign exchange risk analysis of financial assets and liabilities

2023	HUF	EUR	USD	Other currency	Total
Assets					
Cash, cash balances at central banks and other demand deposits	398 458	1 528	25	25	400 036
Financial assets held for trading	2 715	0	0	0	2 715
Non-trading financial assets mandatorily at fair value through profit or loss	544 319	93 877	0	0	638 196
Financial assets at fair value through other comprehensive income	42 246	9 378	0	0	51 624
Financial assets at amortized cost	1 205 622	566 908	22 046	0	1 794 576
Derivatives – Hedge accounting	7 831	0	0	0	7 831
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	11 550	0	0	11 550
Total financial assets (1)	2 201 191	683 241	22 071	25	2 906 528
Liabilities					
Financial liabilities held for trading	8 508	0	0	0	8 508
Financial liabilities at amortized cost	1 338 620	1 071 106	408 315	0	2 818 041
Derivatives – Hedge accounting	14 187	0	0	0	14 187
Total financial liabilities (2)	1 361 315	1 071 106	408 315	0	2 840 736
NET BALANCE SHEET POSITION (1) – (2)	839 876	(387 865)	(386 244)	25	65 792
Derivative notional amounts	(375 481)	(16 455)	382 554	0	(9 382)
NET FOREIGN EXCHANGE POSITION at 31 December	464 395	(404 320)	(3 690)	25	56 410
Impact of receivables from State due to currency-hedging agreement		375 275			375 275
ADJUSTED NET FOREIGN EXCHANGE POSITION at 31 December	464 395	(29 045)	(3 690)	25	431 685

The Bank manages foreign currency open positions (either short or long) within the strict limits approved by Asset Liability Committee.

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2022	HUF	EUR	USD	Other currency	Total
Assets					
Cash, cash balances at central banks and other demand deposits	95 673	296	16	43	96 028
Financial assets held for trading	2 454	0	0	0	2 454
Non-trading financial assets mandatorily at fair value through profit or loss	321 908	83 357	0	0	405 265
Financial assets at fair value through other comprehensive income	60 537	596	0	0	61 133
Financial assets at amortized cost	1 259 469	496 287	27 762	0	1 783 518
Derivatives – Hedge accounting	15 128	0	0	0	15 128
Total financial assets (1)	1 755 169	580 536	27 778	43	2 363 526
Liabilities					
Financial liabilities held for trading	4 062	0	0	0	4 062
Financial liabilities at amortized cost	1 130 138	1 105 512	20 465	9	2 256 124
Derivatives – Hedge accounting	0	0	0	0	0
Total financial liabilities (2)	1 134 200	1 105 512	20 465	9	2 260 186
NET BALANCE SHEET POSITION (1) – (2)	620 969	(524 976)	7 313	34	103 340
Derivative notional amounts	(94 861)	103 127	(9 514)	0	(1 248)
NET FOREIGN EXCHANGE POSITION at 31 December	526 108	(421 849)	(2 201)	34	102 092
Impact of receivables from State due to currency-hedging agreement		395 603			395 603
ADJUSTED NET FOREIGN EXCHANGE POSITION at 31 December	526 108	(26 246)	(2 201)	34	497 695

c) Principles of interest rate risk management

Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net interest income. Gaps in the value of assets, liabilities and off-balance sheet instruments that mature or reprice during a given period generate interest rate risk. The Bank gives special attention to the preventive management of interest rate risk. The Bank's objective is to harmonize loans and their resources already during the acquisition of funds regarding maturity, interest base and repricing periods to prevent significant repricing mismatches. The Bank does not undertake interest rate exposure for speculative purposes. If the interest of loans and fund of loans are in mismatches, the Bank concludes interest rate swap deals to ensure the proper closing of the position. Before signing an interest rate swap deal a detailed proposal is prepared for the Asset-Liability Committee which determines the parameters of the deal.

The analysis of interest rate risk exposure is prepared on a monthly basis. Regularly prepared reports in connection with interest rate risk management are the following:

- Repricing balance sheet concerning full-scale assets and liabilities,
- Calculation of BPV (Basis Point Value) and GAP,
- Stress-tests on interest rate risk exposure,
- Stress-tests on the drastic changes of interest rates,
- Measurement of applied interest bases in case of interest bearing assets and liabilities.

d) Interest rate risk analysis

The performed interest rate risk reports and stress-tests indicate that the Bank's exposure to interest rate risk according to market reference interest rates (EURIBOR, USD SOFR, BUBOR) is low, greater changes in market rates – in any direction – do not cause great negative effect on the Bank's profit due to the repricing consonance.

According to stress-tests, 1% change in BUBOR and 0.25% change in EURIBOR and 0,25% in SOFR – at the same time and in the same direction – causes approximately HUF 1 945 million effect (2022: HUF 773 million), while 3% change in BUBOR and 1% change in EURIBOR and 1% in SOFR causes approximately HUF 5 287 million effect (2022: HUF 2 181 million) on the Bank's annual interest income (the effect is negative in case of interest rate increase, positive in case of interest rate decrease).

The Bank assess the possible effects of interest rate changes – considering different direction and degree – on the value of the Bank's portfolio and on the capital using BPV (basis point value) GAP on a monthly basis. A 200 basis point increase in interest rates on interest-bearing assets and liabilities would have the following effect on the value of the Bank's capital, adjusted by revaluation band:

31 December 2023									
	1-30 days	31-90 days	91 days – 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	over 5 years	Total
HUF	154	689	(504)	137	1 107	5 017	4 272	(39 966)	(29 092)
EUR	(140)	352	2 868	7 521	7 905	5 520	27 534	(54 254)	(2 695)
USD	(66)	(15)	(17)	173	(80)	(82)	4	0	(82)

31 December 2022									
	1-30 days	31-90 days	91 days – 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	over 5 years	Total
HUF	159	47	380	(391)	342	(2 000)	3 938	(28 947)	(26 473)
EUR	(63)	(164)	2 431	4 013	12 834	11 780	2 568	(45 731)	(12 331)
USD	0	(9)	(16)	(51)	372	(113)	(103)	0	81

e) Market risk analysis

From market risk point of view, it is important that the Bank is not licensed for investment services, and does not undertake speculative positions. Trading position contains short-term government bonds and own foreign exchange exposures. The Bank is exempted from keeping a trading book and preparing reports.

The Bank performs VAR analysis for the FX position by its market risk management system. In the VAR calculations, the short government securities stock as well as the total open book foreign exchange position of the Bank are included. The VAR position calculated from the portfolio concerning 99% confidence level and 10 days holding period shows a low value, it was 0.07% of the regulatory capital as at 31 December 2023 (2022: 0.12%). This means that the probability of a HUF 442 million losses in the Bank's FX position – concerning 10 days holding period – is only 1% as at 31 December 2023 (2022: HUF 720 million).

VAR position – 31 December 2023

Regulatory capital (million HUF): **626 713**

Absolute risk indicators	Interest	Foreign exchange	Diversification	Total	VAR expressed as a percentage of Regulatory capital
Net asset value	0	16 790	0	16 790	
Parametric VAR	0	442	0	442	0.07

VAR position – 31 December 2022

Regulatory capital (million HUF): **619 364**

Absolute risk indicators	Interest	Foreign exchange	Diversification	Total	VAR expressed as a percentage of Regulatory capital
Net asset value	19 908	11 935		31 843	
Parametric VAR	444	607	(331)	720	0.12

D. OPERATIONAL RISK

Operational risk refers to the probability of losses caused by inappropriately designed or incorrectly executed business processes, internal errors induced by people carelessly or deliberately, intentionally executed external attacks against banking systems or operational processes, inappropriate operating of IT infrastructure, effects of external environment.

Framework of effective banking operational risk management is based on proper internal governance which ensures that risk management policies, internal regulatory documentation and systems remain effective in a constantly changing business and regulatory environment.

For the above reason the Bank builds its operational risk management activity on the following principles:

- Bank performs operational risk management in a decentralized way along central coordination. Operational risk management is coordinated by a designated colleague (OpRisk Coordinator) of Strategic Risk Management Directorate within Risk Division; execution of operation risk management is responsibility of all areas of the Bank.
- Bank complies with the solvency capital requirement calculation concerning operational risk (CRR) by using basic indicator methodology. According to this method the capital requirement for operational risk is 15% of the CRR's benchmark indicator.
- Bank follows a comprehensive operational risk management approach:
 - Fully identifies and measures the risk elements inherent in the processes, systems, human activities and external environment (collection and analysis of loss data, based on the Operational Risk Management Regulations). Operational risk management also covers the core business of the bank and other (non-score banking) activities.
 - Process-focused, focusing on identifying losses and process efficiency improvement activity.
 - Methodology is proactive, collects potential risks as well not only already occurred and registered losses.
- Management of the Bank receives information on relevant operational risk management events in standalone form or as part of other management reports quarterly.

- The Bank provides education and training to all employees annually in order to improve risk awareness, general risk sensitivity and disseminate specific operational risk management knowledge.
- The framework provides a common model for group members (subsidiaries) in terms of definitions, identification, measurement, monitoring, management, and risk mitigation.
- Bank maintains a separate database about operational risks and losses, which enables to fulfil its internal and external obligations concerning identification, measurement, analysis, evaluation, management, reporting, monitoring and capital requirement calculation and supervisory reporting.
- Operational risk management responsibilities and related tasks are also reflected in the job descriptions of the OpRisk Coordinator and designated colleagues of all concerned areas of the Bank.

The Bank meets the solvency capital requirement for operational risks according to the basic indicator method, according to which the Bank's operational risk capital requirement was HUF 7 467 million on 31 December 2023 (2022: HUF 5 804 million). The Bank's operational risk losses are much lower than this on an annual basis. In 2023 the Bank incurred a gross operating risk loss of HUF 1.17 million (2022: HUF 2.49 million).

E. CAPITAL MANAGEMENT

According to Section 1 (7) of the HDB Law the Bank applies the regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR) in the respect of prudential requirements with the differences set out in HDB Law. The Bank's share capital must be at least HUF 100 billion according to the HDB Law.

In order to maintain its current solvency and to be able to meet its liabilities, the Bank must, at all times, have appropriate levels of primary core capital (i.e., Tier 1 capital: 4.5%), core capital (6.0%) and full regulatory capital (8.0%). Tier 1 capital has to contain the capital maintenance buffer (2.5%) mentioned in local Banking law. As of July 2022, the Bank was exempted from the internal capital adequacy assessment procedure prescribed in § 97 of the CCXXXVII Act of 2013 on credit institutions and financial enterprises based on § 8 (2) of the MFB Act. However, the Bank determines the need for additional capital, which is part of the internal capital adequacy assessment procedure, and presents it to its management bodies. The Bank meets the required capital requirements, so the capital position is considered stable.

According to the requirements of the CRR, credit institutions must have an adequate amount of own funds to cover the risk of the activity performed at all times in order to maintain their current solvency and meet their obligations. Together with the capital maintenance buffer, it must continuously maintain an adjusted core capital ratio of at least 7% and a total capital adequacy ratio of 10.5%, which the Bank continued to comply with in 2023 and 2022. Compliance with capital adequacy regulations is monitored by the National Bank of Hungary.

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The Bank complied with the regulatory and prudential regulations and the limits. The capital adequacy ratio exceeded the minimum required ratio both in 2023 and in 2022. The Bank informs the Board of Directors quarterly about the activities and changes in the capital during the period. The regulatory capital is calculated and the compliance with limits is examined on a monthly basis.

	<u>2023</u>	<u>2022</u>
I. Calculation of Regulatory Capital		
Share capital	519 900	519 900
Share premium	81 870	81 870
Retained earnings	24 471	18 511
Accumulated other comprehensive income	(1 063)	(5 892)
General reserve	1 292	1 058
Net result for the year	2 345	6 194
Common equity Tier 1 capital before deduction	628 815	621 641
Total amount of deducted item		
Intangible assets	(2 102)	(2 277)
Common equity Tier 1 Capital (CET1)	626 713	619 364
Additional Tier1 Capital (AT1)	0	0
Tier 1 Capital (Tier1 or T1)	626 713	619 364
General risk reserve	0	0
Tax impact of general risk reserve	0	0
Tier 2 Capital (T2)	0	0
Regulatory Capital (T1+T2)	626 713	619 364
II. Calculation of Capital Requirement		
Total capital requirement for credit risk	298 034	291 728
Total capital requirement for exchange rate risk	1 619	1 132
Total capital requirement for operating risk	7 467	5 804
Total capital requirement for credit valuation adjustment	2 642	505
Total Capital Requirement	309 762	299 169
Risk weighted exposure	3 872 025	3 739 608
III. Capital adequacy ratio	16.19%	16.56%

F. FAIR VALUE

In order to increase the consistency and comparability of the fair value measurement and related disclosures, IFRS 13 sets out a fair value hierarchy, categorizing the inputs applied at determination of the fair values into three levels.

The Bank applies the following fair value hierarchy:

Level 1: The fair value of financial instruments is based on their quoted market price in active markets for identical instruments that are available for the Bank at the reporting date.

Level 2: The fair value of financial instruments is based on directly or indirectly observable data other than the quoted market price. The followings can be used for the valuation: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. Where discounted cash flow techniques are used, estimated future cash flows are based on the Bank's economic estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where valuation models are used, inputs are based on market related measures at the reporting date.

Level 3: The fair value of financial instruments is based on inputs other than observable market data. The valuation is based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank considers the fair value of its financial instruments to be level 1 if it was determined exclusively based on level 1 data. Level 2 category is applied when the measurement was based not only level 1 inputs, but no level 3 input was required. When more fair values are available, the use of higher fair values hierarchy get priority, therefore if a security is primarily categorized as level 2 but level 1 data is also available the level 1 data will be applied automatically.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all the significant inputs into these models may

not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. For measuring derivatives both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) are taken into consideration when market participants would take this into consideration in pricing the derivatives.

Model inputs and values are calibrated against historical data and published forecasts and where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

The Bank measures forward transactions (derivative transactions) and HUF loans to credit institutions at EURIBOR-based interest rates at fair value. As the Bank does not provide investment services, it enters into forward transactions only with credit institution partners.

a) Financial instruments measured at fair value by the level of fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level of the applied fair value hierarchy. The amounts are based on the values recognized in the statement of financial position.

2023				
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Derivatives		2 715		2 715
Non-trading financial assets mandatorily at fair value through profit or loss			638 196	638 196
<i>Debt securities</i>			603 156	603 156
<i>Loans to customers</i>			3 790	3 790
<i>Loans to banks</i>			31 250	31 250
Financial assets at fair value through other comprehensive income	51 054		570	51 624
Equity instruments			570	570
Debt instruments	51 054			51 054
Derivatives – Hedge accounting		7 831		7 831
FINANCIAL LIABILITIES				
Derivatives		8 508		8 508
Derivatives – Hedge accounting		14 187		14 187

2022				
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Derivatives		2 454		2 454
Non-trading financial assets mandatorily at fair value through profit or loss			405 264	405 264
<i>Debt securities</i>			369 647	369 647
<i>Loans to customers</i>			4 259	4 259
<i>Loans to banks</i>			31 358	31 358
Financial assets at fair value through other comprehensive income	60 537		596	61 133
Equity instruments			596	596
Debt instruments	60 537			60 537
Derivatives – Hedge accounting		15 128		15 128
FINANCIAL LIABILITIES				
Derivatives		4 062		4 062
Derivatives – Hedge accounting		0		0

The Bank uses the discounted future cash flows model for its derivatives that is adjusted by the credit risk of the counterparty (asset side) or the Bank's own credit risk (liability side). The fair value of derivatives in hedge accounting is also calculated by using the same method. The underlying transactions in hedge accounting, the hedged item, are not reclassified into a fair value category, but remain in the amortized cost category.

Assets included in the „mandatorily at fair value through profit or loss” category are those failed on the SPPI test established by IFRS 9. The fair value of these items is determined based on the Bank's internal model, which considers the value of future cash flows and expected market yield surcharge when discounting. The Bank calculates the fair value of loans based on the discounted expected cash flow and discounts the contractual (capital, interest, interest subsidy) or individually determined future expected cash flows with the current yield curve or reference rate flat, increased by the product-level spread. In case of collective valuation, all contractual cash flows are considered and discounted. In case of individual valuation, the calculation includes the total expected cash flow. The fair value calculation is performed only for the already disbursed part, therefore the undrawn amount does not affect the fair value calculated. The main inputs used for venture capital investments in this category take into account the fair value of the net asset value to the Bank, adjusted for the maximized first yield guarantee. Venture

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capital fund units owned by the Bank are classified (determination of fair value) on a quarterly basis, in the initial phase of the capital funds, using the following methods. As the net asset value decreases in the years following the start-up of the equity fund due to the nature of the business and does not give an adequate picture of the potential of the investment, we assume that the entry value (cost) gives a good approximation of the fair value of the investment in the initial period. An alternative to determining fair value is the so-called plan performance model. The point is that it does not focus on an annual fact/fact-based assessment, but on a plan/fact-based assessment measured cumulatively from the start of the fund. The main parameters of the plan performance model are fulfillment of placements, costs accounted for in the fund, expenses of financial operations / recognized impairment ratio, amount of exits, net asset value. Venture capital funds have no material liabilities and no other material assets.

For debt securities presented as financial instruments at fair value through other comprehensive income (formerly available for sale securities), the fair values are determined as the average of the best buy and sale price available publicly disclosed by Government debt management agency for the reporting date.

For the fair value determination of equity securities, the Bank considers the expected return on the market, the marketability of the item, its mobilization (the supply and demand conditions and the available market prices, the proportion from the net equity of the investment) and the probability and magnitude of the loss.

There was no transfer among the different fair value hierarchy categories.

b) Movement of financial assets categorized into level 3

	2023			
	Customer loans	Loans to banks	Other equity instruments	Debt securities
Opening balance as at 1 January	4 259	31 359	596	369 647
New disbursements/acquisition/capital increases	589	1 864	0	215 053
Sales	(26)	0	0	0
Repayments	(1 154)	(1 948)		
Profit or loss (fair value changes) during the year	121	(25)	(26)	18 456
Fair value changes during the year accounted into OCI			0	
Transfers from/to level 3. hierarchy category	0	0	0	0
Closing balance at 31 December	3 790	31 250	570	603 156

	2022			
	Customer loans	Loans to banks	Other equity instruments	Debt securities
Opening balance as at 1 January	4 090	29 597	550	60 513
New disbursements/acquisition/capital increases	1 223	4 914	0	230 549
Reclassification from Associates			0	68 457
Sales	0	0	0	0
Repayments	(1 233)	(2 964)		
Profit or loss (fair value changes) during the year	84	(93)	46	10 128
Fair value changes during the year accounted into OCI			0	
Other reclassification	95	(95)	0	0
Transfers from/to level 3. hierarchy category	0	0	0	
Closing balance at 31 December	4 259	31 359	596	369 647

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The Bank used discounted cash flow model valuation technique to determine the fair value for customer and bank loans in level 3 category both as at 31 December 2023 and 2022. The significant unobservable inputs applied were the probability of default and the individual credit spread of the given customer, by the way they do not significantly affect the fair value measurement. For equity instruments the Bank applied discounted cash flow model for the expected net cash flow derived from the entity.

Significant increase in any of the input parameters in isolation would result in lower fair values. In case of equity instruments increase in expected net cash flows would result in higher fair value.

c) Financial instruments not measured at fair value by the level of fair value hierarchy

	2023			Total	Carrying value
	Level 1	Level 2	Level 3		
Cash, cash balances at central banks and other demand deposits		400 036		400 036	400 036
Financial asset at amortized cost	32 067	0	1 652 001	1 684 068	1 794 576
Debt securities	32 067		378 490	410 557	436 980
Hungarian government bonds	24 954			24 954	26 389
Corporate bonds			378 490	378 490	403 206
Mortgage bonds	7 113			7 113	7 385
Loans			1 230 219	1 230 219	1 314 303
Customer loans			1 156 675	1 156 675	1 236 012
General governments			67 936	67 936	64 141
Other financial corporations			318 636	318 636	325 122
Other non-financial corporations			716 337	716 337	774 239
Households			53 766	53 766	72 510
Loans to banks			73 543	73 543	78 291
Refinancing loans			0	0	0
Other loans			73 543	73 543	78 291
Other financial assets			23 033	23 033	23 033
Trade receivables			40	40	40
Margin accounts			22 993	22 993	22 993
Deposits at central and other banks			20 260	20 260	20 260
Central bank deposits			0	0	0
Other bank deposits			20 260	20 260	20 260
Financial liabilities at amortized cost		1 718 953	862 992	2 581 945	2 818 041
Customer deposits			101 624	101 624	111 256
Interbank deposits			37 358	37 358	37 365
Customer deposits (collateral behind loans)			17 285	17 285	26 641
Other customer deposits			46 981	46 981	47 250
Due from banks			750 833	750 833	933 746
Refinancing loans			146 850	146 850	201 519
Other loans taken			603 983	603 983	732 227
Debt securities issued		1 718 953		1 718 953	1 762 504
Listed HUF bonds		554 826		554 826	581 522
Listed CCY bonds		1 164 127		1 164 127	1 180 982
from this listed on foreign stock exchange		843 103		843 103	866 148
Other financial liabilities			10 535	10 535	10 535
Margin accounts			8 137	8 137	8 137
Creditors			2 008	2 008	2 008
Other financial liabilities			390	390	390

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	2022			Total	Carrying value
	Level 1	Level 2	Level 3		
Cash, cash balances at central banks and other demand deposits		95 971		95 971	96 028
Financial asset at amortized cost	41 030	0	1 403 154	1 444 184	1 783 518
Debt securities	41 030		274 112	315 142	432 195
Hungarian government bonds	35 986			35 986	42 158
Corporate bonds			274 112	274 112	383 857
Mortgage bonds	5 044			5 044	6 180
Loans			1 110 622	1 110 622	1 332 881
Customer loans			1 043 844	1 043 844	1 252 554
General governments			48 459	48 459	52 401
Other financial corporations			256 903	256 903	307 542
Other non-financial corporations			692 897	692 897	815 461
Households			45 585	45 585	77 150
Loans to banks			66 778	66 778	80 327
Refinancing loans			345	345	346
Other loans			66 433	66 433	79 981
Other financial assets			4 220	4 220	4 220
Trade receivables			1 017	1 017	1 017
Margin accounts			3 203	3 203	3 203
Deposits at central and other banks			14 200	14 200	14 222
Central bank deposits			0	0	0
Other bank deposits			14 200	14 200	14 222
Financial liabilities at amortized cost		1 231 329	611 483	1 842 812	2 256 124
Customer deposits			41 390	41 390	48 855
Interbank deposits			23 849	23 849	23 859
Customer deposits (collateral behind loans)			12 950	12 950	19 599
Other customer deposits			4 591	4 591	5 397
Due from banks			527 605	527 605	786 491
Refinancing loans			140 787	140 787	230 171
Other loans taken			386 818	386 818	556 320
Debt securities issued		1 231 329		1 231 329	1 402 562
Listed HUF bonds		453 860		453 860	579 192
Listed CCY bonds		777 469		777 469	823 370
<i>from this listed on foreign stock exchange</i>		454 288		454 288	501 049
Other financial liabilities			18 216	18 216	18 216
Margin accounts			15 696	15 696	15 696
Creditors			2 012	2 012	2 012
Other financial liabilities			508	508	508

The fair value of cash and cash equivalents and demand and short-term bank deposits was considered to be equal to the carrying amount at the reporting date.

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on OTC trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

In case of purchased and issued debt securities measured at amortized cost, the fair value of the instrument is calculated based on the daily market closing rates available in the Inforex system. Where this information is not available, the securities are classified into level 2 or 3 fair value hierarchy and, accordingly, discounted cash flow method is applied by using the current market yield curves. The fair value of issued bonds is determined based on data provided by market makers, however as there is no active market for these bonds therefore they were categorized into level 2.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

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35. OFFSETTINGS

The below tables include all repurchase agreements and all such derivatives where ISDA agreements allows the net settlements.

Financial assets subject to offsetting and potential offsetting agreements - 2023

	Gross carrying amount	Amounts set off against financial liabilities	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	10 546	0	10 546	(8 137)	0	0	2 409
Repurchase agreements	0	0	0	0	0	0	0
Total	10 546	0	10 546	(8 137)	0	0	2 409

Financial liabilities subject to offsetting and potential offsetting agreements - 2023

	Gross carrying amount	Amounts set off against financial assets	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral given	Non-cash financial collateral given	
Derivatives	22 695	0	22 695	(74)	0	0	22 621
Reverse repurchase agreements	0	0	0	0	0	0	0
Total	22 695	0	22 695	(74)	0	0	22 621

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Financial assets subject to offsetting and potential offsetting agreements - 2022

	Gross carrying amount	Amounts set off against financial liabilities	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	17 582	0	17 582	(15 696)	0	0	1 886
Repurchase agreements	0	0	0	0	0	0	0
Total	17 582	0	17 582	(15 696)	0	0	1 886

Financial liabilities subject to offsetting and potential offsetting agreements - 2022

	Gross carrying amount	Amounts set off against financial assets	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral given	Non-cash financial collateral given	
Derivatives	4 062	0	4 062	(3 203)	0	0	859
Reverse repurchase agreements	0	0	0	0	0	0	0
Total	4 062	0	4 062	(3 203)	0	0	859

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36. MATURITY TABLE

The following table shows the residual maturity breakdown of financial assets and liabilities. The guarantees were classified in the category „within a year”, irrespective of the actual maturity of the credit line holding period. The loan commitments were classified based on their actual maturity.

	2023			2022		
	Within a year	Over a year	Total	Within a year	Over a year	Total
Financial Assets						
Cash, cash balances at central banks and other demand deposits	400 036		400 036	96 028		96 028
Financial assets held for trading	2 715		2 715	2 454		2 454
Non-trading financial assets mandatorily at fair value through profit or loss	212	637 984	638 196	273	404 991	405 264
Financial assets at fair value through other comprehensive income	25 057	26 567	51 624	21 249	39 884	61 133
Financial assets at amortized cost	147 560	1 647 016	1 794 576	168 715	1 615 540	1 784 255
Derivatives – Hedge accounting	7 831		7 831	15 128		15 128
Total Financial Assets	583 411	2 311 567	2 894 978	303 847	2 060 415	2 364 262
Financial Liabilities						
Financial liabilities held for trading	8 508		8 508	4 062		4 062
Financial liabilities at amortized cost	605 933	2 212 108	2 818 041	456 800	1 799 324	2 256 124
Derivatives – Hedge accounting	14 187		14 187	0		0
Total Financial Liabilities	628 628	2 212 108	2 840 736	460 862	1 799 324	2 260 186
Guarantees	860 233		860 233	799 175		799 175
Capital commitments	285 210	66 606	351 816	179 889	63 654	243 543
Loan commitments	313 858	26 531	340 389	197 759	30 087	227 846

The Bank manages liquidity risk through liquidity reserves (Central Bank eligible securities and liquidity GAP limits. It provides timely renewal and replacement of expiring funds.

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37. EXERCISING OWNER'S RIGHTS

The Bank exercises the owner's rights in the name of the Hungarian State for state owned companies determined by the appendix 1. of the HDB Law and in venture capital funds determined by the decrees 8/2016. (IV.19.) and 64/2016. (XII.28.) of Ministry for National Development, furthermore 15/2022. (XII.6) of Ministry for Economic Development. Income and expenses arising from the management of State shares form the income and expenses, or financing income and expenses of the central budget. The Bank acts as an agent (not allowed to sell the entities and is not entitled for any dividend (unless has its own investment in the entity) in this relationship and received cost reimbursement from the State for fulfilling the owner's right activity till the end of 2022, from 2023 the amount received was nil (2022: HUF 5 million) presented on "Other operating income" line.

The companies and venture capital funds in which the Bank exercises the owner's rights at 31 December 2023 and 2022 are the following:

Name of the company / fund	Activity	State ownership		Share capital	
		2023	2022	2023	2022
ABC Kockázati Tőkealap	Venture capital fund		69.77%		4 300
AJH Növekedési Kockázati Tőkealap	Venture capital fund	69.99%	69.99%	4 286	4 286
Bonitás Kockázati Tőkealap	Venture capital fund	69.23%	69.23%	6 500	6 500
Bonitás Kockázati Tőkealap II	Venture capital fund	76.87%	76.87%	12 158	12 158
Capitalisatio Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Conor Seed Capital Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	2 150	2 150
Core Venture Közös Magvető Kockázati Tőkealap	Venture capital fund	69.93%	69.93%	1 319	1 319
Core Venture Közös Növekedési Kockázati Tőkealap	Venture capital fund	69.93%	69.93%	4 290	4 290
DBH Investment Kockázati Tőkealap	Venture capital fund		70.00%		5 000
Diákhitel Központ Zártkörűen Működő Részvénytársaság	Crediting	100.00%	100.00%	300	300
Finattech I. Kockázati Tőkealap	Venture capital fund		69.96%		4 288
Finattech II. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Forte Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	3 617	3 857
GRAN III. Kockázati Tőkealap	Venture capital fund	74.03%	74.03%	6 931	6 931
Kutatás-fejlesztési és Innovációs Állami Tőkealap	Venture capital fund	100.00%	100.00%	30 000	30 000
Infokommunikációs Állami Tőkealap	Venture capital fund	100.00%	100.00%	6 075	6 075
Innovation Europe Agrár Innovációs Magántőkealap (former Green Europe Agrár Tőkealap)	Capital fund	74.00%	74.00%	112 879	112 879
Morando Kockázati Tőkealap	Venture capital fund	69.94%	69.94%	6 506	6 506
OTP Kockázati Tőkealap I.	Venture capital fund	55.88%	55.88%	6 800	6 800
PBG FMC Tőkealap	Venture capital fund	69.77%	69.77%	4 300	4 300
Perion 2013. Kockázati Tőkealap	Venture capital fund	68.00%	68.00%	3 884	3 884
Prosperitás Profit Közös Növekedési Kockázati Tőkealap	Venture capital fund	69.98%	69.98%	6 430	6 430
Prosperitás Proseed Közös Magvető Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	2 150	2 150
Regionális Fejlesztési Holding Zártkörűen Működő Részvénytársaság	Economy development activities	100.00%	100.00%	23 842	23 842

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Name of the company / fund	<u>Activity</u>	<u>State ownership</u>		<u>Share capital</u>	
		2023	2022	2023	2022
Solus I. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Solus II. Kockázati Tőkealap	Venture capital fund	87.51%	87.51%	8 010	8 010
Takarék Kockázati Tőkealap I.	Venture capital fund	76.92%	76.92%	12 150	12 150
Üzleti Infokommunikációs, Digitalizációs Tőkealap	Venture capital fund	100.00%	100.00%	9 346	9 346
Valor Capital Közös Zártvégű Kockázati Tőkealap	Venture capital fund	69.99%	69.99%	2 934	2 934
Venturio 2013. Kockázati Tőkealap	Venture capital fund	68.00%	68.00%	4 411	4 411
X-VENTURES ALPHA I. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	2 492	2 492
X-Ventures Béta Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	3 280	3 280
Vespucci Capital I. Kockázati Tőkealap (former X-Ventures Delta Kockázati Tőkealap)	Venture capital fund	70.00%	70.00%	13 351	13 351
X-Ventures Gamma Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351

38. EVENTS AFTER THE REPORTING PERIOD

In line with the transformation concept - relating to the private equity funds that is extremely important both for economy development and for governmental purposes - that had been coordinated by the Nemzeti Tőkeholding Zrt. (National Capital Holding) above whom Ministry for National Economy (NGM) exercises the shareholders rights directly, NGM has issued a shareholder's resolution number 4/2024. (II.19.) that the management of MFB Corporate Investment and Transaction Private Equity Fund (founded 100% by MFB) has to be taken over from Hiventures Zrt. that is a part of the MFB Group to Focus Ventures Zrt. belongs 100% of National Capital Holding. The date of the shareholder's resolution was 19 February 2024, the takeover anticipated in the first quarter of 2024. This will result that the status of the MFB Corporate Investment and Transaction Private Equity Fund will change from subsidiary to associated company.



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**MFB HUNGARIAN DEVELOPMENT
BANK PRIVATE LIMITED COMPANY
2023 MANAGEMENT REPORT**

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I. Executive summary

MFB Hungarian Development Bank Private Limited Company (hereinafter: “MFB Zrt.”, “MFB” or the “Bank”) has prepared its 2023 management report in compliance with the Act on Accounting, and pursuant to the rules of procedure of its Board of Directors and Supervisory Board. The purpose of the report is to allow the Bank’s governing bodies to learn the details of the Bank’s operations and business processes in the reporting period, and, based on balance sheet and income statement data, to gain an accurate picture of the Bank’s financial management in 2023.

MFB Zrt.’s performance in 2023 was shaped by the goal of re-launching the economy, and creating and promoting the growth of sustainable activity, which was made more difficult to achieve by the general economic crisis that accompanied the prolongation of the war between Russia and Ukraine. In Hungary, the recession and high inflation during 2023 kept lending rates high, making domestic companies to be less able or willing to borrow. This is also confirmed by the MFB’s company questionnaire surveys (MFB-INDIKÁTOR): by autumn 2023 the share of firms planning to raise some kind of external financing in the next 12 months fell from 23% in the previous year to 21%.

Despite this, the Bank continued to make new loan and equity placements in 2023 in an outstanding volume of over HUF 1,000 billion, following new commitments and new placements of nearly HUF 1,240 billion in the previous year.

In 2023, businesses continued to benefit from a number of own and EU-sourced MFB loan and capital programmes, individual loans and bonds, as well as guarantees complementing the lending activities, in order to fulfil their investment and working capital requirements, to address liquidity problems and ultimately to help the economy restart and regain stability.

The Bank financed its business activity in the reporting year through new bond issues, both domestically and internationally, and short and medium-term borrowing. MFB did not receive any capital contribution from its owner in the year under review; its total capital adequacy ratio fell to 16,19% by the end of 2023.

The deterioration of the economic environment due to the economic stagnation accompanying a high inflation environment had a negative impact on businesses, requiring the Bank to continue to make high provisions in 2023. As a result, the expected risk cost for 2023 reached HUF 21.9 billion, although MFB’s profit after tax is still positive. This was mainly due to higher dividend income compared to the previous year and the modeled accounting profit of market funds valued at fair value.

In summary, MFB had another successful year in 2023. Business activity continued to show growth, with MFB being available to businesses with loan, capital and guarantee products; meanwhile, the Bank achieved a positive result.

I.1. The Bank's key data

The key figures of 2023 are summarised in the table below¹:

data in HUF million	2023
Balance sheet total	3,541,338
Shareholders' equity	628,815
Total operating income	48,440
Total operating expenses	-10,262
Risk cost	-21,918
Other items	-13,915
Profit/loss for the year	2,345

I.2. Business processes

Lending, new guarantees

In 2023 the Bank **approved loan applications in a total value of HUF 276.7 billion**, of which HUF 235.9 billion were loan applications approved for large individual transactions and HUF 40.8 billion for loan programmes.

In 2023, **new loan disbursements and corporate bond underwriting amounted to HUF 249 billion**; at the end of the year, the Bank's total net loans and corporate bonds² portfolio amounted to nearly HUF 1,761 billion, up HUF 8 billion on year-end 2022 levels.

In 2023 the Bank granted its customers **new guarantees and guarantee limits of HUF 98 billion**; the year-end stock of guarantees and guarantee limits exceeded HUF 860 billion.

Equity interests

In 2023 MFB's subscriptions of investment units in the various capital funds and thus its support for the equity placements made through these funds continued to be heavily represented among its direct investments.

The main elements of **capital increases in its own businesses and investment unit subscription commitments** were the following:

- Subscription of investment units of MFB-funded Crisis capital funds.
- Subscription, and commitments to subscribe, for capital fund units under the Gábor Baross Capital Programme.
- Fulfilment of commitments previously made under MFB capital funds managed by Hiventures.

¹In the management report, total operating income and total operating expenses include the revenue and expenses related to the Bank's core activity, while other profit and loss from financial assets is presented in the *Other items*. The income statement is presented in detail in section V.

² In the accounting balance sheet, the Loans and in case of corporate bonds total value of securities embodying a credit relationship listed among financial assets valued at fair value against other comprehensive income, furthermore listed among financial assets valued at amortized cost (corporate bonds, domestic credit institution bonds, domestic credit institution mortgage bonds and other financial intermediary bonds).

- Commitment to increase capital and execute equity placements to finance the activities of MFB Invest Zrt.

The Bank's net **equity interests portfolio** grew by **HUF 282 billion in 2023³**, to **HUF 1,037 billion**, actual equity placements and investment-unit subscriptions amounted to **HUF 289 billion** in 2023.

EU funds management

MFB was a funds management entity in the 2007-2013 programming period, and acts as the Fund of Funds implementing entity for the 2014-2020 European Union programming period; it disposes over the available funds in its own name, but for the benefit of the Managing Authorities. Consequently, it maintains separate records of the funds of programming periods; these do not form part of the Bank's balance sheet.

The MFB Points network achieved a loan disbursement volume of **HUF 305.03 billion** in 2023. The total of EU loans disbursed by the nationwide MFB Points network operated by the domestic banks (Takarékbank Zrt., MKB Bank Nyrt. and Budapest Bank Zrt. – following the merger on 31 March 2023, this group of banks also includes Magyar Bankholding Zrt., as well as OTP Bank Nyrt. and Gránit Bank Zrt., with effect from 1 May 2023) exceeded **HUF 1,011 billion** in the period from its launch in 2016 to the end of 2023.

In 2023 the Bank **disbursed EU funds totalling HUF 317.29 billion** through intermediaries, including loans of **HUF 305.03 billion** and venture capital of **HUF 12.26 billion**. MFB Zrt.'s direct EU lending amounted to **HUF 172 million**. The total disbursement was thus amounted to **HUF 317.46 billion**.

I.3. Funding management

In 2023, MFB Zrt. raised medium and long-term external funds in the amount of **HUF 977.9 billion**. In terms of currency, the US dollar accounted for 40.0%, the euro for 26.2% and the forint for 33.8% of the funds. International bonds represented 40.0%, domestic bonds 36.3% and bilateral bank loans 23.7% of the funds raised.

I.4. Finances

The Bank's **net interest income** (HUF 13,701 million) was **down on the previous year's level** due to the repricing of existing loans and the high interest expenses of newly raised funds. Net fee and commission income (HUF 4,485 million) came in higher than the previous year's figure due to a larger guarantee portfolio, and dividend income (HUF 8,019 million) was also significantly higher than in 2022.

During the year, the accounting gain on market funds measured at fair value (HUF 22,234 million) was some of the larger items.

The **expenses of banking operations** (HUF 15,061 million) increased by 9.7% in 2023, in line with the increase in business activity and due to the impact of inflation, but still well below the annual average inflation rate.

³Also presented in this part of the balance sheet are the capital fund units recognised among *Non-trading financial instruments mandatorily measured at fair value through profit or loss*. The volume amount is consistent with the balance sheet numbers in section V of the report; the balance sheet is presented in detail in that section.

The effect on profit of **changes in impairment/provisions** is lower (HUF 21,918 million) than in 2022, despite the impact of the prolonged economic crisis.

The Bank spent HUF 1,914 million on **bank-operation investments** in 2023. These capital investments were aimed at ensuring the necessary infrastructure, implementing developments required for performing the requisite range of tasks, and at replacing obsolete equipment.

I.5. Summary

The Bank's activities in 2023 were largely determined by its response to the emerging overall economic crisis, and the measures taken to maintain economic stability and to re-launch the economy. In 2023, the Bank provided significant funds to businesses to mitigate the economic damage and to expand investments to support economic growth. Accordingly, the **balance sheet total increased** in line with the expansion of the loan, corporate bond and investment portfolio. In addition, one of the key goals of the Bank in 2023 was to ensure the optimal and rational use of state assets, and in 2023 the Bank realised a **profit after tax of HUF 2.3 billion**.

2023 was the second year of implementation of the Bank's new medium-term strategy for 2022-2030. In the medium-term strategy, the Bank anticipated new commitments of HUF 1,600 billion up to 2025 and a further commitment of HUF 3,600 billion between 2025 and 2030. The commitment to be met by 2025 was already fulfilled by the Bank by the end of 2023.

Based on MFB's latest company questionnaire survey (MFB-INDIKÁTOR) conducted at the end of 2023, the Hungarian economy has an unmet lending gap of around HUF 520 billion (including investment loans, working capital loans and overdraft facilities). The size of the gap measured in the investment credit market, which is a priority area for monitoring, is estimated at HUF 400 billion, the gradual filling of which is a justifiable task, in line with EU principles as well.

I.6. Corporate governance statement

Under Section 95/B(1) of Act C on Accounting of 2000, which applies to management reports, a business whose transferable securities have been accepted for trading on a regulated market in any Member State of the European Economic Area must publish a corporate governance statement in its management report. Pursuant to the above, MFB is required to make a statement in light of the bonds it has issued. The Bank prepares the corporate governance statement simultaneously with the management report but as a separate document, and publishes it on its website.

I.7. Method of disclosure

The Bank discloses essential information – with the exception of non-essential and protected or confidential information – at least once a year, at the same time as the public report, in accordance with CCXXXVII of 2013 on credit institutions and financial enterprises. Act 122-123. §, and on the basis of European Parliament and Council Regulation (CRR) 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation 648/2012/EU (CRR). The Bank responds to this with a Disclosure notice, which is available on the Bank's website.

II. Operating conditions

II.1. Macroeconomic effects⁴

In the first three quarters of 2023 the Hungarian economy saw a 10.6% drop in the volume of capital investment year-on-year. While investment in machinery and equipment rose by 7.5%, construction projects, which are more dependent on EU funds, fell by 20.8%. Investment in manufacturing, the largest contributor, was up 9.6% in the first three quarters of 2023 (y/y), while most of the branches of the services sector saw year-on-year declines, with only administrative and support service activities (+3.7%) and financial and insurance activities (+13.4%) showing year-on-year growth, but the main reason for the increase was the low base in these sectors, too.

Gross corporate loans (HUF 12,368 billion in November 2023) increased by 2.5% (+HUF 300 billion) in the first eleven months of 2023, which was significantly lower than the growth rate in the same period of 2022 (+18%). The increase was due to cheaper foreign currency loans (+ HUF 577 billion), while the volume of forint loans decreased by HUF 376 billion.

In October 2023, the MNB's Monetary Council decided to implement monetary easing, and the base rate, which had been kept at 13.00% for 13 months, was cut to 10.75% in 75-basis-point-steps by the end of the year.

II.2. Legislative changes significantly affecting the Bank's operations

The table below shows the year-end utilisation of the state guarantee and interest subsidy facilities approved for the Bank under Act XXV of 2022 on the Central Budget of Hungary for 2023 and under the provisions of Government Decree 158/2023 (IV.28.) on the different rules of Act XXV of 2022 on the Central Budget of Hungary for 2023 during the emergency period, in force since 3 November 2023:

data in HUF million	Limit	Drawn down	Available
Fundraising limit	3,500,000	2,741,349	758,651
Loan financing, surety and guarantee limit	1,700,000	1,183,886	516,114
Exchange rate hedging agreement limit	2,000,000	1,477,809	522,191
Interest subsidy limit	700,000	58,504	641,496

⁴Q1-Q3 2023 data

Among the legislative changes affecting MFB Zrt. in 2023, the amendments to Act XX of 2001 on the MFB Hungarian Development Bank Private Limited Company (hereinafter: **MFB Act**) effective from 30 November 2023 and 12 December 2023 deserve to be highlighted⁵, which, among other things, will promote the expansion of MFB Zrt.'s scope of activities. In addition, the extraordinary legislation on the emergency situation(s) ordered by the Government (including in particular the provisions concerning the agri-loan moratorium and the freeze on reference and default interest rates) also affected the activity of MFB Zrt.

II.3. Founder's Resolutions

The Minister for Economic Development (Minister for National Economy with effect from 1 January 2024), who exercises shareholder rights over the Bank, has taken a number of important decisions concerning the Bank's operations. In the year 2023, the majority of the Founders' Resolutions adopted in 2023 by the founders – acting within the scope of their duties and powers as defined in the Articles of Association – were related to the taking of business decisions, specifying deadlines for their completion and describing the method for verifying their implementation, as well as the recall and election of executive officers.

⁵ The Government has designated MFB Zrt. to implement the funds disbursed from the financial instruments of the 2014-2020 programming period and repaid by the final recipients, on the one hand, and the financial instrument provided for in the Government Decree 373/2022 (IX. 30.) on the basic rules and responsible institutions for the implementation of Hungary's Recovery and Resilience Plan, on the other hand. Since the above programmes are not 'operational' programmes, it was necessary to amend Article 3(3) of the MFB Act, as well as to supplement Article 2(h) of the MFB Act.

Given that the implementing of financial instruments is governed in part by public law, the regulation clarified MFB Zrt.'s locus standi with regard to the enforcement of claims.

The amendment allows MFB Zrt. to take over receivables and loan portfolios, provided that this is done for loss mitigation purposes.

The amendment clarifies that, when raising foreign currency funds with a maturity of more than one year, MFB Zrt. has an obligation to liaise and provide information prior to raising the funds, in particular with regard to the upper limit of the state payment guarantee set by the Budget Act in effect. The amendment also makes it possible for the Student Loan Company (Diákhitel Zrt.) to outsource its activities to MFB Zrt. going forward.

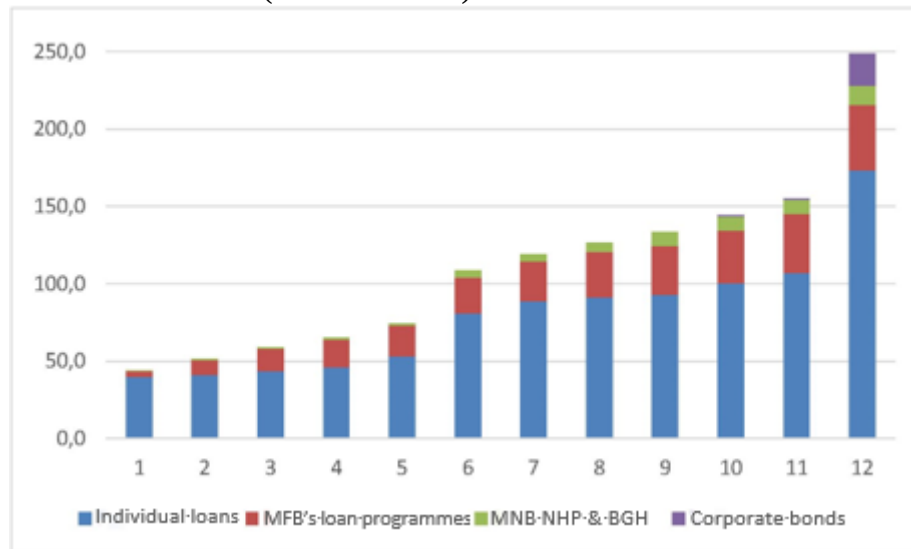
The amendment clarifies the content of the existing provision on the formation of client groups. The amendment clarifies the exception rule relating to the need for supervisory approval for the election or appointment of the executive officer/managing director of financial institutions directly or indirectly owned by MFB Zrt. and of institutions over which MFB Zrt. can exercise ownership rights.

III. The Bank's activities in 2023

III.1. Lending

In 2023, the Bank made a positive decision on loan applications of a combined HUF 276.7 billion; the total amount of newly concluded or amended contracts was HUF 276.9 billion. The value of MFB-funded loans disbursed in 2023 (excluding credit securities) was HUF 228 billion.

The graph below presents the 2023 changes in the disbursement of MFB-funded loans and corporate bonds in more detail (in HUF billion):



MFB's loan programmes

Through MFB-funded loan programmes the Bank had provided borrowing opportunities to the following target groups in 2023:

- micro, small and medium-sized enterprises meeting the criteria for SMEs,
- businesses not meeting the criteria for SMEs (mid-caps and large companies),
- agribusinesses.

The focus for 2023 continued to be on the added task to respond to the economic consequences of the Russo-Ukrainian war conflict that started in early 2022. Loan products provided to financial enterprises remained popular in 2023. The Széchenyi Microcredit Facility, launched by KAVOSZ Zrt. under the Széchenyi Card Programme, continued to generate significant customer demand from SME sector players in 2023, due to its particularly favourable pricing.

The following MFB-funded loan programmes were available or announced in the last quarter of 2023:

- Enterprise Development Loan Programme
 - MFB Széchenyi Microcredit Refinancing Programme 2.0
 - MFB Energy Efficiency Credit Programme (announced on 29 December 2023 and entered into force on 8 January 2024)
- Agri loan programmes

- MFB Agri Working Capital Loan Programme 2020 (submission deadline: 30 November 2023)
- MFB Food Industry Working Capital Loan Programme 2020 (submission deadline: 30 November 2023)
- MFB TÉSZ Working Capital Loan Programme 2020 (submission deadline: 30 November 2023)

The above loan programmes have provided and continue to provide the widest possible access to funding designed to enable the comprehensive implementation of borrowing requirements altered due to the economic environment, as well as of macroeconomic objectives for economic recovery.

The Bank's development activities related to MFB-funded products in 2023 were as follows:

- In connection with the three agricultural working capital loan programmes of the MFB (**the MFB Agricultural Working Capital Loan Programme 2020, the MFB Food Industry Working Capital Loan Programme 2020 and the MFB TÉSZ Working Capital Loan Programme 2020**), Government Decision 1057/2023 (II.27.) on the extension of the period of application for the MFB TÉSZ Working Capital Loan Programme 2020, the MFB Agricultural Working Capital Loan Programme 2020 and the MFB Food Industry Working Capital Loan Programme 2020 was published on 27 February 2023, pursuant to which the application window for the three agricultural working capital loan programmes was extended until 31 December 2023 and also the transfer of funds between the three agricultural working capital loan programmes was made possible. Following the publication of Ministry of Agriculture Decree 22/2023 (V.9.) amending certain ministerial decrees on agricultural subsidies, which amend the FM Decrees linked to loan programmes, the revised product documentation for the three agricultural working capital loan programmes entered into force on 12 May 2023, at the same time as the entry into force of the Ministry of Agriculture Decree. Following the amendment, it was made possible to charge the part of the aid linked to preferential interest rates to the TCTF 2.1 crisis and transition framework under the loan programmes.

In parallel with the entry into force of the amendment on 12 May 2023, MFB Zrt. initiated the introduction of the TCTF 2.3 support category through the Hungarian State Aid Monitoring Office in order to ensure the widest possible access to MFB's agricultural working capital programmes. The Commission issued a decision to adopt this at the end of June 2023. The revised product documentation for the three agricultural working capital loan programmes – supplemented to include the fact that the aid content due to the preferential interest rate was chargeable to the TCTF 2.3 framework – was amended in August 2023.

The period of application for the loan programmes ended on 30 November 2023, with the possibility to conclude loan contracts being open until 31 December 2023. In view of the increased client needs in 2023 due to the possibility to apply for TCTF aid, while bearing in mind the changes announced in the TCTF Communication, which will take effect from 2024 with regard to the extension of the loan programmes, MFB has initiated a consultation with the Ministry of Agriculture. As a result, at the end of 2023, a Government Proposal was prepared, in agreement with the Ministry of Economic Development (GFM), for the extension of the Loan Programmes until 31 December 2024. Based on the information provided by the GFM in December 2023, further discussions between the Ministry of Finance and the Ministry of Agriculture are needed in the context of a possible extension,

specifically on the fiscal impact analysis and its methodology. This is expected to take place in early 2024.

- In 2021, KAVOSZ Zrt. introduced a new product scheme in the framework of the Széchenyi Card Programme, based on Government Decision 1483/2021 (VII.16.), designated as Széchenyi Microcredit Facility, for the refinancing of which MFB Zrt. announced the **MFB Széchenyi Microcredit Refinancing Programme** on 6 October 2021; then, simultaneously with the subsequent closure of the latter programme, KAVOSZ introduced the **MFB Széchenyi Microcredit Refinancing Programme 2.0** on 29 August 2022, with the aim of ensuring that financial businesses will continue to have refinancing funds available in 2023 for the distribution of KAVOSZ Zrt.'s Széchenyi Mikrocredit MAX+ product. In 2023, under the MFB Széchenyi Microcredit Refinancing Programme 2.0, approved loan applications amounted to nearly HUF 36 billion and disbursed loans exceeded HUF 31.7 billion during the year.
- At the end of October 2022, the elaboration of a new loan programme began under the working name “**MFB Energy Crisis Management Loan Programme**”, to provide an option to radically reduce the costs of the significant increase in energy prices for micro, small and medium-sized enterprises.
The analysis presenting the market environment and the draft Product Description and Guide related to the programme were completed by mid-December 2022 and – given that MFB Zrt. intended to finance the programme from institutional (EIB, CEB) funds – the necessary documents were sent out to the institutional financiers in English at the end of December 2022. Following the positive financing decision, the programme was developed in detail and the necessary financing contracts with the EIB and the CEB were signed in October 2023.
The product was announced as a euro loan under the name **MFB Energy Efficiency Loan Programme for Businesses** on 29 December 2023, with an effective date of 8 January 2024, with the purpose of enabling the Bank to provide, as a first step, financing for investments aimed at improving the energy efficiency of existing buildings necessary for the operation of micro, small and medium-sized enterprises, or increasing the share of renewable energy in their overall energy consumption. Going forward, it is expected that MidCap and large enterprises will be added to the list of eligible borrowers, the range of sectors eligible for financing will be expanded to include agricultural enterprises, municipalities and higher education institutions, and the range of eligible loan objectives will be expanded in a modular way to include additional green loan objectives (such as financing the production of machinery/equipment for renewable energy production and use, clean transport, etc.).

Individual placements

MFB approved a total of HUF 235.9 billion in individual loan applications in 2023, and the total value of individual new contracts and contract amendments was HUF 236 billion. In the case of individual loans, the annual amount disbursed was in excess of HUF 182.7 billion.

The Bank reports under individual loans the loans granted under the Funding for Growth Scheme and the Gábor Baross Loan Programme, with a total of HUF 12 billion of new loans having been disbursed in 2023.

Within individual placements, the Bank continues to give priority to meeting the financing needs of the companies in its group; the amount of new loans granted to group members was more than HUF 39.8 billion in 2023.

Corporate bonds

In 2023, MFB Zrt. also took part in corporate financing in the form of corporate bond subscriptions, in addition to traditional lending. In 2023, the Bank subscribed a total of HUF 21 billion in corporate bonds.

III.2. Guarantees and sureties provided

In addition to loan products, MFB continued to help businesses in 2023 with guarantees and sureties directly or indirectly related to loan transactions. The total amount of new guarantees issued by the Bank was HUF 98.2 billion in 2023 (including guarantee facilities). Thus, the guarantee portfolio increased to HUF 752.2 billion, while the value of guarantee facilities amounted to HUF 108.0 billion at the end of the year.

III.3. Investments⁶

Companies in which MFB holds a direct ownership stake

MFB's investment activity continued to grow in 2023, with investment units in the various capital funds representing a significant share of the Bank's investments, and thus the financing of equity placements through investment funds, with the involvement of market-based fund managers and by encouraging private investors, was also a key driver.

The advantage of capital investment made through capital funds is that it can also provide financing for businesses that have no access or only limited access to loan financing. In addition, focusing on rebuilding the economy and placing it back on a growth footing is a good means of financing growth and even international expansion, e.g. for financing corporate or real estate transactions, or for financing slower-payback investments. In addition to the above, capital funds also open up the possibility of complementing the funds provided by MFB with capital from private investors, thereby increasing the amount of funds available to finance development.

In 2023, MFB-financed capital funds can be classified into three categories:

- Crisis Capital Funds
- Capital funds financed under the Gábor Baross Capital Programme
- MFB-financed capital funds, managed by Hiventures.

For the first two categories, the Bank committed a total of HUF 350 billion in new commitments to capital funds in 2023, alongside a minimum contribution of 30% from private investors. In addition to economic development, the objectives of the new investments already include stimulating liquidity in capital markets and promoting green investing.

In the case of capital funds, the total commitments exceeded HUF 1,140 billion by the end of 2023. Actual disbursements in 2023 for capital funds established previously and in the subject year totalled HUF 247 billion.

⁶ Ownership interests, including capital increases not yet registered

In addition to the liabilities undertaken in respect of the investment units for the capital funds, the Bank undertook to increase its capital in MFB Invest Zrt. in order to finance that company's capital investment activities. In 2023, the Bank carried out a capital increase of HUF 42 billion.

Companies in which MFB exercises ownership rights

The Bank exercised ownership rights in respect of the following investments as at 31 December 2023:

- Diákhitel Központ Zrt.
- Regionális Fejlesztési Holding Zrt.
- Capital funds of the 2007-2013 programming period and capital funds of the 2014-2020 programming period.
- pursuant to Decree 15/2022 (XII.6.) of the Ministry of Economic Development (GFM), the Innovation Europe Agricultural Innovation Private Equity Fund

III.4. EU funds management

MFB was a funds management entity in the 2007-2013 programming period, and acts as the Fund of Funds implementing entity for the 2014-2020 European Union programming period; it disposes over the available funds in its own name, but for the benefit of the Managing Authorities. Consequently, the funds of the programming periods do not form part of the Bank's balance sheet; it keeps separate records of these funds.

The 2007-2013 programming period is over: the closing process has been completed, and the remaining banking tasks are related to the management of the existing portfolio and of the repaid funds.

In the 2014-2020 programming period, EU programmes provided borrowing opportunities for the following target groups:

- micro, small and medium-sized enterprises,
- large companies,
- retail/residential customers (natural persons, condominium associations, housing cooperatives),
- non-governmental organisations.

2023 saw the continuation of the processes begun in the previous years. In the case of combined and standalone loans, the Bank continued to implement the products announced (credit assessment, contracting, disbursement). Due to the closing of the programming period significant portfolio cleaning processes have taken place to ensure maximum use of resources. Capital investments continued in the venture capital segment.

In 2023, MFB placed a total of HUF 317.46 billion in financial instruments, of which the amount disbursed in relation to the reopening of the working capital component of the SME Technology Programme under the Economic Protection Action Plan stands out. The value of loan applications received under the programme exceeded the announced additional limit of HUF 200 billion several times over, resulting in disbursements that were higher than expected.

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The disbursements are detailed in the table below, broken down by programme:

Product types	Amount disbursed to final recipients in 2023 (HUF billions)
Loan and Combined loan products	305.20
EFOP-5.1.1-17	0.13
GINOP-1.2.3-8.3.4-16	0.27
GINOP-1.2.6-8.3.4-16	1.08
GINOP-2.1.2-8.1.4-16	2.33
GINOP-3.1.2-8.2.4-16	0.12
GINOP-3.2.2-8.2.4-16	1.16
GINOP-3.2.4-8.2.4-16	0.19
GINOP-3.2.6-8.2.4-17	0.07
GINOP-4.1.1-8.4.4-16	0.00
GINOP-8.1.1-16	0.50
GINOP-8.2.1-3.4.1-15	0.17
GINOP-8.2.6-18	0.00
GINOP-8.3.5-18	0.00
GINOP-8.3.5-18/A	0.00
GINOP-8.3.5-18/B	0.00
GINOP-8.3.5-18/B_2	1.56
GINOP-8.3.5-18/B_3	209.84
GINOP-8.3.5-18/B_4	86.97
GINOP-8.4.1/A-17	0.51
GINOP-8.8.1-17	0.00
GINOP-9.1.1-21	0.00
VEKOP-5.1.1-5.1.2-16	0.10
VEKOP-5.2.1-17	0.20
Venture capital products*	12.26
GINOP-8.1.3/A-16	1.98
GINOP-8.1.3/B-17	5.52
GINOP-8.2.3-17	0.47
GINOP-8.2.5-17	2.01
GINOP-8.3.3-17	-
GINOP-8.2.7-18	1.67
VEKOP-2.1.2-17	0.61
Total	317.46

*Without private investment

For the 2021-2027 EU programming period, the Government has designated MFB Hungarian Development Bank Plc. as the holding-fund implementing entity (hereinafter HFIE), and as the financial-instrument implementing entity in respect of the RRF (hereinafter referred to as the FIIA). Under these mandates, the Bank is responsible for coordinating the implementation of EU aids in the form of financial instruments. As HFIE/FIIA, the Bank will perform the task of implementing the operational programmes that determine how the financial instruments are used (GINOP Plus, DIMOP Plus, KEHOP Plus, TOP Plus and RRF), and thus discussions with the planners of the relevant operational programmes regarding the planned product types, product parameters and the timing of their introduction, have started and are underway.

In the summer of 2022, the preparation of a new public procurement procedure was launched with the adoption of Government Decision 1390/2022 (VIII.11.) “on the amendment of Government Decision 1859/2021 (XII. 1.) on the decisions necessary for the launch of an open procurement procedure for the selection of financial intermediaries for the provision of subsidies from certain EU funds in the programming period 2021-2027 and on the resources that may be provided”, which fixed the budget for the modified financial instrument type subsidies. In 2022, the operational programmes (including GINOP Plus, DIMOP Plus, KEHOP Plus) were approved by the European Commission, which further clarified the exact amount of resources to be allocated to the financial instruments.

In order to ensure an optimal allocation of funds and the processing of financial instruments, a specific procurement process was developed, involving the setting up of a network of corporate and retail intermediaries. The corporate procurement process was carried out in the second half of the year, and the corporate intermediary network was set up by January 2024.

The market consultation on the call for tenders in respect of retail clients has been completed and the tender will be announced following the approval of the KFF (Public Procurement Supervision Department), while the related financial instrument products are being designed and a timeline for the launch of sales is being established. Conduct of GA (Governing Authority) and NA (National Authority) consultations.

III.5. Changes in limits and thresholds

The Bank’s key prudential indicators are summarised in the following table:

data in HUF million	31.12.2023
Own funds	626 713
Large exposure limit:	
- customer/customer group	376 028
- credit institution	1 253 426
- financial business	626 713
Highest exposure:	
- customer/customer group	220 700
- credit institution	73 614
- financial business	48 502
Capital adequacy ratio, %	16,19%

MFB did not receive any capital contribution from its owner in 2023, and its capital requirement (10,5%) had increased by HUF 13,9 billion by the end of 2023, and thus the capital adequacy ratio had decreased to 16,19% by year-end. The Bank observed the applicable legal requirements, the restrictions relating to prudential operation, and with the limits set in its internal directives.

IV. The Bank's asset-liability management

IV.1. Fundraising

In 2023, MFB Zrt. raised medium and long-term external funds in the amount of HUF 977.9 billion. In terms of currency, the US dollar accounted for 40.0%, the euro for 26.2% and the forint for 33.8% of the funds. International bonds represented 40.0%, domestic bonds 36.3% and bilateral bank loans 23.7% of the funds raised.

MFB Zrt. completed the following medium and long-term transactions in 2023:

- With BNP Paribas, Citigroup Global Markets Europe AG, Erste Group Bank AG and ING Bank N.V. as lead arrangers, MFB Zrt. implemented an international bond issue with a maturity of 5 years and 1 month, in the amount of EUR 1.125 billion and a value date of 31 May 2023. The annual interest rate on the bond was 6.5%, and its primary yield exceeded the secondary market yield on a US Treasury bond of similar maturity by 2.95%.
- In September 2023, MFB Zrt. entered into distribution agreements with 6 domestic credit institutions, under which the Bank may issue domestic euro-denominated bonds to the public through auctions on the Budapest Stock Exchange during the period ending 31 December 2026. OTP Bank Nyrt. will act as the main distributor. The Bank will list the bonds on the Budapest Stock Exchange. In 2023 the bond issues were completed with a total par value of EUR 515.2 million
- In September 2023 MFB Zrt. entered into distributor agreements with 6 domestic credit institutions. Under the agreements, the Bank will offer domestic forint-denominated bonds to the public through auctions on the Budapest Stock Exchange during the period ending 31 December 2026. OTP Bank Nyrt. will act as the main distributor. The Bank will list the bonds on the Budapest Stock Exchange. In 2023 the bond issues were completed with a total par value of HUF 155.1 billion.
- In 2023, the Bank concluded bilateral loan agreements with domestic credit institutions for a total amount of HUF 235 billion, under which a total amount of HUF 175 billion was disbursed in 2023.
- In 2023, the Bank entered into bilateral loan agreements with foreign and domestic credit institutions for a total amount of EUR 150 million, and these loans were disbursed in full during the year.
- On 18 October 2023, MFB Zrt. entered into a EUR 100 million loan facility agreement with the European Investment Bank (EIB), Luxembourg, an international development bank. MFB Zrt. can use this loan facility for the partial refinancing of climate and environmental sustainability projects (green objectives) to be implemented by small and medium-sized enterprises and mid-caps as well as private sector entities. In 2023, no disbursement was made from the facility.
- On 19 October 2023, MFB Zrt. and the Council of Europe Development Bank (CEB), Paris, entered into a EUR 50 million loan facility agreement for the partial refinancing of energy efficiency projects to be implemented by micro, small and medium-sized enterprises. In 2023, no disbursement was made from the facility.
- On 29 December 2023, MFB Zrt. signed a EUR 150 million loan facility agreement with China Development Bank (CDB) to provide funds for a working capital loan to be granted to a client of MFB Zrt. In 2023, no disbursement was made from the facility.

Changes in MFB Zrt's credit ratings

The credit ratings assigned by Moody's Investors Service earlier and the related outlook remained unchanged in 2023.

On 26 January 2023, Fitch Ratings affirmed MFB Zrt's long-term bank issuer 'BBB' level credit rating and the outlook on this rating was changed from stable to negative. The other ratings were left unchanged.

On 9 March 2023, Scope Ratings GmbH changed MFB Zrt.'s "Long-term issuer" and "First-rate, unsecured long-term debt" credit rating to 'BBB' in both domestic and foreign currency, and revised the outlook on these rating categories to stable. At the same time, Scope Ratings GmbH affirmed MFB Zrt.'s "Short-term Issuer" S-2 credit rating in both domestic and foreign currencies and left the outlook on these ratings unchanged at stable.

IV.2. Asset and liability structure, maturity structure, maturity match

Based on the balance sheet items presented in Chapter V, as at 31 December 2023, total loans and corporate bonds represented almost 50% of the Bank's total assets at year-end. Other interest-bearing assets⁷ that partly serve as liquidity reserves (cash, interbank and MNB deposits, as well as government securities) totalled HUF 519 billion, representing nearly 15% of total assets. The value of investments accounts for 29%. Exchange-rate guarantee settlements with the State and other assets combined accounted for 6% of the balance sheet total.

Liabilities can be considered homogeneous. As a result of its activities determined by law, the Bank does not take retail deposits. Corporate deposits and lending-related collateral deposits accounted for a mere 2.1% of total liabilities. Most of the Bank's liabilities (around 72%) come from the international and domestic money and capital markets. Within that, bond issuance accounted for 70%, and borrowing represented 30%. The stock of liabilities from the MNB amounts to around HUF 164 billion, i.e. 5% of total liabilities. The share of interbank loans was 1% as at the end of 2023. The Bank's equity is another significant element on the liabilities side of the balance sheet, representing 18% of total liabilities.

The Bank's asset coverage (maturity match), as well as the liquidity ratios, present a favourable picture; MFB's stable liquidity position remained in 2023, due to the large fundraising operations.

⁷ The accounting balance sheet includes cash, accounts receivable from central banks and other demand deposits, HUF government bonds, IFRS corrections, other financial receivables, furthermore Central Bank and interbank deposits.

V. The Bank's balance sheet and income statement

The Bank's key 2023 balance sheet data are summarised in the table below⁸:

(HUF million)	31.12.2022	31.12.2023
BALANCE	Actual	Actual
<i>Interest-bearing assets</i>	<i>1,974,683</i>	<i>2,280,665</i>
Liquid assets	221,613	519,337
Loans	1,753,070	1,761,328
Loan portfolio gross (I.)	1,818,492	1,835,455
Impairment of loans, credit securities and deferred receivables	-65,423	-74,127
<i>Non-interest-bearing assets (Equity interests)</i>	<i>754,893</i>	<i>1,036,940</i>
Investments (Interests)	761,918	1,029,571
Impairment of investments (Interests)	-7,025	7,370
<i>Exchange-rate guarantee settlements with the State</i>	<i>183,177</i>	<i>166,085</i>
<i>Other assets (II)</i>	<i>57,224</i>	<i>57,647</i>
Total assets	2,969,978	3,541,338
	0	0
<i>External funds (III)</i>	<i>2,256,124</i>	<i>2,818,041</i>
Short-term funds	67,071	121,790
Long-term funds	2,189,052	2,696,250
<i>Other liabilities</i>	<i>92,213</i>	<i>88,236</i>
<i>Shareholders' equity</i>	<i>621,641</i>	<i>628,815</i>
Total liabilities	2,969,978	3,541,338

⁸ Reconciliation to the balance sheet:

Liquid assets include:

- Cash, balances with central banks and other demand deposits
- Other financial receivables
- Central bank and interbank deposits
- *Government bonds denominated in HUF reported under 'Financial assets measured at fair value through other comprehensive income' and 'Financial assets measured at amortised cost', including forint-denominated government bonds and their IFRS-adjusted amounts*

Total Loans include:

- Loans
- Credit securities, except for Capital fund units recognised among *Non-trading financial instruments mandatorily measured at fair value through profit or loss*

Equity interests:

- Instruments representing an ownership share
- Investments in subsidiaries, joint ventures and associates
- *Credit securities recognised among Non-trading financial instruments mandatorily measured at fair value through profit or loss (Capital fund units)*

Exchange-rate guarantee settlements with the State: Receivables from the state

Other assets: Property, plant and equipment, intangible assets, financial instruments held for trading, derivatives, and other assets

External funds: Financial liabilities measured at amortised cost

At the end of 2023 the Bank's total assets exceeded the previous year-end figure by HUF 571 billion, mainly as a result of the sizeable increase in business activity (volume of loans and investments).

The Bank's equity increased by the balance of the profit and loss account and the change in the valuation reserve.

The differences in the structure of assets compared to the end of the previous year are as follows:

- government securities, central bank deposits and other interbank deposits increased by 134% compared to the end of the previous year, mainly due to the increase in interbank deposits, linked to the growth in the volume of funding,
- total loans and corporate bonds, mortgage bonds were slightly higher than in the previous year. Total loans declined slightly compared to the end of the previous year, but new corporate bond subscriptions compensated for the decline in loans,
- the stock of investments was increased by the subscription of investment units of venture capital funds and the capital increase of MFB Invest Zrt.,
- the assets related to foreign exchange guarantee settlements with the State were mainly affected by a stronger HUF exchange rate.

The Bank's income statement is as follows⁹:

(HUF million)	2022	2023
INCOME STATEMENT	Actual	Actual
Total operating income	54,178	48,440
Income from banking operations	43,073	26,206
Net interest income	37,578	13,701
Dividend income	1,405	8,019
Net commission and fee income	4,090	4,485
Fair value gain/loss on VC fund units	11,105	22,234
Total operating expenses	-8,935	-10,262
Expenses of banking operations	-13,728	-15,061
Expense reimbursement	4,793	4,799
Effect on profit of changes in impairment and provisions	-26,722	-21,918
Other income/expenses	-12,327	-13,915
Profit/loss for the year	6,194	2,345

⁹ Deviations from the income statement:

- In the management report, total operating income and total operating expenses include the revenue and expenses related to the core activity, while other profit and loss from financial assets is presented among *Other items*.
- Total operating income includes the fair value gains on VC fund units from marketable funds measured at fair value.
- *Expense reimbursement*: This is shown in the balance sheet under *Other operating income* excluding the net sales of non-financial and investment services related to previous years.

The Bank's profit for the year was HUF 2.3 billion. In examining the profit items, it should be noted that

- The Bank's net interest income (HUF 13,701 million) was down on the previous year's level due to the repricing of existing loans and the high interest expenses of newly raised funds.
- The Bank has recognised a significantly higher amount in dividends on MKK Zrt.'s 2022 performance than in the previous year.
- The balance of commissions and fees received and paid is higher than in 2022, mainly as a result of the increase in fee income received due to the larger average guarantee portfolio,
- During the year, the accounting gain on market funds measured at fair value was some of the larger items, which improved the overall profit figure by HUF 22.2 billion in 2023.
- Expenses of banking operations exceeded the previous year's level, while the 8.8% increase in personnel expenses was the result of both headcount growth (the total headcount increased by 6, and average headcount by 5.7) and the inflation-linked wage increase, while the level of material expenses increased by 14.2%, mainly due to higher utility, IT and communication costs. The expenses of banking operations are detailed in a separate section.
- The cost reimbursement line mainly includes the reimbursement of costs related to tasks associated with the management of EU funds. Costs reimbursement received in the year under review amounted to HUF 4.8 billion, almost the same level as in the previous year. In 2023, the Bank performed its EU fund management tasks with the same number of FTEs (Full Time Equivalent) as in the previous year, so the reimbursement of personnel costs increased in line with the increase in salaries, but the level of reimbursement of operating costs was lower.
- The amount shown under effect on profit of changes in impairment and provisions stems partly from the obligation to recognise additional impairment/provisions on account of the impact of the economic crisis and partly from the general increase in activity. The changes in impairment and provisions are presented in a separate section.
- In 2023, Other income/expenditure includes the loss recognised for 2023 due to the extension of the interest rate freeze until 1 April 2024, loss due to the agricultural moratorium, and the amount of taxes (including the special bank tax and the extra profit tax).

VI. The Bank's business management in 2023

VI.1. Cost management

The changes in expenses of banking operations in 2023¹⁰ are summarised in the table below:

data in HUF million	2022	2023
Other administrative expenses	-4,050	-4,625
Operating expenses	-510	-863
Communication expenses	-347	-399
Marketing expenses	-1,409	-1,194
IT expenses	-832	-1,024
Vehicle expenses	-163	-194
Expert expenses	-377	-500
Other expenses	-411	-451
Depreciation	-1,318	-1,340
Personnel expenses	-8,360	-9,096
Total expenses of banking operations	-13,728	-15,061
<i>Cost reimbursement by the State</i>	<i>4,793</i>	<i>4,799</i>
Net total expenses	-8,935	-10,262

The rate of increase in Expenses of banking operations is significantly below the annual average inflation rate for 2023; their gross level rose by 9.7% in the year under review.

In line with the expanding headcount due to increased business activity, personnel expenses increased by 8.8% compared to the previous year. The average headcount of the Bank was 391.0 in 2023, an increase of 5.7 compared to the previous year.

In the case of non-personnel expenses, the impact of the general price increase was most pronounced in operating, IT and marketing expenses. Among IT costs, the main increases were in support for IT systems and software licence fees. Within operating costs, in the case of utility expenses, gas costs doubled and electricity quadrupled compared to the previous year. There was also a small increase in advertising costs compared to 2022, mainly due to the costs of the campaign to promote MFB's products.

There was a 33% increase in expert fees compared to the previous year. In addition to hiring experts, which are essential for operations, the main changes compared to the previous year were as follows:

- The development of Green Office Programme continued in 2023.
- The increase in the number of public procurement contracts has also required a higher number of external experts.

¹⁰ In the management report, expenses of banking operations were grouped from a controlling perspective, according to the main connection points, while in the notes to the financial statements the costs were classified strictly on the basis of accounting principles.

- Studies were required in preparation for the new EU programming period 2021-27.
- The preparations for the DHK integration required task implementation and expertise

Personnel expenses and headcount

MFB's active-employee headcount on 1 January 2023 was 387, with an additional 18 employees on the books but not included in the "statistical headcount" (i.e. those actually working). By the end of the year, the active-employee headcount had increased to 393, and the number of inactive employees was 14. The average number of employees of the Bank in 2023 amounted to 391.0.

During 2023, MFB employed 50 students as interns, and in 2023 the Bank spent HUF 76.8 million to provide for the internship programme.

Cost reimbursement by the State

The Bank receives additional reimbursement from the Managing Authority in connection with its EU grant intermediation activities; in 2023, reimbursements of HUF 4.4 billion were recognised for this item, and it receives an additional reimbursement of HUF 0.4 billion for the management of the non-performing loan portfolio for the period 2007-2023 under an agency contract with the Ministry of Finance.

VI.2. Organisation, internal regulation

During 2023, the Bank made one amendment to its Organisational and Operational Regulations to improve, as a key objective, the efficiency of its organisation.

As a result of the modification, inter alia:

- The EU and Business Management Division was discontinued. The Business Division, which incorporates all business areas, was set up to improve the efficiency of processes and decisions, and the use of resources. Thus, lending activities, both directly and through intermediaries, are now centralised within a single department under the direction of a single manager, allowing for the implementation of a single funding concept.
- Within the General Staff Division,
 - the responsibilities of the Strategy and Group Management Directorate were expanded to provide effective strategic support to the strategic decisions and objectives of the Bank and the Strategy Group based on market intelligence, as well as to the product development process in the domestic market and EU markets.
 - the name of the ESG and Business Advisory Directorate has been changed to ESG, Business Advisory and Financial Institutions Relations Directorate, and its responsibilities have been extended to include tasks associated with the management of relations with financial institutions.
 - the Marketing and Communications Directorate operates under the supervision of the Head of the General Staff Division.
- Within the Risk Management Division,
 - the Financial Instruments Control Directorate, in order to clearly separate control tasks from quality assurance and methodology activities and responsibilities, has set up, alongside the Quality Assurance Methodology Department, a Field

Controls Department which is solely responsible for carrying out the audits included in the audit plan.

- the Financial Instruments Closure Directorate has been created, which is also responsible for managing the Irregularity Management Department.
- Within the Financial Division,
 - the Supply and Facility Management Department, which is part of the IT and Operations Directorate, operates under the supervision of the Head of the Financial Division.
 - the Analysis Unit, which is part of the Controlling and Analysis Department, operates under the supervision of the Head of the Financial Division and performs its tasks as an Analysis Centre.
- The 3 (former) departments within the Legal Directorate have been discontinued and the specific legal tasks are now allocated to specific areas.

In the financial year 2023, the Bank's Decision-Making Rules of Procedure was amended once, whereby the list of decision-makers and the powers of the individual decision-makers were revised and

- the Sustainable Financing Committee was set up, whose primary task is to take decisions on raising green and social funds (bonds and loans) and disbursing these funds for green and social purposes,
- the Monitoring Committee was set up to take monitoring-based decisions in respect of clients financed under individual placements at the bank's own risk and of financial businesses involved in the implementation of refinancing programmes.

In the financial year 2023, the Bank's Regulations for Businesses were amended once, confirming MFB Zrt.'s commitment to embracing ESG considerations.

Among other things, the following sections have been updated:

- clients' obligation to provide information,
- the rules on client engagement,
- the rules on refinancing.

VI.3. Capital expenditures in banking operations

The Bank spent a total of HUF 1,914 million on capital projects during the year (capital expenditures capitalised). The main elements of the 2023 investments were as follows:

Digitalisation

- The Darkweb OSINT and Threat Intelligence service was activated to prevent/counter cyber security threats.
- The assessment of Access and Excel based processes and the preparations for their replacement were completed.
- The design of the Single Intermediary System was completed
- Work began to assess the potential for introducing robotics in additional areas to increase efficiency and minimise potential for human error.
- A preliminary assessment of what was needed to ensure compliance with the obligation to implement the EKEIDR document management system, as laid down in the relevant government decree, was launched, with the aim of enabling the Bank to define the requirements for the system.

Developments

- During 2023, significant development capacity was provided by the Bank for upgrading the systems supporting the allocation of EU funds.
- The Bank's procurement and invoice management (invoice tracking and validation) and business planning (BESZT) systems went live.
- The Credit Monitoring System was also put into live operation.

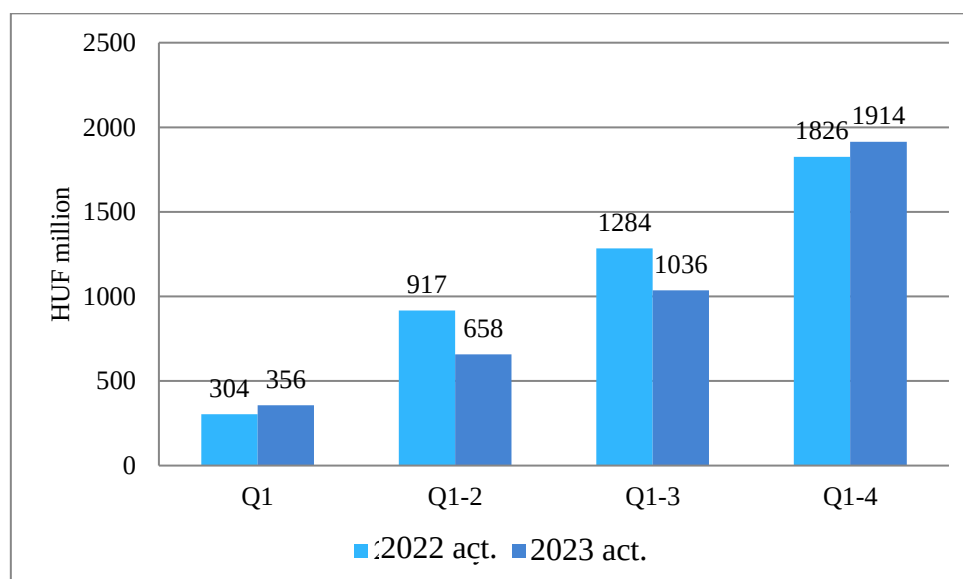
Infrastructure

- The procurement of new equipment (notebooks, monitors, access switches, server environment) was ongoing to ensure the replacement of obsolete equipment.
- Video conferencing equipment was purchased to ensure high technological quality for online conferences and meetings.

Operations

- In 2023, 10 vehicles were purchased to replace obsolete cars and to expand the number of employees entitled to use the vehicles.

The graph below presents the capital expenditures in banking operations:



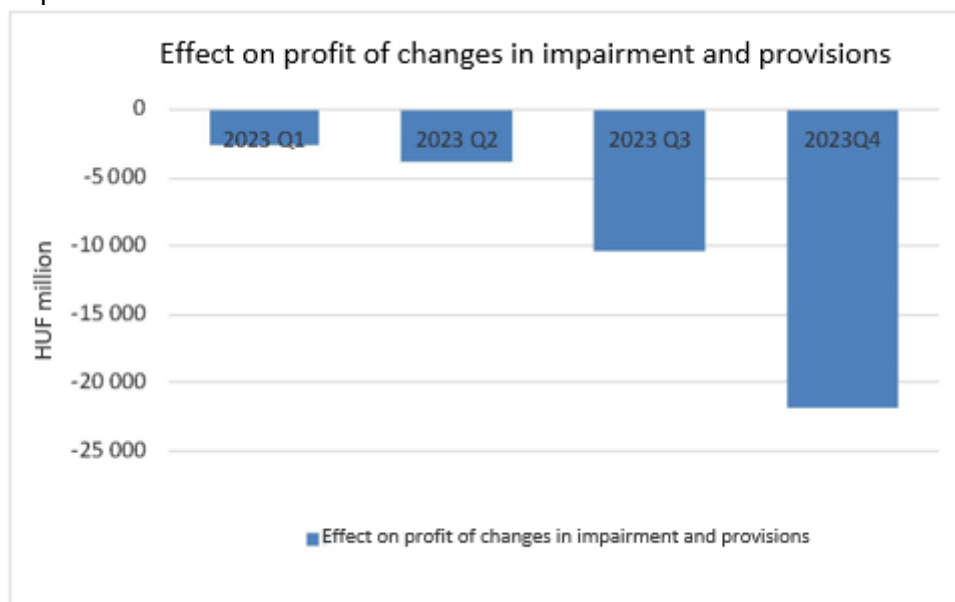
In 2023 the Bank closed 35 public procurement procedures with contracts totalling net HUF 28.9 billion, while another 12 public procurement procedures worth an estimated net HUF 737.7 million were carried over to 2024.

VII. Effect on profit of impairment and provisions, operating loss events

VII.1. Effect on profit of impairment/provisions

The Bank recognised additional impairment and provisions in the amount of HUF 52.8 billion in 2023 to cover the risks in its business portfolio. The change in impairment/provisions – resulting from impairment reversals due to the improvements in the rating/classification of certain items and the repayment of loans – improved the Bank's earnings by HUF 30.9 billion. Overall, the effect on profit of impairment/provisions was HUF 21.9 billion in 2023.

The graph below presents the change of the effect on profit of recognised/reversed impairment/provisions in 2023:



VII.2. Coverage of transactions

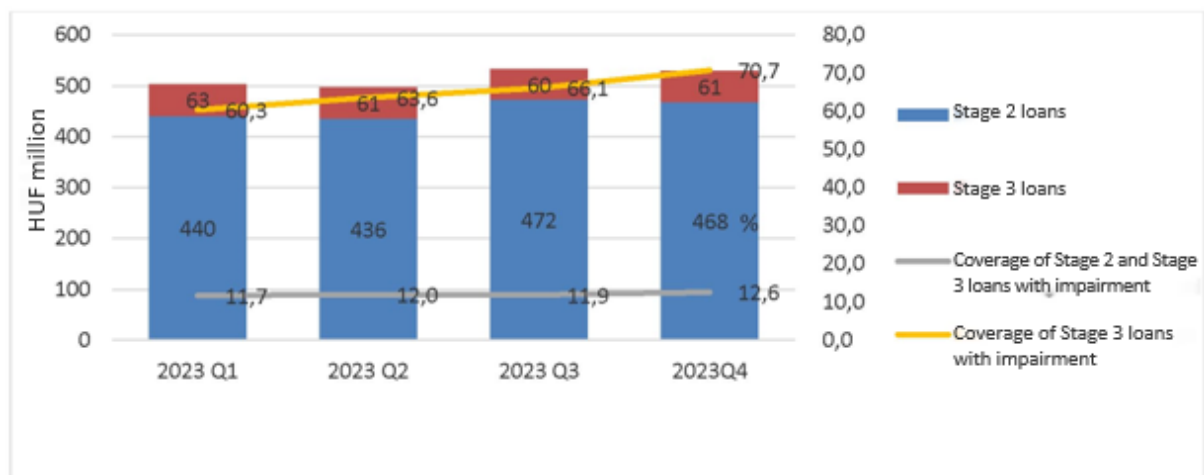
The coverage of transactions is presented broken down into loans and ownership interests.

Adversely classified loans and coverage ratio

The ratio of Stage 2 and Stage 3 loans (non-pass loans) covered by impairment was 12.6% at the end of 2023, while the impairment coverage ratio of Stage 3 loans was 70.7%.

There was a slight shift from the previous year as the ratio of Stage 1 (pass) loans decreased to 63.0% at year end, while the percentage of Stage 2 loans increased to 32.7% and Stage 3 loans increased to 4.3%. The latter is due to some larger exposures denominated in foreign currency and the reclassification of an intermediary partner's exposures.

The graph below presents the changes in Stage 2 and Stage 3 loans and their impairment:



The collateral coverage (collateral value / net book value) of Stage 3 (non-performing loans) was 70,0% at the end of 2023, with the indicator decreasing by 21.1% compared to the end of 2022, due to the mid-year reallocation of Stage 3 loans. A significant change was the reclassification of a portfolio taken over from a financial business to Stage 3 POCI rating, while the entire portfolio was unsecured. In addition, a number of previously secured transactions were closed, which also reduced the coverage ratio.

Coverage of adversely rated investments (equity interests)

The portfolio of equity interests rated below 30% has been reduced to 0 in 2023. The impairment coverage of the portfolio of equity interests with a rating worse than 30% was 100% at the end of the previous year, and that portfolio was derecognised from the Bank's books in 2023: as part of the portfolio clean-up, a 5.8% equity interest in a company with 100% impairment coverage was sold on 8 February 2023, while the liquidation of a company also with 100% impairment coverage was officially completed, thus the equity interests in these companies would also be derecognised from the Bank's books.

In the case of five private equity funds established with contributions from private investors, the total provision for the capital contribution obligation at year-end was HUF 156 million.

Operational loss events

In 2023, the Bank incurred a gross operating-risk loss of HUF 1.17 million. Of this, the largest item (HUF 1.1 million) related to the costs of enforcement, performance and process management (litigation costs, tax audit), with the remainder being incurred due to damage to tangible assets and system error.

VIII. Key ratios illustrating the operations of MFB

Financial indicators

ROA

HUF million, %

		2022	2023	Index
1.	Profit/loss for the year	6,194	2,345	37.9%
2.	Balance sheet total	2,969,978	3,541,338	119.2%
3.=1/2	Return on assets (ROA)	0.21%	0.07%	31.7%

ROE

HUF million, %

		2022	2023	Index
1.	Profit/loss for the year	6,194	2,345	37.9%
2.	Shareholders' equity	621,641	628,815	101.2%
3.=1/2	Return on equity (ROE)	1.0%	0.4%	37.4%

At the end of 2023, both ROA and ROE ratios decreased, mainly due to lower profit after tax than in the previous year. The Bank's balance sheet total increased due to the increase in activity, while its equity remained essentially stagnant.

Cost/income ratio

HUF million, %

		2022	2023	Index
1.	Expenses of banking operations (adjusted for expense reimbursements)	8,935	10,262	114.9%
2.	Net interest and commission income	41,668	18,186	43.6%
3.=1/2	Cost/income ratio	21.4%	56.4%	263.1%

In 2023, net interest income decreased significantly due to the repricing of existing liabilities and the high interest expenses of newly raised funds. The adjusted expenses of banking operations increased, but overall remained below the average annual inflation in 2023. This ratio deteriorated year-on-year.

Leverage

HUF million, %

		2022	2023	Index
1.	Balance sheet total	2,969,978	3,541,338	119.2%
2.	Shareholders' equity	621,641	628,815	101.2%
3.=1/2	Leverage indicator	4.8	5.6	117.9%

Equity stagnated in 2023, while total assets rose in line with the increase in activity, resulting in a deterioration in the Bank's leverage ratio compared to the previous year. The Bank received

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a significant capital contribution from its owner in 2022, while no such transaction took place in 2023, but the Bank still has sufficient equity to operate safely as at year-end 2023.

Liquid assets ratio

HUF million, %				
		2022	2023	Index
1.	Liquid assets	221,613	519,337	234.3%
2.	Total assets	2,969,978	3,541,338	119.2%
3.=1/2	Liquid assets ratio	7.5%	14.7%	196.5%

In addition to the increase in activity in 2023, the significant amount of funding raised was accompanied by an increase in liquid assets, so that their year-end level will provide cover for a further increase in activity or to deal with an unforeseen liquidity emergency situation. The Bank keeps the portfolio of securities suitable for repo transactions permanently above the level of liquidity reserves required by the regulations.

Activity indicator

HUF million, %				
		2022	2023	Index
1.	Loan portfolio + Credit securities + Equity interests	2,507,963	2,798,269	111.6%
2.	Balance sheet total	2,969,978	3,541,338	119.2%
3.=1/2	Business portfolio ratio	84.4%	79.0%	93.6%

The Bank's portfolios of loans, corporate bonds and equity interests increased significantly in 2023, but its total assets rose to an even greater extent, due to the increased amount of funds raised, which resulted in higher interbank items on the assets side until the actual disbursement to clients took place.

Non-financial indicators

Headcount management

persons, %				
		2022	2023	Index
1.	Closing headcount	387	393	101.7%
2.	Average headcount	385	391	101.5%

In 2023, despite the natural staff turnover, both the Bank's closing and average headcount increased slightly and thus it was higher than in 2022.

Announced MFB programmes and sub-programmes

no., HUF billion, %				
		2022	2023	Index
1.	MFB programmes (no.)	6	4	66.7%
2.	Total programme funds (HUF billion)	224	109	48.7%

At the end of 2023, the following four loan programmes funded by MFB Zrt. were available:

- MFB Széchenyi Microcredit Refinancing Programme 2.0 announced for refinancing the Széchenyi Microcredit MAX and MAX+ scheme of KAVOSZ Zrt. (announced budget: HUF 80 billion)
- MFB Agri Working Capital Loan Programme 2020 (announced budget: HUF 15 billion)
- MFB Food Industry Working Capital Loan Programme 2020 (announced budget: HUF 6 billion)
- MFB TÉSZ Working Capital Loan Programme 2020 (announced budget: HUF 8 billion)

Of the above, the deadline for loan application in respect of the three agricultural working capital loan programmes (MFB Agricultural Working Capital Loan Programme 2020, MFB Food Industry Working Capital Loan Programme 2020, MFB TÉSZ Working Capital Loan Programme 2020), was 30 November 2023 (contracting date: 31 December 2023). The renewal of the latter three loan programmes has been initiated and the related discussions are underway between the Ministry of Finance and the Ministry of Agriculture.

- In addition to the above four loan schemes, the MFB Energy Efficiency Loan Programme for Businesses was announced on 29 December 2023; the effective date of the product documentation is 8 January 2024.

Announced EU programmes

		no., HUF billion, %		
		2022	2023	Index
1.	EU programmes (no.)	29	30	103.4%
2.	Total EU programme funds (HUF billion)	1013	1236	122.0%

The gross increase in 2023 was due to the fourth sub-product of the GINOP 8.3.5-18/B loan product.

IX. Risk management activities

The Bank's organisational unit that performs a risk control function is responsible for defining the Bank's risk strategy, policies and methods, enforcing external and internal limits and controls, and ensuring and reviewing adequate execution both internally and through intermediaries. Accordingly, the Bank lays down risk governance principles and also performs a coordinative supervisory function among the companies where it holds an ownership interest or exercises shareholder rights. Notwithstanding the exemption from the internal capital adequacy assessment process provided for in Section 97 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, as set out in Section 8(2) of the MFB Act, the Bank comprehensively reviews, in compliance with the principles set out in the Internal Capital Adequacy Assessment Process (ICAAP), the components of the Bank's risk management framework (Enterprise Risk Management, hereinafter "ERM") and the efficiency of their systemic operation. As part of the ERM the Bank has in place the lines of defence required by the MNB. As a result of effective risk management activities, the Bank is able to identify, measure and manage its key risks, and thus achieve the business objectives set by its owner and support economic development, which is defined as its fundamental task. The entire risk management functionality is integrated into the Bank's processes with the exception of the last phase of workout activities, which is performed by the group's dedicated competence centre, a subsidiary specialised in this field (MKK Zrt.).

Credit risk (risk of default)

Credit risk, as a collective term, includes all risks of default, including customer risk, counterparty risk and investment risk if the shortfall of the result of an investment from the business plan causes the Bank a financial loss.

The preparation process for exposures (risk-taking) is defined in the internal regulations on risk assumption, during which the Bank identifies the risks of the transactions and verifies the borrowers' ability to repay the loan.

In 2023, the Bank quantified the capital requirement for credit risk using the standardised approach in Pillar 1 in accordance with Regulation (EU) No 575/2013, and in Pillar 2, as a small institution, followed a method based on the capital requirement set out in Pillar 1, and measures whether an additional capital requirement is required due to the type of risk not included in Pillar 1. The capital requirement for credit risk was HUF 298,034 million as at 31 December 2023.

Operational risks

The Bank's framework for efficient operational risk management is based on adequate internal governance, which ensures that risk management policies, internal regulatory documents and systems remain sufficiently effective in the continually changing business and regulatory environment.

The Bank meets the own funds requirement applicable to operational risks in accordance with the basic indicator approach, according to which the Bank's operational risk capital requirement was HUF 7,467 million on 31 December 2023.

Market risk, FX risk

In the management of FX risks the Bank places the emphasis on the open position held at its own risk. The absolute value of the open position amounted to 5.04% of the own funds on 31 December 2023, while its net value amounted to 2.68% of the own funds.

The Bank uses stress tests to measure the losses expected in the event of an extreme shift in exchange rates. Because of the relatively small net open position, the outcomes of the stress tests also suggested a relatively small potential loss.

HUF million	31.12.2023	31.12.2022
Absolute value of open FX position	31,592	20,779
Stress test (10% exchange rate shift)	3,159	2,078
Limit (5% of own funds)/25 bn. HUF	25,000	25,000

There are no risk exposures for trading purposes. The transactions entered into by Treasury are regarded as transactions for hedging, liquidity management or limit maintenance purposes. The VaR of the positions held on 31 December 2023 amounts to a mere 0.06% of the Bank's own funds.

Date	VaR (HUF million)	
	Value	Limit
31.12.2023	442	6,273
31.12.2022	720	4,526

The capital requirement of FX risk was HUF 1,619 million on 31 December 2023.

Residual risk

Residual risk refers to the risk that the credit risk mitigation (CRM) procedures recognised in capital requirement calculations are not as efficient as stated. The customer must have collateral values reviewed by an independent appraiser approved by the Bank at the frequency specified in the relevant agreement. During its loan monitoring activities the Bank regularly inspects the collaterals behind transactions that involve an exposure; residual risks are managed as part of the monthly and quarterly rating/classification of outstanding loans, by recognising impairment and provisions to offset any decrease in coverage.

Concentration risk

Limit systems are the essential tools for managing concentration risks. The Bank manages concentration risks not only at bank level but also at the level of the MFB Group. The concept of large exposures to a single client or client group is governed by Regulation (EU) No 575/2013, while the limits of such exposures applicable to the Bank are regulated in the MFB Act. The Bank applies a set of sector limits to sectoral risk groups in the same monetary position based on the aggregate financial data of industry sectors.

By calculating a commonly accepted statistical measure of concentration – the Herfindahl-Hirschman Index (HHI), where on a scale of 0 to 10,000 a value below 1,000 indicates low concentration, a value in the 1,000-1,800 range means medium concentration and a value above 1,800 means high concentration – the Bank regularly checks whether the sectoral concentration of direct exposures remains within the standard limits. The index stayed in the average-risk range throughout 2023.

Country risk

Prior to international financial transactions the Bank sets a country limit for all countries where the counterparty entity (or, in the case of foreign branches, the parent entity) is registered. The country limit is the aggregate of the political and economic risks that the Bank can take in

respect of the given country (and the financial institutions registered there). Due to the non-material volumes, MFB had minimal country risk in 2023.

Interest rate risk in the banking book

The basic principle of the Bank's interest rate risk management policy is that the Bank manages interest rate risks preventively; in other words, it tries to provide funding for its loan programmes and disbursements that is the best match in terms of reference rate, repricing period and maturity. As part of the management of interest rate risks the Bank enters into hedging deals if necessary.

Interest rate risk positions are quantified by currency using the basis point value (BPV) method as well as by assessing the impact on short-term profitability (scenario analysis). The interest rate risk exposure of USD can be said to be marginal.

HUF million		
31.12.2023	1 bp	1%
HUF	-145.46	-14,546
EUR	- 13.89	-1,389
Total	-159.35	-15,935

The Bank employs stress tests (mild and strong stress) to evaluate the potential impact of exceptional (extreme) but possible events; thanks to the repricing match, these tests indicate a low-risk exposure.

Date (End of the year)	Mild stress test				Strong stress test			
	HUF + 1 %	EUR + 0.25%	Total	Limit	HUF + 3 %	EUR + 1%	Total	Limit
2023	-2,493	+550	-1,943	-18,818	-7,479	+2,200	- 5,279	-50,181
2022	- 910	+ 137	- 773	-13,578	-2,731	+ 550	- 2,181	-36,208

Liquidity risk

The purpose of the liquidity reserve policy is to ensure that sufficient liquid assets are available to the Bank to cover unexpected cash outflows at any time. The Bank is prepared in every regard to handle extraordinary liquidity situations adequately and safely, and has a recovery plan.

Under Section 8(2) of the MFB Act, the provisions of Articles 411-428 of Regulation (EU) 575/2013 do not have to be applied to MFB. The Bank, however, calculates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and compliance with the ratios is considered a priority in liquidity management.

In addition to the above, the Bank also uses structural GAP limits (which are set for maturity bands) in liquidity management, and also conducts 90-day survival analyses according to normal and stress scenarios.

Counterparty risk

To quantify the capital requirement of counterparty risk the Bank employs the original exposure method defined in Article 282 of the CRR.

When the original exposure method is employed, the potential exposure of an individual transaction is the notional value of the transaction multiplied by:

- the product of the time-to-maturity of the transaction, expressed in years, and 0.5% in the case of interest rate derivatives;
- 4% in the case of FX derivatives;

The Bank uses the standardised method described in Article 384 of the CRR to calculate the own funds requirement of the credit valuation adjustment (hereinafter “CVA”) risk related to counterparty risk. Under the bilateral agreements concluded with its counterparties the Bank exercises its right to add collaterals accepted for risk mitigation, and revalues them regularly. The capital requirement of the CVA was HUF 2 642 million on 31 December 2023 (HUF 505 million in 2022).

Strategic risks

The Bank manages strategic risks – which arise from changes in the business environment, making incorrect business decisions, adopting a high-risk business model or ignoring the changes in the business environment – by drawing up a medium-term comprehensive business strategy for 2021-2030 and reviewing and updating its risk management strategy and policy annually. The viable, safe and sustainable implementation of the business strategy is supported by functional sub-strategies. In its risk strategy MFB consciously moves toward risks that are larger but can be assumed prudently; at the same time, the increase in risk appetite and risk tolerance is balanced out by increasingly advanced risk management methods, improvements in risk-taking and risk mitigation techniques and continuous risk monitoring.

Risk arising from the economic environment

The Bank assesses the risks arising from changes in the economic environment by developing credit risk stress scenarios and analysing their potential impact on capital position and profits. In its 2023 analysis, the Bank covered all possible stress scenarios.

Risk arising from the regulatory environment

The Bank adapts to the risks arising from changes in legislation. It informs its shareholder in a timely manner about the expected effects of the planned changes on the Bank, and manages the related risks during capital planning. Due to the moratorium introduced to help mitigate the effects of the COVID19 crisis and the impact of the war emergency in Hungary, the Bank assessed its larger exposures individually and, where necessary, created additional impairment.

X. Audit

Internal Audit completed and issued 18 planned audit reports during 2023; there were no unplanned audits in 2023. 6 of the planned audits had been initiated as early as in 2022, based on the previous year's plan.

15 of the 20 audits scheduled in the 2023 plan were completed. One audit (EU funds management back-office processes – execution of venture capital, loan / financial transactions) was deleted from the annual plan, ¹¹with the approval of the Supervisory Committee, on the basis of duly justified reasons.

Four audits are ongoing and are likely to be completed in Q1 2024.

The time spent by the Internal Audit Directorate (BEI) to contribute to the MNB Comprehensive Audit of 2023 exceeded the planned timeframe, with the additional time being charged to the timeframe allocated to unscheduled audits.

The BEI reported to the Supervisory Board, on an ongoing basis and in detail, on the findings and observations gained during the internal audit and provided a quarterly summary to the Supervisory Board on the management and follow-up of audit-related tasks.

The risk assessment of the Bank's processes in respect of the year 2023 was completed and the BEI's work plan for 2024 was prepared, and approved by the Supervisory Board.

The Group-level Internal Audit Guide and the Manual were revised in the second half of 2023, and the revised regulations came into force after being reviewed within the Bank and approved by the Supervisory Board and the Board of Directors.

During 2023, the BEI supported the development of the Bank's internal regulatory environment and the development of new products by issuing opinions on 139 regulations. Also, the BEI issued preliminary opinions on all of the Supervisory Board and Audit Committee proposals. In the context of its advisory activities, the BEI consulted on an ad hoc basis with the various departments, in particular IT and Information Security.

¹¹Based on interviews with department managers, the deadline for the completion of tasks related to the closing of the 2014-2020 period has moved to 31 March 2024. The development of products, processes and regulatory environment for the 2021-2027 programming period is currently underway, so a meaningful analysis of back-office processes is not yet possible.

XI. Compliance

In accordance with international and Hungarian regulations and recommendations, the Bank operates a separate organisational unit (Compliance Directorate) to identify and manage compliance risks; the Directorate performs its tasks based on the compliance risk management methodology, the compliance bylaws and the compliance work plan.

Each year the Compliance Directorate prepares a comprehensive report for the Board of Directors and the Supervisory Board on the Bank's compliance activities and position, which includes the identification of compliance risks, an assessment and analysis of their impact, details of the required action plans, and an account of the monitoring of the results of these actions.

In addition to general compliance responsibilities (e.g. preventing money laundering and terrorist financing, preventing market abuses, ensuring compliance with conflict of interest rules, monitoring changes in legislation), the Compliance Directorate also performs other operational tasks to ensure adherence to ethical standards and rules of conduct, the objectives of which include ensuring the fair treatment of customers and integrity, a general prohibition on corruption and gifts, compliance with the key requirements pertaining to ethics, conduct and behaviour during work.

Operating compliance processes contributes to prudent operations, the reduction of reputation risks and the strengthening of corporate culture.

The Compliance Directorate discharged its regulatory, operational, training, consulting, risk assessment and control tasks set out in its 2023 Work and Audit Plan, in particular in the areas of anti money laundering and sanctions compliance, internal credit monitoring, complaints management and conflict-of-interest compliance.

XII. Marketing activities

Throughout 2023, MFB effectively and efficiently supported the economic development policy aimed at putting the economy on a growth path and stabilising it. It was a priority to support this activity through marketing and communication tools, in view of the expected launch of domestic and EU funding programmes for a broad range of target groups in 2024. Sustainability was also a key theme during the year, setting a new direction for the Bank's operations and vision, both in terms of communication and in-depth professional work. In addition, the implementation of the communication tasks related to the timely and efficient disbursement of the remaining funds available in the 2014-2020 EU funding cycle and the closing of the cycle was also very important. In both cases, the Bank completed its tasks planned for 2023 with results that would provide a solid basis for the smooth launch and awareness building of the network of financial intermediaries (MFB Pont Plus) and financing products planned for the 2021-2027 funding cycle.

In 2023, the Bank significantly strengthened its presence on national news portals and professional forums. The number of appearances related to MFB's activities was several times higher than in 2022, and the media impact index and variety indicators also showed a significant increase.

During 2023, MFB's Marketing and Communications Directorate produced and published 27 podcasts, and through its content-centric partnership with the television programme *Magellan*, it placed important material on commercial television platforms and generated and published a number of articles and other content supporting businesses on the website Összetartók.hu (*'We Stick Together'*).

During the year, MFB was represented through its featured speakers at several national conferences and made its mark in areas where it has an indispensable and key role to play in economic development. The related press coverage has invariably been positive or objective in its assessment of MFB's achievements. In 2023, the Bank also hosted a conference to showcase its commitment to sustainability and ESG efforts.

Throughout the year, MFB placed a strong emphasis on communicating its achievements in the area of corporate social responsibility, with notable results in reaching out to target groups relevant to the Bank, displaying the values of MFB as a state-owned development institution and its corporate social responsibility.

In this context, it is also worth mentioning that MFB was featured for the first time since 2018 in a TV spot broadcast by commercial television. The commercial, which highlighted MFB's social responsibility and commitment to sustainability, was aired on television and online platforms with great success during November-December.

The MFB Podcast series features the work of seventeen Junior Prima award winners (MFB award winners) and the sector also launched 10 other professional podcasts during the year.

XIII. Sustainability, corporate social responsibility

In 2023, the Bank remained committed to be at the forefront of promoting good practices and approaches in terms of sustainability and to start developing a range of “green & social” loans, investments and other financial products linked to environmentally relevant objectives, by reviewing its previous lending and investment practices from a sustainability perspective. As part of this, the ESG and Business Advisory Directorate (current name: ESG, Business Advisory and Financial Institutions Relations Directorate) was established in April 2022; this department coordinates the sustainability-related tasks within the bank, including coordinating ESG strategy development, informing senior management and decision-makers on ESG issues, and supporting product development and fundraising activities from an ESG perspective. In addition, it plays an important role in promoting an ESG approach within the Bank, coordinating compliance with the MNB’s Green Recommendation, which covers all aspects of banking operations, supporting the ESG data collection and reporting process and ESG-related activities of the different departments, and communicating on sustainability issues with the members of the MFB Group, as well as with public, market and financial actors, institutions and rating agencies, whether domestic or international.

Generation and publication of a Sustainability (ESG) Report:

MFB Zrt. prepared and published its ESG (Sustainability) Report for the second time in 2023, this time focusing on the Bank’s sustainability and ESG activities and achievements in 2022. The Bank further strengthens its commitment to ESG principles with the publication of the Report, which summarises its sustainability achievements for 2022. MFB Zrt. has published the key findings, results and indicators based on the first report published in 2022, addressing the relevant topics across the organisation that have been defined according to the reporting guidelines of the Global Reporting Initiative (GRI), in a way that is accessible to all stakeholders. The Report also includes several references to the UN’s Sustainable Development Goals and Sub-Goals under the main topics, demonstrating our Bank’s contribution to advancing global initiatives.

Developing a Sustainable Finance Framework:

In 2022, the Bank completed its Sustainable Finance Framework, which provides a unified framework for managing the Bank’s sustainability-related green and socially-focused lending targets for its placements, including both the eligibility categories and exclusions for these targets. Furthermore, it also provides guidance on the assessment and selection of eligible projects, the rules for the use of funding and the content of the annual public reporting on disbursements made in accordance with the conditions of the Framework. A Second-Party Opinion (SPO) on the Framework was completed in February 2023, whereby Sustainalytics Morningstar certified that MFB met the expectations of the Standards and market practices with regard to the content of the eligibility criteria, its internal processes and related procedures. As part of the preparations for raising funds under the Framework, the ‘green’ and ‘social’ items (transactions/projects) selected for potential allocation under the Framework based on the eligibility categories ‘green’ and ‘social’ were assessed. In respect of the items selected and registered (allocated) according to the eligibility categories, the Bank is required to continuously measure and collect data on the impacts generated, in addition to the allocation. In 2023, the Sustainable Finance Committee was established within the Bank to monitor the financing portfolio that is eligible and can be financed and allocated from funds raised under the Sustainable Finance Framework.

Bank-wide compliance with the MNB Green Recommendation:

The Bank continued to implement the tasks set out in Recommendation No. 10/2022 (VIII.2) of the National Bank of Hungary on “climate-related and environmental risks and the integration of environmental sustainability considerations into the activities of credit institutions” (hereinafter: Green Recommendation), involving the relevant areas, in accordance with the action plan undertaken. The aim is to integrate sustainability-related banking activities into the operations and processes of existing organisations in the medium term. In accordance with the action plan formulated on the basis of the recommendation, a risk management strategy and policy has been approved, the climate change risks and environmental risks have been defined.

The integration of ESG risks into the overall lending process of the Bank requires significant efforts across the Bank’s organisation and the development of new professional competencies, and the Bank launched a separate project to address this in 2023, under overall professional coordination by the Business Area.

In addition to providing appropriate information to senior management, the Bank also provided employees with training opportunities with a focus relevant to sustainability (e.g. MFB Academy training programmes were developed for employees on current sustainability issues, and the e-learning exam system now includes ESG considerations and the Bank’s Green Office programme). In addition, ESG topics are published and continuously updated in a dedicated section of the Bank’s renewed intranet platform (Green Zone) to help effectively develop an ESG mindset among Bank staff.

Emissions from the Bank’s own operations and reducing these

The Bank does not itself carry out environmentally damaging activities, and gives emphasis in its product portfolio to loan objectives that finance environmental investments. The Bank does not conduct any research or experimental development activities of its own; the elements of product development are described in detail in the section on lending. In order to strengthen the Bank’s role as a responsible employer and reduce MFB’s own emissions, an action plan based on an assessment of the environmental impact of the Bank’s office operations was in progress during the year in the framework of the MFB Green Office Programme (as a result of a certification process involving an external expert, the Bank was authorised to use the Green Office trademark in 2022), taking into account employee input. In connection with the programme, the Bank’s CO₂ emissions have been determined since 2021 by measuring its carbon footprint in line with international standards, which will constitute the basis for operational improvement plans to reduce Scope1-2 emissions. The Bank’s overall carbon footprint in 2022 was reduced by 10% compared to 2021, demonstrating the success of the Bank’s sustainability efforts in recent years. Within total emissions, MFB Zrt.’s own direct (Scope 1) emissions decreased by the highest percentage (-19%); in 2022, thanks to savings measures, the Bank was able to reduce its energy consumption by 21% compared to pre-COVID 2019, even while its office buildings were operating at full capacity.

Responsible employer

In its human resource policy the Bank is committed to condemning any form of discrimination – based on sex, age, religion, race, political or trade union affiliation, language or other differences – and respecting the rights of the disabled.

MFB directly supports the development of communities, the promotion of financial literacy and the creation of opportunities. Respect for human rights is an important consideration with regard

to both business partners and employees, and the Bank places great emphasis on this issue in its regulations, the organisation of its operations, its communication, and its complaint handling processes. The Bank does not have a separate diversity policy applicable to the managing and supervisory bodies, as it is partly defined in the Code of Conduct and Ethics.

MFB has a long-standing commitment to work-life balance, as a result of which it has developed and implemented measures to support work-life balance even more effectively, in line with the amendments to the Labour Code published at the beginning of 2023. A new element among these measures was the introduction of recreational leave. In addition, measures mainly related to exceptional family events, and more favourable than those provided for in the Labour Code, have been implemented, such as paternity leave, bereavement leave following the death of a family member, or reduced working hours for family caregivers.

On the basis of an operating licence obtained in 2022, for more than a year the Bank has been successfully operating the ‘MFB Aprófalva’ (‘Toddlersville’) workplace nursery, which provides nursery education and care for the children of our employees with young children of nursery age, with a steadily increasing number of kids.

Supporting high quality work and job performance, improving employees’ mental wellbeing and employee satisfaction and retention, and building community are also HR priorities. As part of its mental health support programme, the Bank facilitated several personal, individual and group competency development training sessions to help develop positive attitudes related to crisis and change management and to shape employee mindsets (stress management, tapping inner resources, awareness and practice of coping mechanisms) in 2023.

To promote community building, the Bank organised joint outings to provide an opportunity for its colleagues to get to know each other and to strengthen cooperation between departments. In addition to building a community, increasing a sense of belonging and spending leisure time together, the focus in 2023 was also on relieving fatigue and stress caused by the daily grind, restoring working capacity, and improving and supporting the physical, mental and spiritual performance of employees, which the Bank ensured by organising small group exercise sessions (yoga and back exercises).

The MFB attaches great importance to obtaining a real-time and complete picture of employee satisfaction at regular intervals, and therefore conducted an MFB satisfaction survey in the second half of 2023 with a high participation rate.

Corporate social responsibility

In 2023, MFB Zrt. remained a committed supporter of the St. Martin’s Child Rescue Foundation. Three new ESG-CSR themed films in the series ‘Life-saving Parents’ were produced on the topic of accident prevention, in cooperation with the St. Martin’s Children’s Rescue Service, with support from the grant scheme, achieving a high viewership rating. Also in cooperation with the St. Martin’s Children’s Rescue Service, a mobile application, unique in Hungary, is being developed to help current and future parents prepare for emergencies.

The Bank continues to be a committed supporter of the Hungarian science category of the Junior Prima Prize established jointly with the Prima Primissima Foundation, for which it has provided funding since 2007.

In accordance with the “corporate tradition” established in previous years, a Christmas fundraising campaign was again carried out in 2023 with the involvement of MFB employees

for the Ecumenical Charity Service, collecting non-perishable food items, cleaning and toiletry products, sweets and gifts for children (toys, books, etc.), which were boxed and delivered with the help of the Bank's employees. The Bank supplemented the collection of employees with donations of non-perishable food. In addition to the collection and delivery of material and food donations, the Bank also participated in the personal donation of gifts to children from deprived communities or families in need, who are among the target groups of the Ecumenical Aid Organisation.

XIV. Audits by external organisations

The processes of the Comprehensive Audit conducted by the MNB at the Bank in 2023 were completed without any problems, both in terms of data provision and on-site and Teams interviews. Comments on the MNB's Draft Report were also submitted by the deadline and the final Report/Decision is expected to be released in March 2024. The usual annual MNB Prudential meeting for the Bank as a whole was held on 27 November 2023, in an orderly manner.

Based on previous external official audits regarding the implementation of the financial instruments, the execution of the various measures stipulated in the various reports for MFB Zrt. as a Fund of Funds Implementing Entity had been continuous, with the Bank having prepared the reports on its activities by the deadline prescribed by law.

XV. The 2024 business policy concept of MFB

The activities of MFB Zrt. as a development bank will continue to complement the operations of the Hungarian banking sector in 2024 through the Bank's involvement in financing transactions that would not take place on a market basis but that are desirable for the national economy.

The core mission of MFB Zrt. is to support domestic economic development, address market failures and provide market players with financing under favourable terms and conditions that enable investments and development projects.

In 2024, the activity of the MFB Zrt. as a development bank will continue to supplement the operation of the domestic financial system through its participation in financing transactions that although not implemented on a market basis, are still desirable in terms of the national economy. Based on the representative MFB-INDIKÁTOR questionnaire survey conducted among businesses in autumn 2023, the Hungarian economy has an unmet lending gap of around HUF 520 billion (including investment loans, working capital loans and overdraft facilities), which offers reasonable returns. The size of the gap measured in the investment credit market, which is a priority area for monitoring, is estimated at HUF 400 billion, the gradual filling of which is a justifiable task, in line with EU principles as well.

MFB Zrt. sees 2024 as the year of financial stability and maintained activity, and its goal is to maintain the financing of the economy by providing the necessary funding, ensuring a stable background for businesses.

The most important objectives for 2024:

- **Economic development:** In the midst of global financial and economic difficulties, the aim is to support the relaunch of economic growth, provide funding to address economic imbalances/deficiencies and take over part or all of the credit and capital risks from the market.
- **EU funds management:** To complete and accelerate the disbursement of EU funds under the RRF and the 2021-27 programming cycle
- **MFB-funded business activity:** To continue to expand MFB-funded lending in 2024
- **Stable banking operations:** To ensure the stability and profitable management of the outstanding stock following the significant new commitments of over HUF 4,500 billion in 2021-2023.
- **DHK integration, phase I:** Preparations for the integration of Diákhitel Központ Zrt. (Student Loan Centre) into MFB in the framework of the operation of the student and training loan system, and as part of this, the outsourcing of certain tasks to MFB Zrt. in 2024.
- **Creating sustainable profitability:** Implement measures to achieve medium-term profitability.
- The goal is to maintain the stability of the Hungarian economy in the face of global financial and economic difficulties, to facilitate the financing of businesses, and to ensure the continued availability of loan, guarantee and capital financing.

MFB' Zrt's main product development responses to the energy crisis are as follows:

- Within the loan programmes funded by itself, the Bank intended to focus on financing energy efficiency by further expanding the range of eligible borrowers and eligible loan objectives. In the future, the Bank intends to provide access to loan programmes not only through direct MFB lending or refinancing of credit institutions, but also through refinancing of financial businesses.

Nevertheless, in 2024 the Bank must continue to allow for financial and business risks that may affect the success of the business plan, including the protracted impact of the war, financial market volatility, interest rates that are higher than pre-crisis, the returns on the subsidiary portfolio, the timely implementation of capital fund placements and the challenges of renewing channels and products. Managing these risks will remain a key task in the future.

XVI. Events after the balance sheet date

All adjusting events after balance sheet date have been taken into account in the preparation of the Bank's financial statements.

In line with the transformation concept - relating to the private equity funds that is extremely important both for economy development and for governmental purposes - that had been coordinated by the Nemzeti Tőkeholding Zrt. (National Capital Holding) above whom Ministry for National Economy (NGM) exercises the shareholders rights directly, NGM has issued a shareholder's resolution number 4/2024. (II.19.) that the management of MFB Corporate Investment and Transaction Private Equity Fund (founded 100% by MFB) have to be taken over from Hiventures Zrt. that is a part of the MFB Group to Focus Ventures Zrt. belongs 100% of National Capital Holding. The date of the shareholder's resolution was 19 February 2024, the takeover anticipated in the first quarter of 2004. This will result that the status of the MFB Corporate Investment and Transaction Private Equity Fund will change from subsidiary to associated company.

Budapest, 8. April 2024

Dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Tamás Péter Vojnits
Managing Director

Corporate Governance Report

2023

Budapest, 8. April 2024

Introduction

Pursuant to Section 95/B(1) on the business report under Act C of 2000 on Accounting, any business whose negotiable securities have been admitted for trading on a regulated market of a Member State of the European Economic Area is required to publish a Corporate Governance Statement in its business report.

MFB Hungarian Development Bank Private Limited Company (hereinafter: MFB Zrt., Bank or the Company) is thus required to publish a statement with respect to the bonds it issues.

MFB Zrt. has published the following report on its corporate governance practices during the 2023 financial year.

The Company's internal system of governance and control is based on the Recommendations and Proposals for Corporate Governance, approved by the Budapest Stock Exchange on 8 December 2020. The corporate governance principles defined in the Recommendations have been adopted by the Company without any material differences.

It must be, however, taken into consideration that MFB Zrt. is a single-member private joint-stock company, where, on the basis of Section 1(2) of Act XX of 2001 on Magyar Fejlesztési Bank Részvénytársaság (hereinafter: MFB Act) and Section I of Annex 2 of Act CXCVI of 2011 on National Assets, 100% of the shares representing the Company are exclusively owned by the Hungarian State. Any alienation of the shares or offering of the same as security shall be deemed null and void. As part of its responsibilities under Sections 3(1) to (4a) of the MFB Act, the Company is required to proceed, both independently and in cooperation with other Hungarian and international organisations, in accordance with the requirements of transparency, expediency, economy, efficiency and prudence, with a view to securing the development funds required to achieve the economic development objectives defined by the medium and long-term economic strategy of the Government. The Company shall act on behalf of its sole shareholder, the Hungarian State. The objectives of the State and the acting Government are set out by the law or conveyed to the Company by a Government Resolution.

MFB Zrt. – as part of its responsibilities under in Section 3 (3) of the MFB Act – was a fund management organization in the 2007-2013 programming period, and in the 2014-2020 programming period is the implementing organization of the fund of funds, and in the 2021-2027 programming period will be the holding-fund implementing entity of the cohesion fund, while with regard the resources of the Recovery and Resilience (Resilience Building) Instrument will be the implementing body of the financial instrument, during which MFB Zrt. will dispose of the resources made available to in its own name, but the benefit of the Governing Authorities (National Authority). Accordingly MFB Zrt. keeps separate register of the sources of programming periods, but these registers do not form part of the Bank's balance sheet.

The shareholder's (owner's) rights of the State over MFB Zrt. shall be exercised by the Minister responsible for supervising state assets. On the basis of Section 103 (1) 8 of Government Decree No 182/2022 of (V.24.) setting out the duties and competences of the members of the Government, the Minister for Economic Development assets is a member of the Government, responsible for supervising state assets (hereinafter: the person exercising shareholder's rights).

The person exercising shareholder's rights shall issue the founder's resolution for the Company, thus determining the Company's strategic decisions. In a founder's resolution, the person exercising shareholder's rights shall require the Company to carry out the tasks set out in the Government's resolutions. The person exercising shareholder's rights shall decide on the selection, appointment,

recall and discharge of members of the Board of Directors, members and the Chair of the Supervisory Board and the Chief Executive Officer heading the Company's work organisation under an employment contract.

Pursuant to Act CXXII of 2009 on publicly owned companies (hereinafter: Kgtv. Act), MFB Zrt. is a publicly owned company.

For the purposes of the provisions of the Kgtv. Act, the Company is treated as a company of priority importance for the national economy.

In other words, MFB Zrt's corporate governance practices are determined by the economic development objectives set in the Government's medium and long-term economic strategy, its classification as a company of priority importance for the national economy, the characteristics of being a single-member private joint-stock company and the provisions of the MFB Act and the Statutes of MFB Zrt.

Based on its size and the number of its employees, the Company is a large enterprise. It has a formalised operation. In addition to Act CCXXXVII of 2013 on credit institutions and financial companies (hereinafter: Hpt. Act), the Company's Statutes and the provisions of the rules of procedure of the Board of Directors and the Supervisory Board, the governance and functioning of the Company are determined by the remuneration policy, which is under the competence of the person exercising shareholder's rights, and internal regulations required by EU and national legislation and provisions applicable to credit institutions.

1.1 A brief presentation of the operation of the Board of Directors / Governing Board, and the distribution of responsibilities and tasks between the Board of Directors / Governing Board and the management.

The Board of Directors is the Company's managing body. Members of the Board of Directors are the Company's executive officers.

The Board of Directors consists of 5 members. Members of the Board of Directors are appointed – for a 5-year term – and recalled by the person exercising shareholder's rights. The Board of Directors is headed by its Chair. The Chair of the Board is elected by the Board members from among themselves. During the term of his or her mandate, the CEO shall be a member of the Board of Directors, without a specific decision by the person exercising shareholder's rights. Notwithstanding the term specified in Article 14(4) of the MFB Act, the CEO shall remain a member of the Board for the entire duration of his or her mandate. In the event that the Chair of the Board of Directors and the CEO is the same person, pursuant to the third sentence of Section 15(2) of the MFB Act, the CEO shall be entitled to use the title of Chairman & CEO.

Members of the Board of Directors may be recalled from their office at any time by the person exercising shareholder's rights without further explanation. At least two members of the Board shall be employees of the Company (internal members). According to Section 149 (2) of the Hpt. Act, the directors of the company pursuant to the Hpt. Act may be elected as internal members of the Board of Directors. The Board membership of internal members shall cease immediately on the termination of their employment. Members of the Board of Directors and their family members may not be Members of the European Parliament, Members of Parliament, members of any municipal/local governments or spokespersons for a national or ethnic minority. The Chair of the Board of Directors and Board members shall make a declaration of property in accordance with the applicable statutory provisions.

The Board shall exercise its rights and responsibilities as a corporate body.

The Board shall draw up the Company's reports under the International Financial Reporting Standards (IFRS) in accordance with the Accounting Act and a proposal for the appropriation of net profit and submit them to the person exercising shareholder's rights for approval. The Board of Directors shall ensure that the Company's books are appropriately maintained. Moreover, the responsibilities of the Board shall include the approval of the Company's regulations on organisation and operation as well as any regulations assigned by the Rules of Procedure of the Board or by the law to the competence of the Board. Similarly, the Board of Directors shall make a decision on any major issues specified in the Board's Rules of Procedure.

The Company shall not have an appointing committee or a remuneration committee.

The person exercising shareholder's rights may not deprive the Board of Directors of its powers.

Meetings of the Board shall be convened as appropriate but at least once every three months. Board meetings shall be convened by the Chair of the Board through the forwarding of an invitation to Board members at least 8 days prior to the proposed date of the meeting. The invitation shall specify the venue, date and hour of the meeting and the proposed agenda of the meeting; any written documents relevant to the agenda shall be attached to the invitation as far as possible. Any issue that has not been included in the agenda of the meeting – excluding the case where a Board member makes a proposal to add to the agenda within 4 days of receiving the invitation – shall only be discussed by the Board of Directors if at least two-thirds of the Board members are present and all attending members unanimously agree that the agenda item in question should be discussed at the meeting. The representative of the party exercising ownership rights and the Chair of the Supervisory Board shall be invited to any meeting of the Board of Directors.

Any member of the Board of Directors may request that a Board meeting be convened, specifying the agenda to be discussed by such meeting. The meeting shall be convened by the Chair of the Board of Directors for a day within 15 days of such request.

Meetings of the Board of Directors shall have a quorum if it is attended by the majority of Board members. Decisions shall be made by a simple majority of the votes of attending members. The unanimous vote of the Board of Directors shall be required for decisions provided for in Section 106 of the Hpt. Act (internal loans) and decisions under Section 144(3) of the Hpt. Act.

The Board may also adopt a decision without convening a meeting, in writing (by mail or fax) (urgent written procedure). Moreover, the Chair of the Board of Directors may convene an emergency Board meeting.

1.2 An introduction of the Board of Directors / Governing Board, Supervisory Board and management members (for board members, also indicating each member's status of independence), a presentation of the boards structures.

As at 31 December 2023, the members of the Board of Directors are as follows:

1. Dr. Levente Sipos-Tompa, internal member of the Board of Directors, Chairman & CEO,
2. , Zsolt Demkó-Szekeres, internal member of the Board of Directors,
3. Balázs Benczédi, external member of the Board of Directors,
4. Zsolt Kovács, external member of the Board of Directors
5. Dr. Melinda Gitta Szeles, external member of the Board of Directors.

The start and end dates of the mandates are set out in detail under item 13 of the Company's Certificate of Incorporation.

As at 31 December 2023, the Chair and the members of the Supervisory Board are as follows:

1. Dr. Péter Pataki, Chair of the Supervisory Board
2. Henriett Emese Jeneiné Gerő, member of the Supervisory Board,
3. Endre Vincze, member of the Supervisory Board.
4. Zita Katalin Kékesiné Györffy member of the Supervisory Board,
5. Ervin Gönczy, member of the Supervisory Board, employee representative
6. Dr. Anett Vékony, member of the Supervisory Board, employee representative.

The start dates of the mandates are set out in detail under item 15 of the Company's Certificate of Incorporation.

The Bank's most senior officer responsible for operations is the Chief Executive Officer. The Company's Chief Executive Officer is Dr. Levente Sipos-Tompa.

The employee is entitled to substitute the Chief Executive Officer is Zsolt Demkó-Szekeres Deputy Chief Executive Officer and Ildikó Edit Zátrok Deputy Chief Executive Officer.

1.3 Specifying the number of meetings which the Board of Directors / Governing Board, Supervisory Board and committees held in the given period, completed with attendance rates.

In 2023, the Board of Directors had met 13 times and adopted decisions 38 times without holding a meeting by urgent written procedure, with the following participation rates:

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
1.	12 January 2023-meeting	Of 5 members, 4 participated
2.	22 February 2023-meeting	Of 5 members, 4 participated
3.	05 April 2023-meeting	Of 5 members, 5 participated
4.	19 April 2023 - meeting	Of 5 members, 5 participated
5.	19 June 2023- meeting	Of 5 members, 5 participated
6.	26 July 2023- meeting	Of 5 members, 5 participated
7.	05 September 2023- meeting	Of 5 members, 4 participated
8.	13 September 2023- meeting	Of 5 members, 5 participated
9.	26 September 2023- meeting	Of 5 members, 4 participated
10.	24 October 2023- meeting	Of 5 members, 4 participated
11.	26 October 2023- meeting	Of 5 members, 4 participated
12.	29 November 2023- meeting	Of 5 members, 5 participated
13.	20 December 2023- meeting	Of 5 members, 5 participated
	Written procedure	
1.	6 January 2023	Of 5 members, 5 participated
2.	16 January 2023	Of 5 members, 5 participated
3.	20 January 2023	Of 5 members, 5 participated
4.	23 January 2023	Of 5 members, 5 participated
5.	25 January 2023	Of 5 members, 5 participated
6.	1 February 2023	Of 5 members, 5 participated
7.	10 February 2023	Of 5 members, 5 participated
8.	10 February 2023 – II.	Of 5 members, 5 participated
9.	23 February 2023	Of 5 members, 5 participated
10.	7 March 2023	Of 5 members, 5 participated
11.	13 March 2023	Of 5 members, 4 participated

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
12.	24 March 2023	Of 5 members, 5 participated
13.	30 March 2023	Of 5 members, 5 participated
14.	31 March 2023	Of 5 members, 5 participated
15.	24 April 2023	Of 5 members, 5 participated
16.	25 April 2023	Of 5 members, 5 participated
17.	27 April 2023	Of 5 members, 5 participated
18.	4 May 2023	Of 5 members, 5 participated
19.	5 May 2023	Of 5 members, 5 participated
20.	10 May 2023	Of 5 members, 4 participated
21.	18 May 2023	Of 5 members, 5 participated
22.	19 May 2023	Of 5 members, 5 participated
23.	24 May 2023	Of 5 members, 5 participated
24.	12 June 2023	Of 5 members, 5 participated
25.	27 June 2023	Of 5 members, 3 participated
26.	12 July 2023	Of 5 members, 4 participated
27.	19 July 2023	Of 5 members, 5 participated
28.	26 July 2023	Of 5 members, 5 participated
29.	1 August 2023	Of 5 members, 5 participated
30.	9 August 2023	Of 5 members, 4 participated
31.	15 August 2023	Of 5 members, 4 participated
32.	25 August 2023	Of 5 members, 4 participated
33.	6 November 2023	Of 5 members, 4 participated
34.	9 November 2023	Of 5 members, 5 participated
35.	14 November 2023	Of 5 members, 4 participated
36.	20 November 2023	Of 5 members, 5 participated
37.	5 December 2023	Of 5 members, 5 participated
38.	14 December 2023	Of 5 members, 4 participated

In 2023 the Supervisory Board had held 4 meetings and made decisions in 20 cases without holding a meeting, by written voting.

	Date of Supervisory Board meeting/ adopted a decision by written procedure	Participation rate
1.	12 January 2023-meeting	Of 6 members, 4 participated
2.	19 April 2023-meeting	Of 6 members, 5 participated
3.	26 October 2023-meeting	Of 6 members, 6 participated
4.	20 December 2023 -meeting	Of 6 members, 6 participated
	Written procedure	
1.	2 January 2023	Of 6 members, 5 participated
2.	11 February 2023	Of 6 members, 6 participated
3.	21 February 2023	Of 6 members, 6 participated
4.	27 February 2023	Of 6 members, 6 participated
5.	7 March 2023	Of 6 members, 6 participated
6.	17 March 2023	Of 6 members, 5 participated
7.	27 March 2023	Of 6 members, 6 participated
8.	25 April 2023	Of 6 members, 6 participated
9.	26 April 2023	Of 6 members, 5 participated

10.	22 May 2023	Of 6 members, 4 participated
11.	19 June 2023	Of 6 members, 5 participated
12.	19 June 2023	Of 6 members, 5 participated
13.	11 July 2023	Of 6 members, 6 participated
14.	7 August 2023	Of 6 members, 5 participated
15.	21 August 2023	Of 6 members, 5 participated
16.	28 August 2023	Of 6 members, 6 participated
17.	13 October 2023	Of 6 members, 4 participated
18.	15 November 2023	Of 6 members, 6 participated
19.	4 December 2023	Of 6 members, 6 participated
20.	7 December 2023	Of 6 members, 5 participated

1.4 A presentation of the work done by the Board of Directors / Governing Board, the Supervisory Board and the management as well as the considerations for assessing their individual members. Specifying if the assessment carried out in the given period resulted in any changes.

The Company has implemented a set of regulations drawn up by the person exercising shareholder's rights in consideration of the provisions of Act CXXII of 2009 on the more economical operation of publicly owned companies (hereinafter: Kgtv. Act) and Government Resolution No 1660/2015 (IX. 15.) regarding the renewal of the system of remuneration of management employees of companies in majority public ownership (hereinafter: Govt. Resolution), in respect of the method and amount of the remuneration of executive officers, members of the Supervisory Board and management employees and the system of their remuneration (hereinafter: Remuneration Policy).

The Remuneration Policy has been amended by the person exercising shareholder's rights as from 12 July 2021 by the Founder's Resolution No. 14/2021 (VII.12.).

The main rules for defining and assessing the system of performance requirements (annual bonuses) for executive employees are as follows:

- A bonus-based remuneration system shall be implemented for managers in order to encourage the successful achievement of business policy and economic targets for the year concerned and efficient operation;
- As a performance requirement, any target condition should be based on performance that can be objectively defined and be based on performing one's job with reasonable expertise and diligence. In case of a performance objective comprising the achievement of the key figure(s) of the business plan, the target conditions have to be set within ranges. A performance objective comprising the achievement of the key figure(s) of the business plan cannot be set solely if its fulfilment resulted in the 100% payment of the related bonus;
- The amount of the annual bonus of a manager shall not exceed the extent regulated in the relevant Government Decision. If the Company has made a loss, no bonus shall be paid to the manager;
- The performance requirements and conditions should preferably be defined simultaneously with or within 30 days of the adoption of the business plan for the year, unless under exceptional circumstances where they may be set at a later date;
- The performance requirements shall be assessed and settled simultaneously with or within 30 days of the adoption of the financial statement (balance sheet) for the financial year, unless under exceptional circumstances, where it may take place at a later date;

- If any of in the set performance requirements or not, or partially fulfilled, the employer's rights shall decide, on the amount and the payment of the bonus in proportion to the otherwise fulfilled performance requirements;
- Where the employment of a manager is terminated during the year, the bonus shall be payable on a pro rata basis simultaneously with the adoption of financial statement closing the financial year according to the Act on Accounting or within 30 days of the adoption of the financial statement;
- The circumstances listed in the Remuneration Policy may be considered as factors reducing or excluding the payment of a bonus. The person entitled to set the performance requirements may determine additional factors reducing or excluding the payment of a bonus.

1.5 A report on the operation of each committee, elaborating on the professional background of committee members, the number of and the attendance rate at the meetings held as well as the major topics discussed at the meetings and a presentation of the general operation of each committee. When presenting the operation of the Audit Committee, any decision by the Board of Directors / Governing Board against the proposal of the committee should be mentioned (also including the explanations offered by the Board of Directors / Governing Board). The Company website, where all tasks delegated to the committees and the dates of the members' appointment must be published, should also be mentioned. (If this information is not available on the Company website, it must be included in the Corporate Governance Report.)

Supervisory Board

The Supervisory Board consists of 6 members. The Chair and members of the Supervisory Board are appointed for a definite period of up to 5 years and are recalled by the person exercising shareholder's rights. At least one-third of the members of the Supervisory Board shall be employee representatives for as long as the Company has more than 200 (two hundred) full-time employees on an average annual basis. Only natural persons may be Supervisory Board members; other than employee representatives, they may not be employees of the Company.

The Supervisory Board shall supervise the Company's management. Within the frames of this authority, the Supervisory Board may request information from senior executives and employees of the company, may inspect the company's accounting records, registers, books and documents, may examine the company's payment account, cash register, securities and commodities, as well as its contracts, or may place them under examination by an expert. Such information may also be requested or inspected or the Company's records may also be examined or ordered to be examined by individual members of the Supervisory Board.

The Supervisory Board shall have all rights and obligations set out for the supervisory boards of credit institutions by the applicable legislation in effect from time to time.

The Supervisory Board shall:

- a) ensure that the Bank has a comprehensive and fully functional control system;
- b) put forth a proposal for the Company's auditor and his or her fee;
- c) verify the Bank's annual and interim financial statements, including the annual publication information;
- d) technically manage and review the internal audit unit; as part of that function, the Supervisory Board shall
 1. adopt the annual review plan of the internal audit unit,

2. discuss, at least once every six months, the reports drawn up by internal audit and review the implementation of the required measures,
 3. assist, where appropriate, the efforts of internal audit by inviting external experts,
 4. put forth proposals for adjusting the number of staff of the internal audit unit,
- e) draw up recommendations and proposals on the basis of the findings of inspections by internal audit;
 - f) decide with respect to any preliminary agreement related to the establishment, or the termination by the Bank, of the employment of the internal auditor and the head of the internal audit unit.

Without the application of Section 3:123 of the Civil Code, the Supervisory Board is obliged to examine all relevant business policy reports requiring the decision of the holder of ownership rights, as well as all submissions relating to matters within the competence of the holder of ownership rights. The holder of ownership rights may decide on the reports pursuant to the Accounting Act only in the possession of the written report of the Supervisory Board. Decisions regulated in Section 106 (1) of the Hpt. Act (internal loan) require, in addition to the unanimous decision of the Board of Directors of the company, the consent of the Supervisory Board.

Meetings of the Supervisory Board shall be convened by the Chair of the Supervisory Board in writing (by mail, email or fax sent to members), the invitation being conveyed to the members of the Supervisory Board at least 8 (eight) days before the date of the meeting. The invitation shall include the agenda of the meeting along with the proposals for the issues concerning the agenda items. Any two Supervisory Board members may request in writing the Chair to convene a Supervisory Board meeting, specifying the reason and the goal of the proposed meeting. Where the Chair fails to convene a meeting within 5 (five) days of receipt thereof, such meeting may be convened by any member having requested that the meeting be convened.

The Supervisory Board shall have a quorum if more than two-thirds of its members or at least 3 (three) members are present at the meeting. Decisions of the Supervisory Board shall be adopted by a majority of votes by members of the Supervisory Board. The Supervisory Board may also adopt a decision without convening a meeting, in writing (by mail or fax) exceptionally, in particularly and immensely justified cases. A decision shall have been adopted if, within 3 (three) days of dispatch (or, in exceptional cases, within a shorter period specified by the Chair), at least 2/3 (two-thirds) of the members of the Supervisory Board (but a minimum of 3 members) have sent their votes to the Bank's registered office in the form of a private deed of full probative value. There shall be no need to wait for the vote of a member of the Supervisory Board if such member previously notified the Chair of the Supervisory Board of the fact that, during the period concerned, he/she would not be able to participate in the work of the Supervisory Board, in person or through a written voting procedure, due to another engagement.

The rules of procedure of the Supervisory Board shall be determined by the Supervisory Board and approved by the person exercising shareholder's rights. The Chair of the Supervisory Board and Supervisory Board members shall make a declaration of property in accordance with the applicable legislation.

Audit Committee

The Audit Committee shall:

- a) assist the Supervisory Board in its activities, including
 - the review of the system of financial reporting,
 - the selection of an auditor, and
 - cooperation with the auditor;

- b) review and monitor the independence of the auditor, including in particular compliance with Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC;
- c) monitor the statutory audit of the annual and consolidated annual financial statements, taking into account the findings and conclusions made during the quality review of statutory public oversight auditing, conducted by an authority carrying out public oversight auditing duties (Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors (hereafter: Kkt. Act));
- d) monitor the efficiency of the Bank's internal control and risk management systems, putting forward recommendations where appropriate;
- e) monitor the process of financial reporting, putting forward recommendations where appropriate.

The functions and competences of the Audit Committee are set out in detail in the rules of procedure of the Audit Committee.

As at 31 December 2023, the Chair and the members of Audit Committee are as follows:

1. Dr. Péter Pataki, Chair of the Audit Committee,
2. Endre Vincze, member of the Audit Committee,
3. Zita Katalin Kékesiné Györffy member of the Audit Committee.

In 2023 the Audit Committee held 2 meetings and made decisions in 18 times without holding a meeting by written voting. The participation rate was as follows.

	Date of Audit Committee meeting/ adopted a decision by written procedure	Participation rate
1.	19 April 2023	Of 3 members, 2 participated
2.	19 June 2023	Of 3 members, 2 participated
	Written procedure	
1.	5 January 2023	Of 3 members, 3 participated
2.	11 January 2023	Of 3 members, 2 participated
3.	7 February 2023	Of 3 members, 3 participated
4.	16 February 2023	Of 3 members, 3 participated
5.	22 February 2023	Of 3 members, 3 participated
6.	3 March 2023	Of 3 members, 3 participated

	Date of Audit Committee meeting/ adopted a decision by written procedure	Participation rate
7.	8 March 2023	Of 3 members, 2 participated
8.	13 April 2023	Of 3 members, 3 participated
9.	7 April 2023	Of 3 members, 2 participated
10.	26 April 2023	Of 3 members, 3 participated
11.	24 May 2023	Of 3 members, 2 participated
12.	7 August 2023	Of 3 members, 3 participated
13.	28 September 2023	Of 3 members, 3 participated
14.	6 November 2023	Of 3 members, 3 participated

15.	21 November 2023	Of 3 members, 3 participated
16.	30 November 2023	Of 3 members, 3 participated
17.	12 December 2023	Of 3 members, 3 participated
18.	18 December 2023	Of 3 members, 3 participated

Detailed information on the 2023 meetings of the Board of Directors and the Supervisory Board is set out in section 1.3.

The Company's internal decision-making bodies include:

- a) the person exercising shareholder's rights,
- b) Board of Directors,
- c) Management Body,
- d) Asset-Liability Management Committee,
- e) Individual Credit Committee,
- f) EU Management Committee,
- g) Sustainable Financing Committee
- h) Infringement Management Committee
- i) Developmental Management Committee
- j) Monitoring Committee

Other internal decision-making bodies of the Company by individual power (eg. Crisis Committee) are regulated by the regulation documents of the Bank.

The Company's internal decision preparation bodies include the:

- a) Support Committee,
- b) Housing Committee,
- c) Aid Committee,
- d) Public Procurement Preparation and Assessment Committee,
- e) Workplace Health and Safety Committee,
- f) Health and Safety Parity Body,
- g) Ethics Committee,
- h) Scrapping Committee.

The Company shall publish on its website information on the names and positions of the managers and members of its government bodies.

1.6 A description of the system of internal controls, an evaluation of the activities performed in the given period. A report on the efficiency and effectiveness of the risk management procedures. (Information about where shareholders can access the Board of Directors / Governing Board report on the operation of internal controls.)

The Bank shall develop and operate its internal audit system in accordance with the characteristics, scope, complexity and risks of its activities with a view to ensuring that it conducts its activities under an appropriate management system and appropriate controls in order to achieve the objectives of the organisation.

Organisational structure and the defining of functions and responsibilities

In terms of its organisational structure and within the specific organisational units, the Bank shall define competences in order to delimit the functions and responsibilities related to specific processes as well as the specific functions and responsibilities pertaining to cross-organisational processes, isolating

those functions that are incompatible from the point of view of the process. The processes, responsibilities and controls are set out in the regulatory documents, whereas the functions and responsibilities pertaining to each job are set out in the job descriptions.

Decision-making system

In addition to defining the functions and competences, it is of priority importance to exactly define the competences related to the making of personal and committee decisions in order to ensure that a clear, transparent and consistent framework system, commensurate with the complexity and the financial consequences of each topic is in place to assist the decision-making process during day-to-day operation.

Regulatory framework system

By setting up the area focusing on the adoption of a consistent Group-level regulatory concept and process control, the Bank intends to ensure that the regulatory structure concerning the processes and activities is suitably consistent and uniform and that sufficiently detailed regulatory documents that cover the entire process are drawn up for each process. When drawing up the regulatory documents, the Legal Directorate and in addition the Operational Development and Regulatory Directorate the Compliance Directorate ensure that they fully comply with the statutory provisions.

Internal defence lines

Within its organisation, the Bank has implemented a three-tier risk protection system. Keeping the proportionality principle in mind, in order to execute the internal control, the Bank has implemented efficient, comprehensive internal control functions (risk control function, compliance function, internal audit function, information security and prevention of fraud functions).

Board of Directors /Supervisory Board

I. Chief Executive Officer

A) Management

1. Internal procedure, controls built in the procedure and management controls

B) Risk management, Compliance, Bank- and Information Security/ BCP/ DRP, Prevention of fraud

II. Audit Committee

A) Internal Audit,

B) Audit

In order to ensure the independence of control functions,

- 1) the control function's staff shall not engage in any activities under their control;
- 2) it shall be organisationally separate from the functional and organisational areas it controls;
- 3) its remuneration shall not be dependent on the performance of the areas controlled;
- 4) the control function shall have access to the resources required for its operation.

Risk management

The Bank's risk control function is carried out by within the Risk Management Division, a dedicated organisational unit independent from the business areas. The framework of risk management and control is provided by an appropriately structured regulatory hierarchy, ensuring prudent banking operation through abstract guidelines at a high level and through increasingly detailed instructions and rules of procedure at the lower levels. In order to reasonably limit the assumption of risks, limits are applied in order to observe risk levels so as to ensure that targets are achieved in accordance with the relevant risk appetite.

The function is given sufficient priority during the decision-making process in order to ensure that risk criteria are assessed and sufficiently considered when making any decision.

Compliance

The compliance function covers the institution as a whole as well as each organisational unit, business area and activity, in particular with regard to ethic, conflict of interest issues, market abuses and the prevention of money laundering. The Compliance Directorate, an organisational unit independent of business and other banking area, performs the compliance function of the Bank. The activities of the Compliance Directorate are determined by compliance statute issued as a group-level directive also contains the expectations of MFB Zrt. regarding the compliance activities of the companies belonging to the MFB Group.

Internal audit

The Bank maintains an autonomous internal audit department, which is structurally and functionally independent of its other areas; the resources required for internal audit activities are made available on a continuous basis. Internal audit is an independent and objective activity aiming to provide reasonable assurance (verification) and advice with a view to improving the Bank's operation and increase its success. As part of its activities, it examines and provides reasonable assurance, supported by sufficient evidence, on whether the risk management, governance and control systems, and processes developed and operated by management, comply with the relevant requirements. It promotes the achievement of the Bank's objectives through an appropriate and efficient methodology and through risk-based control activities.

Information system

In addition to the regulation of processes and the conscious separation of functions and responsibilities, the level of control of processes is also improved within the information systems.

In the majority of its basic processes, the Bank applies information systems that purposefully support the strengthening of the control environment of processes, thus ensuring the appropriate implementation of processes through various built-in automated mechanisms.

Access to the information system is granted through multi-level filters (business manager, data owner), which are regularly reviewed. Authorisations are assigned in a way that ensures that each employee is granted active authorisation only to applications that are relevant to his or her duties, and in addition, staff responsible for data-entry and approval functions are separated from each other.

Built-in and follow-up controls

The Bank designs its administrative processes and regulatory documents in a way that enables controls to be built into the various processes. Controls are thus incorporated into the various processes in order to ensure that any task should only be carried out once the previous task has been verified and corrected where appropriate, in order to ensure the conformity of the inputs of complementary tasks. No single operation may be carried out, processed and verified by the same person, as that would not ensure the identification and correction of errors detected during implementation.

The Bank's regulatory documents set out the task and process-specific control points, i.e. the control activities. The Bank's procedures are developed in a way that ensures that any transaction is only implemented after a documented review.

At the Bank, the heads of the competent organisational units are responsible for the implementation of built-in control and management control.

Management control

The various management levels and the organisational structure aim to facilitate the efficient

achievement of the Bank's objectives and strategy. Management control functions must be carried out at each level of management. Management control tools include requiring employees to report, requesting reports, exercising the right to sign documents, the verification of the fulfilment of tasks from a formal and substantive point of view, on-site reviews carried out in person and the operation of the management information system. The heads of individual organisational units shall oversee their team members and require them to report on a regular basis, as provided for in internal regulations and rules of procedure. The detailed rules for management control, including reports and business trips, are set out in the regulatory documents.

Management information system

The development and operation of a management information system encompassing all of its activities are an important element of the Bank's control system. The purpose of the management information system is to ensure that consistent and comprehensive information are available for the various levels of management during governance and control.

The Bank's management information system includes the entirety of Bank and Group-level information generated for the management on a timely basis at sufficient depth as well as the system that forwards such collected and properly processed information to the user in due time, while being capable of responding to changes.

The internal reports constituting the management information system, the frequency of submission of such reports and the indication of the relevant management level shall be set out in a regulatory document and be regularly reviewed.

Exercising shareholder control

The Bank shall exercise control over the organisations belonging to the MFB Group. As part of such shareholder supervision, the Bank extends the elements of its internal control system listed above to an extent that ensures that the operation of the various companies is appropriately monitored and governed, and that the common goals of the MFB Group are achieved, as well as ensuring the requisite and sufficient exchange of information between the Bank and other Group companies.

1.7. Information on whether the auditor performed any activities not related to auditing.

The Bank's auditor for the 2023 financial year was the K-E-S AUDIT Könyvvizsgáló, Könyvvezető és Adószakértő Korlátolt Felelősségű Társaság.

The Bank availed itself of certain non-audit services (other than prohibited non-audit services) from the K-E-S AUDIT Könyvvizsgáló, Könyvvezető és Adószakértő Korlátolt Felelősségű Társaság Network.

1.8. An overview of the Company's publication policy and its insider trading policy.

A separate policy provides for the prohibition of insider trading and market manipulation, stipulating that persons performing managerial duties and persons closely associated with them and employees having access to inside information are prohibited from entering into transactions or charging other persons with entering into transactions involving securities issued by the Bank or derivatives or other financial instruments related to said securities. The Company has not implemented a share-based incentive scheme.

With regard to the publishing of information, the Company acts in accordance with the applicable laws

and stock exchange regulations.

1.9. An overview of the method of exercising shareholder rights.

The Company's capital stock amounts to HUF 519,900,000,000 (Five Hundred and Nineteen Billion Nine Hundred Million Forints), which consists of 519,900 printed registered ordinary shares of a nominal value of HUF 1,000,000 each. The Company's shares are non-transferable. Each share embodies the same rights.

Where the Company's capital stock is increased from assets additional to the capital stock, the new shares are acquired by the State without consideration. Depending on the decision of the person exercising shareholder's rights, the capital stock may be reduced by reducing the number or the nominal value of the shares, or both. The person exercising shareholder's rights shall not pay any amount out of the capital stock before the reduction in the capital stock has been registered in the Companies Register.

The Board of Directors shall be entitled to issue shares of combined denomination and to break up shares of combined denomination.

The Board of Directors shall keep the register of shareholders on the registered shares in accordance with the provisions of the Hpt. Act and Act V of 2013 on the Civil Code (hereinafter: Civil Code). The register of shareholders shall be accessible to any person.

1.10. A brief presentation of the rules for the conduct of the General Meeting.

Since the Company is a single-member joint-stock company, it has no shareholders' meeting; matters under the competence of the founder are decided upon by the person exercising shareholder's rights in writing, by a founder's resolution, subject to the provisions applicable to the Company. Proposals for the person exercising shareholder's rights shall be approved by the Company's Board of Directors and discussed by the Supervisory Board. Any decision shall take effect on its communication to the executive officers.

1.11. Presentation of the issuer's compliance with Section IV. of Act 67 of 2019 on the incentivisation of long-term shareholder participation and harmonization of particular other acts.

The company is not subject to Act LXVII of 2019 on the Promotion of Long-Term Shareholder Participation and the Amendment of Certain Acts for the Purpose of Legal Harmonization, so the regulations in question do not apply to the company.

Corporate Governance Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance Report, the Company makes a statement regarding the extent to which it has implemented in its own corporate governance practice the recommendations and proposals specified in the relevant sections of the Corporate Governance Recommendations issued by the Budapest Stock Exchange Ltd., by completing the following tables. These tables provide an overview for the investors of the extent of the compliance - by the relevant company - with certain requirements set out in the Corporate Governance Recommendations at glance, and enable easy comparison of the practices of the specific companies.

Level of compliance with the Recommendations

The Company indicates whether it follows the relevant recommendation or not, and if not, briefly explains the reasons why it did not follow that specific recommendation.

R 1.1.1 Does the Company have an organisational unit dealing with investor relationship management, or a designated person to perform these tasks?

Yes.

R 1.1.2. Are the Company's Articles of Association available on the Company's website?

Yes.

R 1.1.4 If the Company's Articles of Association allow shareholders to exercise their rights in their absence, did the Company publish the methods and conditions of doing so, including all necessary documents?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting. In lieu of the shareholder's meeting, matters under the competence of the supreme decision-making body are decided on by a founder's resolution issued by the person exercising shareholder's rights, which decision is equivalent to the decision of the shareholder's meeting.

R 1.2.1 Did the Company publish on its website a summary document containing the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.2 Did the Company publish the exact date when the range of those eligible to participate in a given company event is set (record date), and also the last day when the shares granting eligibility for participating in a given company event are traded?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.3 Did the Company hold its General Meetings in a manner providing for maximum shareholder participation?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.6 The Company did not restrict the shareholders' right to designate a different representative for each of their securities accounts to represent them at any General Meeting. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.7 For proposals for the agenda items, were the Board of Directors' draft resolution and also the Supervisory Board's opinion disclosed to the shareholders?

Yes.

R 1.3.3 The Company did not restrict the right of its shareholders attending a General Meeting to request information, add comments and submit proposals, or set any preconditions for these with the exception of some measures taken to conduct the General Meeting in a correct manner and as intended. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.4 By answering the questions raised at the General Meeting, did the Company ensure compliance with the information provision and disclosure principles set out in legal regulations and BSE requirements? (If no such question arose the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.5 Did the Company publish on its website the answers to the questions that the representatives of the Company's boards or its auditor present at the General Meeting could not satisfactorily answer at the meeting within 3 working days following the General Meeting, or an official statement explaining why it refrained from giving answers? (If there was no such event the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.7 Did the Chairman of the General Meeting order a recess or suggest that the General Meeting be postponed when a proposal or proposal relating to a particular issue on the agenda was submitted which the shareholders hadn't had a chance to become familiar with before the General Meeting? (If there was no such submission the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.8.1 The Chairman of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling executive officers and Supervisory Board members. (If there was no election or recall the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting, but the above principle was observed in respect of the decision of the person exercising shareholder's rights.

R 1.3.8.2 For executive officers or Supervisory Board members, whose nominations were supported by shareholders, did the Company disclose the identity of the supporting shareholder(s)? (If there was no supporting shareholder the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.9 Prior to discussing agenda items concerning the amendment of the Articles of Association, did the General Meeting pass a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific way? (If the Articles of Association has not been modified the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.10 Did the Company publish the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.6.1.1 Do the Company's publication guidelines cover the procedures for electronic, online disclosure?

Yes.

R 1.6.1.2 Does the Company design its by considering the aspects of disclosure and the information of investors ?

Yes.

R 1.6.2.1 Does the Company have an internal publication policy in place which covers the processing the information listed in Section 1.6.2 of the Recommendations document?

Yes.

R 1.6.2.2 Do the internal regulations of the Company cover the methods for the assessment of events judged to be important for publication?

Yes.

R 1.6.2.3 Did the Board of Directors/Governing Board assess the efficiency of the publication processes?

No. Explanation: the Company's internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company's website as well as in the places of mandatory publication prescribed by law. The shareholder is notified by the Board of Directors in the annual financial report.

R 1.6.2.4 Did the Company publish the findings of the efficiency assessment of the publication process?

No. Explanation: the Company's internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company's website as well as in the places of mandatory publication prescribed by law. The shareholder is notified by the Board of Directors in the annual report.

R 1.6.3 Did the Company publish its annual company event calendar?

No. Explanation: since the Company is a single-member joint-stock company, no corporate events calendar has been drawn up. On the company website, market operators are notified of any major announcements (loan schemes and financing opportunities), financial statements, press releases, events and publications. Since the strategic objectives and main activities of MFB Zrt. are set out for the public in the MFB Act, any information for the public is only required in the case of a change in such objectives and activities. The Company's strategic objectives and their implementation are described in the annual report, which is published on the company website in Hungarian and English.

R 1.6.4 Did the Company publish its strategy, business ethics and policies regarding other stakeholders?

No. Explanation: Since the strategic objectives and main activities of MFB Zrt. are set out for the public by law (MFB Act), no specific information for the public needs to be published. The Company's strategic objectives and the implementation of these are described in the annual report, which is published on the company website. The major detailed conditions of the Company's main activities, the rules for credit products, their rules of procedure and the names of refinancing partners involved in the implementation of specific loan programmes are published on the company website on a continuous basis. The Company's Ethics Statement and the Anti-Corruption Policy adopted by the Board of Directors of MFB Zrt are available on the company website.

R 1.6.5 Did the Company publish career information about Executive Board/ Board of Directors / Supervisory Board and management members in its annual report or on the company website? (If it wasn't published in the current year, but in the year of the election and only in the GM proposals (not on the website), then the answer is: YES)

No.

R 1.6.6 Did the Company publish all relevant information about the internal organisation and the operation of the Board of Directors / Governing Board and the Supervisory Board, about the work of the management, the assessments of these and the changes in the current year?

No. Explanation: Due to the fact that the Company is privately held, it is not subject to such disclosure obligation.

R 1.6.8 Did the Company publish its risk management guidelines and information about its system of internal controls, the main risks and the principles for their management?

Yes.

R 1.6.9.1 Did the Company publish its guidelines relating to the trading of its shares by insiders?

No. Explanation: The shares of the Company are non-negotiable and, therefore, no policies have been drawn up regarding the trading of shares. Members of the Board of Directors, the Supervisory Board and the management may not acquire an interest in the Company's securities. There is no share-based incentive scheme.

R 1.6.9.2 Did the Company disclose the share of the Board of Directors / Governing Board, Supervisory Board and management members in the securities issued by the Company in the annual report or in some other way? (If the above mentioned senior officers do not have any share the answer is: YES)

No. Explanation: Members of the Board of Directors, the Supervisory Board and the management may not acquire shares in the company's securities.

R 1.6.10 Did the Company publish the relationship of Board of Directors / Governing Board, Supervisory Board and management members may have with third parties which could affect the operation of the Company?

No. Explanation: the conflict of interest rules concerning employees and members of the Board of Directors and the Supervisory Board are provided for in the MFB Act, the Hpt. Act and the Civil Code, whereas an internal policy ensures compliance with such rules.

R 2.1.1 Does the Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors / Governing Board?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the supreme decision-making body are decided on by a founder's resolution issued by the person exercising shareholder's rights, which is equivalent to a resolution of the shareholder's meeting. The article of association contains clear provisions regarding the responsibilities of the founder and the Board of directors.

R 2.2.1 Does the Board of Directors / Governing Board have a rules of procedure in place defining the organisational structure, the actions for arranging for and conducting the meetings, and the tasks regarding the adopted resolutions, as well as other issues related to the operation of the Board of Directors / Governing Board?

Yes.

R 2.2.2 Does the Company publish the procedure used for nominating Executive Board/ Board of Directors members and the principles for determining their remuneration?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and

discharge of members of the Board of Directors fall under the competence of the person exercising shareholder's rights.

R 2.3.1 Does the Supervisory Board provide a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it, in its rules of procedure and work plan?

Yes.

R 2.4.1.1 Did the Board of Directors / Governing Board and the Supervisory Board hold meetings periodically at a predefined interval?

Yes.

R 2.4.1.2 Did the rules of procedure of the Board of Directors / Governing Board and the Supervisory Board provide rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic telecommunications means?

Yes.

R 2.4.2.1 Did board members have access to the proposals to be presented at the meeting of the respective board at least five days prior to the meeting?

Yes.

R 2.4.2.2 Did the Company arrange the proper conduct of the meetings, the drawing up of the meeting minutes and management of the resolutions made by the Board of Directors / Governing Board and the Supervisory Board?

Yes.

R 2.4.3 Do the rules of procedure provide for the regular or ad hoc participation of non-board members at respective board's meetings?

Yes.

R 2.5.1 Were the members of the Board of Directors / Governing Board and the Supervisory Board nominated and elected in a transparent process, and was the information about the candidates made public in due time before the General Meeting? (If there was no nomination and election the answer is: YES)

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and discharge of members of the Board of Directors and the Supervisory Board and determining the remuneration of the members and Chair of the Board fall under the competence of the person exercising shareholder's rights.

A 2.5.2 Does the composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations?

Yes.

A 2.5.3 Did the Company ensure that the newly elected Board of Directors / Governing Board and Supervisory Board members became familiar with the structure and operation of the Company and their tasks were carried out as members of the respective boards? (If there was no newly elected member in the current year: YES)

Yes.

R 2.6.1 Did the Governing Board / Supervisory Board request (in the context of preparing the annual corporate governance report) its members considered to be independent to confirm their independence at regular intervals? (If there is no independent member the answer is: YES)

No. Explanation: The Board of Directors does not request its members, considered to be independent, to confirm their independence at regular intervals.

R 2.6.2 Does the Company provide information about the tools which ensure that the Board of Directors / Governing Board assesses objectively the management's activities?

No. Explanation: The Company is a single-person joint-stock company, where the Board of Directors is responsible for monitoring the management's performance. Fees are determined by the person exercising employer's rights. The employer's rights over the CEO are exercised by the Minister exercising the government's exclusive shareholder's (owner's) rights. The Minister decides on the selection, appointment, recall and discharge of the Chair and the members of the Board of Directors, members and the Chair of the Supervisory Board, members of the Audit Committee and the Chief Executive Officer.

R 2.6.3 Did the Company publish its guidelines concerning the independence of its Governing Board / Supervisory Board members and the applied independence criteria on its website?

No. Explanation: On its website, the Company does not specifically publish the guidelines concerning the independence of the Board of Directors and the Supervisory Board and the relevant independence criteria, as they are provided for in the Hpt. Act, the Civil Code, the MFB Act and the Kgtv. Act.

R 2.6.4 Does the Supervisory Board of the Company have any members who has held any position in the Board of Directors or in the management of the Company in the previous five years, not including cases when they were involved to ensure employee participation?

Yes.

R 2.7.1 Did members of the Board of Directors / Governing Board inform the Board of Directors / Governing Board and (if applicable) the Supervisory Board (or the Audit Committee if a uniform governance system is in place) if they, or individuals they have business relations with, or their relatives have interest in any business transactions of the Company (or any subsidiaries thereof) which excludes their independence? (If there was no such transaction the answer is: YES)

Yes.

R 2.7.2 Were transactions and assignments between members of boards/ members of the management/individuals closely associated with them and the Company/subsidiaries of the

Company carried out in accordance with the Company's general business practice but applying more stringent transparency rules compared to general business practice, and were they approved? (If there was no such transaction the answer is: YES)

Yes.

R 2.7.3 Did board members inform the Supervisory Board / Audit Committee (Nominating Committee) if they had received an appointment for board membership or management position of a company not belonging to the Company Group? (If there was no such appointment, the answer is YES)

No. Explanation: members of the Company's Board of Directors and Supervisory Board may only be executive officers or Supervisory Board members as specified by the MFB Act. When they are elected, members must issue a statement on their existing status as an executive officer and their Supervisory Board membership, and must notify the competent organisational unit of the Company of any change to such status in accordance with MFB Zrt's relevant policy.

R 2.7.4 Did the Board of Directors / Governing Board develop guidelines for the flow of information and the management of insider information within the Company, and monitor compliance with them?

Yes.

R 2.8.1 Did the Company create an independent internal audit function that reports directly to the Audit Committee / Supervisory Board?

Yes.

R 2.8.2 Does Internal Audit have unrestricted access to all information necessary for carrying out audits?

Yes.

R 2.8.3 Did shareholders receive information about the operation of the system of internal controls?

Yes.

R 2.8.4 Does the Company have a function ensuring compliance (compliance function)?

Yes.

R 2.8.5.1 Is the Board of Directors / Governing Board or a committee operated by it responsible for the supervision and management of the entire risk management of the Company?

Yes.

R 2.8.5.2 Did the relevant organisation of the Company and the General Meeting received information about the efficiency of the risk management procedures? (If such information has been received by the relevant organisation or the GM, but not in the current year, the answer is: YES)

Yes.

R 2.8.6 With the involvement of the relevant areas, did the Board of Directors / Governing Board develop the basic principles of risk management taking into account the special idiosyncrasies of the industry and the Company?

Yes.

R 2.8.7 Did the Board of Directors / Governing Board define the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives?

Yes.

R 2.8.8 Did internal control systems functions report about the operation of internal control mechanisms and corporate governance functions to the competent board at least once a year?

Yes.

R 2.9.2 Did the Board of Directors / Governing Board invite the Company's auditor in an advisory capacity to the meetings on financial reports?

Yes.

Level of compliance with proposals

P 1.1.3 Does the Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights also when they are not present in person?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.4 Did the Company determine the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.5 Does the voting procedure used by the Company ensure a clear, unambiguous and fast determination of voting results, and in the case of electronic voting, also the validity and reliability of the results?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.1.1 Were the Board of Directors/Governing Board and the Supervisory Board represented at the General Meeting?

No. While the Company has no shareholders' meeting, the Board of Directors and the Supervisory Board submit their opinion on the founder's resolutions issued by the person exercising shareholder's rights.

P 1.3.1.2 In the event the Board of Directors/Governing Board and the Supervisory Board was absent, was it disclosed by the Chairman of the General Meeting before discussion of the agenda began?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.1 The Articles of Association of the Company did not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments there if that person's presence and expert opinion is presumed to be necessary or help provide information to the shareholders and help the General Meeting make decisions.(Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.2 The Articles of Association of the Company did not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments there. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.6 Does the annual report of the Company prepared as specified in the Accounting Act contain a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's annual operation?

Yes.

P 1.4.1 In line with Section 1.4.1, did the Company pay dividend within 10 working days to those of its shareholders who had submitted all the necessary information and documents?

No. Explanation: no dividends were paid by the Company.

P 1.6.11 Did the Company publish its information in English as well, in line with the provisions of Section 1.6.11?

Yes

P 1.6.12 Did the Company inform its investors about its operation, financial situation and assets on a regular basis, but at least quarterly?

Yes.

P 2.9.1 Does the Company have in place internal procedures regarding the use of external advisors and outsourced activities?

No. Based on the provisions of Act CXX of 2001 on capital market MFB Zrt. is not obliged to prepare a half-yearly report, therefore the Bank's investors can find out about the operation, financial and property status of MFB Zrt. from the annual audited individual and consolidated reports – regularly published on the Bank's websites and in the places of mandatory publication – and from the half-yearly unaudited, non-consolidated financial statements.