

# **Auditor report and annual report**

31. december 2022.



#### INDEPENDENT AUDITOR'S REPORT

(Free translation)

#### To the shareholders of Takarékbank Zrt.

# Report on the audit of the separate financial statements

# Opinion

We have audited the separate financial statements of Takarékbank Zrt. (the "Company") which comprise the separate statement of financial position for the financial year ended on 31 December 2022 (in which total assets equal to total liabilities and equity are MHUF 3,511,686), the separate statement of profit or loss, the separate statement of other comprehensive income (in which the total comprehensive income for the year is MHUF 20,437 profit), the separate statement of changes in equity, the separate statement of cash flows for the financial year then ended and the notes to the separate financial statements comprising significant accounting policies and other explanatory information.

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

Our opinion is consistent with our additional report to the audit committee dated 3 April 2023.

# **Basis for opinion**

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

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

We have not provided any non-audit services to the Company in the period from 1 January 2022 to 31 December 2022.

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



# **Emphasis of matter**

We draw attention to the points 1., 3.32. and 36 of the notes, where it was presented that Takarékbank Zrt. will cease to exist by succession on 30 April 2023 due to its merger into MKB Bank Nyrt. Our opinion is not modified in respect of this matter.

# Our audit approach

#### Overview

Overall materiality	Overall materiality applied was MHUF 2,268
Key Audit Matters	<ul> <li>Expected credit loss allowance on loans and advances to customers</li> </ul>
	<ul> <li>Financing transactions with related parties</li> </ul>

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

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

#### Materiality

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

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

Materiality	MHUF 2,268
Determination	1% of the separate equity
Rationale for the materiality benchmark applied	We chose separate equity as the benchmark because, in our view, it is a balanced benchmark which reflects the interests of the shareholders and of the regulator and is a generally accepted benchmark.  We chose 1% as quantitative materiality threshold.

# **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in



the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

# Expected credit loss allowance on loans and advances to customers

The net balance of loans and advances to customers at amortised cost was MHUF 1,653,580 as at 31 December 2022, representing 47% of total assets. Credit loss allowance recognised in the balance sheet amounted to MHUF 82,161.

Management disclosed related assumptions, balances and estimates in section 3.10 of the notes to the separate financial statements on accounting policy, as well as in notes 19. and 31.

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

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

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

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

The modelling methodologies are developed using historical experience, which - in uncertain economic conditions that currently

We gained an understanding of the lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval. Thereby the focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment in expected credit losses.

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

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

For collective loss allowances we assessed whether the methodology applied by the Group was compliant with *IFRS 9 Financial Instruments* with the support of our internal modelling experts. We read the validation documents, recalculated, on a sample basis, selected model parameters and the expected credit loss allowances, and assessed the tool used by the Company to calculate expected credit loss allowances.

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

To address increased estimation uncertainty, we evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to state payment support programs. We also critically assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions, to identify significant increases in credit risk of single customers or customer groups.



vary across customer segments and industry sectors - can result in limitations in their reliability to appropriately estimate expected credit loss.

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

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

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

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

Financing transactions with related parties

The Company, in the course of its banking operations, has significant financing transactions with related parties including entities belonging to the shareholders (other than state owned enterprises) that have significant influence over the parent entity and other related parties. Related party transactions are disclosed in Note 33 to the separate financial statements.

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

We read section 3.10 and points 19. and 31. of the notes to the separate financial statements to assess whether disclosures are in line are in line with IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures standards.

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

We obtained company registry records and other publicly available information and compared to the listing of related parties maintained by the Company to check completeness of related parties identified. We agreed, on a sample basis, the amounts disclosed to underlying documentation and read relevant agreements

We tested, on a sample basis, the financing arrangements between the related parties along with supporting documents to evaluate the management's assertions that the transactions were



at arm's length and in the ordinary course of business.

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

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

# Other information: the separate business report

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

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

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

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

In our opinion, the 2022 separate business report of the Company is consistent with the 2022 separate financial statements in all material respects; and the separate business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the separate business report, we do not express an opinion in this respect.

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

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

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

Management is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and to prepare the separate financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the



annual financial statements prepared in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or



regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# Report on other legal and regulatory requirements

# **Appointment**

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

Budapest, 3 April 2023

Árpád Balázs Partner Statutory auditor Licence number: 006931

PricewaterhouseCoopers Könyvvizsgáló Kft. 1055 Budapest, Bajcsy-Zsilinszky út 78.

Licence Number: 001464

## Translation note:

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



# **Takarékbank Private Limited Company by Shares**

Separate Financial Statements in accordance with the International Financial Reporting Standards as adopted by the European Union

For the year ended 31 December 2022



# Separate Financial Statements in accordance with the International Financial Reporting Standards as adopted by the European Union – 31 December 2022

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## **GENERAL INFORMATION**

# **Chairman of the Board of Directors**

Levente László Szabó

# **Chairman of the Supervisory Board**

Béla Hetzmann

## **Members of the Board of Directors**

Levente László Szabó Ádám Egerszegi János Zoltán Bogdán György Schamschula dr. EdinaTófeji Zoltán Váradi

# Responsible person for the control and management of accounting services:

Péter Darazsacz, managing director of finance and riporting Ildikó Brigitta Tóthné Fodor, registration number 007048

# **Auditor company**

Deloitte Auditing and Consulting Ltd. (to 31 May 2022)
PricewaterhouseCoopers Auditing Ltd. (since 1 June 2022)

# Statutory registered auditor

Attila Molnár (to 31 May 2022) Árpád Balázs (since 1 June 2022)

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

The Separate Financial Statements do not contain the Business Report that is prepared by the Bank every year and provided for to be available for inspection on the Bank's website and at the registered office.

# Seat of the Bank, central office

Budapest Magyar tudósok körútja 9. G. ép. 1117



# Separate Statement of Profit or Loss for the year ended 31 December 2022

	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Interest and similar to interest income	4	237,489	88,958
Interest income using effective interest rate method		196,363	80,651
Other interest income		41,126	8,307
Interest and similar to interest expense	4	(71,567)	(12,331)
Interest expense using effective in- terest rate method		(53,640)	(10,060)
Other interest expenses		(17,927)	(2,271)
Net interest income		165,922	76,627
Fee and commission income	5	68,072	59,179
Fee and commission expense	5	(19,886)	(16,500)
Net income from commissions and fees		48,186	42,679
Results from financial instruments measured at fair value through profit and loss	8,18	(14,430)	(782)
Results from financial instruments measured at fair value through other comprehensive income	7	(3,780)	1,665
Results from financial instruments measured at amortized cost	7	(243)	(572)
Results from hedge accounting, net	30	325	(1,152)
Exchange differences result	6	(2,587)	3,326
Result from financial instru- ments		(20,715)	2,485
(Impairment) / Reversal on financial instruments held for credit risk management	31	(23,288)	(21,859)
Provision (loss) / gain	26	(2,167)	22
Modification (loss) / gain on finan- cial instruments	31	(10,916)	(1,221)
(Impairment) / Reversal on invest- ments in subsidiaries and associ- ates		(113)	96
(Impairment) / Reversal on other fi- nancial instruments	20	(193)	(420)
(Impairment) / Reversal on fi- nancial and non-financial in- struments		(36,677)	(23,382)



Separate Statement of Profit or Loss (continued)	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Dividend income	18	574	4
Operating expense	10,11	(122,312)	(101,097)
Other income	9	882	5,750
Other expense	9	(1,562)	(3,725)
(Losses) or gains on non-discontinued non-current assets held for sale and disposal groups	20	(51)	326
Result before taxation from conti- nuing operations		34,247	(333)
Income tax income / (expense)	12	(8,766)	(1,546)
Profit for the year from discontinued operations	13	-	627
Result for the year		25,481	(1,252)

Separate Statement of Other Comprehensive Income for the year ended 31 December 2022

·	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Result for the year		25,481	(1,252)
Other comprehensive income	14	(5,044)	(4,713)
Items that will not be reclassified to profit or loss		25	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		25	-
Income tax relating to items that will not be reclassified		-	-
Items that may be reclassified to profit or loss		(5,069)	(4,713)
Hedging instruments		687	2,181
Debt instruments at fair value through other comprehensive income		(6,666)	(6,894)
Income tax relating to items that may be reclassified to profit or (-) loss		910	-
Total comprehensive income		20,437	(5,965)



# Separate Statement of Financial Position as at 31 December 2022

	Notes	31 December 2022	31 December 2021	1 January 2021
Assets				
Cash and cash equivalents	15	234,753	217,464	76,289
Financial assets measured at fair value through profit or loss		263,747	229,860	155,938
Loans and advances to customers man- datorily at fair value through profit or loss	18	229,029	216,872	155,420
Securities mandatorily at fair value through profit or loss	18	6,520	7,534	484
Derivative financial assets	16	28,198	5,454	34
Hedging derivative assets	30	27,716	5,258	116
Financial assets measured at fair value through other comprehen-	17	146,909	200,073	175,664
sive income Securities		146,909	200,073	175,664
Financial assets measured at amortised cost		2,813,745	2,550,682	2,364,805
Loans and advances to banks	19	601,195	460,247	733,980
Loans and advances to customers	19	1,653,580	1,574,002	1,470,290
Repurchase assets	19	14,188	-	-
Securities	19	494,611	483,336	136,140
Other financial assets	19	50,171	33,097	24,395
Investments in subsidiaries and associates	20	5,050	5,309	5,090
Property, plant and equipment	21,23	8,360	11,187	12,017
Intangible assets	22	1,134	2,123	5,227
Income tax assets		5,867	6,279	4,656
Current income tax assets	12	-	27	27
Deferred income tax assets	12	5,867	6,252	4,629
Other assets	24	4,405	5,679	5,138
Total assets		3,511,686	3,233,914	2,804,940



# Separate Statement of Financial Position as at 31 December 2022

	Notes	31 December 2022	31 December 2021	1 January 2021
Liabilities				
Financial liabilities measured at fair value through profit or loss	16	19,039	6,816	19
Derivative financial liabilities		19,039	6,816	19
Financial liabilities measured at amortised cost	25	3,228,520	3,087,112	2,666,784
Amounts due to other banks		645,221	595,857	393,016
Deposits and current accounts		2,521,337	2,457,909	2,252,474
Repurchase liabilities		30,283	23,442	-
Subordinated liabilities		23,947	-	-
Other financial liabilities		7,732	9,904	21,294
Hedging derivative liabilities	30	522	384	1,476
Provisions	26	8,267	5,634	5,263
Income tax liabilities	12	4,416	640	288
Current tax liabilities		4,416	640	288
Other liabilities	27	24,084	26,927	18,744
Total liabilities		3,284,848	3,127,513	2,692,574
Equity				
Share capital	28	186,960	100,260	100,260
Share premium		34,947	21,647	21,647
Retained earnings		(14,544)	(10,744)	36
Other reserves	28	3,467	919	919
Result for the year		25,481	(1,252)	(10,780)
Accumulated other comprehensive income		(9,473)	(4,429)	284
Total equity		226,838	106,401	112,366
Total liabilities and equity		3,511,686	3,233,914	2,804,940

Budapest, 2023. április 3.

Levente László Szabó Chairman of the Board of Director **Péter Krizsanovich** Deputy CFO



# Separate Statement of Cash Flows for the year ended 31 December 2022

	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Cash flow from operating activities			
Result for the year		25,481	(1,252)
Non-cash adjustments to net profit from:			
Depreciation and amortization		4,678	5,499
Writte of tangible and intangible assets		452	2,545
Impairment and provision for credit loss expense		21,305	68,484
Release of other provision		2,140	(174)
(Loss)/Profit on tangible assets derecog- nized		35	39
Interest expense on the lease liability		125	168
Non cash adjustment on securities		(513)	651
Received dividend		574	4
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		(31,710)	(11,654)
Fair value adjustments on financial assets mandatorily at fair value through profit or loss		28,426	(157)
Operating profit or loss before change in operating assets		50,993	64,153
Decrease/ (-) Increase in operating assets			
Trading transactions and hedging		(1,131)	6,797
Changes in non-trading financial assets mandatorily at fair value through profit or loss		(41,143)	(221,042)
Financial assets valued at fair value against other comprehensive income		47,724	(29,765)
Changes in financial assets at amortised cost		(283,504)	(102,481)
Changes in other assets		2,798	(1,644)
Increase/ (-) Decrease in operating liabilities			
Changes in financial liabilities at amortised cost		31,044	(10,870)
Changes in other liabilities		933	8,535
Net cash flow from operating activities		(191,286)	(286,317)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



# Separate Statement of Cash Flows for the year ended 31 December 2022

	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Cash flow from investing activities			
Proceeds from sales of tangible		2,808	3,520
Proceeds from sales of intangible assets		2	454
Purchase of tangible		(3,977)	(6,902)
Purchase of intangible assets		(182)	(1,221)
Sale or purchase of shares in subsidiaries and associates		(440)	443
Net cash outflow from investing activities		(1,789)	(3,706)
Cash flow from financing activities			
Borrowing of long-term loans		112,791	431,718
Capital increase		100,000	-
Repayment of leasing liabilities		(2,427)	(520)
Net cash flow from financing activities		210,364	431,198
Increase/ (-) Decrease in cash and cash equivalents		17,289	141,175
Opening balance of cash and cash equivalents		217,464	76,289
Closing balance of cash and cash equivalents		234,753	217,464
Breakdown of cash and cash equivalents:			
Cash		22,966	26,510
Balances with the National Bank of Hungary		-	-
Due from banks with original maturity of less than 90 days		211,787	190,954
Closing balance of cash and cash equivalents		234,753	217,464
Supplementary data			
Interest received		237,489	89,827
Interest paid		(71,567)	(12,331)



# Separate Statement of Changes in Equity for the year ended 31 December 2022

	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	Total equity
Opening at 1 January 2021	100,260	21,647	284	(10,744)	919	112,366
Total comprehensive income			(4,713)	(1,252)		(5,965)
of which: Loss for the year	-	-	-	(1,252)	-	(1,252)
of which: Other comprehensive income	-	-	(4,713)	-	-	(4,713)
Closing at 31 December 2021	100,260	21,647	(4,429)	(11,996)	919	106,401
Opening at 1 January 2022	100,260	21,647	(4,429)	(11,996)	919	106,401
Capital increase	86,700	13,300	-	-	-	100,000
Total comprehensive income			(5,044)	25,481		20,437
of which: Profit for the year	-	-	-	25,481	-	25,481
of which: Other comprehensive income	-	-	(5,044)	-	-	(5,044)
General reserves	-	-	-	(2,548)	2,548	-
Closing at 31 December 2022	186,960	34,947	(9,473)	10,937	3,467	226,838

#### 1. DESCRIPTION OF THE BANK

The separate financial statements of Takarékbank Plc. (hereinafter Bank, Takarékbank, Company) for the year ended 31 December 2021 were authorized for issue in with a resolution of the Board of Directors on 3 April 2023. The final approval on the separate financial statements is provided by the General Meeting.

Name: Takarékbank Zrt.

Seat: 1117 Budapest, Magyar tudósok körútja 9. G. ép.

Website address: www.takarekbank.hu
Mailing address: Budapest, Pf.:1942
Phone number: 06-1-311-3110
Registration number: 01-10-140275
Tax number: 14479917-4-44

KSH statistical number sign: 14479917-6419-114-01

Year of foundation: 2008

Chairman of the Supervisory Board: Béla Hetzmann

Chairman of the Board: Levente László Szabó

The Integration of Cooperative Credit Institution (hereinafter: Integration) was a cooperation of 16 privately owned cooperative credit institutions – savings bank, credit union, and smaller bank – in the beginning of the year 2019, then following the mergers completed on 30 April 2019 and 31 October 2019 the number of the cooperative credit institutions was reduced to two credit institutions, and the Takarék United Cooperative was established bringing together the small owners of Takarékbank Zrt..

On October 31, 2019, the fifth largest credit institution in the country entered the market following the national merger of Saving Cooperatives and Takarék Commercial Bank. As a result of the mergers, the number of customers of the nationwide Takarékbank has grown to more than 1.1 million, and it operates the largest nationwide branch networkwith 750 branches and 15 Takarék mobile bank branches.

With the merger of the 11 savings cooperatives and 2 banks, the almost five-year process has ended, during which the former nearly 120 savings cooperatives have now become one universal commercial bank with national coverage.

In the last merger (October 2019), the 3A Takarékszövetkezet, the Békés Takarék Szövetkezet, the CENTRÁL TAKARÉK Szövetkezet, the Dél TAKARÉK Szövetkezet, the Fókusz Takarékszövetkezet, the Hungária Takarék Takarékszövetkezet, the KORONA TAKARÉK Takarékszövetkezet, the M7 TAKARÉK Szövetkezet, the Nyugat Takarék Szövetkezet, the Pátria Takarékszövetkezet, the TISZÁNTÚLI TAKARÉK Takarékszövetkezet, Takarék Commercial Bank Ltd. and Takarékbank Ltd., which has been operating regionally until now, participated. Takarékbank Ltd. took over the customers, employees, entire branch network, deposit-loan and contract portfolios of all credit institutions.

The Company's controlling owner - MTB Bank of Hungarian Savings Cooperatives Co. Ltd.-, MKB Bank Plc. and Budapest Credit and Development Bank Private Company Limited by Shares established Magyar Bankholding Ltd. (registration number: 01-10-140865; registered office: 1122 Budapest, Pethényi köz 10., hereinafter Magyar Bankholding Ltd.) on 26 May



2020 with 33.33% direct participation of MTB Bank of Hungarian Savings Cooperatives Co. Ltd. Based on the authorisation of the National Bank of Hungary, the Budapest-Capital Regional Court as Court of Registration registered Magyar Bankholding Ltd. in the company register with its resolution no. 01-10-140865/5.

On 30 October 2020, MTB Zrt. sold all of its shares representing its 33.33% shareholding in Magyar Bankholding Ltd. to Magyar Takarék Befektetési és Vagyongazdálkodási Zrt., the owner of 75.91% (99.99% voting rights) of the Bank's share package, and thus no longer holds any ownership stake in Magyar Bankholding Ltd.

Magyar Bankholding Ltd. commenced its effective operation on 15 December 2020, after MNB (acting as the central bank of Hungary) approved the merger of Budapest Bank Group, MKB Bank Plc. and Takarék Group, and the shares of the key owners were transferred to the joint holding company. By transferring the in-kind contributions, the second largest banking group in Hungary has been established, with the Hungarian State owning 30.35 percent of the shares through Corvinus International Investment Ltd..

Under the authorisation of its general meeting, the Board of Takarékbank decided on 28.03.2022 to increase the share capital of Takarékbank from HUF 100,260,000,000 to HUF 186,960,000,000 by HUF 86,700,000,000. The share capital was increased by the private placement of 867 pieces dematerialised ordinary shares of series "C" with a nominal value of HUF 100.000.000 and an issue value of HUF 115,340,254 each in the form of private placement. Within the framework of the capital increase, MKB Bank took over a total of 867 series "C" dematerialised ordinary shares with a nominal value of HUF 100,000,000 and an issue value of HUF 115,340,254 each, i.e., a total issue value of HUF 100,000,000,218, thus MKB Bank acquired a direct stake of 46.37% in Takarékbank.

On 31 March 2022, a share sale purchase agreement was concluded between MKB Bank as buyer and MTB Bank of Hungarian Savings Cooperatives Co. Ltd. (hereinafter: "MTB") as seller, under which MKB Bank purchased 7,156 pieces dematerialised ordinary shares of series "A" with a nominal value and issue value of HUF 10,000,000, and 200,000 pieces dematerialised preference shares – including dividend preference shares – of series "B" with a nominal value and issue value of HUF 10,000 issued by Takarékbank. The share package represented 39.35% of the share capital of Takarékbank. As a result of the two transactions, MKB Bank Plc. acquired a qualified majority stake of 85.72% in Takarékbank, while 1 ordinary share of series "A" left in the ownership of MTB.

The legal merger of the two member banks of Magyar Bankholding Ltd.: Budapest Bank Ltd. and MKB Bank Plc., as well as the merger of Hungarian Takarék Bankholding (as the direct owner of MTB) into MKB Bank Plc. were completed at midnight on 31 March 2022.

Takarékbank as a company to be included in the consolidation as a subsidiary of MKB Bank left the mandatory institution protection organisation of integrated credit institutions, the Integration Organisation (Central Organisation of Integrated Credit Institutions,) with effect from 23 o'clock and 59 minutes on 1 April 2022 in possession of the necessary preliminary approvals and taking advantage of the opportunity granted by the law.

The the National Bank of Hungary ("MNB"), by its decision No. H-EN-I-119/2022 dated 8 March 2022, based on the request of Magyar Bankholding Zrt., revoked the licence to operate as a financial holding company granted to Magyar Bankholding Zrt. by its decision No. H-EN-I-358/2020 dated 12 June 2020, with effect from 29 April 2022, subject to the conditions set out in the decision. Given the withdrawal of the licence, MKB Bank took over the group management function of the banking group after 29 April 2022 based on the new group establishment decision issued by MNB.



Due to the fact that MKB Bank Plc. acquired a qualified majority influence in Takarékbank, pursuant to Section 3:324 of Act V of 2013 (Civil Code), an obligation to purchase arose for MKB Bank Plc. in respect of all shareholders who announced their intention to sell their shares within the limitation period. As a result of the transactions, MKB Bank Plc. increased its holding in Takarékbank further.

Based on the share transfer agreement concluded on 28.03.2022, then amended several times, MKB Bank Plc. acquired the share package of Magyar Posta Ltd. in Takarékbank consisting of 1,771 pieces dematerialised ordinary shares of series "A" with a nominal value of HUF 10,000,000 each, i.e. ten million Hungarian forints, a total nominal value and issue value of HUF 17,710,000,000, i.e., seventeen billion seven hundred and ten million Hungarian forints. By way of this transaction, MKB Bank Plc. increased its shareholding to 98.83%.

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

Takarékbank Ltd., as the universal commercial bank, carries out the following activities in accordance with the provisions of the Act on Credit Institutions and Financial Enterprises (Hpt.) and the legislation related to financial services, within the framework thereof, with the permission of the Central Bank:

## Activities under TEAOR'08:

- other monetary intermediation,
- other information technology services,
- finance leasing,
- other lending,
- other financial intermediation n.e.c.,
- securities and commodity contracts brokerage,
- · other financial auxiliary activities,
- activities of insurance agents and brokers,
- · other activities auxiliary to insurance and pension funding,
- buying or selling of own real estate,
- renting and operating of own or leased real estate,
- accounting, bookkeeping and auditing activities, tax consulting,
- business and other management consultancy activities.

Takarékbank Ltd. is entitled to carry out business activities in accordance with Hpt. and Bszt.:

- collecting deposits and accepting other repayable funds from the public,
- granting credit and cash loans,
- financial leasing,
- provision of payment services,
- issuing electronic money,
- issuing a paper-based cash alternative payment instrument (such as a paper-based traveler's check, bill of exchange) or providing a related service that does not qualify as a payment service,



- undertaking guarantees and other banking obligations, trading in currency, foreign exchange, excluding currency exchange activities, with a bill of exchange or check for own account or as a commission agent,
- intermediation of financial services, in the framework of which mortgage credit intermediation activity as a dependent priority intermediary,
- escrow service, safe deposit box service, credit reference service,
- · receivables purchase activity,
- currency exchange activity,
- own account trading in accordance with Bszt. with regard to financial instruments pursuant to Section 6,
- investment consultation in accordance with Bszt. within the financial instruments referred to in Section 6 a), only for spot transactions concluded in respect of government securities issued by the Hungarian State.
  - Takarékbank Ltd performs the following activities on the basis of a report:
- insurance intermediation, Hpt. Section 7 (3) c) and Bszt. Section 111-116 on mediation activity.

## Other business activities:

• "an activity aimed at utilizing collateral or collateral or participating in sales in order to reduce or eliminate a loss arising from a financial service" in accordance with the Section 7 (3) (i) on Credit Institutions Act.

#### 2. BASIS OF PREPARATION

# 2.1 Statement of Compliance

The separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in all material respects in accordance with the provisions of the Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing financial statements in accordance with IFRS as adopted by the EU. Bank shall prensent consolidated financial statements, expect if it meets the criteria of IFRS 10 (4). The parent company of the Bank - MKB Bank Plc. - prepare the consolidated financial statements so the Bank shall present the separate financial statements.

Given the expected merger of Takarékbank Zrt. into MKB Bank Nyrt., Takarékbank Zrt. will cease to exist as a legal entity, so the principle of going concern can not be applied. At the same time, since the Bank's activities will continue within MKB Bank Nyrt. after the merger, the Bank has prepared its financial statements with full consideration of IFRS standards.

# 2.2 Functional and presentation currency

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

## 2.3 Basis of measurement

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

# 2.4 Change in accounting policies

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

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

- Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" -(issued on 14 May 2020 effective for annual periods beginning on or after 1 January 2022).
- Annual Improvements to IFRSs 2018-2020 amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 effective for annual periods beginning on or after 1 January 2022).
- Covid-19-Related Rent Concessions Amendments to IFRS 16 (an amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.



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

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

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 - Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies.
- Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors" – Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
- Amendments to IAS 12 "Income Taxes" Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 17 "Insurance contracts" Transition option to insurers applying IFRS 17 and IFRS 9 Comparative Information (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023),

The Bank is currently assessing the impact of the new standard and the above mentioned amendments on its financial statements.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 1 January 2022 (the effective dates stated below is for IFRS as issued by IASB):

- Amendments to IAS 1 "Presentation of Financial Statements" Classification of Liabilities as Current or Non-Current (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)



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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

# 3.1 Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents
- Financial assets held for trading
  - Derivatives financial assets
- Non-trading financial assets mandatorily at fair value through profit or loss
  - Loans at fair value
  - Open-ended units, stock exchange shares
- Financial assets measured at fair value through other comprehensive income
  - Securities measured at fair value through other comprehensive income
- Financial assets at amortised cost:
  - Due from bank
  - Loans and advances to customers at amortised cost
  - · Securities valued at amortised costs
  - · Repurchase assets
- Hedging derivative assets

The Bank groups the recognised financial liabilities as follows:

- Financial liabilities held for trading
  - Derivative financial liabilities
- Financial liabilities at amortised cost (other financial liabilities):
  - Due to banks
  - Deposits from customers
  - Repurchase liabilities
- Hedging derivative liabilities

## 3.2 Cash and cash equivalents

For the purpose of the Separate Statement of Cash Flows, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.

Cash and cash equivalents are presented in the statement of financial position at amortised cost.

## 3.3 Financial assets at fair value through profit or loss

Securities at fair value through profit or loss are held within a business model whose objective is not to hold securities in order to collect contractual cash flows or not to hold securities both collecting contractual cash flows and selling securities. Securities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Results from financial instruments measured at fair value through profit and loss . Interest income is recorded in 'Interest and similar income', dividend income is recorded in "dividend income" according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term depending on the market price.



#### 3.4 Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in rice in one or more underlying financial instrument, reference yield or index, it is settled in a future date and there is no or low initial investment.

Derivatives are recorded at fair value and carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Result from financial instruments measured at fair value through profit or loss'. The resulting gain or loss is recognised immediately in 'Result from financial instruments measured at fair value through profit or loss' the interest effects are recorded among other interest income or other interest expenses .

Derivatives include forwards, futures, swaps and options.

# 3.5 Hedge transactions IFRS 9

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

Upon concluding the hedge contract the Bank drafts the hedge document that sets forth the relationship between the transaction and the instrument hedged. The document describes the nature of risk as well as the risk management goals and strategies. The document also sets monthly the method of measuring hedge effectiveness.

For the purposes of hedge accounting, hedges are classified into two categories:

- a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and
- b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

There are no net investment hedges in foreign operations.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Separate Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in the other comprehensive income item.

The following lines in the profit or loss statement contain the gains or losses in connection with the hedging instruments of hedges (swaps):

- i. Interest income or interest expense
- ii. Exchange differences result
- iii. Results from financial instruments measured at fair value through profit and loss.

For hedges, which do not qualify for hedge accounting (economic hedges), any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of profit or loss for the period. The Bank has recorded only fair value hedge during 2022.

# 3.6 Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income (FVTOCI) are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities, and the contractual terms of these securities give rise on specified dates to

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



cash flows that are solely payment of principal and interest on the principal amount outstanding. Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value.

Unrealized gains and losses (Fair value difference) on securities at fair value through other comprehensive income are recognized directly in other comprehensive income, interest and foreign exchange gains/losses on this items are recognized separate statement of profit or loss. All investments in equity instruments that are not held for trading are classified as at equity instruments measured at fair value through other comprehensive income. The expected credit loss on secrurities at fair value through other comrehesnsive income are recorded in separate statement of profit or loss. The Bank shall make an irrevocably election to measure the investments in equity instruments at initial recognition on a share-by-share basis. Equity instruments at fair value through other comprehensive income are measured at fair value and the total changes in fair value are presented in other comprehensive income. Amounts presented in other comprehensive income are not transferred to profit or loss, even if the investment were sold. The dividends earned on equity instruments are recognised in separate statement of profit or loss.

# 3.7 Financial instruments mandatorily at fair value through profit or loss

The financial instruments mantatorily at fair value throng profit or loss those instruments which are not meet the criteria for valuation at amortised cost or against other comprehensive income.

The Bank shall, in contrast to the result, assess at fair value the financial resources which are not held for trading purposes and result in the payment of interest on capital and outstanding principal amounts not recovered on the basis of the characteristics of the cash flow.

# 3.8 Loans and advances to customers, due from banks securities at amortised cost

The Bank measures at amortised cost those loans and placements with other banks securities, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans and advances to customers and securities measured at amortized cost are initially recognized at fair value at the date of settlement by Bank, increased or decreased by transaction costs that are directly attributable to the acquisition or origination of the receivables.

Loans and placements with other banks and securities are measured at amortised cost, stated at the principal amounts outstanding including accrued interest, expected credit loss for loan or placement losses, respectively.

## 3.9 Restructuring of loans

In cases of default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions. The Bank doesn't measure any significant gain or losses on the restructuring loans.

The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



In case of renegotiated loans, the classification of the clients (and eventually the impairment) may improve if the clients start to pay their instalments as scheduled.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, Bank shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss among 'Modification gain or loss on financial instrument', if it is connected for stage 2, or stage 3 financial asset. Bank presents the modification loss of stage 1 financial assets among the "Interest and similar income" The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on restructured loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

# 3.10 Impairment losses on loans

Impairment losses on loans and placements with other banks and securities are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model allowance for impairment is recognised at an amount equal to 12-month expected credit loss from the initial recognition, unless purchased or originated credit impaired (POCI). On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) impairment is recognised in amount of lifetime expected credit loss. An asset that meet the definition of default criteria step into the third stage. Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition in accordance with IFRS 9 (they meet the definition of default). For purchased or originated credit-impaired (POCI) assets shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. At each reporting date, an entity shall recognise in profit or loss the amount of the change in lifetime expected credit.

# 3.11 Investment in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost by the Bank.

Subsidiaries are entities controlled by the Bank. Control exists when the Bank is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, substantive potential voting rights are also taken into account.

Where the Bank is a party to a contractual arrangement whereby, the parties that have joint control of the arrangement have rights to the net assets of the arrangement, the Bank classifies its interest in the venture as a joint venture.



Bank classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates. For the purpose of determining this classification, control is considered to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

# 3.12 Tangible and intangible assets

Tangible (fixed) and intangible assets are presented at cost, less accumulated depreciation, and less impairment if any.

The cost of an item of tangible and intangible asset includes the following elements:

- a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and quantitative discount;
- b) any costs directly attributable for the assets to be ready their intended use:
  - costs of employee benefits,
  - costs of site preparation.
  - delivery and handling costs,
  - insurance fees,
  - installation and assembly costs,
  - costs of testing,
  - professional fees,
  - costs of parts and maintenance.
- c) the initial estimate of the costs of dismantling and removing the item.

Following elements of costs that are not costs of an item of tangible asset are:

- costs of opening a new facility,
- costs of introducing a new product or service,
- costs of conducting business in a new location or with a new class of customer,
- administration and other general overhead costs

Recognition of costs in the carrying amount of an item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs that incurred while an item capable of his intended operating has yet to be brought into use or is operated at less than full capacity are not included in the carrying amount. Furthermore, neither initial operating losses nor costs of relocating or reorganising the Bank's operations are not included.

Depreciation is charged to the statement of profit or loss in the period to which it relates.

The useful lives are reviewed annually.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

Property	0-2%
Non-owned leasehold improvement	6% - 14.7%
Equipment and furniture	9% - 33%
Software	5% - 50%
Rights representing assets	3.5% - 25%
Hardware	33% - 50%
Vehicles	10% - 33%
Other fixed assets	7% - 50%

Intangible assets have a definite useful life, excluding goodwill.



#### **3.13 Leases**

The Bank assessed all lease contracts entered into or modified after the date of 1 January 2018 under IFRS 16 whether a contract is, or contains, a lease.

Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyses agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets.

An agreement transfers the rights to control the use of an identified asset, if:

- An agreement contains identified asset. An asset can also be identified by being explicitly or implicitly specified in a contract. An asset has to be physically distinct or it represents substantially all of the capacity of the asset. Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.
- The customer has the right to obtain substantially all of the economic benefits from use
  of the identified asset throughout the period of use.
- The customer has the right to direct the use of the identified asset throughout the period of use. The lessee has this right if, within the scope of its right of use defined in the contract, the customer has the right to direct how and for what purpose the asset is used throughout the period of use.

In that case, the relevant decisions about how and for what purpose the asset is used are predetermined, the customer has the right to direct the use of that asset following one of:

- the customer has the right to operate the asset throughout the period of use; or
- the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

The Bank shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

The Bank elect not to apply the requirements of IFRS 16 Leases to intangible assets.

### The Bank as a lessee

The Bank as lessee shall recognise a right-of-use asset and a lease liability at the commencement date of the lease agreement. Right-of-use assets are initially measured at cost. The cost of a right-of-use asset comprises:

- the amount of the initial measurement of lease liabilities:
- any lease payments made at or before the commencement date;
- any initial direct costs incurred by the lessee; and
- estimates of costs to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out restoration
- less any lease incentives received.

After the commencement date, the Bank shall measure the right-of-use asset applying a cost model. The Bank depreciates the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The determination of the useful life of the right-of-use assets are presented similar to owned property, plant, equipment and vehicles. The Bank applies IAS 36 Impairment of Assets standard to determine whether the right-of-use asset is impaired, and to recognise any impairment loss identified in accordance with the standard.

The Bank shall measure the lease liability at the present value of lease payments that are not paid as at the date of commencement. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be



readily determined, the Bank use the lessee's incremental borrowing rate. Typically, the Bank use its own incremental borrowing rate to recognise lease liabilities.

At their date of initial re-cognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date);
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- payments of contractual penalties for terminating the lease, if the lease period reflects that the Bank used the option of terminating the lease;
- less any lease incentives receivable.

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

After the commencement date, the Bank shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The Bank shall remeasure the lease liability, if either:

- there is a change in the lease term; or
- there is a change in the assessment of an option to purchase the underlying asset; or
- there is a change in the amounts expected to be payable under a residual value guarantee; or
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

The Bank shall recognise the amount of the remeasurement of the lease payments as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank shall recognise any remaining amount of the remeasurement in profit or loss.

The Bank did not present the right-of-use assets separately in the statement of financial position that does not meet the definition of investment property include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned. The Bank are presented lease liabilities in the statement of financial position as Financial liabilities measured at amortised cost. The interest expense is presented among "Other interest expense".

The Bank has elected not to apply the requirements for short-term leases and to leases for which the underlying asset is of low-value. These types of lease payments will be recognised in the statement of profit or loss as costs using the straight-line method during the life of the lease.

The Bank does not have right-of-use assets that meet the definition of investment property.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



In the statement of cash flows are classified cash payments for the principal portion of the lease liability within financing activities and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Cash payments for the interest portion of the lease liability are classified applying the requirements in IAS 7 Statement of Cash Flows for interest paid. The Bank as a lessee has typically property and company car lease agreements.

#### The Bank as a lessor

The Bank as a lessor shall classify the leases as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. When a contract includes both lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component. The Bank shall recognise lease payments from operating leases as income in profit or loss on a straight-line basis. The Bank does not have sublease, sale and leaseback transactions.

#### 3.14 Non-current assets held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The asset (or disposal group) must be available for immediate sale in its present condition and the sale must be highly probable. The Bank must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell on initial recognition at the date of classification as held for sale.

An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

# 3.15 Impairment of non-financial assets

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

Each impaired asset is assessed annually, when any indication of a reversal or reduction of earlier impairment is performed. If there is such an indication the Bank estimates the recoverable value of the asset. Reversal of previously entered impairment is only done in cases where there has been a change in the estimates applied for determining the asset's recoverable value since the last reporting of impairment.



The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

## 3.16 Current tax

Current taxes include the corporate income tax, local business tax and innovation contribution payable and refundable amounts and are measured at the amount expected to be recovered from or paid to the tax authorities. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. The tax rates and tax laws in effect at the balance sheet date are used to determine the current tax liability.

#### 3.17 Deferred taxes

Deferred tax is provided on temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. All important deferred tax liabilities are recognized. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which it can be utilized. Deferred tax assets and liabilities are measured at the enacted tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current taxes liabilities and the deferred tax relate to the same company and the same tax authority.

# 3.18 Classification into financial liabilities or shareholders' equity

Financial liability is any liability that is:

- a) a contractual obligation:
  - i. to deliver cash or another financial asset to another entity; or
  - ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- b) a contract that will or may be settled in the entity's own equity instruments and is:
  - i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

#### 3.19 Financial liabilities carried at amortised cost

Financial liabilities, which are not designated at fair value through profit or loss, are classified as financial liabilities carried at amortised cost. At initial measurement, they are recognized at fair value plus transaction fees and charges should adjust the carrying amount at initial recognition that is directly attributable to the acquisition or issue of the financial liability.



The Bank has the following financial liabilities to finance its business: loans from the Hungarian state, interbank loans and customer deposits.

The bank shall classify in this category its non-trading bonds and other non-trading financial liabilities (for example accounts payable, bail/cash deposit).

Financial liabilities that are designated at amortised cost are measured subsequently at amortised cost using the effective interest method.

# 3.20 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised in the financial statements as financial liabilities and measured at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the liability is measured at the amount recognised less cumulative amortisation, and the best estimate of expense required to settle any financial obligation arising as a result of the guarantee.

The financial guarantee fee received is recognised in the statement of profit or loss in 'Fee and commission income' on a straight line basis over the lifetime of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss in 'Credit loss expense'. Bank has not a significant amount of non financial guarantee contracts.

## 3.21 Derecognition of financial instruments

# 3.21.1 Derecognition of financial assets

The Bank derecognises a financial asset at fair value on the settlement date. The settlement date is the date that an asset is delivered by the Bank or the asset is terminated or expired.

A financial asset (or a part of a financial asset or a group of financial assets) is derecognised when:

- the rights under contract related to the cash flows from the financial asset cease; or
- the rights under contract related to the cash flows from the financial asset are transferred; or an obligation is undertaken by virtue of a transfer agreement to pay the cash flows from the financial asset to third parties; and
- the Bank has transferred substantially all risks and rewards of the asset, or
- the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has transferred control of the asset.

If the Bank has not retained nor transferred substantially all risks and rewards associated with the asset but has retained control of the financial asset, it continues to recognize the transferred asset in proportion to its continuing involvement. The rate of continuing involvement in a transferred asset is the Bank's rate of exposure to the risks associated with changes in the value of the transferred asset.

When the Bank continues to report the transferred asset in proportion to its continuing involvement it also reports an associated liability.



On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable shall be recognised in profit or loss. On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

# 3.21.2 Derecognition of financial liabilities

A financial liability (or a part of a financial liability) is derecognised when it ceases, is executed or matured. Exchange or partial exchange of existing financial liabilities or a part thereof with significantly different terms and conditions or significant modification of its terms and conditions is also considered as cessation of the financial liability and is reported as a new financial liability, taking the relevant part of IFRS 9. The difference between the book value of, and the consideration paid for financial liabilities (or a part thereof) that ceased or have been transferred to third parties is reported in the profit or loss.

#### 3.22 Provisions

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event and 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.

Expense relating to lending provision is a part of provision for impairment losses on loan expense. On provision for contingent liabilities related to business combinations is recognized in provisions.

# 3.23 Employee benefits

# 3.23.1 **Short-term employee benefits**

Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave are settled in the period in which the employees render the related service. Under the Bank's policy, the employer must grant employees their paid leave in the period the leave is earned, except for the paid leave emerges during maternity leave. Deferment of the expected cost of leave is applicable to the Bank and its subsidiaries, but this cost is recognized only if it is material.

## 3.23.2 Long-term employee benefits

The Bank has a defined jubilee benefit plan for all employees of the Group. The employees receive jubilee benefit only if they remain with the entity for a specified period and benefits are determined by the length of their service. The authority for jubilee benefit, its condition and the benefit are regulated in the Bank's policy.

In the normal course of business, the Bank pays fixed contributions into the Hungarian State and private pension funds on its employees, which is recognized in social security contributions and which cannot be considered as employee benefit plan. The Bank itself does not offer a pension scheme or post-retirement benefit plan, and consequently has no legal or contractual obligation to make further contributions.

## 3.23.3 Information on Employee share system

From 2022 MKB manages the settlements of the variable pays as regulated by ESP's Remuneration Policy for Takarekbank Plc, because the Bank is the part of MKB Group,. Eligible employees submit a participation declaration, become participants and subject to the relevant regulations.

In order to settle the variable payments of the participants ESP subscribes bonds and buys options. The timing of the bonds that cover the cash part of the variable pay and of the options that cover for the instrument part of the variably pay are aligned with the cycles of the deferred payments. The participants will not become owners, it is the ESP, but they will have a participants' share. They will be entitled for the financial settlement as regulated by the ESP Remuneration Policy, including the deferred payment periods. The settlements and the payments are based on the participants' approved variably pay in line with the deferred periods after the financial instruments are converted to cash.

This share system has not got a significant effect to the separate profit or loss statement of TakarekbankPlc.

#### 3.24 Repurchased treasury shares

Treasury shares represent the cost of shares of the Bank repurchased and are displayed as a reduction of shareholders' equity. The repurchased treasury shares are recognised on its nominal value within 'Treasury shares' at the date, when a supreme member made a decision on repurchasing. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, no gain or loss is recognized in the statement of profit or loss. In case of beside the decision of repurchasing, if a supreme member is made a decision at the same time to call back shares, then the Bank is reclassified these shares to the liabilities till the date of the effective cancellation.

#### 3.25 Interest and similar income expense

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

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Bank has recorded the modification loss of stage 1 financial asset among the interes income. Interest income and expenses related to financial instruments are separated by the Bank based on each financial instruments category.

Interest income and interest expenses are accounted on a gross basis by the Bank.

"Interest income using effective interest rate method" includes interest income on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. In addition, "Other interest income" includes interest income on financial assets held for trading, financial assets not held for trading that are required to be measured at fair value through profit or loss, derivatives, other assets and financial liabilities.



"Interest expense using effective interest rate method" includes interest expense on financial liabilities measured at amortised cost, while "Other interest expense" includes interest expense on financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss, derivatives, other liabilities and financial receivables.

#### 3.26 Fees and commission income and expenses

This group shall include fees and commission income and expenses that are not involved in the amortised cost model. Fees and commissions when they relate and have to be included in the amortised cost model shall immediately recognised in profit or loss.

Fees and commission incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

#### 3.27 Contingent liabilities / contingent assets

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

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

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

#### 3.28 Post balance sheet events

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

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

#### 3.29 Offsetting

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



#### 3.30 Foreign currency translation

Items included in the financial statements in foreign currencies are translated to the respective functional currencies of the Bank. Transactions in foreign currencies are like transactions that set in foreign currencies or have/had to paid in foreign currencies.

At initial recognition the Bank are translated transactions in foreign currencies to the respective functional currency at the valid NBH rate on the date of the transaction.

At the end of the reporting periods:

- monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate on the balance sheet date;
- non-monetary items reported at amortised cost are converted at the exchange rate on the initial day of the transaction; furthermore
- non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

### 3.31 Trade date and settlement date accounting

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

#### 3.32 **Bank tax**

Hungarian credit institutions are obliged to pay banking tax from the year 2010. From 2017 the basis of the adjusted balance sheet total according to IFRS at the actual calendar year minus two years. The Bank tax is presented as other operating expense in the Stand-alone Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.

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

#### 3.33 Critical accounting estimates and assumptions

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

#### Going concern

The Bank's management assessed the Bank's capabilities to continue operation and found that the Bank has the resources necessary for continued operation after the merge to MKB Bank Plc. Furthermore, the management is not aware of any significant uncertainty that might raise serious doubts in respect of the Bank's ability to exist as a going concern.

Given the expected merger of Takarékbank Zrt. into MKB Bank Nyrt., Takarékbank Zrt. will cease to exist as a legal entity, so the principle of going concern can not be applied. At the



same time, since the Bank's activities will continue within MKB Bank Nyrt. after the merger, the Bank has prepared its financial statements with full consideration of IFRS standards.

#### Fair value of financial instruments

In cases where the fair value of financial assets and liabilities are not measured at marked to market, other kind of assessment model is necessary to be used to determine fair value. Wherever possible, the input of these models is observable market data. Where such data are not available the Bank uses valuation model to determine fair value. (Note 26)

#### **Deferred tax assets**

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. (Note 12)

#### Loan impairment test and its result

The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral.

For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses. (see note 31)

#### Impairment of non-financial assets

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

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

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

#### 3.34 Reclassification and error

After the balance sheet date of the separate financial statements of 2020 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

# 3.35 Changes in the legal and regulatory environment and its effect on the separate financial statements

Due to the Russian-Ukrainian armed conflict in the territory of Ukraine and the resulting humanitarian catastrophe, the below government decrees and other legal instruments adopted in the state of emergency declared with Act XLII of 2022 influenced the Bank's activity:



- Gov. Decree 151/2022. (IV.14.) on the different application of the provisions of CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and certain related legislative provisions;
- Gov. Decree 197/2022. (VI.4.) on extra profit taxes; (Note 10)
- Gov. Decree 292/2022. (VIII.8.) on the introduction of specific rules on the credit moratorium related to the state of emergency;
- MNB Decree 22/2022. (VI.11.) regulating the maturity match of the mortgage-backed assets and liabilities of credit institutions (JMM Decree).
- Client effected by payment relief program (Note 31)

#### 3.36 Change in estimates

There are not any significant areas except credit risk. The credit risk note (note 31) presents the change in estimates.

#### 3.37 Comparative figures

According to MKB Bank Plc. (the parent) has standardized the proforma Balance Sheet and Profit or Loss Statement, Bank has changed the presentation of Separate Statement of Profit or Loss and the Separate Statement of Financial Position. The change is not significant, but the Bank has prepared the comparative figures of Separate Statement of Financial Position as at 31 December 2021, and 1 January, 2021.

The lines of the published financial statements in 2021 are presented in the table above, corresponding to the lines of the financial statements for the year ended 31 December 2022.

The Bank has changed the disclosure of interest income and modification loss, as well as the disclosure of local business tax and innovation contribution in accordance with the uniform accounting policy. These changes have also been presented in the comparative figures. The reclassification had no impact on profit or loss, and only reported in the published financial statements.

List of notes affected by the change:

Note number	Note description
Note 4	Interest and similar income and expense
Note 10	Operating expenses
Note 12	Income tax
Note 27	Other Liabilities



Data from audited accounts 2021  Comparative data of the 2022 accounts	Cash and cash equivalents	Financial instru- ments held for trading	Financial assets measured at fair value	Financial assets measured at amor- tised cost	Derivatives-Hedge settlements	Investments in subsidiaries	Tangible assets	Intangible assets	Tax assets	Other assets	Comparative data of the 2022 accounts
Cash and cash equivalents	217,464	-	-	-	-	-	-	-	-	-	217,464
Financial assets measured at fair value through profit or loss	-	5,454	-	224,406	-	-	-	-	-	-	229,860
Loans and advances to customers man- datorily at fair value through profit or loss	-	-	-	216,872	-	-	-	-	-	-	216,872
Securuties mandatorily at fair value through profit or loss	-	-	-	7,534	-	-	-	-	-	-	7,534
Derivative financial assets	-	5,454	-	-	-	-	-	-	-	-	5,454
Hedging derivative assets	-	-	-	-	5 258	-	-	-	-	-	5,258
Financial assets measured at fair value through other comprehensive income	-	-	200,073	-	-	-	-	-	-	-	200,073
Securities	-	-	200,073	-	-	-	-	-	-	-	200,073
Financial assets measured at amortised cost	-	-	-	2,550,682	-	-	-	-	-	-	2,550,682
Loans and advances to banks	-	-	-	440,133	-	-	-	-	-	-	440,133
Loans and advances to customers	-	-	-	1,594,116	-	-	-	-	-	-	1,594,116
Repurshace assets	-	-	-	-	-	-	-	-	-	-	0
Securuties	-	-	-	483,336	-	-	-	-	-	-	483,336
Other financial assets	-	-	-	33,098	-	-	-	-	-	-	33,098
Investments in subsidiaries and associates	-	-	-	-	-	5 309	-	-	-	-	5,309
Property, plant and equipment	-	-	-	-	-	-	11,187	-	-	-	11,187
Intangible assets	-	-	-	-	-	-	-	2,123	-	-	2,123
Income tax assets	-	-	-	-	-	-	-	-	6,279	-	6,279
Current income tax assets	-	-	-	-	-	-	-	-	27	-	27
Deferred income tax assets	-	-	-	-	-	-	-	-	6,252	-	6,252
Other assets	-	-	-	-	-	-	-	-	-	5,679	5,679
Total assets	217,464	5,454	200,073	2,775,088	5,258	5,309	11,187	2,123	6,279	5,679	3,233,914

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

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Data from audited accounts 2021  Comparative data of the 2022 accounts	Financial liabilitites held for trading	Financial liabil- itites measured at amortised cost	Derivatives-Hedge settlements	Provisions	Tax liabilitites	Other liabilitites	Comparative data of the 2022 accounts
Financial liabilities measured at fair value through profit or loss	6,816	-	-	-	-	-	6,816
Derivative financial liabilities	6,816	-	-	-	-	-	6,816
Financial liabilities measured at amortised cost	-	3,087,112	-	-	-	-	3,087,112
Amounts due to other banks	-	595,857	-	-	-	-	595,857
Deposits and current accounts	-	2,457,909	-	-	-	-	2,457,909
Repurchase liabilities	-	23,441	-	-	-	-	23,441
Other financial liabilities	-	9,904	-	-	-	-	9,904
Hedging derivative liabilities	-	-	384	-	-	-	384
Provisions	-	-	-	5,634	-	-	5,634
Income tax liabilities	-	-	-	-	-	640	640
Current tax liabilities	-	-	-	-	-	640	640
Other liabilities	-	-	-	-	-	26,927	26,927
Total liabilities	6,816	3,087,112	384	5,634	-	27,567	3,127,513



Profit or Loss	2021 Revised presenta- tion	Reclassfication of modification loss of stage 1 financial assets	Reclassificiation of lo- cal business tax and innovation contribution to income tax	2021 as previously pre- sented
Interest and similar to interest income	88,958	(677)	-	89,635
Interest income using effective interest rate method	80,651	(677)	-	-
Other interest income	8,307	-	-	-
Interest and similar to interest expense	(12,331)	-	-	(12,331)
Interest expense using effective interest rate method	(10,060)	-	-	-
Other interest expense	(2,271)	-	-	-
Net interest income	76,627	(677)	-	77,304
Modification (loss) /gain on financial instruments	(1,221)	677	-	(1,898)
Operating expense	(101,097)	-	3,168	(104,265)
Result before taxation	(333)	-	3,168	(3,501)
Income tax income/(expense)	(1,546)	-	(3,168)	1,622
Profit for the year discontinued operations	627	-	-	627
Results for the year	(1,252)		-	(1,252)



#### 4. INTEREST AND SIMILAR INCOME AND EXPENSE

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Interest income		
Financial assets at amortised cost	187,748	78,721
of which reclassficiation to the discontinued operation	-	(192)
Financial assets at fair value through other comprehensive income	8,615	2,122
Interest income calculated using the effective interest method	196,363	80,651
Financial assets held for trading	16,337	935
Non-trading financial assets mandatorily at fair value through profit or loss	11,315	6,375
Derivatives – Hedge accounting, interest rate risk	6,601	786
Other assets/sight deoposit	6,771	-
Interest income on financial liabilities	102	211
Income similar to interest income	41,126	8,307
Interest income and similar to interest income	237,489	88,958

<sup>\*</sup>From the Modification (loss) / gain on financial instruments in case of the stage1 financial instruments the Company recognizes the impact in the line "Interest income", amounting to HUF 2,541 million in 2022 (HUF 671 million in 2021).

Interest and similar income increased in line with the general market environment.



	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Interest expense		
Financial liabilities measured at amortised cost	53,640	9,632
Other liabilities	-	428
Interest expense calculated using the effective interest method	53,640	10,060
Financial liabilities held for trading	14,519	956
Derivatives — Hedging accounts, interest rate risk / Hedging derivatives	3,229	1,144
Interest expense on financial assets	179	171
Other interest expense	17,927	2,271
Interest expense and expense similar to interest expense	71,567	12,331

Interest and similar income increased in line with the general market environment.



#### 5. FEE AND COMMISSION INCOME AND EXPENSE

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Fee and commission income		
Account management fees	46,080	41,885
Fee and commission income related to bank cards	12,766	8,514
Lending fees income	2,702	2,521
Agency fee income	6,473	6,204
Other	51	55
Total	68,072	59,179

<sup>\*</sup> The change in fee and commission income related to bank cards is due to the increase in turnover.

## The following fee and commission income is recorded in accordance with IFRS 15:

Fee income related to account management

The Bank provides account management services to its retail and business clientele. The main types of service are: opening an account, monitoring the balance, arranging transactions within and outside the bank on the basis of a customer order/provision, arranging deposit transactions in relation to the account, cash flow, closing of accounts. Depending on the regularity of the service, their service fee and jute receipts will be charged to customer accounts on a daily, monthly (or more regular basis) or on a case-by-case basis.

In the case of continuous services (e.g. monthly fee for account management, monthly fee for sms services, etc.), fee receipts are recorded monthly on the last day of the month. These fees are typically fixed fees.

In the case of transaction-based services (e.g. remittance orders, direct debits, cash payments, etc.), transaction fees are settled at the same time as the transaction or by collecting monthly transaction fees. Fees are determined on the basis of the amount of the transaction, in % or in combination with a fixed and % combination.

Credit card fee and commission income

Credit card fees are typically fixed fees because card transactions are free of charge. Fixed fees are related to the maintenance of the card (annual card fee), card re-manufacture and replacement.

Fee income related to lending

Non-interest charges related to credit transactions are regular monitoring fees, fees for validation, verification, review and administration fees. These fees are recorded when the service is incurred or, in the case of a continuous service, monthly, ex post.

Agent fees

The Bank provides brokerage services to other banks, insurers, investment service providers, factor companies. The fees for these services are charged monthly, depending on the volume and value of the customers, transactions, transactions, usually monthly, sold or served on the order.



	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Fee and commission expense		
Account management fees	5,363	5,031
Fee and commission expense related to bank cards	5,278	5,421
Lending fees expenses	8,044	4,637
Agency fee expense	1,119	1,369
Other	82	42
Total	19,886	16,500

<sup>\*</sup>The important part of the change lending fees expenses cards is due to the increase in turnover.

The following fee and commission expenses are recorded in accordance with IFRS 15: Fee expenses related to account management

The fees paid for ancillary services related to account management services provided to customers are typically fees incurred in connection with the payment of account management fees (nostro) to other banks, the sending of statements, cash logistics, cash processing, postal cash transfers, postal payments, postal payments incurred in order to serve the account management of customers. They are usually monthly and regularly in line with continuous account management.

Fee and commission expense related to bank cards In connection with the provision of bank card services, the Bank pays the transaction and production and distribution fees of the bank card to the parent company who is the bank card provider. The amount of these fees depends on the number, volume and value of card transactions, so there are variable rates, but there are also fixed monthly fees. They are accounted for on a monthly basis. Lending fees

Fees and commissions incurred in connection with the lending of the Bank's clients to other banks and refinancing institutuions are recorded (one-off disbursement fees for refinancing loans, verification fees, etc.). They shall be accounted for on a regular basis and may be subject to variable remuneration depending on the refinancing facility or transactions, but may also be fixed remuneration. They shall be accounted for on a monthly basis or on a case-by-case basis for one-offs.

Fees paid to other entities in connection with client loans are also incurred if they are not part of the effective calculation of interest, e.g. notarial fees, valuation fees, national or other central database usage fees, if they have been re-invoiced to the customer. They are accounted for on a monthly basis on a case-by-case basis or on a continuous basis.

#### Agent's fee

The Bank also sells its products through agents, so its payments for brokering are typically made on a monthly basis, depending on the volumes sold. Typically used broker services include currency exchange by currency exchange agents, etc.



### 6. RESULTS FROM HEDGE ACCOUNTING, NET

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
FX transactions realized gains	4,108	3,376
FX transactions non-realized (loss)/gains	(6,695)	(50)
Profit from foreign exchange transactions	(2,587)	3,326

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

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Sale of total debt securities	(3,780)	1,665
(Losses) and gains from financial instru- ments measured at fair value through other comprehensive income	(3,780)	1,665
Sale of total debt securities	(226)	6
Gains and (losses) from loans	(17)	(578)
Gains and (losses) from financial instru- ments measured at amortised cost	(243)	(572)
Total	(4,023)	1,093

<sup>\*</sup>Results from other comprehensive income through financial instruments measured at fair value was in line with market conditions.



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

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
IRS deals*	11,057	(4,781)
MIRS deals**	4,692	4,610
FX deals***	118	(245)
FX Swap deals	(926)	(209)
Other	(945)	-
Total gains or losses on financial assets and liabilities held for trading, net	13,996	(625)
Non-trading financial assets mandatorily at fair value through profit or loss****	(28,426)	(157)
Total	(14,430)	(782)

<sup>\*</sup> Interest rate swaps (IRS)

<sup>\*\*</sup> Monetary interest rate swaps (MIRS)

<sup>\*\*\*</sup> Foreign exchange transactions (hereinafter FX)

<sup>\*\*\*\*</sup> See note 18



#### 9. OTHER INCOME AND EXPENSE

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Other income		
Result of a discontinued shares	94	-
Net profit on sold property and inventory	44	47
Rental income on property	326	100
Invoiced expenses and services*	147	915
Deferred ERMS aid**	-	2,942
Non-repayable assets received	86	-
Received compensation for damages	4	8
Other income for previous years	150	66
Provision use ***	1	56
Other****	30	1,616
Total	882	5,750

Cost sharing income based on the framework of SLA settlement agreement among the members of the Bank group.
\*\* Unified Integration System (hereinafter ERMS)

<sup>\*\*\*\*</sup>In 2021, HUF 1,209 million was settled in other income under the title of the disposal of the liability arising from foreign currency loans related to foreign currency loans (Act XXXVIII of 2014 and Act LX).

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Other expense		
Scrapping of tangible and intangible assets	452	2,545
Provision on contingent liabilities	-	26
Bank tax and subsidies to other organisations	650	501
Damages	196	448
Other	264	205
Total	1,562	3,725

<sup>\*\*\*</sup> See note 25

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



#### 10. OPERATING EXPENSES

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Staff costs	32,750	30,901
from this: reclassification to the result of discontinuing activity	-	(8)
Rental fee	191	327
Depreciation of tangible assets	3,881	3,480
Depreciation of intangible assets	797	1,979
General administrative costs and auditors fee*	15,077	17,360
Marketing and advertising	1,070	1,016
Consultancy fees**	1,192	3,009
IT costs	15,300	15,432
Other taxes and contributions ***	44,640	22,504
Insurance fees	133	129
Supervisory, authority fees****	7,189	4,741
Other	92	219
Total	122,312	101,097

<sup>\*</sup> The movement can be attributed to the cost allocations accounted for as a result of the SLA-based settlement agreement between the banks of the Bank Group.(SLA includes staff cost,material cost,IT cost and depreciation) \*\* In 2021, the management service fee paid to MBH (Magyar Bankholding Zrt.) in connection with the merger activity appeared as an expense. The auditors fee accounted for 2022 is HUF 115,5 million HUF (+VAT), while the audit amount of the interim balance sheet was HUF 46.2 million (+VAT).

#### 11.STAFF COSTS

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Wages and salaries	25,848	24,681
Social contribution	4,070	4,618
Other personnel related payments	2,831	1,610
from this: Reclassification to earnings from discontinued operations	-	(8)
Jubilee benefit obligation	1	-
Total	32,750	30,901

<sup>\*\*\*</sup> The change was due to the increase in tax payment costs due to the transaction fee and the extra profit tax, which was HUF 14,195 million. The special tax on financial institutions (bank tax) may be reduced by the fee paid to the Central Organization of Integrated Credit Institutions (hereinafter IHKSZ), accordingly, Takarékbank did not have any payment obligations under this item in 2021. Takarékbank resigned from the integration on 31 March 2022, in this way it could not validate this allowance from the second quarter of 2022. In 2022 bank tax is HUF 2,478 million.

<sup>\*\*\*\*</sup> The reason for the increase is the extraordinary commitment fee payable to OBA. (HUF 2,648 million)

All figures in tables are in HUF million except otherwise noted

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Wages contribution is payable by the Bank based on gross wages and salaries paid to employees. The full-time headcount of the Bank at the end of the reporting period was 3,399. The average annual full-time headcount in 2021 was 4,187.

#### 12. INCOME TAX

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

	2022	2021
Current tax expense	1,386	1
Corporate tax charge – on current year profit	1,386	1
Deffered tax (income) / expense	1,295	(1,623)
Origination (reversal) of temporary differences	(334)	-
Origination (reversal) of non-temporary differences	1,629	(1,623)
Local tax	5,292	2,746
Innovation fee	793	422
Income tax (income) / expense	8,766	1,546

Both in the reporting period and in 2021 9% current income tax rate was applied on taxable profit in Hungary. Due to this, 9% rate was applied both for current income tax and deferred tax purposes.

#### Reconciliation of effective tax rate

	2022		2021	
	%	HUF million	%	HUF million
Profit before income tax		34,247		(3,501)
Results from discontinued operations		-		627
Income tax using the domestic corporation tax rate	9.00%	3,082	9.00%	(259)
Local tax	15.45%	5,292	(78.43%)	2,746
Innovation fee	2.32%	793	(12.04%)	422
Non-temporary difference	(1.48%)	(507)	8.57%	(300)
Re-assessment of unrecognised tax losses carryforwards	1.68%	576	45.22%	(1,583)
Effect of deffered tax of IFRS adoption	-		(1.14%)	40
Other tax effect	(1.37%)	(470)	(13.71%)	480
Income tax (income) / expense	25.60%	8,766	(42.54%)	1,546

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

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On 31 December 2022, the Bank had unused tax losses amounting to HUF 51,363 million (2021: HUF 73,107 million) with the following maturity:

	2022	2021
Maturity up to 2022	-	6,383
Maturity up to 2023	3,067	3,067
Maturity up to 2024	18,733	18,733
Maturity up to 2025	18,196	18,196
Maturity up to 2026	2,909	2,909
Maturity up to 2030	8,458	23,819
Tax loss carryforwards	51,363	73,107

In 2015, the rules of utilization of tax losses carried forward have changed in Hungary: tax losses arising in 2015 and in following years, can be utilized solely in the subsequent five years following the tax year in which they were generated. Tax losses incurred before 2015 can be utilized until 2030. The unused tax loss is available only the end of the maturity, after the date of maturity the amount of unused tax loss is not part of the deferred tax calculation.

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

P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effec- tive move- ment of DTA/DTL	FVOC I move ment of DTA/ DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences				
<u>Assets</u>				
Tangible assets	-	45	-	45
Intangible assets	-	3	-	3
Securities	-	-	910	910
<u>Liabilities</u>				
Provision	-	283	-	283
Deffered Tax Assets – due to tax losses	6,252	(1,629)	-	4,623
Subtotal DTA before netting	6,252	(1,295)	910	5,867
Subtotal DTA after netting of balance sheet position	6,252	(1,295)	910	5,867

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



2021  P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effec- tive move- ment of DTA/DTL	FVO CI ef- fec- tive mov eme nt of DTA/ DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences Assets				
Deffered Tax Assets – due to tax losses	4,669	1,583	-	6,252
<u>Liabilities</u> Effect of corporate tax of IFRS adoption	(40)	40	_	-
Subtotal DTA before netting	4,669	1,583	-	6,252
Subtotal DTL before netting	(40)	40	-	-
Subtotal DTA after netting	4,629	1,623	-	6,252

The tax authority conducted a full-scale tax audit at the Company for the years 2014-2016. The tax authority can examine the accounting records for up to six years after the period to which they relate, and additional tax or fines may be imposed.

#### 13. DISCONTINUED OPERATIONS

In 2022, Takarékbank Plc. has not got any result from discontinued operations.

In 2021, Takarékbank Plc. discontinued one of financing activities (pawning jevelry). The receivables portfolio was assigned for a consideration equal to 100% of the principal amount of the pledged receivables actually outstanding on the date of the transfer.

	Book value at the date of derecognition
Assets	
Financial assets measured at amortized cost	4,071
Mortgages	4,485
Impairment of mortgages	(414)
Other assets	349
Net assets	4,420
	31 December 2021
Consideration received	4,863
Cash flow	
Carrying amount of sold asset	4,420
Consideration received	4,863
Net cash flow	443

	1 Januar 2021- 31 december 2021
Results for the current year from discontinued activities	
Net interest income	192
Net operating profit	192
Operating expenses	(8)
Profit before tax	184
Income tax	-
Profit for the current year	184
Profit from the sale of discontinued activities	443
Result of discontinued/discontinued activity	627

All figures in tables are in HUF million except otherwise noted



#### 14. OTHER COMPREHENSIVE INCOME

#### Components of other comprehensive income

	31 December 2022	31 December 2021
Items that will not be reclassified to profit or loss	25	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	25	-
Income tax relating to items that will not be re- classified	-	-
Items that may be reclassified to profit or loss	(5,069)	(4,713)
Hedging instruments	687	2,181
Debt instruments at fair value through other comprehensive income	(6,666)	(6,894)
Income tax relating to items that may be re- classified to profit or (-) loss	910	-
Other comprehensive income	(5,044)	(4,713)

#### 15. CASH AND CASH EQUIVALENTS

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

	31 December 2022	31 December 2021
Cash on hand	22,966	26,510
Other demand deposits	211,787	190,954
Total	234,753	217,464



#### **16. DERIVATIVE FINANCIAL ASSETS**

	31 December 2022	31 December 2021
Derivative financial assets		
IRS transactions	18,042	780
Forward transactions	-	1
FX Swap deals	131	-
MIRS transactions	10,025	4,673
Total	28,198	5,454

	31 December 2022	31 December 2021
Derivative financial liabilities		
IRS transactions	15,860	5,361
Other derivatives	3,179	1,455
Total	19,039	6,816

# 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2022	31 December 2021
Equity instruments	96	96
Debt securities	146,813	199,977
from this: Government Bonds	117,587	177,673
from this: Credit Institution Bonds	16,999	20,204
from this: Mortgage Bonds	7,109	2,100
from this: Other Bonds	5,118	-
Total	146,909	200,073

All figures in tables are in HUF million except otherwise noted



The Equity instruments contain securities acquired for non-trading purposes by the Bank that its ownership ratio is under 20%. The table below presents the fair value of this shares as at 31 December 2022:

Shares	Fair value
Garantiqua Hitelgarancia Ltd.	85
Integrációs Hitelintézetek Központi Szervezete	10
SWIFT	1
Soltvadkert és Vidéke Tksz."fa"	-
Takarék Egyesült Szövetkezet	-
Dél Alföldi Szakképzési és Nonprofit Zrt.	-
Golf & Country Club Zrt.	
Agrárvállalkozási Hitelgarancia Alapítvány	-
Általános Közlekedési Hitelszövetkezet	-
Total	96

The Bank have been reported dividend of HUF zero in equity instruments at fair value through other comprehensive income during the reporting period.

Shares	Fair value
Garantiqua Hitelgarancia Ltd.	85
Integrációs Hitelintézetek Központi Szervezete	10
SWIFT	1
Soltvadkert és Vidéke Tksz."fa"	-
Takarék Egyesült Szövetkezet	-
Dél Alföldi Szakképzési és Nonprofit Zrt.	-
Golf & Country Club Zrt.	-
Agrárvállalkozási Hitelgarancia Alapítvány	-
Általános Közlekedési Hitelszövetkezet	-
Total	96

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

	31 December 2022	31 December 2021
Securities mandatorily at fair value through profit or loss	6,520	7,534
from this investment in equity instruments	6,520	7,534
Loans to customers mandatorily at fair value through profit or loss	229,029	216,872
Total	235,549	224,406

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



Loans included in non-trading financial assets that are required to be measured at fair value through profit or loss are those groups of loans that do not pass the test of solely payments of principal and interest. In 2022, HUF 28,426 million (HUF 157 million in 2021) losses were lost in connection with non-trading loans to customers mandatorily at fair value through profit or loss. In 2022, the dividend payment on the dividend received line is originated from the securities mandatorily at fair value through profit or loss (HUF 574 million).

#### 19. FINANCIAL ASSETS MEASURED AT AMORTISED COST

	31 December 2022	31 December 2021
Debt securities	497,040	484,013
from: Government Bonds	279,243	267,322
from: Other issued Bonds	110,129	110,004
from: Mortgage Bonds	107,668	106,687
Impairment of debt securities	(2,429)	(677)
Loans at amortised cost gross *	1,802,581	1,658,599
from: Loans to bank	52,649	20,200
from: Repurshase assets	14,191	-
from: Retail	432,462	605,419
from: Corporate	1,296,269	989,622
from: Local government	7,010	43,358
Impairment on loans at amortised cost	(82,170)	(64,483)
from: Loans to bank	(6)	(86)
from: Repurshase assets	(3)	-
from: Retail	(20,921)	(23,281)
from: Corporate	(61,240)	(41,114)
from: Local government	-	(2)
Interbank deposits, loans gross	548,687	440,241
Impairment of inter-bake deposits and loans	(135)	(108)
Advances gross	54,228	35,864
Impairment on advances	(4,057)	(2,767)
Total	2,813,745	2,550,682

Impairment under collective and individual assessment:

	Stage 1	Stage 2	Stage 3	POCI	
31 December 2022	12-month Ex- pected Credit Loss (ECL)	Lifetime Ex- pected Credit Loss (ECL)	Lifetime Ex- pected Credit Loss (ECL)	Purchased or originated credit-im- paired assets	Total
Individual	4	1,498	15,329	101	16,932
Collective	16,941	28,683	26,235	-	71,859
Total	16,945	30,181	41,564	101	88,791

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The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



The table above also includes the impairment of securities at fair value through other comprehensive income (HUF 2,429 million), the impairment of other demand deposits (HUF 135 million) and the impairment on advances (HUF 4,057 million). The gross exposure of individual-impaired loans at amortised cost (retail, corporate, local government) is HUF 56,590 million (related impairment HUF 16,932 million) at 31 December 2022. The gross exposure of collective-impaired loans at amortised cost (retail, corporate, local government) is HUF 1,745,991 million (related impairment HUF 65,238 million) at 31 December 2022.

	Stage 1	Stage 2	Stage 3	POCI	
31 December 2021	12-month Ex- pected Credit Loss (ECL)	Lifetime Ex- pected Credit Loss (ECL)	Lifetime Ex- pected Credit Loss (ECL)	Purchased or originated credit-im- paired assets	Total
Individual	-	2,080	12,619	610	15,309
Collective	19,505	17,056	16,203	27	52,791
Total	19,505	19,136	28,822	637	68,100

#### **20. INVESTMENTS IN SUBSIDIARIES**

Gross value	31 December 2022	31 December 2021
Balance as at 1 January	4,825	5,345
Increase in subsidiary shares*	1,128	2,163
Decrease in subsidiary shares	(687)	(2,603)
Increase in associated shares from merger	-	(80)
Closing balance	5,265	4,825

<sup>\*</sup> A significant part of the increase in the shares of subsidiaries was due to the increase of Takarékbank's stake in TIHASZ Takarék Ingatlanhasznosító Zrt. and in TIFOR Takarék Ingatlanforgalmazó Zrt. The increase was mainly due to the liquidation of Hajdu Rent Kft.

The liquidation of the Hajdu Rent Kft. has been completed and their shareholdings have thus been dere cognised.

The Bank measures its investments in subsidiaries, jointly controlled enterprises or associates at cost based on its accounting policy decision in accordance with IAS 27.

The changes of the impairment losses in subsidiaries and associates are the follows.

Impairment	31 December 2022	31 December 2021
Balance as at 1 January	159	255
Loss allowance	244	109
Reversal of loss allowance	(51)	(124)
Use of loss allowance	(137)	(81)
Closing balance	215	159

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



Equity interests of the Bank in subsidiaries and associates as at 31 December 2022:

	Gross value	Impairment	Book value	Held %
ANTAK 2000 Ltd.	104	-	104	100%
F House Ltd.	56	56	-	100%
Szetak-Szolg. Ltd.	120	-	120	99.92%
TIFOR Takarék Ingatlanfor- galmazó Ltd.	1,515	76	1,439	22.52%
TIHASZ Takarék In- gatlanhasznosító Ltd.	2,384	-	2,384	9.21%
Környei Tak-Ing Ltd. va	10	-	10	100%
DIÓFA TM-1	350	-	350	23.99%
MTB Ltd.	673	30	644	6.01%
Subsidiaries total	5,212	162	5,050	-
Euro Eco Ltd.	13	13	-	22.48%
Humán Pénzügyi Mediátor Ltd. "v.a."	40	40	-	48.70%
Associates total	53	53	-	-
Subsidiaries and associates total	5,265	215	5,050	-

<sup>\*</sup>For the purpose of the financial statements, MKB Bank Plc., the parent company. identified related parties. Dividends received from subsidiaries and associates was 0 HUF in 2022 and in 2021.



Equity interests of the Bank in subsidiaries and associates as at 31 December 2021:

	Gross value	Impairment	Book value	Held %
ANTAK 2000 Ltd.	104	-	104	100%
F House Ltd.	25	10	15	100%
Szetak-Szolg. Ltd.	120	-	120	100%
Hajdú Rent Ltd.	625	77	548	100%
TIFOR Takarék Ingatlanfor- galmazó Ltd.	1,510	10	1,500	22%
TIHASZ Takarék In- gatlanhasznosító Ltd.	1,966	-	1,966	8%
Környei Tak-Ing Ltd. va	10	-	10	100%
DIÓFA TM-1	350	-	350	24%
MTB Ltd.	643	-	643	4.65%
Subsidiaries total	5,353	97	5,256	-
Euro Eco Ltd.	13	13	-	22%
Humán Pénzügyi Mediátor Ltd. "v.a."	40	40	-	49%
iSafe Informatikai Zrt.	62	9	53	25%
Associates total	115	62	53	-
Subsidiaries and associates total	5,468	159	5,309	-

Dividends received from subsidiaries and associates was 0 HUF in 2021 and in 2020.



#### **21.TANGIBLE ASSETS**

31 December 2022	Property	Technical and office equipment, machines, vehicles	Investment in tangible assets	Total
Gross value				
Opening balance	2,133	3,633	783	6,579
Increase	-	801	727	1,528
Decrease	(75)	(154)	(827)	(1,056)
Closing balance	2,057	4,310	684	7,051
Depreciation				
Opening balance	462	1,916	-	2,378
Annual depreciation	256	877	-	1,133
Decrease*	(29)	(96)	-	(125)
Closing balance	689	2,697	-	3,386
Impairment				
Opening balance	-	-	-	-
Increase	-	-	-	-
Decrease	-	-		-
Closing balance	-	-	-	-
Net value	1,368	1,613	684	3,665



#### **TANGIBLE ASSETS (CONTINUING)**

31 December 2021	Property	Technical and office equip- ment, ma- chines, vehicles	Construction in progress	Total
Gross value				
Opening balance	2,101	2,949	1,099	6,149
Increase	299	773	194	1,266
Decrease	(267)	(59)	(510)	(836)
Closing balance	2,133	3,663	783	6,579
Depreciation				
Opening balance	200	1,258	-	1,458
Annual depreciation	330	693	-	1,023
Decrease	(68)	(35)	-	(103)
Closing balance	462	1,916	-	2,378
Impairment				
Opening balance	-	-	-	-
Increase	-	-	-	-
Reversal	-	-	-	
Closing balance	-	-	-	-
Net value	1,671	1,747	783	4,201

The tables contain the tangible assets of the Bank expected the right-of-use assets.

Tangible assets of the separate financial statement contain the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 4,695 million as at 31 December 2022 and HUF 6,986 million as at 31 December 2021.

The right-of-use assets under IFRS 16 have been reported in Note 23.

The Bank estimates the recoverable amount of the tangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount. The Bank had not been recognised impairment on tangible assets in 2022



#### 22. INTANGIBLE ASSETS

31 December 2022	Intangible assets	CDI asset related to MTB portfolio transfer	Total
Gross value			
Opening balance	1,936	1,275	3,211
Increase	181	-	181
Decrease	(38)	(1,275)	(1,313)
Closing balance	2,079	-	2,079
Depreciation			
Opening balance	351	738	1,089
Annual depreciation	630	166	796
Decrease	(36)	(904)	(940)
Closing balance	945	-	945
Impairment			
Opening balance	-	-	-
Increase	-	373	373
Reversal	-	(373)	(373)
Closing balance	-	-	-
Net value	1,134	-	1,134

The Bank uses software, licenses, trademarks, telephone line locks, ISDN connection fees and utility development contributions purchased as intangible assets.

The CDI asset related to the MTB portfolio transfer was acquired on 1 May 2019 during the transfer. The difference between the external assessment and book value on sale was determined at the delivery of the portfolio, the amortization of the difference is tied to the maturity of the portfolio. In 2022, the remaining portfolio was analyzed and compared with the original delivery it was not significant, the assets adopted above were derecognized from the books.



### **INTANGIBLE ASSETS (CONTINUING)**

31 December 2021	Intangible assets	CDI asset re- lated to MTB portfolio trans- fer	Total
Gross value			
Opening balance	6,709	1,275	7,984
Increase	1,221	-	1,221
Decrease	(5,993)	-	(5,993)
Closing balance	1,937	1,275	3,212
Depreciation			
Opening balance	2,260	497	2,757
Annual depreciation	1,738	241	1,979
Decrease	(3,647)	-	(3,647)
Closing balance	351	738	1,089
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Reversal	-	-	-
Closing balance	-	•	-
Net value	1,586	537	2,123

The Bank estimates the recoverable amount of the intangible asset. Based on this were not such an asset by the Bank, where the recoverable amount would have been lower than the carrying amount of an asset, therefore impairment have not been recognised on intangible assets in 2021.



#### **23.IFRS 16 LEASES**

#### Right-of-use and tangible assets

	31 December 2022	31 December 2021
Owned property, plant and equipment	3,665	4,201
Right-of-use assets, except investment properties	4,695	6,986
Total property, plant and equipment	8,360	11,187

#### **Lease liabilities**

Lease liabilities presented in the statement of financial position

	31 December 2022	31 December 2021
Short term	2,003	3,308
Long term	2,919	3,939
Total lease liabilities	4,922	7,247

#### Maturity analysis - undiscounted contractual payments

	31 December 2022	31 December 2021
Up to 1 year	2,108	2,730
1 year to 5 years	3,018	4,738
Over 5 years	11	96
Total undiscounted lease liabilities	5,137	7,564

#### Right-of-use assets

	Property	Company car	Total
Opening balance at 1 January 2021	6,400	926	7,326
Increase	4,671	965	5,636
Amortization for the year	(1,974)	(523)	(2,497)
Decrease	(3,264)	(215)	(3,479)
Balance at 31 December 2021	5,833	1,153	6,986
Increase	2,180	269	2,449
Amortization for the year	(2,225)	(524)	(2,749)
Decrease	(1,955)	(36)	(1,991)
Balance at 31 December 2022	3,833	862	4,695

The increase and decrease of right of use assets are casuded by a new contracts, because property lease contracts has renegotiated with new contractor.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



#### Total cash outflow for leases

	31 December 2022	31 December 2021
Total cash outflow for leases	(2,427)	(2 692)

#### Items related to lease liabilities presented in profit or loss

	31 December 2022	31 December 2021
Interest expense on the lease liabilities	(125)	(168)
Expenses related to variable lease payments not included in the measurement of the lease liabilities	-	0
Income from subleasing right-of-use assets	-	0
Gains or losses arising from sale and leaseback transactions	-	0
Total	(125)	(168)

### Items presented in the statement of cash flows

	31 December 2022	31 December 2021
Interest expense on the lease liabilities	(125)	(168)
Financing cash flow	(2,427)	(2 692)

The Bank, as the lessee, did not apply the practical solution under the lease payment modifications resulting from the lease relief to any of the lease agreements, as it was not provided with lease relief as a direct consequence of the Covid19 pandemic.

#### **24.OTHER ASSETS**

	31 December 2022	31 December 2021
Accrued income and prepaid expenses*	3,562	3,501
Reclaimable taxes	221	491
Repossessed collateral	194	152
Accrued amount of fair value difference at initial recognition of loans under Funding for Growth Scheme	405	911
Other	23	624
Total	4,405	5,679

<sup>\*</sup>A significant part of the increase in accrued income relates to accrued income related to credit card services.



#### 25. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31 December 2022	31 December 2021
Deposits	2,521,337	2,457,909
Amounts due to other banks*	645,221	595,858
Repurchased liabilities	30,283	23,441
Subordinated liabilities**	23,947	-
Other financial liabilities	7,732	9,904
Total	3,228,520	3,087,112

<sup>\*</sup> There has been a significant increase in refinanced loans under the Growth Loan Program (NHP).

#### 26. PROVISIONS

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

2022	Credit risk pro- vision	Provision for reor- ganiza- tion*	Provision for amounts relating to accrued vacation pay	Other provision	Provi- sion for pending lawsuit	Total
Opening balance at 1 January 2022	4,567	-	657	240	170	5,634
Increase in the period	17,438	2,576	419	900	414	21,747
Use of provision in the period	-	-	-	1	(492)	(493)
Derecognition of provision in the period	(16,889)	(277)	(657)	(745)	(54)	(18,622)
Closing balance at 31 December 2022	5,116	2,299	419	394	39	8,267

<sup>\*</sup>The provision was recognised in connection with the obligations related to the reorganization.

The net balance of provisions for losses and release of provisions in 2022 - HUF 2,633 million of which HUF 2,665 million was recognized in the separate Statement of Profit or Loss under provisions, HUF 1 million was recognized in other income and HUF 83 million in operating expense. In connection with the credit risk of off-balance sheet exposures denominated in foreign currency, the annual revaluation difference of credit risk provision denominated in the currency of the exposures was HUF 50 million, which was recognized in the separate Statement of Exchange differences result.

<sup>\*\*</sup>The subordinated loan which is classified as capital instrument and provided by MKB Nyrt. is represented between subordinated liabilities based on the article 63 of CRR.

The maturity of the loan capital is on 2 July 2029. The interest rate is 1 month BUBOR + 4.9 %, while the interest period is 1 month.

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



2021	Credit risk provision	Provision for amounts re- lating to accrued va- cation pay	Other provision*	Provision for pending lawsuit	Total
Opening balance at 1 January 2021	4,118	692	191	262	5,263
Increase from mergers	9,531	-	184	48	9,763
Use of provision in the period	-	-	(132)	(51)	(183)
Derecognition of provision in the period	(9,082)	(35)	(3)	(89)	(9,209)
Closing balance at 31 December 2021	4,567	657	240	170	5,634

<sup>\*</sup> The provision was recognised in connection with the obligations related to the remuneration program, reorganization and severance pay.

#### **27.OTHER LIABILITIES**

	31 December 2022	31 December 2021
Taxes payable	3,930	2,868
Suppliers	-	2
Accrued expenses*	19,370	22,674
Accrued part of disbursed liabilities under Funding for Growth Scheme	694	1,185
Other	89	198
Total	24,083	26,927

<sup>\*</sup>A significant proportion of the accruals represent the amount of accruals due to cost divisions accounted for as a result of the SLA settlement agreement between the banks of the Banking Group. (SLA see note 10)

#### 28. SHARE CAPITAL

Ownership structure

The table shows the structure of the shares as follows:

Type of shares	Number of shares		Face value (thousand HUF/pieces)		Total face value (thousand HUF)	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Ordinary shares (Series "A")	9,826	9,826	10,000,000	10,000,000	98,260	98,260
Ordinary shares (Series "C")	867	-	10,000,000	-	86,700	-
Priority shares	200,000	200,000	10,000	10,000	2,000	2,000
Total	210,693	209,826	-	-	186,960	100,260

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



Ordinary shares (Series "A") and ordinary shares (Series "C") embody general shareholder rights. Priority shares (divident preference shares) (Series "B")

The owners of the Company's dividend preference shares of series 'B' shall jointly be entitled to 12.5% (twelve point five percent) of the after-tax profit for the previous financial year, or of the after-tax profit supplemented with available profit reserves from the current year that is available for distribution to the benefit of members, and has been ordered for distribution by the supreme body, in proportion of the nominal value of their respective shares. Voting rights shall be linked to the Company's dividend preference shares of series 'B' irrespective of dividend payment.

	31	December 20	22	31 December 2021		
Shareholders	Number of share- holders	Face value (in HUF million)	Holding (%)	Number of share- holders	Face value (in HUF mil- lion)	Holding (%)
MKB Bank Plc.	1	184,770	98.83%	-	-	0.00%
Magyar Posta Ltd.	-	-	0.00%	1	17,710	17.67%
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	1	10	0.00%	1	73,570	73.38%
Other legal entity	10	170	0.09%	15	5,760	5.74%
Natural person	152	1,990	1.07%	251	3,200	3.19%
Other organization	1	20	0.01%	1	20	0.02%
Total	165	186,960	100.00%	269	100,260	100.00%

One of the 165 members have more than 5% ownership. Names, registered offices and voting rights of owners above 5% on 31 December 2022:

Name	Regis- tered office	Priority shares (pieces)	Ordinary shares (pieces)	Number of shares (pieces)	Face value	Holding (%)
MKB Bank Plc.	Budapest	200,000	10,474	210,474	184,770	98.83%

In the Takarékbank Ltd. has 1 owner with more than 10% ownership, the number of shares are 210,474 pieces, their total controlling interests are 98.83%. In addition, no member shall achieve a share of ownership above 5%.

The parent company of the MKB Bank Plc. is the Magyar Bankholding Zrt., beyond that, the ultimate owner cannot be identified.

#### 28.2. Other reserves

	31 December 2022	31 December 2021
Other retained earnings General reserve	<u>919-</u>	<u>919</u> -
General reserve	2,548	-
Closing balances	3,467	919



#### 28.2.1General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. In 2022, HUF 2,548 million general reserve was booked.

### Cumulated other comprehensive income

	31 December 2022	31 December 2021
Opening balance	(4,429)	284
Cumulated other comprehensive income	(5,044)	(4,713)
Items that will not be reclassified to profit or loss	25	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	25	-
Items that may be reclassified to profit or loss	(5,069)	(4,713)
Hedging Instruments (unmarked items)	687	2,181
Debt instruments at fair value through other comprehensive income	(6,666)	(6,894)
Income tax relating to items that may be reclassified to profit or (-) loss	910	-
Closing balance	(9,473)	(4,429)

# 29. CONTINGENT LIABILITIES

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the separate statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Bank:

	31 December 2022	31 December 2021
Guarantees	47,122	42,113
Loan commitments	358,568	475,330
Contingents liabilities from litigation	463	322
Total	406,153	517,765



#### 30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

#### 30.1 Financial assets at amortised cost

The Bank calculates the fair value (level 3) of loans and advances to customers and refinanced loans at amortized cost on an individual basis.

The applied valuation model takes into account the following:

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

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

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

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

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

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

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



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

The fair value of financial assets at amortized cost is shown in the table below:

	31 December 2022		31 December 2021	
	Net book value	Fair value	Net book value	Fair value
Fair value of financial assets at amortized cost	2,813,745	2,533,356	2,550,682	2,416,308

### 30.2 Fair value of other items in the statement of financial position

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

#### 30.3 Fair value of derivative transactions

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

	Fair v	/alue	Notional	amount
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Swap deals	131	-	32,020	-
IRS deals	18,043	780	196,582	6,081
MIRS	10,024	4,673	35,472	35,472
Other derivatives	-	1	-	281
Total trading derivate assets	28,198	5,454	264,074	41,834
Hedge derivative deals	27,716	5,258	121,409	81,754
Total derivative financial assets	55,914	10,712	385,483	123,588



	Fair v	/alue	Notional	amount
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Swap deals	1,916	-	122,330	-
IRS deals	15,859	5,361	38,941	38,941
State bonds forward deals	1,264	1,455	5,693	6,267
Total trading derivate liabilities	19,039	6,816	166,964	45,208
Hedge derivative deals	522	384	4,051	4,051
Total derivative financial liabilities	19,561	7,200	171,015	49,259

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

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

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

In the valuation of hedging transactions, the Bank establishes a so-called hypothetical swap and measures its efficiency accordingly.

The Bank reported hedge for swap transactions in the separte IFRS financial statements of Bank. The effect of this is shown in the table on December 31,2022.

# Fair value hedging

2022. december 31.

Hedging type	Hedged transac- tion type	Fair value of hedging	Fair value of a hedged contract	Hedging gain/loss	Loss/gain on a hedged transaction
IRS	Instruments meas- ured at amortised costs	26,450	35,896	21,148	(19 815)
IRS	Securities valued against other comprehensive income	744	8,162	689	(688)



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

	Gross amounts in State- ment of Financial	Amount s set off against finan- cial lia-	Net amounts in State- ment of Finan-	Potential effects of net- ting agreements not qualifying for offsetting in Statement of Finan- cial Position		Net amount after potential offsetting
	Position	bilities	cial Po- sition	Financial instru- ments	Cash col- lateral re- ceived	
Financial as- sets for trad- ing	45,889	-	45,889	19,561	-	26,328
Repurchase liabilities	14,188	-	14,188	-	14,188	-
Total	60,077	-	60,077	19,561	14,188	26,328

Liabilities subject to offsetting and potential offsetting agreements – 2022

	Gross amounts in State- ment of Financial	Amount s set off against finan- cial as-	Net amounts in State- ment of Finan-	Potential effects of net- ting agreements not qualifying for offsetting in Statement of Finan- cial Position		Net amount after potential offsetting
	Position	sets	cial Po- sition	Financial instru- ments	Cash col- lateral pledged	
Financial lia- bilitites for trading	19,561	-	19,561	19,561	-	-
Repo agree- ments	30,283	-	30,283	-	30,283	-
Total	49,844	-	49,844	19,561	30,283	-

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

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column 'Noncash financial collateral received / pledged' respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge.

#### 30.4 Fair value of financial instruments carried at fair value

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Bank calculates the fair value of non-trading financial assets mandatorily at fair value through profit or loss on an individual basis.

The applied valuation model takes into account the following:

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

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

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

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

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

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

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

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



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

	31 December 2022			
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets	-	28,198	-	
Non-trading financial assets mandatorily at fair value through profit or loss	6,520	-	229,030	
Securities at fair value through other comprehensive income	139,704	7,109	96	
Hedging derivative assets	-	27,716	-	
Total assets carried at fair value	146,224	63,023	229,126	

	;	31 December 2022			
	Level 1 Level 2 Level 3				
Liabilities					
Derivative financial liabilities	1,264	17,775	-		
Hedging derivative liabilities	-	522	-		
Total liabilities carried at fair value	1,264	18,297	-		

	31 December 2021			
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets	-	5,454	-	
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	224,406	
Securities at fair value through other comprehensive income	177,673	22,304	96	
Hedging derivative assets	-	5,258	-	
Total assets carried at fair value	177,673	33,016	224,502	

		31 December 2021				
	Level 1	Level 1 Level 2 Level 3				
Liabilities						
Derivative financial liabilities	-	6,816	-			
Hedging derivative liabilities	-	384	-			
Total liabilities carried at fair value	- 7,200					

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



Instruments' movements in Level 3 2022	Non-trading financial assets mandatorily at fair value through profit or loss	Securities at fair value through other comprehensive income
Opening balance at 1 January 2022	224,406	96
Statement of profit or loss		
(Loss)/Profit	(28,426)	-
Other comprehensive income	-	25
Transactions		
Purchase/portfolio growth	33,050	-
Transfers	-	-
Closing balance at 31 December 2022	229,030	96

There was not transfer among the fair value hierarchy levels in 2022.

Based on the experience of the past period, the auditor has proposed several changes to improve the model, which increase the confidence level of the model.

- Updating statistical data in the cash flow amortization model
- Changes to the methodology for calculating the cost of capital
- Direct incorporation of the credit spread into the discounting through shifting the yield curve, while at the same time removing the credit spread from the T-Motor
- Annual review of other spreads on discount factor (operating costs, liquidity premium)

By processing the parameters obtained and applying them to the Fair Value methodology, the following effects were identified on stocks 11.30.

- The increase of **operating expenses** from 1.1% to 1.2% would decrease the profit or loss by HUF 1.04 billion (HUF -11.705 billion vs HUF -12.746 billion).
- The cost of capital under the current methodology is excluded, but in agreement with the auditor, the cost of capital under the new methodology is taken into account, which is 0.16% per month, taking into account the expected annual ROE of 16% for 2023 and the maximum level 80% of interest rate risk coverage for banking book. This effect must also be passed through to the cost of capital, which is reduced by 8bp to 0.16%. The effect is a profit of HUF 0,839 billion.
- We recommend adding 3.6bp (value calculated by Gáborék Gelencsér) to the Credit
  Risk Spread when shifting the SWAP yield curve, which has a negative effect of HUF
  0.375 billion on profit or loss. In the case of the Takarék Group, there is no qualified capital for the reversal of the credit risk effect outside the current model.
- The observation frequency of unborn children in two categories decreased from 6% to 5.02% which would worsen the profit or loss by HUF 0.2 billion.
- The sum of the four effects is -1.04+0.839-0.375-0.2 = HUF 0.776 billion.



Instruments' movements in Level 3 2021	Non-trading financial assets mandatorily at fair value through profit or loss	Securities at fair value through other comprehensive income
Opening balance at 1 January 2021	155,508	916
Statement of profit or loss		
(Loss)/Profit	(157)	-
Other comprehensive income	-	-
Transactions		
Purchase/portfolio growth	69,055	(830)
Transfers	-	-
Closing balance at 31 December 2021	224,406	96

There was not transfer among the fair value hierarchy levels in 2021.

#### 31 RISK MANAGEMENT

#### 31.1 Overview

Takarékbank Zrt. was a member of the Integration Organisation under act CXXXV of 2013 on the integration of cooperative credit entrée until the end of first quarter of 2022. Based on the new group determination decision issued by the MNB, MBK Bank Plc. took over the group managements function over the Bank after 29 April 2022.

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

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

The Risk Strategy is based on the following main pillars:

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

The exposure is basically credit-, liquidity-, market- and operational risks.

### 31.2 Risk management structure

#### **Board of Directors**

The Boards of Directors are responsible for the Bank's risk management policy and strategy. The Boards of Directors approve the basic framework rules for risk management and guidelines of applicable methodologies.

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

#### **Risk Taking-Risk Management Committee**

The members of the Committee are members of the Board of Directors who are not employed by Takarékbank Ltd. The Committee shall in particular:

- a) preparing an expert opinion for senior executives on Bank's current and future risk-taking strategy and risk appetite,
- b) supporting the Board of Directors in supervising the implementation of the risk-taking strategy,
- c) an examination of the consistency between the pricing principles and Bank's business model and risk-taking strategy; and
- d) an examination of the remuneration policy in terms of whether the incentive elements of the remuneration system established take into account Takarékbank's risks, capital and liquidity position, and the probability and timing of incomes.



# Supervisory Board

The Supervisory Boards of the Takarékbank are responsible for monitoring the overall risk and risk management processes within the Bank. In this context they supervise and monitor the suitability of methods and systems applied by the Takarékbank in order to ensure compliance with the statutory capital adequacy requirements.

# Assets and Liabilities Committee (ALCO)

Assets and Liabilities Committee is exercised its authority relating to the asset and liability management, planning/controlling management, pricing and sales, developing, liquidity risk management, market risk management, credit and counterparty risk, concentration risks, operational risk, risk policy / risk strategy, capital management and categories defined in the internal policies for the Committee.

The ALCO has the right make decisions according to the defined categories. The committee determines the strategic and development orientations for the business management related to Takarékbank interest bearing assets and liabilities. The committee has different tasks related to the asset and liability management (ensuring liquidity, interest rate risk, exchange rate risk, capital adequacy, interest margin and funding risk management). Continuously monitors the Takarékbank makes suggestion for the interest policy. In order to ensure the prudential requirements, the Bank shall establish and maintained the conformity between income and liquidity.

# 31.3 Lending Committee (HB)

The Commission decides on matters delegated to the Commission in the internal regulations, decides on matters referred to it by the Credit Regulation (Decision Competence Order Annex)

## **Methodology Committee (MB)**

The competence of the Methodology Committee is exercised at the individual level of the Bank. The Methodology Committee performs all the tasks required by law or supervisory recommendations from a risk control, a risk methodology, an operational risk management and an NPL committee in the areas specified in the Rules of Procedure of the Standing Committees. In detail:

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

**Department of Risk Management** is responsible for determining the requirements necessary for the prudent operation. They develop the risk guidelines and manage credit, liquidity, market and operational risk.

#### **Internal Audit**

The elements of the internal control system (management control and management information system incorporated in processes, and an independent internal control unit function) cover the

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



Takarékbank's all organizational units and are incorporated in day-to-day operation. They are traceable and provide feedback to the appropriate levels of management and control.

Risk management processes are audited regularly by the internal audit organization that examines both the adequacy of the procedures and the compliance with the procedures. Internal Audit reports its findings to the Takarékbank's Supervisory Board and the Management of the Takarékbank.

### Risk evaluation and reporting system

Takarékbank is measured the risk exposure in accordance with the methods defined in laws and integration policies.

In terms of liquidity as well as interest, shares and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. Takarékbank collects and analyses data about events and losses related to risk from operation. As a result of risk assessment the Bank determines the level of capital justified by the level of acceptable exposure.

Risk Taking-Risk Management Committee, The Boards of Directors and The Supervisory Board evaluate the reports on risks of the Takarékbank on a quarterly basis.

### 31.4 Risk mitigation

### Interest rate and exchange rate risks

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

### Credit risk

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

Risk-taking for retail customers was carried out using standardized loan facilities and lending processes, which resulted in a high number of customers, a low amount of individual loans, diversification and thus the spraying of risks.

There are also standardized product deliveries for micro and small businesses. Risk-taking against medium-sized and large companies is based on individual analysis and decisions, and continuous monitoring is given great emphasis.

Takarékbank applies strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio.

The majority of the credit insurance value of real estate collateral is determined by Takarék Ingatlan, which belongs to the Takarék Group, while the Credit Collateral Value is approved by Takarékbank's Collateral Management team.



#### 31.5 Credit risk

31.5.1 Credit risk

### **Impairment**

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

Under IFRS 9 the bank uses all reasonable and supportable information available without undue cost and effort, the Bank first evaluates individually the Financial Assets whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

# Staged Approach to the Determination of Expected Credit Losses

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

#### Stage 1:

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

## Stage 2:

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

#### Stage 3:

Takarékbank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 %, via the recoverable cash flows for the asset, for those Financial Assets that are credit-impaired. The Bank definition of default is aligned with the regulatory definition.

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

### Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i.e., risk of default) of a Financial Asset has increased significantly since initial recognition, Takarékbank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on the Bank historical experience, credit risk assessment and forward-looking information (including macro-economic factors). The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month ECLs to one that is based on lifetime ECLs (i.e., Stage 1 to Stage 2). The Bank's



framework aligns with the internal Credit Risk Management process and covers rating related and process related indicators which are discussed further in the section below on Model Descriptions.

## **Credit Impaired Financial Assets in Stage 3**

Takarékbank has aligned its definition of credit impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation (CRR) under Art. 178.

The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigates such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

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

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

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

#### Default

The Savings Bank classiest and treats clients and exposures as defaults in accordance with Article 178(1) of the CRR. A customer's default shall be deemed to have occurred if one or both of the following occurs:

- (a) the Institution considers that the client is unlikely to fully meet its credit obligations (UTP) to the institution, its parent company or a subsidiary company unless the institution seeks a return in order to draw down the collateral;
- (b) the customer's significant credit obligation to the Institution, the parent company or any of its subsidiaries is delayed by more than 90 days

#### **Purchased or Originated Credit Impaired Financial Assets**

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

#### Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirely or a portion of it). This is the case when the Bank



determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in Provision for impairment losses in the separate statement of Profit or Loss.

### 31.5.2 Model Descriptions - Expected Credit Loss

## Stage determination

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

#### Rating-Related Indicators:

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

#### **Process-Related Indicators:**

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

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

#### **Expected Lifetime model**

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

Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk. The expected lifetime is estimated by taking into consideration



historical information and the Bank's Credit Risk Management actions such as credit limit reductions and facility cancellation. These facilities can be incorporated in an individual review by Credit Risk Management.

### **Forward-Looking Information**

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

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

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

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

# **Assumptions and the Estimation Techniques**

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

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

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

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

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

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

The counterparty ratings assigned are derived based on internally developed rating models which specify consistent and distinct customer-relevant criteria and assign a rating grade based on a



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

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

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

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

#### **ESG**

Until the end of reporting period ESG aspects have not been taken into consideration in the risk models. After the merger is completed the Bank will collect and oraganise the ESG data and will examine the possibilities to use it in the models.

#### Macroscenario

The macroeconomic scenarios will be updated and used in the bank processes the same time the new inflation report from the National Bank of Hungary is recieved. Based on the forcasts the Bank will use the currenct marcoeconimical PD forcast models to calculate the new parameters required for macroeconomic adjustments (Macro overlay factor – MOF) on a segment level. Using these new parameters the IFRS PD (without macro correction) values will be adjusted to reflect the expectations of the macroeconomic scenarios. The weighting of the macroeconomic scenarios is calculated in accoredance with the recommendations of the (internal use only) management letter from the National Bank of Hungary. At the end of the year 2022 the weights used are the following: 25% - stress scenario, 70% - base scenario, 5% - optimistic scenario. The resulting IFRS PD values adjusted to the new macroeconomic environment and expectations will be implemented after the approval of the Methodology Committee. The Banks macroeconomic models will be validated with every update both with statistical methods and business side validation - thus ensuring the applicability of the model.

# Impact of the pandemic on credit risk management

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

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

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

In case of corporate customers, the Bank will continue to determine the level of impairment based on the rating and the monitoring result.

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

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

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

the proportion by which the income of customers entering the moratorium4 has decreased compared to 18.03.2020,



- in case of customers who entered into "agricultural moratorium", the models are not aware of the agricultural moratorium and therefore the willingness and ability to pay may contain a hidden high probability of default,
- the application of transitional staging rules alone does not always translate into a full increase in lifetime credit loss, even if macro parameters are updated.

The breakdown of the management overlay on 31 December 2022 is as follows:

- overlay for income reduction: HUF 1,717 million
- overlay for agricultural moratorium: HUF 3,236 million
- overlay for corporate customers with specific ratings: HUF 997 million

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



IFRS 9 credit risk tables are presented below.

Credit risk exposure 31 December 2022

	Stage 1	Stage 2	Stage 3	POCI	
31 December 2022	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or origi- nated credit-im- paired financial asset	Total
Gross carrying amount per asset type					
Cash on hand	22,966	-	-	-	22,966
Investment grade	22,966	-	-	-	22,966
Other demand deposits	211,830	-	-	-	211,830
Investment grade	211,830	-	-	-	211,830
Securities at fair value through other comprehensive income	146,948	-	-	-	146,948
Investment grade	146,948	-	-	-	146,948
Securities measured at amortised cost	492,496	4,544	-	-	497,040
Investment grade	492,496	4,544	-	-	497,040
Interbank	548,687	-	-	-	548,687
Investment grade	548,687	-	-	-	548,687
Non-investment grade	-	-	-	-	-
Loans to banks	66,840	-	-	-	66,840
Investment grade	66,840	-	-	-	66,840
Retail	313,253	96,240	22,741	228	432,462
Investment grade	306,388	86,781	-	54	393,223
Default grade	-	816	22,741	174	23,731
Non-investment grade	6,865	8,643	-	-	15,508

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



Credit risk exposure 31 December 2022 (continuing)

	Stage 1	Stage 2	Stage 3	POCI	
31 December 2022 (continuing)	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or origi- nated credit-im- paired financial asset	Total
Gross carrying amount per asset type					
Corporate	859,522	371,083	65,176	488	1,296,269
Investment grade	768,007	337,279	-	9	1,105,295
Default grade	-	1,604	65,176	479	67,259
Non-investment grade	91,515	32,200	-	-	123,715
Local government	7,010	-	-	-	7,010
Investment grade	6,699	-	-	-	6,699
Default grade	-	-	-	-	-
Non-investment grade	311	-	-	-	311
Advances	50,104	-	4,124	-	54,228
Investment grade	50,104	-	-	-	50,104
Default grade	-	-	4,124	-	4,124
Total gross carrying amount	2,719,656	471,867	92,041	716	3,284,280
Loss allowance	17,123	30,181	41,564	101	88,969
Carrying amount	2,705,533	441,686	50,477	615	3,195,311



Credit risk exposure 31 December 2021

	Stage 1	Stage 2	Stage 3	POCI	
31 December 2021	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or origi- nated credit-im- paired financial asset	Total
Gross carrying amount per asset type					
Cash on hand	26,510	-	-	-	26,510
Investment grade	26,510	-	-	-	26,510
Other demand deposits	191,001	-	-	-	191,001
Investment grade	191,001	-	-	-	191,001
Securities at fair value through other comprehensive income	199,995	-	-	-	199,995
Investment grade	199,995	-	-	-	199,995
Securities measured at amortised cost	484,013	-	-	-	484,013
Investment grade	484,013	-	-	-	484,013
Due from banks	440,241	-	-	-	440,241
Investment grade	440,241	-	-	-	440,241
Non-investment grade	-	-	-	-	-
Retail	441,896	141,978	21,262	283	605,419
Investment grade	432,996	118,013	-	69	551,078
Default grade	398	1,962	21,262	213	23,835
Non-investment grade	8,502	22,003		1	30,506

<sup>\*</sup>All items except the marked one are classified as Investment grade.



Credit risk exposure 31 December 2021

	Stage 1	Stage 2	Stage 3	POCI	
31 December 2021 (continuing)	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or origi- nated credit-im- paired financial asset	Total
Gross carrying amount per asset type					
Corporate	796,023	171,923	40,421	1,455	1,009,822
Investment grade	800,724	134,958	-	139	935,821
Default grade	308	1,813	40,421	1,305	43,847
Non-investment grade	(5,009)	35, 152	-	11	30,154
Local government	42,559	798	1	-	43,358
Investment grade	42,559	798	-	-	43,057
Default grade	4	-	1	-	5
Non-investment grade	296	-	-	-	296
Advances	33,098	-	2,767	-	35,865
Investment grade	33,098	-	-	-	33,098
Default grade	-	-	2,767	-	2,767
Total gross carrying amount	2,655,336	314,699	64,451	1,738	3,036,224
Loss allowance	19,505	19,136	28,822	637	68,100
Carrying amount	2,635,831	295,563	35,629	1,101	2,968,124



# Credit-impaired (Stage 3) assets at 31 December 2022

31 December 2022	Gross exposure	Impairment	Carrying amount
Retail other loan	26,207	14,334	11,873
Retail mortgage	13,041	4,547	8,494
Corporate loan	48,669	18,971	29,698
Advances	4,124	3,712	412
Total credit-impaired assets	92,041	41,564	50,477

# Credit-impaired (Stage 3) assets at 31 December 2021

31 December 2021	Gross exposure	Impairment	Carrying amount
Retail other loan	6,580	6,404	176
Retail mortgage	14,682	4,276	10,406
Corporate loan	40,421	15,375	25,046
Advances	2,767	2,767	-
Total credit-impaired assets	64,450	28,822	35,628



Impairment movement table 2022

	Stage 1	Stage 2*	Stage 3	POCI	
Type of device	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit- impaired financial asset	Total
Impairment loss as at 1 January 2022	19,505	19,136	28,822	637	68,100
Reclassification					
Reclassification from Stage 1 to Stage 2	(3,297)	19,285	-	-	15,988
Reclassification from Stage 1 to Stage 3	(305)	-	6,037	-	5,732
Reclassification from Stage 2 to Stage 1	476	(3,399)	-	-	(2,923)
Reclassification from Stage 2 to Stage 3	-	(1,940)	7,051	-	5,111
Reclassification from Stage 3 to Stage 1	9	-	(480)	-	(471)
Reclassification from Stage 3 to Stage 2	-	286	(1,119)	-	(833)
Changes in PDs/LGDs/EADs	(1,775)	(2,445)	5,987	(536)	1,231
New financial assets originated or purchased	5,141	2,823	945	-	8,909
Exchange rate and other movements	-	-	-	-	-
Financial assets derecognised during the period	(2,631)	(3,565)	(5,679)	-	(11,875)
Impairment loss as at 31 December 2022	17,123	30,181	41,564	101	88,969

<sup>\*</sup>The reclassification effect comes from the new monitoring and interest rate cap program.



Impairment movement table 2022

	Stage 1	Stage 2	Stage 3	POCI	
Type of device	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit- impaired financial asset	Total
Impairment loss as at 1 January 2022	19,505	19,136	28,822	637	68,100
Interbank exposure	24	-	-	-	24
Change in PDs/LGDs/EADs	24	-	-	-	24
Securities	466	1,403	-	-	1,869
Change in PDs/LGDs/EADs	466	1,403	-	-	1,869
Retail	(411)	(4,036)	2,089	(2)	(2,360)
Real estate covered	(387)	(2,151)	(237)	(2)	(2,777)
Reclassification between Stage categories	(165)	(483)	490	-	(158)
Change in PDs/LGDs/EADs	(307)	(1,068)	(339)	(2)	(1,716)
New financial asset purchased or created	252	63	-	-	315
Exchange rate and other movements	-	-	-	-	-
Financial assets decreed during the period	(167)	(663)	(388)	-	(1,218)



	Stage 1	Stage 2	Stage 3	POCI	
Asset type	12-month Expected Credit Loss (ECL)	Lifetime Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or origi- nated credit-im- paired financial asset	Total
Revolving	30	(117)	411	-	324
Reclassification between Stage categories	39	(95)	427	-	371
Change in PDs/LGDs/EADs	(7)	(3)	15	-	5
New financial asset purchased or created	22	2	-	-	24
Financial assets decreed during the period	(24)	(21)	(31)	-	(76)
Other covered	(11)	(43)	22	-	(32)
Reclassification between Stage categories	3	(29)	21	-	(5)
Change in PDs/LGDs/EADs	(3)	(6)	4	-	(5)
Financial assets decreed during the period	(11)	(8)	(3)	-	(22)
Other unsecured	43	(1,725)	1,893	-	125
Reclassification between Stage categories	118	(1,369)	1,613	-	362
Change in PDs/LGDs/EADs	(489)	(255)	884	-	140
New financial asset purchased or created	602	206	-	-	808
Financial assets decreed during the period	(274)	(307)	(604)	-	(1,185)



	Stage 1	Stage 2	Stage 3	POCI	
Asset type	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit-impaired financial asset	Total
Corporate	(2,727)	13,678	9,708	(534)	20,125
Reclassification between Stage categories	(3,112)	14,805	8,938	-	20,631
Change in PDs/LGDs/EADs	(885)	(1,113)	5,423	(534)	2,891
New financial asset purchased or created	4,425	2,552	-	-	5,977
Financial assets decreed during the period	(2,155)	(2,566)	(4,653)	-	(9,374)
Municipalities	(2)	-	-	-	(2)
Reclassification between Stage categories	-	-	-	-	-
Change in PDs/LGDs/EADs	(2)	-	-	-	(2)
New financial asset purchased or created	-	-	-	-	-
Financial assets decreed during the period	-	-	-	-	-
Bank loans	(77)	-	-	-	(77)
Change in PDs/LGDs/EADs	(78)	-	-	-	(78)
New financial asset purchased or created	1	-	-	-	1
Advances	345	-	945	-	1,290
Change in PDs/LGDs/EADs	345	-	945	-	1,290
Provision as at 31 December 2022	17,123	30,181	41,564	101	88,969



# Impairment movement table 2021

	Stage 1	Stage 2	Stage 3	POCI	
Asset type all	12-month Ex- pected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased or originated credit- impaired financial asset	Total
Impairment loss as at 1 January 2021	21,306	7,569	20,843	529	50,247
Reclassification					
Reclassification from Stage 1 to Stage 2	(1,997)	9,732	-	1	7,736
Reclassification from Stage 1 to Stage 3	(387)	-	8,287	31	7,931
Reclassification from Stage 2 to Stage 3	92	(312)	-	-	(220)
Reclassification from Stage 3 to Stage 2	-	(650)	4,640	9	3,999
Reclassification from Stage 2 to Stage 1	14	-	(343)	-	(329)
Reclassification from Stage 3 to Stage 1	-	404	(1,268)	(2)	(866)
Changes in PDs/LGDs/EADs	(836)	1,508	73	69	814
New financial assets originated or purchased	5,149	1,933	826	-	7,908
Exchange rate and other movements	-	-	-	-	-
Financial assets derecognised during the period	(3,836)	(1,048)	(4,236)	-	(9,120)
Impairment loss as at 31 December 2021	19,505	19,136	28,822	637	68,100

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



	Stage 1	Stage 2	Stage 3	
Asset type all	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Total
Risk provision as of 1 January 2022	2,996	1,144	427	4,567
Movements with P&L impact				
Reclassification:				
Reclassification from Stage 1 to Stage 2	(328)	778	-	450
Reclassification from Stage 1 to Stage 3	(12)	-	175	163
Reclassification from Stage 2 to Stage 1	22	(48)	-	(26)
Reclassification from Stage 2 to Stage 3	-	(6)	63	57
Reclassification from Stage 3 to Stage 1	-	-	(6)	(6)
Reclassification from Stage 3 to Stage 2	-	1	(25)	(24)
New financial assets originated or purchased	1,272	503	687	2,462
Changes in PDs/LGDs/EADs	57	(363)	6	(300)
Other movements with no P&L impact				
Financial assets derecognised during the period	(1,485)	(585)	(157)	(2,227)
Impairment loss as at 31 December 2022	2,522	1,424	1,170	5,116



	Stage 1	Stage 2	Stage 3	
Asset type all	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Total
Risk provision as of 1 January 2021	3,131	809	178	4,118
Movements with P&L impact	-	-	-	-
Reclassification	-	-	-	-
Reclassification from Stage 1 to Stage 2	(61)	112	-	51
Reclassification from Stage 1 to Stage 3	(11)	-	258	247
Reclassification from Stage 2 to Stage 1	2	(13)	-	(11)
Reclassification from Stage 2 to Stage 3	-	(1)	15	14
Reclassification from Stage 3 to Stage 1	2	-	(42)	(40)
Reclassification from Stage 3 to Stage 2	-	4	(7)	(3)
New financial assets originated or purchased	1,672	639	93	2,404
Changes in PDs/LGDs/EADs	(537)	(223)	(2)	(762)
Other movements with no P&L impact				
Financial assets derecognised during the period	(1,202)	(183)	(66)	(1,451)
Impairment loss as at 31 December 2021	2,996	1,144	427	4,567



Exposure to credit risk on loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	
31 December 2022	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Total
Retail exposure	63,636	23,670	1,399	88,705
Corporate exposure	259,086	47,678	3,236	310,000
Local government exposure	6,603	-	-	6,603
Interbank exposure	138	-	-	138
Total exposure to credit risk	329,463	71,348	4,635	405,446

	Stage 1	Stage 2	Stage 3	
31 December 2021	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Total
Retail exposure	19,159	2,183	120	21,462
Corporate exposure	415,601	38,945	1,731	456,277
Local government exposure	30,146	3	1	30,150
Interbank exposure	5	-	-	5
Total exposure to credit risk	464,911	41,131	1,852	507,894



### 31.5.3 Client effected by payment relief program

Due to the first moratorium on repayment set out in Act LVIII of 2020 on transitional rules and epidemiological preparedness related to the cessation of emergency, it is not necessary to pay installments for all corporate and retail loan agreements from 19 March 2020.

The next piece of legislation is Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties, supplementing it Act 637/2020 (XII.22.), (second moratorium) entered into force on 1 January 2021, according to which the repayment moratorium can be used until 30 June 2021. This legislation was extended until 31 July 2022, and then, according to a further statement, until 31 December 2022.

Unpaid interest accrued during the moratorium, together with the installment due for the remaining term, shall be paid in equal annual installments during the term of the moratorium after the expiration of the moratorium on payment. The monthly installment cannot increase due to unpaid interest and principal. The term is extended accordingly.

Based on Government Decree No. 782/2021 (XII.24.) (second modification No. 390/2022 (X.14.) Government Decre ) on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is between 1 January 2022 and 30 June 2023 the applicable reference interest rate must not be higher than the reference interest rate the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.

The modification loss due to the program was calculated based on the expected cash flow, which ones are estimated under this legislations.

Takarék Bank modified the impairment methodology in accordance with the legislation and recommendations after the onset of the emergency. Credit risk monitoring is a key element in the methodology for measuring the significant increase in credit risk since its initial publication. During the pandemic period, the Bank placed even more emphasis on this activity.

In the individual monitoring processes, a stricter procedure was applied, and new methodologies were introduced to identify companies in a deteriorating risk situation. In addition, the Bank has recalculated the parameters of the previously applied IFRS, taking into account the expected macroeconomic effects. This ensured that appropriate loss levels were established for the different credit risk categories.

## 31.4.3.1 Clients affected by payment relief program 2022

# 31.5.3.1.1 Clients affected by interest rate cap program 2022 (1 July 2022 - 31 December 2022)

Based on Government Decree No. 782/2021 (XII.24.) (first modification No. 215/2022 (VI.17.) Government Decree) on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is before or between 1 January 2022 and 31 December 2022 the applicable reference interest rate must not be higher than the reference interest rate the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.



Financial assets modified during the period 31 December 2022 (in- terest rate cap extend until the year end 2022)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	46,527	38 767	85,294
Loss allowance before modification	(190)	(4,611)	(4,801)
Net amortised cost before modification	46,337	34,156	80,493
Net modification gain/(loss) (change in gross carrying amount)	(1,427)	(1,168)	(2,595)
Impairment gain or loss	17	130	147
Net amortised cost after modification	44,926	33,118	78,045

Clients affected by payment relief program / Characteristics of loans

30 June 2022

30 Jun 2022 (Extend of interest rate cap pro- gram until 31 December)	Number of loans	Outstanding balance	% of portfolio
Retail loans	20,622	78,045	11,86%
Total (retail and corporate loans)	20,622	78,045	11,86%

Clients affected by payment relief program/ Carrying amount of loans

	Non-impaired loans			,
30 June 2022	Stage 1	Stage 2	Stage 3	Total
Retail loans	45,100	30,904	6,695	82,699
Investment grade	45,100	25,810	-	70,910
Default grade	-	-	6,629	6,629
Non-Investment grade	-	5,094	66	5,160
Gross carrying amount	45,100	30,904	6,695	82,699
Allowances for credit losses	(174)	(1,154)	(3,327)	(4,654)
Carrying amount	44,926	29,750	3,368	78,045

# 31.5.3.1.2 Clients effected by interest rate cap program 2022 (1 January 2023 – 30 June 2023)

Based on Government Decree No. 782/2021 (XII.24.) (second modification No. 390/2022 (X.14.) Government Decree ) on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is before or between 1 January 2022 and 30 Jun 2023 the applicable reference interest rate

All figures in tables are in HUF million except otherwise noted



must not be higher than the reference interest rate the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.

Financial assets modified during the period 31 December 2022 (ex- tend of interest rate cap program until the end of June 2023)	with loss al- lowance based 12 months ECL	with loss al- lowance based on lifetime ECL	Total
Gross carrying amount before modification	11,473	74,932	86,406
Loss allowance before modification	(110)	(6,235)	(6,346)
Net amortised cost before modification	11,363	68,697	80,060
Net modification gain/(loss) (change in gross carrying amount)	(692)	(5,214)	(5,906)
Impairment gain or loss	8	418	425
Net amortised cost after modification	10,679	63,900	74,579

Clients affected by payment relief program/ Characteristics of loans

31 October 2022

31 October 2022 (Extend of interest rate cap program until the end of June 2023)	Number of loans	Outstanding balance	% of portfolio
Retail loans	19,932	74,579	11,33%
Total (retail and corporate loans)	19,932	74,579	11,33%

Clients affected by payment relief program/ Carrying amount of loans

31 October 2022	Non-impai	ired loans	Impaired Ioans	,
(Extend of interest rate cap program until the end of June 2023)	Stage 1	Stage 2	Stage 3	Total
Retail Ioans	10,781	64,074	5,620	80,475
Investment grade	10,470	58,018	-	68,488
Default grade	-	-	5,613	5,613
Non-Investment grade	312	6,056	7	6,375
Gross carrying amount	10,781	64,074	5,620	80,475
Allowances for credit losses	(102)	(3,942)	(1,852)	(5,896)
Carrying amount	10,679	60,132	3,769	74,579

# 31.5.3.1.3 Client affected by payment relief program 2022 (based on statement about repayment moratorium)

Those financially disadvantaged clients who made a separate declaration until 31 October 2021 (filling a statement about repayment moratorium) can participate in the moratorium until 30 June 2022. The modification loss under this legislation was calculated based on the expected payment schedules as of 31 October 2021. In 2022, this option was extended for one month, the Government Decree No. 216/2022 allowed the moratorium participant to further extend it until December 31, 2022 (filling statement again). The recorded adjustment loss was HUF 226 million for this transaction.

31.4.3.1.4 Clients effected by interest rate cap program 2022 415/2022 (X.26 Government Decree)

Based on Government Decree 2022 (X.26.) which is about considering the emergency, in the interest of moderate the negative economic effects related to micro, small and medium-sized enterprises, in the case of borrowers tied to a reference interest rate, if the repricing date is before or between 15 November 2022 and 30 Jun 2023 the applicable reference interest rate must not be higher than the reference interest rate the applicable reference interest rate must not be higher than the reference interest rate valid on 28 June 2022.

Financial assets modified during the period 31 December 2022 (ex- tend of interest rate cap program until 30 June 2023)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	64,873	94,289	159,161
Loss allowance before modification	(1,321)	(13,452)	(14,773)
Net amortised cost before modification	63,552	80,837	144,389
Net modification gain/(loss) (change in gross carrying amount)	(2,494)	(3,489)	(5,983)
Impairment gain or loss	50	483	533
Net amortised cost after modification	61,108	63,900	138,939

Clients affected by interest rate cap program / number of loans 2022 30 November 2022

30 November 2022 (Extend of interest rate cap pro- gram until 30 June 2023)	Number of loans	Outstanding balance	% of portfolio
Micro corporate loans	4,050	40,798	6.8%
Corporate loans	1,909	98,141	8.7%
Total (retail and corporate loans)	5,959	138,939	-%



Client affected by payment relief program

30 November 2022	Non-impa	Non-impaired loans		_	
(extend of interest rate cap program until the end of June 2023)	Stage 1	Stage 1 Stage 2		Total	
Micro corporate loans	14,042	23,629	7,574	45,245	
Investment grade	13,861	22,980	-	36,841	
Default grade	-	-	7,541	7,541	
Non-Investment grade	181	648	33	863	
Corporate loans	<i>4</i> 8,853	<i>4</i> 2,861	16,043	107,933	
Investment grade	<i>4</i> 8,375	40,742	-	89,118	
Default grade	-	191	16,016	16,383	
Non-Investment grade	478	1,927	27	2,432	
Gross carrying amount	62,895	<i>66,490</i>	23,617	153,178	
Allowances for credit losses	(1,271)	(2,705)	(10,191)	(14,239)	
Carrying amount	61,625	63,785	13,426	138,939	



# 31.5.3.2 Client effected by payment relief program 2021

In 2021 the moratorium on repayment has been prolonged until 31 October 2021 with unchanged conditions based on the Government Decree 536/2021. about the amendment of Government Decree No. 637/2020 (XII.21.) on the introduction of the special rules of the payment moratorium related to the state of emergency.

The modification loss due to the amendment of the legislation was updated with a 4-month extension.

# 31.5.3.2.1 Customers affected by the payment facilitation programme 2021 (based on payment moratorium declaration)

After 31 October 2021, rightholders in need will be able to apply for the moratorium by making a separate declaration until 30 June 2022. (moratorium on payments on the basis of a declaration). The loss due to the amendment was calculated on the basis of the expected payment schedules estimated on 31 October 2021 on the basis of this legislation.

The table below contains information for this scope of privilege:

Financial instruments modified during the period up to 31 December 2021	12 month ECL	Lifelong ECL	Total
Gross cost before adjust- ment	27	79,957	79,984
Loss before modification	-	(16,751)	(16,751)
Net amortized cost before adjustment	27	63,206	63,233
Net change profit or (-) loss (change in carrying amount)	-	(569)	(569)
Impairment gains or (-) losses	-	119	119
Net amortized cost after adjustment	27	62,756	62,783

Characteristics of loans covered by a payment relief program 2021 (based on payment moratorium declaration)

31 December 2021	Number of loans	Net receivables	% portfolio
Retail loans	7,657	33,367	5.51%
Corporate loans	609	29,416	2.97%
Total (Retail and Corporate loans)	8,266	62,783	5.78%



Client effected by payment relief program (based on payment moratorium declaration)

Carrying amount of loans

. 9	Non-impa	aired loans	Impaired Ioans	/e	
31 december 2021	Stage 1	Stage 2	Stage 3	Total	
Retail loans	27	25,447	15,797	41,271	
Investment classification	27	23,485	-	23,512	
Default classification	-	127	15,797	15,924	
Non-investment classification	-	1,835	-	1,835	
Corporate loans	-	17,677	20,466	38,143	
Investment classification	-	17,677	-	17,667	
Default classification	-	-	20,466	20,466	
Non-investment classification	-	10	-	10	
Gross book value	27	43,124	36,263	79,414	
Impairment	-	(2,044)	(14,587)	(16,631)	
Carrying amount	27	41,080	21,676	62,783	

In the tables above, the loans covered by the payment facilitation scheme include the actual recipients. Book value represents IFRS exposure on December 31, 2021.

# 31.5.3.2.2 Customers affected by the interest rate cap program

<u>Based on Government Decree No. 782/2021 (XII.24.)</u> on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is before or between 1 January 2022 and 30 June 2022 the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.

The modification loss under this legislation was calculated based on the expected payment schedules as of 31 December 2021.

Financial instruments modified during the period up to 31 December 2020	12 month ECL	Lifelong ECL	Total
Gross cost before adjust- ment	69,621	53,210	122,831
Loss before modification	(458)	(5,732)	(6,190)
Net amortized cost before adjustment	69,163	47,479	116,642
Net change profit or (-) loss (change in carrying amount)	(677)	(519)	(1,196)
Impairment gains or (-) losses	-	-	-
Net amortized cost after adjustment	68,486	46,960	115,446

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



31 December 2021	Number of loans	Loans after im- pairment	% portfolio
Retail loans	28,916	115,446	19.07 %
Total (Retail and Corporate loans)	28,916	115,446	19.07 %

Customers affected by the interest rate cap program 2021 Carrying amount of loans

	Non-imp	Non-impaired loans		Je	
31 december 2021	Stage 1	Stage 2	Stage 3	Total	
Retail loans	68,944	45,708	6,984	121,636	
Investment classification	68,841	36,297	-	105,138	
Default classification	-	1,064	6,984	8,048	
Non-investment classification	103	8,347	-	8,450	
Impairment	(458)	(3,128)	(2,604)	(6,190)	
Carrying amount	68,486	42,580	4,380	115,446	

In the tables above, the loans covered by the payment facilitation scheme include the actual recipients. Book value represents IFRS exposure on December 31, 2021.

#### 31.5.4. Restructured loans

As a restructured claim, Takarékbank records a claim containing a discount for which the original contract giving rise to the claim was amending in order to avoid non-payment because the debtor could not meet his repayment obligation under the original contractual terms or could not comply with it in the absence of the concession.

Cases of contract change that is considered a discount

- a) A contract amendment which constitutes a concession may relate, inter alia:
  - deferring repayments (interest and principal payments) for a temporary period (grace period),
  - payment of instalments,
  - to change the rate of interest, re-price it (e.g. in the form of an interest discount),
  - · capitalisation of interest,
  - to change the currency,
  - to extend the duration of the loan.
  - to reschedule repayments,
  - to reduce the amount of collateral, collateral required, to exchange it with other collateral, with collateral, to forset cover (for margin release),
  - to establish new contractual terms and conditions, to terminate part of the original terms.
- b) On the basis of an amendment to the contract which constitutes a concession, an additional agreement or a new contract may be concluded between the parties or between the parties and the related undertaking of the original creditor, which relates to a new loan for the purpose of repaying the debt (principal or interest owed) due to the cancelled or unresisted original contract,

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or to an additional commitment to avoid an increase in risk and mitigate losses, in which case claims incurred by Takarékbank as a result of this additional stop or related new contract are also considered to be restructuring claims.

The Savings Bank treats the following cases as non-performing restructuring:

- a. the amended contract was considered non-performing prior to the amendment or, in the absence of the modification, the original contract would be deemed to be non-performing,
- b. the contract amendment includes partial or total debt waiver,
- c. at the same time as or close to the discount granted in respect of other debt, the debtor has made interest payments or principal repayments in respect of his loan to Savings Bank, which is covered by the non-performing exposure or, in the absence of a discount, which constitutes a loan,
- d. a change in the contract involving repayment by validating the collateral, if the modification includes a discount.

#### Change of monitoring grades/cure

- The total recovery period for restructured performing transactions is 730 days (there should be no significant delay of more than 30 days during this period), after successful recovery it can be put into normal or enhanced monitoring client management.
- The recovery period for non-performing restructured or default restructured transactions is 365 days (there can be no significant delay during this period) after successful recovery-weeks of preventive/intensive customer treatment.

#### Restructured loan book broken down by type of loan

31 December 2022	Gross value	Impairment	Carrying amount	Number of loans
Retail exposure	14,116	(1,540)	12,576	3,634
Corporate exposure	616	(122)	494	39
Municipal exposure	-	-	-	1
Total	14,732	(1,662)	13,070	3,674

31 December 2021	Gross value	Impairment	Carrying amount	Number of loan
Retail exposure	17,871	1,732	16,139	4,175
Corporate exposure	983	709	274	58
Municipal exposure	1	-	1	1
Total	18,855	2,441	16,414	4,234



### 31.5.5 Collaterals for lending risk applied by Takarékbank:

The credit risk collateral of the Savings Bank, as applied to its existing exposures in the course of the risk-taking process:

#### Real estate

The Bank accepts as collateral mortgages, independent or separated liens established on such real estate that is registered in Hungary and have long live stable value.

Real estate is valued by independent appraisers who are not involved in decision-making regarding the loan and who establish the collateral value conservatively.

# State guarantee and GHG Ltd. or AVGHA guarantee

All instances of State guarantee and other guarantee accepted by Takarékbank involve joint and several liabilities set forth by law. The rules governing the guarantee are laid down in statutory provisions.

#### Deposit

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

#### Other

In addition to the above the Banks also accept assigned claims, lien on claims, otherwise its credit risk has been decreased with assets that covered loans taking into collaterals.

The table below shows the structure of the collaterals:

	31 December 2022	31 December 2021
Mortgage	1,755,214	1,844,732
Deposit	73,367	208,978
Guarantee	889,807	650,761
Other collaterals, fuses	140,857	34,894
Total	2,859,245	2,739,365

The above detailed collaterals cover fully the amount of the loans. Among the collaterals the value of mortgage represents the collateral value allocated to the mortgage at disbursement (market value less discount factor) in case of Customer loans. All other items are valued at their own value (for example the assignment is valued at the amount which was assigned). The category of other collaterals contains the insurances.



The table below shows the maximum credit risk exposure:

	31 December 2022	31 December 2021
Other demand deposit	211,787	190,954
Financial assets at fair value through other comprehensive income	146,909	200,716
Financial instruments held for non-trading purposes valued at fair value against the mandatory origin	235,549	216,872
Retail loans	432,462	580,841
Corporate loans	1,296,269	1,008,780
Local government loans	7,010	61,709
Due from banks	601,336	755,644
Advances	54,228	24,843
Off-balance sheet commitments	358,568	475,330
Total gross credit risk exposure	3,344,118	3,515,689

#### 31.6 Market risk

Market risks are including the interest rate risk and equity risk in the trading book (position risk), furthermore foreign exchange rate risk from the complete banking activity.

Takarékbank leads trading book, maintains low its interest rate-, equity-, and foreign exchange rate risk exposure by means of eligible limit system and test of key controls.

#### Interest risk

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

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

	Sensitivity of in- terest income 12/31/2022+1 bp	Sensitivity of in- terest income 12/31/2021+1 bp	Sensitivity of inter- est income 12/31/2021 +10 bp	Sensitivity of inter- est income 12/31/2021 +25 bp
HUF	(79)	(37)	(785)	(1,963)
EUR	(5)	(1)	(52)	(130)
USD	-	-	2	5

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

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements



Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2022 net interest income would decrease by HUF 79 million in case of HUF, it would decrease by HUF 5 million in case of EUR.

#### 31.7 Exchange rate risk management

The business policy of Takarékbank is to keep exchange rate risk at a low level, it may hold an open foreign exchange position up to the limit specified in the banking book

The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Takarékbank applies VaR calculations and stress tests on the measurement of the foreign exchange exposures.

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

FX	Effect on earn- ings before in- come tax (31 De- cember 2022)	Effect on capital (31 De- cember 2022)	Effect on earnings before income tax (31 December 2021)	Effect on capital (31 De- cember 2021)
EUR	1,737	1,737	(430)	(430)
USD	239	239	210	210
CHF	1,300	1,300	(420)	(420)
Other	520	520	430	430

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

In addition to the 1 % increase in the exchange rate due to the Bank's foreign exchange positions, the estimated pre-tax profit and equity may increase by approximately HUF 1,737,000 for EUR items, HUF 1,300,000 for CHF, HUF 239,000 for USD and HUF 520,000 for other currencies.



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

31 December 2022	HUF	EUR	CHF	Other	Total
Total assets and deriva- tives	3,155,725	350,735	2,037	3,189	3,511,686
Total liabilities and deriv- atives	(2,863,694)	(398,320)	(4,042)	(18,791)	(3,284,847)
Shareholders' equity	(226,839)	-	-	-	(226,839)
Off-balance sheet items	308,893	44,761	1,860	19,911	375,425
Position	374,085	(2,824)	(145)	4,309	375,425

31 December 2021	HUF	EUR	CHF	Other	Total
Total assets and deriva- tives	2,968,884	246,792	2,071	16,167	3,233,914
Total liabilities and deriv- atives	(2,862,474)	(246,805)	(2,112)	(16,122)	(3,127,513)
Shareholders' equity	(106,401)	-	-	-	(106,401)
Off-balance sheet items	185,031	(8,964)	(491)	(326)	175,250
Position	185,040	(8,977)	(532)	(281)	175,250

### 31.8 Liquidity and maturity risk

The liquidity is the ability of the institute to fund its asset increasing and to serve its payment obligations entirely as they fall due without having unplanned liquidation losses.

Liquidity risk is associated with maturity transfers for profitability, long-term placements of short-term funds, environmental impacts and the behaviour of other market participants.

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

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



Maturities of undiscounted cash flows of financial liabilities

31 December 2022	On demand	Within 3 months	3 - 12 months	1 - 5 years	5 - 10 years	10 - 15 years	Over 15 years	Total
Financial Derivative financial liabilities	-	1,916	-	3,243	13,060	820	-	19,039
Financial liabilities measured ta amortised cost	2,016,160	722,916	59,644	97,890	27,315	28,064	276,532	3,228,520
of which leasing		639	1,364	2,908	11			4,922
Derivatives - hedging settlements	-	-	522	-	-	-	-	522
Provisions	45	389	4,311	2,099	982	240	201	8,267
Other financial liabilities	-	19,554	8,316	500	126	3	-	28,499
Total banking liabilities	2,016,205	744,775	72,793	103,732	41,483	29,127	276,733	3,284,847
Contingent liabilities	463	405,677	13					406,153
of which credit line		47,122						
of which guarantee		358,055						
31 December 2021	On demand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years	Over 15 years	Total
Derivative financial liabilities	-	1,455	-	785	4,576	-	-	6,816
Financial liabilities measured ta amortised cost	1,723,126	84,445	708,270	168,860	122,030	152,651	127,730	3,087,112
of which leasing		841	2,467	3,861	78			7,247
Derivatives - hedging settlements	-	-	-	384	-	-	-	384
Provisions	-	-	896	4,738	-	-	-	5,634
Other financial liabilities	19,607	4,824	2,284	103	742	7	-	27,567
Total banking liabilities	1,742,733	90,724	711,450	174,870	127,348	152,658	127,730	3,127,513
Contingent liabilities	959	516,794	12					517,765
of which credit line		42,113						
of which guarantee		474,679						

In the table, the undiscounted interest cash flows includes only the accrued interest. Contract undiscounted data are presented in the table above.

All figures in tables are in HUF million except otherwise noted



Maturity analysis of assets and liabilities as of 31 December 2022

	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	234,753	-	234,753
Financial assets held for trading	131	28,067	28,198
Non-trading financial assets mandatorily at fair value through profit or loss  Financial assets measured at fair value	7,612	227,937	235,549
through other comprehensive income Financial assets mandatorily at fair value-	69,004	77,905	146,909
through profit or loss measured at amortised cost	695,621	2,118,124	2,813,745
Hedging derivative assets	537	27,179	27,716
Investments in subsidiaries and associ-	-		
ates		5,050	5,050
Property, plant and equipment	-	8,360	8,360
Intangible assets	-	1,134	1,134
Income tax assets	-	5,867	5,867
Other assets	4,170	235	4,405
Total assets	1,011,828	2,498,948	3,511,686
Liabilities			
Financial liabilities held for trading	1,916	17,123	19,039
Financial liabilities measured at amortised cost	2,798,720	429,801	3,228,520
Hedging derivative liabilities	522	-	522
Provisions	4,745	3,523	8,267
Income tax liabilities	4,416	-	4,416
Other liabilities	23,455	628	24,083
Total liabilities	2,833,773	451,075	3,284,847



Maturity analysis of assets and liabilities as of 31 December 2021

	Less than 12 months	Over 12	Total
Assets	12 months	months	
Cash and cash equivalents	217,464	_	217,464
Financial assets measured at fair	217,404		217,404
value through profit or loss	186	229,664	229,860
Hedging derivative assets	-	5,258	5,258
Financial assets measured at fair			
value through other comprehensive income	66,205	133,868	200,073
Financial assets measured at amor-	00,200	100,000	200,070
tised cost	555,950	1,994,732	2,550,682
Investments in subsidiaries and associates	-	5,309	5,309
Property, plant and equipment	_	11,187	11,187
Intangible assets	_	•	•
Income tax assets	0.7	2,123	2,123
Other assets	27	6,252	6,279
	4,748	931	5,679
Total assets	844,580	2,389,334	3,233,914
Liabilities			
Financial liabilities measured at fair	4 455	5.004	0.040
value through profit or loss Financial liabilities measured at amor-	1,455	5,361	6,816
tised cost	2,515,841	571,271	3,087,112
Hedging derivative liabilities	-	384	384
Provisions	896	4,738	5,634
Income tax liabilitites	640	.,. 55	640
Other liabilities	26,075	852	26,927
Total liabilities	2,544,907	582,606	3,127,513

### 31.9 Management of operational risk

The Takarékbank manages operational risks primarily by improving internal policies, procedures, adequate training of employees involved in work processes and the further development of built-in control mechanisms. Takarékbank collects and analyses operational risk loss data and key risk indicators (KRI) that are reported on a monthly basis.

The Savings Bank carried out an operational risk self-assessment of key activities and identified rare events with heavy losses in the event of them, the impact of which is assessed by a scenario analysis.

In line with supervisory requirements, Takarékbank has compiled an inventory of the models used to assess the model risks and an inventory of the products to identify the risks inherent in the products.

#### 31.10 Treatment of risk concentration

The Bank is significantly exposed to the status of real estate market regarding the high proportion of real estate in securities. This concentration risk is mitigated by applying conservative method in collateral values and cover rate and also by diversifying their product portfolio from collateral perspective (meaning to increase the proportion of other than real estate securities) seeks to atomize risks and enforce a wide range of collateral.

# 32 CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY

On 1 April 2022, Takarékbank as a company to be included in the consolidation as a subsidiary of MKB Bank left the mandatory institution protection organisation of integrated credit institutions, the Integration Organisation in possession of the necessary preliminary approvals and taking advantage of the opportunity granted by the law.

The table below shows the regulatory capital and capital adequacy figures as at 31 December 2022, as the members of the Cooperative Credit Institutions Integration, of which Takarék Kereskedelmi Bank Zrt. was still a member in 2021, were required to assess compliance with prudential requirements on a consolidated basis, exempted from individual compliance by the relevant legislation and the relevant MNB resolution.

The regulatory capital is shown in the table below, which includes the following elements: subscribed capital + capital reserve + general reserve + retained earnings - intangible assets- non-temporary deferred tax + - other adjustments + Tier 2 capital.

	31. december 2022.
Own funds	271 213
TIER 1 Capital	249 210
Common Equity TIER 1 Capital	249 210
Additional TIER 2 Capital	22 003
Risk weighted assets (RWA)	968 956
Operational risk (OR)	269 762
Market risk positions (MR)	-
Total risk-weighted assets	1,238,718
Tier 1 ratio	20.12%
Capital adequacy ratio	21.89%



#### 33 RELATED PARTY TRANSACTION

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

The list of the related parties, - including the parent companies and main subsidiaries of the Takarek Bank Plc. - as of 31 December 2022 is the following. The following table shows the Bank "Related companiy" from the point of view of MKB Bank Plc..



Company	Classification	Core business
MITRA Informatikai Zrt.	Related company	Data services, web hosting ser-vices
MTB Zrt.	Related company	Other monetary inter- mediation
Takarék Jelzálogbank Nyrt.	Related company	Other lending
Takarék Lízing Zrt.	Related company	Other lending
Takarék Ingatlan Zrt.	Related company	Estate agent service
Takarék INVEST Kft.	Related company	Asset management
TIFOR Takarék Ingatlanfor- galmazó Zrt.	Subsidiary	Own property real es- tate buying and selling
TIHASZ Takarék In- gatlanhasznosító Zrt.	Subsidiary	Own renting and operating real estate
Hungarian Bankholding Zrt.	Main Parent com- pany	Asset management
Takarék Faktorház Zrt.	Related company	Other lending
Takarékszövetkezeti Informatikai Kft.	Related company	IT service
Takarék Zártkörű Befektetési Alap	Related company	Investment fund
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Related company	Investment fund
Takarék Kockázati Tőkealap	Related company	Investment fund
OPUS TM1 Ingatlan Befektetési Alap	Related company	Investment fund
MKB Magántőkealap	Related company	Investment fund
Magyar Strat-Alfa Zrt.	Related company	Own property real estate buying and selling
MKB Bank Nyrt.	Main Parent Com- pany	Other monetary inter- mediation
MKB Üzemeltetési Kft.	Related company	Own renting and operating real estate
MKB Euroleasing Autólízing Zrt.	Related company	Financial leasing
MKB Bank MRP Szervezet	Related company	Other activities auxi- liary to financial servi- ces
Retail Prod Zrt.	Related company	Other lending
Budapest Eszközfinanszírozó Zrt.	Related company	Other tangible assets leasing
Budapest Lízing Zrt.	Related company	Financial leasing
MKB Befektetési Alapkezelő Zrt.	Related company	Fund Management



Loans disbursed to members of the Bank's management bodies amounted to HUF 197 million as at 31 December 2022, and HUF 104 million as at 31 December 2021.

31 December 2022	Outstanding amount	Type of loans
Loans less than 12 months	-	overdraft
Loans over 12 months	197	housing mortgage loan
Total	197	

31 December 2021	Outstanding amount	Type of loans
Loans less than 12 months	0	overdraft
Loans over 12 months	104	housing mortgage loan
Total	104	

	31 D	ecember 2022	31 December 2021		
	Head- count	Total payment	Head- count	Total payment	
Members of Board of Directors	6	29	7	29	
Members of Supervisory Board	5	16	5	14	
Total payments	11	45	12	43	

Details of transaction in 2022 and 2021 between the Bank and other related parties are disclosed on the next table.

31 December 2022	Parent and main parent company	Subsidiaries and related company	Owners, owners group and key manage- ment
Due from banks	212,796	500,168	-
Loans	-	66,600	133,758
Other assets	13,117	60,984	-
Total assets	225,913	627,752	133,758
Due to banks	64,070	782,613	20,970
Other liabilities	3,140	31,050	-
Total liabilities	67,210	813,663	20,970
Interest income	35,753	41,429	8,468
Interest expense	(13,586)	(19,105)	(199)
Net interest income	22,167	22,324	8,269
Fee and commission income	243	2,983	-
Fee and commission expense	(311)	(5,761)	-
Net fee and commission income	(68)	(2,778)	-
Other income	23,153	32,488	-
Other expense	(18,503)	(16,802)	-
Operating income	4,650	15,686	-
Operating expense	(410)	(7,754)	(45)
Profit/loss on transactions with related parties	26,339	27,478	8,224

<sup>\*</sup>The owners and ownership groups, as well as the group of directors, are deteremined on the basis of the definition of a related party under IAS 24.

The compensation of key employees includes only short-term benefits.



31 December 2021	Parent company	Subsidiar- ies	Related companies	Owners, and owners group key manage- ment
Due from banks	630,635	-	-	-
Loans	7,750	48,867	10,669	79,183
Other assets	6,574	28,572	-	-
Total assets	644,959	77,439	10,669	79,183
Due to banks	425,359	224,341	772	0
Deposits from customers	-	-	-	81,904
Other liabilities	46,095	6,969	-	-
Total liabilities	471,454	231,310	772	81,904
Interest income	10,043	1,050	355	1,231
Interest expense	(738)	(4,155)	(1)	(255)
Net interest income	9,305	(3,105)	354	976
Fee and commission income	2,210	542	50	-
Fee and commission expense	(5,113)	(679)	(1,692)	-
Net fee and commission income	(2,903)	(137)	(1,642)	-
Net other operating income	(1,526)	1,787	140	-
Net other operating expense	(5,795)	5,718	(321)	-
Operating income	(7,321)	7,505	(181)	-
Operating expense	(12,547)	(2,541)	(12,922)	(43)
Profit/loss on transactions with related parties	(13,466)	1,723	(14 391)	933



The financial data of related parties - preliminary, draft data, significant companies

	31 December 2022								
Related party	Direct holding %	Assets	Liabilities	Equity	Profit or loss				
MTB Zrt.	0%	1,742,279	1,712,788	29,491	(5,361)				
TIFOR Takarék Ingatlanforgalmazó Zrt.	0%	6,476	94	6,382	219				
TIHASZ Takarék Ingatlanhasznosító Zrt	0%	26,679	534	26,145	(122)				



#### **NET GAINS** 34

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

1 January 2022 – 31 December 2022	Financial assets and li- abilities held for sale	Financial assets and li- abilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and li- abilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other lia- bilities	Not linked to financial instruments	TOTAL
Interest income	16,337	11,315	8,615	187,748	6,601	6,873	-	237,489
Interest expenses	(14,519)	-	-	(53,765)	(3,229)	(54)	-	(71,567)
NET INTEREST INCOME	1,818	11,315	8,615	133,983	3,372	6,819	-	165,922
Fee and commission income	-	-	-	-	-	68,072	-	68,072
Fee and commission expenses	-	-	-	-	-	(19,886)	-	(19,886)
NET FEE AND COMMISSION INCOME	-	-	-	-	-	48,186	-	48,186
DIVIDEND INCOME	-	574	-	-	-	-		574
Results from derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	(3,780)	(243)	-	-	-	(4,023)
Results from financial assets and liabilities held for trading, net	13,996	-	-	-	-	-	-	13,996
Non-trading financial assets mandatorily at fair value through profit or loss	-	(28,426)	-	-	-	-	-	(28,426)
Gains and losses on hedge accounting, net	-	-	-	-	325	-	-	325
Other income	-	-	-	-	-	-	882	882
Other expense	-	-	-	-	-	_	(1,562)	(1,562)
OPERATING INCOME	15,814	(16,537)	4,835	133,740	3,697	55,005	(680)	195,874



1 January 2021 – 31 December 2021	Financial assets and li- abilities held for sale	Financial assets and li- abilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and li- abilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other lia- bilities	Not linked to financial instruments	TOTAL
Interest income	935	158	2,122	85,423	786	211	-	89,635
Interest expenses	(956)	-	-	(9,632)	(1,144)	(599)	-	(12,331)
NET INTEREST INCOME	(21)	158	2,122	75,791	(358)	(388)	-	77,304
Fee and commission income	-	-	-	-	-	59,179	-	59,179
Fee and commission expenses	-	-	-	-	-	(16,500)	-	(16,500)
NET FEE AND COMMISSION INCOME	-	-	-	-	-	42,679	-	42,679
DIVIDEND INCOME	-	-	-	-	-	-	4	4
Losses from fair value from profit or loss fi- nancial instruments	-	-	1,665	(572)	-	-	-	1,093
(Losses) and gains from financial instru- ments measured at fair value through other comprehensive income	(625)	-	-	-	-	-	-	1,665
Gains and (losses) from financial instruments measured at amortised cost	-	(157)	-	-	-	-	-	(572)
Gains and losses on hedge accounting, net	-	-	-	-	(1,152)	-	-	(1,152)
Net other income	-	-	-	-	-	-	5,750	5,750
Net other expense	-	-	-	-	-	-	(3,725)	(3,725)
OPERATING INCOME	(646)	1	3,787	75,219	(1,510)	42,291	2,029	121,171

#### 35 EQUITY CORRELATION TABLE

Based on paragraph 114/B of Act on Accounting, Equity Correlation Table is prepared and disclosed as a part of the Notes for the reporting date by the Bank.

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net pro-fit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermore, the equity correlation table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance with IFRS adopted by EU.

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

31 December 2022	Share Capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earn- ings and other reserves	Revaluation re- serves	Tied-up re-serve	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	186,960	-	34,947	-	(21,460)	-	-	(25,481)	226,838
Accumulated other comprehensive income	-	-	-	-	10,383	(9,473)	-	-	-
General reserve	-	-	-	2,548	(2,548)	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	186,960	-	34,947	2,548	(13,625)	(9,473)	-	(25,481)	226,838



The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 January 2021:

31 December 2021	Share Capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earn- ings and other	Revaluation re-serves	Tied-up reserve	Profit for the year	Total equity
Components of Shareholder's equity in accordance with IFRS adopted by EU	100,260	-	21,647	-	(14,254)	-	-	(1,252)	106,401
Accumulated other comprehensive income	-	-	-	-	4,429	(4,429)	-	-	-
Share capital non-registered on the Registry Court	-	-	-	-	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	100,260	-	21,647	-	(9,825)	(4,429)	-	(1,252)	106,401

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

	31 December 2022	31 December 2021
Share capital in accordance with IFRS adopted by EU	186,960	100,260
Share capital registered on the Registry Court	186,960	100,260
Difference	-	•

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

	31 December 2022	31 December 2021
Retained earnings and other reserves	(20,550)	(14,254)
Accumulated other comprehensive income	9,473	4,429
General reserve	(2,548)	-
Net profit for the year	25,481	(1,252)
Untied retained earnings available for the payment of dividends	11,856	(11,077)

All figures in tables are in HUF million except otherwise noted

The Notes comprising a summary of significant accounting policies and other explanatory information form an integral part of the Financial Statements

#### **36 POST BALANCE SHEET EVENTS**

# Change in the management of MKB Bank Plc.

MKB Bank Plc. has announced that the position of Mr Antal Martzy as Deputy Chief Executive Officer for Finances at the Company, at Magyar Bankholding Zrt., and at members of the MKB Bank group Takarékbank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt. will be terminated with mutual consent as of 31 December 2022. The MKB Bank Plc. furthermore has informed the capital market actors that Mr Péter Krizsanovich will hold the position of Deputy Chief Executive Officer for Finances of the Company and the MKB Bank group as of 1 January 2023, but no later than with the effect of the receipt of the relevant approval of the National Bank of Hungary. Mr Péter Krizsanovich held various management positions in OTP Bank's Strategy and Finance Division for 17 years, including working as the executive director of the Strategy, Planning and Controlling Directorate for 5 years. Having been involved in regional expansion, he has international experience, he participated in the management of several market-leading foreign banks as a board member, achieved significant innovations and results in all parts of the financial field, especially in IT topics.

#### **MNB** licence

On 9 December 2022, the supreme bodies of MKB Bank Plc. and Takarékbank Zrt. adopted the proposals for the merger of the two member banks as part of the implementation of the second step of the merger schedule of Magyar Bankholding. According to the decisions of the General Meetings, the two member banks of the banking group, MKB Bank Plc. and Takarékbank Zrt., will merge on 30 April 2023 or, if the merger is not registered at the Court of Registration by then, on the date of registration, and will then continue their operations under the name MBH Bank Nyrt, with a single brand name and image. On 6 February 2023, the MNB approved the merger of Takarékbank Plc. into MKB Bank Plc. with effect from 30 April 2023.

### Sberbank compensation

On 13.03.2023, the Board of Directors of National Deposit Insurance Fund (OBA) decided to repay to credit institutions the remaining part of the extraordinary payment obligation imposed on banks to compensate the "winding-up" Sberbank customers until 31.03.2023. On the basis of this decision, Takarékbank expects to receive a refund of HUF 2,648 million, which will be recognised after the financial settlement as other income in the annual report for 2023.

# The impact of significant events in the European and American banking sectors

The Bank's management is closely monitoring the material events in the European and US banking sectors, as a consequence of which the management does not expect any direct negative impact on the Bank. The liquidity and capital position of the Bank is stable and in compliance with the relevant regulations.