MKB Bank Nyrt.

Separate Financial Statements

and

Independent Auditor's Report

December 31, 2021.

Deloitte.

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Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MKB Bank Nyrt.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements in MKB_EVES_BESZAMOLO_EN_2021.xhtml[1] digital file of MKB Bank Nyrt. (the „Company") for the year 2021 which comprise the statement of financial position as at December 31, 2021 – which shows a total assets of 3,320,182 mHUF –, and the related statement of recognized income, statement of other comprehensive income – which shows net profit for the year of mHUF 55,916 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Key Audit Matters

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

[1] digital identification of the financial statements filed MKB_EVES_BESZAMOLO_EN_2021.xhtml with the SHA 256 HASH algorithm

Key audit matter	How our audit addressed the matter
Impairment of the loan receivables	
(See Section 11. of the Notes to the Financial Statements for the details) The net value of loans to customers in an amount of HUF 1,201,209 million comprise 36.17% of the total assets (gross book value of HUF 1,189,759 million of loans measured at amortized cost), and the relevant impairment balance at the end of the current year was HUF 41,845 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management. The most significant assumptions applied in the provisioning calculation are the followings: - actual model parameters; - valuation of collaterals; - estimates of future cash-flows expected to be realized. The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Bank in calculating the impairment of loans. Based on the significance of the above described circumstances the calculation of impairment of loans was identified as a key audit matter.	The relevant audit procedures performed by us included the following: - evaluating the design and implementation of internal controls relating to monitoring of loans and calculating and recording of impairment; - evaluating specific loan impairments by selecting a random sample based on risk profiles, and for the individually impaired loans the review of consideration and valuation of collaterals and estimates of expected future cash-flows; - evaluating the appropriateness of collective provisioning models, and review of the assumptions, management estimates and parameters applied, including comparison with historical data, and recalculation of the impairment charge with the involvement of experts; - reviewing subsequent events (sold receivables), and analysing of the possible effect on the year audited; - evaluating the impairment triggers related to the non-impaired portfolio; and - assessing the requirement for additional impairment to the model based impairment, particularly in light of the extraordinary volatility in economic scenarios caused by the current COVID-19 pandemic and government responses.

Other matters

The Company's management is responsible for the presentation of the annual financial reports in accordance with the requirements of Article 3 of Commission Regulation (EU) 2019/815 of 17 December 2018 (the "ESEF Regulation"). The scope of our audit was limited to the human-readable content of the digital file containing the consolidated financial statements, which is electronically identified in our report, and does not include an examination and, accordingly, we do not express an opinion on whether the digitised information complies in all material respects with the requirements of the ESEF Regulation.

Other Information: The Business Report and the Corporate Governance Report

Other information comprises the information included in the annual report and the business report of the Company for 2021, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditor's report entitled *"Opinion"* does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the business report is consistent with the financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of the Company for 2020 corresponds to the financial statements of the Company for 2021 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Company is not subject to additional content requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Company and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they 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 financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the 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 the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 the Company's internal control that we identify during the audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Company by the General Meeting of Shareholders on 29 April 2021 and our uninterrupted engagement has lasted for 10 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 30 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the business report.

The engagement partners on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, March 28, 2022

....	....
Józan Bálint	Mádi-Szabó Zoltán
Deloitte Auditing and Consulting Ltd.	Statutory registered auditor
1068 Budapest, Dózsa György út 84/C.	Registration number: 003247
Registration number: 000083	

MKB Bank Nyrt.

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statistic code

Separate Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 28 March 2022

31 December 2021

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Data in HUF million except stated otherwise

MKB Bank Nyrt.
Statement of Financial Position as at 31 December 2021

	Note	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	7	831 434	294 183
Loans and advances to banks	8	61 814	83 558
Derivative financial assets	9	104 402	23 262
Securities	10	1 003 751	1 174 027
Loans and advances to customers	11	1 201 209	1 106 242
Non-current assets held for sale and discontinued operations	38	35	504
Other assets	12	18 810	15 149
Current income tax assets		-	1 418
Deferred tax assets	23	7 756	6 707
Investments in subsidiaries, jointly controlled entities and associates	13	49 563	48 373
Intangibles	14	27 388	24 478
Property and equipment	14	14 020	14 735
Total assets		**3 320 182**	**2 792 636**
Liabilities			
Amounts due to other banks	15	705 565	574 825
Deposits and current accounts	16	2 233 694	1 877 454
Derivative financial liabilities	17	41 528	35 406
Other liabilities and provisions	18	50 188	54 910
Current income tax liabilities		1 862	-
Issued debt securities	19	3 394	2 343
Subordinated debt	20	45 070	44 724
Total liabilities		**3 081 301**	**2 589 662**
Equity			
Share capital	21	100 000	100 000
Reserves	22	138 881	102 974
Total equity		**238 881**	**202 974**
Total liabilities and equity		**3 320 182**	**2 792 636**

Budapest, 28 March 2022

dr. Zsolt Barna
Chairman and Chief Executive Officer

Antal Martzy
Deputy Chief Executive Officer

MKB Bank Nyrt.
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2021

	Note	2021	2020
Statement of profit or loss			
Interest and similar to interest income	24	82 330	50 923
Interest expense	25	32 472	24 988
Net interest income		**49 858**	**25 935**
Net income from commissions and fees	26	25 051	23 731
Other operating income / (expense), net	27	43 768	5 777
Impairment / (Reversal) and provision for losses	28	3 753	6 888
Operating expense	29	55 541	41 602
Profit before taxation		**59 383**	**6 953**
Income tax (income) / expense	30	3 467	721
Profit/ (Loss) for the year from continuing operation		**55 916**	**6 232**
PROFIT FOR THE YEAR		**55 916**	**6 232**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Revaluation on financial assets measured at FVTOCI	10	(20 009)	3 187
Other comprehensive income for the year net of tax		**(20 009)**	**3 187**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**35 907**	**9 419**
Profit / (Loss) attributable to:			
Profit/(loss) for the period from continuing operation		55 916	6 232
Shareholders of the bank		**55 916**	**6 232**
Total comprehensive income attributable to:			
Total comprehensive income from continuing operation		35 907	9 419
Shareholders of the bank		**35 907**	**9 419**
Net income available to ordinary shareholders		55 916	6 232
Average number of ordinary shares outstanding (thousands)		100 000	100 000
Earnings per Ordinary Share (in HUF)	32		
Basic		559	62
Diluted		559	62
Earnings per Ordinary Share from continuing operation (in HUF)	32		
Basic		559	62
Diluted		559	62

Budapest, 28 March 2022

dr. Zsolt Barna
Chairman and Chief Executive Officer

Antal Martzy
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Statement of Changes in Equity for the year ended 31 December 2021

	Note	Share capital	Share premium	Retained earnings	Revaluation on financial assets measured at FVTOCI	Total equity
At 1 January 2020		**100 000**	**21 729**	**78 573**	**(6 747)**	**193 555**
Profit for the year		-	-	6 232	-	**6 232**
Other comprehensive income for the year		-	-	-	3 187	**3 187**
At 31 December 2020		**100 000**	**21 729**	**84 805**	**(3 560)**	**202 974**
Profit for the year		-	-	55 916	-	**55 916**
Other comprehensive income for the year		-	-	-	(20 009)	**(20 009)**
At 31 December 2021		**100 000**	**21 729**	**140 721**	**(23 569)**	**238 881**

Budapest, 28 March 2022

dr. Zsolt Barna
Chairman and Chief Executive Officer

Antal Martzy
Deputy Chief Executive Officer

MKB Bank Nyrt.
Statement of changes in equity based on Hungarian Accounting Law for the year ended 31 December 2021

	Share capital	Capital reserve	Retained earnings	Revaluation reserve	Total
Balance at 1 January 2020	**100 000**	**21 729**	**78 573**	**(6 747)**	**193 555**
Profit before tax	-	-	6 232	-	6 232
Accumulated other comprehensive income	-	-	-	3 187	3 187
Balance at 31 December 2020	**100 000**	**21 729**	**84 805**	**(3 560)**	**202 974**
Profit before tax	-	-	55 916	-	55 916
Accumulated other comprehensive income	-	-	-	(20 009)	(20 009)
Balance at 31 December 2021	**100 000**	**21 729**	**140 721**	**(23 569)**	**238 881**

Reconciliation of share capital registered at registry court and share capital under IFRS as adopted by the EU	31 December 2021	31 December 2020
Share capital registered at the registry court	100 000	100 000
Share capital under IFRS as adopted by the EU	**100 000**	**100 000**

Schedule of the profit reserves available for dividend (million HUF)	31 December 2021	31 December 2020
Retained earnings	140 721	84 805
Statutory other reserve	17 040	11 448
Profit reserve available for dividend	**123 681**	**73 357**

The Board of Directors proposes a dividend of HUF 4,300 million, the remaining part of the Profit attributable to the shareholders of the Bank for the reporting period will increase the Retained earnings. The amount of the interim dividend proposed and paid on 14th February 2022 based on the decision Nr. 11/2021. (15 December) of the General Meeting equals to the dividend proposed by the Board of Directors, accordingly no further payment will occur.

Budapest, 28 March 2022

dr. Zsolt Barna
Chairman and Chief Executive Officer

Antal Martzy
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Statement of Cash Flows for the year ended 31 December 2021

	Note	2021	2020
Cash flows from operating activities			
Profit/ (Loss) before taxation		**59 383**	**6 953**
Adjustments for:			
Depreciation, amortisation and impairment	14, 31	4 983	4 162
Impairment / (Reversal of impairment) on other assets	12	119	(29)
(Reversal of provisions for) / Recognise provisions on off-BS items and settlement for customers	18, 33	847	480
Impairment / (Reversal of impairment) on loans and advances	8, 11	2 426	(782)
Reversal of impairment on non-current assets held for sale	38	(2 152)	(6 371)
Impairment / (Reversal of impairment) on securities and associates	10, 13	681	19
IFRS adjustment on securities	10	42 909	2 716
Deferred tax movement	30	(1 049)	1 011
Net interest income	24, 25	(35 474)	(24 807)
Dividends from shares and other non-fixed income securities		(45)	(223)
Revaluation and other result on securities measured at FVTOCI	Change in Equity	(20 009)	3 187
Foreign Exchange movement		1 604	1 279
Adjustments for:		54 223	(12 405)
Change in loans and advances to banks	8	21 746	(21 186)
Change in loans and advances to customers	11, 34, 35, 37	(97 395)	(181 502)
Change in derivative assets	9	(81 140)	(5 069)
Change in other assets	12	(3 780)	(864)
Change in amounts due to banks (short term)	15	25 330	4 444
Change in current and deposit accounts	16	356 240	640 194
Change in other liabilities and provisions (without provision charge of the year)	18, 31	(5 569)	(6 553)
Change in derivative liabilities	17	6 122	(8 857)
Interest received	24	73 706	50 468
Interest paid	25	(38 232)	(25 661)
Income tax	30	(187)	(1 684)
		256 841	443 730
Net cash (used in)/ generated by operating activities		**311 064**	**431 325**
Cash flow from investing activities			
Increase of reserves of group companies	13	(1 506)	(2 696)
Disposals of group companies	13	-	1 098
Purchase and disposals of PPEs and intangible assets	14, 31	(7 178)	(4 936)
Purchase of securities	10	(1 363 276)	(1 048 714)
Disposals of securities	10	1 490 323	473 002
Change in non-current assets held for sale and discontinued operations	38	2 621	9 942
Net cash (used in)/ generated by investing activities		**120 984**	**(572 304)**
Cash flow from financing activities			
Increase in issued securities	19	2 054	2 343
Decrease in issued securities	19	(1 003)	(1 331)
Increase in subordinated liabilities	20	-	19 248
Decrease in subordinated liabilities	20	-	(15 012)
Change in amounts due to banks (Borrowings)	15	105 410	374 698
Net cash generated by financing activites		**106 461**	**379 946**
Net increase of cash and cash equivalents		**538 509**	**238 967**
Cash reserves at 1 January	7	**294 183**	**55 388**
FX change on cash reserve		(1 258)	(172)
Cash reserves at the end of period	7	**831 434**	**294 183**

Budapest, 28 March 2022

dr. Zsolt Barna
Chairman and Chief Executive Officer

Antal Martzy
Deputy Chief Executive Officer

Notes to the Financial Statements

(from page 9 to 112)

1. General information

MKB Bank Nyrt. (former MKB Bank Zrt., hereinafter: "MKB" or "MKB Bank" or "the Bank") is a commercial bank registered in Hungary, and operating under the effective laws of Hungary, particularly under Act CCXXXVII of 2013 on credit institutions and financial enterprises. The headquarters of the Bank is at 38 Váci utca Budapest 1056.

The separate financial statements of the Bank are prepared for the year ended 31 December 2021.

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

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

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

Following the contribution, the financial holding company will perform strategic decision-making, prudential control and group management functions over the three banking groups, as well as plan and manage the merger process that optimises the operation of the banks. The detailed merger plan and the business strategy will be established in 2021.

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owns MTB, approved the first step of the merger timetable of Budapest Bank, MKB Bank and MTB. According to this, the two member banks of the banking group, Budapest Bank and MKB Bank, are scheduled to merge on 31 March 2022, while MTB will join the merged bank by the end of the second quarter of 2023. In January 2022, the NBH approved the merger of Budapest Bank Zrt. and Magyar Takarék Bankholding Zrt., which owns MTB, into MKB Bank Nyrt. as of 31 March 2022. The merged bank will temporarily operate under the name MKB Bank Nyrt. The merger does not imply any change in the ownership structure of the banking group, the dominant shareholder of the banks involved in the merger process will remain Magyar Bankholding Zrt.

Data in HUF million except stated otherwise

The shareholder structure of MKB Bank is the following as of 31 December 2021:

1.1

Name of the shareholders of MKB Bank Nyrt.	Number of shares (pieces)	Total face value of shares (HUF)	Ownership share (%)
Magyar Bankholding Zrt.	97 185 008	97 185 008 000	97.19%

Free float ratio: 2.81%

Magyar Bankholding Zrt. has a 97.19% direct ownership interest in MKB Bank. The ownership structure of Magyar Bankholding Zrt. is:

1.2

The shareholders of Magyar Bankholding Zrt.	Ownership share (%)
Corvinus Nemzetközi Befektetési Zrt.	30.35%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
EIRENE Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
PRIME FINANCE Future Zrt.	0.84%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25.13%
Magyar Takarék Holding Zrt.	12.56%
Total	**100%**

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

2. Compliance with International Financial Reporting Standards

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

IFRSs comprise accounting standards issued by the International Accounting Standards Board (hereinafter: "IASB") and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: "IFRIC") and its predecessor body.

These financial statements are presented in Hungarian Forint ("HUF"), rounded to the nearest million, except if indicated otherwise. The financial statements are authorised for issue by the Board of Directors on 28 March 2022.

Since 1 January 2018, MKB has been applying the IFRSs adopted by the EU in its bookkeeping as well as the preparation of its separate financial statements.

The 2021 figures in these financial statements have been compiled on the basis of the IFRS standards as adopted by the EU effective from 1 January 2021.

3. Basis of measurement

The separate financial statements have been prepared on initial recognition at fair value.

The Bank classifies subsequent measurements into the following categories:

- derivative financial instruments are measured at fair value,
- financial instruments at fair value through profit or loss are measured at fair value (hereinafter: "FVTPL"),
- financial assets measured at fair value through other comprehensive income (hereinafter: "FVTOCI"),
- other financial instruments are measured at amortised cost (hereinafter: "AC").

The separate financial statements have been prepared based on going concern assumption. The management neither intends to liquidate the Bank nor to cease trading. The management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Bank's ability to continue as a going concern. The Bank has a history of profitable operations and ready access to financial resources.

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 34.

4. Summary of significant accounting policies

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

To ensure data consistency the Bank made reclassification in supplementary notes in some relevant cases.

a) Financial statement presentation

These separate financial statements include the accounts of MKB Bank Nyrt. The presentation and functional currency of the Bank was determined as Hungarian Forint ("HUF").

b) Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are measured at amortised cost by the Bank.

Subsidiaries are entities controlled by the MKB 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.

MKB 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.

c) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for supply of services, or for administration purposes.

Intangible assets that have a finite useful life are measured initially at costs and subsequently carried at costs less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their estimated useful lives not exceeding 15 years from the date when the asset is available for use, applying the straight-line method.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. An intangible asset is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

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

Subsequent expenditure related on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

d) Property, plant and equipment

Items of property and equipment including leasehold improvements and investment properties are measured initially at cost, including transaction cost, then subsequently cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The estimated useful lives of property, plant and equipment are as follows:
- components of freehold buildings are depreciated over maximum 100 years,
- equipment, fixtures and fittings (including equipment on operating leases where MKB is the lessor) are depreciated over 5-10 years, but maximum over 20 years.

Depreciation of property, plant and equipment are included in "Operating expense" line in Statement of Profit or Loss and Other Comprehensive Income.

Property, plant and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Net gains and losses on disposal of property and equipment are recognised in "Other operating income / (expense), net", in the year of disposal.

e) Investment property

Investment properties are held by the Bank to earn rentals and for capital appreciation.

The Bank uses the cost model for investment property, according to which the property is accounted in the Bank's books at the purchases cost and then depreciated.

The estimated useful lives of investment properties are as follows:
- components of buildings are depreciated over 25-100 years,
- connecting equipment are depreciated over 20 years.

Depreciation of investment property is included in „Other operating income / (expense), net" line in Statement of Profit or Loss and Other Comprehensive Income.

The fair value of the investment properties shall be supervised yearly by an independent appraiser. Should the fair value be much lower than the carrying amount, impairment loss shall be recognized through profit or losses.

f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

g) Initial recognition and measurement of Financial Instruments

Outbound loans and claims, and debt securities are recognized by the Bank on settlement date. All other debt securities are recognized when the Bank commits itself either acquiring the asset, or selling it (trade date accounting).

All financial instruments measured at fair value at initial recognition. The fair value of a financial instrument at initial recognition is normally the transaction price (the fair value of the consideration given or received).

At initial recognition, all financial instruments are recognized at a modified fair value. The modified fair value includes all transaction costs which are directly attributable to the issuance and acquisition of financial instruments.

Financial instruments measured at fair value through profit or loss are recognized at their fair value by the Bank. All related transaction costs incurred at their inception, issuance, and / or purchase are accounted as expense through Profit or Loss. If accounts payables do not contain significant financing component, they are recognized at transaction price by the Bank.

The Bank's financial assets are measured at amortised cost if it is consistent with the business model and meet the criteria of the SPPI test.

Amortised cost is the amount of a financial asset or financial liability at initial recognition, reduced by principal repayments, increased or decreased by the difference between the original amount and amount at maturity cumulative amortization calculated using an effective interest rate method and in case of financial assets adjusted by any loss allowance.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the

- gross carrying amount of the financial asset, or
- amortised cost of the financial liability.

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

In case of purchased or originated credit-impaired financial assets (POCI) credit-adjusted effective interest rate should be used. The credit adjusted effective interest rate (CAEIR) is the rate that exactly discounts the estimated expected future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset.

The effective interest rate method is the method used to measure the amortised cost of the Bank's financial assets or financial liabilities and the method used to allocate and recognises interest income and interest expense in a given period.

Interest income and interest expense should be determined using the effective interest rate method and then recognized in the Profit or Loss statement.

Simplified approach for financial contract assets and lease receivables

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

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

h) Classification and subsequent measurement of Financial Instruments

IFRS 9 standard contains three main categories to classify and measure the financial assets: amortised cost (AC), fair value through other comprehensive income (FVTOCI) and fair value through Profit and Loss (FVTPL).

The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The Bank uses multiple business models to manage its financial instruments.

The following business model categories have been developed in accordance with IFRS 9 standard:

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

The listing in the business model reflects the expectations of the Bank, not just the intent, but also the ability. The classification is not based on scenarios that are not reasonably expected ('worst case' or 'stress case' scenario). If the Bank sells a particular portfolio or financial asset in a 'stress case' scenario, it does not affect the evaluation of the business model.

Classification not only depends on the business model but also on the cash flow related characteristics associated with the financial instrument. The Bank has to examine the cash flows associated with the financial instrument - regarding those debt instruments that will be measured at amortised cost or fair value through other comprehensive income - whether they comply with the requirements of the principal and interest definitions according to IFRS 9 (SPPI / Cash Flow Test).

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

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Bank shall measure a financial asset at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the financial asset's contractual cash flows are solely payments of principal and interest.

The Bank shall measure a debt instrument at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the financial asset's contractual cash flows are solely payments of principal and interest.

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

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

i) Classification and subsequent measurement of financial liabilities

The Bank classifies its financial liabilities into the following categories:

- Mandatory FVTPL measurement (FVTPL category) measurement if liabilities are held for trading,
- FVTPL option – based on the decision of entity at initial recognition (if qualifying criteria are met),
- Amortised cost – other financial liabilities.

Financial liabilities not mandatory FVTPL and not FVTPL option are initially measured at fair value less transaction cost by the Bank. These liabilities are subsequently measured at amortised cost calculated by using the effective interest method.

j) Fair Value Option (FVO)

At initial recognition, the Bank may irrevocably recognize a financial asset or liability at fair value through profit or loss if it eliminates or significantly decreases any valuation or recognition inconsistencies that would otherwise have arisen because of the valuation of assets and liabilities or the profits or losses generated on them are shown on different bases.

The financial liabilities are measured at fair value through Profit or Loss at initial recognition by the Bank, the change in fair value at the subsequent measurement should be recognised as the following:

- changes related to own credit risk is measured through other comprehensive income (OCI),
- all other changes in fair value is measured through Profit or Loss.

k) Determination and recognition of the Expected Credit Loss

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

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

The Bank assesses at each reporting date whether the credit risk of the financial asset has increased significantly since the initial recognition.

The Bank recognises lifetime expected credit loss for all financial instruments when the credit risk has increased significantly compared to the credit risk at acquisition or origination – regardless whether assessed on an individual or collective basis - considering all reasonable and supportable information, including that which is foreseeable.

When making the assessment, the Bank evaluates the changes in the risk of a default occurring over the expected life of the financial instrument, considering reasonable and supportable information, that is available without undue cost or effort which indicate the changes in credit risk since initial recognition.

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

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

The existence of any of these conditions is assessed by the Bank as a significant increase in the credit risk. If there is no evidence of impairment have to be assigned to Stage 2, the transaction could be displaced from stage 2 to stage 1.

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

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

Factors taken into account when determining expected credit loss:

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

The amount of impairment and allowance equals to amount of expected credit loss.

In Stage 1 the impairment is equal to the 12-Month expected credit loss.

In Stage 2 and Stage 3 the impairment is equal to the lifetime expected credit loss.

The applied risk parameters are determined on the basis of statistical models for homogeneous groups and transaction groups. The models are validated at least once a year, and if necessary they will be revised. The Bank take into consideration the ECL principles in the calculation of actual fair value of FVTPL measures loans and advances.

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

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

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

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

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

If the credit risk of the financial instrument has increased significantly since its initial recognition until the reporting date, the Bank recognises the loss on the asset at an amount of lifetime expected credit losses.

If the credit risk of the financial instrument has not significantly increased since the initial recognition until the reporting date, the Bank recognizes loss on the asset at the same amount of the 12-month expected credit loss.

The impairment / expected credit loss calculated for 12 months is the part of the lifetime expected loss results from potential default events within 12 months of the reporting date.

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

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

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

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

When recognising the change in the credit risk, the Bank reviews the Stage classification based on the clients' risk characteristics (in all aspect the same, hypothetical, credit risk parameters of a transaction measured at amortised cost are applied) and assigns the corresponding risk parameters to the transaction during the valuation. Accordingly, the risk parameters are part of fair valuation and the change in credit risk occurs by isolating and separately recording the effects of these parameters.

For purchased or originated credit-impaired financial assets at the reporting date the Bank recognises the accumulated changes in the lifetime expected credit loss since the initial recognition. In the Bank's practice, typically forint-denominated receivables appear as purchased or originated credit-impaired financial assets.

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

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

For transactions accounted as commitments showing loss on the reporting date, the calculated provision is the negative difference between the fair value and the gross carrying amount based on the valuation method.

Impairment and provision are based on the amount of loss calculated as above.

l) Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the initial fair value will be based on other observable current market transactions in the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognises a trading gain or loss on inception of the financial instrument.

When unavailable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the statement of comprehensive income but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Bank enters into an offsetting transaction.

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

The inputs used by the valuation techniques for determining fair values are classified by the fair value level hierarchy as follows:

- level 1: quoted market price in an active market for an identical instrument,
- level 2: valuation techniques based on observable inputs,
- level 3: valuation techniques using significant unobservable inputs.

Transfer from level 1 to level 2 of fair value hierarchy may occur when prices on active market are no longer available. This is the case when the active market cease to be exists, or there are no publicly available quotations, however observable inputs are still available for valuation purposes on the instrument under question.

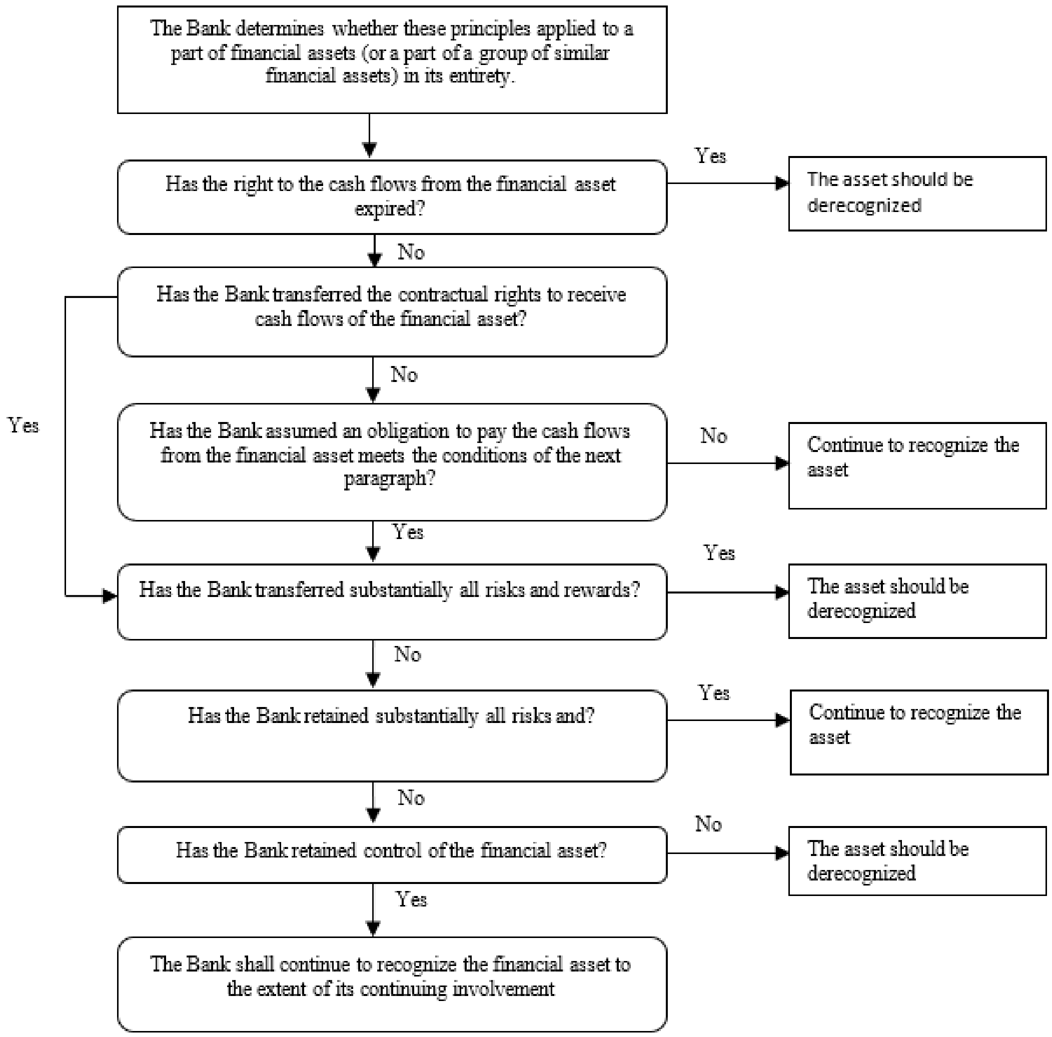
Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Where a portfolio of financial instruments has quoted prices in an active market, the fair value of the instruments are calculated as the product of the number of units and quoted price and no block discounts are made.

If the fair value of a financial asset measured at fair value through profit or loss becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset.

The fair values of financial liabilities are measured using quoted market prices, where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the Bank's liabilities.

m) Derecognition of Financial Assets

The following decision tree illustrates the principles of derecognition of financial instruments by the Bank:



The Bank derecognises a financial asset when transfer the contractual rights to receive the cash flows of a financial asset (the 'original asset'), or retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more recipients (the 'eventual recipients'), the Bank treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to

the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When the Bank transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The Bank examines the following before derecognition:

- if the Bank transfers substantially all the risks and rewards of ownership of the financial asset, the Bank shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
- if the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall continue to recognize the financial asset,
- if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall determine whether it has retained control of the financial asset. In this case:
    - if the Bank has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
    - if the Bank has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

The extent of the Bank's continuing involvement in the transferred asset is the extent to which the Bank is exposed to changes in the value of the transferred asset.

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

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

An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

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

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

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

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

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

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

Write-off of financial assets under legal proceeding

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

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

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

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

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

n) Derecognition of financial liabilities

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

Exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

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

o) Financial guarantee contracts

After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of – unless, in case of financial liabilities at fair value through profit or loss and in case of financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies – :

- the amount of the loss allowance and in accordance with IFRS 9 and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

p) Non-current assets held for sale and discontinued operations

Financial instruments that meet the IFRS 5 standard criteria's are recognized as held for sale by the Bank. The Bank classifies a non-current asset as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.

A disposal group is a group of assets that are intended to be disposed by sale or in another way, collectively, as a single group, in a single transaction and the liabilities directly attributable to those assets that are transferred during the transaction.

To meet the criteria for classification as held for sale:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable,
- for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated,
- the plan or decision to sell must be approved in accordance with the relevant rules of the Bank in order for the sale to be considered as highly probable and it is also necessary to include it in the report,
- the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value or the Bank advertise it at the appropriate forum,
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification,
- actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

A disposal group classified as held for sale may qualify for the definition of the discontinued operations.

Discontinued operations are a part of the Bank that has been disposed of or classified as held for sale and embody a distinct, major industry or geographical area of activity and are part of a coordinated plan for disposing a separate business or geographical area of activity.

The result of the discontinued operation and the gains or losses at sale should be recognized in a separate line in the Statement of Profit or Loss and Other Comprehensive Income by the Bank.

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

If the fair value less cost to sell is less than the carrying amount of the non-current assets or assets or liabilities part of the disposal group at the date of classification as held for sale an impairment loss shall be recognized.

Fair value less cost to sell must be re-determined at each reporting date and, if higher than the carrying amount, the impairment loss should be reversed up to the amount of impairment loss recognized previously.

Please find further details on non-current financial assets and liabilities held for sale in Note 38.

q) Financial assets and liabilities held for trading

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

Interest earned on trading debt securities is reported as interest revenue among the interest and similar to interest income when it becomes due. The dividends earned on trading equity instruments are disclosed separately among the interest and similar to interest income when received. Interest payable on financial liabilities acquired for trading purposes is reported as interest expense.

r) Securities measured at FVTOCI

Investments in securities are classified as asset held for liquidity purposes if there was a decision made previously about possible disposal in case of the changes in market conditions or the securities have not been classified into the other categories. By these assets the objective is to achieve both collecting contractual cash flows and selling financial assets. Financial investments are recognised on trade date, when the Bank enters into contractual arrangements with counterparties to purchase securities, and are derecognised when either the securities are sold or the borrowers repay their obligations.

The liquid securities are initially measured at fair value modified by direct and incremental transaction costs. Securities measured at FVTOCI are subsequently remeasured at fair value, and changes therein are recognised in the Other comprehensive income. Relating to these assets impairment gains / losses, interest income and foreign exchange differences should be accounted in Statement of Profit or Loss. When these securities are sold, cumulative gains or losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income as “Other operating income / (expense), net”.

s) Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial if host contract is financial asset, then embedded derivative is not separated according to the IFRS 9 standard.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

t) Leases

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

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

The Bank recognises the right-of-use asset and the lease liability as at the commencement date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability, adjusted for lease payments incurred on or before the commencement date, increased initial direct costs and costs for dismantling, removing and restoring the underlying asset and for site restoration and less any leasing incentives.

The Bank, as lessor, classifies its leasing contracts as finance or operating leases based on decision tree according to the requirements of the standard. Initially, the Bank recognises the lease liability at the present value of the lease payments outstanding at the commencement date, discounted at the implicit interest rate of the lease. On subsequent measurement, the Bank recognises depreciation on the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

After the commencement date of the lease term, the Bank depreciates the asset on a straight-line basis, from the commencement date to the earlier of the useful life or the end of the lease term.

After the commencement date, the Bank measures the lease liability at amortised cost using the effective interest rate method. The Bank uses the revised interest rate at the date of the revaluation as the revised discount rate. In contrast, the Bank reassesses the lease liability by discounting the revised lease payments if future lease payments are changed due to changes in an index or rate.

Presentation in the financial statements

During the lease term, the Bank recognises lease payments for short-term leases and low value leases as an expense in Statement of Profit or Loss and Other Comprehensive Income.

The right-of-use assets are included in “Intangibles, property and equipment” and lease liabilities in “Other liabilities and provisions” in the Statement of Financial Position.

After the commencement date the Bank recognises the related costs in Statement of Profit or Loss and Other Comprehensive Income, if these are not recognised as part of the cost of the right-of-use asset. Interest on lease liabilities is included in “Interest expense”. The depreciation of a right-of-use asset is recognised as “Operating expense”.

The Bank classifies the right-of-use assets arising from operating leases that are leased or subleased in the Statement of Financial Position by reference to the nature of the underlying asset.

u) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank’s sources of debt funding.

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

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

v) Provisions

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

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank, and present obligation that arises from past events but is not recognised, because it is not probable that an outflow of resources embodying economic benefits will be require to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements but are disclosed in the additional notes.

w) Income tax

Income tax comprises current tax and deferred tax.

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

The Bank applies the corporate income tax as income tax.

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

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

Deferred tax is provided using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they arise in the same entity and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

Deferred tax relating to fair value re-measurement of financial assets measured at fair value through other comprehensive income, which are charged or credited directly to equity, is also credited or charged directly to equity.

x) Interest and similar to interest income and expense

Interest income and expense typically relating to use the effective interest method is recognised in “Interest and similar to interest income” and “Interest expense” in the Statement of Profit or Loss and Other Comprehensive Income.

y) Net income from commissions and fees

Fee and commission income is accounted for as follows:

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

z) Other operating income / (expense), net

“Other operating income / (expense), net” comprises gains less losses related to trading and investment assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

aa) Dividends

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

bb) Segment reporting

MKB formed its reporting segments in line with IFRS 8 “Operating Segments”. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; furthermore for which discrete financial information is available. The Bank determines operating segments on nature of the business (business segment) or geographically (geographical segment).

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Bank allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm’s length terms and conditions. Please find further details on segment reporting in Note 37.

The Bank does not have any foreign segments.

cc) Foreign currencies

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the official exchange rate of the NBH at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition and equity put options, are translated to HUF at exchange rates at the end of the reporting period. The income and expense of foreign operations are translated to HUF at exchange rates of NBH at the dates of the transactions. Foreign currency differences are recognised directly in equity, in the Currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

dd) Share capital

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

ee) Treasury shares

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

ff) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. For further information about basic and diluted EPS, please see Note 32.

gg) The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2021

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

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2 -** adopted by EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 4 "Insurance Contracts" deferral of IFRS 9 -** adopted by EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 16 "Leases"** Covid-19 Related Rent Concessions beyond 30 June 2021 - adopted by EU on 30 August 2021 (effective for annual periods beginning on or after 1 April 2021).

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

hh) New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" -** Annual Improvements (effective for annual periods beginning on or after 1 January 2022),

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023).

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

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

- **Amendments to IAS 1 "Presentation of Financial Statements" -** Classification of Liabilities as Current or Non-Current (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 (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction ((effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 17 "Insurance contracts"** Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023),

- **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 (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **IFRS 14 "Regulatory Deferral Accounts"** (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.

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

jj) Comparative figures

Change in the classification and valuation policy of certain subsidized retail loans

In the statement of financial position, presenting loans in a uniform manner, based on the nature of the instruments, on the line Loans at amortized cost and mandatorily at fair value through profit or loss, with further details of classification and valuation category provided in Note 11 and any other notes as appropriate.
The amounts presented under Loans and advances to customers are disclosed in the relevant Note by valuation category.
Previously, in accordance with the Bank's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2021, the Bank classified this type of loan as

measured at fair value through profit or loss. The new accounting policy is in line with the practices of the majority of the players in the banking sector, thus better facilitating comparability. Therefore, in the Bank's opinion, the change in accounting policy results in a more reliable, comparable and relevant presentation of the effects of the loans in question on the Bank's financial position and financial performance in the financial statements.
The new accounting policy is applied retrospectively by the Bank as if it had always applied this accounting policy. The Bank has made the following adjustments to the comparative figures. At the beginning of the comparative period and at the end of the comparative period, the change in accounting policy resulted in an insignificant change in the carrying amount of the loans involved or equity. Therefore, the Bank did not change the related values for the adjustment relating to periods before those presented, the Statement of Financial Position contains only the data at the end of the current period and at the end of the comparative period.

- As a result of the change in accounting policy, the Bank adjusted the data of the comparative period in the Statement of Profit or Loss in accordance with the profit or loss items of the fair valuation categories. Due to the unchanged carrying amounts in the Statement of Financial Position, this amendment only resulted in the following reclassification between profit or loss categories: • The Bank recognizes interest income on loans measured at fair value through profit or loss for the period in the Interest and similar to interest income line at the value corresponding to transactional interest. The comparative value of the interest income calculated using the effective interest rate method has been reduced accordingly by the interest income of the respective loans determined using the previously applied effective interest rate method.
- The Bank presents the amount of commission income and commission expenses related to loans at fair value through profit or loss in the Net income from commissions and fees lines and Fee and commission expense lines.
- The Bank presents the change in the fair value of loans measured at fair value through profit or loss in line Other operating income / (expense), net.

The change in accounting policy did not impact the net profit for the comparative period, nor the comparative earnings per ordinary share.
Please see the impact visualization in the reconciliation table to facilitate the understanding of the reclassification.

In accordance with the new accounting policy, the Bank has amended its respective disclosure notes. In the comparative figures, the Bank has reduced the previously disclosed amortized cost, gross carrying amount, impairment and fair value data by the amounts related to the loans concerned. The Bank has also amended its disclosures in the notes on assets at fair value through profit or loss for comparative information. These amendments have been marked “Revised” by the Bank. The Bank has also revised the presentation of the detailed notes to the amended profit or loss line items for comparative information in accordance with the new values in the statement of profit or loss.

4.1

Data in HUF million except stated otherwise

Reclassification of amounts to fair value measurment	2021	2020 Revised presentation	Reclassification of amounts related to mandatorily measured at fair value through profit or loss	2020 As previously presented
Interest income and income similar to interest income	**82 330**	**50 923**	**28**	**50 895**
Interest expense	**32 472**	**24 988**	**-**	**24 988**
Total impairment and provisioning/(reversal)	**3 753**	**6 888**	**(316)**	**7 204**
Net profit/(loss) on receivables from customers at fair value through profit or loss	(1 803)	(360)	(344)	(16)
Net operating income	**44 302**	**18 687**	**-**	**18 687**

The list of the revised tables is:

6.9.Gross amounts of financial current and non-current assets
11.1.Net amount of Loans and advances to customers
11.2.Loans and advances to customers measured at amortised cost
11.3.Allowances for impairment of loans and advances to customers
11.3.1.Breakdown of the gross value and impairment of Loans and advances to customers measured at amortised cost, by stages
11.3.2.Changes of the gross value and impairment of Loans and advances to customers measured at amortised cost, by stages
34.1.Financial instruments measured at fair value, by valuation method
34.2.Nature and extent of exposure to risks arising from financial instruments
35.1.Carrying amounts and fair values of the Bank's financial assets and financial liabilities

5. Investments in subsidiaries, jointly controlled entities and associates

Entities included in MKB Group of consolidation and their activities are as follows:
5.1

2021

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
Euro - Immat Üzemeltetési Kft.	100.00%	100.00%	Hungary	Intangible assets, license maintenance
MKB-Euroleasing Autólízing Szolgáltató Zrt.	100.00%	100.00%	Hungary	Car and consumer finance activities, other finance activities
MKB Bank MRP Szervezet	100.00%	0.00%	Hungary	Special purpose entity for the Employee Share Program
MKB Üzemeltetési Kft.	100.00%	100.00%	Hungary	Property operation and maintenance
Retail Prod Zrt.	100.00%	100.00%	Hungary	Car and consumer finance activities
MKB-Pannónia Alapkezelő Zrt.	49.00%	49.00%	Hungary	Investment fund management activity
MKB Digital Szolgáltató Zrt.	100.00%	100.00%	Hungary	IT services

2020

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
Euro - Immat Üzemeltetési Kft.	100.00%	100.00%	Hungary	Intangible assets, license maintenance
MKB-Euroleasing Autólízing Szolgáltató Zrt.	100.00%	100.00%	Hungary	Car and consumer finance activities, other finance activities
MKB Bank MRP Szervezet	100.00%	0.00%	Hungary	Special purpose entity for the Employee Share Program
MKB Üzemeltetési Kft.	100.00%	100.00%	Hungary	Property operation and maintenance
Retail Prod Zrt.	100.00%	100.00%	Hungary	Car and consumer finance activities
MKB-Pannónia Alapkezelő Zrt.	49.00%	49.00%	Hungary	Investment fund management activity
MKB Digital Szolgáltató Zrt.	100.00%	100.00%	Hungary	IT services

The Group fully consolidates all of its subsidiaries except MKB-Pannonia Alapkezelő Zrt. that is consolidated using the equity method.

6. Risk management

a) Introduction and overview

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

Risk management is an integral part of the Bank's operations and a crucial component of its business and overall financial performance. The MKB Bank's risk management framework has been designed to support the continuous monitoring of the changes of the risk environment and is supported by the strong commitment to a prudent risk management culture both on the strategy and business line levels.

The main principles and priorities of the Bank's risk management function include the ultimate oversight by the Board of Directors (the approval of the Supervisory Board is also required for some specifically defined risk decisions), the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, limitation, monitoring and reporting of all risks. Decisions in respect of major risk principles are approved at group level, and are implemented individually by the own decision making boards of the Bank members.

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

The Bank has exposure to the following risks typically from its use of financial instruments:

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

- country risk:
  The country risk generally refers to a potential loss triggered by economic, political or other event which takes place in the particular country and cannot be controlled by MKB, as creditor or investor. As a result of such event(s), the obligor cannot fulfil its obligation in time or at all, or the Bank is unable to enforce its rights against the obligor. The components of the country risk are transfer risk, sovereign risk and collective debtor risk.

- participations risk:
  The participations risk is defined as the risk related to the following events:
  - potential losses from providing equity / equity instruments or subordinated loan capital. This involves potential losses realised during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment,
  - potential losses from a possible commitment / liability extended in addition to equity investment (i.e. profit / loss transfer agreements), letters of comfort, capital contribution commitments, additional funding obligations),
  - potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.

- market risk (including foreign exchange and interest rate risks):

Market price risk comprises potential losses from changes in market prices in both the trading and banking books.

- liquidity risk:
  MKB defines liquidity as the ability to serve its payment obligations entirely as they fall due and to fund new business at all times without having to accept unplanned liquidation losses on the asset side or increased refinancing rates on the funding side.

- operational risk:
  Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, conduct risk, reputational risk, modelling risk and information and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

- legal risk:
  Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law, a delay in reacting to changes in legal framework conditions, unexpected or ex post facto changes in legal framework respectively courts diverse legal judgements from the Bank's side.

- conduct risk:
  The conduct risk is classified among the operational risks and reflects any risk in the supply of financial services originated from an inadequate supply of services or deliberately exhibited impermissible conduct. This includes risks arising from fraud and unfair, unethical or aggressive trading practices harmful to consumers.

- reputational risk:
  Reputational risk is defined as risks have indirect effect on liquidity, capital or profitability based on unfavourable consumer, partnership, shareholder, investor or official sentiment, which is cancelled from the Bank's expected assessment level.

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

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

- real estate risk:
  Real estate risk covers potential losses that could result from fluctuations in the market value of real estate owned by MKB Bank. Real estate risks arising from collateral provided for real estate loans are covered under credit risk.

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

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

Below information is presented about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

b) Risk management governance

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

Committees	Main responsibilities
Supervisory Board	- It monitors the coordinated and prudent operation of the Bank and the credit institutions, financial business associations and investment firms under its control at the highest level; - Supervises the management of the company, manages the company's internal audit organisation; - Examines the regular and ad hoc reports prepared by the Board of Directors.
Audit Committee	- The Audit Committee assists the Supervisory Board in monitoring the financial reporting system and in selecting and cooperating with the auditor.
Risk and NPL Committee	- As part of the ongoing monitoring of MKB Bank's risk strategy and risk appetite, it reviews the risk strategy, remuneration policy and quarterly risk report in advance, adopts the NPL Strategy and related implementation plan for the year, monitors the development of the NPL Strategy and the high default rate.
Remuneration Committee	The Remuneration Committee is a consultative body that oversees the remuneration of directors and employees in risk management and internal lines of defence, and prepares remuneration decisions based on the long-term interests of shareholders, investors and other stakeholders in the company.
Nomination Committee	The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees.
Board of Directors	- The Board of Directors is a corporate operative management body responsible for management related tasks and the regular keeping of books of the company. - Tasks related to shares and dividends - Tasks concerning the organisation and activities of the company; - Strategic planning tasks (preparing the business policy and financial plan and approving the risk strategy); - Approves policies on risk taking; - Evaluation of regular and ad hoc risk reports.
Management Committee (MC)	- The MC is the operational decision making and decision preparing body for the full range of MBH operations. The MC decides on general and strategic issues submitted to it, on matters of a business nature concerning the operation of the MBH Entire Group, the organisation of the company, the management, administration and development of human resources. The MC regularly reviews and discusses current issues affecting the operation of the MBH Entire Group on the basis of oral information from committee members, and prescribes measures where necessary.
Credit Committee	- It takes decisions on credit and counterparty risk proposals for which it is responsible in accordance with the relevant regulations, and gives its opinion on credit and counterparty risk proposals for which the Board of Directors is responsible.
Debt Management Committee	- For the customers of the debt management area, the Debt Management Committee is the highest escalated decision-making level within the organisational competence, without territorial limitation. - Taking risk decisions which fall within its decision-making powers under the provisions of the Risk Decision Competence Regulations;
Asset and Liability Committee (ALCO)	- The ALCO has primary responsibility for asset and liability management, and exercises competencies in liquidity and market risk management, capital management - It develops the principles, measurement methodology and related limit system for managing liquidity risk, interest rate risk, foreign currency risk (foreign currency and securities) and capital adequacy risk, monitors the utilisation of limits, and determines the necessary measures in case of overruns - It sets internal clearing prices and risk price levels under its pricing powers - It approves securities issuance programmes and individual issues
Holding Bank Operation Committee (HBOC)	- HBOC is responsible for the holding and member group level banking operations, with a focus on profitability, cost, investment and resource management. - Decides on the launch, amendment and closure of projects and developments, prioritisation, development and operational decisions regarding digital/online channels. - Sets and monitors product profitability expectations, targets and changes in market position, decides on budget utilisation, investments and commitments within defined limits.
Internal Defence Lines Committee	- The Internal Defence Lines Committee is primarily a consultative forum between the lines of defence. It is responsible for the integration of communication among the various defence lines and making them regular and systemic features, and for the improvement and establishment of communication channels where appropriate. - by means of preventive and proactive activities the Committee ensures, in respect of the MKB Group, timely and effective identification and management (or enforcement of management) of any risk which could lead to legal non-compliance, or investigation conducted by external authorities or to the adoption by the supervisory authorities of resolutions condemning the Bank's operations, and it provides for immediate correction measures as necessary.
Steering Committee	The purpose of the Steering Committee (SC) is to set the strategic direction of the merger, approve the detailed strategy and take operational decisions on the merger process, including the operating model, technology, transformation, corporate culture, merger communication, etc. It monitors the progress of the merger process and milestone plan, deciding on intervention if necessary.
Methodology Committee (MC)	It controls the implementation of the group-wide risk strategy and risk strategy limit system. It approves all methodological, modelling, limit setting and monitoring, supervisory, regulatory and reporting submissions related to Pillar 1 credit risk, concentration risk and country risk, counterparty risk, operational risk and Pillar 2 risks, and the ICAAP-SREP methodology and the exercise of supervision/control, the Recovery Plan/resolution framework. Its responsibilities include the discussion of the NPL strategy, related methodological, modelling, internal portfolio setting and monitoring, supervisory, regulatory and reporting proposals, including individual and portfolio-level decisions on impairment and provisioning.
Product Sales and Pricing Committee (PSPC)	It is the forum for making management decisions on product development, pricing and sales at individual and group bank level. It develops the features and processes for existing products and new products to be introduced. Decides on the pricing of products, taking into account the profitability of the product; takes decisions on pricing issues within the framework of the rules set by the Asset and Liability Committee.

c) Credit risk

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

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

Credit risk management

The Bank has standards, policies and procedures dedicated to the effective monitoring and managing risk from lending (including debt securities) activities. The risk management of the MKB Bank controls and manages credit risks at high standards, in a centralised manner. Its responsibilities include:

- Formulating the Bank's credit policy in consultation with business units by establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk.

- Establishing the authorisation structure for the approval and renewal of credit facilities. In order to establish an adequate credit decision-making system in which decisions are made on time, the limit amounts are established differently according to the customer segment, the customer quality and the business line, for the delegated credit decision authorities and the boards and individual decision-makers of the Business and Risk Units.

- Monitoring the performance and management of retail and wholesale portfolios across the Bank.

- Supervising the management of exposures to debt securities by establishing controls in respect of securities held for trading purposes.

- Establishing and maintaining the Bank's concentration risk management policies ensuring that the concentration of exposure does not exceed the limits stated in the internal and regulatory limit systems and concentration risks are effectively managed without any need for additional capital requirements if possible.

- Developing and maintaining the Bank's risk assessment systems in order to categorise the exposures according to the degree of the risk of financial loss faced and to manage the existing risks adequately. The purpose of the credit (deal) classification system is to define when impairment may be required against specific credit exposures. The risk categorisation system consists of several grades which reflect sufficiently the varying degrees of risk of default and the availability of collateral or other credit risk mitigation options with regard to a specific exposure.

- Providing position statements, guidance and professional support to the business units of the Bank members in credit risk management.

The control systems applied by the Bank enable to control and monitor exposures by customer and retail product segment.

Data in HUF million except stated otherwise

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

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

The disclosure tables required by CRR, but not presented in this Note are available in the Disclosure according to Regulation (EU) No. 575/2013 prepared by MKB Bank, available on our website www.mkb.hu.

The table below shows the Bank's maximum exposure to credit risk at the end of the reporting period:

6.1

31 December 2021	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Individually impaired						
Default	-	-	11 319	-	-	903
Total individually impaired gross amount	-	-	11 319	-	-	903
Total individually impaired allowance for impairment	-	-	(8 130)	-	-	(385)
Total individually impaired carrying amount	**-**	**-**	**3 189**	**-**	**-**	**518**
Collectively impaired						
Non-default	784 879	58 531	935 249	805 101	-	389 745
Default	-	-	19 162	-	-	791
Total collectively impaired gross amount	784 879	58 531	954 411	805 101	-	390 536
Total collectively impaired allowance for impairment	(32)	(38)	(33 715)	(533)	-	(2 748)
Total collectively impaired carrying amount	**784 847**	**58 493**	**920 696**	**804 568**	**-**	**387 788**
Past due but not impaired						
Non-default	-	-	216	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**216**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	46 587	3 321	223 813	144	-	157 438
Default	-	-	-	-	-	4 964
Total neither past due nor impaired carrying amount	**46 587**	**3 321**	**223 813**	**144**	**-**	**162 402**
Total assets measured at fair value	**-**	**-**	**53 295**	**199 039**	**104 402**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	10 557
Provision for other contingent liablities	-	-	-	-	-	(274)
Total gross amount	**831 466**	**61 852**	**1 243 054**	**1 004 284**	**104 402**	**564 398**
Total allowance for impairment	**(32)**	**(38)**	**(41 845)**	**(533)**	**-**	**(3 407)**
Total carrying amount	**831 434**	**61 814**	**1 201 209**	**1 003 751**	**104 402**	**560 991**

Data in HUF million except stated otherwise

31 December 2020	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Individually impaired						
Default	-	-	11 532	-	-	829
Total individually impaired gross amount	-	-	11 532	-	-	829
Total individually impaired allowance for impairment	-	-	(9 162)	-	-	(381)
Total individually impaired carrying amount	**-**	**-**	**2 370**	**-**	**-**	**448**
Collectively impaired						
Non-default	271 557	82 657	806 716	550 105	-	326 604
Default	-	-	14 448	-	-	487
Total collectively impaired gross amount	271 557	82 657	821 164	550 105	-	327 091
Total collectively impaired allowance for impairment	(34)	(40)	(29 909)	(168)	-	(1 753)
Total collectively impaired carrying amount	**271 523**	**82 617**	**791 255**	**549 937**	**-**	**325 338**
Past due but not impaired						
Non-default	-	-	280	-	-	-
Default	-	-	23	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**303**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	22 660	941	271 517	-	-	94 048
Total neither past due nor impaired carrying amount	**22 660**	**941**	**271 517**	**-**	**-**	**94 048**
Total assets measured at fair value	**-**	**-**	**40 797**	**624 090**	**23 262**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	3 291
Provision for other contingent liablities	-	-	-	-	-	(426)
Total gross amount	**294 217**	**83 598**	**1 145 313**	**1 174 195**	**23 262**	**425 259**
Total allowance for impairment	**(34)**	**(40)**	**(39 071)**	**(168)**	**-**	**(2 560)**
Total carrying amount	**294 183**	**83 558**	**1 106 242**	**1 174 027**	**23 262**	**422 699**

The effect of pandemic on the Credit risk management

In line with NBH's expectations and in accordance with Hungarian Bankholding's unified impairment methodology the stage classification rules of moratorium related opt-in and opt-out clients were harmonized such a way, that normal processes were extended with the following:

- in case of retail portfolio where the clients were in the moratorium1 / moratorium2, and was not declared that they had extended the moratorium or were not entitled to do so, at least stage 2 classification is reasonable for minimum 6 months after the termination of moratorium, unless any stage 3 indicators exist,
- in case of retail portfolio where the client is in the moratorium3, the stage 3 classification is reasonable for the whole period of moratorium if any deterioration of financial situation of the client is probable based on declaration,
- in case of wholesale portfolio where the clients were in the moratorium1 / moratorium2, and was not declared that they had extended the moratorium or were not entitled to do so, at least stage 2 classification is reasonable for minimum 24 months after the termination of moratorium, unless any stage 3 indicators exist,
- in case of wholesale portfolio where the client is in the moratorium3, the stage 3 classification is reasonable for the whole period of moratorium, the deviation of this is only allowed by very detailed reasoning confirmed with objective evidences, but the stage 2 classification is still expected.

For those retail customers who did not opt-in or opted-out from moratorium, the Bank uses traditional assessment tools to measure payment behaviour arising from normal repayment.

In case of private customers the Bank returned to normal ECL calculation.

In case of wholesale clients the changes in the risks include in the potential effects of pandemic are measured at individual level for each customer, which is reflected in the rating and also in the monitoring process.

Data in HUF million except stated otherwise

Given that no new information on the solvency of customers was generated during the time spent in the moratorium 2, and that the entry (opt-in) into the moratorium 3 was based on a customer statement, the Bank provides an expert estimate of the stage migration of the affected portfolio. The Bank also considered the uncertainty factor of the customer's payment behaviour. In addition, the NBH expects that the risk arising from modelling uncertainty should be mitigated by ensuring that impairment coverage is not less, than it was before the pandemic.

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

- the income deterioration of the individuals who opted in the moratorium 3 compared to 18 March, 2020,
- examining the delays that do not yet cause default after opting out of the moratorium 2,
- the result of individual monitoring of wholesale customers who opted in the moratorium 3,
- the amount of additional impairment are required to maintain the provision coverage based on the level as of June 30, 2021.

In summary, the Bank's current modelling methodology is capable of creating a new risk measure on the basis of the above information. It allows to create well-defined customer profiles for customer management. The management overlays were constituted by the Bank because of the uncertainty arisen from the current pandemic situation, the expected regulatory expectations and the future variability of the economic climate.

The net exposure of the Bank's customers under moratorium was as follows (percentage of the portfolio is based on the total amount of the Bank's net exposure):

6.1.1

31 December 2021	Number of loans	Outstanding balance	% of portfolio
Core business			
Wholesale			
Refinanced loan	5	1 938	2.22%
Funding for Growth Scheme	15	679	0.34%
Overdraft	21	1 191	2.70%
Széchenyi Loans	80	1 063	1.44%
Other	40	4 201	0.80%
Total Wholesale	***161***	***9 072***	***0.96%***
Retail			
Residential mortgage	1 641	11 817	6.15%
HUF	*1 633*	*11 705*	6.12%
Foreign currency	*8*	*112*	15.51%
Credit card	119	28	1.85%
Overdraft	190	20	3.03%
Personal loan	383	248	1.72%
Other	113	848	1.77%
Total Retail	***2 446***	***12 961***	***5.05%***
Total Core business	**2 607**	**22 033**	**1.83%**
Total	**2 607**	**22 033**	**1.83%**

Data in HUF million except stated otherwise

31 December 2020	Number of loans	Outstanding balance	% of portfolio
Core business			
Wholesale			
Refinanced loan	85	17 953	24.19%
Funding for Growth Scheme	625	48 480	31.17%
Overdraft	327	18 835	34.03%
Széchenyi Loans	1 292	15 823	36.25%
Other	667	139 257	26.94%
Total Wholesale	***2 996***	***240 348***	***27.91%***
Retail			
Residential mortgage	13 365	92 822	48.90%
HUF	*13 294*	*92 036*	48.71%
Foreign currency	*71*	*786*	82.05%
Overdraft	7 392	642	83.05%
Personal loan	4 796	3 543	39.76%
Other	1 608	25 218	58.46%
Total Retail	***27 161***	***122 225***	***49.95%***
Total Core business	**30 157**	**362 573**	**32.81%**
Total	**30 157**	**362 573**	**32.78%**

The exposure of Bank's customers under moratorium was as follows:

6.1.2
As at 31 December 2021:

Gross amount*	Non-impaired loans Stage 1	Stage 2	Impaired loans Stage 3	POCI	Loans at FVTPL
Retail					
Medium risk	-	7 913	-	250	1 093
High risk	-	671	-	125	43
Default	-	-	5 088	478	301
Total Retail	-	***8 584***	***5 088***	***853***	***1 437***
Wholesale					
Medium risk	129	6 607	-	-	-
High risk	-	638	-	-	-
Default	-	-	2 794	10	-
Total Wholesale	***129***	***7 245***	***2 794***	***10***	-

*Gross amount of loans measured at FVTPL represents the fair value of loans

Impairment	Non-impaired loans Stage 1	Stage 2	Impaired loans Stage 3	POCI
Retail				
Medium risk	-	367	-	50
High risk	-	33	-	41
Default	-	-	2 267	243
Total Retail	**-**	***400***	***2 267***	***334***
Wholesale				
Medium risk	1	191	-	-
High risk	-	45	-	-
Default	-	-	867	2
Total Wholesale	***1***	***236***	***867***	***2***

MKB Bank Nyrt. Data in HUF million except stated otherwise

As at 31 December 2020:

Gross amount*	Non-impaired loans Stage 1	Stage 2	Impaired loans Stage 3	POCI	Loans at FVTPL
Retail					
Low risk	31 625	9	-	2	184
Medium risk	70 608	7 237	-	1 708	98
High risk	4 228	5 197	-	943	4
Default	-	-	5 721	2 188	8
Total Retail	***106 461***	***12 443***	***5 721***	***4 841***	***294***
Wholesale					
Low risk	125 428	-	-	-	-
Medium risk	90 637	1 795	-	-	272
High risk	2 420	25 458	-	-	-
Default	-	-	9 479	-	-
Total Wholesale	***218 485***	***27 253***	***9 479***	-	***272***

*Gross amount of loans measured at FVTPL represents the fair value of loans

Impairment	Non-impaired loans Stage 1	Stage 2	Impaired loans Stage 3	POCI
Retail				
Low risk	633	-	-	-
Medium risk	1 548	231	-	231
High risk	103	178	-	143
Default	-	-	3 251	1 218
Total Retail	***2 284***	***409***	***3 251***	***1 592***
Wholesale				
Low risk	13	-	-	-
Medium risk	1 164	73	-	-
High risk	98	6 540	-	-
Default	-	-	7 250	-
Total Wholesale	***1 275***	***6 613***	***7 250***	**-**

The modified cash flows of Bank's customers under moratorium were as follows:

6.1.3

Financial assets modified during the period	31 December 2021	31 December 2020
Gross carrying amount before modification	1 192 170	1 147 090
Loss allowance before modification	(41 844)	(39 416)
Net amortised cost before modification	1 150 326	1 107 674
Net modification gain / (loss)	(2 412)	(2 370)
Net amortised cost after modification	**1 147 914**	**1 105 304**

Offsetting of financial assets and liabilities

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

As of 31 December 2021 the Bank had no enforceable master netting agreement or similar agreement which should be set off in accordance with IAS 32.42.

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

Data in HUF million except stated otherwise

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

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

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

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

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

6.2

31 December 2021 / **Offsetting financial assets**	IAS 32.42		similar netting arrangement			
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	Net amount of financial assets after offsetting/ similar agreement/collaterals
	debit		debit	credit		
Derivatives						
Derivative financial assets	61 738	61 738	29 441	6 746	36 187	25 551
Receivables concerning repos						
Loans and advances to customers	20 263	20 263	-	20 263	20 263	-
Financial assets under netting agreements	**82 001**	**82 001**	**29 441**	**27 009**	**56 450**	**25 551**

31 December 2021 / **Offsetting financial liabilities**	IAS 32.42		similar netting arrangement			
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	Net amount of financial assets after offsetting/ similar agreement/collaterals
	debit		debit	credit		
Derivatives						
Derivative financial liabilities	33 505	33 505	29 441	3 807	33 248	257
Liabilities concerning repos						
Deposit and current accounts	1 319	1 319	-	1 319	1 319	-
Financial liabilities under netting agreements	**34 824**	**34 824**	**29 441**	**5 126**	**34 567**	**257**

31 December 2020 / **Offsetting financial assets**	IAS 32.42		similar netting arrangement			
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	Net amount of financial assets after offsetting/ similar agreement/collaterals
	debit		debit	credit		
Derivatives						
Derivative financial assets	10 735	10 735	3 018	2 418	5 436	5 299
Receivables concerning repos						
Loans and advances to customers	82 751	82 751	-	82 751	82 751	-
Financial assets under netting agreements	**93 486**	**93 486**	**3 018**	**85 169**	**88 187**	**5 299**

31 December 2020 / **Offsetting financial liabilities**	IAS 32.42		similar netting arrangement			
	Gross carrying amount before offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivabl. collaterals	Net amount of financial assets after offsetting/ similar agreement/collaterals
	debit		debit	credit		
Derivatives						
Derivative financial liabilities	(16 684)	(16 684)	3 018	(19 702)	(16 684)	-
Liabilities concerning repos						
Deposit and current accounts	2 732	2 732	-	2 732	2 732	-
Financial liabilities under netting agreements	**(13 952)**	**(13 952)**	**3 018**	**(16 970)**	**(13 952)**	**-**

The gross amounts of financial assets and liabilities presented in the table above measured in the financial statements on the following bases:

- Financial assets measured at FVTPL – fair value,
- Derivative financial instruments – fair value,
- Loans and advances to customers – amortised cost, pledged collateral – fair value,
- Deposits and current accounts – amortised cost, pledged collateral – fair value.

Data in HUF million except stated otherwise

The table below reconciles the Net amount after offsetting to the related individual line items of the Statement of Financial position.

6.3

31 December 2021 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial assets	61 738	104 402	42 664
Loans and advances to customers	20 263	1 201 209	1 180 946

31 December 2021 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	33 505	2 233 694	2 200 189
Deposits and current accounts	1 319	705 565	704 246

31 December 2020 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial assets	10 735	23 262	12 527
Loans and advances to customers	82 751	1 106 242	1 023 491

31 December 2020 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	(16 684)	35 406	52 090
Deposits and current accounts	2 732	1 877 454	1 874 722

Credit risk classification system

The Bank's credit risk classification systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss.

For individually significant wholesale financial assets, the classifications are reviewed regularly and amendments, where necessary, are implemented at least monthly in terms of provisions and exposure classification.

Exposures below specific amounts are assessed on a collective basis, in relation to which the credit risk parameters are reviewed at least yearly or, more frequently if required, in line with the changes of the main economic conditions.

The Bank for each balance sheet closing date (the last day of the month) evaluates the changes in the credit risk that have occurred since the initial recognition of the financial assets and allocate the appropriate stage categories.

During the valuation the Bank assesses the change in the risk of default over the life of the financial instrument using all reasonable and supportable information, which is available without undue cost or effort and without exhaustive search of information. The Bank represents lifetime credit losses in the case where credit risk increased significantly.

The financial assets are initially in the stage 1 category, and they can be returned from stage 2 or from stage 3 if the necessary conditions are performed.

The credit risk of the deals are determined by the extent of change between the initial and the actual PD level, the duration of the delay, the client rating and the client handling method. In case of significant credit risk increase the deal is reclassified to stage 2 and lifetime credit losses are recognised on these financial assets.

If the credit risk of a financial asset increases to the point that it is considered credit-impaired (defaulted), the financial asset is transferred to stage 3.

In the stage 1, the time horizon is one year, in the stage 2 the lifetime PiT PD's are estimated. The stage 3 contains the defaulted customers, where the PD equals to 1. In the stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used.

Collective valuation

According to the credit risk characteristics, similar (homogeneous) financial assets are subject to collective valuation. The basis for the formation of homogeneous groups is the client segmentation and the credit risk product type.

The collectively allocated impairment and provisioning methodology is applied to all retail clients, to the wholesale customers in stage 1 and stage 2 and to the wholesale customer in stage 3 below the client exposure limit.

Determining the collective loss allowance the expected credit loss (ECL) method is applied according to the IFRS 9.

The expected credit loss is determined on the basis of the probability of default (PD), actual losses realized on non-performing transactions the actual losses realized on non-performing deals (LGD) and the credit conversion factor (CCF) probability of becoming a balance sheet item.

The risk parameters are determined based on statistical models. The models are validated at least once a year and reviewed if necessary.

The expected credit loss for financial assets in stage 1 is determined on the basis of a 12-month expected credit loss. Lifetime expected credit losses are recognised on the financial assets in stage 2 and stage 3.

The purchased or originated credit-impaired (POCI) financial assets at the reporting date represent the cumulative changes in lifetime credit risk from the initial recognition. In the Bank's practice, the loans originally disbursed in foreign currency have been converted to forint, and therefore present as POCI assets. Typically mortgage loans were involved.

In the case of financial assets recorded at fair value, the Bank calculates the credit risk component of the discount factor on the basis of the principles used in determining the expected credit loss.

Individual-based valuation

Financial assets in the stage 3 are assessed individually over the exposure limit level.

In determining the level of allowances on individually significant financial assets in stage 3, the Bank applies the scenario-based discounted cash flow method. The amount and timing of expected receipts and recoveries, the value of collateral and the probability of realization are considered in estimating the allowance in each scenario. The scenario weights are used in the calculation of the loss allowance.

The credit conversion factor is taken into account in loss allowance calculation for contingent liabilities.

In case of financial assets are measured individually at fair value the expected loss calculation uses the cash-flow scenarios.

Write-off policy

The Bank, in compliance with the stipulations of legal regulations, writes off a loan / security balance (and any related allowances for impairment losses) when there is documented evidence that no further recovery can be expected. This determination is reached on the basis of a final statement in case of liquidation or upon establishment that after ceasing the debtor and / or collateral provider to exist, and / or after using all proceeds from collaterals there is still unrecovered exposure remaining.

Collateral structure

The Bank applies the basic principle, whereby it extends loans primarily in relation to and based on the customer's repayment capacity, instead of relying too much on the available collateral. Depending on the customer's paying capacity and rating, as well as the product type, unsecured loans may be extended only in strictly regulated and controlled cases. Nevertheless, collateral could mitigate the credit risk.

The main collateral types are as follows:

- primarily mortgages on residential properties in the retail sector;
- pledge on business assets, such as real estates, stock and debtors, in the commercial and industrial sector;
- mortgages on the financed properties in the commercial real estate sector; and
- securities, guarantees,
- money, securities deposited as collateral.

The Bank establishes the coverage ratio required for individual exposures and makes its decisions on the basis of the so-called collateral value of the collateral items instead of their market value. This value is adjusted by conservative estimation, which assists the prudent management of occurring risks, taking into consideration the relevant order of accountability and resolution making during the action. In case of collaterals of non-performing clients the Bank applies so-called liquidation value, which is established by the revaluation of the collateral, involving additional costs arising during the forced sale in relatively short period.

Taking into account the EU and Hungarian regulatory environment and legal practices, and relying on its own experiences and known Hungarian experiences in the enforcement of the collateral items, the Bank restricted, as much as possible (within the limits of the economies of scale) the rules of acceptability of the various collateral items and the calculation of the collateral and liquidation values assigned to them. The regular monitoring and revaluation of the collateral items securing the individual exposures is an important pillar in the Bank's monitoring system.

Data in HUF million except stated otherwise

The market values determined by the Bank of collaterals held to the amount of the assets' carrying amounts at the end of the reporting period were as follows:

6.4

2021	Loans and advances to customers	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	10 352	15 536	278	298
Debt securities issued by				
Companies	55 348	1 457	-	1 108
Mortgage				
Building (incl. plot)	194 128	16 820	6 069	20 232
Other (ship, patent, chattel, goods stock, lien on assets over total assets, etc.)	220 953	41 257	9 261	34 196
Guarantees from				
Central governments	250 519	130 683	15 224	28 205
Other banks	35 847	4 993	-	40
Companies	58 834	18 983	339	20 456
Others	28 287	6 046	-	10 692
Total collateral	**854 268**	**235 775**	**31 171**	**115 227**

2020	Loans and advances to customers	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	9 841	13 505	223	364
Debt securities issued by				
Companies	62 185	1 298	-	809
Mortgage				
Building (incl. plot)	168 774	14 634	6 326	17 904
Other (ship, patent, chattel, goods stock, lien on assets over total assets, etc.)	188 336	41 539	8 704	25 074
Guarantees from				
Central governments	177 298	40 143	13 384	24 612
Other banks	20 881	12 489	-	-
Companies	63 163	16 647	508	31 152
Others	13 966	3 116	-	4 582
Total collateral	**704 444**	**143 371**	**29 145**	**104 497**

Valuation methods

The aim of collateral valuation is to conduct advisable and stable evaluation of value, taking into consideration the fluctuation of market prices.

The basis of the collateral valuation is provided by the collateral value (reflecting the value that can be realized on its own, independently from the course of business).

Cash deposits:
In case of bails, if the type of the currency of commitments and collaterals is the same, the amount of bail can be taken into account in 100%.

Securities:
The value of securities equals with the latest accessible market value. Revaluation is done in every sixth month.

Mortgage:
In case of real estates the calculation of the collateral value is done on the basis of individual evaluation of the real estate on the occasion of reception, taking into account minimum correction factors determined by the Bank.

The Bank applies 3 main revaluation methods:

- evaluation by experts involved in the list,
- evaluation by the Bank's own experts involving relevant information provided by the 'list' experts,
- statistical method mostly in case of residential real estate.

Guarantees:
In course of definition of collateral value, the probability of non-performance of the guarantee (depending on the quality of the guarantor), the Bank's outstanding relevant to guarantee and the empirical value on possibility of calling in guarantees are taken into considerations.

The Bank didn't obtain any assets by taking possession of collateral held as security, or exercising other credit enhancement options.

The management and processes of such assets obtained are regulated in the Bank's Wholesale and Retail Debt to Asset / Debt to Equity Policy.

Concentrations

The Bank monitors and analyses the concentration of credit risk in term of economic activities and risk classification.

An analysis on the gross exposures of credit risk concentration in terms of exposure types and risk classification at the end of the reporting periods is shown below:

Data in HUF million except stated otherwise

6.5

2021	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Category I - without country risk	16 903	8 434	292	56 115	2 268
Category II - with low to medium country risk	5 255	2 354	1 679	4 320	5 221
Category III - with medium to high country risk	29	1 016	2 028	1	3
Total exposure	**22 187**	**11 804**	**3 999**	**60 436**	**7 492**

2020	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Category I - without country risk	29 574	10 103	175	2 553	618
Category II - with low to medium country risk	10 052	2 374	1 547	418	5 820
Category III - with medium to high country risk	17	173	876	242	5
Total exposure	**39 643**	**12 650**	**2 598**	**3 213**	**6 443**

- Category I comprises the EMU countries,
- Category II comprises countries with Moody's rating AAA - Baa3,
- Category III comprises countries with Moody's rating Ba1 or worse.

The Bank classified the total exposure according to the internationally used and recognized NACE Statistical Classifications of Economic Activities issued by the European Commission.

The following tables show the gross amount and impairment of total exposure by NACE codes and exposure types at the end of the reporting periods:

6.6

31 December 2021	Gross amount					
	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	-	-	394	-	-	101
Mining and quarrying	-	-	298	-	-	254
Construction	-	-	41 856	12 785	7 943	74 140
Manufacturing	-	-	136 124	24 767	2 813	82 506
Human health services and social work activities	-	-	3 584	-	-	1 486
Information and communication	-	-	23 247	42 427	-	11 586
Real estate activities	-	-	64 926	4 638	3 560	43 109
Public administration and defence, compulsory social security	-	-	59 865	842 944	2 980	63 341
Agriculture, forestry and fishing	-	-	38 086	2 115	23	12 743
Arts, entertainment and recreation	-	-	10 793	-	-	6 280
Wholesale and retail trade	-	-	98 128	-	655	67 533
Education	-	-	175	-	1	247
Professional, scientific and technical activities	-	-	75 463	1 697	18	63 595
Accommodation and food service activities	-	-	10 319	-	-	3 632
Transport and storage	-	-	41 653	-	318	20 522
Electricity, gas, steam, air conditioning and water supply	-	-	34 855	4 441	-	8 853
Financial and insurance activities	831 466	61 781	309 895	42 679	85 331	62 275
Other services (include private retail loans)	-	71	298 393	25 791	760	42 195
Total exposure	**831 466**	**61 852**	**1 243 054**	**1 004 284**	**104 402**	**564 398**

31 December 2021	Impairment					
	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	0	0	37	0	0	0
Mining and quarrying	0	0	46	0	0	2
Construction	0	0	870	3	0	169
Manufacturing	0	0	13 221	271	0	596
Human health services and social work activities	0	0	102	0	0	35
Information and communication	0	0	1 093	23	0	14
Real estate activities	0	0	867	23	0	375
Public administration and defence, compulsory social security	0	0	102	29	0	39
Agriculture, forestry and fishing	0	0	604	0	0	73
Arts, entertainment and recreation	0	0	175	0	0	10
Wholesale and retail trade	0	0	2 453	0	0	149
Education	0	0	13	0	0	3
Professional, scientific and technical activities	0	0	4 709	0	0	310
Accommodation and food service activities	0	0	573	0	0	29
Transport and storage	0	0	1 091	0	0	47
Electricity, gas, steam, air conditioning and water supply	0	0	222	0	0	28
Financial and insurance activities	32	38	1 418	73	0	61
Other services (include private retail loans)	0	0	14 249	111	0	1 467
Impairment	**32**	**38**	**41 845**	**533**	**0**	**3 407**

Data in HUF million except stated otherwise

31 December 2020	Gross amount Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	-	-	397	-	-	91
Mining and quarrying	-	-	130	-	-	149
Construction	-	-	60 054	12 333	4 003	72 166
Manufacturing	-	-	103 392	21 352	2 271	73 326
Human health services and social work activities	-	-	3 542	-	-	1 013
Information and communication	-	-	31 725	8 606	13	5 084
Real estate activities	-	-	36 307	5 638	321	8 146
Public administration and defence, compulsory social security	-	-	118 911	1 091 150	4 166	52 729
Agriculture, forestry and fishing	-	-	15 402	1 312	24	4 447
Arts, entertainment and recreation	-	-	10 922	-	-	11 729
Wholesale and retail trade	-	-	65 792	-	453	38 968
Education	-	-	335	-	2	296
Professional, scientific and technical activities	-	-	76 188	2 508	74	51 380
Accommodation and food service activities	-	-	6 731	-	-	1 658
Transport and storage	-	-	35 749	-	97	10 014
Electricity, gas, steam, air conditioning and water supply	-	-	34 241	525	118	8 116
Financial and insurance activities	292 860	83 523	253 947	26 217	9 039	40 217
Other services (include private retail loans)	1 357	75	291 893	4 554	2 681	45 730
Total exposure	**294 217**	**83 598**	**1 145 658**	**1 174 195**	**23 262**	**425 259**

31 December 2020	Impairment Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	-	-	34	-	-	-
Mining and quarrying	-	-	1	-	-	1
Construction	-	-	6 865	-	-	382
Manufacturing	-	-	6 448	53	-	529
Human health services and social work activities	-	-	675	-	-	11
Information and communication	-	-	1 487	14	-	106
Real estate activities	-	-	940	27	-	55
Public administration and defence, compulsory social security	-	-	173	72	-	25
Agriculture, forestry and fishing	-	-	164	-	-	31
Arts, entertainment and recreation	-	-	870	-	-	4
Wholesale and retail trade	-	-	2 147	-	-	207
Education	-	-	21	-	-	3
Professional, scientific and technical activities	-	-	4 336	-	-	106
Accommodation and food service activities	-	-	218	-	-	22
Transport and storage	-	-	698	-	-	126
Electricity, gas, steam, air conditioning and water supply	-	-	1 304	-	-	22
Financial and insurance activities	34	40	1 159	2	-	37
Other services (include private retail loans)	-	-	11 531	-	-	893
Impairment	**34**	**40**	**39 071**	**168**	**-**	**2 560**

d) Liquidity risk

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

Management of liquidity risk

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

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

Contractual maturity of liabilities

6.7

2021	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(705 565)	(728 070)	(38 179)	(8 220)	(43 854)	(486 409)	(151 408)
Deposits and current accounts	(2 233 694)	(2 235 088)	(2 078 265)	(125 866)	(30 811)	(119)	(27)
Issued debt securities	(3 394)	(3 393)	-	-	(1 258)	(1 994)	(141)
Subordinated debt	(45 070)	(49 304)	(1 085)	-	(1 411)	(46 808)	-
	(2 987 723)	**(3 015 855)**	**(2 117 529)**	**(134 086)**	**(77 334)**	**(535 330)**	**(151 576)**
Derivative financial liabilities							
Trading: outflow		(416 964)	(81 276)	(61 821)	(194 507)	(33 688)	(45 672)
Trading: inflow		399 464	75 426	60 119	176 843	38 119	48 957
	(41 528)	**(17 500)**	**(5 850)**	**(1 702)**	**(17 664)**	**4 431**	**3 285**
Loan commitments		(399 585)	(26 618)	(10 054)	(85 642)	(108 469)	(168 802)

2020	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(574 825)	(592 138)	(19 592)	(4 527)	(33 885)	(407 017)	(127 117)
Deposits and current accounts	(1 877 454)	(1 878 336)	(1 660 014)	(144 315)	(71 217)	(2 790)	-
Issued debt securities	(2 343)	(2 344)	-	-	(1 176)	(1 149)	(19)
Subordinated debt	(44 724)	(50 310)	(922)	-	(1 397)	(47 713)	(278)
	(2 499 346)	**(2 523 128)**	**(1 680 528)**	**(148 842)**	**(107 675)**	**(458 669)**	**(127 414)**
Derivative financial liabilities							
Trading: outflow		(220 019)	(50 442)	(20 837)	(63 207)	(41 461)	(44 072)
Trading: inflow		198 557	45 819	17 716	55 107	32 824	47 091
	(35 406)	**(21 462)**	**(4 623)**	**(3 121)**	**(8 100)**	**(8 637)**	**3 019**
Loan commitments		(274 877)	(24 097)	(21 438)	(59 453)	(85 625)	(84 264)

The above table shows the undiscounted contractual cash flows of the Bank's financial liabilities and loan commitments based on their earliest possible date of maturity. The disclosure for derivatives shows the gross inflow and outflow amount for derivatives (e.g., forward exchange contracts and currency swaps).

The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and loan commitments are not all expected to be drawn down immediately. Due to the significant difference between the expected and the contractual cash flows, the Bank's risk management department use both analyses to manage liquidity risk.

Data in HUF million except stated otherwise

The expected, undiscounted cash flows of the Bank's financial liabilities were as follows:

Expected maturity of liabilities

6.8

2021	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(705 565)	(728 070)	(38 179)	(8 220)	(43 854)	(486 409)	(151 408)
Deposits and current accounts	(2 233 694)	(2 235 088)	(138 643)	(22 327)	(2 268)	(6)	(2 071 844)
Issued debt securities	(3 394)	(3 393)	-	-	(1 258)	(1 994)	(141)
Subordinated debt	(45 070)	(49 304)	(1 085)	-	(1 411)	(46 808)	-
	(2 987 723)	**(3 015 855)**	**(177 907)**	**(30 547)**	**(48 791)**	**(535 217)**	**(2 223 393)**
Derivative financial liabilities							
Trading: outflow		(416 964)	(81 276)	(61 821)	(194 507)	(33 688)	(45 672)
Trading: inflow		399 464	75 426	60 119	176 843	38 119	48 957
	(41 528)	**(17 500)**	**(5 850)**	**(1 702)**	**(17 664)**	**4 431**	**3 285**
Loan commitments		(60 179)	(19 104)	(41 075)			

2020	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(574 825)	(592 138)	(19 592)	(4 527)	(33 885)	(407 017)	(127 117)
Deposits and current accounts	(1 877 454)	(1 878 336)	(108 441)	(14 630)	(5 544)	(257)	(1 749 464)
Issued debt securities	(2 343)	(2 344)	-	-	(1 176)	(1 149)	(19)
Subordinated debt	(44 724)	(50 310)	(922)	-	(1 397)	(47 713)	(278)
	(2 499 346)	**(2 523 128)**	**(128 955)**	**(19 157)**	**(42 002)**	**(456 136)**	**(1 876 878)**
Derivative financial liabilities							
Trading: outflow		(220 019)	(50 442)	(20 837)	(63 207)	(41 461)	(44 072)
Trading: inflow		198 557	45 819	17 716	55 107	32 824	47 091
	(35 406)	**(21 462)**	**(4 623)**	**(3 121)**	**(8 100)**	**(8 637)**	**3 019**
Loan commitments		(54 518)	(17 586)	(36 932)			

The decision of the Management of the Bank, however, is also based on the liquidity gap (net position) between contractual expected in- and outflows, therefore both financial assets and liabilities are grouped into liquidity buckets.

The following table shows the gross amounts of financial current and non-current assets:

6.9

	2021		2020 revised		2020	
	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year
Loans and advances to banks	*39 741*	*22 111*	*62 599*	*20 999*	*62 599*	*20 999*
measured at AC	39 741	22 111	62 599	20 999	62 599	20 999
Loans and advances to customers	*40 168*	*1 202 886*	*80 653*	*1 065 007*	*80 653*	*1 065 007*
measured at AC	40 168	1 149 591	80 653	1 024 209	80 653	1 064 069
measured at FVTPL		53 295	-	40 798	-	938
Derivative financial assets	*10 093*	*94 309*	*10 358*	*12 904*	*10 358*	*12 904*
Securities	*9 314*	*994 970*	*8 309*	*1 165 886*	*8 309*	*1 165 886*
measured at AC	2 016	803 229	-	550 106	-	550 106
measured at FVTPL	2 777	8 581	6 300	10 622	6 300	10 622
measured at FVTOCI	4 521	183 160	2 009	605 158	2 009	605 158

The table above represents the gross amounts expected to be recovered or settled within time categories. Impairment on loans and advances to customers has an amount of HUF 41,845 million (2020: HUF 39,416 million).

e) Market risk

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

Management of market risks

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

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

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

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

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

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

Exposure to market risks – trading portfolios

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

- Product volume limits define maximum aggregate amounts of trading products and contracts that the Bank may hold at any time.
- FX position limits restrict the long and short position for each currency and the total net amounts of FX positions that can be held in the trading and banking books.
- VaR limits: The VaR limit of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). MKB Bank

Data in HUF million except stated otherwise

applies historical and parametric VaR method with 1-day holding period at 99% confidence level.

- PLA (Potential Loss Amounts) limits define maximum amount of loss that the Bank is willing to assume.

The VaR model used is based mainly on historical data. Taking account of market data from the previous one year (250 business days in case of historical VaR and and 187 business days in case of parametric VaR), and observed relationships between different markets and prices, the model calculates both diversified and undiversified total VaR, and VaR by risk factors such as interest rate, equity and currency VaR.

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

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

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

A summary of the VaR position of the Bank’s trading portfolios (i.e. only its trading book) as at 31 December and during the period is as follows:

6.10

2021	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	17	52	2	275
Interest rate risk	111	215	46	-
Equity risk	4	19	1	-
Overall market risk of trading book	**132**	**286**	**49**	**275**
Credit spread risk of trading book	40	103	(25)	-

2020	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	22	142	1	131
Interest rate risk	105	279	17	-
Equity risk	7	12	1	-
Overall market risk of trading book	**134**	**433**	**19**	**131**
Credit spread risk of trading book	95	236	8	-

Data in HUF million except stated otherwise

Important notes in connection with the table above:

- MKB applies historical and parametric VaR for general market risk:
  - Historical VaR: (1 day holding period; 99% confidence level, number of observation: 250 business days),
  - Parametric VaR: Risk metrics methodology (1 day holding period; 99% confidence level, 0.94 decay factor, number of observation: 187 business days).
- MKB calculates specific interest rate risk (credit spread risk) separately from general interest rate risk based on the swap and bond yield curve spread.
- Bank calculates VaR only on trading-book position.
- There is no commodity in MKB position.
- MKB does not have a significant open position from options therefore there is no volatility VaR calculation.

A potential adverse 15% change in the FX rates (HUF appreciation for long position and HUF depreciation for short position) would cause HUF 275 million losses based on the year-end FX open position.

Exposure to interest rate risk – non-trading portfolios

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

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

ALCO is the monitoring body for compliance with approved limits and is assisted by Risk Controlling in its monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

At the end of the reporting period the interest rate profile of the Bank's interest-bearing financial instruments was:

6.11
As at 31 December 2021

Fixed rate instruments	Gross amount
Financial assets	1 391 564
Financial liabilities	(1 164 827)
Net fixed rate instruments	**226 737**

Variable rate instruments	Denominated in				
	HUF	CHF	EUR	USD	Other currencies
Financial assets	667 814	1 160	239 705	5 503	3 444
Financial liabilities	(1 346 953)	(5 093)	(390 506)	(74 577)	(5 767)
Net variable rate instruments	**(679 139)**	**(3 933)**	**(150 801)**	**(69 074)**	**(2 323)**

Data in HUF million except stated otherwise

As at 31 December 2020

Fixed rate instruments	Gross amount
Financial assets	1 183 220
Financial liabilities	(933 020)
Net fixed rate instruments	**250 200**

Variable rate instruments	Denominated in HUF	CHF	EUR	USD	Other currencies
Financial assets	950 576	1 850	254 414	9 887	3 504
Financial liabilities	(1 172 498)	(4 082)	(311 342)	(71 875)	(6 529)
Net variable rate instruments	**(221 922)**	**(2 232)**	**(56 928)**	**(61 988)**	**(3 025)**

The interest rate risk modelling of sight deposits hasn't changed in 2021. In the interest rate risk calculation the Bank used expected cash-flows in the case of baby-expecting- loans which contained the prepayments during the fair value calculations. The effect of the cap of floating interest rates of retail mortgage loans to P / L was considered in the downturn stress test scenario.

IBOR reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform interbank offered rates ('IBORs') with alternative nearly risk-free rates (referred to as 'IBOR reform').
As part of the IBOR reform, CHF, JPY, GBP and EUR LIBOR reference rates were phased out as of 1 January 2022. In case of USD LIBOR synthetic quotes will be available for a few maturities until 2023 and these rates can be used only for existing transactions. New deals cannot reference these benchmarks. Apart from the London based LIBOR benchmarks, EONIA, the overnight EUR interest rate was discontinued as well. It was replaced by ESTER. So far, the changes do not affect EURIBOR rates.
The replacement rates for these benchmarks will be SARON in case of CHF, TONAR in JPY, SONIA in GBP and SOFR in case of USD. The Bank will use these overnight new risk-free rates or historical averages or market term rates based on these risk free rates. In case of EONIA, the Bank will use ESTR or modified ESTER. After the changes, the Bank will not make any new loan, deposit or derivative transaction where the reference rate is the discontinued LIBOR or EONIA rate. The Bank will use only the new reference rates in all new tailor made deals and in the general terms and conditions.
Two groups of accounting issues arising from IBOR reform could affect financial reporting which was addressed by the standard-setter through amending the relevant IFRSs. Accordingly, the standard-setter divided those amendments into two phases:

- amendments addressing the situation where uncertainty could arise in the run-up to transition: Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (Phase 1 amendments) are issued in September 2019 are effective from 1 January 2020; and
- amendments addressing the situation when that uncertainty will not be present but companies update the rates in their contracts and the details of their hedging relationships: Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Phase 2 amendments) are issued in August 2020 are effective from 1 January 2021.

The Bank assessed the significance of the IBOR reform to its operation and financial reporting.
The impact of the IBOR reform and the discontinued reference benchmarks on the Bank is not material. The implications for the Bank's risk profile are negligible. The overall interest rate risk of the Bank is not affected. The Bank does not have any involved construction products

and does not hold any securities on its own account which is influenced by the LIBOR reform. There is no on-balance or off-balance items linked to GBP, JPY or EUR LIBOR rates.

Exposure to USD and CHF LIBOR:

- There are seven interest rate derivatives transactions with a total notional value of 100.6 million USD (32,766 million HUF) with reference to USD LIBOR.
- There are five USD denominated corporate loans referencing USD LIBOR with a total notional of 1 million USD (326 million HUF). The reference rates of these loans will be gradually replaced by SOFR until 2023.
- In CHF there is only one 0.05 million CHF (18 million HUF) loan transaction which uses the CHF LIBOR reference rate in which case the new SARON benchmark was communicated to our client.

Under the detailed rules of IFRS 9 Financial Instruments, modifying a financial contract can require recognition of a significant gain or loss in the income statement. The Bank uses the practical expedient for modifications of financial contracts provided by the amendment, as the change results directly from IBOR reform and occurs on an ‘economically equivalent’ basis. In these cases, changes will be accounted for by updating the effective interest rate.

Other implications

The Bank has several partner contracts (ISDA VMCSA, GMRA) for over-the-counter derivatives with reference to LIBORs and EONIA. In all these contracts benchmark rates are used for the interest rate calculation on bilateral initial and variation margin. In order to smoothen the transition, the Bank joined the ISDA 2021 EONIA Collateral Agreement Fallbacks Protocol and ISDA 2020 IBOR Fallbacks Protocol. Banks joining the protocol do not need to modify their bilateral contracts, adherence is equivalent to it.
In case of OTC derivative transactions cleared via a central clearing counterparty (LCH) and its full clearing member, the changes were affected unilaterally already earlier.

Operational implications

The Bank needs to buy the real time data of these new reference rates and set up new yield curve for the present value calculations. For this, an ongoing system development is in place.

An analysis of the Bank’s sensitivity to an increase or decrease in market interest rates is as follows:

6.12

2021	Effect on equity	Effect on P/L
HUF		
200 bp increase	(13 326)	843
200 bp decrease	18 389	(11 849)
CHF		
200 bp increase	1	(64)
200 bp decrease	-	(5)
EUR		
200 bp increase	2 739	(191)
200 bp decrease	(741)	(374)
USD		
200 bp increase	1 049	487
200 bp decrease	(1 098)	(553)
Other currencies		
200 bp increase	14	(109)
200 bp decrease	(10)	55

2020	Effect on equity	Effect on P/L
HUF		
200 bp increase	(18 479)	2 701
200 bp decrease	30 077	(1 183)
CHF		
200 bp increase	-	(30)
200 bp decrease	-	(20)
EUR		
200 bp increase	5 549	382
200 bp decrease	(943)	1 253
USD		
200 bp increase	(546)	(17)
200 bp decrease	299	(358)
Other currencies		
200 bp increase	9	24
200 bp decrease	(7)	(32)

6.13

2021			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	2 739	(741)	(741)
USD	1 049	(1 098)	(1 098)
CHF	1	-	-
GBP	10	(7)	(7)
JPY	1	-	-
Others	(13 323)	18 386	(13 329)
Total	**(9 523)**	**16 540**	**(15 175)**

2020			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	5 549	(943)	(943)
USD	(546)	299	(546)
CHF	-	-	-
GBP	1	(1)	(1)
JPY	-	-	-
Others	(18 472)	30 071	(18 485)
Total	**(13 468)**	**29 426**	**(19 975)**

Exposure to other market risks – non-trading portfolios

The Bank is exposed to foreign exchange risk through its holdings of financial instruments denominated in foreign currencies. Exchange risk management aims to reduce the adverse impact of potential changes in the market value of foreign currency financial instruments induced by exchange rate fluctuations.

The Bank's financial position in foreign currencies at the end of the reporting periods was as follows:

6.14

2021	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Net assets	2 895 213	8 556	390 990	1 556	24 007	3 320 322
Net liabilities	2 712 840	85 876	507 721	6 555	7 330	3 320 322
Net derivative and spot instruments (short) / long position	(180 626)	77 199	115 731	5 006	(17 310)	-
Total net currency positions	**1 747**	**(121)**	**(1 000)**	**7**	**(633)**	**-**

2020	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Net assets	2 386 691	46 656	341 599	2 108	15 582	2 792 636
Net liabilities	2 266 128	84 587	424 292	5 496	12 133	2 792 636
Net derivative and spot instruments (short) / long position	(121 139)	37 884	83 282	3 432	(3 459)	-
Total net currency positions	**(576)**	**(47)**	**589**	**44**	**(10)**	**-**

f) Encumbered assets

Encumbered assets according to 680/2014/EU Commission Implementing Regulation at the end of the periods were the following:

6.15

	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution				
Loans on demand	263	263	113	113
Debt securities	603 681	564 721	495 488	492 158
Loans and advances other than loans on demand	119 631	119 631	132 220	132 220
Total encumbered assets	**723 575**	**684 615**	**627 821**	**624 491**

Data in HUF million except stated otherwise

6.16

	Non-encumbered	
	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of collateral received or own debt securities issued non available for encumbrance
31 December 2021		
Collateral received by the reporting institution		
Debt securities	2 369	-
Loans and advances other than loans on demand	8 789	-
Other collateral received	-	291 702
Collateral received and own debt securities issued	**11 158**	**291 702**
31 December 2020		
Collateral received by the reporting institution		
Loans on demand	4 291	-
Loans and advances other than loans on demand	83 830	-
Other collateral received	-	347 673
Collateral received and own debt securities issued	**88 121**	**347 673**

6.17

	31 December 2021		31 December 2020	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	*246 030*	*723 575*	*188 727*	*627 821*
Derivatives	6 325	6 427	19 835	48 497
Deposits	239 705	717 148	168 892	579 324
Repurchase agreements	1 319	1 319	2 732	-
Collateralised deposits other than repurchase agreements	238 386	715 829	166 160	579 324
Total Sources of encumbrance	**246 030**	**723 575**	**188 727**	**627 821**

At the end of 2021 the level of encumbered assets determined in accordance with the aforementioned regulation was 21.72%. The total of Bank’s encumbered assets belonged to MKB Bank. The main sources and types of encumbrance were arising from having corporate loans covered by NBH, secured refinancing, from collaterals of mortgage loans, money market deposits as well as collateralized derivative transactions and repo transactions, furthermore the Bank took the opportunity to borrow unconditional fixed-rate secured loan granted by NBH. Encumbrance due to collateral requirement of used clearing systems and central counterparties was not significant. MKB did not have covered bonds issued or securitization.

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

g) Credit spread risk

Credit spread risk is the risk of changing market price of the bonds due to change in spread of bonds’ issuer which may have negative impact on the Bank’s performance.

Managing and monitoring credit spread risk

The framework of credit spread risk management is defined in the risk strategy. According to this risk strategy credit spread risk may be taken only within the approved limits. Credit spread risk is managed on operative level by the Money and Capital Market Managing Directorate. Bank's Risk Unit is responsible for measuring credit spread risk, controlling limit utilisations and reporting it to ALCO.

Risk measurement

Similar to the general interest rate risk measurement the Bank establishes the credit spread risk figures based on the present value of future cash flows.

The applied credit spread stress test values are revised regularly, but at least semi-annually. The length of liquidation periods used for the calculations are matched to the required liquidation time of the products.

h) Operational risks

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk, conduct risk, reputational risk, modelling risk and information and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

Procedure

The principles, rules and procedures that serve to properly identify, manage and monitor operational risk are defined in the Risk Strategy and in the OpRisk policy.

Risk measurement

The operational risk capital requirement of MKB Bank is calculated by using The Standardised Approach (TSA) both at single and group level since January 1st 2008. According to the Standardised Approach the operational risk capital requirement is the average of the preceding three years' total of the weighted governing indicators of the business lines (gross income).

Risk management and monitoring

The system that serves to evaluate operational risk is fully integrated in the Bank's risk management process and in the work processes.

The centralised unit of the Bank's operational risk management is the Centralised OpRisk Management that is responsible for the establishment and maintenance of the internal regulation and organisation of operational risk management and for the establishment and coordination of the oprisk management methods and tools. Besides, its task is to ensure proper loss data collection and in connection with that the reporting obligations.

Besides the Centralised OpRisk Management, Decentralized OpRisk Units (extended to the whole organisation) were established that identify, report and manage operational risks and their tasks and responsibilities are included in the oprisk regulations. The Centralised OpRisk Management keeps independent control over the Decentralised OpRisk Managers that are assigned in the various units and responsible for managing operational risk and reporting of loss events.

At group level the Centralised OpRisk Management of MKB determines the operational risk regulations required from the subsidiaries, and also the framework for operational risk management at group level and in this respect supervises the subsidiaries as well. The centralised and decentralised operational risk management units have also been established in the subsidiaries that have loss data collection and reporting obligation towards the Centralised OpRisk Management of MKB.

The Centralised OpRisk Management of MKB prepares a report on the current status of the operational risk management of the Bank and of the subsidiaries for the Board of Directors on a quarterly basis. The Bank fulfils oprisk COREP data delivery to NBH on half-yearly basis.

Risk management methods and tools

Loss data collection
MKB Bank has been performing operational risk loss data collection continuously which includes the electronic reporting and managing of operational risk loss events.

OpRisk Self-Assessment – ORSA
The Bank performs the oprisk self-assessment unit by unit, in order to recognise and understand the operational risks related to the work processes and to increase the level of risk-awareness of the units.

Key Risk Indicators - KRIs
The key risk indicators are those performance / risk ratios that are suitable for revealing areas and factors critical for operational risk, the change of value of which indicates the change of factors important from the point of view of risk occurrence. By defining and monitoring the values of the suitable indicators the Bank intends to help forecasting, preventing and reducing operational risks.

Scenario analysis
Scenario analysis is an expert estimation based on the analysis of current internal processes in order to estimate the frequency and loss effect of rare but significant oprisk events.

The Bank performs scenario analysis on yearly basis.

Model list
The model list contains all models on department level being used in the Bank and describes their goals. It also contains the frequency of their maintenance and validations as well as the way in which their results are used.

Product list
The Bank has established the product list, which contains the most important product groups in order to identify conduct risk related to customer service. It contains the general characteristics of the products as well as the conduct risk factors. By exploring risks, it is possible to reduce or consciously accept them.

Business Continuity Planning

In order to undisturbedly maintain the Bank’s operational processes it is necessary to evaluate the potential threats of the certain processes, their probability of occurrence and the potential damages resulting from the fallout of the processes. This risk analysis and the procedures needed to maintain the functionality of the Bank’s organisation is included in the Business Continuity Plan and the Disaster Recovery Plan (BCP-DRP). The BCP-DRP includes measures that have to be taken when the processes that are critical regarding the Bank’s operation and (eg. IT) resources that support these processes get damaged or become unmaintainable.

Membership of the Hungarian Interbank Operational Risk Database (HunOR)

The Bank is one of the foundation members of the Hungarian Interbank Operational Risk Database (HunOR) and reports their loss data towards regularly and anonymously.

i) Capital management

The Bank's lead regulator, the NBH sets and monitors capital requirements for the Bank as a whole.

Capital allocation

The Bank measures the pillar 1 and pillar 2 risks and the Bank's Asset and Liability Management Committee (ALCO) monitors the results using a monthly reporting framework.

Basel IV

The calculations are Basel IV/CRR (575/2013/EU regulation) compliant.

The supervisory objectives of Basel IV are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel IV is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The Capital Requirements Regulation (CRR) is directly effective in Hungary.

Basel IV provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The Bank uses the standardised approach, which requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Basel IV also introduces capital requirements for operational. For the capital requirement calculation the Bank currently has adopted the standardized approach to the determination of Bank operational risk capital requirements.

The second pillar of Basel IV (Supervisory Review and Evaluation Process - SREP) involves both the Bank and the Supervisory regulators taking a view on whether a Bank should hold additional capital and how much against risks not covered or not entirely covered in pillar 1. In framework of the pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) the Bank introduced policies and processes for measuring capital requirement of risks not captured by pillar 1 and to measure pillar 1 risks with more sophisticated methodology. Under pillar 2 the materiality of the following risks is to be analysed:

- Credit risk,
- Market risk,
- Liquidity risk,
- Risk estate risk and risk derived from other assets,
- Participation risk,
- Operational risk,
- Modell risk,
- Business and strategic risk.

Data in HUF million except stated otherwise

Pillar 3 of Basel IV is related to market discipline and aims to make firms more transparent by requiring them to publish specific, prescribed details of their risks, capital and risk management under the Basel IV framework.

The capital requirement is limited by a complex limit system, which contains the limits of the material risk types by institutions and business lines.

6.18

	31 December 2021 Basel IV IFRS	31 December 2020 Basel III IFRS
Share capital	100 000	100 000
Outstanding share capital	*100 000*	*100 000*
Reserves	145 993	100 624
Deferred tax	(7 756)	(6 707)
Intangible assets	(27 388)	(24 478)
AVA - additional valuation adjustments	(399)	(684)
Additional Tier 1	-	-
Tier 1: Net core capital	**210 450**	**168 755**
Subordinated debt	35 418	39 165
Tier 2: Supplementary capital	**35 418**	**39 165**
Regulatory capital	**245 868**	**207 920**
Risk-weighted assets (RWA)	809 014	733 418
Operational risk (OR)	189 937	154 528
Market risk positions (MR)	11 354	11 770
Total risk weighted assets	**1 010 305**	**899 716**
Regulatory capital / Total assets	7.40%	7.44%
Tier1 ratio	**20.83%**	**18.76%**
Capital adequacy ratio	**24.34%**	**23.11%**

The table above contains the MKB Bank’s separate capital adequacy ratio.

As at 31 December 2021, as an actual figure of the Bank regulatory capital was HUF 245.9 billion based on Basel IV IFRS under Supervisory Regulation. The increase of regulatory capital – by HUF 37.9 billion – is derived from the increase of profit, decrease of negative AVA and other deduction, which was compensated by the increase of negative revaluation reserve, the increase of deduction of intangible assets and deferred tax, the decrease of subordinated debt.

Risk-weighted assets including operational and market risk increased by 12.3% from HUF 899.7 billion in 2020 to HUF 1 010.3 billion besides approximately 1% weakening of domestic currency. The main part of the increase derived from the increase of business volumes and increase of operational risk, which was compensated by the decrease of market risk.

By application of capital management as a tool, the capital is a first priority decision making factor; therefore the Bank monitors the changes of the capital elements continuously.

Planning and limitation of capital requirements

The owner of MKB with strong capital background contributes to its safety, promotes customer confidence, and helps the Bank to manage the negative effects on its profitability which come from macroeconomic turbulences.

j) Forborne assets

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

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

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

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

The Bank generally applies the following types of forbearance measures:

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

Such exposures and associated credit risks are managed, monitored and reported distinctly by specific restructuring and debt management units of the Bank on the basis of guidelines and procedure rules set by internal regulations incorporating also both legal and supervisory requirements and recommendations. When the conditions of forbearance cease to exist and the following cure period expires, respective assets are returned to normal / business treatments both from business and risk management perspectives. Based on qualitative and quantitative information the Bank terminate the forborne status of non-performing loans. After 1 year the fulfilment of non-default requirements, and after a further 2 years the fulfilment of monitoring period requirements, the forborne status of non-performing loans are reverting to normal treatment.

Data in HUF million except stated otherwise

To revert to normal treatment regarding corporate customers, additional criteria is that the customer performs its amended contractual obligations duly through a specified period (180 days or 360 days) and its risk position shows significant improvement.

Forborne assets are recorded separately, and the amended terms and conditions of the contract are also indicated in the accounting records. Recognition, derecognition and subsequent valuation of these assets are carried out according to the general rules of accounting as specified by the relevant IFRSs.

The detailed requirements of risk classification and impairment valuation of forborne exposures are included in the accounting policies, and other internal regulations on the valuation of assets and liabilities, as well as in impairment and provisioning policies. Based on these internal guidelines, forbearance measures are regarded as impairment triggers and, as a consequence, impairment assessment should be performed for such exposures where the general methodologies and principles of assessment are to be applied. On the results of such risk assessments, impairment losses and the reversals of previously charged impairments are accounted for according to the common rules defined by IFRS 9.

Comparing to the previous financial year, there were no changes in forbearance policies and in practices applied by the Bank. The forbearance definition changed due to the law change to implement in January, 2021. That change has effect on the definition of place of treatment (Unit). Before the decision making, it is obligatory to examine and define the effect of proposed construction (modification of the contracts), forborne contract on the NPV (net present value) in all the cases of clients to forborne, treated by Business Units. If the change of NPV would be higher than 1, thus the treatment should be transfer to Restructuring and Debt Management Unit.

It is important to emphasize, that the loan repayment moratorium linked to pandemic practically postpones until 2022 Q3 the possibility and the realisation of the restructuring.

6.19

	31 December 2021	31 December 2020
Corporate Banking		
Forborne financial assets	7 567	10 712
Allowances for impairment	(6 242)	(8 726)
Carrying amount	1 325	1 986
Retail and Private Banking		
Forborne financial assets	2 676	8 463
Allowances for impairment	(1 361)	(3 405)
Carrying amount	1 315	5 058
Total carrying amount	**2 640**	**7 044**

Data in HUF million except stated otherwise

7. Cash and cash equivalents

7.1

	31 December 2021	31 December 2020
Cash and balances with Central Banks	831 434	294 183
Cash and cash equivalents	**831 434**	**294 183**

The Bank is required to maintain a minimum reserve with the NBH equivalent to 1% (2020: 1%) of certain deposits. The balance of the minimum reserve, in line with the prescription of NBH, is based on the balance at 31 October of these deposit accounts and amounted to HUF 18,965 million as at 31 December 2021 (2020: HUF 15,583 million). As at 31 December 2021, cash on hand amounted to HUF 23,107 million (2020: HUF 22,646 million).

8. Loans and advances to banks

8.1

	31 December 2021	31 December 2020
Current and clearing accounts	23 317	17 518
Money market placements	16 982	46 021
Loans and advances	21 553	20 059
Loans and advances to banks (gross amount)	**61 852**	**83 598**
Allowance for impairment at the end of period	**(38)**	**(40)**
Carrying amount	**61 814**	**83 558**

9. Derivative financial assets

9.1

	31 December 2021			31 December 2020		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	20 750	20 750	-	11 677	11 677
Index-based derivative instruments	-	37	37	-	-	-
Interest-based derivative instruments	-	83 267	83 267	-	11 168	11 168
Credit default swaps	-	43	43	-	-	-
Options	131	174	305	229	188	417
Derivative financial assets	**131**	**104 271**	**104 402**	**229**	**23 033**	**23 262**

10. Securities

10.1

	31 December 2021	31 December 2020
Securities measured at FVTOCI		
Hungarian Government bonds	118 625	572 959
Hungarian corporate sector bonds	69 056	34 208
Less allowance for impairment	(238)	(273)
Securities measured at AC		
Hungarian Government bonds	706 518	491 125
Hungarian corporate sector bonds	98 583	58 981
Hungarian equities	125	-
Foreign equities	19	-
Less allowance for impairment	(533)	(168)
Securities measured at FVTPL		
Government Treasury bills	8	96
Government bonds	2 824	10 377
Hungarian corporate sector bonds	185	245
Hungarian equities	947	103
Foreign equities	1 679	1 547
Investment fund shares	5 715	4 554
Securities	**1 003 751**	**1 174 027**

The amount of impairment of the FVTOCI financial assets, which is accounted for between other comprehensive income reserve and profit or loss, does not decrease the carrying amount of the financial assets.

The amount of debt securities measured at FVTOCI was HUF 187,681 million at the end of the reporting period. The Bank did not have equity instruments measured at FVTOCI on 31 December 2021.

In connection to the increase of the prevailing interest rate the revaluation on financial assets measured at FVTOCI decreased to HUF (20,009) million from HUF 3,187 million. The effect on deferred tax is disclosed in Note 30.

At 31 December 2021, HUF 112,131 million (2020: HUF 495,488 million) from the total amount of Securities were pledged as collateral for stock exchange, for NBH related to Funding for Growth Scheme and credit card transactions in the ordinary course of business.

As at 31 December 2021 the total amount of revaluation reserve comprises HUF (23,569) million (2020: HUF (3,560) million).

In 2021, HUF 14,610 million loss (2020: HUF 5,462 million gain) was recognized in the profit or loss relating to securities measured at FVTOCI, which is a reclassification from other comprehensive income into profit or loss.

Data in HUF million except stated otherwise

Related to debt securities measured at amortised cost HUF 14,425 million interest income (2020: HUF 6,706 million) was recognized in the Statement of Profit or Loss and Other Comprehensive Income during the year.

11. Loans and advances to customers

The net amount of Loans and advances to customers was HUF 1,201,209 million, of which HUF 1,147,914 million was measured at amortised cost and HUF 53,295 million at fair value. The amount of fair value customer loans belonging to the wholesale portfolio was HUF 195 million, while the amount of retail loans was HUF 53,100 million on 31 December 2021.

11.1

	31 December 2021	31 December 2020 Revised	31 December 2020
Loans and advances to customers			
measured at AC	1 147 914	1 065 445	1 105 304
measured at FVTPL	53 295	40 797	938
Loans and advances to customers	**1 201 209**	**1 106 242**	**1 106 242**

Loans and advances to customers measured at amortised cost:

11.2

31 December 2021	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Allowance for impairment	Carrying amount
Carrying amount						
Wholesale						
Refinanced loan	88 483	(349)	(1 065)	(36)	(1 450)	87 033
Funding for Growth Scheme	202 569	(777)	(4 147)	(356)	(5 280)	197 289
Factoring	18 745	(117)	(6)	(22)	(145)	18 600
Overdraft	46 468	(170)	(843)	(1 388)	(2 401)	44 067
Széchenyi Loans	75 714	(246)	(436)	(1 190)	(1 872)	73 842
Other	540 499	(1 544)	(7 132)	(8 366)	(17 042)	523 457
Total Wholesale	***972 478***	***(3 203)***	***(13 629)***	***(11 358)***	***(28 190)***	***944 288***
Retail						
Residential mortgage	188 789	(192)	(3 468)	(7 513)	(11 173)	177 616
HUF	187 893	(192)	(3 444)	(7 363)	(10 999)	176 894
Foreign currency	896	-	(24)	(150)	(174)	722
Credit card	2 079	-	(515)	(49)	(564)	1 515
Overdraft	985	(2)	(204)	(120)	(326)	659
Personal loan	15 361	(158)	(255)	(491)	(904)	14 457
Other	10 067	(4)	(233)	(451)	(688)	9 379
Total Retail	***217 281***	***(356)***	***(4 675)***	***(8 624)***	***(13 655)***	***203 626***
Total Core business	**1 189 759**	**(3 559)**	**(18 304)**	**(19 982)**	**(41 845)**	**1 147 914**
Non-core business						
CRE	-	-	-	-	-	-
Total	**1 189 759**	**(3 559)**	**(18 304)**	**(19 982)**	**(41 845)**	**1 147 914**

Data in HUF million except stated otherwise

31 December 2020 Revised	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Allowance for impairment	Carrying amount
Carrying amount						
Wholesale						
Refinanced loan	75 197	(313)	(679)	(240)	(1 232)	73 965
Funding for Growth Scheme	161 589	(705)	(4 898)	(462)	(6 065)	155 524
Factoring	15 642	(138)	(12)	(38)	(188)	15 454
Overdraft	57 029	(257)	(342)	(1 086)	(1 685)	55 344
Széchenyi Loans	45 008	(576)	(93)	(692)	(1 361)	43 647
Other	534 611	(2 259)	(6 479)	(8 929)	(17 667)	516 944
Total Wholesale	***889 076***	***(4 248)***	***(12 503)***	***(11 447)***	***(28 198)***	***860 878***
Retail						
Residential mortgage	186 240	(1 957)	(409)	(6 201)	(8 567)	177 673
HUF	*185 050*	*(1 948)*	*(399)*	*(5 988)*	*(8 335)*	*176 715*
Foreign currency	*1 190*	*(9)*	*(10)*	*(213)*	*(232)*	*958*
Credit card	2 164	(52)	*(51)*	(65)	(168)	1 996
Overdraft	995	(19)	*(68)*	(135)	(222)	773
Personal loan	9 472	(189)	*(31)*	(342)	(562)	8 910
Other	15 634	(262)	*(2)*	(531)	(795)	14 839
Total Retail	***214 505***	***(2 479)***	***(561)***	***(7 274)***	***(10 314)***	***204 191***
Total Core business	**1 103 581**	**(6 727)**	**(13 064)**	**(18 721)**	**(38 512)**	**1 065 069**
Non-core business						
CRE	***936***	***(4)***	***-***	***(556)***	***(560)***	***376***
Total	**1 104 517**	**(6 731)**	**(13 064)**	**(19 277)**	**(39 072)**	**1 065 445**

31 December 2020	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Allowance for impairment	Carrying amount
Carrying amount						
Wholesale						
Refinanced loan	75 197	(313)	(679)	(240)	(1 232)	73 965
Funding for Growth Scheme	161 589	(705)	(4 898)	(462)	(6 065)	155 524
Factoring	15 642	(138)	(12)	(38)	(188)	15 454
Overdraft	57 029	(257)	(342)	(1 086)	(1 685)	55 344
Széchenyi Loans	45 008	(576)	(93)	(692)	(1 361)	43 647
Other	534 611	(2 259)	(6 479)	(8 929)	(17 667)	516 944
Total Wholesale	***889 076***	***(4 248)***	***(12 503)***	***(11 447)***	***(28 198)***	***860 878***
Retail						
Residential mortgage	197 923	(2 055)	(416)	(6 216)	(8 687)	189 236
HUF	*196 733*	*(2 046)*	*(406)*	*(6 003)*	*(8 455)*	*188 278*
Foreign currency	*1 190*	*(9)*	*(10)*	*(213)*	*(232)*	*958*
Credit card	2 164	(52)	*(51)*	(65)	(168)	1 996
Overdraft	995	(19)	*(68)*	(135)	(222)	773
Personal loan	9 472	(189)	*(31)*	(342)	(562)	8 910
Other	44 154	(480)	*(6)*	(533)	(1 019)	43 135
Total Retail	***254 708***	***(2 795)***	***(572)***	***(7 291)***	***(10 658)***	***244 050***
Total Core business	**1 143 784**	**(7 043)**	**(13 075)**	**(18 738)**	**(38 856)**	**1 104 928**
Non-core business						
CRE	***936***	***(4)***	***-***	***(556)***	***(560)***	***376***
Total	**1 144 720**	**(7 047)**	**(13 075)**	**(19 294)**	**(39 416)**	**1 105 304**

In 2021, other items included HUF 256,884 million working capital loans, HUF 18,995 million receivables relating to repurchase agreements, HUF 55,655 million investment loans, HUF 82,737 million syndicated loans, HUF 52,514 million project loans and HUF 45,629 million loans relating to purchased loans.

In 2020, other items included HUF 234,069 million working capital loans, HUF 82,751 million receivables relating to repurchase agreements, HUF 41,196 million investment loans, HUF 76,466 million syndicated loans, HUF 46,983 million loans relating to purchased loans.

Data in HUF million except stated otherwise

CRE (previously SCU) remaining portfolio

The Special Credit Unit (SCU) was established in 2011 in order to separate commercial real estate financed customers requiring special treatment and to provide the specific management of their deals. At the end of 2015, significant part of this portfolio has been separated from MKB's portfolio, management of the remaining portfolio has been performed by the Corporate Restructuring and Debt Management Directorate.

According to the EU commitments forming part of the Restructuring Plan approved by the European Commission, the gross volume of the remaining CRE (i.e. Commercial Real Estate previously SCU) portfolio had to be reduced below HUF 60 billion by the end of 2019. MKB fulfilled the commitment by the end of 2017. Even so, the portfolio has been reduced significantly in 2018-2019. Fulfilled the EU commitments successfully, the Bank has the intention to continue the CRE-financing. Thus, the performing CRE portfolio (HUF 10.7 billion) was transferred to Business Unit in Q1 2020. There is no claim of the portfolio remained at Restructuring and Debt Management Directorate.

Due to the officially fulfilled EU commitments and the transfer of performing CRE-portfolio to Business Unit, the separated administration of CRE portfolio (i.e. SCU portfolio) was finished on reporting level.

Asset realization strategy

The recovery expectations at the elements of the asset portfolio has been determined based on, the asset realization strategy. In the framework of the asset realization strategy the Bank keeps some assets in long-term in order to maximize recovery from those assets.

Allowances for impairment

11.3

	31 December 2021	31 December 2020 Revised	31 December 2020
Allowances for impairment on loans and advances to customers			
Balance at 1 January	39 072	40 191	40 218
Impairment loss for the year:			
Increases due to origination and acquisition	2 619	7 078	7 160
Decreases due to derecognition	(5 260)	(11 338)	(11 338)
Changes due to change in credit risk (net)	4 879	4 251	4 486
Changes due to modifications without derecognition (net)	538	146	146
Decrease in allowance account due to write-offs	(602)	(1 351)	(1 351)
Other adjustments	599	95	95
Allowance for impairment at the end of period	**41 845**	**39 072**	**39 416**

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

Data in HUF million except stated otherwise

In the stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used.

Note 6.1 provides additional information on the calculation of the Bank's impairment.

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

11.3.1

31 December 2021	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	36 067	-	-	-
Medium risk	65 752	89 468	-	2 380
High risk	274	8 110	-	648
Default	-	-	11 882	2 700
Total Retail	***102 093***	***97 578***	***11 882***	***5 728***
Wholesale				
Low risk	288 469	-	-	-
Medium risk	565 352	31 048	-	-
High risk	6 779	62 721	-	17
Default	-	-	18 073	19
Total Wholesale	***860 600***	***93 769***	***18 073***	***36***
CRE				
Total CRE	**-**	**-**	**-**	**-**
Total gross amount	**962 693**	**191 347**	**29 955**	**5 764**

31 December 2021	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	56	-	-	-
Medium risk	296	4 178	-	440
High risk	4	497	-	225
Default	-	-	6 516	1 443
Total Retail	***356***	***4 675***	***6 516***	***2 108***
Wholesale				
Low risk	170	-	-	-
Medium risk	2 859	1 356	-	-
High risk	174	12 273	-	-
Default	-	-	11 354	4
Total Wholesale	***3 203***	***13 629***	***11 354***	***4***
CRE				
Total CRE	**-**	**-**	**-**	**-**
Total allowance for impairment	**3 559**	**18 304**	**17 870**	**2 112**

Data in HUF million except stated otherwise

31 December 2020 Revised	Gross amount Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	55 699	9	-	2
Medium risk	123 055	8 892	-	2 500
High risk	6 562	5 515	-	990
Default	-	-	8 332	2 949
Total Retail	***185 316***	***14 416***	***8 332***	***6 441***
Wholesale				
Low risk	331 448	-	-	-
Medium risk	471 185	2 979	-	-
High risk	9 051	58 278	-	-
Default	-	-	16 135	-
Total Wholesale	***811 684***	***61 257***	***16 135***	***-***
CRE				
Medium risk	380	-	-	-
Default	-	-	556	-
Total CRE	***380***	***-***	***556***	***-***
Total gross amount	**997 380**	**75 673**	**25 023**	**6 441**

31 December 2020 Revised	Allowance for impairment Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	581	-	-	-
Medium risk	1 787	356	-	389
High risk	111	205	-	150
Default	-	-	5 150	1 585
Total Retail	***2 479***	***561***	***5 150***	***2 124***
Wholesale				
Low risk	166	-	-	-
Medium risk	3 081	106	-	-
High risk	1 001	12 397	-	-
Default	-	-	11 447	-
Total Wholesale	***4 248***	***12 503***	***11 447***	***-***
CRE				
Medium risk	4	-	-	-
Default	-	-	556	-
Total CRE	***4***	***-***	***556***	***-***
Total allowance for impairment	**6 731**	**13 064**	**17 153**	**2 124**

Data in HUF million except stated otherwise

31 December 2020	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	74 906	9	-	2
Medium risk	141 589	10 584	-	2 500
High risk	6 621	6 083	-	990
Default	-	-	8 475	2 949
Total Retail	***223 116***	***16 676***	***8 475***	***6 441***
Wholesale				
Low risk	331 448	-	-	-
Medium risk	471 185	2 979	-	-
High risk	9 051	58 278	-	-
Default	-	-	16 135	-
Total Wholesale	***811 684***	***61 257***	***16 135***	**-**
CRE				
Medium risk	380	-	-	-
Default	-	-	556	-
Total CRE	***380***	**-**	***556***	**-**
Total gross amount	**1 035 180**	**77 933**	**25 166**	**6 441**

31 December 2020	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	737	-	-	-
Medium risk	1 946	364	-	389
High risk	112	208	-	150
Default	-	-	5 167	1 585
Total Retail	***2 795***	***572***	***5 167***	***2 124***
Wholesale				
Low risk	166	-	-	-
Medium risk	3 081	106	-	-
High risk	1 001	12 397	-	-
Default	-	-	11 447	-
Total Wholesale	***4 248***	***12 503***	***11 447***	**-**
CRE				
Medium risk	4	-	-	-
Default	-	-	556	-
Total CRE	***4***	**-**	***556***	**-**
Total allowance for impairment	**7 047**	**13 075**	**17 170**	**2 124**

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

Data in HUF million except stated otherwise

11.3.2

Gross amount	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2021	**997 379**	**75 673**	**25 023**	**6 441**	**1 104 516**
Transfers:					
Transfers from Stage 1 to Stage 2	(195 988)	195 988	-	-	-
Transfers from Stage 1 to Stage 3	(1 901)	-	1 901	-	-
Transfers from Stage 2 to Stage 1	38 036	(38 036)	-	-	-
Transfers from Stage 2 to Stage 3	-	(11 286)	11 286	-	-
Transfers from Stage 3 to Stage 1	464	-	(464)	-	-
Transfers from Stage 3 to Stage 2	-	1 913	(1 913)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	-	(1 060)	-	(1 060)
Transfers from non-current assets held for sale and discontinued operations	-	-	4	-	4
New financial assets originated or purchased	254 710	12 023	249	29	267 011
Modification of contractual cash flows of financial assets	(16)	3 035	297	111	3 427
FX and other movements	(129 991)	(47 963)	(5 368)	(817)	(184 139)
Balance at 31 December 2021	**962 693**	**191 347**	**29 955**	**5 764**	**1 189 759**

Allowance for impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2021	**6 730**	**13 064**	**17 153**	**2 124**	**39 071**
Transfers:					
Transfers from Stage 1 to Stage 2	(2 938)	2 938	-	-	-
Transfers from Stage 1 to Stage 3	(24)	-	24	-	-
Transfers from Stage 2 to Stage 1	335	(335)	-	-	-
Transfers from Stage 2 to Stage 3	-	(482)	482	-	-
Transfers from Stage 3 to Stage 1	17	-	(17)	-	-
Transfers from Stage 3 to Stage 2	-	189	(189)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	-	(934)	-	(934)
Transfers from non-current assets held for sale and discontinued operations	-	-	3	-	3
Changes in PDs/LGDs/EADs	(308)	(4 457)	5 228	296	759
New financial assets originated or purchased	1 334	1 179	105	(1)	2 617
Modification of contractual cash flows of financial assets	1 014	4 057	67	15	5 153
FX and other movements	(2 601)	2 151	(4 052)	(322)	(4 824)
Balance at 31 December 2021	**3 559**	**18 304**	**17 870**	**2 112**	**41 845**

Gross amount Revised	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2020	**844 413**	**57 376**	**32 836**	**7 951**	**942 576**
Transfers:					
Transfers from Stage 1 to Stage 2	(29 354)	29 354	-	-	-
Transfers from Stage 1 to Stage 3	(2 388)	-	2 388	-	-
Transfers from Stage 2 to Stage 1	36 380	(36 380)	-	-	-
Transfers from Stage 2 to Stage 3	-	(4 415)	4 415	-	-
Transfers from Stage 3 to Stage 1	509	-	(509)	-	-
Transfers from Stage 3 to Stage 2	-	2 098	(2 098)	-	-
Transfers to non-current assets held for sale and discontinued operations	(3)	-	(5 474)	(569)	(6 046)
Transfers from non-current assets held for sale and discontinued operations	-	2	1 170	92	1 264
New financial assets originated or purchased	240 305	23 200	2 788	194	266 487
Modification of contractual cash flows of financial assets	(1 928)	(304)	(106)	(95)	(2 433)
FX and other movements	(90 555)	4 742	(10 387)	(1 132)	(97 332)
Balance at 31 December 2020	**997 379**	**75 673**	**25 023**	**6 441**	**1 104 516**

Data in HUF million except stated otherwise

Impairment Revised	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2020	**3 406**	**9 318**	**24 637**	**2 829**	**40 190**
Transfers:					
Transfers from Stage 1 to Stage 2	(214)	214	-	-	-
Transfers from Stage 1 to Stage 3	(219)	-	219	-	-
Transfers from Stage 2 to Stage 1	161	(161)	-	-	-
Transfers from Stage 2 to Stage 3	-	(376)	376	-	-
Transfers from Stage 3 to Stage 1	6	-	(6)	-	-
Transfers from Stage 3 to Stage 2	-	271	(271)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	-	(4 481)	-	(4 481)
Transfers from non-current assets held for sale and discontinued operations	-	-	848	-	848
Changes in PDs/LGDs/EADs	1 604	(314)	2 570	(32)	3 828
New financial assets originated or purchased	944	5 969	418	75	7 406
Modification of contractual cash flows of financial assets	2 474	1 225	-	239	3 938
FX and other movements	(1 432)	(3 082)	(7 157)	(987)	(12 658)
Balance at 31 December 2020	**6 730**	**13 064**	**17 153**	**2 124**	**39 071**

Gross amount	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2020	**864 102**	**57 636**	**32 917**	**7 951**	**962 606**
Transfers:					
Transfers from Stage 1 to Stage 2	(29 742)	29 742	-	-	-
Transfers from Stage 1 to Stage 3	(2 406)		2 406	-	-
Transfers from Stage 2 to Stage 1	36 721	(36 721)		-	-
Transfers from Stage 2 to Stage 3		(4 441)	4 441	-	-
Transfers from Stage 3 to Stage 1	509		(509)	-	-
Transfers from Stage 3 to Stage 2		2 151	(2 151)	-	-
Transfers to non-current assets held for sale and discontinued operations	(3)	-	(5 474)	(569)	(6 046)
Transfers from non-current assets held for sale and discontinued operations	-	2	1 170	92	1 264
New financial assets originated or purchased	251 915	23 268	2 803	194	278 180
Modification of contractual cash flows of financial assets	(1 966)	(305)	(106)	(95)	(2 472)
FX and other movements	(83 950)	6 601	(10 331)	(1 132)	(88 812)
Balance at 31 December 2020	**1 035 180**	**77 933**	**25 166**	**6 441**	**1 144 720**

Allowance for impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2020	**3 416**	**9 320**	**24 652**	**2 829**	**40 217**
Transfers:					
Transfers from Stage 1 to Stage 2	(215)	215	-	-	-
Transfers from Stage 1 to Stage 3	(219)	-	219	-	-
Transfers from Stage 2 to Stage 1	166	(166)	-	-	-
Transfers from Stage 2 to Stage 3	-	(376)	376	-	-
Transfers from Stage 3 to Stage 1	6	-	(6)	-	-
Transfers from Stage 3 to Stage 2	-	271	(271)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	-	(4 481)	-	(4 481)
Transfers from non-current assets held for sale and discontinued operations	-	-	848	-	848
Changes in PDs/LGDs/EADs	1 907	(294)	2 570	(32)	4 151
New financial assets originated or purchased	949	5 970	423	75	7 417
Modification of contractual cash flows of financial assets	2 474	1 225	-	239	3 938
FX and other movements	(1 437)	(3 090)	(7 160)	(987)	(12 674)
Balance at 31 December 2020	**7 047**	**13 075**	**17 170**	**2 124**	**39 416**

Data in HUF million except stated otherwise

The Bank changed its accounting policy regarding the classification and valuation of a particular class of subsidized retail loans. This amendment resulted in a transfer of HUF 39,859 million from Loans and advances to customers measured at amortised cost to Loans and advances to customers measured at fair value. Further information about the transfer are disclosed in Note 4.

The Bank classified its retail portfolio in homogenous credit risk clusters, and allocates PD, LGD and CCF parameters. The internal rating based models calculate the risk parameters which determine the level of impairment. Further information about the transfer are disclosed in Note 6.

In case of individually not significant wholesale customers the calculation of impairment and provision has been changed to internal rating based method. The required provisioning rates are calculated based on the credit conversion factor, the statistical analysis of default and the loss given default. Individually assessed items where no specific provision has been set aside the impairment and provision have to be calculated based on the above method.

In case of retail and wholesale exposures collectively assessed provision is allocated for the following portfolios on monthly basis:

- on performing loans Incurred Loss (ICL) is calculated, and
- on non-performing loans Specific Loan Loss Provisions (SLLP) is accumulated.

Since the Bank has introduced the performing and non-performing classification in its provision allocation method instead of product based collective assessment in retail and the new internal method in wholesale, the level of incurred loss has grown.

At 31 December 2021 there were no loans designated as hedged item in a fair value hedge relationship.

12. Other assets

12.1

	31 December 2021	31 December 2020
Prepayments and other debtors	16 241	10 865
Inventory	524	444
Other taxes refundable	3 715	5 391
Impairment	(1 670)	(1 551)
Other assets	**18 810**	**15 149**

13. Investments in subsidiaries, jointly controlled entities and associates

13.1

	31 December 2021	31 December 2020
Cost	49 563	48 373
Investments in subsidiaries, jointly controlled entities and associates	**49 563**	**48 373**

Investments in subsidiaries, jointly controlled entities and associates increased by HUF 1,190 million during the reporting year. On 28 February 2021 the transaction intended to buy 100% share package of the Első Értékpapírosítási Tanácsadó Zrt. (ELÉT Zrt.) has been completed,

Data in HUF million except stated otherwise

increasing the value of investments by HUF 350 million (purchase price: HUF 427 million, additional impairment of the investment: HUF 77 million). During the reporting period there was also a capital increase in Exter-Reál Kft. and MKB Inkubátor Kft., in the amount of HUF 110 million and HUF 75 million. Furthermore the Bank's contribution to the Employee Share Ownership Program (ESOP) changed by HUF 1,043 million during the reporting year.
The value of investments decreased at the same time due to additional impairment loss recognized in the amount of HUF 239 million related to the Bank's investments in Exter-Immo Zrt., Exter-Reál Kft., Extercom Kft and MKB Consulting Zrt.

Financial data of the consolidated subsidiaries are as follows as at 31 December 2021:

13.2

2021

Company	Total assets	Shareholders' equity	Revenues
Euro - Immat Üzemeltetési Kft.	5 386	4 690	2 326
MKB-Euroleasing Autólízing Szolgáltató Zrt.	199 026	7 959	6 863
MKB Bank MRP Szervezet	3 455	3 434	481
MKB Üzemeltetési Kft.	36 101	34 476	8 197
Retail Prod Zrt.	824	798	116
MKB-Pannónia Alapkezelő Zrt.	8 142	7 290	8 798
MKB Digital Szolgáltató Zrt.	1 407	750	4 402

2020

Company	Total assets	Shareholders' equity	Revenues
Euro - Immat Üzemeltetési Kft.	5 660	4 699	2 174
MKB-Euroleasing Autólízing Szolgáltató Zrt.	188 771	5 759	6 136
MKB Bank MRP Szervezet	2 400	2 378	562
MKB Üzemeltetési Kft.	35 924	34 025	6 349
Retail Prod Zrt.	756	726	36
MKB-Pannónia Alapkezelő Zrt.	6 062	5 516	5 980
MKB Digital Szolgáltató Zrt.	1 334	655	3 931

General and financial data of the jointly controlled entities and associates are as follows as at 31 December 2021:

13.3

	31 December 2021	31 December 2020
	MKB-Pannónia Alapkezelő Zrt.	**MKB-Pannónia Alapkezelő Zrt.**
General data		
Principal activity	Investment fund management	Investment fund management
Country of incorporation	Hungary	Hungary
Ownership % (direct & non-direct)	49.00%	49.00%
Proportion of the voting rights held	49.00%	49.00%
Relation	associate	associate
Involvement	equtiy	equtiy
Financial data		
Cash & cash equivalents	755	257
Other current assets	7 108	5 537
Current assets	**7 863**	**5 794**
Non-current assets	**279**	**268**
Total assets	**8 142**	**6 062**
Other current liabilities	852	546
Current liabilities	**852**	**546**
Total liabilities	**852**	**546**
Equity	**7 290**	**5 516**
Book value of investment (Carrying amount of the Bank's interest in the	150	150
Interest income	-	1
Other income	8 799	5 979
Revenues	**8 799**	**5 980**
Depreciation and amortization	72	45
Income tax expense	596	416
Other Expenses	2 104	1 267
Expenses	**2 772**	**1 728**
Profit/(Loss) after taxation for the year	**6 027**	**4 252**
Other Comprehensive income for the year	-	-
Total comprehensive income for the year	**6 027**	**4 252**
Dividends received by MKB Bank from the associate	2 949	2 402

14. Intangibles, property and equipment

14.1

31 December 2021	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	51 088	18 709	3 454	73 251
Additions – including internally developed	15 995	109	346	16 450
Other modifications	-	2 495	52	2 547
Disposals	(11 598)	(49)	(173)	(11 820)
Balance at 31 December	**55 485**	**21 264**	**3 679**	**80 428**
Depreciation and impairment losses				
Balance at 1 January	26 610	6 100	1 328	34 038
Amortization and depreciation for the year	3 734	2 680	541	6 955
Impairment loss	-	-	-	-
Disposals	(2 247)	-	(45)	(2 292)
Other modifications	-	321	(2)	319
Balance at 31 December	**28 097**	**9 101**	**1 822**	**39 020**
Carrying amounts				
At 1 January	24 478	12 609	2 126	39 213
Balance at 31 December	**27 388**	**12 163**	**1 857**	**41 408**

Data in HUF million except stated otherwise

31 December 2020	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	44 362	21 134	2 819	68 315
Additions – including internally developed	14 342	2 693	992	18 027
Other modifications	-	(112)	-	(112)
Disposals	(7 616)	(5 006)	(357)	(12 979)
Balance at 31 December	**51 088**	**18 709**	**3 454**	**73 251**
Depreciation and impairment losses				
Balance at 1 January	23 319	5 273	1 284	29 876
Amortization and depreciation for the year	2 997	2 017	338	5 352
Impairment loss	294	-	-	294
Disposals	-	(1 123)	(294)	(1 417)
Other modifications	-	(67)	-	(67)
Balance at 31 December	**26 610**	**6 100**	**1 328**	**34 038**
Carrying amounts				
At 1 January	21 043	15 861	1 535	38 439
Balance at 31 December	**24 478**	**12 609**	**2 126**	**39 213**

Depreciation and amortization is presented among ”Operating expenses”.

In 2020, the most significant components of the investments and developments were the costs related to the introduction of the instant payment system.

In the reporting period investments and developments are increased because of capitalisations of functional developments of other banking IT systems, further developments related to the moratorium, improvements of the Bank’s digital services. In addition, the Bank continued to fine-tune its Core banking system, replaced at the end of June 2018.

Other modification includes the effect of contract amendments and indexations of lease agreements.

Changes in the value of right-of-use assets during the reporting period are disclosed in Note 31.

15. Amounts due to other banks

15.1

	31 December 2021	31 December 2020
Due on demand	2 119	3 112
Money market deposits	30 263	2 527
Borrowings	671 864	566 454
Repurchase agreement owed to bank	1 319	2 732
Amounts due to other banks	**705 565**	**574 825**

MKB Bank Nyrt. Data in HUF million except stated otherwise

The largest balance of the Amounts due to other banks is HUF 238,322 million, which is the re-financing loans relating to Funding for Growth Scheme at NBH.

16. Deposits and current accounts

16.1

	31 December 2021	31 December 2020
Corporate clients related	1 787 125	1 476 656
Retail clients related	444 346	400 798
Repurchase agreement owed to customer	2 223	-
Deposits and current accounts	**2 233 694**	**1 877 454**

As at 31 December 2021 and 2020 the Bank had no deposit and current accounts measured at fair value from the total amount.

17. Derivative financial liabilities

17.1

	31 December 2021			31 December 2020		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	6 761	6 761	-	6 892	6 892
Index-based derivative instruments	-	-	-	-	4	4
Interest-based derivative instruments	-	34 571	34 571	-	28 416	28 416
Options	120	76	196	21	73	94
Derivative financial liabilities	**120**	**41 408**	**41 528**	**21**	**35 385**	**35 406**

The derivative financial instruments disclosed in the table are measured at fair value through profit or loss.

18. Other liabilities and provision

18.1

	31 December 2021	31 December 2020
Accruals and other creditors	24 251	30 616
Lease liabilities	19 624	19 957
Other taxes payable	2 906	1 777
Provisions for contingencies and commitments	3 407	2 560
Other liabilities and provisions	**50 188**	**54 910**

Provision for contingencies and commitments

18.2

	31 December 2021	31 December 2020
Provision for contingencies and commitments		
Balance at 1 January	2 560	2 080
Provisions made during the year	2 676	2 012
Provisions used/reversed during the year	(1 851)	(1 543)
Other movements	22	11
Balance at the end of the reporting period	**3 407**	**2 560**

Further information about provisions for contingencies and commitments are disclosed in Note 33.

19. Issued debt securities

The table below shows the new issuance, repayment and other changes during the year:

19.1

Interest	Balance at 1 January	Issued debt securities	Repurchased debt securities	Repaid debt securities	Accrued income	Balance at 31 December
31 December 2021						
Zero coupon	2 343	2 133	179	(1 181)	(80)	3 394
Total	**2 343**	**2 133**	**179**	**(1 181)**	**(80)**	**3 394**

Interest	Balance at 1 January	Issued debt securities	Repurchased debt securities	Repaid debt securities	Revaluation result	Balance at 31 December
31 December 2020						
Zero coupon	1 331	2 402	(401)	(930)	(59)	2 343
Total	**1 331**	**2 402**	**(401)**	**(930)**	**(59)**	**2 343**

20. Subordinated debt

Subordinated debts are direct, unconditional and unsecured subordinated bonds of the Bank, and are subordinated to the claims of the Bank's depositors and other creditors.

20.1

31 December 2021	Interest	Date of issue	Maturity date	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	14.06.2024	36 900 000	EUR	13 952
Subordinated debt	Fixed rate	28.03.2019	15.04.2026	31 000 000	EUR	11 721
Subordinated debt	Fixed rate	26.05.2020	20.07.2028	51 300 000	EUR	19 397
Total				**119 200 000**	**EUR**	**45 070**

31 December 2020	Interest	Date of issue	Maturity date	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	14.06.2024	36 900 000	EUR	13 845
Subordinated debt	Fixed rate	28.03.2019	15.04.2026	31 000 000	EUR	11 631
Subordinated debt	Fixed rate	26.05.2020	20.07.2028	51 300 000	EUR	19 248
Total				**119 200 000**	**EUR**	**44 724**

21. Share capital

The Bank’s authorised, issued, and fully paid share capital comprises 100 million (2020: 100 million) ordinary shares of HUF 1,000 (2020: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

22. Reserves

Share premium

Share premium comprises of premiums on share capital issuances.

Retained Earnings

Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entity of the Bank less any dividend payment.

General reserve

According to the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act), banks shall set aside as general reserve 10% of Profit after taxation. Dividends can be paid only after recognition of general reserve. This reserve can be utilized only for losses derived from ordinary activity. Credit institution can reclassify part or total of its retained earnings into general reserve. Supervisory authority can allow the entity not to set aside the amount calculated as above stated.

The Bank discloses general reserve as part of retained earnings. In 2021, MKB recognized general reserve of HUF 17,040 million (2020: HUF 11,448 million).

Revaluation reserves

Revaluation reserve of financial assets measured at FVTOCI includes the cumulative net change in the fair value until the derecognition. For financial instruments measured at fair value through other comprehensive income, the Bank has recognized an impairment loss in accordance with IFRS 9, which is shown in the Revaluation reserve.

Data in HUF million except stated otherwise

The Bank did not apply any reclassification adjustments relating to components of other comprehensive income.

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

23.1

	31 December 2021			31 December 2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangibles, property and equipment	142	20	122	171	19	152
Securities	2 355	-	2 355	380	-	380
Provision	18	-	18	152	56	96
Tax loss carry-forwards	5 261	-	5 261	6 079	-	6 079
Offsetting	-	-	-	(75)	(75)	-
Net tax assets / (liabilities)	**7 776**	**20**	**7 756**	**6 707**	**-**	**6 707**

24. Interest and similar to interest income

24.1

	2021	2020
Cash and cash equivalents	9 769	1 666
Loans and advances to banks	415	202
Loans and advances to customers	32 340	27 152
Derivatives	14 946	5 495
Securities	24 860	16 408
Interest and similar to interest income	**82 330**	**50 923**

Included within various captions under interest income for the year ended 31 December 2021 is a total of HUF 921 million (2020: HUF 935 million) accrued on credit impaired financial assets.

25. Interest expense

25.1

	2021	2020
Amounts due to other banks	3 517	2 264
Deposits from customers	7 609	3 311
Issued debt securities	45	67
Subordinated liabilities	1 923	1 867
Other fees and commisions similar to interest expense	495	347
Derivatives	18 883	17 132
Interest expense	**32 472**	**24 988**

Data in HUF million except stated otherwise

26. Net income from commissions and fees

26.1

	2021	2020
Commission and fee income	**32 639**	**30 295**
Payment and account services	19 409	18 235
Credit related fees	3 009	1 958
Card services	2 829	2 700
Brokerage fees and other securities business	5 066	4 550
Other commission and fee income	2 326	2 852
Commission and fee expense	**7 588**	**6 564**
Payment and account services	306	396
Credit related fees	2 725	1 416
Card services	1 741	1 775
Brokerage fees and other securities business	876	814
Other commission and fee expense	1 940	2 163
Net income from commissions and fees	**25 051**	**23 731**

27. Other operating income / (expense), net

27.1

	2021	2020
Realized net gain / (loss) on securities measured at fair value	(16 681)	7 557
Realized net gain / (loss) on securities measured at amortised cost	2 726	(233)
Net gain / (loss) on loan and advances measured at fair value	(1 803)	(360)
Net gain / (loss) on derivative transactions	89 430	16 669
Net foreign exchange gain/(loss)	(10 239)	1 263
Expense relating to bank levies	(1 824)	(1 645)
Transaction duty	(10 575)	(10 265)
Net gain /(loss) on investments in Group companies	(316)	77
Other taxes	(4 355)	(1 737)
Other operating income /(expense), net	(2 595)	(5 549)
Other operating income /(expense), net	**43 768**	**5 777**

The net gain / (loss) on derivative transactions is in connection to the changes of the prevailing interest rate.

Banking tax is shown under “Other expense” as it does not meet the criteria of current income tax.

Government Decree No. 782/2021. (XII.24.) on the special application of Act CLXII of 2009 on Consumer Credit in emergency includes requirements related to the cap of floating interest rates of retail mortgage loans until 30th June 2022. Based on the government decree, between 1st January and 30th June 2022, the effective benchmark interest rates of the above mentioned transactions cannot exceed the contractual benchmark interest rates effective on 27th October 2021. The financial institutions are not allowed to increase the debtors’ outstanding principal and interest with the amount of interest not paid on the basis of the regulation.
According to the government decree, on 31 December 2021, the Bank recalculated the expected cash-flows related to the retail mortgage loans with floating interest rates. As a result of the decrease of the expected cash-flows, the Bank recognized HUF 942 million loss under “Other operating income / (expense), net” in the Statement of Profit or Loss and Other Comprehensive Income.

28. Net impairments / (reversal) and provisions for losses

28.1

Data in HUF million except stated otherwise

	Note	2021	2020
Net impairment loss / (reversal)			
Loans and advances to banks	**8**	5	(54)
Loans and advances to customers	**11**	3 149	5 723
Securities	**10**	328	286
Other assets	**12**	234	(26)
Realised loss on sale of loans		44	662
Non-current assets held for sale and discontinued operations	**38**	(831)	(172)
Provision on			
Guarantees and contingencies	**33**	824	469
Impairment and provision for losses		**3 753**	**6 888**

29. Operating expense

29.1

	2021	2020
General and administration expense	6 651	3 666
Legal and advisory services	4 242	1 917
Wages and salaries	19 492	15 361
Compulsory social security obligations	3 357	3 341
Occupancy costs	9 682	7 764
Marketing and public relations	859	700
Communication and data processing	11 258	8 853
Operating expense	**55 541**	**41 602**

In 2021, the Bank's average statistical employee number was 1,652 (2020: 1,604).

30. Income tax

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

30.1

	2021	2020
Current tax expense		
Corporate tax charge – on current year profit	2 540	3
Deferred tax (income) / expense		
Origination (reversal) of temporary differences	927	718
Income tax (income) / expense	**3 467**	**721**

Both in the reporting period and in 2020 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

30.2

	2021		2020	
	%	HUF million	%	HUF million
Profit before income tax		59 383		6 953
Income tax using the domestic corporation tax rate	9.00%	5 344	9.00%	626
Effect of tax rates in foreign jurisdictions	0.01%	4	0.04%	3
Movement of unrecognized temporary differences	0.11%	68	32.02%	2 226
Non-deductible expense	0.18%	104	1.40%	97
Tax exempt income	-0.57%	(337)	-13.54%	(941)
Re-assessment of unrecognised tax losses carryforwards	-2.89%	(1 716)	-28.62%	(1 990)
Effect of transition	0.00%		10.07%	700
Income tax (income) / expense	**5.84%**	**3 467**	**10.37%**	**721**

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

On 31 December 2021, the Bank had unused tax losses amounting to HUF 237,903 million (2020: HUF 266,077 million) with the following maturity:

30.3

	2021	2020
Maturity up to 2025	2 451	2 451
Maturity up to 2030	235 452	263 626
Tax loss carryforwards	**237 903**	**266 077**

The Bank has HUF 179,453 million (2020: HUF 198,537 million) tax losses carried forward, on which no deferred tax asset was recognised.

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

30.4

2021 P/L-effective and neutral effects on deferred tax assets (DTA) and deferred tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deferred Tax Assets - due to taxable temporary differences				
Assets				
Securities	380	-	1 976	2 356
Intangible Assets	170	(29)	-	141
Liabilities				
Provisions	96	(78)	-	18
Deferred Tax Assets - due to tax losses	6 079	(818)	-	5 261
Subtotal DTA before netting	**6 725**	**(925)**	**1 976**	**7 776**
Deferred Tax Liabilities - due to taxable temporary differences				
Assets				
Property, plant and equipment and investment property	(18)	(2)	-	(20)
Liabilities				
Subtotal DTL before netting	**(18)**	**(2)**	**-**	**(20)**
Subtotal DTA after netting of balance sheet positions	**6 725**	**(925)**	**1 976**	**7 776**
Subtotal DTL after netting of balance sheet positions	**(18)**	**(2)**	**-**	**(20)**
Subtotal DTA after netting completely with DTL	**6 707**	**(927)**	**1 976**	**7 756**

2020 P/L-effective and neutral effects on deferred tax assets (DTA) and deferred tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deferred Tax Assets - due to taxable temporary differences				
Assets				
Loans and advances to bank, Loans and advances to customers	690	(690)	-	-
Derivative financial assets	122	(122)	-	-
Securities	1 596	(924)	(292)	380
Intangible Assets	179	(8)	-	171
Non-current assets as held for sale	40	(40)	-	-
Other Assets	73	(73)	-	-
Liabilities				
Amounts due to other banks, Deposits and current accounts	479	(479)	-	-
Provisions	169	(17)	-	152
Deferred Tax Assets - due to tax losses	3 868	2 211	-	6 079
Deferred Tax Assets - Tax Credits	700	(700)	-	-
Subtotal DTA before netting	**7 916**	**(842)**	**(292)**	**6 782**
Deferred Tax Liabilities - due to taxable temporary differences				
Assets				
Securities	(32)	32	-	-
Property, plant and equipment and investment property	(41)	22	-	(19)
Liabilities				
Issued debt securities	(36)	36	-	-
Derivative financial liabilities	(6)	6	-	-
Provisions	(56)	-	-	(56)
Other liabilities	(27)	27	-	-
Subtotal DTL before netting	**(198)**	**123**	**-**	**(75)**
Subtotal DTA after netting of balance sheet positions	**7 916**	**(842)**	**(292)**	**6 782**
Subtotal DTL after netting of balance sheet positions	**(198)**	**123**	**-**	**(75)**
Subtotal DTA after netting completely with DTL	**7 718**	**(719)**	**(292)**	**6 707**

Data in HUF million except stated otherwise

31. Leases

At the date of the initial application the Bank had only a few leases that were previously classified as finance lease, for which transition to IFRS 16 had no significant impact.

The Bank has no significant sub-lease contracts.

31.1

31 December 2021	Other assets	Properties	Freehold property	Vehicles	IT equipments	Total
Cost or deemed cost						
Balance at 1 January	17	10 428	5 832	-	1 178	17 455
Additions	-	136	1 526	27	52	1 741
Revaluation	1	1 055	-	-	-	1 056
Disposals	(2)	(183)	-	-	-	(185)
Other modifications	-	(40)	-	-	-	(40)
Balance at 31 December	**16**	**11 396**	**7 358**	**27**	**1 230**	**20 027**
Depreciation and impairment losses						
Balance at 1 January	8	3 727	1 071	-	223	5 029
Depreciation for the year	4	1 752	769	3	291	2 819
Revaluation	-	640	-	-	-	640
Disposals	(2)	(330)	(28)	-	-	(360)
Other modifications	-	40	-	-	-	40
Balance at 31 December	**10**	**5 829**	**1 812**	**3**	**514**	**8 168**
Carrying amounts						
Balance at 1 January	9	6 701	4 761	-	955	12 426
Balance at 31 December	**6**	**5 567**	**5 546**	**24**	**716**	**11 859**

31 December 2020	Other assets	Properties	Freehold property	Vehicles	IT equipments	Total
Cost or deemed cost						
Balance at 1 January	17	8 192	12 867	-	412	21 488
Additions	-	2 225	-	-	766	2 991
Disposals	-	-	(7 035)	-	-	(7 035)
Balance at 31 December	**17**	**10 428**	**5 832**	**-**	**1 178**	**17 455**
Depreciation and impairment losses						
Balance at 1 January	4	2 914	1 282	-	138	4 338
Depreciation for the year	4	880	912	-	85	1 881
Disposals	-	-	(1 123)	-	-	(1 123)
Balance at 31 December	**8**	**3 727**	**1 071**	**-**	**223**	**5 029**
Carrying amounts						
Balance at 1 January	13	5 278	11 585	-	274	17 150
Balance at 31 December	**9**	**6 701**	**4 761**	**-**	**955**	**12 426**

31.2

	31 December 2021	31 December 2020
Within 3 months	606	766
Within 3 months and 1 year	2 285	2 951
Within 1 year and 3 years	4 898	8 370
Within 3 years and 5 years	3 588	4 986
Over 5 years	9 185	13 048
Contractual value of lease liabilities	**20 562**	**30 121**

31.3

	31 December 2021	31 December 2020
Long-term	17 019	17 570
Short-term	2 605	2 387
Carrying amount of lease liabilities	**19 624**	**19 957**

31.4

	2021	2020
Interest expense recognized on lease liabilities	1 307	1 244
Depreciation charged for the year	(2 819)	(1 879)
Cash outflow for leases	2 837	2 368

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

The Bank elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets (e.g including printers, IT equipment). The expense relating to leases of low-value assets and short-term leases was HUF 26 million for the reporting period (2020: HUF 95 million).

The relevant rules on measurement, recognition and presentation are disclosed in Note 4.

31.5

	2022	2023	2024	2025	2026	2027	2028	2029
Lease payments that depend on an index	2 217	1 981	1 282	1 174	1 090	1 049	1 007	2

32. Earnings per share

The calculation of basic earnings per share on 31 December 2021 based on the net income attributable to ordinary shareholders of HUF 55,916 million (2020: HUF 6,232 million) and a weighted average number of ordinary shares outstanding of 100,000 thousands (2020: 100,000 thousands).

Basic value

31 December 2021

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 55,916 million}}{\text{100,000 thousands}} = \text{HUF 559}$$

31 December 2020

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 6,232 million}}{\text{100,000 thousands}} = \text{HUF 62}$$

The calculation of fully diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after any adjustment for the effects of all dilutive potential ordinary shares. In the reporting period and in the previous period there were no dilution factors.

Diluted value

31 December 2021

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 55,916 million}}{\text{100,000 thousands}} = \text{HUF 559}$$

31 December 2020

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 6,232 million}}{\text{100,000 thousands}} = \text{HUF 62}$$

33. Contingencies and commitments

33.1

31 December 2021	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Contingencies						
Guarantees and similar obligations	133 541	(289)	(279)	(43)	-	132 930
Obligations from letters of credit and other short term trade related items	17 983	(33)	-	-	-	17 950
Other contingent liablities (including litigation)	10 820	-	(14)	(5)	(274)	10 527
Total contingencies	**162 344**	**(322)**	**(293)**	**(48)**	**(274)**	**161 407**
Commitments						
Undrawn commitments to extend credit	402 054	(806)	(1 055)	(609)	-	399 584
Total commitments	**402 054**	**(806)**	**(1 055)**	**(609)**	**-**	**399 584**

31 December 2020	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Contingencies						
Guarantees and similar obligations	120 072	(209)	(395)	(41)	-	119 427
Obligations from letters of credit and other short term trade related items	17 178	(14)	-	-	-	17 164
Other contingent liablities (including litigation)	11 676	(11)	(9)	-	(426)	11 230
Total contingencies	**148 926**	**(234)**	**(404)**	**(41)**	**(426)**	**147 821**
Commitments						
Undrawn commitments to extend credit	276 333	(877)	(113)	(465)	-	274 878
Total commitments	**276 333**	**(877)**	**(113)**	**(465)**	**-**	**274 878**

34. Use of estimates and judgements

Management discusses with the Bank Supervisory Board the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 6).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see Note 4).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Uncertain or unanticipated future events could result in material adjustments to provisions or additional allowances. The accounting values determined are not fair values or market prices that might be determined if the underlying assets are sold to a third party.

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under Note 4.

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

Counterparty risk (CVA) and own credit risk (DVA) is also taken into account by calculation of fair value of derivative transactions except of the followings:

- 1Netting of NPVs to counterparty level is allowed only in case of International Swaps and Derivatives Association (ISDA) agreement is available.
- If the partners have Credit Support Annex (CSA) for the derivative then both CVA and DVA are 0.
- If the contract covered by collateral then CVA=0.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of the reporting period that would have been determined by market participants acting at arm's length.

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

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

Data in HUF million except stated otherwise

The table below analyses financial instruments measured at fair value, by valuation method:

34.1

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
31 December 2021					
Derivative financial assets	**9**	-	104 402	-	104 402
Securities	**10**	119 514	79 525	-	199 039
Loans and advances to customers	**11**	-	-	53 295	53 295
Deposit and current accounts	**16**	2 223	-	-	2 223
Derivative financial liabilities	**17**	-	41 528	-	41 528
Total		**121 737**	**225 455**	**53 295**	**400 487**
Revised 31 December 2020					
Derivative financial assets	**9**	-	23 262	-	23 262
Securities	**10**	544 554	79 535	-	624 089
Loans and advances to customers	**11**	-	-	40 797	40 797
Deposit and current accounts	**16**				-
Derivative financial liabilities	**17**	-	35 406	-	35 406
Issued debt securities	**19**	-	2 343	-	2 343
Total		**544 554**	**140 546**	**40 797**	**725 897**
31 December 2020					
Derivative financial assets	**9**	-	23 262	-	23 262
Securities	**10**	544 554	79 535	-	624 089
Loans and advances to customers	**11**	-	-	938	938
Derivative financial liabilities	**17**	-	35 406	-	35 406
Issued debt securities	**19**	-	2 343	-	2 343
Total		**544 554**	**140 546**	**938**	**686 038**

The determination of fair value level and the transfers between levels are in line with accounting policy (see Note 4). There were no transfers between fair value levels in the reporting period ended on 31 December 2021.

There is no active quotation of discount government bonds when they reach within 3-month maturity. For discount government bonds within the maturity of 3 months, MKB Bank is using yield-curve valuation technique. The inputs of the yield-curve are the relevant active market prices, consequently it is considered as Level 2 valuation. The inputs of the where the yield-curve and the applied based currency mismatched it is consider as Level 3 valuation.

As part of its trading activities the Bank enters into OTC structured derivatives, primarily options indexed to equity prices, foreign exchange rates and interest rates, with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different asset prices or foreign currency exchange rates. These inputs are estimated based on extrapolation from observable shorter-term volatilities, recent transaction prices, quotes from other market participants and historical data.

In determining fair values, the Bank does not use averages of reasonably possible alternative inputs as averages may not represent a price at which a transaction would take place between market participants on the measurement date. When alternative assumptions are available within a wide range, judgements exercised in selecting the most appropriate point in the range include evaluation of the quality of the sources of inputs (for example, the experience and expertise of the brokers providing different quotes within a range, giving greater weight to a quote from the original broker of the instrument who has the most detailed information about the instrument) and the availability of corroborating evidence in respect of some inputs within the range.

The following table presents the major risks and the amounts of fair value of financial instruments. Each financial instrument is reported at fair value and categorized based on all the risk factors which they are exposed to. Most type of financial instruments are exposed to more than one risk, therefore fair values of those instruments are included in all relevant columns, resulting that the sum of total exposures by line may not be equal to the relevant lines in the Statement of Financial Position.

Nature and extent of exposure to risks arising from financial instruments:

34.2

	Note	Interest	Foreign exchange rate	Other
31 December 2021				
Derivative financial assets	**9**	94 079	21 055	80
Securities	**10**	190 698	4 618	-
Loans and advances to customers	**11**	53 295	23	-
Deposit and current accounts	**16**	2 223	-	-
Derivative financial liabilities	**17**	36 286	6 957	-
Total		**376 581**	**32 653**	**80**
Revised 31 December 2020				
Derivative financial assets	**9**	12 094	11 997	-
Securities	**10**	617 886	36 033	-
Loans and advances to customers	**11**	40 797	22	-
Derivative financial liabilities	**17**	28 416	6 892	98
Issued debt securities	**19**	2 343	-	2 343
Total		**701 536**	**54 944**	**2 441**
31 December 2020				
Derivative financial assets	**9**	12 094	11 997	-
Securities	**10**	617 886	36 033	-
Loans and advances to customers	**11**	938	22	-
Derivative financial liabilities	**17**	28 416	6 892	98
Issued debt securities	**19**	2 343	-	2 343
Total		**661 677**	**54 944**	**2 441**

35. Accounting classifications and fair values

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques (see Note 4, and Note 34), which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured.

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

35.1

31 December 2021	Note	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	7	-	831 434	-	831 434	831 434
Loans and advances to banks	8	-	61 814	-	61 814	60 571
Derivative financial assets	9	104 402	-	-	104 402	104 402
Securities	10	11 358	804 712	187 681	1 003 751	937 562
Loans and advances to customers	11	53 295	1 147 914	-	1 201 209	1 145 952
Total		**169 055**	**2 845 874**	**187 681**	**3 202 610**	**3 079 921**
Financial liabilities						
Amounts due to other banks	15	-	705 565	-	705 565	705 565
Deposits and current accounts	16	2 223	2 231 471	-	2 233 694	2 233 694
Derivative financial liabilities	17	41 528	-	-	41 528	41 528
Issued debt securities	19	-	3 394	-	3 394	3 394
Subordinated debt	20	-	45 070	-	45 070	45 070
Total		**43 751**	**2 985 500**	**-**	**3 029 251**	**3 029 251**

Revised 31 December 2020	Note	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	7	-	294 183	-	294 183	294 183
Loans and advances to banks	8	-	83 558	-	83 558	82 642
Derivative financial assets	9	23 262	-	-	23 262	23 262
Securities	10	16 922	549 938	607 167	1 174 027	1 172 547
Loans and advances to customers	11	40 797	1 065 445	-	1 106 242	1 078 359
Total		**80 981**	**1 993 124**	**607 167**	**2 681 272**	**2 650 993**
Financial liabilities						
Amounts due to other banks	15	-	574 825	-	574 825	574 825
Deposits and current accounts	16	-	1 877 454	-	1 877 454	1 877 454
Derivative financial liabilities	17	35 406	-	-	35 406	35 406
Issued debt securities	19	-	2 343	-	2 343	2 343
Subordinated debt	20	-	44 724	-	44 724	44 724
Total		**35 406**	**2 499 346**	**-**	**2 534 752**	**2 534 752**

31 December 2020	Note	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	7	-	294 183	-	294 183	294 183
Loans and advances to banks	8	-	83 558	-	83 558	82 642
Derivative financial assets	9	23 262	-	-	23 262	23 262
Securities	10	16 922	549 938	607 167	1 174 027	1 172 547
Loans and advances to customers	11	938	1 105 304	-	1 106 242	1 078 359
Total		**41 122**	**2 032 983**	**607 167**	**2 681 272**	**2 650 993**
Financial liabilities						
Amounts due to other banks	15	-	574 825	-	574 825	574 825
Deposits and current accounts	16	-	1 877 454	-	1 877 454	1 877 454
Derivative financial liabilities	17	35 406	-	-	35 406	35 406
Issued debt securities	19	-	2 343	-	2 343	2 343
Subordinated debt	20	-	44 724	-	44 724	44 724
Total		**35 406**	**2 499 346**	**-**	**2 534 752**	**2 534 752**

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

Cash and cash equivalents

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

Derivative financial instruments

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

Securities

The fair values of instruments grouped into Securities are based on quoted market prices, when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar securities. For further information, please refer to Note 10.

Loans and advances to banks and to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by coupon rates. In general, contractual cash flows are discounted using a rate which is sum of the available interest rate which would have been offered if the customer applied for loan at the end of the reporting period plus the counterparty margin. The used interest rates are available in published Terms and Conditions as of 31 December 2021 and the counterparty margin is available in the Bank’s systems. The rediscounted cash flows are decreased using by the same impairment percentage as it was used for impairment purpose, and it is considered as fair value of the loan portfolio.

Non-performing loans which are assessed for impairment individually are discounted with discount factors which are calculated as in case of performing loans, but that estimated cash flows of these loans are used for calculation, which was also used for impairment purpose.

In the case of work-out loans where the Bank expects cash flows only from sale of collaterals and therefore they are impaired to the net present value of this amount, the fair value is equal with the carrying amount.

The fair value of Loans and advances to banks and to customers on demand is not different from the amounts receivable at the end of the reporting period.

Amounts due to other banks and Current and deposit accounts

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

Data in HUF million except stated otherwise

Issued debt securities and Subordinated debt

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

36. Related parties

The Bank's related parties include the parent companies, subsidiaries, joint ventures, associates, Key Management Personnel of the Bank and its parent, close family members of Key Management Personnel, consolidation group and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by related parties, Key Management Personnel or their close family members. Government-related entities are exempt from the general disclosure based on IAS 24.25. Key Management Personnel are the members of the governing boards of the Bank like Supervisory Board and the members of the Board of Directors.

Transactions with related parties

Related parties have transacted with the Bank during the period as follows:

36.1

	Parent company and its group		Consolidated subsidiaries		Non-consolidated subsidiaries		Associates		Key Management Personnel		Other related parties	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Assets												
Amounts due from other banks	1 268	884	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	55 329	-	179 946	175 736	2 153	1 745	269	-	430	181	8 100	208
Derivative financial assets	3 342	-	43	-	-	-	-	-	-	-	141	372
Debt securities	-	14 109	-	-	-	1 086	-	-	-	-	1 226	-
Equity instruments	455	-	43 764	43 764	1 793	1 503	614	150	-	-	110	137
Other assets	48	65	8 550	7 800	-	-	-	-	-	-	-	-
Liabilities												
Amounts due to other banks	2 385	53 433	-	-	-	-	-	-	-	-	-	-
Current and deposit accounts	54 329	671	16 585	16 228	997	854	339	74	889	289	8 819	3 328
Derivative finacial liabilities	1 128	852	-	-	-	-	-	-	-	-	1	506
Other liabilities	636	1	7 343	6 423	-	-	-	-	-	-	-	-
Income statement												
Interest and similar to interest income	1 625	705	1 799	1 277	57	16	1	-	16	4	301	2
Interest expense	(549)	(369)	(128)	(68)	(5)	(3)	-	-	-	-	(44)	(2)
Net income from commissions and fees	414	193	99	68	14	15	47	64	47	49	94	18
Other net income / (expense)	(237)	(110)	(42)	(24)	(11)	(11)	(4)	(2)	(1 660)	(1 175)	(82)	(12)
Contingencies and commitments	*80 978*	*10*	25 201	8 769	*1 990*	*2 374*	*113*	-	*30*	*15*	*86*	*994*
Undrawn commitments to extend credit	*80 514*	*10*	*20 781*	*8 025*	*1 990*	*2 374*	*113*	-	*30*	*15*	-	*200*
Guarantees	464	-	4 420	744	-	-	-	-	-	-	86	794
Provision	6 265	5	32 595	32 595	4 326	3 984	2	-	13	1	62	2

Significant part of the amount outstanding from Key Management Personnel represents mortgages and secured loans granted and these loans are secured over property of the respective borrowers.

The above transactions with other than Key Management Personnel were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. The transactions did not involve more than the normal risk of repayment.

Data in HUF million except stated otherwise

Other related parties include the interests of the Key Management Personnel and other investments.

Impairment losses and provisions against balances outstanding with related parties were recognized during ordinary course of impairment assessment. Incurred loss has been recognized on balance sheet items and off balance sheet items with related parties which were individually or collectively assessed.

Key management personnel compensation for the period comprised:

36.2

	2021	2020
Short-term employee benefits	769	691
Termination benefits	11	72
Share-based payment transactions	875	400
Total	**1 655**	**1 163**

Significant transactions in the table below include two transactions. One of them is a security swap transaction with Government Debt Management Agency (GDMA) and the other one is contracted with Central Organization of Integrated Credit Institutions on security sale. Transactions were concluded under actual market terms. The Bank exercises the option in IAS 24 to exempt related party transactions from the disclosure requirements if they arise in connection with a government that has significant influence over the reporting entity. Furthermore, the below presented amounts the Bank has significant transactions with the NBH, which are related to the lending of financial loans with an average portfolio of HUF 266 billion. A further presentation of the balances with Central Banks is provided in Note 7, and a detailed presentation of the FGS loan programs is provided in Note 39.

36.3

31 December 2021	Government-Related Entities	
	Outstanding Amounts	Significant transactions
Assets		
Cash and cash equivalents	808 712	-
Loans and advances to banks	32 060	-
Loans and advances to customers	1 100	-
Derivative financial assets	18 019	-
Securities	838 608	383 649
Liabilities		
Amounts due to other banks	626 573	-
Current and deposit accounts	6	-
Derivative financial liabilities	1 347	-
Income statement		
Interest income	12 567	(1 028)
Interest expense	7 673	-
Net income from commissions and fees	26	-
Other net income / (expense)	(2 666)	1 159
Impairment / (Reversal) and provision for losses	-	(13)
Contingencies and commitments	108 325	-

Significant transactions in the table above include two transactions. One of them is a security swap transaction with Government Debt Management Agency (GDMA) and the other one is contracted with Central Organization of Integrated Credit Institutions on security sale. Transactions were concluded under actual market terms.

37. Segment information

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

Business segments

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

As of 31 December 2021, the Bank's business segments and their main products were:

Corporate Banking

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

Institutional Banking

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

Retail and Private Banking

The Bank provides a wide range of deposit and savings instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through 51 full-service branches and sub-branches (2020: 51 branches), ATMs, telephone and electronic channels.

Other

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

37.1

31 December 2021	Note	Corporate Banking	Retail and Private Banking	Institutional Banking	Other	Total
Assets						
Cash and cash equivalents	**7**	-	-	831 434	-	831 434
Loans and advances to banks	**8**	-	-	61 814	-	61 814
Derivative financial assets	**9**	-	-	104 402	-	104 402
Securities	**10**	149 019		854 732	-	1 003 751
Loans and advances to customers	**11**	944 485	256 724	-	-	1 201 209
Non-current assets held for sale and discontinued operations	**38**	-	35	-	-	35
Other assets	**12**	-	-	-	18 810	18 810
Deferred tax assets	**23**	-	-	-	7 756	7 756
Investments in jointly controlled entities and associates	**13**	-	-	-	49 563	49 563
Intangibles, property and equipment	**14**	-	-	-	41 408	41 408
Total assets		**1 093 504**	**256 759**	**1 852 382**	**117 537**	**3 320 182**
Liabilities						
Amounts due to other banks	**15**	-	-	705 565	-	705 565
Deposits and current accounts	**16**	1 789 348	444 346	-	-	2 233 694
Derivative financial liabilities	**17**	-	-	41 528	-	41 528
Other liabilities and provisions	**18**	44 725	3	-	5 460	50 188
Current income tax liabilities		-	-	-	1 862	1 862
Issued debt securities	**19**	-	-	3 394	-	3 394
Subordinated debt	**20**	-	-	45 070	-	45 070
Shareholders' equity	**21, 22**	-	-	-	238 881	238 881
Total liabilities		**1 834 073**	**444 349**	**795 557**	**246 203**	**3 320 182**
Income statement						
Interest and similar to interest income	**24**	18 748	11 526	44 956	7 100	82 330
Interest expense	**25**	(3 708)	(48)	(23 604)	(5 112)	(32 472)
Net income from commissions and fees	**26**	18 108	6 936	7	-	25 051
Other Income	**27**	8 992	1 665	52 776	(17 841)	45 592
(Impairment) / Reversal and provision for losses	**28**	49	(3 805)	110	(107)	(3 753)
Operating expense	**29**	(21 281)	(19 324)	(3 609)	(11 327)	(55 541)
Expense related to bank levies	**27**	-	-	-	(1 824)	(1 824)
Segment result		**20 908**	**(3 050)**	**70 636**	**(29 111)**	**59 383**
Other information						
Capital expenditure		-	3 002	-	15 995	18 997
Depreciation and amortisation	**14**	-	-	-	6 955	6 955

Data in HUF million except stated otherwise

31 December 2020	Note	Corporate Banking	Retail and Private Banking	Institutional Banking	Other	Total
Assets						
Cash and cash equivalents	7	-	-	294 183	-	294 183
Loans and advances to banks	8	-	-	83 558	-	83 558
Derivative financial assets	9	-	-	23 262	-	23 262
Securities	10	82 187		1 091 840	-	1 174 027
Loans and advances to customers	11	861 557	244 685	-	-	1 106 242
Non-current assets held for sale and discontinued operations	38	504	-	-	-	504
Other assets	12	-	-	-	15 149	15 149
Current income tax assets		-	-	-	1 418	1 418
Deferred tax assets	23	-	-	-	6 707	6 707
Investments in jointly controlled entities and associates	13	-	-	-	48 373	48 373
Intangibles, property and equipment	14	-	-	-	39 213	39 213
Total assets		**944 248**	**244 685**	**1 492 843**	**110 860**	**2 792 636**
Liabilities						
Amounts due to other banks	15	-	-	574 825	-	574 825
Deposits and current accounts	16	1 476 656	400 798		-	1 877 454
Derivative financial liabilities	17	-	-	35 406	-	35 406
Other liabilities and provisions	18	39 076	3 331	-	12 503	54 910
Issued debt securities	19	-	-	2 343	-	2 343
Subordinated debt	21	-	-	44 724	-	44 724
Shareholders' equity	21, 22	-	-	-	202 974	202 974
Total liabilities		**1 515 732**	**404 129**	**657 298**	**215 477**	**2 792 636**
Income statement						
Interest and similar to interest income	24	15 423	10 524	25 762	(786)	50 923
Interest expense	25	(1 033)	(49)	(25 236)	1 330	(24 988)
Net income from commissions and fees	26	13 982	6 375	3 374	-	23 731
Other Income	27	6 822	1 183	16 889	(17 472)	7 422
(Impairment) / Reversal and provision for losses	28	(4 242)	(2 728)	(134)	216	(6 888)
Operating expense	29	(18 658)	(17 063)	(3 168)	(2 713)	(41 602)
Expense related to bank levies	27	-	-	-	(1 645)	(1 645)
Segment result		**12 294**	**(1 758)**	**17 487**	**(21 070)**	**6 953**
Other information						
Capital expenditure		-	-	-	18 027	18 027
Depreciation and amortisation	14	-	-	-	5 352	5 352

Measurement of segment profit or loss

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

Calculation of intersegment revenue

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

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

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

38. Non-current assets held for sale and discontinued operations

On 31 December 2020, a loan-portfolio in net amount of HUF 504 million was reclassified to non-current assets held for sale (gross value of HUF 2,975 million, relating loss allowances of HUF 2,471 million).

At the end of the reporting period the net amount of non-current assets held for sale and discontinued operations was HUF 35 million (gross value of HUF 354 million, relating loss allowances of HUF 319 million).

Non-current assets held for sale and assets and liabilities discontinued operation include the followings:

38.1

	2021	2020
Assets		
Loans and advances to customers	35	504
Total assets	**35**	**504**

39. Government grants

The NBH launched its three-pillar Funding for Growth Scheme (FGS) on 1 June 2013, primarily to stimulate lending to small and medium-sized enterprises. Under Pillar I and II of the FGS the NBH provided refinancing loans to credit institutions participating in the Scheme, at 0 per cent interest rate and with a maximum maturity of 10 years, which were lent further by the credit institutions to the SMEs with a capped interest margin.

Under Pillar I of the Scheme investment and current asset loans, EU subsidy financing, and loan refinancing denominated in Hungarian Forint could be carried out. Pillar II of the Scheme aimed to reduce the ratio of SME's foreign currency loans, allowing conversion of foreign currency loans to forint loans.

On 11 September 2013 the Monetary Council decided to continue the Scheme, and launched the second phase, which was available until 31 December 2016.

On 16 March 2015, the NBH launched FGS Plus Program, in order to improve access credit facility of small and medium-sized enterprises not participating in FGS so far.

On 6 October 2015, the Monetary Council decided to launch the third phase of FGS – aiming at the gradual ending of the program. The third phase consists of two Pillars, in Pillar II a market priced EUR / HUF swap transaction (CIRS) is linked to the refinancing denominated in Hungarian Forint, which allows credit institutions lending in foreign currency – without any currency risk – to SMEs having natural foreign currency hedge.

The NBH intends to improve the structure of domestic SME lending through the NHP Fixed Income Facility, by improving access to long-term, fixed-rate loans for SMEs, which will be part of the NHP, starting January 1, 2019. Under the NHP Fix program, the NBH provides credit institutions with a null per cent interest rate refinancing loan for a maximum of 10 years, which they further lend to SMEs in the form of loans or financial leases at a limited interest rate up to 2.5% per annum.

In order to alleviate the negative economic effects of the COVID-19 coronavirus pandemic and to avoid credit market disruptions, on 20 April 2020, the NBH launched the FGS Go construction, which is part of the FGS Program. The limit of the new program was set by the Monetary Council at HUF 1,500 billion. On 17 November 2020, the Monetary Council decided to increase the limit of the program by HUF 1,000 billion to HUF 2,500 billion, and in April 2021 the limit was increased further and it reached HUF 3,000 billion. The total limit was utilised, and FGS Go Program was terminated on 30 September 2021.

On 4 October 2021, as part of the Funding for Growth Scheme the NBH launched the FGS Green Home Programme with a total limit of HUF 200 billion. Under the scheme, loans of up to HUF 70 million and a maximum term of 25 years can be granted for constructions or purchases of new, highly energy-efficient residential real estates.

Under the Program the NBH provides refinancing loans to credit institutions, at 0 per cent interest rate and with a maximum maturity of 20 years (in case of specified working capital loans and subsidy pre-financing loans, the maturity of the refinancing loans can be maximum 3 years), which are lent further by the credit institutions to the SMEs with a capped annual costs and they also refinance financial enterprises for the same purpose.

MKB Bank participated in all phases of the Scheme, and lent HUF 607,202 million loan to SME's since the beginning of the program, with an interest rate of 2.5% and EUR 56 million in course of the third phase. Until 31 December 2020, HUF 174,340 million was disbursed under the FGS Go construction. In the fourth quarter of 2019 the Bank has finished the acquisition of HUF 7,000 million Hungarian Development Bank's loan portfolio related to FGS at NBH.

The loans lent as part of FGS are measured at amortised cost at MKB Bank, however at initial recognition the difference between the carrying amount and the fair value of the loans and parallel of the NBH funds denominated in HUF was deferred to Other assets (HUF 4,881 million) and to Other liabilities (HUF 5,077 million), which is amortised to Profit and loss during the term of the loans. This difference was driven by the gap between the market interest rate and the subsidized rate.

The fair value of the loans denominated in HUF amounted to HUF 219,413 million as of 31 December 2021 (2020: HUF 146,043 million).

MKB Bank joined Market Loan Program - called PHP - on 19 January 2016 that is aimed at stimulating the banks' transition towards lending on market terms, and to continue to encourage banks to grant loans to SMEs. At the same time, the NBH also started to phase out the NHP III program.

MKB Bank undertook a HUF 25 billion growth in the net volume of SME lending in 2016 concerning Market-based Lending Scheme (PHP), which increased by HUF 5 billion in 2017 in the framework of the second phase of PHP. Therefore MKB concluded HIRS transactions with NBH in a total amount of HUF 120 billion.

40. Events after the end of the reporting period

By its decisions H-EN-I-61/2022 dated 28 January 2022 and N-EN-I-46/2022 dated 3 February 2022, the National Bank of Hungary authorised the merger of BUDAPEST Hitel- és Fejlesztési Bank Zártkörűen Működő Részvénytársaság (registered office: 1138 Budapest, Váci út 193.) and Magyar Takarék Bankholding Zártkörűen Működő Részvénytársaság (registered office: 1134 Budapest, Kassák Lajos u. 18.) into MKB Bank Nyrt.. as of 31 March 2022, in accordance with the Merger Agreement of 15 December 2021.

On 16 November 2021 dr.Beatrix Mészáros was appointed to Deputy CEO. This appointment was approved by the National Bank of Hungary by its decision H-EN-I-90/2022 dated on 9 February 2022.

On February 14, 2022 the Company sold its shares in Danube Capital R&A Zártkörűen Működő Részvénytársaság (registry nr.: 01-10-140292; seat: 1134 Budapest, Kassák Lajos utca 18.) representing 25% direct ownership, therefore the Company no longer has any direct or indirect ownership in Danube Capital R&A Zrt. After closing the transaction the Company no longer has any direct and indirect ownership in Danube Capital Advisory Kft. (registry nr.: 01-09-669775; seat: 1134 Budapest, Kassák Lajos utca 18.), the 100% subsidiary of Danube Capital R&A Zrt.

By its decision Cg.01-10-040952/2795. dated 15 February 2022 Company Registry Court of Budapest-Capital Regional Court registered the merger of BUDAPEST Hitel- és Fejlesztési Bank Zártkörűen Működő Részvénytársaság (registry nr.: 01-10-041037; registered office: 1138 Budapest, Váci út 193.) and Magyar Takarék Bankholding Zártkörűen Működő Részvénytársaság (registry nr.: 01-10-141497; registered office: 1134 Budapest, Kassák Lajos u. 18.) into MKB Bank Nyrt. as of 31 March 2022.

Central banks have responded to high inflation (inflation in the euro area rose 5.8% yoy in February after 5.1% in January. Domestic price pressures rose to 8.3% yoy in February from 7.9% in January). The European Central Bank (ECB) kept its policy rates unchanged in March. At the same time, the ECB accelerated tapering of its traditional asset purchase program (APP), which could end as early as June 2022, with interest rate hikes not likely to be earlier than June 2022.

In response to developments since the end of February National Bank of Hungary (NBH) raised the upper level of the interest rate corridor by 100 basis points to 6.4% on 8th March, while the base rate and the interest rate on the overnight deposit remained unchanged. The NBH announced its one-week deposit tender at 5.85% on 10th March, which represents an effective interest rate increase of 50 basis points compared to the previous week (the NBH raised the interest rate on one-week deposits by 75 basis points to 5.35% on 3rd March). High inflation could dampen strong economic growth this year for both the domestic and European economies.

After the closing of Q4 2021, Russia-Ukraine conflict meant an important change in the economic environment in late February 2022 and the uncertainty created continues at the date of issue of these separate financial statements. Geopolitical conflicts contribute to the uncertainty of growth prospects. As a result, the favourable economic outlook had already given way to gloomier growth prospects and rising inflationary pressures and these trends have been exacerbated by the war. The war, and the sanctions imposed upon Russia and Belarus, in response to it, are affecting strategically important industries, which have increased demand-supply frictions that have been going on for months. The process is leading to the persistence of intense inflationary pressures, with shortages of raw materials and price pressures on a wider range of products than before.

The Ukrainian-Russian war conflict has not caused any significant direct economic loss for the Bank nor for the other members of Magyar Bankholding. Both the Bank's capital situation and its liquidity position are stable and it has sufficient reserves. There is at this time no known material direct banking risk in either the retail or the corporate portfolios. Interbank money market limits towards the countries concerned were immediately closed (there was no exposure). The hedge monitoring of customer positions has been confirmed (there is no customer positions below the hedging limit).

None of the member of the Bankholding had any material open FX positions and recent volatile movements in FX rates did not result in any significant direct losses.

The Strategic Analysis Centre of Magyar Bankholding continuously monitors and analyses the relevant changes in the money and capital markets. The price volatility of the Hungarian forint has increased in line with regional currencies. Despite this, the Bank has not observed any significant retail demand for foreign currency exchange or foreign exchange compared to normal business. Any changes in asset prices (including financial assets and properties held as collateral) are also a focus of the monitoring.

All members of Bankholding comply with EU and US sanctions bans lists, including the requirements for exclusion of a number of commercial banks in Russia and Belarus from the SWIFT system. This increases the likelihood for more difficult, trade and money transfer relationship for Hungarian companies involved in Russian or Belarus relations.

In connection with the Ukrainian-Russian war, the Bank continues to monitor for clients who may be directly or indirectly affected, and their follow-up is carried out by members of the Bankholding on the basis of the Hungarian Bankholding guidelines. The risks associated with each customer are ranked according to their severity based upon the nature of the exposure, the related country, the member of Bankholding exposures and other available information.

On the balance sheet date, this is the complete list of exposures in relation to Russian Federation, Belarus and Ukrainian clients:

31 December 2021	Note	Amount in million original currency	Original currency	Carrying amount in million HUF	Total assets / Total liabilities and equity	Carrying amount percentage of total asset
Loans and advances to banks	**8**	63	RUB	273	3 314 019	0,01%
Amounts due to other banks	**15**	853	HUF	853	3 314 019	0,03%

The Bank has no financial instruments related to sanctioned entities or private individuals. The Bank has evaluated these exposures and considered that no significant loss is expected from these instruments.

MANAGEMENT REPORT

to the separate 2021 Financial Statements of MKB Bank Nyrt. (Prepared under IFRS)

In 2021, the scope of activities of MKB Bank Nyrt. comprised the following sectors:

- **banking services**
- **finance and operating leases**
- **financial and investment services**
- **other loans**

MKB Bank's profit after taxation for 2021 under IFRS amounted to HUF 55,916 million gain.

Shareholders' equity was HUF 238,881 million at 2021 year-end.

Budapest, 28 March 2022

dr. Zsolt Barna
Chairman and Chief Executive Officer

Antal Martzy
Deputy Chief Executive Officer

MANAGEMENT’S DISCUSSION & ANALYSIS[1]

OPERATIONAL ENVIRONMENT

International economic environment

Year 2021, and the market sentiment, continued to be dominated by the fight against the coronavirus pandemic and the latest virus variants, as well as the resulting uncertainty. As vaccines had become widely available, the ratio of the vaccinated population increased, and, in the first half of the year we saw economies starting to reopen and recover. Nevertheless, the swift recovery from the crisis of 2020 also had negative consequences. The quick upturn in demand was not matched by supply, leading to shortages in primary commodities, difficulties in logistics, disrupted supply chains and a significant increase in energy prices, all of this leading to globally accelerating inflation.

We could see data reflecting dynamic growth and inflation indicators reaching historic highs at the same time. The Eurozone saw an exceptional annual increase in GDP of 5.2% in 2021 (2020: -5.9%), while inflation was up at 2.6% from 0.3% in 2020, and, from the second half of the year, it exceeded the central bank target figure of 2% (December: 5%). Similar processes were observed in the USA as well: in 2021, GDP grew at an astounding rate of 5.7% compared to 2020 (2020: -3.4%), however, inflation also accelerated, and the personal consumption expenditures (PCE) indicator, which is closely monitored by the central bank, reached 5.8% by the end of the year on an annual basis.

Economies continued to receive fiscal support in 2021, too, however, in the second half of the year – in light of the accelerating inflation – the forward guidance of central banks hinted at the possibility of a substantive monetary tightening, too. At the end of the year, the ECB announced to phase out its asset purchase program introduced during the pandemic, starting at the beginning of 2022. Meanwhile, the Fed, acting as the central bank in the USA, began to phase out its former asset purchases as early as the end of 2021, which will be completed in March 2022, and analysts expect further interest rate increases during the year.

Hungarian economic environment

In 2021, Hungary was also characterized by the waves of the coronavirus pandemic, vaccination, Q2 economic reopening and recovery, as well as monetary policy reactions to the speeding up of inflation. Domestic economy grew at an astounding annual average rate of 7.1% in 2021, following a decline of 4.7% in 2020, thus exceeding pre-pandemic economic performance too. This exceptional increase took place despite the fact that the performance of the industrial and the construction sector were adversely affected by primary commodity shortages and other limiting factors in supply (difficulties in transportation, disrupted supply chains). A dynamic economic growth of approximately 6% is to be expected in 2022, too.

Due to the preventive measures against the pandemic and also to measures supporting economic recovery, a significant deficit-to-GDP ratio of 7.4% was seen in the state budget in 2021, too, just as in 2020 (2020: -8%). By the end of year 2021, preliminary expectations

[1] In the next chapter of the financial statement, we assess and analyze the financial situation of the Bank and the results of the activities in order to give the reader an overview of the financial situation and the results for 2021. The following analyses are based on the individual financial statements of MKB Bank prepared in accordance with the International Financial Reporting Standards (“IFRS”) for 2021 to the accounting date of 31 December 2021, audited by the registered auditors of the Deloitte Könyvvizsgáló és Tanácsadó Kft. Accordingly, the following analysis focuses on the performance of the Bank. Individual financial statements prepared in accordance with the IFRS requirements will be presented separately.

point to a gross public debt-to-GDP ratio slightly below 80%, close to the end-of-2020 figure of 80.1%.

The rate of inflation substantially increased in 2021 due to both domestic and global processes. Since April, it has been above the 4% upper edge of the tolerance band of MNB's inflation targeting regime, reaching 7.4% by December (year-on-year). The annual average rate of inflation was 5.1%. Core inflation increased to 6.4% (year-on-year), to a large extent due to domestic price pressures. An even higher 6% average annual rate of inflation is expected for 2022 with upside risks. The government implemented several measures to hold back inflation (regulating household energy prices, imposing a fuel price cap, fixing the price of basic foodstuffs to an earlier base).

In 2021, MNB launched a monetary tightening scheme to reduce soaring inflation. It increased the base rate from 0.6% at the beginning of the year to 2.4% by end-2021, and the rate of its one-week deposit facility (effective rate) increased from 0.75% to 4.0%. Furthermore, by the end of the year, the central bank gradually phased out its liquidity boosting facilities: the government securities and mortgage bond purchase schemes, the Funding for Growth Scheme and the Bond Funding for Growth Scheme, although these have not yet led to a meaningful decrease in the balance sheet total of the central bank.

2021 saw a massive increase in government bond market yields as well: the yield of the benchmark 10Y government bond increased from 2% at the beginning of the year to 4.5%.

The situation of the banking sector[2]

In 2021, the day-to-day operations of the banking sector were less affected by the coronavirus pandemic than in the year before. Although certain segments, mainly related to tourism and catering, were subjected to severe restrictions until the spring, most segments have already adjusted to the presence of the pandemic and the majority of them reached their pre-pandemic output by the third quarter. For corporate and retail customers, too, the performance of the banking sector was facilitated by the digitalization that accelerated as early as 2020, resulting in no or reduced need for customers to be physically present in a growing number of deals. The framework, in which the banking sector operated, continued to be greatly defined by the economic policy measures aimed at counterbalancing the economic impacts of the pandemic, including the repayment moratorium that remained in effect in an unchanged form until October 2021, and, from then on, upon the customer's request (at significantly lower effective exposure on part of the banks). The liquidity-providing measures of the central bank were substantial, as were the credit incentive schemes using funds from the central bank or public finances.
The improving macroeconomic indicators that had been the major input parameters of the risk models during the repayment moratorium allowed a part of the impairment and provisions made in 2020 on the basis of conservative assumptions to be released in the segment, and this meant that the decreased costs of risk became a substantial factor in improving results. The growth in net interest income improved results to a similar extent, in which, in addition to the increase of business portfolios and the higher interest rate environment, the liquidity-providing measures of the central bank also played a part. In the meantime, the growth in operating costs remained moderate. All in all, based on non-consolidated data relating to domestic activities (i.e., not including the result of foreign subsidiary banks) the Hungarian credit institution segment, was able to realize an after-tax profit exceeding HUF 550 billion in 2021, which is more than two and a half times higher than the result in 2020 and which implies a return on equity slightly above 10%.

[2] Source of data: MNB, preliminary data

With the help of retail and corporate credit incentive schemes (in the former, mainly through home creation and renovation loans, in the latter, mainly through the NHP Hajrá! (Funding for Growth Scheme) depleted by the end of the summer and through development loans offering preferential conditions available under various titles), the client loan portfolio significantly increased in 2021, on which, until the end of October, the repayment moratorium also had a meaningful impact. The growth in household income and the abundance of corporate development funds led to a significant increase in customer savings, and therefore the primary supply of resources in the credit institution segment remained significant. From the middle of the year, in an increasing yield environment caused by the tightening of the central bank, pricing automatisms led to a quick realization of higher market interest rates on new corporate loans, the same occurred to a markedly lesser extent concerning in the case of retail loans and deposits.
In line with central bank expectations, a growing number of banks introduced credit products that comply with environmental sustainability criteria or started such lending using central bank refinancing (Green Home Program). Digitalization also continued: the scope of available mobile payment solutions expanded, more and more credit transactions were conducted online and there are several banks where one does not need to be personally present even for opening a bank account.
All in all, in 2021 the functioning of the banking sector was accompanied by high liquidity and a safe level of capitalization, the minor tightening of the regulatory environment did not require significant adjustments from banks. The process of the consolidation of banks also picked up: in addition to the ongoing merger of MKB Bank, Budapest Bank and the Takarék Group, in 2021 it was decided that Erste Bank would purchase the business share of Commerzbank that was leaving the country, and smaller banks also made decisions regarding acquisitions during the year (Magnet Bank acquired Sopron Bank).

MKB's RESULTS FOR 2021

The balance sheet total of the Bank increased by 18.9% (or HUF 527.7 billion) to HUF 3,320.3 billion by the end of 2021. The stock of customer loans increased by 8.6% to HUF 1,201.2 billion, while the stock of customer deposits increased by 19.0% to HUF 2,233.7 billion. The profitability of MKB Bank was much more favorable in 2021 following the economic downturn caused by the COVID-19 pandemic in 2020, profit after tax increased to HUF 55.9 billion as opposed to the profit of HUF 6.2 billion in the previous year.

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

PERFORMANCE OF THE INDIVIDUAL BUSINESS LINES[3]

Retail, micro and small enterprise segment

The retail segment, despite the ongoing pandemic situation, realized significant growth in 2021 over the previous year. The pandemic continued influencing customer expectations and behaviour in a number of areas. Amidst the changed circumstances, in retail sales an even greater emphasis than before was placed on providing expert advice and support to customers, be it liquidity management, crisis loans, moratorium or digital solutions providing remote access.

[3] The source of individual market data: MNB (Central Bank of Hungary), KAVOSZ, BAMOSZ (Association of Hungarian Investment Funds and Asset Management Companies), Eximbank, MFB (Hungarian Development Bank), MKB's own calculation

MKB Bank continued its developments launched earlier, with a focus on quality customer service, increased customer experience, strengthening lending and the premium segment, further increasing the market share of MKB Bank's retail business line.

In the premium segment, the success story continued relentlessly. Outstanding results were achieved in terms of the number of customers and the growth of the managed portfolio. The stock of open-end investment funds of MKB-Pannónia Fund Manager further increased in the segment, thanks to the sample portfolio-based investment consulting and the good performance of the investment funds.

Among retail customers, demand remained significant in the area of investments into secure and predictable government bonds. In addition to MÁP+, inflation-indexed Premium Hungarian Government Securities gained focus, and, because of this, net sales of these instruments further increased in 2021, and the popularity of investment funds seemed to bounce back following a temporary decrease in demand.

MKB Bank also achieved significant growth in mortgage lending. Compared to the previous year, the volume of disbursements in 2021 was one and a half times higher than in the previous year (+54% year-on-year).

The Bank sold a larger proportion of retail mortgage loans with long-term interest setting periods, and therefore customers were less impacted by the rising yield environment at the end of the year, interest rate risks decreased. Concerning its pricing policy, MKB Bank paid attention to maintaining its market position, which is set among its strategic business goals. MKB NHP Green Home Loan was added to the portfolio of mortgage loan products in October 2021.

The volume of personal loans disbursed was nearly twice as high than in the previous year (+91% year-on-year – in part due to restrictions in the base year), and the proportion of online personal loan applications, introduced in 2020, increased gradually quarter by quarter.

The government's action plan to revive the economy determined MKB Bank's business strategy for micro and small enterprises for 2021 in a fundamental way. All of the supported products included in the new economic recovery packages were swiftly and seamlessly introduced by the Bank, and these proved to be the driving force of lending in this segment throughout the year.

Because of a strong online marketing presence and a proactive branch network, the Széchenyi Card Program that was predominant in the first half of the year was gradually supplemented with surging demand for MFB Zero Interest Quick Recovery Loan from the second quarter, which improved specific product penetration, too. The portfolio disbursed as part of the MFB GINOP-9.1.1-21 program (Economic Development and Innovation Operational Program) exceeded HUF 10.8 billion by the end of the year, implying a market share of 14%.

MKB Bank is committed to developments that increase positive customer experience and, in the meantime, increase the customers' sense of security in a protracted pandemic environment.

The first quarter saw the completion of the development and the deployment of a digital queue management system in the branch network. The system allows queuing numbers to be called and appointments to be made online, thus minimizing the waiting time in bank branches and avoiding any queuing and waiting on site.
MKB Bank regularly calls the attention of its customers to the possibility of using alternative channels and provides several information notices in order to facilitate the use of electronic channels.

The activity of the branch network was greatly affected during the year by the ongoing international and nationwide medical emergency. To protect customers and employees, the branch network operated throughout the year in accordance with government measures and requirements, in line with the principle of safe and responsible customer service in bank branches. In addition to the already widespread and ever-growing number of online administration possibilities, MKB Bank continued to provide personal customer service in 51 branches nationwide.

Similarly to previous years, the strategic cooperation between MKB Bank and CIG Pannónia Insurance Companies continued in 2021 too, and, therefore, pension, investment, risk, and health insurance products, with which the customers of the bank were able to diversify their savings portfolios, remained available in the branch network of the bank. The dynamic, upward trend in the sale of personal life insurance was halted by the pandemic in 2020, however, the performance was again back on a growth track in 2021. The Barion payment method was introduced in the first quarter for the payment of life insurance fees, offering a more modern and more convenient solution to customers than before. In June 2021, CIG Pannónia introduced the Pannónia BajTárs Accident Insurance, which is sold by the Bank in its branch network. The product offers a guaranteed claim settlement period, which is unique in the market, and is available in three different packages. During the year, the Insurance Company facilitated branch network sales by offering various temporary discounts, promotions, as a result of which the performance of MKB Bank further increased in 2021 compared to the previous year's sales results (+17% year-on-year) in terms of the sum of brokered fees.

In 2021, concerning the sale of home insurance, Aegon's OKÉ (Home, Garden, Value) product continued to be available in MKB Bank's branch network and on the Bank's website. The Insurance Company announced a sales promotion campaign from the middle of March 2021 for its home insurance product, which it extended on a number of occasions during the year. Thanks to the increased lending activity and the announced home insurance promotions, the number of home insurance contracts sold in the MKB Bank branch network significantly increased compared to the previous year in 2021 (+45% year-on-year).

The brokerage sales channel was able to achieve significant development in 2021 in both retail and small business sales compared to the previous year. Sales through cooperation with partners increased both in absolute terms and in proportion to the branch network. In the case of retail mortgage loans, the volume of brokerage transactions exceeded 47%.

On the small business side, the demand for loans introduced by the government to stimulate the economy and to save jobs remained high in 2021 too, with brokers significantly contributing to the process, the result of which was also reflected in the volume of loans disbursed. Measures that put online solutions at the forefront of partner communication and administration, and which reduced personal meetings to the absolute necessary level, proved to be successful.

Measures, process improvements and efforts taken to facilitate partner cooperation proved to be successful and, for this reason, MKB Bank is planning to further improve processes to be able to increase its share in the brokerage market.

Digital products and channels

The implementation of the digital strategy and the digital transformation of customer experience also continued in 2021, the primary goal being to enhance customer experience, to introduce new digital products and to expand cooperation with partners. The Bank deployed new functions in several channels, and also introduced a new, electronic platform, with which it took a major leap forward in digital sales. The pandemic situation continued to shape consumer habits significantly, it diverted customers previously less inclined to the digital channel, it further increased the number of active users of the channels and also accelerated digital developments. The Bank makes an effort to harmonize the channels, to develop service packages that create real value and to integrate these into the life of its customers.

At the beginning of the year, the mobile payment service was renewed. Unlike previously, payment is no longer made in a separate digital application on a smartphone, but in an integrated manner, within a single application: users – having digitalized their bank card in their mobile phone application – can make payments by touching their device to the POS payment terminal.

The Bank took a leap forward in terms of online lending as well. A new, digital lending platform was created (Digital Account) in which existing customers can apply for a personal loan from March without having to personally visit a branch, using an end-to-end online process. Credit assessment for general purpose loans of up to HUF 2 million takes up at most one business day, and these are disbursed within one business day after the conclusion of the contract by electronic means.

The user-friendly process of credit applications was improved through customer feedback obtained during “usability tests”. The process was made convenient, can be completed quickly and seamlessly and therefore it provides the customer experience determined in the digital development strategy of the bank.

In March, the Qualified Consumer-Friendly Personal Loan product was also introduced in MKB Bank’s portfolio, and the possibility of online application for this product was made available to existing customers in April. From the middle of the year, fully online credit application possibilities were extended to new customers too. With an innovative solution, new customers can verify their earnings during the online credit application process by granting their consent for their account history at their account servicing bank to be queried in a closed channel, and therefore it is no longer necessary to file conventional forms of proof of earnings (e.g., account statement, employer’s certificate). The newly introduced processes are especially popular; 8% of all the disbursement took place via this channel in the second month after it was extended to new customers, too. Based on feedback, 94% of customers would recommend this solution to others, and 96% would try other products online too.

During the past year, the number of the users of the mobile application increased exceptionally by 45%, customers actively use it for their day-to-day banking. As a novelty in the Netbankár channel, QR code-based login to Netbankár was made available in the second half of the year, providing a simpler, faster and more secure way for customers to log in.

In 2021, the Bank successfully closed one of its key innovation projects, in which its entire ATM network was renewed. The earlier devices of the Bank were replaced with modern, touchscreen devices providing an outstanding experience, and cash deposits via ATM were also made possible. The new ATMs can also be used with tap-and-go card readers. In the fourth quarter, on order to optimize branch processes, the feeding and emptying of ATMs was outsourced in several units.

MKB Bank launched a new digital development in the branches as early as in the second quarter, and, as part of this, it deployed tablets to every branch – at a location easily accessible to customers – to replace paper-based supervisory folders. All the related developments were completed in the branches in 2021.

As a result of the digital developments, the digital capability of the Bank significantly increased, and a lot of experience was accumulated in design thinking, UX design and agile product development too. These methodologies and capabilities are essential for the Bank to engage its customers during the research, design and market launch of the related products and services, and to swiftly react to the increasing challenges of the digital world.

MKB SZÉP Card

The operation of the MKB SZÉP Card in 2021 was fundamentally determined by the government measures taken to curb the COVID-19 pandemic. SZÉP Card-based employer benefits were encouraged by the fact that its annual limit was expanded to HUF 800,000, up to which amount employers were exempted from paying the social contribution tax in 2021 too. The use of the SZÉP Card was greatly facilitated by the fact that – as a new measure – any SZÉP Card services can be paid for using any of the SZÉP Card sub-accounts from 25 April, 2021 (until 31 December, 2022).

Since October 2021, MKB SZÉP Card accounts can also be opened in the branches of Budapest Bank and Takarékbank, the other two members of the Hungarian Bankholding. Since April 2021, the relaunched MKB SZÉP Card App also helps inform MKB SZÉP Card owners.

All these greatly contributed to the outstanding result achieved by the MKB SZÉP Card in 2021. The product surpassed 2020 levels in almost every aspect: altogether HUF 30 billion was received in employer's contributions through 1.2 million transactions by 237 thousand MKB SZÉP Card owners in 2021. SZÉP Card owners spent approximately HUF 33.2 billion through 6.4 million transactions in 2021. Assets held in MKB SZÉP Card accounts exceeded HUF 16.6 billion on annual average. Card holders can currently use their cards for payment at 34,000 card acceptance locations.

In the 3 years, while the MKB SZÉP Card was provided directly as an MKB Bank product, the results of the MKB SZÉP Card gradually increased, and, concerning the most important indicators, doubled by 2021. The contributions received in MKB SZÉP Card holders' accounts in 2021 was twice as high as in 2018, and spending was double as well. Spending grew exceptionally in 2021, since it was 40% up on 2020.

Corporate and institutional customers

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

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

In order to further develop the customer lifecycle-based approach, the Bank devoted significant resources also in 2021 to further optimizing product development processes and models, including the allocation of extra resources to strengthen digitalization solutions in response to the challenge posed by the prolonged pandemic situation.

Demand for loans by businesses did not decline even during the pandemic. In 2021, MKB Bank also sought to provide the most comprehensive service to customers, to enhance customer experience, and, to this end, it participated in various – modified – subsidized and refinanced lending programs and guarantee programs included in economic stimulus packages, which have been very popular since their introduction. The significant willingness to borrow experienced by the Bank further boosts the economy, the various financial solutions provided by MKB Bank in the segments more severely hit by the pandemic could also serve as a bridging solution.

The Bank provided information and processes concerning the repayment moratorium to its customers on a regular basis, facilitating a temporary solution to any potential liquidity problem. After October 2021, customers could only maintain their participation in the moratorium upon their request, which significantly reduced the scope of those affected and in need.

In 2021, the Bank continued to regard customers among small and medium-sized enterprises (SMEs) as a key segment and increasing product penetration played a central role here.

MKB Bank remained an active participant in the continually renewed Széchenyi Program. In the past year, the Bank achieved a market share of 5.3% in the Széchenyi Program in terms of contracted value.

MKB Bank has traditionally maintained close ties with Eximbank to enable customers to benefit from EXIM financing sources. In terms of the performance of the Hungarian economy, foreign trade is a top priority, to which not only exporters contribute, but also suppliers organized around export activity and companies only now appearing on the export market.

MKB Bank is particularly proud to have been awarded the “NHP Hajrá!” award of excellence in 2021 on behalf of the Bankholding. The Bank achieved an outstanding market share of 8.3% in the Central Bank’s NHP Hajrá! Scheme.

All in all, it can be concluded that in 2021 the stock of loans and deposits both increased when compared to the previous year. Yet, the year was also characterized by the detailed preparation of merger-related tasks concerning the Bankholding.

Investment services

MKB’s Capital Markets and Transactions Consulting function was one of the key investment service providers of the Bond Funding for Growth Scheme (NKP) in 2021, too: it participated in eight successful bond issues as distributor and co-distributor, the total value of which reached HUF 476.2 billion. In addition to this, it also participated in the public offering for the shares of CIG Pannónia Life Insurance Plc., it participated in the preparation of additional transactions and continued to act as a Designated Adviser on the Xtend market of the Budapest Stock Exchange.

Private Banking

In 2021, MKB Private Banking was able to increase its portfolio of managed assets by 5%, the same rate as last year. In terms of the volume of managed assets per customer, MKB Private Banking remained the market leader among domestic service providers. The number of customers in the business line remains firm, with a slight upturn in its pace of increase over 2020.

In the 2021 Private Banking Hungary award ceremony, MKB Private Banking, together with the banks of the Bankholding, retained the title “Business Line Developer of the Year”, which reflected a recognition by the awarding body for their efforts concerning the merger. A staff member of MKB Private Banking business line earned the “Senior Private Banker of the Year” award, and the business line, based on votes by the players of the domestic market, came in fourth in the “Private Banking Service Provider of the Year” category. Concerning product development, it should be noted that the account servicing and investment services provided to dedicated trustees were continuously expanded in 2021.

In the past year, the greatest threat to portfolios was the global inflation pressure to which advisors responded with series of domestic retail government bonds protecting against inflation and by recommending investment funds expected to perform well in the recovering economy.

SUBSIDIARIES / STRATEGIC COOPERATION AND PARTNERS

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

SUBSIDIARIES

MKB Euroleasing Group[4]

MKB Euroleasing Group, as a leading domestic leasing firm, remained a highly active player in 2021 despite the problems caused by the pandemic and the manufacturing and logistics difficulties. The burden placed on the operation of the company by the repayment moratorium was less severe than expected, operations remained stable and trouble-free despite the changed circumstances.

Similarly to previous years, MKB-Euroleasing Group continued to achieve an outstanding market share in 2021 predominantly in the retail motor vehicle financing and agricultural machinery financing, but, in addition to these segments, it also provides comprehensive services to its customers concerning the financing of large commercial vehicles and general equipment too.

The goal of the MKB Euroleasing Group remains to build a portfolio diversified in terms of both risk and business, taking into account both the segments to be financed as well as the portfolio of contracts accumulated within the segments. This strategy may ensure stable, low-risk and highly profitable operations in the long term.

The MKB Euroleasing Group was able to increase the size of the portfolio under its management in 2021 too, which greatly contributes to further improving operational efficiency.

The strategic goal of the MKB-Euroleasing Group in 2021 remained to further strengthen the market share it has achieved and its position as a leading domestic leasing company. Its stable market presence is due, in addition to the continuous development of the existing dealer and importer relations, to the establishment of new ones. The Group strives to remain a leading player in the development and introduction of innovative digital solutions in the renewed framework of the Bankholding as well, in terms of serving both its customers and partners.

MKB Consulting

MKB Consulting provided services to its corporate customers with an expanding consulting portfolio in 2021 too. As a leading player of the tender consultancy market, the company prepared winning tenders in 2021 in a total support value of HUF 7.5 billion, furthermore, it provided comprehensive project management for 130 of its winning tenders that received funding in the previous years. In addition to research, development and innovation projects that are still dominant, the company significantly expanded its portfolio to include agricultural

[4] Source: Hungarian Leasing Association, BAMOSZ

and agrarian economy development tenders, mainly in projects aimed at precision development related to the digital transition of the food industry and agriculture.

From the second half of the year, local municipalities also appeared in its portfolio besides corporate customers, and the company was awarded contracts to prepare integrated municipal development strategies and various urban development projects of several mid-sized cities.

One of the success stories of 2021 was the green financial consultancy business line newly launched by the company, as part of which it helped its key corporate customers by establishing the framework necessary for issuing green bonds, and by providing consultancy for the establishment of ESG framework systems that take into consideration environmental, social and corporate governance aspects and that are aimed at creating a balance between these to enable them to contribute to creating a more sustainable and greener economy.

MKB Consulting started 2022 with an increased corporate clientele, an expanding municipality consultancy portfolio, and a dynamically developing green financial consultancy business line that can also be extended to municipal customers in addition to corporate customers.

MKB-Pannónia Fund Manager

Product development continued along the lines of the green approach that started in 2020, and another fund committed to the ESG strategy was added to the product portfolio of the Fund Manager in June 2021. After building up its real estate fund management business line, the first real estate investment fund of the Fund Manager was launched in April 2021. In 2021, the last closed-end investment funds launched earlier by the Fund Manager expired.

On 31 December, 2021, the Fund Manager managed investments with a total net asset value of HUF 676 billion, which implies a market share of 7%. Within this, it managed investments of HUF 236 billion in 35 investment funds, and, as part of portfolio management, it managed a total of HUF 440 billion for 9 funds, 3 insurance companies and 4 other customers. MKB-Pannónia Fund Manager is ranked number two among pension fund managers (in terms of managed assets).

MKB Fintechlab

For MKB Fintechlab, 2021 was about adaptation to a changed environment and development. As part of the digital business development function, MKB Fintechlab greatly contributes to the adoption of the Bank’s digital capabilities and is responsible for integrating the planning and design approach, consciously developing innovation maturity, and exploiting its inherent business potential. The three pillars of MKB Fintechlab’s strategy are the investment function, the digital and design competence center and the innovation management capability.

In 2021, the development of the Bank’s design and digital competence center continued, and from the beginning of the year, the design team began creating value with its work for each member of the Hungarian Bankholding, the administrational background for which was completed in January 2022.

In the course of the year, MKB Fintechlab carried out another investment in the Könyvelő-Net platform (Bookkeepie.com International Kft.). In 2022 it is going to invest into 9 more start-ups as part of an incubator tender. In addition, its portfolio companies achieved several successes in raising capital and growth. FintechX Zrt. has secured several hundred million HUF in financing, and Coinrule Inc. was selected by Y Combinator, one of the most famous accelerators in the world, into its spring batch, which, by that time, had already secured several million USD in financing, even before a Series A investment of an American magnitude.

Continuing from the previous year, the subsidiary conducted several successful online and hybrid events. The first event was IdeaVault, a two-day online idea competition embracing initiatives responding to the economic impacts and difficulties of the coronavirus pandemic. The competition was supported by the members of the Hungarian Bankholding, MKB Bank, Takarékbank, Budapest Bank and Hiventures. After a 48-hour preparation with mentors, the teams that made it into the final round were evaluated by an expert jury, and three were selected as winners.

After this, in the middle of November, MKB Fintechlab organized Design Summit for the third time. The central topics of the two-day international online event were the future and the challenges of the financial and banking segments, as well as current and expected trends. The purpose of the event was to inspire experts and start forward-thinking dialogues so that design-driven and customer feedback-based developments could be launched in the industry.

In addition to these events, Fintechlab realized the Innoacademy internal innovation program together with MKB Bank. The innovation workshop that initially was launched for bank staff cooperating with large enterprises developed into a half-year training program for a total of sixty persons. The participants coming from diverse fields gained insight into the latest trends of the world of fintech and innovation through six topics, and, in addition to theoretical part, they could put into practice the knowledge they gained in practical workshops in their day-to-day work.

The Partnership Program of the subsidiary proved to be similarly successful, here a total of 12 external solutions were validated along banking needs. A major milestone of the program is the introduction of SME credit pre-screening which is also the first milestone in the fully online lending process of the Group. The team of the Program carried out significant work for the Hungarian Bankholding, too, for example by comparing members' invoicing systems, and their research also supported the selection process of a new core banking system and card system too. Currently they provide support to building up the new Bank, as an integral part of agile operation.

Solus Capital Venture Capital Fund Manager

Solus Capital Venture Capital Fund Management Ltd. continued its investment activity in the start-up ecosystem in 2021 too.

The Solus I Venture Capital Fund is a fund jointly financed by the Specialization Venture Capital Program (GINOP 8.1.3/B-17) and MKB Group and its strategic partners as private investors. The Solus I Venture Capital Fund is expected to disburse HUF 12 billion venture capital to SMEs applying innovative and smart technologies by the end of 2023. At the end of 2021, the portfolio consisted of 28 companies, and investment decisions had already been made on HUF 11,653 million. The greatest challenge for the Fund was to bridge the economic effects of the pandemic and to provide financing solutions for the companies in its portfolio. With this, and with two other disbursements, it invested a total of HUF 1,852 million.

Solus II Venture Capital Fund was realized within the framework of the Digital Welfare Venture Capital Program (GINOP 8.2.7-18). By the end of 2023, the Fund will invest a venture capital of more than HUF 7 billion in micro-, small- and mid-sized enterprises that focus on digitalization. At the end of 2021, the portfolio consisted of 18 companies, and investment decisions had already been made on HUF 5,570 million. In 2021, 7 new investment decisions were made and a total of HUF 1,472 million was disbursed, including the existing elements in the portfolio.

In the past year, with regard to the difficulties the industry faced, focus was on ensuring the financial stability of the portfolio companies and embedding them in their respective markets, which the Company in 2022 would like to transform into growth, or in many cases expansion, after the lifting of restrictions. Several portfolio companies were awarded prestigious prizes, such as the Proptech prize awarded to Tablog, or the special award, which the Website of the Year awarded to Cristo.

STRATEGIC COOPERATION ARRANGEMENTS AND PARTNERS[5]

MKB Pension Fund

MKB Pension Fund is a leading pension fund in Hungary.

Its voluntary branch offers effective savings tool stretching to decades to its 75,000 customers within MKB Group's comprehensive investment solutions. The assets of the pension fund totaled at HUF 142.3 billion on 31 December 2021, up HUF 2.7 billion from the previous year. A positive outcome of the year is that the individuals' conscious willingness to save is gaining weight (in terms of the individual members' contribution activity).

The private branch of MKB Pension Fund closed 2021 with 3,561 members and HUF 20.5 billion in assets, while the proportion of members paying membership fees remained well above the 70% statutory requirement.

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

The simple, interest tax-free product, which can be used in many ways even in the active years, can be tailored to the return expectations and risk-bearing capacity of the customers. To more fully satisfy the needs of the members, the fund continuously expands its services portfolio to allow product benefits to be used. The introduction of a new, fifth fund portfolio was prepared in the voluntary branch of the fund in 2021 as well as the implementation of distributing customer savings between diverse portfolios. Customers investing in their future with the MKB Pension Fund can take advantage of the combined benefits of impressive above-inflation yields even over 10 and 15 years and low cost levels due to expert asset management. The funds can be used through a flexible range of services.

As an important strategic goal, in the framework of digital transformation, MKB Pension Fund refreshed its online presence by the summer of 2021 through a complex project, and now it supports customer service in a user-friendly manner and is aligned with the MKB brand. In parallel to this, the development of the Member Portal was prepared to satisfy customers' needs. Business development was nonetheless focused on continuous activity, customer engagement, and the examination and integration of further new and innovative solutions to continually enhance customer satisfaction.

MKB-Pannónia Health and Mutual Benefit Fund

MKB-Pannónia Health and Mutual Benefit Fund is a market leading health fund in Hungary, which provides a wide range of services to more than 202,000 members and had a total of HUF 15.3 billion in assets as of 31 December, 2021. For nearly 25 years, the name of the Fund has been synonymous for its customers with the widest possible range of health-

[5] Source: National Association of Voluntary Funds

supporting and cost-reducing services available. The assets of the health fund, which can be spent on the needs of the whole family in almost every life situation and can be supplemented with a 20% tax allowance, can be widely used, from maternity through private health care expenses to supporting elderly care. In the case of preventive expenses and a two-year fixed-term deposit, the state provides an additional 10% tax allowance to customers, which can be spent on a wide variety of products and services at its more than 16,600 partners using conventional payment methods or at nearly 9,600 contracted card acceptance service providers.

The Fund renewed its website in the course of 2021 at the end of a complex process and launched the renewal of its Member Portal too. A key consideration for the transformation was to ensure that the outdated interface is provided a responsive appearance, and that all of the necessary information and functions are presented and made accessible in a structured and transparent manner, understandable for the users, nevertheless compliant with the strict regulations applicable to funds.

A positive outcome of 2021 is that the Fund closed the year with more dynamic membership contribution activity thanks to its reinforced business approach. Furthermore, in response to the growing health awareness, it succeeded in developing a product with its external partner at the end of the year to supplement its health insurance product with a new, favorably taxed corporate benefit opportunity (that can be financed through the fund). Besides these, the development of several products was launched in 2021, and measures were taken to include additional health insurance packages in the range of products and the adaptation of telemedicine solutions were also examined.

The development of electronic administration is a key strategic goal, internal developments were initiated based on the assumption that the submission and settlement of electronically filed invoices will increase, which, on the mid-term, is expected to increase efficiency and enable seamless customer service. The business development activities of the Fund focused on ensuring stable and predictable operation, several new and innovative solutions were examined in 2021 with the aim of continuously enhancing customer satisfaction, and with an active marketing presence these activities efficiently engaged customers and encouraged contributions.

FINANCIAL PERFORMANCE

Statement of the specific financial situation

Based on 2021 year-end data, the balance sheet total of the Bank increased by 18.9% compared to 2020 year-end, and amounted to HUF 3,320,322 million as at 31 December 2021.

Cash reserves increased significantly by HUF 537,391 million. Of this, cash on hand grew by HUF 461 million, while the balance of the account held at National Bank of Hungary increased by HUF 536,929 million.

Loans and advances to credit institutions decreased by 26.0%, i.e., HUF 21,744 million compared to the end of the previous year.

Changes in the fair value of derivative financial assets were predominantly driven by a HUF 81,140 million increase in derivative transactions.

Securities decreased by 14.5%, i.e., HUF 170,276 million compared to prior year end. By the end of 2021, the balance of loans and advances to customers increased by 8.6% compared to the end of 2020, and amounted to HUF 1,201,209 million at the end of the period.

The amount of non-current assets held for sale and discontinued operations decreased by HUF 469 million compared to prior year end.

Other assets increased by HUF 3,661 million at the end of 2021, mainly due to an increase in deferred expenses compared to the end of the previous year.

When comparing the two periods, investments in subsidiaries, jointly controlled entities and associates increased by HUF 1,190 million.

During the reporting period, amounts due to credit institutions reflected an increase of HUF 130,740 million, i.e., 22.7%. The aggregate sum of deposits and current accounts owed to customers grew by 19.0%, i.e., HUF 356,240 million, compared to the end of the previous year.

Among liabilities, derivative financial liabilities increased by 17.3%, i.e., by HUF 6,122 million, primarily due to the fair value change of derivative transactions related to interest- and currency risks.

Other liabilities and provisions decreased by HUF 4,582 million or 8.3% during the term compared to the end of the previous year.

Statement of Profit or Loss and Other Comprehensive Income

In 2021, net interest income showed a HUF 23,951 million increase compared to the previous year mainly caused by increased interest revenues.

Net income from commissions and fees increased by 5.6%, i.e., HUF 1,320 million in 2021 compared to the same period in the previous year, mainly due to the increase of commission income earned from payments.

The net balance of other operating income and expense showed an increase of HUF 37,647 million, and amounted to HUF 55,916 million net income for the year in review.

Impairment and provisioning decreased by HUF 3,451 million in the business year compared to the previous year, the Bank reported a total of HUF 3,753 million in net provisioning in the year in review after the net provisioning of HUF 7,204 million in the previous year. The significantly lower provisioning in the term in review was mainly due to the impairment and provisioning of the previous year resulting from the effects of the economic downturn due to COVID-19.

Major items leading to the HUF 13,939 million increase of operating expenses: The HUF 3,596 million increase in the management fees of the Hungarian Bankholding, a HUF 2,209 million increase in IT costs, and the sum of bonuses paid at HUF 5,618 million.

Expense for Legal and advisory services contain the following other audit service fees for 2021:

Data in HUF million except stated otherwise

2021	Amount in HUF
Audit of interim balance sheet	
Audit of interim balance sheet of MKB Bank Nyrt. as of August 31, 2021	51 000 000 +VAT
Engagements related to performing rating of mortgage loans**	
Assurance engagement related to checking performing status of mortgage loans offered as coverage	4 748 000 +VAT
BUBOR examination	
Examination of BUBOR quotes at MKB Bank	1 850 000 +VAT
Fee of other services performed by the auditor*	**57 598 000 +VAT**

* All services were of fixed fees.

** More services are completed during the year, the total amount here represents all the services performed for the year 2021.

Fees for audit services contain the following 2021:

2021	Amount in HUF
Audit fee of the Bank	113 300 000 +VAT
Total audit fee	**113 300 000 +VAT**

Based on above factors, MKB Bank’s profit after taxation for 2021 amounted to HUF 55,916 million.

For the end of 2021, total other comprehensive income decreased by HUF 23,196 million compared to the previous year and resulted in HUF 20,009 million loss due to lower revaluation on financial assets measured at FVTOCI.

CAPITAL MANAGEMENT

The Capital situation of MKB Bank was sufficient at the end of 2021. As a result of the 2021YE profit (and therefore core capital accumulation) the available core capital increased significantly. The owner of the MKB Bank is committed to maintain the bank's capital adequacy and implement all the necessary measures.

Domestic and international guidelines require the Bank to maintain certain minimum capital-to-asset ratios. These risk-based ratios are determined by allocating assets and specified off-balance sheet instruments into different weighted categories, with higher levels of capital being required for categories perceived as representing higher risk. Regulatory capital is divided into Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Bank may raise regulatory capital by issuing several types of financial instruments to the public. These financial instruments are then classified as either Tier 1 or Tier 2, depending on the types of conditions or covenants they place upon the issuer.

As at 31 December 2021, as an actual figure of the Bank regulatory capital was HUF 245.9 billion based on Basel IV IFRS under Supervisory Regulation. The increase of regulatory capital - by HUF 37.9 billion – is derived from the increase of profit, decrease of negative AVA and other deduction, which was compensated by the increase of negative revaluation reserve, the increase of deduction of intangible assets and deferred tax, the decrease of subordinated debt.

Risk-weighted assets including operational and market risk increased by 12.3% from HUF 899.7 billion in 2020 to HUF 1,010.3 billion besides approximately 1% weakening of domestic currency. The main part of the increase derived from the increase of business volumes and increase of operational risk, which was compensated by the decrease of market risk.

By application of capital management as a tool, the appropriate capital safety is a first priority decision making factor, therefore the Bank monitors the changes of the capital elements continuously.

Legal limits defined by the
Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act),
Regulation (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT on prudential requirements for credit institutions and investment firms and amending Regulation (CRR):

- CRR 395-400.§, Banking Act 302.§ large loan limit -> no excess
- Banking Act 100.§ investment limit -> no excess
- Banking Act 101-102.§ total investment limit -> no excess

INFORMATION RELATED TO SHARES AND OWNERS

The share capital (subscribed capital) of MKB Bank Nyrt. is HUF 100,000,000,000 i.e. one hundred billion forints, representing a cash contribution made available in total amount. The share capital is divided into 100,000,000 registered, dematerialized, series "A", ordinary shares with a nominal value of HUF 1,000 i.e. one thousand forints each. All Series "A" Ordinary Shares ("Ordinary Shares") bear the same rights and all Ordinary Shares were listed in the Budapest Stock Exchange Standard category on 30 May 2019. Each shareholder holds solely ordinary shares.

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Data in HUF million except stated otherwise

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

Following the contribution, the financial holding company performs strategic decision-making, prudential control and group management functions over the three banking groups, as well as plan and manage the merger process that optimises the operation of the banks. The detailed merger plan and the business strategy has been established in 2021.

On 15 December 2021, the supreme bodies of MKB Bank, Budapest Bank and Magyar Takarék Bankholding Zrt., which owns the Takarék Group, approved the first step of the merger timetable of Budapest Bank, MKB Bank and the Takarék Group. According to this, the two member banks of the banking group, Budapest Bank and MKB Bank, are scheduled to merge on 31 March 2022, while the Takarék Group will join the merged bank by the end of the second quarter of 2023. In January 2022, the MNB approved the merger of Budapest Bank Zrt. and Magyar Takarék Bankholding Zrt., which owns the Takarék Group, into MKB Bank Nyrt. as of 31 March 2022. The merged bank will temporarily operate under the name MKB Bank Nyrt. The merger does not imply any change in the ownership structure of the banking group, the dominant shareholder of the banks involved in the merger process will remain Magyar Bankholding Zrt.

The shareholder structure of MKB Bank is the following:

Shareholder structure of MKB Bank Nyrt.		
Name of shareholder	**Number of shares (pieces)**	**Ownership share (%)**
Magyar Bankholding Zrt.	97 185 008	97.19%
Free float	2 814 992	2.81%
Total:	**100 000 000**	**100%**

The parties have more than 10% indirect influence in MKB Bank Nyrt. are presented below, in line with the decisions of the National Bank of Hungary H-EN-I-15/2020., H-EN-I-704/2020., H-EN-I-705/2020., H-EN-I-295/2021. and H-EN-I-423/2021.

Magyar Bankholding Zrt. has a 97.19% direct ownership interest in MKB Bank. The ownership structure of Magyar Bankholding Zrt. is:

Data in HUF million except stated otherwise

Ownership structure of Magyar Bankholding Zrt.	
Name of shareholder	**Ownership share (%)**
Corvinus Nemzetközi Befektetési Zrt.	30.35%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
EIRENE Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
PRIME FINANCE Future Zrt.	0.84%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	25.13%
Magyar Takarék Holding Zrt.	12.56%
Total:	**100%**

The following organisations have more than 10% indirect influence in MKB Bank Nyrt:

- Corvinus Nemzetközi Befektetési Zrt., Hungarian State
- METIS Magántőkealap, Opus Global Befektetési Alapkezelő Zrt.
- Blue Robin Investments SCA, Blue Robin Management S.à r.l., Uncia Finance Zrt., Uncia Alpha Kft., Uncia Private Equity Fund, QUARTZ Alapkezelő Zrt., Dry Immo Zrt., Felis Private Equity Fund
- Magyar Takarék Befektetési és Vagyongazdálkodási Zrt., GLOBAL ALFA Private Equity Fund
- Magyar Takarék Holding Zrt., Aurum Private Equity Fund

The Articles of Association of the Company do not restrict the transfer of shares representing the subscribed capital of MKB Bank Nyrt. The Company has no issued shares representing special controlling rights. Voting rights are not restricted at MKB Bank Nyrt.

Rights and obligations of the shareholders

Rights of the shareholders at the General Meeting

a) The shareholder is entitled to attend the General Meeting. The Company's General Meeting may be attended by the shareholder or the shareholder's proxy specified in Sections 151-155 of the Capital Market Act, who was registered in the Register of Shares at the Closing of the Register of Shares by the General Meeting in accordance with the result of the shareholder matching. The day of closing the Register of Shares is the second business day preceding the starting day of the General Meeting.

b) The shareholder may also exercise his / her rights at the General Meeting by way of proxy. Member of the Board of Directors, member of the Supervisory Board and the auditor cannot be persons authorised by proxy. Shareholders may authorise an executive employee of the Company as well to exercise their rights relating to the Shareholders' Meeting. The proxy authorisation of the authorised representative shall be valid for one Shareholders' Meeting or for the period of time defined therein, but in any case not more than 12 months. The proxy authorisation shall also be valid for the continuation of the suspended Shareholders' Meeting and for the repeated Shareholders' Meeting convoked due to the lack of quorum. The authorisation shall be issued in the form of a private document with full probative force and submitted to the Company at the place and time indicated in the General Meeting announcement. The proxy shall be drawn up in the form of a public document or a private document providing full evidence and it shall be submitted to the Company.

c) The shareholder has the right to be informed about cases on the agenda of the General Meeting In line with which right, in reply to the written request of the shareholder submitted at least eight days before the day of the General Meeting the Board of Directors shall provide information necessary to discuss the agenda item of the General Meeting three days before the day of the General Meeting, the latest. The Board of Directors may make the exercise of the right to information as described above conditional on the submission of a written confidentiality statement by the shareholder requesting the information. The Board of Directors may refuse to disclose information and access to documents if it violated the Company's business, banking, securities or other similar secrets, if the person requesting the information abuses their right or fails to make a confidentiality statement even if requested. If the party requesting information considers the refusal of information unjustified, they may request the Court of Registration to order the Company to provide the information.

d) The Company ensures that the rights to be informed, to comment and to suggest at the General Meeting are granted to every shareholder attending the General Meeting, on the condition that the exercising of these rights shall not hinder the lawful and proper operation of the General Meeting. In the interest of exercising the shareholder's rights specified in this present point the Chairman of the General Meeting shall grant the right of speech to the shareholder at the General Meeting, on the condition that the Chairman of the General Meeting may specify the duration of the speech, may withdraw the right to speak, especially in case the shareholder is off the point, furthermore he / she can specify the sequence of the speeches, if there are several speeches at the same time, in order to ensure the lawful and proper operation of the General Meeting.

e) Voting rights attached to shares are determined by the nominal value of such shares. The shareholder cannot exercise his / her right to vote until he / she has performed his / her due cash contribution.

Minority rights

a) Shareholders jointly representing at least 1% of the voting rights may request the convocation of the General Meeting at any time without specifying the reason or the purpose. If the Board of Directors fails to take action to convene the General Meeting for the earliest possible date within eight days after the receipt of the request, the registering court shall convene the meeting in reply to the application of the shareholders suggesting the meeting or the registering court shall authorise the suggesting shareholders to convene the meeting. The expected costs shall be advanced by the suggesting shareholders.

b) If shareholders jointly representing at least 1% of the votes communicate a proposal to the Board of Directors to supplement the agenda in line with the rules of the levels of detail or a draft resolution concerning an item on the agenda or an item to be added to the agenda within eight days after the announcement of the convocation of the General Meeting is published, the Board of Directors shall publish an announcement about the supplemented agenda, the draft resolutions proposed by the shareholders after the communication of the proposal pursuant to THE Articles of Association. The issue specified in the announcement shall be deemed added to the agenda.

c) If the General Meeting rejected or did not allow the submission to enforce a claim of the Company from any member, managing officer, member of the Supervisory Board or the auditor for a resolution to be adopted, shareholders representing at least 1% of the voting rights may enforce the claim themselves for the benefit of the Company and representing the Company within a thirty-day limitation period.

d) If the General Meeting rejected or did not allow the submission to have the last report or an economic event or commitment related to the activity of the Board of Directors in the last two years audited by a specially commissioned auditor for a resolution, the registering court shall order the audit and appoint an auditor at the cost of the Company in reply to the application of the shareholders jointly representing at least 1% of the voting rights submitted within the thirty-day limitation period following the General Meeting. The registering court shall reject the fulfilment of the application if the submitting shareholders abuse the minority rights.

Right to dividend

The shareholder shall be entitled to a dividend from the profit of the Company, which can be shared and which was ordered to be shared by the General Meeting in the proportion of the nominal value of his / her share.

Obligations of the shareholders

a) The shareholder shall provide cash contribution to the Company in amount corresponding to the nominal or issue value of the shares received or quoted by his / her person. The shareholder may not be validly exempted from his / her obligation - excepting the case of share capital decrease.

b) The shareholder with at least 51% share or the shareholder acquiring such share shall report his / her indirect share and its changes to the Company providing his / her details suitable for identification at the same time. The National Bank of Hungary shall suspend the exercising of the voting right of a member failing to perform his / her reporting obligation.

MKB Bank Nyrt. is not aware any agreement concluded between its owners that may result in restrictions on the transfer of issued securities and / or voting rights.

MKB Bank Nyrt. is not aware of any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is not obliged to disclose such information on the basis of other legal requirements.

Employee share scheme

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. MKB Bank was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016. The launch of the ESOP was closely linked to MKB Bank's reorganisation efforts, as it created ownership interest among its employees. MKB Bank currently runs two ESOP Remuneration Policies through its ESOP Organisation: the Investment ESOP Remuneration Policy and the ESOP Performance Remuneration Policy. The point of the investment ESOP is that the ESOP Organisation has purchased Issuer Ordinary Shares for investment purposes for the benefit of participating employees and senior executives. Employees who made a declaration of participation to the ESOP Organisation did not become the owners of the shares, the shares were owned by the ESOP Organisation and are also currently owned by the ESOP Organisation. Participating employees acquired membership stakes in the ESOP Organisation. Initially, ESOP stake in the Company was 15% of the Issuer's share capital, which has been terminated in the meantime due to the continued implementation of the investment ESOP Remuneration Policy, i.e., the sale of shares by ESOP Organisation. Following the fulfilment of the stated purpose or condition of the investment ESOP, participating employees or senior executives may claim the earnings per share.

* * *

As a public limited company, in accordance with market practice and the BSE Corporate Governance Recommendations (Recommendations), MKB Bank Nyrt. prepares a Corporate Governance Report, which shall be published on the website of the Company (www.mkb.hu). In its Corporate Governance Report, the Company presents its corporate governance practices for the financial year and, on the other hand, details its compliance with each section of the Recommendations.

SUPREME, EXECUTIVE AND MANAGEMENT ORGANS, SUPERVISORY BODY, COMPOSITION AND OPERATION OF COMMITTEES

General Meeting

The supreme body of the Company is the General Meeting. The General Meeting has the exclusive competence to approve and amend the Articles of Association, except for the modification of the Company's headquarters, premises, branches and, except for the core activity of the Company, the activities of the Company as the Board of Directors is entitled to amend the Articles of Association in that regard. Pursuant to the Articles of Association of MKB Bank Nyrt., the General Meeting of the Company has the exclusive competence to recall and elect the Chairman and members of the Board of Directors. Members of the Board of Directors shall be elected by the General Meeting for a definite term of maximum five years. The members of the Board of Directors may be re-elected and may be recalled at any time by the General Meeting without giving reasons, in accordance with the provisions of the Articles of Association.

Board of Directors:	Supervisory Board:	Audit Committee:
Chairman:	**Chair person:**	**Chairman:**
dr. Barna Zsolt	Hornung Ágnes	Oszlányi Törtel András
Members:	**Members:**	**Members:**
Ginzer Ildikó	dr. Ipacs László	dr. Ipacs László
Benczédi Balázs*	Oszlányi Törtel András	Feodor Rita
dr. Gombai Gabriella	Feodor Rita	
dr. Piller Zsuzsa	Nyemcsok János	
Takács Marcell Tamás	Dobi Kitti	
Valkó Mihály	Bechtold Balázs	

* Resigned from his Board of Directors membership as of December 31, 2021

Board of Directors

The Board of Directors is the executive body of the Company. The members of the Board of Directors represent the Company vis-a-vis third parties and before court and other authorities. The Board of Directors shall develop and manage the work organisation of the Company.

The scope of authority of the Board of Directors is included in the Articles of Association of the Company with the proviso that within the framework of effective laws and resolutions adopted by the General Meeting, the Board of Directors shall be entitled to take any actions and make any decisions that do not form part of the exclusive powers of the General Meeting or the Supervisory Board. The decision on the acquisition or the sale of own shares, as well as the increase of the registered capital through the issue of shares belongs to the competence of the General Meeting subject to the condition that the General Meeting may authorize the Board of Directors to decide on registered capital increase.

Supervisory Board

The Supervisory Board shall control the management of the Company in order to protect the interests of the Company.

Audit Committee

The Audit Committee provide assistance to the Supervisory Board in supervising the financial report regime, in selecting an auditor, and in working with the auditor.

Risk and NPL Committee:	Remuneration Committee:	Nomination Committee:
Members:	**Chair person:**	**Chair person:**
dr. Gombai Gabriella	dr. Gombai Gabriella	Hornung Ágnes
Valkó Mihály	**Members:**	**Members:**
dr. Piller Zsuzsa	dr. Piller Zsuzsa	dr. Ipacs László
	Takács Marcell Tamás	Feodor Rita

Risk and NPL Committee

As part of its ongoing monitoring of the Bank's risk-taking strategy and risk appetite, the Risk and NPL Committee reviews the risk strategy, remuneration policy and quarterly risk report in advance, approves the NPL Strategy and related implementation plan for the year, and monitors the high non-performing loan rate and the NPL Strategy.

Remuneration Committee

The Remuneration Committee is a consultative body that oversees the remuneration of directors and employees in risk management and internal lines of defence, and prepares remuneration decisions based on the long-term interests of shareholders, investors and other stakeholders in the company.

Nomination Committee

The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees.

The Committees operate in accordance with the rules laid down in their rules of procedure. Bodies shall meet as often as necessary to carry out their functions and shall take their decisions in the form of a meeting or in writing and without a meeting. The work of the bodies is organized by the chairman of the body.

In accordance with the recruitment policy for the selection of members of the management bodies of MKB Bank Nyrt. and the Diversity Policy (Nomination Policy) applicable to the selection, members of the management boards of the members of the Bank Group, individuals with different professional skills, versatile regional and industry experience are elected into the managing bodies of the Bank Group and they also take advantage of these differences in their operations in the operation of those bodies, which the members of the Bank Group consider as a key consideration in determining the optimal composition of their bodies. Board appointments are based on the pool of expertise, experience, independence and knowledge represented by the candidates, taking into account what the body as a whole needs to function effectively. The members of the Bank Group pay particular attention to the representation of both genders in executive bodies which is why they strive to reach 15% female members in executive bodies. To this end, they commit themselves to favouring the member of the under-represented gender of the same management body among two candidates of the same capacity who are otherwise suitable, unless otherwise justified by professional judgment.

There is no agreement with an executive officer or an employee that provides for compensation in the event of a manager's resignation or termination by the employee or unlawful termination of the executive officer's or employee's relationship, or termination of the relationship due to a public takeover bid.

MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM OF THE COMPANY

The provisions regarding the operation, management and functions of the internal control system of the Company are set out in the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Hpt.), the provisions of the Civil Code (Act V of 2013, hereinafter referred to as “the Civil Code”) on business companies, Act CXX of 2001 on the Capital Markets; the applicable recommendations of the NBH (primarily Recommendation NBH 27/2018. (10 December) on the establishment and operation of internal lines of defence, the management and control functions of financial organisations), the Bank’s Memorandum of Association and the Bank’s effective rules of organisation and operation.

Section 154 (1) of the Hpt. requires banks to operate an internal control system. The elements of the internal control system include the management information system, in-process and management controls, and the independent internal audit organisation.

The concept of a management information system encompasses all information technology based or manual systems that transform data into useful information for decision-makers. Its main tasks are to produce ad hoc and regular reports and to support (in general) decision making.

In-process and management controls are forms of control directly or indirectly integrated into business processes. These controls are performed by persons who are functionally involved in the processes or by those responsible for the final outcome of the audited activities.

Independent internal audit is part of the internal control (monitoring) system independent of the process. Internal audits should be performed by persons who are not involved in the Bank's workflows and are therefore independent of the entities and workflows being audited. Accordingly, MKB Bank operates an independent organisational unit, the Executive Directorate for Internal Audit (hereinafter: BEI).

Also in view of the NBH recommendation 27/2018. (10 December) referred to above, the system of lines of defence is interpreted in the Bank's monitoring framework system. The above control mechanisms, which are also stressed in the Hpt as the elements of the Bank's internal monitoring system (distinguished from the external monitoring independent of the Bank (e.g. customers, NBH, other authorities) and the external monitoring system elements (e.g., auditor) related to the Bank) can be classified as follows:

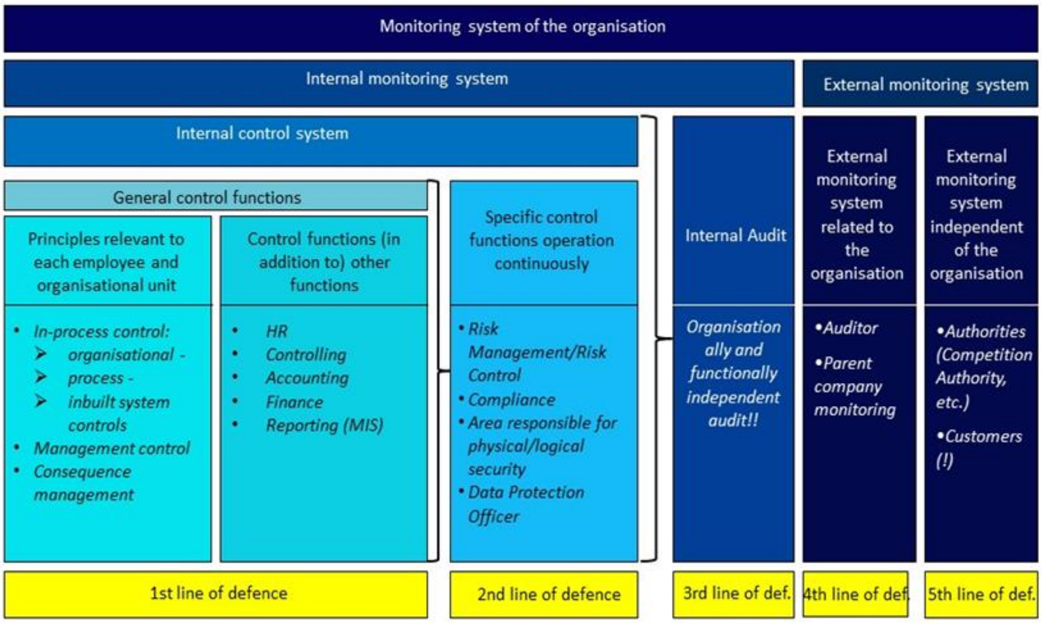
The Bank's internal monitoring system consists of an internal control system and independent internal audit.

Within the Bank's internal control system, we can distinguish between general principles (e.g. consistent responsibility management), practices (e.g. management control), organisational solutions (e.g. in-process controls), and areas with a control function (e.g. Controlling) and activities (e.g. management information system), which together form the first line of defence of the Bank's internal monitoring system. In fact, this line of defence includes all employees and managers who, through their prudent work, protect the Bank's interests and values.

Another element of the Bank's internal control system is all those organisations, activities and persons responsible for performing dedicated operational functions, activities and control functions (e.g., Risk Control, Compliance, Bank Security, Data Protection Officer), which together constitute the Bank's second line of defence. The function of the second line of defence can also be formulated by overseeing and supporting the activities of the first line of defence.

Independent internal audit, as another element of the internal monitoring system alongside the internal control system, is the Bank's third line of defence. Internal audit is an independent, objective assurance tool and consulting activity that adds value to the Bank's operations and improves its quality. It is responsible for examining the Bank's risk management, governance processes and the internal control system (or the Bank's first and second lines of defence) in a systematic and regulatory manner, evaluating and improving its operation, thereby contributing to the achievement of organisational goals.

The model of the Bank's monitoring system, including the place and role of independent internal audit, is illustrated in the figure below.



BRIEF DESCRIPTION OF THE COMPANY'S RISK MANAGEMENT SYSTEM AND PRINCIPLES APPLIED IN RISK MANAGEMENT

MKB Bank's Risk Control reviews the risk strategy of the MKB Group every year with the involvement of the relevant areas. In line with the current economic environment and in accordance with the Bank's and Magyar Bankholding Zrt.'s business strategy and capital plan, the Risk Strategy sets out the risk strategy principles and objectives of the Bank Group for each risk type and risk appetite. The approval of the risk strategy falls within the scope of competence of the Board of Directors.

In line with the basic regulatory requirements, a concept for the Group's comprehensive risk-taking processes has been developed and is constantly being fine-tuned.

The main elements of the concept are:

- Group-wide application of risk management principles;
- Applying the Unified Segmentation to the entire clientele of the group;
- A decision-making system that depends on customer quality and risk-taking;
- The use of Basel conform rating tools, in compliance with IRBF and analytical and behavioural scorecards, as well as a corresponding client rating regime, which adequately supports the decision-making activities of the bank management;
- Internal, group-level model validation methodology with annual frequency (rating and scoring tools, validation of related processes);
- Monitoring activities with IT support;
- Establishment of a comprehensive system of criteria that includes and takes into account relevant indicators enabling the detection of threatened loans in order to identify loans at risk as quickly as possible and, based on this, to determine the various types of customer / exposure management, the related tasks and order of procedure.
- IFRS 9 provisioning system;
- Pillar 1 and Pillar 2 capital accounting systems based on IFRS;
- Regular group level management reports, backtesting measurements (Risk Reports, Capital Management Reports, Rating Quality, Rating Monitoring Reports, etc.);
- Definition of a revised recovery plan and its evaluation on a monthly basis.

The key risk management principles include ultimate control at board level, independent control separate from risk areas, and appropriate measurement, diversification, monitoring and reporting of risks.

The effective risk management function of the Bank is ensured by the effective communication of risks and the willingness to assume risks within the organisation, continuous development for recognising, measuring, monitoring and managing risks, turning the key risk management processes and procedures up-to-date and user friendly and improving their efficiency, as well as employing adequately trained work force.

NON-FINANCIAL STATEMENT

STRATEGIC GOALS AND BRIEF DESCRIPTION OF THE BUSINESS MODEL

MKB Bank Nyrt. is one of the longest-standing member of the Hungarian banking system. Combining its 70 years of experience with cutting edge digital banking solutions it provides both its retail and corporate customers professionally, with the highest standard services. MKB Bank as Hungary's dominant universal bank, generates durable value for its customers through predictable and reliable partnerships. A bank on a dynamic growth path, with advanced digital foundations and strategy, has a traditionally robust large corporate, premium and private banking clientele, as well as leading consultancy and analyst capabilities. Highly skilled and supportive professional customer service in the digital age, based on honest technical work, is one of the financial institution's core values. Through its members the MKB Financial Group provides comprehensive financial services in Hungary.
The activities of the MKB Group combine respect for traditional banking values with openness to innovative financial solutions, including, in particular, digitalisation. As a result, in 2021 the MKB Group is market leader in Hungary in the use of innovative financial solutions.
In addition to digitalization, MKB lays particular emphasis on meeting the requirements of the domestic corporate trade financing, money and liquidity management as well as investment markets, and thanks to its highly experienced and widely recognised professional staff the MKB Group is in the vanguard in this segment as well.
Quick and adequate response to changes in the dominant trends is a fundamental requirement in the corporate sector. With their utmost professional commitment the experts of the MKB Group are capable of reliably and predictably meet these exacting requirements by never failing to select the best possible financing arrangements in the given circumstances.
MKB is making efforts to develop partnerships with dominant market participants through strategic cooperation agreements creating win-to-win situations to promote sustainable growth.
One of the most important mechanisms enabling this to be accomplished is that through its financing operations the MKB Group helps improve the efficiency and effectiveness of the national economy.
The values of fair banking are particularly important in both the bank's daily operations and future vision, therefore it aims to develop and follow a sustainable business model to achieve efficient and profitable operation with manageable risks.
On 15 December 2020, Magyar Bankholding Zrt. acquired a 97.19% majority stake in MKB through a capital increase implemented with in-kind capital contribution. At the same time, Magyar Bankholding Zrt. also acquired a controlling interest in Budapest Bank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt.
With this step, the second largest banking group in Hungary was established. The new banking group serves 1.9 million customers, operates almost half of the domestic branch network, more than 920 branches nationwide, and has a balance sheet total or nearly HUF 6,800 billion, a loan portfolio of HUF 3,600 billion and a deposit portfolio of HUF 4,300 billion. It serves 200,000 micro-enterprises, 30,000 small and medium-sized enterprises, 6,000 private banking partners and is a market leader in many areas.
In accordance with the plans, Magyar Bankholding Zrt. developed a detailed merger schedule and a detailed business strategy for the three banks during 2021, under which the bank holding intends to preserve and rely on the values and experience of the 70-year-old MKB Bank Nyrt.

The supreme bodies of MKB Bank, Budapest Bank and the owner of the Takarék Group, Magyar Takarék Bankholding Zrt., adopted on 15 December 2021 the first step of in the schedule of the fusion of Budapest Bank, MKB Bank and Takarék Group. Accordingly, the two member banks of the group – Budapest Bank and MKB Bank – will merge on 31 March 2022, to be joined by the Takarék Group by the end of the second quarter of 2023.

POLICIES RELATED TO SOCIAL ISSUES, EMPLOYMENT, RESPECT FOR HUMAN RIGHTS, THE ENVIRONMENT AND THE FIGHT AGAINST CORRUPTION, AND THE RESULTS SO ACHIEVED, AS WELL AS THE DUE DILIGENCE PROCEDURES APPLIED

Policies on social issues and their results, as well as the due diligence procedures applied

MKB Bank lays special emphasis on contributing to the development of the community through a wide range of social responsibilities, within the limits of its economic capabilities.
The applied arrangements of cooperation include the development of financial culture, providing support for various education and training programmes and targeted sponsorship and support activities.
The bank prepares no specific risk assessments regarding its social and community related activities, however, it carries out such activities on the basis of its internal regulations comprising the relevant procedural rules.
Through its donations and sponsoring activities MKB Bank wishes to provide meaningful help through promoting programmes and causes in the interest of society as a whole, therefore the development of the financial culture and awareness raising; value creation and preservation; as well the creation of opportunities are at the top of its agenda.

Social responsibility:

In the context of social responsibility is should be pointed out that MKB Bank is running a very wide range of programmes. As a responsible financial institution and a major actor in the domestic financial sector, it considers it important in all circumstances to contribute to community development and the well-being of those affected in the natural and social environment as much as possible depending on the available resources. The MKB Group advocates for such important issues as the promotion of culture, sports, social awareness, knowledge development, health care and the help of children and their families in need.
As a socially responsible institution, MKB Bank donated HUF 1 billion in 2020 as part of its CSR activity to support the government's efforts against the pandemic.
During a CSR campaign jointly launched in 2021 with the Banking Association MKB Bank donated – via the Hungarian Reformed Charity Service – 200 used computer monitors primary school students in need and it also donated 138 pieces of used furniture in good condition to Széchenyi István University’s Faculty of Agricultural and Food Sciences.

Health promotion activities:

MKB Bank launched its #20minutes health programme with the slogan of “Health is the best investment” three years ago. This social responsibility programme is designed to raise awareness of the importance of physical and mental health in everyday life. During the pandemic period, this topic was particularly emphasised, as the crisis caused by the virus presented everyone with a challenge that could not be prepared for, during which the issues of mental resilience and physical recreation came to the fore. The programme therefore placed great emphasis on stress management, the pitfalls of home office arrangements, and the importance of family and self-time. At regular intervals, an expert gave lifestyle advice in the context of live lectures on social media and also helped answer any questions. In addition, “virtual community races” were organized in which participant could complete a pre-designated route, safely and individually.

Educational activities:

MKB Bank has a variety of educational programmes. Special focus continued to be placed in the year 2021 on the provision of digital education and training solutions and on operating the overall education and training programmes in the on-line space. In addition to education, employees receive a number of digital, interactive, simulation materials that help them develop outside of education.
MKB also places great emphasis on the professional development of its employees. In addition to those prescribed by law the bank regularly organises additional training programmes to maintain the employees' high professional competence. New banking products are also being introduced with a significant number of training hours, and a comprehensive, complex modular training system has been introduced for newly hired employees. Thanks to the extensive in-house coaching community, professional training provides high level of banking knowledge.
The Bank's training strategy is organised in a system called MKB Academy programme. This system is made up of 5 pillars. In addition to the compulsory training programmes (Compulsory Pillar) attention is paid to ensuring the employees' continued professional development through various thematic professional trainings (Professional Pillar). Moreover, skill development trainings are provided in various specific technical/professional fields (Soft Skill Pillar). A variety of other training programmes aimed at facilitating the effective and efficient use of the bank's tools and instruments are offered to employees (System Pillar). Moreover, digital transformation as a strategic focus is now supported by new trainings and training programmes promoting the development of digital competences. A programme in which participants are taught about financial innovation has also been launched, with the involvement of MKB Fintechlab. Further extensive skill development training activities are also available as part of management training (Management Pillar). The Care Pillar, launched in 2020, under which trainings and workshops aimed at promoting mental health and welfare were held by psychologists, was also successfully implemented in 2021.

MKB Bank is involved in various educational cooperation schemes.
MKB Bank and the Hungarian Association of Agricultural Tools and Machinery Dealers (MEGFOSZ) have teamed up to promote the agricultural engineering profession, in response to developments taking place in up-to-date agricultural production.
The MKB Agricultural Partner Programme established in 2017 as part of MKB Bank's corporate division promotes the establishment and operation of agricultural businesses as a financial partner of profound knowledge and understanding of agriculture.
the “Become an Agricultural Engineer!” National Championship (LETIAOB) organised for secondary school students specialised in agricultural mechanics, machine technicians and machine repair was organised in the 2020/2021 academic year again under the “Become an Agricultural Engineer!” programme. The participants had to resolve online agricultural professional, financial issues and perform practical tasks during the educational competition. Nearly 150 students in 22 teams from secondary schools all over the country took part in the programme.
A programme called Agri-Cool-Ture Vocational Orientation Roadshow was organised in cooperation with MEGFOSZ in 2021. A total of 37 presentations were delivered in 25 locations across Hungary for some 2000 primary school students about to choose their future careers, as well as for teachers and parents attending the career days, about agricultural and financial subjects.
Moreover, the MKB Agricultural Partner Programme sponsored, and helped with professional mentoring, the Technical Section of the 35th National Scientific Students' Associations Conference, organised by Széchenyi István University. Nearly 500 entries were submitted in the section from all over Hungary.

Activities aimed at enhancing financial culture and awareness:

MKB Bank's financial experts volunteered to participate in 2021 as well in the "Money7" programme series launched by the Hungarian Banking Association and Money Compass Foundation with the aim of increasing students' knowledge of financial matters. This was the first year in the context of the initiative, launched in Hungary in 2015 that our experts could visit every school open to receive volunteers in the programme. The series of events is planned to be continued in 2022.
Together with the Hungarian Interchurch Aid Organization, MKB has set itself the goal of creating a publication aimed at financial awareness, addressing specifically low-status families and children affected by the aid organization. The completed publication was distributed in 500 copies nationwide to children living in the temporary homes of the aid organization in the framework of MKB's Advent campaign.

Activities promoting equal opportunities:

MKB Bank has been cooperating for decades with the International Child Rescue Service providing assistance for disadvantaged children. Their concerted efforts have provided this extraordinary opportunity, provided by the MKB Scholarship Programme for one hundred socially disadvantaged children and young people with outstanding abilities in each academic year for 24 years now. The process continued in 2021 as well. The bank provides account management services as well with preferential terms and conditions for the young beneficiaries of the scholarship. MKB is also trying to follow young career starter professionals who were former scholarship holders: in 2009, the Graduate Students Club was established for graduates with scholarships.
MKB Bank has been cooperating with the Hungarian Interchurch Aid Organization for many years. In 2021, the Bank supported the work of the Organization in several ways: with immediate financial assistance in connection with the pandemic.
In June 2021 the Ecumenical Aid Organisation opened a new social and development centre on Monostorpályi road in the town of Debrecen, with MKB Bank's sponsorship, inter alia. The aim of the Aid Organisation is to provide local children with inclusion and catching-up programmes in cooperation with educational and social institutions operating in the area.
In early 2021 MKB Bank assured the **Hungarian Food Bank Association** of its support. The Association mission is to connect surplus food stocks building up across the country with people in need, in order to promote the reduction of deprivation and food wastage in Hungary.
MKB Bank also sponsored other foundations and organisations in 2021, including the **Tolna County Association of the Blind and Partially Sighted** and the **Red Nose Clown Doctors Foundation**. These organisations used the sponsorship funds for providing assistance for visually impaired people and children with health impairments.
State subsidy for converting dwellings into barrier-free homes is also accessible via MKB Bank in the context of corporate social responsibility.
As a traditional and dominant participant of the domestic financial sector, MKB Bank strongly committed to its engagement in substantial sponsoring and donation activities. The fund raising programme series launched in 2018 – called MKB Benefactor Programme – continued to operate successfully in 2021 as well. The Bank supported the work of the Age of Hope Foundation and the Interchurch Aid Organization by organising fund raising campaigns. In addition to fund-raising, MKB continued its cooperation with the Hungarian Red Cross under the Voluntary Program in 2021, and announced blood donations among employees every two months. Blood donations were been organized at the bank 82 times in the last 21 years, during which 3,028 blood donors from the staff of the MKB Group have helped save the lives of 9,084 people. 4 blood donation days were organised in 2021, one of which took place under the Good Deed Bank programme in September 2021, organised by the Hungarian Banking Association leveraging the power of sector-level joint action.
In accordance with the relevant statutory and supervisory (MNB) requirements the MKB Group worked out its strategy to promote equal access with the aim of making sure that the

Data in HUF million except stated otherwise

requirements laid down in it are organically integrated in the bank's daily operations and that they become an integral part of the approach adopted by the senior officers and all bank employees.

Employment policies and their results, the due diligence processes applied

MKB Bank carried out risk assessment regarding employment and identified risks of relevance to its operation, which it will also take into account in its human policy activities. Based on global trends and domestic and MKB-specific assessment the human policy actions are focused on targeted areas such as talent and career management, a supportive environment and the work processes. For newly hired employees the bank organises Orientation Days to promote the onboarding of new colleagues, provide them with the most basic trainings required for starting to work with the bank and help them globally familiarise themselves with the organisation.
The HR strategy is focused on improving the employee experience by facilitating flexible work, using the available digital resources and developing a cooperation-based corporate strategy.

Breakdown of the staff employed by MKB Bank by positions (FTE):

Division	employee	head of department	director	Deputy CEO+ excecutive director	Total
CEO's office	105	2	2	2	110
Deputy CEO of Cabinet of Chairman and Chief Executive Officer	62	3	3	1	69
Chief Officer for Risk Management	166	4	3		173
Chief Finance and Operating Officer	333	8	4		345
Chief Business and General Officer	848	18	78	0	943
Total	**1 514**	**35**	**89**	**3**	**1 640**

Breakdown of the staff employed by MKB Bank by average age, service time and group member (year):

Division	0-2 years	2-5 years	5-10 years	10 + years	Average
CEO's office	37	39	39	46	40
Deputy CEO of Cabinet of Chairman and Chief Executive	40	43	44	45	42
Chief Officer for Risk Management	38	39	40	47	42
Chief Finance and Operating Officer	40	39	39	47	42
Chief Business and General Officer	37	41	40	47	42
Average	**39**	**41**	**40**	**47**	**42**

Breakdown of the staff employed by MKB Bank by service time and group member (FTE):

Division	0-2 years	2-5 years	5-10 years	10 + years	Total
CEO's office	42	31	13	25	110
Deputy CEO of Cabinet of Chairman and Chief Executive Officer	37	11	9	12	69
Chief Officer for Risk Management	34	22	45	73	173
Chief Finance and Operating Officer	102	89	34	119	345
Chief Business and General Officer	254	250	109	330	943
Total	**468**	**403**	**210**	**559**	**1 640**

Breakdown of the staff employed by MKB Bank by gender (FTE):

Data in HUF million except stated otherwise

By gender Division	Total headcount			Director+		
	Male	Female	Total	Male	Female	Total
CEO's office	66	44	110	3	1	3
Deputy CEO of Cabinet of Chairman and Chief Execu	16	53	69	1	3	4
Chief Officer for Risk Management	58	115	173	3	0	3
Chief Finance and Operating Officer	95	249	345	3	0	4
Chief Business and General Officer	295	648	943	47	31	78
Total	**531**	**1 109**	**1 640**	**57**	**35**	**92**

MKB Bank provides its employees with a package of a variety of fringe benefits: An employee package comprises not only cash benefits. It includes more elements aimed at improving the work environment, maintaining a healthy lifestyle, and strengthening motivated work and the sense of belonging to a team. These benefits are systematically arranged by the Fringe benefits policy.

Talent management at MKB Bank:

The calibration process overarching the entire company and a uniform performance evaluation system was introduced in 2018. A talent management program, covering the subsidiaries as well, was also introduced and re-launched in December 2019. The programme participants were involved in the development of projects that impact the life of the entire organisation. The MKB Group places great emphasis on the training of employees and the care for talents, supporting the expansion of professional knowledge and the development of skills through extensive educational programmes.

Work-private life balance at MKB Bank:

Flexible work is a focal element of the HR strategy, a key component of the arrangements aimed at improving employee experience at MKB Bank,
Under its HR strategy MKB Bank is making efforts at increasing the proportion of atypical forms of work. Working from home is also being turned into an available option for as many employees as possible, therefore the development of the assets concerned is continuous. Working from home reduces stress at the work place and improves the equilibrium between work and private life, thereby enhancing employee satisfaction, work moral, effectiveness and loyalty. Home office work has, since 2020, been implemented in 100% of jobs that do not require physical presence and flexible employment has become a widespread practice.

MKB Bank and health:

Health development and health preservation are important objectives for MKB Bank, as emphasised in various sports and health campaigns, such as the #20 Minutes Health programme. Sports opportunities are available for employees in many ways and a healthy lifestyle is promoted on several fronts. Due to the Pandemic, programmes supporting sports were also organized in an online form in 2020 and 2021. Ensuring a healthy work environment for employees is a priority. In the spirit of the Year of Health programme series announced in 2018 we have been organising screenings for employees since 2020.
Employees benefit from preferential health insurance, which includes diagnostic services and extended consultation hours at the Bank's occupational physician on every day of the week.
Services provided by hobby and recreational rooms are available for employees in MKB Bank's buildings. The canteens of the Bank serve fitness food and other items, suitable for special nutrition, and restaurant services have been available with home delivery during the pandemic.

MKB Bank and sports:

The MKB Bank provides a wide range of sports opportunities to its staff. Gyms of a total floor area of 400 m2 are available for the employees in the bank's headquarters building in Váci street and its building in Kassák Lajos street. In 2020 and 2021, online sports events and trainings became available so that the bank can support the health of its employees in the home environment. The MKB Group also supports sports in other ways: the MKB Sports Association operates multiple sports departments depending on its employees interests and activity.

Safe working environment:

MKB Bank fulfils its regulatory obligations, in the context of which it has prepared a risk assessment of its headquarters building and sites, including all of its branch offices. Fortunately, offices make a low-risk work environment, therefore, there are very few work accidents and their number is decreasing.
Employees are required to attend occupational safety and fire training every year. Specific training material has been prepared for the branch office employees on how to respond in case of an attack. The personal, material and organisational requisites for safe work are laid down in a Labour Safety Policy for the bank, in line with the applicable statutory regulations.
The bank's occupational safety officer, commissioned by the Works Council, is authorised to check and ascertain that the requirements of working in a way that ensures occupational health and safety work are met at the workplaces.

Responsible corporate governance:

As a public limited-liability company whose shares are listed on the Budapest Stock Exchange MKB Bank has prepared and published its Responsible Corporate Governance Report in accordance with the BSE's Responsible Corporate Governance Recommendations.
MKB Bank attaches particular importance to the development and operation of a corporate governance system ensuring effective and efficient operation as well as to responsible corporate governance.
MKB Bank's governance structure is adapted to the relevant requirements prescribed by law, the supervisory authority and the Exchange, as well as the specifics of its business operations. MKB Bank spares no effort to comply with the BSE's Responsible Corporate Governance Recommendations.

Regulations relating to the relevant policies and the due diligence and risk management procedures applied:

- On the regulation of the recruitment and selection process
- Fringe benefits policy
- Incentive system
- On the operation of the MKB Bank's internal training system
- On working from home
- Employee recognition system
- The regulation of the management of requests for sponsorship and support
- Labour Safety Regulation
- On the procedural rules promoting equal access

Human rights policies and their results, applied due diligence processes

In accordance with the norms laid down in its Code of Conduct as well, the bank takes into account the interests of the employees based on reasonably exercised discretion and recognises the individual's right to the inviolability of private life; in exchange, it expects its employees to responsibly protect their health.

It is particularly important for the bank that its employees can reconcile family, employment and professional career. To this end, the bank provides a healthy and non-discriminatory work environment. The bank prepares no specific risk assessment regarding the observance of human rights, however, it performs its activities on the basis of its Strategy for equal access and its internal regulations comprising procedural rules.

The Bank's procedural rules ensuring equal access have been worked out on the basis of Section 283 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Decree 22/2016. (VI. 29.) NGM, issued by the Minister of National Economy on equal access for people with disabilities to financial services at credit institutions and the Magyar Nemzeti Bank Recommendation No. 4/2017. (III.13.) on the treatment to be afforded for customers with disabilities. The regulation contains the implementing provisions and detailed rules regarding, and constitutes an inseparable part of, MKB Bank's equal access strategy.

The bank adopted its equal access strategy as part of its corporate social responsibility because it lays particular attention on the special situation of customers with disabilities and on providing them with special treatment aimed at promoting their equal opportunities. It is essential that the strategic requirements are organically integrated in the bank's daily operations and that they become an integral part of the approach adopted by the senior officers and all bank employees. The purpose of the regulation is to ensure that the bank's customers with disabilities are, to the extent possible, provided with services that are of the same quality as the services provided with other customers but that are adapted to their special needs.

The bank ensures fair treatment based on respect and appreciation in its communication with all of its stakeholders. It rejects any and all forms of negative discrimination, including any exclusionary practices based on gender, age, ethnicity, religious or political affiliation, union membership, sexual orientation, mother tongue or any other direct or indirect discrimination.

MKB Bank operates a notification system (anonimbox@mkb.hu e-mail address) whereby anyone can report – even anonymously – any infringement, violation of internal regulations or any norms of ethics they have encountered.

Moreover, MKB Bank has a Works Council, in accordance with the effective labour regulations. The Works Council is the primary interest advocacy forum representing the employees' interests. It is through the Works Council that employees can participate in the management of issues and adoption of decisions affecting them, and be informed of any changes in these. The Works Council's Ethics and Conciliation Committee has authorisations for resolving conflicts among employees and between managers and employers.

MKB Bank employs no child labour or forced labour.

Data protection and information security:

The right to the protection of personal data is one of the personality rights stipulated in the Civil Code. Hungary's Fundamental Law also provides for the protection of personal data, while MKB Bank has, accordingly, been paying particular attention to this for a long time now. MKB Bank is committed to guaranteeing the highest level of protection of the personal data of natural persons handled in its processes. To this end, it has implemented and is

implementing adequate technical and organisational actions and measures in this regard, taking into account the nature, scope, circumstances and purposes of data processing, and the risks, of varying likelihoods and severity, regarding the rights and freedoms of the data subjects, and it is continuously monitoring the actions and measures taken, as well as their impacts, to guarantee continuous compliance with the statutory regulations to be applied in relation to the protection of personal data.
To ensure compliance with the primary legal regulation concerning the processing of the personal data of natural persons, that is, the GDPR, MKB Bank has developed an adequate data protection framework and integrated checkpoints ensuring data protection in its business processes as well as its IT development processes.
MKB Bank is operating, and keeping regularly updated, the data protection framework it has put in place in accordance with the effective and applicable statutory regulations and the guidelines issued by the Hungarian National Authority for Data Protection and Freedom of Information and the European Data Protection Board as supervisory authorities, and the relevant authorities of the European Union, including CNIL (Commission Nationale de l'Informatique et des Libertés) and ICO (Information Commissioner’s Office), as well as the best market practices.

In line with the relevant industrial practice and MNB regulations MKB Bank regularly updates its security preparedness, in the context of which it regularly updates and renews its IT protection systems.

The bank also prioritises the security of digital channels. We use regular external vulnerability tests and intrusion tests to make sure that the level of security is adequate.

In full compliance including with the relevant recommendations issued by the MNB, MKB Bank kept its customers continuously informed, on its web pages, and notified them by issuing notices on several occasions during the year, about what to do in relation to data phishing, and the requirements of prevention and alertness.

MKB Bank’s employees are highly experienced in the prevention of data phishing, in identifying cases that have occurred and in carrying out actions to reduce any damage and loss. Potentially affected customers are contacted by the officer of the MKB Fraud Management department to ascertain whether the customer is aware of, and initiated, the transactions concerned. In addition to informing the customers concerned, MKB Bank also takes the security and legal actions and measures that need to be taken in such cases.

Sustainability and climate strategy:

The MKB Financial Group is committed to being a key player in creating sustainable economic operation. As a Hungarian financial institution, it has a key role and responsibility in supporting and financing sustainable and climate-oriented investments. By reducing its ecological footprint and acting responsibly, the MKB Group also wants to set an example for market participants and partners, and feels obliged to protect the environment.
To translate the commitment into action, by appointing a responsible leader and setting up a climate task force, the MKB revised and renewed its Sustainability and Climate Strategy in December 2020, setting out its goals for a five-year strategic period.
The strategic goals set out a vision and actions due to MKB Group's role as a financial institution, as well as for the MKB Group as a group of companies.

- *“MKB, partner in green finance”:* as part of the strategy, the goal is to create an infrastructure, product and service range for retail and corporate customers that will help them achieve their own sustainability and climate goals. The MKB attaches great importance to investing in renewable energy and therefore supports the implementation of these projects. MKB is committed to ESG-based funding in its own operations and towards its customers. Part of the MKB's sustainability and climate strategy is the gradual revision of the risk framework and the incorporation of the ESG approach into the risk framework. On the one hand, this affects the full transposition of the requirements of the European Union, as well as the examination of the special elements that can be adjusted to the Hungarian market.

- *“MKB as a responsible group of companies”:* As a responsible group of companies, the MKB Group aims to fully comply with the goals of climate neutrality and sustainability, in particular the widest possible paperless and contactless operation in line with ESG principles. The group seeks to achieve these goals through its day-to-day operations, internal processes and the formation of its employee community.

Moreover, a strategic effort has recently been launched in relation to the fusion of MKB Bank, Budapest Bank Zrt. and MTB Magyar Takarékszövetkezeti Bank, with the aim of setting up a joint ESG division for the fusing banks together with the elaboration of a robust shared vision based on social responsibility.

The following two strategic goals have been identified in Magyar Bankholding’s Strategic Sustainability Framework, which will, in the future, also be the strategy of the MKB Financial Group:

1. “MKB, partner in sustainable finance”: one strategic goal is to develop an infrastructure and a range of products and services for retail and corporate customers alike, which will help them accomplish their own sustainability and climate objectives. In this context the strategy is to be implemented with the help of the following:
   a. development of products and services promoting sustainability (e.g. the Green Home Programme, already in place at the member banks and the Green Capital Requirement Allowance Programme to be adopted in the future);
   b. fund raising and financing to promote sustainability (green bonds, green mortgage bonds).
   c. Creating an ESG-based risk framework, where MBH sets itself a goal of extending the process for the identification of risks stemming from environmental damage and of integrating sustainability and climate goals in risk management. This will involve, for instance, integration of ESG considerations in credit risk processes and quantification of its operational risk, thereby making them an integral part of the Risk Strategy.

2. “Magyar Bankholding, a responsible group of companies” – adoption of sustainability principles in its operations is MBH’s strategic goal. In this context:
   a. For environmental purposes it sets itself a goal of reducing its carbon footprint. Accordingly, it will reduce its energy consumption, continue to promote digital banking to dramatically reduce the use of paper and by the extension of selective waste collection it will take steps towards responsible waste management.
   b. Being a fair and supportive partner for its employees is important for MBH from a social perspective and it lays particular emphasis on awareness raising, training and charity work. To this end, it will provide its employees with ESG training and make efforts towards creating a healthy workplace environment, non-discrimination and equal opportunities in its operations.
   c. And as regards governance, it will continuously ensure ethical, transparent and compliant operation in accordance with the principles of sustainability. To this end, it will, for instance, elevate the representation of the sustainability theme (ESG) to the level of a Deputy CEO and create a separate organisational unit for this in the bank’s organisation structure; it will publish a sustainability report prepared in accordance with the GRI international framework, which can be audited by an external independent party, and it will sign up to the UN Principles for Responsible Banking.

In 2021 MKB Bank won the “Green Bank Award” established by the Magyar Nemzeti Bank. The MNB announced its Green Programme in February 2019 to promote financial services in

Data in HUF million except stated otherwise

Hungary aiming at protecting the environment and at continued reduction of the ecological footprints of market participants. In making its decision regarding the award the MNB reviewed the extent of green lending at the various financial institutions, their green bond portfolios and their exposures to the risks entailed by climate change impacts. MKB Bank's recognition was largely based on its sustainability strategy purposefully built up through a step-by-step process, its consistent introduction of green products and services and its numerous commitments of particular importance for the Hungarian society as a whole.

Actions aimed at optimising energy consumption:

Much of MKB Bank's energy consumption is made up by its buildings' consumption of public utility services, and the car fleet's fuel consumption. The buildings' consumption is made up of communal and technological components. Each building's energy consumption is monitored by a building management system, whose national central unit is operating in the office building in Kassák Lajos street.

The lighting systems in the buildings of MKB Bank are continuously modernised in order to cut down on electricity consumption. The lighting systems of 12 branch offices were modernised, using LED light sources, in 2021. Presence detectors were installed in the majority of public areas to prevent lamps being left switched on without a reason in certain premises. Natural lighting is given preference in the office buildings, where efforts are made to ensure that no electric lights are on when rooms are adequately illuminated by sunlight during daytime hours.

The replacement of the boilers in the headquarters building was completed by the end of 2021. New condensation boilers were installed.

A solar system of 843 m2 of solar panels with a maximum total inverter power of 150 kVA was installed on the headquarters building and on the office building on Kassák Lajos Street in 2020 and 2021.

The positive impact of the project is reflected by the MKB Group's annual energy consumption figures[6].

Annual consumption	2019	2020	2021
Electricity (kWh)	11 739 135	13 443 085	10 797 666
Natural gas (gnm3)	933 664	989 021	998 098
Heat (MJ)	2 227 784	2 427 965	2 301 308
Water (m3)	25 808	27 486	21 734

In its environmental risk assessment the bank took into account its annual energy consumption and its annual carbon dioxide emission. It was in 2019 that a comprehensive energy efficiency audit was carried out at MKB Bank by NKM Optimum Zrt., in accordance with the requirements laid down in Directive 27/2012/EU, Act LVII of 2015 and Government Decree 122/2015 (V.26.). Also, monthly reports, containing energy consumption analyses, are prepared by an energy efficiency specialist, as prescribed in decree 2/2017. (II. 16.) 2/2017. (II. 16.) MEKH issued by the Hungarian Energy and Public Utility Regulatory Authority.

Selective waste collection and management:

Sustainable development is a top priority for MKB Bank, one of the key elements of which is selective waste collection. To this end, selective waste collection containers have been put in place at the branch offices and office buildings, for the selective collection of paper waste,

[6] Comment: When the statement was prepared, the December 2021 energy consumption data were not yet fully available. Missing data were determined based on previous year's consumption.

metal beverage cans, plastic waste, PET bottles, batteries, bottle caps and electronic waste (toner cartridges etc.). Proper treatment renders selectively collected waste suitable for recycling – thereby reducing environmental stress.
MKB Bank makes special efforts to ensure environmentally friendly operation, to which end it lays particular emphasis on the management of electrical waste. Its digitalization strategy positively affects its paper consumption as well.
Waste management is governed by a variety of legal regulations, which are fully met by MKB Bank. The bank prepares yearly waste management reports, detailing the categories and the quantities of waste removed from its premises. In 2021 MKB Bank produced a total of 68,250 kg of paper and cardboard and 3,519 kg of electrical and electronic waste.

Environmental awareness actions affecting MKB Bank's vehicle fleet:

At present MKB Bank owns a total of 215 vehicles, each of which is an up-to-date car, most of them powered by petrol, some by diesel engines. The scheduled replacement of the vehicles has reduced their average age to 3.5 years. As a consequence of the global shortages of chip supplies waiting times for new vehicles have increased many times over, nonetheless, we managed to purchase the overwhelming majority of the required new vehicles before the closure of the year. The models were selected with a focus on the use of green energy.

Some 70 percent of the newly purchased vehicles in 2021 were hybrid or plug-in-hybrid models.
MKB Bank also uses taxi services for its employees. It was a decisive factor in the selection of the contracted service provider that it should have the largest electric car fleet on the Budapest market. At the end of 2019, the bank also signed a contract with MOL Limo, the aim of which is to replace petrol-powered taxi service primarily in Budapest in the future and to provide more environmentally friendly transport.

MKB Bank will continue to promote electrical public car sharing in the future.
The MOL fuel cards of our hybrid vehicles were supplemented, as a service extension in 2021, with the electrical charging option available at the MOL filling stations.

The policy on the fight against corruption and bribery, its results and the due diligence procedures applied

In compliance with its statutory obligations MKB Bank has laid down its anti-fraud and anti-corruption measures primarily in its Group-level Anti-corruption Policy and in a number of other regulations, as necessary. MKB Bank's management promotes the principle of "zero tolerance" regarding corruption, creating a legal and ethical environment by internal regulations which encourages employees to report any suspicion of corruption to protect both MKB Bank and its interests. The anti-corruption processes are such, and are so provided with resources, that they can always ensure full investigation of all cases.

Actions against money laundering and terrorist financing:

MKB Bank has worked out its group-level policy for combating money laundering and terrorist financing, because it actively participates with all means at its disposal, at both a domestic and an international level, in the efforts made at preventing, curbing and uncovering money laundering, terrorist financing and economic crime. In order to be able to carry out these tasks efficiently and effectively it applies the following basic principles:

- The banking group consistently complies with all international and domestic embargo regulations, the regulations on money laundering and other associated national and international legal regulations.

- The banking group does not and will not finance illegal arms transactions, drug trafficking, child labour, slave trade, prostitution or corruption.
- The banking group does not provide financing for persons or businesses controlled by individuals proven to be unreliable, for example on account of having been condemned for some relevant criminal act.
- The banking group observes the FATF recommendations and performs its activities accordingly.

The anti-money laundering procedures apply to all employees of the bank and are fully in line with the 40+9 FATF recommendations, Directive 2015/849 of the European Parliament and the Council and Council Regulation 2015/847. MKB Bank spares no effort to make sure that its services cannot be used for money laundering or terrorist financing. MKB Bank operates a Compliance organisation comprising a separate department focusing on the prevention of money laundering and terrorist financing. The bank fully cooperates with the relevant authorities and bodies in the identification of any and all suspicious cases, with particular emphasis on the potential occurrence of money laundering and terrorist financing. All declarations prescribed by international regulations are available on the bank's website.

In order to reduce the risk of money laundering and terrorist financing the bank needs to be aware of its customers' activities, the nature of business relationships, the business partners, the financial practices and habits, the domestic and international business practices, the economic backgrounds of debit and credit items on the accounts and the expected transactions (amounts, currencies), therefore it regularly and actively communicates with its customers. In line with the applicable statutory regulations the bank's employees carry out customer due diligence procedures, and natural persons as well as the representatives of legal entities, must issue declarations on the beneficial owners' politically exposed person statuses, which the bank's employees check from public sources of information.

In accordance with the requirements laid down in Act LIII of 2017 on the on the Prevention and Combating of Money Laundering and Terrorist Financing (ALM Act) MKB Bank has prepared its internal risk assessment, taking into account the relevant domestic and international economic circumstances and customs as well as the known risk factors. The bank is also obliged to apply adequate risk rating on the basis of the type of the given business relationship or transaction order and the circumstances of the customer, the product, the service and the instruments applied.

In its underwriting policy MKB Bank has identified its most significant risks and reserves the right to reject any customer relationship, transaction or transaction order in case it is not in line with its risk appetite. The bank is monitoring unusual activities; it has identified cash transactions, particularly those of outstanding amounts or intensity, as a high risk factor, therefore it attaches particular attention to monitoring such activities.

MKB Bank maintains no business relationships with customers carrying reputational risks. The bank only does business with customers that use their products exclusively for legitimate purposes and whose personal identity can be established and proven beyond doubt. The bank provides no services for natural persons or legal entities that are under any sanction or that appear on any restrictive list such as that of the UN Security Council (UN), the EU Consolidated Financial Sanctions List (EU), the Restrictive List of the US Office of Foreign Assets Control (OFAC) including Specially Designated Nationals and Blocked Persons (SDN). Moreover, the bank has identified industries, products and countries constituting high risks for its operations.

MKB Bank does not restrict its efforts to identifying and disclosing fraud in its customer relationships.

It has detailed internal regulations covering insiders and potential insiders, which fully comply with the restrictions and prohibitions detailed in the Capital Market Act.
In its contracts with suppliers the partners concerned are required undertake to comply with the prevailing regulatory environment. The bank's compliance division scrutinises the partners before the conclusion of every single new supplier contract and every contract not checked for more than a year. The bank does not conclude contracts with suppliers not meeting the minimum requirements prescribed by law.

The bank proclaims the requirement of prudent operation even in its Code of Conduct. Compliance with the effective legal regulations and the bank's prevailing internal regulations is a basic requirement for every single employee of the banking group. Compliance with the Code of Conduct is required from all partners with a business or other contract with the MKB Group.

Rules on gifts:

To ensure transparent operation and prevent corruption the bank applies strict rules regarding conflicts of interests and on gifts to business partners. The regulation on conflicts of interests involving employees, and gifts, sets out the rules for employees regarding the giving and taking of gifts and the terms and conditions to be met by those holding managerial positions, restrictions regarding controlling roles in business entities and the obtaining of qualifying holdings and controlling shares, along with the rules on permission.

Regulations relating to the relevant policy and the due diligence procedures applied:

- MKB Bank's Code of Conduct
- MKB Bank's group-level anti-money laundering and terrorist financing policy
- On employees' conflict of interests, and on gifts
- MKB Bank's group-level regulation on the prevention and combating of money laundering and terrorist financing and on the implementation of the restrictive measures ordered by the European Union and the United Nations Security Council
- Regulation on MKB Bank's system for reporting abusive practices
- MKB Bank's Group-level Anti-corruption Policy
- Policy on the Management of Inside Information, on the Prohibition of Insider Trading, Unlawful Disclosure of Inside Information and of Market Manipulation

SUMMARY OF THE MAIN ACHIEVEMENTS OF THE APPLICATION OF POLICIES RELATED TO SOCIAL ISSUES, EMPLOYMENT, RESPECT FOR HUMAN RIGHTS, THE ENVIRONMENT AND THE FIGHT AGAINST CORRUPTION

The MKB Group continued its extensive community commitments in the way of a promoting a wide variety of health preservation, educational and equal opportunity programmes in 2021 as well.

It must be mentioned that working from home office was fully implemented in 2021 as well in jobs not necessitating physical presence in response to the continued pandemic, and flexible employment was also widely practised.

The health preservation programmes launched by the MKB Group have been continuously successful for four years now. Online sports events and training sessions were accessible and popular among employees in 2021 as well, contributing to the preservation of the health of the bank’s employees.

MKB Bank continued to consistently and effectively apply its anti-corruption and anti-money laundering policies in 2021 as well, along with its dedicated anti-corruption regulation which is taken care of by its compliance division.

MATERIAL RISKS RELATING TO BUSINESS RELATIONSHIPS, PRODUCTS AND SERVICES, SOCIAL ISSUES, EMPLOYMENT, RESPECT FOR HUMAN RIGHTS, THE ENVIRONMENT AND THE FIGHT AGAINST CORRUPTION, AND THEIR MANAGEMENT

MKB Bank has identified its most significant risks in its underwriting policy. On account of the nature of its operations the bank is exposed to operational risks. Operational risks include the risk of losses or damage stemming from human error, system errors, inadequate or defective internal processes, fraud or abuse on the part of the bank’s employees or third parties, or external events, including legal risk, business risk, modelling risk, information and communication technology risk and reputational risk. The Bank's key strategic objective is to minimize operational risks by applying risk-reducing controls in its core business processes.

The bank proclaims the requirement of prudent operation even in its Code of Conduct. Compliance with the prevailing legal regulations and the bank’s internal regulations is a basic requirement for all employees of the bank and the bank expects its partners with which it has business or other contracts in place, to comply with its Code of Conduct. MKB Bank maintains no business relationships with customers carrying reputational risks, and it only does business with customers that use their products exclusively for legitimate purposes. MKB Bank carried out risk assessment regarding employment and identified risks of relevance to its operation, which it will also take into account in its human policy activities.

KEY NON-FINANCIAL PERFORMANCE INDICATORS:

- Breakdown of employees by job, age and gender: (included in the chapter on Policies related to employment and the results thereof, applied due diligence procedures)
- Energy consumption (see the chapter on the Environmental policy and its achievements and the due diligence procedures applied)

Budapest, 28 March 2022

dr. Zsolt Barna
Chairman and Chief Executive Officer

Antal Martzy
Deputy Chief Executive Officer