Annual report
for the year ending 31.12.2022

Budapest, 3 April 2023

31 December 2022

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Annual report
for the year ending 31.12.2022

Budapest, 4 April 2023

31 December 2022

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Takarék Mortgage Bank Public Limited Company
Stand-alone Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union

For the year ended 31 December 2022

Stand-alone Financial Statements in accordance with the International Financial Reporting Standards adopted by the European Union – 31 December 2022

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GENERAL INFORMATION

Chairman of the Board of Directors
József Vida

Chairman of the Supervisory Board
Rózsa Zsolt János (3 January, 2022-12 July, 2022)
Dr. Géza Károly Láng (since 5 August, 2022)

Members of the Board of Directors
Dr. Gyula László Nagy
Attila Mészáros (to 30 November, 2022)
Illés Tóth (since 1 December, 2022)
Éva Hegedűs (to 13 July, 2022)
Ildikó Ginzer
Pál Sass (to 14 November, 2022)
Dr. Ilona Török (since 14 November, 2022)
Szabolcs Károly Brezina (since 9 December, 2022)
Gábor Kalenyák (since 19 December, 2022)

Responsible person for the control and management of accounting services:
Ildikó Brigitta Tóthné Fodor, registration number 007048

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

Statutory registered auditor
Attila Molnár (to 31 May, 2022)
Árpád Balázs Mészáros (since 1 June, 2022)

In the second half of 2019 the shares of Takarék Commercial Bank Ltd. – upon approval of General Assembly held on August 27 2019 – were sold to MTB Bank of Hungarian Savings Cooperatives Ltd. (hereinafter: MTB Ltd.) by Takarék Mortgage Bank (hereinafter: the Bank), therefore the consolidated financial statements were not prepared by the Bank since 2020.
As the parent company of the Bank, - MKB Bank Plc. (the main ultimate parent) prepared the Bank's consolidated financial statement regard to the companies included in the scope of consolidation.

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

Headquarter of the Bank, central office
Budapest
Magyar Tudósok körútja 9. G. ép.
1117

Stand-alone Statement of Profit or Loss for the year ended 31 December 2022

	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Interest and similar to interest income	**4**	**32,640**	**14,704**
Interest income using effective interest rate method		28,248	13,522
Other interest income		4,392	1,182
Interest and similar to interest expense	**4**	**(26,085)**	**(10,456)**
Interest expense using effective interest rate method		(21,102)	(9,457)
Other interest expenses		(4,983)	(999)
Net interest income		**6,555**	**4,248**
Income from commission and fees	5	557	589
Expense from commission and fees	5	(548)	(620)
Net income from commissions and fees		**9**	**(31)**
Results from financial instruments measured at fair value through profit or loss, net	8	(886)	439
Gains on financial assets and liabilities designated at fair value through profit or loss		50	238
Results from financial instruments measured at fair value through other comprehensive income, net	7	(273)	269
Results from financial instruments measured at amortized cost, net	7	361	(83)
Results from hedge accounting, net		(8)	(76)
Exchange differences result, net	6	449	-
Results from financial instruments, net		**(307)**	**787**
Impairment / (Reversal) on financial instruments held for credit risk management	30	(557)	(224)
Provision (loss) / gain	26	2	3
Modification (loss) / gain on financial instruments	30	(622)	(62)
(Impairment) / Reversal on other financial instruments		1	-
Impairment / (Reversal) on financial and non-financial instruments		**(1,176)**	**(283)**
Operating expense	10,11	(2,808)	(2,301)
Other income	9	75	442
Other expense	9	(190)	(7)
Profit before taxation		**2,158**	**2,855**
Income tax income / (expense)	12	(347)	(110)
PROFIT FOR THE YEAR		**1,811**	**2,745**

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Other Comprehensive Income for the year ended 31 December 2022	**Notes**	**1 January 2022 - 31 December 2022**	**1 January 2021 – 31 December 2021**
Profit for the year		**1,811**	**2,745**
Other comprehensive income	**13**	**290**	**(493)**
Items that will not be reclassified to profit or loss		**-**	**9**
Income tax relating to items that will not be reclassified		**-**	**9**
Items that may be reclassified to profit/loss		**290**	**(502)**
Hedging instruments (unmarked items)		-	183
Debt instruments at fair value through other comprehensive income		290	(685)
Total comprehensive income for the year		**2,101**	**2,252**
Earnings per share (HUF 100 face value)			
Basic earnings per share (HUF)	27	15.06	22.82
Diluted earnings per share (HUF)	27	15.06	22.82
Weighted average number of shares (piece)		108,236,699	108,236,699

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Financial Position as at 31 December 2022

	Notes	31 December 2022	31 December 2021	1 January 2021
Assets				
Cash and cash equivalents	**14**	**342**	**229**	**1,499**
Financial assets measured at fair value through profit or loss		**11,854**	**12,146**	**11,926**
Loans and advances to customers mandatorily at fair value through profit or loss	18	6,593	9,787	11,823
Derivative financial assets	15	5,261	2,359	103
Hedging derivative assets	**29**	**975**	**-**	**926**
Financial assets measured at fair value through other comprehensive income	**16**	**18,172**	**26,242**	**34,889**
Securities		18,172	26,242	34,889
Financial assets measured at amortised cost	**17**	**781,737**	**625,177**	**562,057**
Loans and advances to banks	17	437,013	342,707	294,637
Loans and advances to customers	17	24,733	31,573	37,252
Securities	17	319,726	250,521	229,334
Other financial assets	17	265	376	834
Property, plant and equipment	**20,21**	**63**	**95**	**125**
Intangible assets	**19**	**239**	**203**	**208**
Income tax assets		**468**	**518**	**371**
Current income tax assets	12	-	6	23
Deferred income tax assets	12	468	512	348
Other assets	**22**	**98**	**405**	**140**
Total assets		**813,948**	**665,015**	**612,141**

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Financial Position as at 31 December 2022

	Notes	31 December 2022	31 December 2021	1 January 2021
Liabilities				
Financial liabilities measured at fair value through profit or loss	**15**	**5,146**	**2,309**	**88**
Derivative financial liabilities		5,146	2,309	88
Financial liabilities designated at fair value through profit or loss	**23**	**-**	**6,121**	**6,484**
Financial liabilities measured at amortised cost	**24**	**734,183**	**585,534**	**538,318**
Amounts due to other banks		377,771	263,131	214,238
Issued debt securities		355,799	321,714	322,551
Other financial liabilities		613	689	1,529
Hedging derivative liabilities	**29**	**2,639**	**1,112**	**284**
Provisions	**25**	**17**	**28**	**116**
Income tax liabilities	**12**	**105**	**148**	**4**
Current income tax liabilities		105	148	4
Deferred income tax liabilities		-	-	-
Other liabilities	**26**	**821**	**827**	**163**
Total liabilities		**742,911**	**596,079**	**545 457**
Equity				
Share capital	27	10,849	10,849	10,849
Treasury shares		(207)	(207)	(207)
Share premium		27,926	27,926	27,926
Retained earnings		28,981	26,417	24,319
Other reserves	27	1,620	1,439	1,164
Profit for the year		1,811	2,745	2,373
Accumulated other comprehensive income		57	(233)	260
Total equity		**71,037**	**68,936**	**66,684**
Total liabilities and equity		**813,948**	**665,015**	**612,141**

Budapest, 3. April 2023

dr. Gyula László Nagy
CEO

Illés Tóth
Deputy CEO

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

Stand-alone Statement of Cash Flows for the year ended 31 December 2022

	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Cash flow from operating activities			
Profit for the year		**1,811**	**2,745**
Non-cash adjustments to net profit from			
Depreciation and amortization		67	50
Impairment/provision/ (-) Release of impairment/provision for losses		522	153
Provision/ (-) Release of other impairment/ provision		(11)	(88)
(Gain)/Loss on tangible assets derecognized		5	(7)
Interest expense on the lease liability		-	1
Fair value adjustments of derivatives held for trading and derivatives from hedge accounting		1,354	1,719
Fair value adjustments on financial liabilities designated at fair value through profit or loss		-	(363)
Operating profit before change in operating assets		**3,748**	**4,210**
Decrease/ (-) Increase in operating assets			
Derivatives held for trading and derivatives from hedge accounting		-	-
Non-trading financial assets mandatorily at fair value through profit or loss		2,327	2,097
Financial assets at fair value through other comprehensive income		8,360	8,154
Financial assets at amortised cost		(157,082)	(63,335)
Other assets		357	(412)
Increase/ (-) Decrease in operating liabilities			
Financial liabilities at amortised cost		(50)	(2,910)
Other liabilities		(49)	808
Net cash flow from operating activities		**(142,389)**	**(51,388)**

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Cash Flows for the year ended 31 December 2022 (continued)

	Notes	31 December 2022	31 December 2021
Cash flow from investing activities			
Proceeds from sales of tangible		46	23
Purchase of tangible		(55)	(14)
Purchase of intangible assets		(67)	(17)
Net cash outflow from investing activities		**(76)**	**(8)**
Cash flow from financing activities			
Repayment of leasing liabilities		(27)	(16)
Repayment/borrowing of long-term loans		142,605	50,142
Net cash inflow from financing activities		**142,578**	**50,126**
Increase/ (-) Decrease in cash and cash equivalents		113	(1,270)
Opening balance of cash and cash equivalents		229	1,499
Closing balance of cash and cash equivalents		**342**	**229**
Breakdown of cash and cash equivalents			
Balances with the National Bank of Hungary		14	3
Due from banks with a maturity of less than 90 days		328	226
Closing balance of cash and cash equivalents		**342**	**229**
Supplementary data			
Interest received		*32,640*	*14,704*
Interest paid		*(26,085)*	*(10,456)*

All figures in tables are in HUF million except otherwise noted

Stand-alone Statement of Changes in Equity for the year ended 31 December 2022

	Notes	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	(-) Treasur shares
At 1 January 2021 - Opening		**10,849**	**27,926**	**260**	**26,692**	**1,164**	**(20**
Profit for the year		-	-	-	2,745	-	
Other comprehensive income for the year		-	-	(493)	-	-	
General reserve		-	-	-	(275)	275	
At 31 December 2021 - Closing		**10,849**	**27,926**	**(233)**	**29,162**	**1,439**	**(20**
At 1 January 2022 - Opening		**10,849**	**27,926**	**(233)**	**29,162**	**1,439**	**(20**
Profit for the year		-	-	-	1,811	-	
Other comprehensive income for the year		-	-	290	-	-	
General reserve		-	-	-	(181)	181	
At 31 December 2022 - Closing		**10,849**	**27,926**	**57**	**30,792**	**1,620**	**(20**

All figures in tables are in HUF million except otherwise noted

1. DESCRIPTION OF THE BANK

The stand-alone financial statements for the year ended 31 December 2022 were approved by the resolution of the Board of Directors as of 3 April 2023. The final approval on the stand-alone financial statements is provided by the General Meeting.

Name:	Takarék Mortgage Bank Co. Plc.
Seat:	1117 Budapest, Magyar Tudósok körútja 9. G. ép.
Website address:	https:// www.takarekjzb.hu
Mailing address:	1908 Budapest
Phone number:	+36 1 3344 344
Registration number:	01-10-043638
Tax number:	12321942-4-44
KSH statistical number sign:	12321942-6492-114-01
Year of foundation:	1997

Chairman of the Supervisory Board:	Zsolt János Rózsa (to 12.07.2022.)
	Dr. Géza Károly Láng (since 5 August 2022)
Chairman of the Board:	József Vida

Takarék Mortgage Bank Public Limited Company (hereinafter Takarék Mortgage Bank Co. Plc., Mortgage Bank, Bank, Company) was established on October 21, 1997 under the name of FHB Land Credit and Mortgage Bank Company.
The Bank's operations are provided by the Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds as well as Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institution Act).
The license of operation, issued by the Hungarian Financial Supervisory Authority, specifies the Bank's activities and their conditions.
The Bank's core business as a specialized credit institution includes primarily the refinancing of long-term mortgage loans secured by mortgaged properties, and the issuance of long-term mortgage covered bonds (mortgage bonds).
On September 23, 2015 the Bank joined the integration of Cooperative Credit Institution. Consequently, the H-N-I-654/2015. resolution of the Hungarian National Bank declared that members of the former Bank Group are under the combined supervision of the MTB Bank of Hungarian Savings Cooperatives Co. Ltd. Group from 1st of January 2017 onwards.
From 24 September 2015 the principle of joint and several responsibilities-defined in Section 4 of Article 1 of Szhitv-covers both Takarék Mortgage Bank and Takarék Commercial Bank (hereinafter Commercial Bank), according to the decision of the Board of Directors of MTB Ltd., thus Takarék Mortgage Bank and Commercial Bank have become members of the Guaranty Community of Savings Cooperatives.

In December 2017 the Bank sold the majority of their direct and indirect investments, while Takarék Commercial Bank Ltd. remained in its portfolio until 29 October 2019. As a result of a transaction dated on the same day Takarék Mortgage Bank sold its 51% share in Takarék Commercial Bank to the MTB Ltd.
Services previously provided by the Mortgage Bank (full-fledged business administration services including accounting, taxation, HR, payroll accounting, statistics, statutory data provision and leasing activity), are provided by MTB Ltd. to the Mortgage Bank within the framework of SLA contracts.

All figures in tables are in HUF million except otherwise noted

The Commercial Bank, as the agent of Takarék Mortgage Bank Co. Plc., was fully responsible for direct lending, loan monitoring and qualified loan management until 31 October 2019, when it merged into Takarékbank Ltd. However, Takarék Commercial Bank, have had a part of its loan portfolio refinanced by Takarék Mortgage Bank Co. Plc in order to obtain favourable funding cost. Following the merger of the Commercial Bank, Takarékbank Ltd. carries out the credit management and qualified loan management activities in respect of the Mortgage Bank's own originated loan portfolio, while the Mortgage Bank refinanced a part of Takarékbank Zrt.'s mortgage loan portfolio. Mortgage Bank starting from April 2018 has stopped its own lending activity.

In accordance with the resolution of the Magyar Nemzeti Bank (central bank of Hungary, MNB) and after the decision of the General Meeting, Budapest Bank and Hungarian Takarék Bank-holding (MTBH) merged into MKB Bank on 1 April 2022. At that time, MTB Bank of Hungarian Savings Cooperatives had a direct ownership of 88.13% in Takarék Mortgage Bank Co. Plc. and also directly owned 88.33% of the voting rights. Since MTBH's 88.13% ownership stake and 88.33% of the voting rights in Takarék Mortgage Bank Co. Plc. were exercised through MTB Bank of Hungarian Savings Cooperatives, as a result of MTBH's the merger MKB Bank (as the legal successor of MTBH) became the indirect owner of Takarék Mortgage Bank Co. Plc. with a stake of 88.13%, and also acquired indirectly the 88.33% of the voting rights in the company.

The extraordinary general meeting of Takarék Mortgage Bank held on 12 July 2022 converted 14,163,430 pcs from series "B" preference shares (dividend preference shares) with a nominal value of HUF 100 per share, with a total nominal value of HUF 1,416,343,000 into 14,163,430 pcs of series "A" ordinary shares with a nominal value of HUF 100 per share and a total nominal value of HUF 1,416,343,000. At the same time 2,832,686 pcs of series "C" ordinary shares with a nominal value of HUF 1,000 per share and a total nominal value of HUF 2,832,686,000 were also converted into 28,326,860 series "A" ordinary shares with a nominal value of HUF 100 per share and a total nominal value of HUF 2,832,686,000. The converted shares were registered on the Budapest Stock Exchange (BÉT) as of 7 October 2022.

On 18 October 2022, as a result of the sale and purchase of shares, MKB Bank Plc. acquired 43,076,417 pcs of series "A" dematerialized ordinary shares with a nominal value of HUF 100 per share owned by MTB Ltd. in Takarék Mortgage Bank. With this transaction, MKB Bank acquired 39.8 % direct qualifying stake (voting rights) in Takarék Mortgage Bank. Hence, MTB Ltd.'s ownership decreased to 48.42%. Magyar Posta Ltd. acquired MKB Bank Plc.'s full stake in Takarék Mortgage Bank on 2 December 2022. As a result of this transaction based on exchange of shares, Magyar Posta Ltd. acquired a 39.71 % direct qualifying stake (voting rights) in Takarék Mortgage Bank.

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

Takarék Mortgage Bank continued its mortgage bond issue strategy communicated to the investors of organizing public stock exchange auctions in each month of the first half of 2022 (except for April) despite the increased uncertainty and volatility of the market–with increasing interest and yield premium and drying investor demand) emerged after the escalation of the Russian-Ukrainian war. Through its issuance activity, the Bank actively participated in MNB's both Green Mortgage Bond Purchase Program and its Mortgage Bond Renewal Facility. In H2 2022 the Bank organized tow issuance under the framework of the Green Mortgage Bond Purchase Program and four times under the Mortgage Bond Renewal facility. In 2022 the total volume of mortgage bonds issued by the Bank amounted to HUF 70.27 billion through ten mortgage bond auctions. Three transactions of them were green mortgage bond issuances amounting to a total of HUF 8.61 billion.

In the framework of MNB's Green Mortgage Bond Purchase Program, the Bank managed to sell mortgage bonds of HUF 7.4 billion with discounted yield spreads. The Green Mortgage Bond Purchase Program was suspended by the MNB in the spring of 2022. Participation in the mortgage bond renewal facility was dominant in the period of the first half: in Q2 2022, a total of HUF 42.16 billion nominal amount was issued with the aim of rolling over upcoming mortgage bond maturities, while the respective volume reached total of HUF 56.66 billion in H1 2022.

MNB authorized the Issuer to use both the '**European Covered Bond Logo**' and '**European Premium Covered Bond Logo**' for its mortgage bonds to be issued in the future with the resolution of H-KE-III-533/2022 (12 September 2022).

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

2.2 Functional and presentation currency

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

2.3 Basis of measurement

The stand-alone financial statements have been prepared on a historical cost bases, except for financial assets and liabilities measured at fair value through profit or loss , financial assets at fair value through other comprehensive income (FVOCI) and financial liabilities designated at fair value through profit or loss, that are recorded at fair value in the financial statements.

2.4. Change in accounting policies

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

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

- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - (issued on 14 May 2020 effective for annual periods beginning on or after 1 January 2022).

- **Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41** - (issued on 14 May 2020 effective for annual periods beginning on or after 1 January 2022).

- **Covid-19-Related Rent Concessions – Amendments to IFRS 16** - (an amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

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

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

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

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2** - Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies.
-
- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
-
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023),

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

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

2.4.3 New standards and amendments to the existing standards issued by IASB but not 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 and amendments to the existing standards, which were not endorsed for use in EU as at 1 January 2022 (the effective dates stated below is for IFRS as issued by IASB):

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Categories of financial instruments

The Bank groups the recognised financial assets as follows:

- Cash and cash equivalents
- Derivative financial assets
- Securities at fair value through other comprehensive income
- Non-trading financial assets mandatorily at fair value through profit or loss
    - Loans to customers at fair value
- Financial assets at amortised cost:
    - Due from banks
    - Loans and advances to customers at amortised cost
    - Securities
- Hedging derivative assets

The Bank groups the recognised financial liabilities as follows:

- Derivative financial liabilities
- Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost (other financial liabilities):
    - Due to banks
    - Issued debt securites
- Hedging derivative liabilities

3.2. Cash and cash equivalents

For the purpose of the Stand-alone Statement of Cash Flows, cash and cash equivalents include cash at hand, receivables from the National Bank of Hungary, and receivables from banks with an original maturity of not more than 90 days.
Cash and cash equivalents are presented in the statement of financial position at amortised cost.

3.3. Derivatives

A derivative transaction is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference yield or index, it is settled in a future date and there is no or low initial investment.
Derivatives are recorded at fair value and carried as assets when their fair value is positive or as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Results from financial instruments measured at fair value through profit and loss . The resulting gain or loss is recognised immediately in 'Results from financial instruments measured at fair value through profit and loss .
Derivatives include forwards, futures, swaps and options.

3.4. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income (FVTOCI) are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities, and the contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value.

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

3.5. Refinanced mortgage loans

The Bank has a substantial refinanced mortgage loans portfolio. As part of the refinancing arrangements, the partner credit institutions sell independent mortgage rights to the Bank to cover the retail mortgage loans it provides, or – in case of applying a separate mortgage right – in addition by the transfer of the mortgage rights, uses a refinancing mortgage loan from the Bank.

The repurchase of the stand-alone mortgage and the repayment of the refinancing mortgage loan is carried out by the partner credit institution during the period of the refinanced loan transactions in such a way that the repurchase or repayment is adjusted to the partner bank's client's principal repayment schedule.
The refinanced loans of the partner banks meet the requirements regulated by law (therefore these loans are problem-free), the rating and impairment recognition obligation, as well as the receivable from the customer is recognised the given commercial bank.

Refinanced mortgages are classified as performing because by purchasing a stand-alone line or a separate line, the Bank lends a long-term loan to the partner commercial bank and the customer risk is recognised entirely at the partner bank, the Bank is only exposed to the partner bank's credit risk. The Bank presents refinanced mortgage loans at amortized cost less impairment (if there is any).

3.6. Loans and, due from banks at amortised cost

The Bank measures at amortised cost those Loans and placements with other banks, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation.

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

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

3.8. Hedge transactions IFRS 9

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risk, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.
Upon concluding the hedge contract the Bank drafts the hedge document that sets forth the relationship between the transaction and the instrument hedged. The document describes the nature of risk as well as the risk management goals and strategies. The document also sets forth the method of measuring hedge effectiveness.
For the purposes of hedge accounting, hedges are classified into two categories:

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

There are no net investment hedges in foreign operations.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the S**tand-alone** Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.
In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in the other comprehensive income item.

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

i. Interest income or interest expense
ii. Gains or losses from foreign exchange transactions
iii. The remaining change from fair value adjustment in Change in fair value of derivatives.

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

3.9. Restructuring of loans

In cases of default the Bank favours renegotiating the loans to customers instead of foreclosure wherever possible. Renegotiated loans may be restructured by extending of the loan term and/or agreeing on new conditions. The Bank does not recognise any significant gain or losses on the restructuring loans.
The Bank management keeps track of renegotiated loans to ensure all terms and conditions are met and to secure future cash payments. Provision for impairment of restructured loans is set up on an individual as well as on a portfolio basis and with the application of the original effective interest rate of the loan.
In case of renegotiated loans, the classification of the clients (and eventually the provision) may improve if the clients start to pay their instalments as scheduled. The new buffer account scheme and the converted HUF loans (under the State program) were dealt with the same process like other refinanced mortgage loans in spite of the originated loan has not got any payment problem.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, Bank shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in stand-alone statement profit or loss. Bank presents the modification loss of stage 1 financial assets among the "Interest and similar income". The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate.

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

3.10. Impairment losses on loans

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

3.11. Tangible and intangible assets

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

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

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

Following elements of costs that are not costs of an item of tangible asset are:
- costs of opening a new facility,
- costs of introducing a new product or service,
- costs of conducting business in a new location or with a new class of customer,
- administration and other general overhead costs.

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

Depreciation is charged to the **stand-alone** statement of profit or loss in the period to which it relates. The usuful life is reviewed yearly. Depreciation is computed using the straight-line method over the estimated useful lives of the assets considering residual value, as follows:

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

Intangible assets have a definite useful life, excluding goodwill.

3.12. Leases

The Bank assessed all lease contracts entered into or modified after the date of 1 January 2018 under IFRS 16 whether a contract is, or contains, a lease.
Determination of whether an agreement is a lease agreement or contains a lease transaction is based on its contents. The Bank analyses agreements to decide whether delivery under the agreement involves the use of a specific asset or assets and transfers the right to use such assets. An agreement transfers the rights to control the use of an identified asset, if:

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

All figures in tables are in HUF million except otherwise noted

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

The Bank shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.
The Bank elect not to apply the requirements of IFRS 16 Leases to intangible assets.

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

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

After the commencement date, the Bank shall measure the right-of-use asset applying a cost model. The Bank depreciates the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The determination of the useful life of the right-of-use assets are presented similar to owned property, plant, equipment and vehicles. The Bank applies IAS 36 Impairment of Assets standard to determine whether the right-of-use asset is impaired, and to recognise any impairment loss identified in accordance with the standard.
The Bank shall measure the lease liability at the present value of lease payments that are not paid as at the date of commencement. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined.
If that rate cannot be readily determined, the Bank use the lesse's incremental borrowing rate. Typically, the Bank use its own incremental borrowing rate to recognise lease liabilities. At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

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

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

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

The Bank shall remeasure the lease liability, if either:

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

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

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

The Bank has elected not to apply the requirements for short-term leases and to leases for which the underlying asset is of low-value. These types of lease payments will be recognised in the **stand-alone** statement of profit or loss as costs using the straight-line method during the life of the lease.
The Bank does not have right-of-use assets that meet the definition of investment property.
In the statement of cash flows are classified cash payments for the principal portion of the lease liability within financing activities and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Cash payments for the interest portion of the lease liability are classified applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid.
The Bank as a lessee has typically property and company car lease agreements.

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

3.13. Impairment of non-financial assets

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

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

3.14. Current tax

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

3.15. Deferred taxes

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

3.16. Classification into financial liabilities or shareholders' equity

Financial liability is any liability that is:

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

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

3.17. Financial liabilities carried at amortised cost

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

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

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

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

3.18. Derecognition of financial instruments

3.18.1. Derecognising of financial assets

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

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

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

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

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

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

3.19. Provisions

Provisions are recognized when the Bank has present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Expense relating to lending provision is a part of provision for impairment losses on loan expense. On provision for contingent liabilities is recognized among "Provision loss and gain".

3.20. Employee benefits

3.20.1. Short-term employee benefits

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

3.20.2. Long-term employee benefits

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

3.20.3 Information on Employee share system

From 2022 MKB manages the settlements of the variable pays as regulated by ESP's Remuneration Policy for Takarek Mortgage Bank Plc, because the Bank is the part of MKB Group,. Eligible employees submit a participation declaration, become participants and subject to the relevant regulations.
In order to settle the variable payments of the participants ESP subscribes bonds and buys options. The timing of the bonds that cover the cash part of the variable pay and of the options that cover for the instrument part of the variably pay are aligned with the cycles of the deferred payments. The participants will not become owners, it is the ESP, but they will have a participants' share. They will be entitled for the financial settlement as regulated by the ESP Remuneration Policy, including the deferred payment periods. The settlements and the

payments are based on the participants' approved variably pay in line with the deferred periods after the financial instruments are converted to cash.
This share system has not got a significant effect to the separate profit or loss statement of Takarek Mortgage Plc.

3.21. Repurchased treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the stand-alone statement of financial position at acquisition cost as a deduction from shareholders' equity. The repurchased treasury shares are recognised at their nominal value within 'Treasury shares' at the time of the decision to repurchase made by the Board. Premiums and discounts on repurchase and subsequent disposal are credited and debited directly to retained earnings, and no gain or loss is recognized in the **stand-alone** statement of profit or loss. If the Board, within the framework of the repurchase decision, simultaneously decides on revoking shares, then the Bank reclassify these shares to the liabilities up to the date of the effective cancellation.

3.22. Interest income and expense

Interest income and interest expense (the interest subsidy received from the Hungarian State or from the client) are recognized time-proportionately using the effective interest rate method. Interest income and interest expense include the amortization of discount or premium on securities.
The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.
Interest income and expenses related to financial instruments are separated by the Bank based on each financial instruments category.
Interest income and interest expenses are accounted on a gross basis by the Bank.

3.23. Fees and commission income and expenses

This group shall include fees and commission income and expenses that are not involved in the amortised cost model. Fees and commisions when they relate and have to be included in the amortised cost modell shall be recognised among interest income.
Fees and commision incomes can be typically account transaction fees, cash payment fees, portfolio management fees.

3.24. Interest subsidy

State interest subsidy- retail loans
Interest subsidy is available to clients who have been granted loans in accordance with the specific provisions of the Hungarian legislation (Government Decree 12 of 2001). There are two types of interest subsidy: mortgage bond's interest subsidy and supplementary interest subsidy. Both methods are designed to reduce the interest payable by the client. The mortgage bond's interest subsidy being based indirectly on the bank's costs (mortgage bond's interest subsidy), and the supplementary interest subsidy on the actual amount of interest

payable by the client (asset side subsidy). Both types of subsidies are presented in the Bank's revenues, thus the Bank only passes on these subsidies to the clients as they pay a lower-than-market interest rate to the Bank. The interest subsidy is available for a period not exceeding the first 20 years of a loan.

Mortgage bond interest subsidy
The mortgage bond interest subsidy is available for housing loans up to the stipulated amounts and based on conditions as specified in the government decree 12/2001 and calculated in accordance with the criteria set. The condition of the maximum interest percentage payable by the customer also has to be met. The subsidy is available for housing loans eligible for subsidy as specified in the decree such as:

i. Mortgage loans granted by the Bank or with partner banks; and
ii. Independent and separated liens purchased by the Bank then repurchased by the partner bank under refinancing arrangements, and for receivables from the repurchased part(s) of lien packages.

The subsidy is available on a monthly basis up to the total of mortgage bonds outstanding in the given month. The underlying calculation is based on the daily balance of subsidized loans or mortgage bonds.

Supplementary interest subsidy- own loans
The amount of supplementary interest subsidy and the underlying calculation method thereof (reflecting the maximum interest) are laid down in the contract between the Bank and the client. The monthly interest subsidy is one-twelfth of the prevailing subsidized outstanding principal as determined by the amount of the non-due repayable principal as of the date of the transaction.

3.25. Operating segment

The Takarék Mortgage Bank Plc. – a specialized credit institution under the Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds – does not prepare a separate segment report, the consolidated financial statements of the parent company – MKB Bank Plc. –, contains the segment information for the Group.

3.26. Contingent liabilities / contingent assets

The Bank has recored into off-balance sheet their contingent liabilities, they are not recognised in the financial statements. The contingent liabilities are presented in the Notes. This off-balance sheet items such as guarantees and similar obligations, commitments to extend credit, accepted value of non-balance sheet assets serving as collateral for third party debt.
Contingent liabilities are reported in the balance sheet when it becomes probable.
The Bank has recored into off-balance sheet their contingent assets, they are not recognised in the financial statements. The contingent assets are disclosed in the Notes where an inflow of economic benefits is probable (more than 50%).
This off-balance sheet items such as write-off uncollected debts, received guarantees and bailment.

3.27. Post balance sheet events

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

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

3.28. Offsetting

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

3.29. Foreign currency translation

Items included in the financial statements in foreign currencies are translated to the respective functional currencies of the Bank. Transactions in foreign currencies are like transactions that set in foreign currencies or have/had to paid in foreign currencies.
At initial recognition the Bank are translated transactions in foreign currencies to the respective functional currency at the valid NBH rate on the date of the transaction.
At the end of the reporting periods:

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

3.30. Trade date and settlement date accounting

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

3.31. Banktax and extraprofit tax

Hungarian credit institutions are obliged to pay banking tax from the year 2010. From 2017 the basis of the adjusted balance sheet total according to IFRS at the actual calendar year minus two years. The Bank tax is presented as other operating expense in the Stand-alone Statement of Profit or Loss because it does not meet the definition of income tax according to IFRS.
Credit institutions and financial institutions are obliged by law (Htv.) to pay extra profit tax based on the net turnover in 2022 and 2023. The extra profit tax is calculated on the basis of

previous year's net turnover in accordance with Htv. (ie. net turnover in 2021 provided the basis for 2022). Extra profit tax obligation has to be paid in two instalments during the year. The extra profit tax liability is presented among the operating expense. (see note 10)

3.32. Critical accounting judgements and estimates

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

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

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

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

Loan impairment test and its result
The Bank assesses whether it is necessary to set up provisions for impairment of loans and advances to customers. The management makes the relevant decision in view of estimations of amounts and future cash flows. When estimating future cash flows the Bank makes judgments regarding the debtor's financial situation and the net sales price of the collateral.
For the loans and advances that have been assessed individually and found not to be impaired as well as for individually insignificant loans and advances, impairment is also assessed on a portfolio basis, if necessary, taking into consideration the type and classification of loan into homogeneous categories based on clearly defined transaction risks, non-performance history and losses.

Impairment of non-financial assets
The Bank assesses the existence of possible impairment of assets. The Bank estimates the recoverable value of the asset. Recoverable value is the fair value of the asset net of the costs of sale, or the value in use, whichever higher.
When determining value in use expected cash is discounted in consideration of the time value of cash and asset-specific risks.
Each asset is assessed annually (except stated otherwise), when any indication of a reversal or reduction of earlier impairment is assessed. If there is such an indication the Bank estimates the recoverable value of the asset.

3.33. Reclassification and error

After the balance sheet date of the consolidated financial statements of 2021 there were no mistakes or errors discovered which are significant and affect the decision made by the users based on the financial statements.

3.34. Changes in the legal and regulatory environment and its effect on the stand-alone financial statements

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

- Gov. Decree 151/2022. (IV.14.) on the different application of the provisions of CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and certain related legislative provisions;

- Gov. Decree 197/2022. (VI.4.) on extra profit surtaxes;

- Gov. Decree 292/2022. (VIII.8.) on the introduction of specific rules on the credit moratorium related to the state of emergency;

MNB Decree 22/2022. (VI.11.) regulating the maturity match of the mortgage-backed assets and liabilities of credit institutions (JMM Decree).

In 2022, the MNB revised again the regulations on JMM. Pursuant to the amendment from 1 July, 2022 under the specified conditions foreign currency mortgage-based sources can also be taken into account when calculating the indicator, thus supporting the expansion of the range of investors in mortgage bonds. It is only possible to set off funds secured by corporate loans secured by commercial real estate to a limited extent. At the same time the indicator's denominator will also be extended to foreign currency residential mortgage loans.
In view of the uncertain macroeconomic and financial environment, the MNB reviewed its further decisions of aggravation and postponed by one year to 1 October, 2023 the increasing of the minimum expected level of the JMM indicator from 25 to 30 percent, as well as the tightening of restrictions on cross-ownership of mortgage bonds between banks.

3.35. Change in estimates

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

3.36. Comparative figures

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

The lines of the published financial statements in 2021 are presented in the table above, corresponding to the lines of the financial statements for the year ended 31 December 2022.
The Bank has changed the disclosure of interest income and modification loss, as well as the disclosure of local business tax and innovation contribution in accordance with the uniform accounting policy. These changes have also been presented in the comparative figures. The reclassification had no impact on profit or loss, and only reported in the published financial statements.

List of notes affected by the change:

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

All figures in tables are in HUF million except otherwise noted

Data from audited statement of financial position 2021 / Comparative data of the 2022 statement of financial position	Cash and cash equivalents	Financial instruments held for trading	Financial assets measured at fair value	Financial assets measured at amortised cost	Tangible assets	Intangible assets	Tax assets	Other assets
Cash and cash equivalents	229	-	-	-	-	-	-	
Financial assets measured at fair value through profit or loss	**-**	**2,359**	**-**	**9,787**	**-**	**-**	**-**	
Loans and advances to customers mandatorily at fair value through profit or loss	-	-	-	9,787	-	-	-	
Securuties mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	
Derivative financial assets	-	2,359	-	-	-	-	-	
Hedging derivative assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Financial assets measured at fair value through other comprehensive income	**-**	**-**	**26,242**	**-**	**-**	**-**	**-**	
Securities	-	-	26,242	-	-	-	-	
Financial assets measured at amortised cost	-	-	**-**	**625,177**	**-**	**-**	**-**	
Loans and advances to banks	-	-	-	342,707	-	-	-	
Loans and advances to customers	-	-	-	31,573	-	-	-	
Repurshace assets	-	-	-	-	-	-	-	
Securuties	-	-	-	250,521	-	-	-	
Other financial assets	-	-	-	376	-	-	-	
Investments in subsidiaries and associates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Property, plant and equipment	**-**	**-**	**-**	**-**	**95**	**-**	**-**	
Intangible assets	**-**	**-**	**-**	**-**	**-**	**203**	**-**	
Income tax assets	-	-	**-**	**-**	**-**	**-**	**512**	
Current income tax assets	-	-	-	-	-	-	-	
Deferred income tax assets	-	-	-	-	-	-	512	
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40**
Total assets	**229**	**2,359**	**26,242**	**634,964**	**95**	**203**	**512**	**41**

All figures in tables are in HUF million except otherwise noted

Comparative data of the 2022 statement of financial position \ Data from audited statement of financial position 2021	Financial liabilitites held for trading	Financial instruments held for trading	Financial liabilitites measured at amortised cost	Derivatives-Hedge settlements	Provisions	Tax liabilitites	Other liabilitites
Financial liabilities measured at fair value through profit or loss	**2,309**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial liabilities	2,309	-	-	-	-	-	-
Financial liabilities reported to be measured at fair value against profit or loss		**6,121**					
Financial liabilities measured at amrotised cost	**-**	**-**	**585,534**	**-**	**-**	**-**	**-**
Amounts due to other banks	-	-	263,131	-	-	-	-
Deposits and current accounts	-	-	-	-	-	-	-
Repurchase liabilities	-	-	-	-	-	-	-
Issued debt securities	-	-	321,714	-	-	-	-
Other financial liabilities	-	-	689	-	-	-	-
Hedging derivative liabilities	**-**	**-**	**-**	**1,112**	**-**	**-**	**-**
Provisions	**-**	**-**	**-**	**-**	**28**	**-**	**-**
Income tax liabilities	**-**	**-**	**-**	**-**	**-**	**147**	**1**
Current tax liabilities	-	-	-	-	-	147	1
Halasztott adó kötelezettségek	-	-	-	-	-	-	-
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**827**
Total liabilities	**2,309**	**6,121**	**585,534**	**1,112**	**28**	**147**	**828**

All figures in tables are in HUF million except otherwise noted

Profit or Loss	2021 Revised presentation	Reclassfication of modification loss of stage 1 financial assets	Reclassificiation of local business tax and innovation contribution to income tax
Operating expense	(2,301)	-	11
Result before taxation	**2,855**	**-**	**11**
Income tax income/(expense)	(110)	-	(118
Profit for the year discontinued operations	-	-	
Results for the year	**2,745**	**-**	

4. INTEREST AND SIMILAR INCOME AND EXPENSE

	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Interest and similar income		
Financial assets at amortised cost	27,365	13,111
Financial assets at fair value through other comprehensive income	883	411
Interest income calculated using the effective interest method	**28,248**	**13,522**
Financial assets held for trading	1,648	401
Non-trading financial assets mandatorily at fair value through profit or loss	534	204
Derivatives – Hedge accounting, interest rate risk/ hedging derivatives	2,207	574
Other assets	1	-
Interest income on financial liabilities	2	3
Income similar to interest income/ other similar interest income	**4,392**	**1,182**
Total Interest income and similar to interest income	**32,640**	**14,704**

, See the asset notes for year end balance sheet amounts.

All figures in tables are in HUF million except otherwise noted

	1 January 2022-31 December 2022	1 January 2021-31 December 2021
Interest and similar expense		
Financial liabilities measured at amortised cost*	21,102	9,456
Other liabilities	-	1
Interest expense calculated using the effective interest method	**21,102**	**9,457**
Financial liabilities held for trading	1,645	397
Derivatives – Hedge accounting, interest rate risk	3,277	333
Financial liabilities designated at fair value through profit or loss	59	261
Interest expense on financial assets	2	8
Expense similar to interest expense / Other interest expense	**4 983**	**999**
Interest expense and expense similar to interest expense	**26 085**	**10,456**

** To moderate the economic and financial consequences of the turbulences brought about by the coronavirus pandemic, the Hungarian Central Bank decided to reshuffle its monetary policy toolset.*
Similarly to the ECB's steps, the MNB introduced a new, fixed-rate collateralized credit tool - Long Term Refinancing Operations (LTRO) - on 3-, 6- and 12-month as well as 3- and 5-year tenors, which are available through tenders with no pre-specified limits as to the amount of liquidity.
The Bank actively participated at these tenders, and up to the end of 2022 it obtained HUF 235,768 million long-term (3- and 5-year) loans (HUF 235,766 million in 2021), which is used to purchase securities with favourable yield characteristics.

5. FEE AND COMMISSION INCOME AND EXPENSE

	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Fee and commission income		
Mortgage loans	230	83
Handling commission	6	17
Real estate appraisal fee	107	318
Refinanced mortgage loans	214	171
Total	**557**	**589**

All figures in tables are in HUF million except otherwise noted

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Fee and commission expense		
Fees and commissions to banks and to clearing house	12	11
Agency fee expense	208	228
Real estate appraisal fee	206	297
Treasury services	119	84
Other	3	-
Total	**548**	**620**

6. EXCHANGE DIFFERENCES RESULT, NET

	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
FX transactions realized results	(5)	-
FX transactions non-realized results	454	-
Total	**449**	**-**

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

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Sale of debt securities	(273)	269
Results from financial instruments at fair value through other comprehensive income, net	**(273)**	**269**
Financial assets at amortised cost	1	(74)
Repurchase of issued mortgage bond at amortised cost	360	(9)
Results from financial instruments measured at amortized cost, net	**361**	**(83)**
Total	**88**	**186**

All figures in tables are in HUF million except otherwise noted

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

	1 January 2022-31 December 2022	1 January 2021-31 December 2021
IRS deals*	(2,399)	(2,344)
CCIRS deals**	-	-
MIRS deals***	2,477	2,345
FX deals	(97)	-
Result from financial assets and liabilities held for trading	**(19)**	**1**
Result from mon-trading financial assets mandatorily at fair value through profit or loss, net	(867)	438
Total	**(886)**	**439**

*IRS= Interest Rate Swap
**CCIRS=Cross Currency Interest Rate Swap
***MIRS=Monetary Interest Rate Swap

9. OTHER INCOME AND EXPENSE

	1 January 2022-31 December 2022	1 January 2021-31 December 2021
Other income		
Reversal of provision	-	85
Sales of property, plant, equipments	5	-
SLA services income	49	163
Other income*	21	194
Total	**75**	**442**

**In 2021, HUF 171 million was accounted in other income derived from the write-off time-barred liabilities related to the settlement of foreign currency loan or borrowing contracts that did not qualify as a foreign currency basis based on the Act XXXVIII and XL of 2014.*

	1 January 2022-31 December 2022	1 January 2021-31 December 2021
Other expense		
Subsidies paid from bankig tax *	175	-
Sales of property, plant, equipments	-	7
Loss on damages compensations paid	6	-
Other expense	9	-
Total	**190**	**7**

**The Bank has recognised in other expenses the (donation) subsidies paid which can be deducted from the banking tax payable.*

All figures in tables are in HUF million except otherwise noted

10. OPERATING EXPENSES

	1 January 2022-31 December 2022	1 January 2021-31 December 2021
Staff costs	449	315
Marketing and advertising	5	6
General and administrative costs	107	96
Rental fee	-	21
Depreciation of tangible assets	36	28
Amortisation of intangible assets	31	22
Consultancy fees and audit fees*	230	430
Maintenance costs**	433	423
Banking tax*	842	-
Other taxes	55	67
Insurance fees	6	7
Database system usage	24	78
Supervisor fee	32	52
SLA service costs***	81	203
CBIC**** fee, CBIC**** Capital Fund and Resolution and Compensation Fund fees	439	463
Other	38	90
Total	**2,808**	**2,301**

** In 2022 the amount of the contractual audit fees was HUF 22.25 million.*
***The extra profit tax, which was HUF 616 million and paid during the year, enlarged the banking tax, besides HUF 226 million arised regarding the banking tax in contrast with the previous year, in which there was no such obligation.*
****Based on the framework of SLA settlement agreement among the members of the MTB Bank group (including HR services, IT services, accounting services, compliance services, controlling management services, marketing services, legal services, back-up operations).*
*****CBIC= Central Body of Integrated Credit Institutions*

All figures in tables are in HUF million except otherwise noted

11. STAFF COSTS

	1 January 2022- 31 December 2022	1 January 2021- 31 December 2021
Wages and salaries	405	272
Social security contribution	44	37
Other personnel related payments	-	5
Total	**449**	**315**

Social security contribution is payable by the Bank based on gross wages and salaries paid to employees. The full-time head count of the Bank at the end of the reporting period was 14 (2021: 14).

12. INCOME TAX

Income tax expense recognized in the **Stand-alone** Statement of Profit or Loss and Other Comprehensive Income

	2022	2021
Current tax expense	86	147
Corporate tax charge – on current year profit	86	147
Deffered tax (income) / expense	44	(155)
Origination (reversal) of temporary differences	(6)	-
Origination (reversal) of non temporary differences	50	(155)
Local tax	189	103
Innovation fee	28	15
Income tax (income) / expense	**347**	**110**

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

All figures in tables are in HUF million except otherwise noted

Reconciliation of effective tax rate

	2022		2021	
	%	HUF million	%	HUF million
Profit before income tax		2,158		2,855
Income tax using the domestic corporation tax rate	9.00%	194	9.00%	257
Local tax	8.72%	189	3.61%	103
Innovation fee	1.30%	28	0.53%	15
Permanent difference	(0.88%)	(19)	(3.85%)	(110)
Re-assessment of unrecognised tax losses carryforwards	-	-	(3.71%)	(106)
Other effect	(2.09%)	(45)	(1.72%)	(49)
Income tax (income) / expense	**16.08%**	**347**	**3.85%**	**110**

The Bank relied on its available business plans for calculating the amount of tax losses that can be offset against future tax bases. The Bank calculates the deffered tax according to the available numbers of the plan, based on which the unused negative tax base remains.
Tax losses can be offset against up to 50% of future tax bases.

On 31 December 2022, the Bank had unused tax losses amounting to HUF 25,732 million (2021: HUF 26,694 million) with the following maturity:

	2022	2021
Maturity up to 2030	25,732	26,694
Tax loss carryforwards	**25,732**	**26,694**

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:

2022 P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences				
<u>Assets</u>				
Intangible assets and tangible assets	-	6	-	6
Deffered Tax Assets – due to tax losses	512	(50)	-	462
Subtotal DTA before netting	**512**	**(44)**	**-**	**468**
Subtotal DTA after netting of balance sheet position	**512**	**(44)**	**-**	**468**

2021 P/L-effective and neutral effects on deffered tax assets (DTA) and deffered tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deffered Tax Assets - due to taxable temporary differences				
Assets				
Deffered Tax Assets – due to tax losses	406	106	-	512
Liabilities				
Effect of corporate tax of IFRS adoption	58	(49)	(9)	-
Subtotal DTA before netting	**406**	**106**	**0**	**512**
Subtotal DTL before netting	**58**	**(49)**	**(9)**	**-**
Subtotal DTA after netting	**348**	**155**	**(9)**	**512**

The tax authority conducted a full-scale tax investigation at the Company for the years 2018-2019. The tax authority can examine the accounting records for up to six years after the period to which they relate, and additional tax or fines may be imposed.

13. OTHER COMPREHENSIVE INCOME

Components of other comprehensive income

	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Items that will not be reclassified to profit or loss	**-**	**9**
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
including: decrease/derecognition from equity instruments measured at fair value		-
Income tax relating to items that will not be reclassified	-	9
Items that may be reclassified to profit or loss	**290**	**(502)**
Hedging instruments	-	183
Debt instruments at fair value through other comprehensive income	290	(685)
Income tax relating to items that may be reclassified to profit or (-) loss	-	-
Total comprehensive income	**290**	**(493)**

All figures in tables are in HUF million except otherwise noted

14. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash balances at central banks	14	3
Other demand deposits	328	226
Total	**342**	**229**

15. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	31 December 2022	31 December 2021
Derivative financial assets		
Swap deals	70	-
IRS deals	-	-
MIRS deals	5,191	2,359
Total	**5,261**	**2,359**

	31 December 2022	31 December 2021
Derivative financial liabilities		
IRS deals	5,128	2,299
MIRS deals	18	10
Total	**5,146**	**2,309**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2022	31 December 2021
Equity instruments	10	10
Debt securities	18,162	26,232
from this: Discount treasury tickets	-	22,644
from this: Government bonds	*8,947*	*3,588*
from this: Credit institution bonds	*9,215*	-
Total	**18,172**	**26,242**

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

All figures in tables are in HUF million except otherwise noted

Shares	Fair Value at (thousand HUF) 31 December 2022
MTB Bank of Hungarian Savings Cooperatives Co. Ltd.	2
Central Body of Integrated Credit Institutions	10,000
Takarék Egyesült Szövetkezet	10
Total	**10,012**

The Bank is not derecognised any investments in equity instruments at fair value through other comprehensive income during the reporting period.

17. FINANCIAL ASSETS AT AMORTISED COST

	31 December 2022	31 December 2021
Debt securities gross	319,743	250,536
from this: Government bonds	289,044	227,899
from this: Mortgage bonds	3,069	3,983
from this: Corporate	27,630	18,653
Impairment on debt securities	(17)	(15)
Loans gross	*394,744*	*364,570*
from this: Due from banks	*368,462*	*331,955*
from this: Retail	*25,797*	*32,100*
from this: Corporate	*485*	*515*
Impairment on loans	(1,563)	(1,051)
from this: Due from banks	(14)	(9)
from this: Retail	(1,347)	(1,016)
from this: Corporate	(202)	(26)
Advances gross	270	387
Impairment on advances	(5)	(11)
Deposit from central bank and other banks gross	68,582	10,764
Impairment on deposit from central bank and other banks gross	(17)	(3)
Total	**781,737**	**625,177**

31 December 2022	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	586	427	-	1,013
Collective	58	172	359	-	589
Total	**58**	**758**	**786**	**-**	**1,602**

The gross exposure of individual-impaired financial assets at amortised cost is HUF 1,849 million, and the gross exposure of collective-impaired financial assets at amortised cost is HUF 781,490 million at 31 December 2022. From the individual-impaired financial assets the gross corporate portfolio is HUF 406 million (related impairment HUF 162 million) and the gross retail loan portfolio is HUF 1,442 million (related impairment HUF 851 million) on 31 December 2022. Among the collective-impaired financial assets, the gross corporate portfolio is HUF 79 (related impairment HUF 40 million) and the gross retail loan portfolio is HUF 24,355 million (related impairment HUF 496 million) at 31 December 2022.

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased or originated credit-impaired assets	Total
Individual	-	482	147	-	629
Collective	38	181	232	-	451
Total	**38**	**663**	**379**	**-**	**1,080**

The gross exposure of individual-impaired financial assets at amortised cost is HUF 2,056 million, and the gross exposure of collective-impaired financial assets at amortised cost is HUF 624,201 million at 31 December 2021. From the individual-impaired financial assets the gross corporate portfolio is HUF 515 million and the gross retail loan portfolio is HUF 1,546 million (related impairment HUF 601 million) at 31 December 2021. Among the collective-impaired financial assets, the gross corporate portfolio is HUF nil and the gross retail loan portfolio is HUF 30,554 million (related impairment HUF 415 million) at 31 December 2021.

All figures in tables are in HUF million except otherwise noted

18. LOANS AND ADVANCES TO CUSTOMERS MANDOTORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2022	31 December 2021
Loans	6,593	9,787
Total	**6,593**	**9,787**

Loans included in non-trading financial assets that are required to be measured at fair value through profit or loss are those groups of loans that do not pass the cash flow test. Loss on non-trading financial assets mandatorily at fair value through profit or loss amounted to HUF 867 million at 31 December 2022 (31 December 2021 is HUF 438 million, gain).

19. INTANGIBLE ASSETS

31 December 2022	Software	Other intangible assets	Total
Gross value			
Opening balance	1,195	-	1,195
Increase	67	-	67
Decrease	(24)	-	(24)
Closing balance	**1,238**	**-**	**1,238**
Depreciation			
Opening balance	894	-	894
Annual depreciation	31	-	31
Decrease	(24)	-	(24)
Closing balance	**901**	**-**	**901**
Impairment			
Opening balance	98	-	98
Increase	-	-	-
Decrease	-	-	-
Closing balance	98	-	98
Net value	**239**	**-**	**239**

The Bank estimates the recoverable amount of the intangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.

All figures in tables are in HUF million except otherwise noted

31 December 2021	Software	Other intangible assets	Total
Gross value			
Opening balance	1,178	-	1,178
Increase	17	-	17
Decrease	-	-	-
Closing balance	**1,195**	**-**	**1,195**
Depreciation			
Opening balance	872	-	872
Annual depreciation	22	-	22
Decrease	-	-	-
Closing balance	**894**	**-**	**894**
Impairment			
Opening balance	98	-	98
Increase	-	-	-
Decrease	-	-	-
Closing balance	98	-	98
Net value	**203**	**-**	**203**

20. TANGIBLE ASSETS

31 December 2022	Property	Office equipment	Total tangible assets
Gross value			
Opening balance	36	147	183
Increase	-	-	-
Decrease	-	(25)	(25)
Closing balance	36	122	158
Depreciation			
Opening balance	36	92	128
Annual depreciation	-	3	3
Decrease	-	(18)	(18)
Closing balance	36	77	113
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**-**	**45**	**45**

All figures in tables are in HUF million except otherwise noted

The Bank estimates the recoverable amount of the tangible asset. Recoverable amount is the fair value of the asset net of the costs of sale, or the value in use, whichever is higher. Where the carrying amount of an asset exceeds its recoverable amount, the Bank recognises impairment on the asset, by this the carrying amount is written down to the recoverable amount.
Tangible assets of the stand-alone financial statement contains the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 18 million as at 31 December 2022. (Note 21)

31 December 2021	Property	Office equip-ment	Total tangible assets
Gross value			
Opening balance	36	195	231
Increase	-	2	2
Decrease	-	(50)	(50)
Closing balance	36	147	183
Depreciation			
Opening balance	32	123	155
Annual depreciation	4	5	9
Decrease	-	(36)	(36)
Closing balance	36	92	128
Impairment			
Opening balance	-	-	-
Increase	-	-	-
Decrease	-	-	-
Closing balance	-	-	-
Net value	**-**	**55**	**55**

Tangible assets of the stand-alone financial statement contain the right-of-use assets under IFRS 16. The net carrying amount of the right-of-use assets was HUF 40 million as at 31 December 2021. (Note 21)

All figures in tables are in HUF million except otherwise noted

21. IFRS 16 LEASES

Right-of-use asset and tangible assets

	31 December 2022	31 December 2021
Owned property, plant and equipment	45	55
Right-of-use assets, expect investment properties	18	40
Total property, plant and equipment	**63**	**95**

Lease liability

Lease liabilities presented in the statement of financial position

	31 December 2022	31 December 2021
Short term	11	28
Long term	9	20
Total lease liabilities	**20**	**48**

Maturity analysis - undiscounted contractual payments

	31 December 2022	31 December 2021
Up to 1 year	12	28
1 year to 5 years	9	20
Total undiscounted lease liabilities	**21**	**48**

Right-of-use asset

	Property	Company Car	Total
Opening balane at 1 January 2021	**39**	**10**	**49**
Increase	3	13	12
Amortization for the year	(15)	(3)	(18)
Decrease	(6)	(1)	(3)
Balance at 31 December 2021	**21**	**19**	**40**
Increase	46	9	55
Amortization for the year	(28)	(5)	(33)
Decrease	(33)	(11)	(44)
Balance at 31 December 2022	**6**	**12**	**18**

All figures in tables are in HUF million except otherwise noted

Total cash outflow for leases

	1 January 2022 – 31 December 2022	1 January 2021 – 31 December 2021
Total cash outflow for leases	(27)	(16)

Items related to lease liabilities presented in profit or loss

	1 January 2022–31 December 2022	1 January 2021–31 December 2022
Interest expense on the lease liabilities	-	(1)
Total	**-**	**(1)**

Items presented in the statement of cash flows

	1 January 2022 – 31 December 2022	1 January 2021 – 31 December 2021
Operating cash flow		
Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability	-	-
Cash payments for the principal portion of the lease liability	(27)	(16)

22. OTHER ASSETS

	31 December 2022	31 December 2021
Prepaid expenses*	89	303
Stocks	4	-
Repossessed collateral	2	2
Reclaimable taxes**	3	96
Others	-	4
Total	**98**	**405**

** A significant part of the prepaid expenses is the revenue not yet invoiced, recognised under the SLA settlement agreement between the members of the MTB Bank group.*
*** A significant amount of reclaimable taxes has been accrued due to the special epidemiological tax, as the Goverment Decree No. 108/2020 (IV.14.) on the special tax on credit institutions related to the epidemiological situation. The tax paid can be deducted from the special tax payment obligation of financial institutions in the next 5 years (2021-2025).*

All figures in tables are in HUF million except otherwise noted

23. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank reports mainly mortgage bonds and bonds measured at fair value on 'Financial liabilities at fair value through profit or loss' line in the statement of financial position.
Such financial liabilities are issued mortgage bonds, bonds and interbank loans (that are economically closely related to the swaps, which are entered to mitigate risks and not classified as the hedged item in hedging). The contractually required payment at maturity to the holder of the obligation is the face value of these financial liabilities. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate. The change in fair value other than attributable to change in market conditions, that give right to market risk represent credit risk.

	31 December 2022		31 December 2021	
	Fair value	Face value	Fair value	Face value
Listed mortgage bonds				
Fixed interest	-	-	6,121	5,849
Floating interest	-	-	-	-
Total mortgage bonds	**-**	**-**	**6,121**	**5,849**
Total Financial liabilities designated at fair value through profit or loss	**-**	**-**	**6,121**	**5,849**

The total credit risk which is due to financial liabilities through profit or loss was HUF -0.09 million as of 31 December 2021. The financial liabilities designated at fair value profit or los was expired in 2022, there were not any new issued bonds.

24 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31 December 2022	31 December 2021
Loans received*	377,771	263,131
Debt securities issued	355,799	321,714
Other financial liabilities	613	689
Total	**734,183**	**585,534**

**To moderate the economic and financial consequences of the turbulences brought about by the coronavirus pandemic, the Hungarian Central Bank decided to reshuffle its monetary policy toolset.*
Similarly to the ECB's steps, the MNB introduced a new, fixed-rate collateralized credit tool - Long Term Refinancing Operations (LTRO) - on 3-, 6- and 12-month as well as 3- and 5-year tenors, which are available through tenders with no pre-specified limits as to the amount of liquidity. The first tender took place on March 25th. The fixed rate (valid through the entire maturity of the loan) is identical to the prevailing base rate (it was 0.9% at its launch, reduced to 0.75% on June 24th), resulting in a 50 to 60bp lower financing cost than in the case of interbank financing.
The Bank actively participated at these tenders, and up to the end of 2022 it obtained HUF 235,768 million (31 December 2021: HUF 235,766 million) long-term (3- and 5-year) loans, which is used to purchase securities with favourable yield characteristics.

All figures in tables are in HUF million except otherwise noted

24.1 Issued debt securities

The Bank reports mortgage bonds and bonds that are recognised at amortised cost on 'Issued debt securities' line in the position:

	31 December 2022		31 Decem
	Net book value	Face value	Net book value
Non-listed mortgage bonds			
Listed mortgage bonds			
Fixed interest	324,940	336,923	290,985
Floating interest	30,859	30,326	30,729
Total mortgage bonds	**355,799**	**367,249**	**321,714**
Total issued securities	**355,799**	**367,249**	**321,714**

All figures in tables are in HUF million except otherwise noted

Mortgage bonds

Mortgage bonds are strictly regulated transferable, registered securities and, pursuant to the Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds (Mortgage Act), can be issued only by mortgage banks.

Special status in case of liquidation and resolution

The obligations arising from the Mortgage Bonds are equal in rank to each other (pari passu) in the event of the liquidation or resolution of the Issuer. Unlike the Issuer's other unsecured, non-subordinated obligations, they enjoy a special status under the Section 20 Subsection (5) and Section 21 Subsection (2) of the Mortgage Act, given that these claims do not form part of the liquidation assets.

Security of Mortgage Bonds

According to the Section 14 Subsection (1) Mortgage Act Mortgage loan companies shall at all times have sufficient cover assets to ensure that all liabilities of the mortgage bonds are covered. The liabilities referred to in Subsection (1) shall include:

a) the obligations for the payment of the principal amount of outstanding mortgage bonds;
b) the obligations for the payment of any interest on outstanding mortgage bonds;
c) the obligations attached to derivative contracts held in accordance with the requirements set out in this Act; and
d) the expected costs related to maintenance and administration for the winding-down of the mortgage bond program.

According to the Section 14 Subsection (1b) Mortgage Act the following cover assets shall be considered to contribute to the coverage requirement:

a) *ordinary assets*; principal, interest, costs according to Section 14 subsection (3). The amount of ordinary collaterals must always reach 80% of outstanding mortgage bonds with a remaining maturity of longer than 180 days. In case of loans secured by a residential real estate the principal arising from a mortgage loan can be considered as ordinary collateral up to 70% of the mortgage lending value of the property. In case of loans secured by commercial real estate the limit is 60%.
b) *complementary assets* serve to complement ordinary security and shall contain assets set out in Section 14 subsection (11)
c) *liquid assets* held in accordance with Section 14/B, other than those mentioned in Section 14. Subsection (1b) sub-subsection b) hereof; and
d) claims for payment attached to *derivative contracts* held in accordance with the requirements set out in the Mortgage Act (Section 14 subsection (6))

According to Section 14/B Subsections (1) and (2) in order to cover the net liquidity outflow, the mortgage bond program shall contain a cover pool liquidity buffer composed of liquid assets. The cover pool liquidity buffer shall cover the maximum cumulative net liquidity outflow over the next 180 days. The Subsection (3) regulates which types of segregated assets shall the cover pool liquidity buffer consist of.

According to Section 14 Subsection (4) collaterals of mortgage bonds have to be calculated and monitored based on both on nominal and present value calculation.

In accordance with Section 14 subsection (17) the overcollateralization of outstanding mortgage bonds have to be least 2 percent.

The independent property supervisor monitors and certifies the permanent availability of the collateral for the mortgage bonds, as well as the registration of the collateral providing the ordinary collateral of the mortgage bonds, of their real estate registration data and loan to value, as well as of the ordinary and additional collateral.

Bonds

From 2007 the Bank issued senior unsecured bonds in addition to mortgage bonds. However, the Bank did not issue senior unsecured bonds since 2019.

Bonds are registered, dematerialized, transferable debt securities issued on the basis of Act CXX of 2001 on Capital Markets as amended and of Government Decree No. 285 of 2001 (26 December).

Bonds incorporate the Bank's direct, unconditional, non-subordinate unsecured liabilities, which are equal in rank (pari passu) to the Bank's other outstanding unsecured non-subordinate liabilities at any time in the hierarchy of repayment in the event of bankruptcy, voluntary liquidation or foreclosure except for liabilities, which have precedence on the basis of the governing laws on voluntary liquidation or other relevant statutory provisions.

25 PROVISIONS

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

2022	*Provision for loan commitments and guarantees*	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2022	**1**	**13**	**14**	**28**
Increase in the period	1	4	-	5
Derecognition / Use of provision in the period	(1)	(13)	(2)	(16)
Closing balance at 31 December 2022	**1**	**4**	**12**	**17**

All figures in tables are in HUF million except otherwise noted

Individual Investors Interest Association (TEBÉSZ) filed a lawsuit in the Capital Court for the annulment of the Company's resolutions number; 4/2019 (08.27.), 6/2019 (08.27.) and 7/2019 (08.27.) taken on the General Meeting of the Company held on August 27, 2019, and also asked the suspension of the enforcement of the resolutions. The Court of first instance rejected the lawsuit of TEBÉSZ on 17 of December 2020. The Bank has won the lawsuit in the second instance in 2021.

In 2022, the Hungarian Central Bank (MNB) revised again the regulations on mortgage funding compliance indicator (JMM). Pursuant to the amendment from 1 July, 2022, foreign currency mortgage-backed liabilities can also be included in the calculation of the indicator under certain conditions, thus supporting the expansion of the investor base for mortgage bonds. There is only limited scope for offsetting against funds raised against corporate loans secured by commercial real estate. In parallel, the denominator of the indicator is extended to include foreign currency residential mortgage loans.

In view of the uncertain macroeconomic and financial environment, the MNB has reviewed its further tightening decisions, and first postponed the increase of the minimum target level of the JMM indicator from 25% to 30% by one year to 1 October 2023 and then postponed for an indefinite period by a further amendment of the regulation governing the indicator.

2021	*Provision for loan commitments and guarantees*	Provision for amounts relating to accrued vacation pay	Other provision	Total
Opening balance at 1 January 2021	**1**	**15**	**100**	**116**
Increase in the period	-	-	-	-
Derecognition / Use of provision in the period	-	(2)	(86)	(88)
Closing balance at 31 December 2021	**1**	**13**	**14**	**28**

26. OTHER LIABILITIES

	31 December 2022	31 December 2021
Taxes payable	35	32
Accrued expenses	783	793
Income accounting	-	1
Other	3	1
Total	**821**	**827**

All figures in tables are in HUF million except otherwise noted

27. SHARE CAPITAL

27.1. Ownership structure

The extraordinary general meeting of Takarék Mortgage Bank held on 12 July 2022 converted 14,163,430 pcs of series "B" preference shares (dividend preference shares) with a nominal value of HUF 100 each, with a total nominal value of HUF 1,416,343,000 into 14,163,430 pcs of series "A" ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 1,416,343,000, and converted its 2,832,686 pcs series "C" ordinary shares with a nominal value of HUF 1,000 each and a total nominal value of HUF 2,832,686,000 into 28,326,860 pcs series "A" ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 2,832,686,000. The converted shares were registered on the Budapest Stock Exchange (BSE) on 7 October 2022.

The table shows the ownership structure of the owners from different sectors as follows:

Shareholder	31 December 2022		31 December 2021	
	Holding %	Number of shares (piece)	Holding %	Number of shares (piece)
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	52.1	56,527,893	53.28	57,801,776
Foreign institutional investors	0.00	5,980	0.01	6,343
Domestic private investors	2.83	3,062,275	2.82	3,057,946
Foreign private investors	0.01	10,089	0.01	8,621
Employees, directors and senior management	0.00	0	0.00	0
Treasury shares	0.23	253,601	0.23	253,601
Government held owner	44.8	48,597,602	4.45	4,832,225
Other	0.03	32,860	0.04	39,498
Subtotal (Series "A")	*100.00*	*108,490,300*	*60.84*	*66,000,010*
Dividend preference not listed on BSE (Series "B")				
Domestic institutional investors	-	-	13.05	14,163,430
Subtotal (Series "B")	-	-	*13.05*	*14,163,430*
Ordinary shares not listed on BSE (Series "C")				
Domestic institutional investors	-	-	26.11	2,832,686
Subtotal (Series "C")	-	-	*26.11*	*2,832,686*
Total	**100**	**108,490,300**	**100**	**82,996,126**

All figures in tables are in HUF million except otherwise noted

27.2. Owners with more than 5% ownership relating to listed series

Name	Custodian Bank (yes/no)	Number of shares (piece)	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	52,531,760	48.42%
Magyar Posta Ltd.	no	43,076,417	39.71%
Total		**95,608,177**	**88.13%**

On 18 October 2022, MKB Bank Plc. acquired 43,076,417 pcs of series "A" dematerialised ordinary shares with a nominal value of HUF 100 each owned by MTB Ltd. in Takarék Mortgage Bank. With this transaction, MKB Bank acquired a 39.71 % direct qualifying holding (voting rights) in Takarék Mortgage Bank. The ownership stake of MTB Ltd. decreased to 48.42%. On 2 December 2022, Magyar Posta Ltd. acquired from MKB Bank Plc. its full stake in Takarék Mortgage Bank as a result of an exchange of shares; with this transaction, Magyar Posta Ltd. acquired a 39.71 % direct qualifying holding (voting rights) in Takarék Mortgage Bank.

27.3 Owners with more than 5% ownership relating to total equity

Name	Custodian Bank (yes/no)	Number of shares (piece)	Stake (%)
MTB Bank of Hungarian Saving Cooperatives Co. Ltd.	no	52,531,760	48.42%
Magyar Posta Ltd.	no	43,076,417	39.71%
Total		**95,608,177**	**88.13%**

27.4 The following amounts were used in the calculation of earnings per share:

	31 December 2022	31 December 2021
Loss of shareholders of the Bank	1811	2 745
Change of general reserve	(181)	(275)
Attributable profit	**1 630**	**2 470**
Weighted average number of shares	108 236 699	108 236 699

Earnings per share ratio is calculated as the profit attributable to shareholders of the Bank divided by the weighted average number of shares outstanding during the period excluding treasury shares. For the diluted earnings per share figure the profit attributable to shareholders and the weighted average number of shares outstanding needs to be adjusted by all of the potentially diluting securities. For the normal earnings per share figure the profit attributable to shareholders means the result for the year decreased by the amount of the general reserves which is divided by the number of the shares excluding the number of the treasury shares by the Bank. The Bank has no dilutive potential ordinary shares. Earnings per share figure therefore equals to the diluted earnings per share figure.

All figures in tables are in HUF million except otherwise noted

27.5 Treasury shares purchased

	31 December 2022	31 December 2021
Opening balance	207	207
Purchase	-	-
Closing balance	**207**	**207**

During the reporting period there were no changes in the cumulative balance of Treasury share purchased.

27.6 Other reserve

	31 December 2022	31 December 2021
General reserve	1,620	1,439
Closing balance	**1,620**	**1,439**

27.6.1 General reserve

In accordance with statutory requirements, the Bank is required to set up a non-distributable general reserve equal to 10% of statutory profit after tax. Increases in the general risk reserve are separated from retained earnings, as calculated under Hungarian regulatory rules, and thus are not charged against income. According to the Section 13 (8) of the Government Decree No. 250/2000 (XII.24.) on the specifics of the annual reporting and bookkeeping tasks of investment companies are required to release the general reserve when loss after tax deduction occurs. The amount of the General reserve is HUF 1,620 million as at 31 December 2022 (General reserve was HUF 1,439 million as at 31 December 2021).

All figures in tables are in HUF million except otherwise noted

27.7. Cumulated other comprehensive income

	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Opening balance at the beginning of the period	(233)	260
Cumulated other comprehensive income	**(290)**	**(493)**
Items that will not be reclassified to profit or loss	**-**	**9**
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Income tax relating to items that will not be reclassified	-	9
Items that may be reclassified to profit or loss	**290**	**(502)**
Hedging instruments	-	183
Debt instruments at fair value through other comprehensive income	290	(685)
Income tax relating to items that may be reclassified to profit or loss	-	-
Closing balance at the end of the period	**57**	**(233)**

28 COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the stand-alone statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.
Off-balance sheet commitments comprise of loans not drawn and other contracted future payments to suppliers of the Bank:

	31 December 2022	31 December 2021
Loan commitments	27,103	24,391
Total	**27,103**	**24,391**

All figures in tables are in HUF million except otherwise noted

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

29.1 Fair value of financial assets measured at amortised costs

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

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

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

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

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

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

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

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

	31 December 2022		31 December 2021	
	Net book value	Fair value	Net book value	Fair value
Financial assets measured at amortised cost	781,737	724,470	625,177	598,072

29.2 Fair value of other items in the statement of financial position

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

29.3 Fair value of derivative transactions

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

	Fair value		Notional amount	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Swap deals	70	-	4,657	-
IRS	-	-	-	-
MIRS	5,191	2,359	17,751	17,751
Total trading derivatives	**5,261**	**2,359**	**22,408**	**17,751**
Hedge deals	975	-	21,500	-
Total derivative financial assets	**6,236**	**2,359**	**43,908**	**17,751**

All figures in tables are in HUF million except otherwise noted

	Fair value		Notional amount	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
IRS	5,127	2,299	17,501	17,501
MIRS	19	10	151	151
Total trading derivatives	**5,146**	**2,309**	**17,652**	**17,652**
Hedge derivatives	2,639	1,112	37,000	24,850
Total derivative financial liabilities	**7,785**	**3,421**	**54,652**	**42,502**

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

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

The risk premium is significant and permanent, it is justified to incorporate it into the evaluation method of swaps. The yield curve is adjusted with the risk premium. The application of the appropriate risk premium enhances the accuracy of the fair value calculation (please also refer to Note 3) taking counterparty and own credit risk into amount (CVA/DVA) in accordance with IFRS 13.

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

In the valuation of hedging transactions, the Bank establishes a so-called hypothetical swap and measures its efficiency accordingly. The Bank introduced hedge accounting in the second quarter of 2019 for swap transactions in the individual IFRS financial statements of Bank. The effect of this is shown in the table on December 31,2022

All figures in tables are in HUF million except otherwise noted

29.4 Fair value hedge transactions

31 December 2022

Description of the hedging instrument	Types of hedged items	Fair value of the hedging instrument	Fair value of the hedged items	Gains on the hedging instrument	Losses on the hedged items
IRS	Issued mortgage bonds	(2,438)	21,707	(2,337)	2,708
IRS	Securities	774	24,353	878	(911)

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

29.5. Financial assets subject to offsetting and potential offsetting agreements in- 2022

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position	Net amount after potential offsetting
			Financial instruments	
Financial assets for trading	1,046	1,046	7,766	(6,720)
Total	**1,046**	**1,046**	**7,766**	**(6,720)**

Liabilities subject to offsetting and potential offsetting agreements - 2022

	Gross amounts in Statement of Financial Position	Net amounts in Statement of Financial Position	Potential effects of netting agreements not qualifying for offsetting in Statement of Financial Position	Net amount after potential offsetting
			Financial instruments	
Financial liabilities for trading	7,766	7,766	7,766	-
Total	**7,766**	**7,766**	**7,766**	**-**

Bank employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty.

All figures in tables are in HUF million except otherwise noted

For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column 'Financial instruments'. If the net position is further secured by cash collateral or non-cash financial collaterals the effects are disclosed in columns 'Cash collateral received / pledged' and 'Non-cash financial collateral received / pledged' respectively.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column 'Non-cash financial collateral received / pledged' respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge.

29.6. Fair value of financial instruments carried at fair value

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

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

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

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

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

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

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

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

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

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

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

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

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

	31 December 2022		
	Level 1	Level 2	Level 3
Assets			
Derivative financial assets	-	5,261	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	6,593
Securities at fair value through other comprehensive income	18,172	-	-
Hedging derivative assets	-	975	-
Total assets carried at fair value	**18,172**	**6,236**	**6,593**

	31 December 2022		
	Level 1	Level 2	Level 3
Liabilities			
Derivative financial liabilities	-	5,146	-
Hedging derivative liabilities	-	2,639	-
Total assets carried at fair value	**-**	**7,785**	**-**

All figures in tables are in HUF million except otherwise noted

	31 December 2021		
	Level 1	Level 2	Level 3
Assets			
Derivative financial assets	-	2,359	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	9,787
Securities at fair value through other comprehensive income	22,644	3,598	-
Hedging derivative assets	-	-	-
Total assets carried at fair value	**22,644**	**5,957**	**9,787**

	31 December 2021		
	Level 1	Level 2	Level 3
Liabilities			
Derivative financial liabilities	-	2,309	-
Financial liabilities designated at fair value through profit or loss	-	6,121	-
Hedging derivative liabilities	-	1,112	-
Total assets carried at fair value	**-**	**9,542**	**-**

Instruments' movements in Level 3	Non-trading financial assets mandatorily at fair value through profit or loss 2022	Non-trading financial assets mandatorily at fair value through profit or loss 2021
Opening balance – 1 January	**9,787**	**11,823**
Stand-alone Statement of profit or loss	-	-
(Loss)/Profit	(867)	438
Other comprehensive income	-	-
Transactions	-	-
Purchase/portfolio growth	-	-
Porfolio decrease	(2,327)	(2,474)
Tansfers	-	-
Transfer to Level 3	-	-
Transfer from Level 3	-	-
Closing balance – 31 December	**6,593**	**9,787**

All figures in tables are in HUF million except otherwise noted

30 RISK MANAGEMENT

30.1 Overview

Takarék Mortgage Bank Plc. is a member in Central Body of Integrated Credit Institutions (CBIC). Due to the membership in the Integration the scope of the risk management policies of the Integration, as well as risk strategy have been extended to the Bank.

Based on the Section 5 of Article 1 of the Act CXXXV of 2013 on integration of cooperative financial institutions and modification of certain rules on economic issues (Szhitv) the Integration Organisation and its members are required to accept joint and several responsibility for each other's obligations according to the Act V of 2013 on the Civil Code (Civil Code). The joint and several responsibility system covers also all the receivables to Integration Organisation and its members, independently the date of its occurrence.

Based on the Section 5 of Article 1 of Szhitv the Integration Organisation and its members are under the combined supervision according to Credit Institution Act.

If the conditions are met in the Article 10 of the EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council based on the Section 5 of Article 1 of Szhitv the integration of credit institutions is exempted from individual applying of the requirements are defined in the Section (2)-(8) of CRR. According to the resolution no. H-JÉ-I-209/2014 (on 3 March 2014) the National Bank of Hungary (MNB) authorized the members of the Integration to apply individual exemption based on the Article 10 of CRR.

Hungarian Bankholding Ltd. commenced its effective operation on 15 December 2020, after the MNB approved the merger of Budapest Bank Group, MKB Bank Plc. and Takarék Group, and the shares of the key owners were transferred to the joint holding company.

Following the transfer of the in-kind contributions, until April 2022 the financial holding company exercised prudential control and group management functions over the three banking groups after this date MKB Bank Plc. is responsible for these.

The H-EN-I-70/2021 resolution of the Hungarian National Bank (MNB) dated 17.02.2021 placed under consolidated supervision Hungarian Bankholding Ltd., MKB Bank Plc., Budapest Bank and MTB Ltd. and its prudential consolidation group, including Takarék Mortgage Bank Co. Plc.. The MNB imposed a sub-consolidation obligation on the MTB Group.
Following the merger of Budapest Bank and Hungarian Savings Bankholding into MKB Bank Plc. and the acquisition of the majority stake in Takarékbank, MKB Bank Plc. became the direct and indirect owner of the former Hungarian Bankholding Group from 1 April 2022.
Hungarian Bankholding Ltd. surrendered its licence to operate with effect from 28 April 2022, which was accepted by the MNB in its resolutions H-EN-119/2022 and H-EN-I-265/2022.
From 29 April 2022 the group controlling function has been transferred from Hungarian Bankholding Ltd. to MKB Bank Plc..
The H-EN-I-267/2022 resolution of the MNB dated 10.05.2022 placed under consolidated supervision MKB Bank Plc., and MTB Ltd. and its prudential consolidation group, including the Integration Organisation and Takarék Mortgage Bank Co. Plc.. The MNB has continued to impose a sub-consolidation obligation on the MTB Group.

In determining the expected lives of these transactions with no cash-flow, the Bank applies a fixed lifetime on an expert basis.

In addition to these, categories based on the number of days past due in impairment calculations also influence the allocation of the parameters related to the probability of default.

Risk Strategy – approved by the Board of Directors of MTB Ltd. is mandatory for credit institutions and companies under consolidated supervision led by MTB Ltd. – cover: risk culture, risk taking principles, objectives, risk types, significant risks, risk appetite and risk capacity, risk structure, risk management, the structure and organization of risk management.

The Integration and its member institutions seek to create an integrated risk culture which covering the whole Integration and which is in line with their risk appetite, and their risk tolerance ensure the identification, measurement and management of the emerged risks. The primary tools for creating a risk culture are internal policies, strategies, regulations and guidelines, communication, and the training of employees.

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

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

The Risk Strategy is based on the following main pillars:

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

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

30.2 Risk management structure

Board of Directors

The Boards of Directors of the banks are responsible for the Takarék Mortgage Bank's risk management policy and strategy. The Boards of Directors approve the basic framework rules for risk management and guidelines of applicable methodologies. Due to the Integration Membership Takarék Mortgage Bank follows the Integration Risk Policy/ Strategy, applies uniform risk management policies and reports about its risks to the Central Bodies of the Integration (IHKSZ) to the Integration Business Management Organization (MTB Ltd) and MKB Bank Plc.
Based on regular risk exposure reports, the Boards of Directors evaluate the risk management activities and the level of exposure of the banks. If the level of exposure undertaken by the banks does not correspond to the strategy the Board takes measures to contain risks.

Supervisory Board

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

Risk Control and Assets and Liabilities Committee (KK-EFB)

The Risk Control and Assets and Liabilities Committee exercise its authority on an individual level referring to the Bank.

The responsibilities of the Risk Control and Asset-Liability Committee include asset-liability management, planning / controlling, pricing, sales, product development, market risk management, liquidity risk management, credit and counterparty risk, concentration risk, and operational risk management - risk policy / risk strategy - , capital management.

It constantly monitors the liquidity position of Takarék Mortgage Bank and makes proposals on its interest rate policy. It creates and continuously maintains a balance between income and liquidity, always adhering to the principles of prudent operation.

Refinancing Lending Committee

The purpose of the operation of the Refinancing Lending Committee is to make the necessary decisions to establish certain terms and conditions of the Bank's refinancing business that will be concluded with a particular partner bank (framework agreement).

Methodology Committee (MB)

The competence of the Methodology Committee is exercised at the individual level of MKB Bank Plc. and the Bank.

The Methodology Committee performs all the tasks required by law or supervisory recommendations from a risk control, a risk methodology, an operational risk management and an NPL committee in the areas specified in the Rules of Procedure of the Standing Committees.

In detail:

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

• Setting concentration and country risk limits, approving risk management principles, allocating and re-measuring limits

• Approval of changes in risk parameters affecting risk appetite, including risk methodological proposals related to product development

• Approval of risk regulations

• Regular and adhoc risk reports (credit risk, operational risk, large exposures, internal credit, other risks, except market and liquidity, which is the responsibility of the EFB)

• ICAAP-SREP methodological changes, parameters, credit ratings, etc. approval (Pillar 1 and Pillar 2, including market risk topics), monitoring, supervisory control

• Develop and monitor an SREP action plan

• Modeling framework changes, model validation system approval

Internal Audit

The elements of the internal control system (management control and management information system incorporated in processes, and an independent internal control unit function) cover the Bank’s all organizational units and are incorporated in day-to-day operation. They are traceable and provide feedback to the appropriate levels of management and control.

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

<u>Risk evaluation and reporting system</u>
The Bank is measured the risk exposure in accordance with the methods defined in laws and integration policies.
In terms of liquidity as well as interest and exchange rate risks, risks are essentially monitored and controlled by means of setting up limits of acceptable exposure. The limits reflect the willingness to undertake risks, and the market environment. The Bank collects and analyses data about events and losses related to risk from operation. As a result of risk assessment, the Bank determines the level of capital justified by the level of acceptable exposure.
The Boards of Directors and The Supervisory Board evaluate the reports on risks on a quarterly basis.

Green Covered Bond Committee
TMB established its Green Covered Bond Committee (hereinafter referred as GCBC) to increase the role of green factors in its business and risk management governance. The Committee consists of the CEO, deputy CEO responsible for the Risk Management – Chairman of GCBC, Heads of Capital Market, Refinancing, ALM, Collateral Registry, Collateral Management. GCBC reports directly to the Management of Board. Pursuant to the internal regulations, the GCBC decides on the 'green' quality if new collateral is involved, and regularly reviews the adequacy of the green collateral behind the issued green mortgage bonds.

30.3.Risk mitigation

<u>Interest rate and exchange rate risks</u>
To minimize the risk of interest- and foreign exchange rate risks the Bank manages their asset and liability structure.

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

The Bank is suspended the new loan placement activity based on strategy decision during 2018, keep handling the existing loan portfolio. There through the Bank monitors client and partner rating on an ongoing basis.

The Bank rates the creditworthiness of their clients and partners and classifies them into client or partner categories. Risk is only accepted if the client's or partner's rating is appropriate. The Bank monitors client and partner rating on an ongoing basis.

Risk taking to retail clients is based on the use of standardized loan schemes and lending processes, resulting in a portfolio characterized by high number of customers, small amounts of individual loans and diversification.
Corporate lending is based on individual assessment and the continuous monitoring is in focus.
The Bank applied strict regulations to determine the scope of eligible collaterals, their valuation method and the coverage ratio.

30.4. Credit risk

30.4.1 Credit risk

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The standard has been endorsed by the European Union (EU).

Impairment

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

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

Staged Approach to the Determination of Expected Credit Losses

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

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

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

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

Significant Increase in Credit Risk

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

Credit Impaired Financial Assets in Stage 3

The Bank has aligned its definition of credit impaired under IFRS 9 to when a Financial Asset has defaulted for regulatory purposes, according to the Capital Requirements Regulation (CRR) under Art. 178.
The determination of whether a Financial Asset is credit impaired focusses exclusively on default risk, without taking into consideration the effects of credit risk mitigants such as collateral or guarantees. Specifically, a Financial Asset is credit impaired and in Stage 3 when:

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

For Financial Assets considered to be credit impaired, the ECL allowance covers the amount of loss the Bank is expected to suffer. The estimation of ECLs is done on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio-based parameters to individual Financial Assets in these portfolios via the Bank's ECL model for homogeneous portfolios.
Forecasts of future economic conditions when calculating ECLs are considered. The lifetime expected losses are estimated based on the probability-weighted present value of the difference between 1) the contractual cash flows that are due to the Bank under the contract; and 2) the cash flows that the Group expects to receive.

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

Default

The Bank uses the CRR definition of default as a primary indicator of loss events in accordance with Article 178 (1) of CRR. A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:
(a) the Bank considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security;
(b) the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

Purchased or Originated Credit Impaired Financial Assets

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

Write-off

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

30.4.2 Model Descriptions - Expected Credit Loss

Stage determination

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

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

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

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

Expected Lifetime model

The expected lifetime of a Financial Asset is a key factor in determining the lifetime expected credit losses. Lifetime expected credit losses represent default events over the expected life of a Financial Asset. The Bank measures expected credit losses considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk.
Retail overdrafts, credit card facilities and certain corporate revolving facilities typically include both a loan and an undrawn commitment component. The expected lifetime of such on-demand facilities exceeds their contractual life as they are typically cancelled only when the Bank becomes aware of an increase in credit risk.In determining the expected lives of these transactions with no cash-flow, the Bank applies a fixed lifetime on an expert basis.

Forward-Looking Information

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

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

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

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

Assumptions and the Estimation Techniques

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

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

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

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

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

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

The counterparty ratings assigned are derived based on internally developed rating models which specify consistent and distinct customer-relevant criteria and assign a rating grade based on a specific set of criteria as given for a certain customer. The set of criteria is generated from information sets relevant for the respective customer segments including general customer behaviour, financial and external data. The methods in use range from statistical scoring models to expert-based models taking into account the relevant available quantitative and qualitative information. Expert-based models are usually applied for counterparties in the exposure classes “Central governments and central banks”, “Institutions” and “Corporates” with the exception of those “Corporates” segments. For the latter as well as for the retail segment statistical scoring or hybrid models combining both approaches are commonly used. Quantitative rating methodologies are developed based on applicable statistical modelling techniques, such as logistic regression.
In addition to these, categories based on the number of days past due in impairment calculations also influence the allocation of the parameters related to the probability of default.

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

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

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

Impact of the pandemic on credit risk management

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

- for retail customers in moratorium 1-2, not affected by moratorium 3 and/or moratorium 4, or who have exited from moratorium 1-2-3-4 and no other Stage3 indicator, then Stage2 classification is justified for at least 6 months after the end of the moratorium,
- for retail customers entering moratorium 3 or 4, a Stage3 classification is justified for the entire period of the moratorium if a significant deterioration in the income situation is justified on the basis of the client's declaration,
- for corporate customers in moratorium 1-2 that have been reclassified to Stage 2 and is not affected by moratorium 3 and or moratorium 4, or have exited moratorium 1-2-3-4 and no other Stage3 indicator is present, then Stage2 classification is justified for at least 24 months after the end of the moratorium,
- for corporate customers entering moratorium 3 or moratorium 4, a Stage3 classification is justified for the entire duration of the moratorium, from which can only be deviated with a detailed, objective justification supported by evidence, but only up to maximum of stage 2.
- customers who entered into „agricultural moratorium" have to be classified minimum as Stage2, but if the customer previously spent at least 9 months in moratorium has to be classified as stage3. They can be classified in Stage1 only on the basis of individual monitoring after the declaration has been made and taken into account. Individual deviations are possible from the application of Stage 3 and Stage2 triggers, which must be supported by detailed justification based on objective evidence in all cases.

For customers exiting the moratorium or customers on a contractual repayment schedule who never taking advantage of moratorium, the measurement of traditional credit behaviour will continue to be implemented. For retail customers, the Bank has reverted to the normal lifetime ECL/Expected Credit Loss calculation.
In case of corporate customers, the Bank will continue to determine the level of impairment based on the rating and the monitoring result.

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

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

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

- the proportion by which the income of customers entering the moratorium4 has decreased compared to 18.03.2020,
- in case of customers who entered into „agricultural moratorium", the models are not aware of the agricultural moratorium and therefore the willingness and ability to pay may contain a hidden high probability of default,
  the application of transitional staging rules alone does not always translate into a full increase in lifetime credit loss, even if macro parameters are updated.

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

IFRS 9 credit risk tables are presented below. *Credit risk exposure - Gross carrying amount per asset type, and loss allowa*
31 December 2022

31 December 2022	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased o originated cre impaired
Gross carrying amount per asset type				
Cash on hand	**-**	-	-	
Cash balances at central banks	**14**	-	-	
Investment grade	*14*	-	-	
Other demand deposits	**328**	-	-	
Investment grade	*328*	-	-	
Securities at fair value through other comprehensive income	**18,164**	-	-	
Investment grade	*18,164*	-	-	
Securities at amortized cost	**319,743**	-	-	
Investment grade	*319,743*	-	-	
Due from banks	**437,044**	**-**	**-**	
Investment grade	437,044			
Default grade	-	-	-	
Non-investment grade	-	-	-	
Retail	**10,137**	**13,223**	**2 437**	
Investment grade	*9,856*	*12,455*	-	
Default grade	-	-	*2 437*	
Non-investment grade	*281*	*768*	-	

All figures in tables are in HUF million except otherwise noted

Credit risk exposure - Gross carrying amount per asset type, and loss allowance –
31 December 2022 (continued)

31 December 2022 (continued)	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased o originated cred impaired
Gross carrying amount per asset type				
Corporate	**1**	**1**	**483**	
Investment grade	*1*	*1*	*-*	
Default grade	*-*	*-*	*483*	
Non-investment grade	*-*	*-*	*-*	
Advances	***265***	**-**	***5***	
Investment grade	*265*	*-*	*-*	
Default grade	*-*	*-*	*5*	
Non-investment grade	*-*	*-*	*-*	
Total gross carrying amount	**785,696**	**13,224**	**2,925**	
Loss allowance	58	758	786	
Carrying amount	**785, 638**	**12,466**	**2,139**	

All figures in tables are in HUF million except otherwise noted

Notes to the Stand-alone Financial Statements

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2021

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased o originated cred impaired
Gross carrying amount per asset type				
Cash on hand	**-**	-	-	
Cash balances at central banks	**3**	-	-	
Investment grade	**3**	-	-	
Other demand deposits	**226**	-	-	
Investment grade	*226*	-	-	
Securities at fair value through other comprehensive income	**26 232**	-	-	
Investment grade	*26 232*	-	-	
Securities at amortized cost	**250 535**	-	-	
Investment grade	*250 535*	-	-	
Due from banks	**342 718**	**-**	**-**	
Investment grade	342 718			
Default grade		-	-	
Non-investment grade		-	-	
Retail	**16 146**	**14 297**	**1 657**	
Investment grade	*16 140*	*14 023*	-	
Default grade	-	-	*1 571*	
Non-investment grade	*6*	*274*	*86*	

All figures in tables are in HUF million except otherwise noted

Credit risk exposure - Gross carrying amount per asset type, and loss allowance – 31 December 2021

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased o originated cre impaired
Gross carrying amount per asset type				
Corporate	**4**	**-**	**511**	
Investment grade	*4*	-	-	
Default grade	-	-	*511*	
Non-investment grade	-	-	-	
Advances	**376**	**-**	**11**	
Investment grade	*376*	-	-	
Non-investment grade	-	-	*11*	
Total gross carrying amount	**636,240**	**14,297**	**2,179**	
Loss allowance	38	663	379	
Carrying amount	**636,202**	**13,634**	**1,800**	

All figures in tables are in HUF million except otherwise noted

Impairment

31 december 2022	Gross exposure	Impairment allowance	C
Credit-impaired assets (stage 3)			
Retail loans	2,437	580	
Corporate loans	483	201	
Advances	5	5	
Total credit-impaired assets	**2,925**	**786**	

31 december 2022	Stage 1	Stage 2	Stage 3
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)
Individual	-	586	427
Collective	58	172	359
Total	**58**	**758**	**786**

31 december 2021	Stage 1	Stage 2	Stage 3
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)
Individual	-	482	147
Collective	38	181	232
Total	**38**	**663**	**379**

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2022

Asset type all	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impa
Impairment loss as at 1 January 2022	**37**	**662**	**381**	
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	(3)	17	-	
Transfers from Stage 1 to Stage 3	-	-	12	
Transfers from Stage 2 to Stage 1	2	(7)	-	
Transfers from Stage 2 to Stage 3	-	(46)	249	
Transfers from Stage 3 to Stage 1	-	-	(8)	
Transfers from Stage 3 to Stage 2	-	1	(13)	
Changes in PDs/LGDs/EADs	20	214	208	
New financial assets originated or purchased	4	-	-	
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(2)	(83)	(43)	
Impairment loss as at 31 December 2022	**58**	**758**	**786**	

All figures in tables are in HUF million except otherwise noted

Impairment movement table 2022

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)	POCI Purchased originate credit-impai
Impairment loss as at 1 January 2022	**37**	**662**	**381**	
Due from banks	**20**	**-**	**-**	
Changes in PDs/LGDs/EADs	17	-	-	
New financial assets originated or purchased	4	-	-	
Financial assets derecognised during the period other than write-offs	(1)	-	-	
Retail	**(2)**	**107**	**228**	
Transfers:				
Transfers from Stage 1 to Stage 2	(3)	17	-	
Transfers from Stage 1 to Stage 3	-	-	12	
Transfers from Stage 2 to Stage 1	2	(7)	-	
Transfers from Stage 2 to Stage 3	-	(46)	249	
Transfers from Stage 3 to Stage 1	-	-	(8)	
Transfers from Stage 3 to Stage 2	-	1	(13)	
Changes in PDs/LGDs/EADs	-	214	30	
Modification of contractual cash flows of financial assets	-	-	-	
Financial assets derecognised during the period other than write-offs	(1)	(72)	(42)	

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2022 (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impa
Corporate	**-**	**(11)**	**177**	
Changes in PDs/LGDs/EADs	-	-	178	
Modification of contractual cash flows of financial assets	-	-	-	
Financial assets derecognised during the period other than write-offs	-	(11)	(1)	
Securities	**3**	**-**	**-**	
Changes in PDs/LGDs/EADs	3	-	-	
Impairment loss as at 31 December 2022	**58**	**758**	**786**	

All figures in tables are in HUF million except otherwise noted

Asset type all	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impa
Impairment loss as at 1 January 2021	**113**	**444**	**370**	
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	(11)	30	-	
Transfers from Stage 1 to Stage 3	(1)	-	59	
Transfers from Stage 2 to Stage 1	-	(1)	-	
Transfers from Stage 2 to Stage 3	-	(7)	36	
Transfers from Stage 3 to Stage 1	-	-	(1)	
Transfers from Stage 3 to Stage 2	-	1	(36)	
New financial assets originated or purchased	3	-	-	
Changes in PDs/LGDs/EADs	(64)	208	68	
Modification of contractual cash flows of financial assets	-	-	-	
Other movements with no P&L impact				
Financial assets derecognised during the period other than write-offs	(3)	(13)	(115)	
Impairment loss as at 31 December 2021	**37**	**662**	**381**	

All figures in tables are in HUF million except otherwise noted

Notes to the Stand-alone Financial Statements

Impairment movement table 2021

Asset type	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impai
Impairment loss as at 1 January 2021	**113**	**444**	**370**	
Due from banks	**8**	**-**	**-**	
Changes in PDs/LGDs/EADs	5	-	-	
New financial assets originated or purchased	3	-	-	
Financial assets derecognised during the period other than write-offs	-	-	-	
Retail	**(18)**	**214**	**10**	
Transfers:				
Transfers from Stage 1 to Stage 2	(11)	30	-	
Transfers from Stage 1 to Stage 3	(1)	-	59	
Transfers from Stage 2 to Stage 1	-	(1)	-	
Transfers from Stage 2 to Stage 3	-	(7)	36	
Transfers from Stage 3 to Stage 1	-	-	(1)	
Transfers from Stage 3 to Stage 2	-	1	(36)	
Changes in PDs/LGDs/EADs	(4)	205	67	
Modification of contractual cash flows of financial assets	-	-	-	
Financial assets derecognised during the period other than write-offs	(2)	(14)	(115)	

All figures in tables are in HUF million except otherwise noted

Impairment movement table – 2021 (continued)

Asset type	Stage 1	Stage 2	Stage 3	POCI
	12-month Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Lifetime Expected Credit Loss (ECL)	Purchased originate credit-impa
Corporate	**-**	**4**	**1**	
Changes in PDs/LGDs/EADs	-	4	1	
Modification of contractual cash flows of financial assets	-	-	-	
Financial assets derecognised during the period other than write-offs	-	-	-	
Securities	**(66)**	**-**	**-**	
Changes in PDs/LGDs/EADs	(66)	-	-	
Impairment loss as at 31 December 2021	**37**	**662**	**381**	

Notes to the Stand-alone Financial Statements

Provision movement table

Asset type	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)
Provision as at 1 January 2021	**-**	**1**	
Movements with P&L impact			
Transfers:			
Transfers from Stage 1 to Stage 2	-	-	
Transfers from Stage 1 to Stage 3	-	-	
Other movements with no P&L impact			
Financial assets derecognised during the period other than write-offs	-	-	
Provision as at 31 December 2021	**-**	**1**	
Provision as at 1 January 2022	**-**	**1**	
Movements with P&L impact			
Transfers:			
Transfers from Stage 2 to Stage 3	-	-	
Changes in PDs/LGDs/EADs	-	-	
Other movements with no P&L impact			
Financial assets derecognised during the period other than write-offs	-	-	
Provision as at 31 December 2022	**-**	**1**	

Exposure to credit risk on loan commitments and financial guarantees

31 December 2022	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)
Retail	44	47	1
Total exposure to credit risk	**44**	**47**	**1**

31 December 2021	Stage 1 12-month Expected Credit Loss (ECL)	Stage 2 Lifetime Expected Credit Loss (ECL)	Stage 3 Lifetime Expected Credit Loss (ECL)
Retail	73	56	-
Total exposure to credit risk	**73**	**56**	**-**

All figures in tables are in HUF million except otherwise noted

30.4.3 Clients effected by payment relief program

Due to the first moratorium on repayment set out in Act LVIII of 2020 on transitional rules and epidemiological preparedness related to the cessation of emergency, it is not necessary to pay instalments for all corporate and retail loan agreements from 19 March 2020.
The next piece of legislation is Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties, supplementing it Act 637/2020 (XII.22.), (second moratorium) entered into force on 1 January 2021, according to which the repayment moratorium can be used until 30 June 2021. This legislation was extended until 31 July 2022, and then, according to a further statement, until 31 December 2022.

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

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

The modification loss due to the program was calculated based on the expected cash flow, estimated under these legislations.
Takarék Mortgage Bank modified the impairment methodology in accordance with the legislation and recommendations after the onset of the emergency. Credit risk monitoring is a key element in the methodology for measuring the significant increase in credit risk since its initial publication. During the pandemic period, the Bank placed even more emphasis on this activity.
In the individual monitoring processes, a stricter procedure was applied, and new methodologies were introduced to identify companies in a deteriorating risk situation. In addition, the Bank has recalculated the parameters of the previously applied IFRS, taking into account the expected macroeconomic effects. This ensured that appropriate loss levels were established for the different credit risk categories.

30.4.4. Client effected by payment relief program 2022

30.4.4.1 Clients effected by interest rate cap program 2022 (1 July 2022 – 31 December 2022)

Based on Government Decree No. 782/2021 (XII.24.) (first modification No. 205/2022 (VI.17.) Government Decree) on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is before or between 1 January 2022 and 31 December 2022 the applicable reference interest rate must not be higher than the reference interest rate the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.

Financial assets modified during the period 31 December 2022 (interest rate cap extend until the year end 2022)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	4,223	5,060	9,283
Loss allowance before modification	(3)	(315)	(318)
Net amortised cost before modification	4,220	4,745	8,965
Net modification gain/(loss) (change in gross carrying amount)	(138)	(155)	(293)
Impairment gain or loss	-	8	8
Net amortised cost after modification	**4,082**	**4,598**	**8,680**

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

30 Jun 2022	Number of loans	Outstanding balance	% of portfolio
Retail loans	4,460	8,680	31.82%
Total (retail and corporate loans)	**4,460**	**8,680**	**31.82%**

Clients affected by interes rate cap programs / Carrying amount of the loans in 2022

30 June 2022	*Non-impaired loans*		*Impaired loans*	*Total*
	Stage 1	*Stage 2*	*Stage 3*	
Retail loans	*4,084*	*3,598*	*1,308*	*8,990*
Investment grade	*3,929*	*2,961*	-	*6,880*
Default grade	-	-	*1,242*	*1,242*
Non-Investment grade	-	*647*	*66*	*712*
Gross carrying amount	*4,085*	*3,598*	*1,308*	*8,990*
Allowances for credit losses	*(2)*	*(29)*	*(278)*	*(310)*
Carrying amount	***4,082***	***3,569***	***1,029***	***8,680***

All figures in tables are in HUF million except otherwise noted

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

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

Financial assets modified during the period 31 December 2021 (extend of interest rate cap program until the end of June 2023)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	1,002	7,424	8,426
Loss allowance before modification	(1)	(191)	(192)
Net amortised cost before modification	1,001	7,233	8,233
Net modification gain/(loss) (change in gross carrying amount)	(64)	(473)	(536)
Impairment gain or loss	-	12	12
Net amortised cost after modification	**937**	**6,772**	**7,709**

Clients affected by interest rate cap program / number of loans 2022 *31 October 2022*

31 October 2022 (extend of interest rate cap program until the end of June 2023)	Number of loans	Outstanding balance	% of portfolio
Retail loans	3,761	7,709	29.61%
Total (retail and corporate loans)	**3,761**	**7,709**	**29.61%**

All figures in tables are in HUF million except otherwise noted

Clients affected by interest rate cap programs / Carrying amount of the loans in 2022

31 October 2022 (extend of interest rate cap program until the end of June 2023)	Non-impaired loans		Impaired loans	Total
	Stage 1	Stage 2	Stage 3	
Retail loans	*938*	*6,186*	*765*	*7,889*
Investment grade	*938*	*5,541*	-	*6,479*
Default grade	-	-	*764*	*764*
Non-Investment grade	-	*645*	*1*	*646*
Gross carrying amount	*938*	*6,186*	*765*	*7,889*
Allowances for credit losses	*(1)*	*(70)*	*(109)*	*(180)*
Carrying amount	***937***	***6,116***	***656***	***7,709***

30.4.4.3 Clients effected by payment relief program 2022 (based on statement about repayment moratorium)

Those financially disadvantaged clients who made a separate declaration until 31 October 2021 (filling a statement about repayment moratorium) can participate in the moratorium until 30 June 2022. The modification loss under this legislation was calculated based on the expected payment schedules as of 31 October 2021. In 2022, this option was extended for one month, the Government Decree No. 216/2022 allowed the moratorium participant to further extend it until December 31, 2022 (filling statement again). The recorded adjustment loss was HUF 9 million fon this transaction.

30.4.5 Clients effected by payment relief program 2021

In 2021 the moratorium on repayment has been prolonged until 31 October 2021 with unchanged conditions based on the Government Decree 536/2021. about the amendment of Government Decree No. 637/2020 (XII.21.) on the introduction of the special rules of the payment moratorium related to the state of emergency.
The modification loss due to the amendment of the legislation was updated with a 4-month extension.

All figures in tables are in HUF million except otherwise noted

30.4.5.1 Client effected by payment relief program 2021 (based on statement about repayment moratorium)

Those financially disadvantaged clients who made a separate declaration until 31 October 2021 (filling a statement about repayment moratorium) can participate in the moratorium until 30 June 2022. The modification loss under this legislation was calculated based on the expected payment schedules as of 31 October 2021.
The below table contains information about these eligible clients:

Financial assets modified during the period 31 December 2021 (based on statement about repayment moratorium)	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	5	2,630	2,635
Loss allowance before modification	-	(121)	(121)
Net amortised cost before modification	5	2,509	2,514
Net modification gain/(loss) (change in gross carrying amount)	-	(12)	(12)
Impairment gain or loss	-	-	-
Net amortised cost after modification	**5**	**2,497**	**2,502**

Clients affected by the payment relief program (based on statement about repayment moratorium) / number of loans 2021

31 december 2021	Number of loans	Outstanding balance	% of portfolio
Retail loans	646	2,502	8.03%
Total (retail and corporate loans)	**646**	**2,502**	**8.03%**

Clients affected by the payment relief programs (based on statement about repayment moratorium) / Carrying amount of the loans in 2021

31 December 2021	*Non-impaired loans*		*Impaired loans*	*Total*
	Stage 1	*Stage 2*	*Stage 3*	
Retail loans	*5*	*1,861*	*757*	*2,623*
Investment grade	*5*	*1,860*	-	*1,865*
Default grade	-	*1*	*757*	*758*
Gross carrying amount	*5*	*1,861*	*757*	*2,623*
Allowances for credit losses	-	*(8)*	*(113)*	*(121)*
Carrying amount	***5***	***1,853***	***644***	***2,502***

All figures in tables are in HUF million except otherwise noted

30.4.5.2 Clients effected by interest rate cap program 2021

Based on Government Decree No. 782/2021 (XII.24.) on different application in the state of emergency of Act CLXII of 2009 on Consumer Credit in the case of a mortgage contract tied to a reference interest rate, if the repricing date is before or between 1 January 2022 and 30 June 2022 the applicable reference interest rate must not be higher than the reference interest rate valid on 27 October 2021.
The modification loss under this legislation was calculated based on the expected payment schedules as of 31 December 2021.

Financial assets modified during the period ended 31 December 2021 in case of contracts effected by interest rate cap program	with loss allowance based 12 months ECL	with loss allowance based on lifetime ECL	Total
Gross carrying amount before modification	5,465	5,159	10,624
Loss allowance before modification	(4)	(160)	(164)
Net amortised cost before modification	5,461	4,999	10,460
Net modification gain/(loss) (change in gross carrying amount)	(51)	(47)	(98)
Impairment gain or loss	-	-	-
Net amortised cost after modification	**5,410**	**5,222**	**10,632**

Clients affected by interest rate cap program / number of loans 2021

31 december 2021	Number of loans	Outstanding balance	% of portfolio
Retail loans	4,738	10,632	32.76%
Total (retail and corporate loans)	**4,738**	**10,632**	**32.76%**

Clients affected by interest rate cap program /Carrying amount of the loans in 2021

31 December 2021	Non-impaired loans		Impaired loans	Total
	Stage 1	Stage 2	Stage 3	
Retail loans	*5,414*	*4,184*	*927*	*10,524*
Investment grade	*5,408*	*4,021*	-	*9,430*
Default grade	-	*163*	*927*	*1,090*
Non-Investment grade	*4*	-	-	*4*
Loss allowance	(4)	(17)	(143)	(163)
Carrying amount	***5,410***	***4,167***	***784***	***10,362***

All figures in tables are in HUF million except otherwise noted

30.4.6. Forborne loans

The Bank recognizes a receivable that contains concession as a restructured loan when the original contract was modified in order to avoid the non-payment of the receivables in cases when the debtor was not able to fulfil the original contractual requirements on repaying the loan or would not be able to fulfil those requirements without those concessions made.

Modification of contractual terms that meets the criteria of concession:

a) modifications of contractual terms that qualify as concessions can be the followings:
   - postponement on repayment (on principal and on interest as well) for a transitional period (grace period)
   - instalment
   - modification of interest rate, repricing (in a form of discount)
   - capitalization of interest
   - change in currency
   - prolonging the maturity of the loan
   - rescheduling the repayments
   - reducing the amount of required collateral, replacing present collateral to another one, forfeiture of collateral (release of collateral)
   - determination of new contractual terms, termination a part of original contractual terms.

b) a contract modification that qualifies as a concession may result in a supplementary agreement or a new contract between the parties or between a related party of the debtor and the original creditor that is a loan granted in order to repay the current outstanding balance of the loan (principal and interest) determined based on original contractual terms that was terminated or not yet terminated and also in order to avoid the increase in risk classification and to mitigate the loss in which cases the supplementary agreement or the new contracts that result in a new loan in the Bank's records are considered as restructured loans.

The Bank considers the following cases as non-performing restructuring:

a) the modified contracted loan was considered to be non-performing loan before the modification or the loan would be considered to be non-performing without the modification,
b) the contract contains partial or complete release of the debt,
c) the debtor performed a principal or interest repayment on loans that would be considered as non-performing loans without concession around when a concession was made in case of another debt,
d) modification of contractual terms when repayment involves the usage of collateral in cases of which the modification includes concession as well.

Change in monitoring/recovery of restructured loans:

- recovery period in case of restructured performing loans is 730-day (delay in repayment can be no longer than 30 days during this period), after successful recovery the deal can be treated under normal or intensified monitoring;
- recovery period in case of non-performing deals – deals with default flag or restructured – is 365-day (no delay in payment can occur during this period), after successful recovery the deal can be treated under intensive/preventive monitoring.

An analysis of forborne loan portfolio by loan types

31 December 2022	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	3,487	166	3,321	1,980
Corporate loans	407	163	244	1
Total	**3,894**	**329**	**3,565**	**1,981**

31 December 2021	Gross value	Impairment	Carrying amount	Number of loans
Individual loans	4,611	152	5,189	2,358
Corporate loans	384	19	365	1
Total	**4,995**	**171**	**4,824**	**2,359**

30.4.7. Collaterals and other means for improving the loans portfolio

Collaterals for lending risk applied by the Bank:

Real estate
The Takarék Mortgage Bank Plc. accepts as collateral mortgages, independent or separated liens established on such real estate that is registered in Hungary and have long live stable value. Real estate is valued by independent appraisers who are not involved in decision-making regarding the loan. Collateral Management establish the value of credit collateral conservatively.

State guarantee and GHG Ltd. or AVGHA guarantee
All instances of State guarantee and other guarantee accepted by the Banks involve joint and several liability set forth by law. The rules governing the guarantee are laid down in statutory provisions.

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

Other
In addition to the above the Banks also accept assigned claims, lien on claims.

All figures in tables are in HUF million except otherwise noted

The table below shows the structure of the collaterals:

	31 December 2022	31 December 2021
Mortgage	1,592,836	1,254,927
Bail	22	12
Guarantee	2,536	2,573
Total	**1,595,394**	**1,257,512**

The collaterals are related to the loans fully. The mortgage collaterals that are related to own lending are recognised at collateral value (discounted market value) by the Bank, the other collaterals are recognised at its own value (for example in case of assignment at the amount of the assignment). The Other collaterals category includes the value of the insurances.

The table below shows the maximum credit risk exposure:

	31 December 2022	31 December 2021
Other demand deposit	328	226
Financial assets at fair value through other comprehensive income	18,162	26,232
Debt securities at amortised cost	319,744	250,536
Individual loans	25,797	32,161
Corporate loans	485	515
Dues from banks	437,043	342,719
Advances	270	387
Off-balance sheet commitments	27,103	24,391
Total gross credit risk exposure	**828,932**	**677,167**

30.5. Market risk

Takarék Mortgage Bank Plc. maintains the maturity-, interest rate- and foreign exchange rate risk at low level derived from the asset, liability and off-balance sheet commitments.

30.6. Interest rate risk

Interest rate risk derives from interest rate changes, which affect the value of financial instruments. A bank is also exposed to interest rate risk when the amounts of assets, liabilities and off-balance sheet instruments maturing or re-priced in a particular period are not in harmony. The Bank assess interest rate risk on a continuous basis applying Gap-analysis, sensitivity analysis. Interest rate risk is managed through mortgage bond issues and interest rate swaps, taking into account the breakdown of the loan portfolio by interest rate.

All figures in tables are in HUF million except otherwise noted

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

	Sensitivity of interest income 2022	Sensitivity of interest income 2021	Sensitivity of interest income 31.12.2022 +10 bp	Sensitivity of interest income 31.12.2022 +25 bp
HUF	(13)	(12)	(127)	(317)

The sensitivity analysis is performed according to the standard method of using 1 base point increase in interest rates, the excursion is symmetric meaning 1 base point decrease in interest rates would result in the same figures with opposite sign.
Sensitivity of net income is the estimated effect of one base point increase in interest rates to net interest income realized in advance over a period of one year, based on floating rate financial assets and liabilities or those financial assets and liabilities to be re-priced next year carried as of the last day of the given year. It means that if interest increase by one basis point from the close of business 31 December 2022 net interest income would decrease by HUF 13 million in case of HUF. The effect of other foreign currency is not significant.

30.6.1 Exchange rate risk management

The business policy of the Mortgage Bank is to keep exchange rate risk at a low level.
The Bank strives to immediately hedge the exchange risks related to its core business as allowed by market circumstances. Therefore an open FX position can serve primarily for the purpose of liquidity management, settlements related to lending and refinancing, or active and passive accruals.

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

FX	Effect on earning before income tax (31 December 2022)	Effect on capital (31 December 2022)	Effect on earning before income tax (31 December 2021)	Effect on capital (31 December 2021)
EUR	70	70	30	30
USD	(20)	(20)	(80)	(80)
CHF	130	130	270	270
GBP	-	-	(160)	(160)

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

Due to the Bank's currency position 1 percent increase in the exchange rate in case of EUR items the estimated net earnings before tax and the share capital could increase with HUF 70 thousand, in case of CHF items it could increase with HUF 130 thousand. In case of USD items the estimated net earnings before tax and the share capital could decrease with HUF 20 thousand, and in case of GBP items it could decrease with HUF 0 thousand. The total effect is not significant.

Stand-alone FX financial position of the bank in terms of main currencies:

31 December 2022	HUF	EUR	CHF	Other	Total
Total assets	809,113	4,572	263	-	813,948
Total liabilities	(742,847)	(44)	(20)	-	(742,911)
Equity	(71,037)	-	-	-	(71,037)
Off-balance sheet items	91	(4,587)	-	-	(4,496)
Position	**(4,680)**	**(59)**	**243**	**-**	**(4,496)**

31 December 2021	HUF	EUR	CHF	Other	Total
Total assets	658,337	6,264	414	-	665,015
Total liabilities	(589,506)	(6,166)	(397)	(10)	(596,079)
Equity	(68,936)	-	-	-	(68,936)
Off-balance sheet items	(132)	-	-	-	(132)
Position	**(237)**	**98**	**17**	**(10)**	**(132)**

30.7 Liquidity and maturity risk

Liquidity risk is defined as the risk that the Bank could encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking, which can be ensured by managing the maturity mismatch of receivables and payables. Also, the Bank applies maturity transformation regulated by limits to manage profitability while maintaining solvency at all times.
The Bank regularly reviews clients' prepayments prior to the maturities of loans and takes into consideration their impact in managing market and liquidity risks.

The Bank prepares its plans for liquidity management and financing position based on different assumption that also considers the impact of stress scenarios. The Bank maintains a significant amount of liquid assets on an ongoing basis, mainly in the form of government securities and deposits at MTB.

All figures in tables are in HUF million except otherwise noted

Contractual maturities of undiscounted cash flows of financial liabilities

31 December 2022	On de-mand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – 15 years
Banking liabilities						
Loans received	-	37,265	92,375	248,131	-	
Issued debt securities	-	26,608	26,386	195,617	105,312	1,8
from this: Mortgage bonds	-	*26,608*	*26,386*	*195,617*	*105,312*	*1,8*
Other financial liabilities	592	3	9	9	-	
Commitments		**27 103**				
Total banking liabilities	**592**	**90 979**	**118,770**	**443,757**	**105,312**	**1,8**

31 December 2021	On de-mand	Within 3 months	3 - 12 months	1 –5 years	5 – 10 years	10 – year
Banking liabilities						
Loans received	-	260	25,495	237,376	-	
Issued debt securities	-	-	8,066	184,128	127,654	1,8
from this: Mortgage bonds	-	-	*8,066*	*184,128*	*127,654*	*1,8*
Other financial liabilities	585	55	28	21	-	
Commitments		**24 391**				
Total banking liabilities	**585**	**24 706**	**33,589**	**421,525**	**127,654**	**1,8**

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2022

	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	342	-	342
Financial liabilities measured at fair value through profit or loss	800	11,054	11,854
Hedging derivative assets	-	975	975
Financial assets at fair value through other comprehensive income	3,130	15,042	18,172
Financial assets measured at amortised cost	95,845	685,892	781,737
Property, plant and equipment	-	63	63
Intangible assets	-	239	239
Income tax assets	-	468	468
Other assets	98	-	98
Total assets	**100,215**	**713,733**	**813,948**
Liabilities			
Financial liabilities measured at fair value through profit or loss	553	4,593	5,146
Financial liabilities measured at amortised cost *	183,247	550,936	734,183
Hedging derivative liabilities	2,438	201	2,639
Provisions	17	-	17
Income tax liabilities	105	-	105
Other liabilities	821	-	821
Total liabilities	**187,181**	**555,730**	**742,911**

**The half part of the less than 12 months financial liabilities measured at amortised cost connects to the MTB Plc. so the Bank is able to renegotiate it.*

All figures in tables are in HUF million except otherwise noted

Maturity analysis of assets and liabilities as of 31 December 2021

	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	229	-	229
Financial liabilities measured at fair value through profit or loss	2 672	9 474	12 146
Financial assets at fair value through other comprehensive income	26,232	10	26,242
Financial assets measured at amortised cost	19,966	605,211	625,177
Property, plant and equipment	-	95	95
Intangible assets	-	203	203
Income tax assets	512	-	512
Other assets	411	-	411
Total assets	**50,022**	**614,993**	**665,015**
Liabilities			
Financial liabilities measured at fair value through profit or loss	2,309	-	2,309
Financial liabilities designated at fair value through profit or loss	6,121	-	6,121
Financial liabilities measured at amortised cost	34,489	551,045	585,534
Hedging derivative liabilities	1,112	-	1,112
Provisions	28	-	28
Income tax liabilities	147	-	147
Other liabilities	828	-	828
Total liabilities	**45,034**	**551,045**	**596,079**

30.8 Management of operational risk

Operational risk is managed primarily by improving internal rules and regulations, training staff involved in the various processes, and further enhancement of the internal control mechanisms. The exploration and measurement of risks are performed by the Bank through the collection of the data of operational risk events and losses, the monitoring of Key Risk Indicators and the implementation of risk self-assessment.

The Bank has performed oprisk self-assessment referring to the key activities and determined incidences that are unfrequent, but in case of occurrence they inflict heavy losses, which effects are measured by scenario analysis.

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

All figures in tables are in HUF million except otherwise noted

30.9 Treatment of risk concentration

The Bank is significantly exposed to the status of real estate market regarding due to the high proportion of real estates for securing mortgage loans. This concentration risk is mitigated by applying conservative method in collateral valuation and cover rate.

31 CALCULATION OF REGULATORY CAPITAL, CAPITAL ADEQUACY AND ROAE

Takarék Mortgage Bank Plc. is a member of the Central Body of Integrated Credit Institutions (CBIC). The members of CBIC should examine prudential requirements on consolidated bases. The exemption of individual compliance is ensured by the relevant legislation and the respective resolution of the National Bank of Hungary.
MKB Nyrt. publishes audited financial statements on the capital adequacy of the members of the integration in the disclosure document of the business year.

32 RELATED PARTY TRANSACTION

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

The list of the related parties, - including the subsidiaries, associates and other shares of the Takarek Mortgage Bank Plc. - as of 31 December 2022 is the following. The following table shows the Bank related companies freom the point of view of MKB Bank Plc. as of 31 December 2022.The Bank has no subsidiaries or associates.

Company	Classification	Core business
MITRA Informatikai Zrt.	Related company	Data services, web hosting services
MTB Zrt.	Parent Company	Other monetary intermediation
Takarékbank Zrt.	Related company	Other lending
Takarék Lízing Zrt.	Related company	Other lending
Takarék Ingatlan Zrt.	Related company	Estate agent service
Takarék INVEST Kft.	Related company	Asset management
TIFOR Takarék Ingatlanforgalmazó Zrt.	Related company	Own property real estate buying and selling
TIHASZ Takarék Ingatlanhasznosító Zrt.	Related company	Own renting and operating real estate
Magyar Bankholding Zrt.	Main Parent company	Asset management
Takarék Faktorház Zrt.	Related company	Other lending
Takarékszövetkezeti Informatikai Kft.	Related company	IT service
Takarék Zártkörű Befektetési Alap	Related company	Investment fund
Takarék Mezőgazdasági és Fejlesztési Magántőkealap	Related company	Investment fund
Takarék Kockázati Tőkealap	Related company	Investment fund
OPUS TM1 Ingatlan Befektetési Alap	Related company	Investment fund
MKB Magántőkealap	Related company	Investment fund
Magyar Strat-Alfa Zrt.	Related company	Own property real estate buying and selling
MKB Bank Nyrt.	Main Parent Company	Other monetary intermediation
MKB Üzemeltetési Kft.	Related company	Own renting and operating real estate
MKB Euroleasing Autólízing Zrt.	Related company	Financial leasing
MKB Bank MRP Szervezet	Related company	Other activities auxiliary to financial services
Retail Prod Zrt.	Related company	Other lending
Budapest Eszközfinanszírozó Zrt.	Related company	Other tangible assets leasing
Budapest Lízing Zrt.	Related company	Financial leasing
MKB Befektetési Alapkezelő Zrt.	Related company	Fund Management

As at 31 December 2022 and 2021, the Bank did not have any loans to members of the Bank's management bodies.

	31 December 2022		31 December 2021	
	Head-count	Amount of emoluments	Head-count	Amount of emoluments
Members of Board of Directors	8	58	7	17
Members of Supervisory Board	9	41	6	15
Total payments	**17**	**99**	**13**	**32**

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

31 December 2022	Parent and main parent company	Related company	Key man-agement
Due from banks	50,254	18,608	-
Loans and advances to customers at amortised cost	160,398	191,987	-
Other assets	1,046	37	-
Total assets	**211,698**	**210,632**	**-**
Due to banks	122,293	15,007	-
Other liabilities	38,149	35,254	-
Total liabilities	**160,442**	**50,261**	**-**
Interest income	9,519	8,628	-
Interest expense	(9,696)	(1,742)	-
Net interest income	**(177)**	**6,886**	**-**
Fee and commission income	88	314	-
Fee and commission expense	(69)	(375)	-
Net fee and commission income	**19**	**(61)**	**-**
Other operating income	466	894	-
Other operating expense	(1,259)	(2,225)	-
Operating income	**(793)**	**(1,331)**	**-**
Operating expense	(184)	(122)	-99
Profit/loss on transactions with related parties	**(1,135)**	**5,372**	**-99**

All figures in tables are in HUF million except otherwise noted

31 December 2021*	Parent and main parent company	Related company	Associates and joint ventures	Key management
Due from banks	9,710	1,243	-	-
Loans and advances to customers at amortised cost	-	313,704	-	-
Other assets	145	220	-	-
Total assets	**9,855**	**315,167**	**-**	**-**
Due to banks	25,483	-	-	-
Deposits from customers	-	-	-	-
Other liabilities	**1,369**	58,272	**-**	**-**
Total liabilities	**26,852**	**58,272**	-	-
Interest income	155	7,206	-	-
Interest expense	**(125)**	(1,760)	**-**	**-**
Net interest income	30	**5,446**	-	-
Fee and commission income	-	458	-	-
Fee and commission expense	**-**	(444)	**-**	**-**
Net fee and commission income	**-**	**14**	-	-
Net operating income	1,106	305	-	-
Net operating expense	(1,715)	(4,030)	-	-
Operating income	**(609)**	(3,725)	-	**-**
Operating expense	(532)	(9)	(448)	(32)
Profit/loss on transactions with related parties	**(1,111)**	**1,726**	**(448)**	**(32)**

All figures in tables are in HUF million except otherwise noted

33 NET GAINS

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

1 January 2022 – 31 December 2022	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities
Interest income	1,648	-	883	27,899	2,208	
Interest expenses	(1,645)	(59)	-	(21,102)	(3,277)	(
NET INTEREST INCOME	**3**	**(59)**	**883**	**6,797**	**(1,069)**	
Fee and commission income	-	-	-	-	-	55
Fee and commission expenses	-	-	-	-	-	(54
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	(273)	361	-	
Gains on financial assets and liabilities held for trading, net	(19)	-	-	-	-	
Gains on financial assets and liabilities designated at fair value through profit or loss	-	50	-	-	-	
Gains on financial assets and liabilities mandatorily at fair value through profit or loss	-	(867)	-	-	-	
(Losses) from hedge accounting, net	-	-	-	-	(8)	
Other operating income	-	-	-	-	-	
Other operating expense	-	-	-	-	-	
OPERATING INCOME	**(16)**	**(876)**	**610**	**7,158**	**(1,077)**	

All figures in tables are in HUF million except otherwise noted

1 January 2021 – 31 December 2021	Financial assets and liabilities held for sale	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities measured at amortised cost	Derivatives – Hedge accounting, interest rate risk	Other assets/ Other liabilities
Interest income	401	204	411	13,111	574	3
Interest expenses	(397)	(261)	0	(9,457)	(333)	(8)
NET INTEREST INCOME	**4**	**(57)**	**411**	**3,654**	**241**	**(5)**
Fee and commission income	-	-	-	-	-	589
Fee and commission expenses	-	-	-	-	-	(620)
NET FEE AND COMMISSION INCOME	**-**	**-**	**-**	**-**	**-**	**(31)**
DIVIDEND INCOME	**-**	**-**	**-**	**-**	**-**	**-**
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	269	(83)	-	-
Gains on financial assets and liabilities held for trading, net	1	-	-	-	-	-
Gains on financial assets and liabilities designated at fair value through profit or loss	-	238	-	-	-	-
Gains on financial assets and liabilities mandatorily at fair value through profit or loss	-	438	-	-	-	-
(Losses) from hedge accounting, net	-	-	-	-	(76)	-
Gains on derecognition of non-financial assets	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-
Other operating expense	-	-	-	-	-	-
OPERATING INCOME	**5**	**619**	**680**	**3,571**	**165**	**(36)**

All figures in tables are in HUF million except otherwise noted

34 Equity correlation table

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed as a part of the Notes f the Bank.
Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also u available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been profit for the last financial year, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes. Furthermo table contains the reconciliation of the value of Share capital registered on the Registry Court and the value of Sh ance with IFRS adopted by EU.

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

31 December 2022	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**30,658**	**-**	**-**	**(207)**
Accumulated other comprehensive income	-	-	-	-	(57)	57	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-
General reserve	-	-	-	1,620	(1,620)	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**1,620**	**28,774**	**57**	**207**	**(207)**

All figures in tables are in HUF million except otherwise noted

Notes to the Stand-alone Financial Statements

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

31 December 2021	Share capital	Unpaid capital which has been called up	Capital reserve	General reserve	Retained earnings and other reserves	Revaluation reserves	Tied-up reserve	(-) Repurchased treasury shares
Components of Shareholder's equity in accordance with IFRS adopted by EU	**10,849**	**-**	**27,926**	**-**	**27,623**	**-**	**-**	**(207)**
Accumulated other comprehensive income	-	-	-	-	233	(233)	-	-
Repurchased treasury shares	-	-	-	-	(207)	-	207	-
General reserve	-	-	-	1,439	(1,439)	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**10,849**	**-**	**27,926**	**1,439**	**26,210**	**(233)**	**207**	**(207)**

All figures in tables are in HUF million except otherwise noted

Notes to the Stand-alone Financial Statements

Reconciliation of the value of Share capital registered on the Registry Court and the value of Share capital in accordance wi

	31 December 2022
Share capital in accordance with IFRS adopted by EU	10,849
Share capital registered on the Registry Court	10,849
Difference	**-**

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

	31 December 2022
Retained earnings and other reserves	30,658
Unused portion of reserve for developments	-
Other capital reserve	-
Accumulated other comprehensive income	57
Repurchased treasury shares (Tied-up reserve)	207
General reserve	(1,620)
Profit for the year	1,811
Untied retained earnings available for the payment of dividends	**31,113**

All figures in tables are in HUF million except otherwise noted

35. POST BALANCE SHEET EVENTS

Mortgage bond auction
The Bank organized the auction of the second tranche of TZJ32NF1 Takarek mortgage (covered) bond (maturity: 27.05.2032, coupon rate: fixed: 5.75%) on 17 January 2023. The result of the auction was the following: the total offered (nominal) value was HUF 10,000 million, the total nominal value of valid bids was HUF 15,175 million, the total nominal value issued was HUF 10,000 million, while the average selling price (net) was 80.4442%.

Rating
S&P Global Ratings (Madrid) announced on January 26, 2023 that it placed on CreditWatch positive its ‘BBB’ credit ratings on Takarék Mortgage Bank Co. Plc’s Hungarian mortgage covered bond program and related issuances.
The above decision reflects S&P’s view that following the improvement in its assessment on the issuer’s creditworthiness, the covered bonds could be eligible for collateral-based uplift based on further analysis above the current rating, which reflects the covered bonds’ jurisdiction-supported rating level (JRL) of ‘bbb’.

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

Rebranding
MKB Bank Plct., as the leading member of the group, decided on the new brand architecture and visual appearance of the banking group, which includes the name of individual members, too. At the same time, this also means that the legal name of the Group members would need to be changed in a manner that it would give sufficient indication that a Group member belongs in the group – under a new name – led by MBH Bank Plc.. as of 1 May 2023. It, therefore, became necessary to modify the corporate name of Takarék Jelzálogbank Nyrt., a subsidiary of MKB Bank Plc., as of 1 May 2023, as in the following **MBH Mortgage Bank Co. Plc.**

TAKARÉK MORTGAGE BANK PLC.

STAND-ALONE MANAGEMENT REPORT FOR 2022

Budapest, 3 April 2023

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1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

Takarék Mortgage Bank Public Limited Company (formerly FHB Mortgage Bank Plc., hereafter referred to as "the Bank" or "the Company") was established on October 21, 1997 as a limited liability company with a share capital of HUF 3 billion.

The Bank received its operating license as a specialized financial institution in accordance with the provision of Act CXII of 1996 on Credit Institutions and Financial Enterprises (previous Hpt.) and Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (Jht.) on March 6, 1998. The Bank started operation as of March 16, 1998.

The Bank grants refinancing mortgage loans provided by commercial banks to their customers and issues mortgage bonds to raise funds for its refinancing activity.

On October 31, 2003 the Hungarian Financial Supervision Authority (HFSA) granted permission for the Bank to publish an issuance prospectus and introduce its shares to the Budapest Stock Exchange (BSE). The ordinary shares were listed on the BSE on November 24, 2003.

The ownership structure of Takarék Mortgage Bank Plc at the end of 2022 and 2021

Shareholder	December 31, 2022		December 31, 2021	
	Ownership ratio %	Nr of shares	Ownership ratio %	Nr of shares
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	52,1	56 527 893	53,28	57 801 776
Foreign institutional investors	0,00	5 980	0,01	6 343
Domestic private investors	2,83	3 062 275	2,82	3 057 946
Foreign private investors	0,01	10 089	0,01	8 621
Employees, management	0	0	0	0
Treasury shares	0,23	253 601	0,23	253 601
Government held owner	44,8	48 597 602	4,45	4 832 225
Other investors	0,03	32 860	0,04	39 498
Subtotal (Series "A")	*100,00*	*108 490 300*	*60,84*	*66 000 010*
Dividend preference not listed on BSE (Series "B")				
Domestic institutional investors	0	0	13,05	14 163 430
Subtotal (Series "B")	*0*	*0*	*13,05*	*14 163 430*
Ordinary shares not listed on BSE (Series "C")				
Domestic institutional investors	0	0	26,11	2 832 686
Subtotal (Series "C")	*0*	*0*	*26,11*	*2 832 686*
Total	**100,00**	**108 490 300**	**100,00**	**82 996 126**

The Bank founded new subsidiaries in 2006, among them the Commercial Bank Ltd. (henceforth "the Commercial Bank").

In September 2015 the Bank and the Commercial Bank (under the Bank's majority ownership) became a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ), the latter created by Act CXXXV of 2013 on the integration of cooperative credit institutions and the amendment of selected economic legislation. In parallel, it also became the member of the Guarantee Community of Cooperative Credit Institutions.

At the end of December 2015 the Bank increased its share capital by HUF 4,249 million face value, which equaled HUF 30.5 billion issue value. The capital increase took place through private issuance of dematerialized dividend preference shares (Series “B”) and registered, dematerialized ordinary shares (Series “C”). The new shares (Series “B” and Series “C”) were not listed on the Budapest Stock Exchange, they were purchased by the members of Takarék Group.

In the fourth quarter of 2016 the share of the Bank of Hungarian Cooperatives Ltd. (the central bank of the integration of cooperative credit institutions, hereafter referred to as MTB) and the cooperative credit institutions increased to more than 68%.

The integration process of the Bank and the Commercial Bank into the Integration of Cooperative Credit Institutions (today known as the Central Organization of Integrated Credit Institutions, i.e. COICI) that started in the autumn of 2015 was finished in 2017. Subsequently, the restructuring of these companies – to fit into the strategy of the broader Integration – started in the same year.

As a first step, the Bank simplified its business profile retaining only mortgage bond issuance and refinancing functions, while all other human resources and capacities were transferred to the MTB and the Commercial Bank.

From April 2018 the Bank discontinued new own originated loan disbursement. Previously made credit contracts are kept in the Bank’s portfolio until their expiry, while the active functions of the Bank remained solely those that relate to classic mortgage bank functions.

The General Assembly of the Company drew a decision on changing the name of the Bank on April 27, 2018. From June 25, 2018 the official Company’s name is Takarék Mortgage Bank Plc.

In the second half of 2019 the shares of Takarék Commercial Bank oparting as Commercial Bank Ltd. since April 2018 – upon approval of General Assembly held on August 27 2019 – were sold to MTB Bank of Hungarian Savings Cooperatives Ltd. (hereinafter: MTB Ltd.) by Takarék Mortgage Bank (hereinafter: the Bank), therefore consolidated financial statements were not prepared by the Bank since 2020. As the parent company of the Bank, - MKB Bank Plc. (the main ultimate parent) prepared the Bank’s consolidated financial statement for companies included in the scope of consolidation.

The credit rating of mortgage bonds issued by the Bank is provided by S&P Global (Madrid) since March 28, 2019. The BBB rating assigned to the Bank’s mortgage bond issuance program and the issued mortgage bond series either in forint or foreign currency was confirmed by S&P on June 2, 2021 with a stable outlook. S&P revised to negative from stable the outlook on its credit ratings on the Bank's mortgage covered bonds ("jelzáloglevél") on August 22, 2022. At the same time, it affirmed the 'BBB' ratings on the covered bonds. The move was initiated by the revision of Hungary’s outlook to negative from stable, while the rating of ‘BBB/A-2’ long-term and short-term foreign and local currency sovereign credit ratings were affirmed.

On December 30, 2020 MTB published through official publication platforms its mandatory public purchasing bid for all shares issued by the Bank, and submitted its application for a permit to the Hungarian central bank. Based on the central bank’s permit the period for the purchase offer started on January 19, 2021, while the deadline for the acceptance of the bid was February 17, 2021. MTB accepted all the shares that were offered and declared the mandatory public purchasing bid process successful. With all the preconditions set in the bidding process being met, following the transfer of the shares the ownership ratio of MTB in the Bank increased from 86.20% to 88.14%, whereas the combined share of MTB and other owners acting in concert with it increased from 94.82% to 96.76%.

The bid was made after the majority owners of BB, MKB and MTB transferred their shares to the MBH on December 15, 2020.

On December 15, 2021 the main bodies of MKB, Budapest Bank and MTBH Ltd. (which was the owner of Takarék Group) approved the first step of the fusion process of MKB, Budapest Bank and Takarék Group. According to this, two member banks of MBH, namely MKB and Budapest Bank as well as MTBH Ltd. merged on March 31, 2022. During this process Budapest Bank merged into MKB, while MTB (Takarék Group) becomes a subsidiary of the merged bank. Takarékbank joins the merged bank in the second quarter of 2023. The unified brand for the new banking group has been introduced in early-2023.

Upon request of Hungarian Bankholding the National Bank of Hungary with its decision nr. H-EN-I-119/2022. dated on 8 March 2022, revoked the licence issued to Hungarian Bankholding by decision nr. H-EN-I-358/2020. dated 12 June 2020 for operating as a financial holding company with effect from 29 April 2022, and MKB Bank took over the group management function over the banking group after 29 April 2022, based on a new group resolution issued by the National Bank.

In accordance with the authorisation by the Magyar Nemzeti Bank (central bank of Hungary, MNB), Budapest Bank and Hungarian Takarék Bankholding (MTBH) merged into MKB Bank on 1 April 2022. At that time, MTB Bank of Hungarian Savings Cooperatives had a direct ownership stake of 88.13% in Takarék Mortgage Bank Co. Plc. and directly owned 88.33% of the voting rights. Given that MTBH had 88.13% ownership stake and 88.33% of the voting rights in Takarék Mortgage Bank Co. Plc. through MTB Bank of Hungarian Savings Cooperatives, as a result of the merger MKB Bank as the legal successor of MTBH became the indirect owner of Takarék Mortgage Bank Co. Plc. with a stake of 88.13%, and indirectly acquired 88.33% of the voting rights that may be exercised in the company.

The extraordinary general meeting of Takarék Mortgage Bank held on 12 July 2022 converted the 14,163,430 series “B” preference shares (dividend preference shares) with a nominal value of HUF 100 each, with a total nominal value of HUF 1,416,343,000 into 14,163,430 series “A” ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 1,416,343,000, and converted its 2,832,686 series “C” ordinary shares with a nominal value of HUF 1,000 each and a total nominal value of HUF 2,832,686,000 into 28,326,860 series “A” ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 2,832,686,000. The converted shares were registered on the Budapest Stock Exchange (BÉT) on 7 October 2022.

On 18 October 2022, as a result of the sale and purchase of shares, MKB Bank Plc. acquired 43,076,417 series “A” dematerialised ordinary shares with a nominal value of HUF 100 each owned by MTB Ltd. in Takarék Mortgage Bank. With this transaction, MKB Bank acquired a 39.8 % direct qualifying holding (voting rights) in Takarék Mortgage Bank. The ownership stake of MTB Ltd. decreased to 48.42%. On 2 December 2022, Magyar Posta Ltd. acquired from MKB Bank Plc. its full stake in Takarék Mortgage Bank by way of an exchange of shares; with this transaction, Magyar Posta Ltd. acquired a 39.71 % direct qualifying holding (voting rights) in Takarék Mortgage Bank.

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

Takarék Jelzálogbank Nyrt. has announced on December 1, 2022 that the position of Mr Attila Mészáros, the internal member of the board of directors and managing director, the position of deputy CEO at the Company was terminated by mutual consent as of 30 November 2022. Furthermore Takarék Jelzálogbank Plc. informed the capital market players that the General Meeting elected Illés Tóth as an internal member of the Company's Board of Directors as of December 1, 2022, who also holds the position of Deputy CEO.

Illés Tóth has been responsible for the Bank's covered bond issuance activity, rating process and investor relations as the Head of Capital Markets Department at Takarék Mortgage Bank Co. Plc. (or TMB) is since 2019. Since 2020 he has been involved in the development of the Bank's sustainability and green finance strategy and reporting, green covered bond framework and the issuance green covered bonds. Between 2015 and 2019 he was acting as a senior capital market expert at TMB. Between 200 and 2015 he was working at the treasury of UniCredit Mortgage Bank as a senior expert and later as the head of the treasury managing the mortgage bank-related ALM, liquidity management and covered bond issuance activities. In 2015 he was responsible for liquidity risk control at Raiffeisen Bank Hungary as a senior expert. Before his career in the mortgage banking sector, he was working as a fixed income analyst at DZ Bank CEE Research covering mainly CEE and other emerging market sovereign bond markets between 2000 and 2008. He graduated from the Colleague of Finance and Accountancy specialized in financial institutions in 2000.

2 THE MACROECONOMIC ENVIRONMENT IN 2022

2.1 THE HUNGARIAN ECONOMY IN 2022

International and domestic economic processes in 2022 were significantly influenced by the military conflict between Russia and Ukraine that started in February. Due to the elevated risks concerning the energy supply of Europe – partly secured from imported Russian gas and oil – energy prices effectively exploded. This thoroughly amplified inflationary processes, which already unfolded in the wake of a demand-supply mismatch created by the pandemic restrictions in 2020 and 2021. Accelerating inflation, sanctions imposed on Russia and measures to markedly reduce energy consumption clearly increased the danger of the Euro Area's economy turning into recession in the second half of last year. Yet, towards the end of the year a significant correction took place in energy prices, adjustment processes also proved to be mostly successful, hence the Euro Area's economy, which is imperative from the viewpoint of Hungary's growth opportunities, finally avoided recession. Compared to its European peers Hungary's economy was impacted more severely by the war in its neighbourhood, since it is more reliant on Russian gas and oil and the Forint experienced exceptionally heavy downward pressures partly owing to the war itself, partly to disputes with the EU over the rule of law and hence financing issues. Although GDP-growth remained fairly dynamic in the first quarter supported by expansionary fiscal policies, the aforementioned negative developments gradually started to weigh on performance, besides, an unusually severe drought led to a marked contraction in agricultural output. In the last two quarters of 2022 the quarterly growth rate of GDP (adjusted for seasonal effects) was already negative, hence Hungary slipped into a technical recession, and following 7.1% growth back in 2021, it finally realized an average annual growth rate of below 5% in 2022.

Inflation has already been on an upward trajectory before the Russian-Ukrainian war broke out, core inflation, which captures underlying inflation processes, was continuously above the upper edge of the central bank's tolerance band from the second half of 2021. The rate of inflation gained speed with the outbreak of the Russian-Ukrainian war through the fast increase of energy prices, while the Forint's sharp depreciation, the inferior growth rate of supply to that of demand and direct supply shortages also played a decisive role. By introducing caps on the price of fuel and certain key food items the government made efforts to slow the speed of CPI-growth. Yet, this partly resulted in speculative purchases and supply problems, while some retailers, who sell a wide range of foodstuff, were able to raise the prices of food items, not subject to the fixed caps, to an extent, which cannot be explained on pure cost basis. These problems eventually led to the termination of price caps in the case of fuel by December. As a consequence, inflation was pushed even higher by year-end and stood at 24.5% year-on-year, while on annual average it amounted to 14.5%.

In accordance with its anti-inflationary mandate the Hungarian central bank implemented one of the strictest tightening of interest rate conditions throughout 2022: it raised its base rate from 2.4%

prevailing at the end of 2021 to 13% by September last year, also declaring that the rate hike cycle that began in June 2021, came to its end. However, the base rate acted as the effective policy rate for only a short, transitional period, since up to June's rate setting meeting the interest rate on the one-week deposit facility was the decisive policy rate, and it was only between June and October that the base rate was equal to that rate. In the middle of October the central bank had to react to strong pressures on Hungarian financial asset prices (most notably to the downward pressure on the Forint's exchange rate) by transforming its monetary policy tools, at the end of which the 18% interest paid on the daily quick deposit tenders becoming the effective policy rate. Besides tightening interest rate conditions the central bank made efforts to alleviate the pressure on Hungarian financial asset prices by markedly raising the mandatory reserves ratio and introducing measures that limited the volume of instant liquidity of the banking system (like holding tenders for longer term deposits, more frequently auctioning the discount bill etc.). In its statements towards the end of 2022 the central bank emphasized that a gradual cutting of the effective policy rate becomes realistic only after marked improvements in Hungary's risk perception take place, in which reaching an agreement with the EU over development and cohesion funds should be vital.

Following a sharp increase in expenditures in the first quarter of 2022 the central government implemented massive corrective measures (imposing new sector specific taxes, delaying investment projects), which were necessitated by rising energy prices that became a heavy burden on the expenditure side of the budget, but interest payments on public debt also increased sharply. Whereas higher than expected inflation led to significant overperformance in some income items (like consumption related tax revenues), the annual cash-flow based deficit finally amounted to HUF 4,750 billion, almost 50% above the original budget plan. Taking into account the impact of an exceptional natural gas purchase to fill up gas reservoirs this translates into a 6% of GDP accruals based deficit for 2022, thus only a modest improvement following 6.8% deficit back in 2021. Yet, as nominal GDP growth was outstanding due to high inflation, public debt relative to GDP declined quite considerably, down by close to 4 percentage points from the preceding year's 76.8%.

Due to adverse terms of trade changes reflecting mainly the impact of rising energy prices the deficit of the current account widened further in 2022: following 4.2% of GDP back in 2021 it likely deteriorated to 7.5% of GDP. Taken together with the capital account, which mostly includes transactions related to the EU budget, Hungary's net external financing need rose above 4% of GDP as opposed to 1.6% a year before. This, of course, resulted in an increase of net external debt, albeit only in nominal terms. Relative to GDP neither gross, nor net external debt exhibits actual growth, due to the strong increase of nominal GDP. Compared to end2021 their levels are approximately the same at 84% and 15% respectively.

Credit institutions were also subject to diverse impacts in 2022. While the marked increase in the yield environment led to spectacular growth in net interest income, operating costs were driven up by soaring inflation, net impairment and provisioning on loans multiplied due to a marked deterioration in the economic outlook, new levies were imposed on the banking sector and the largest credit institution suffered a heavy loss on its Russian and Ukrainian exposures. In the second half of the year the previously dynamic lending activity markedly slowed due to rising interest rates especially in the household segment, meanwhile, in the corporate segment demand for credit was diverted towards relatively less expensive foreign exchange denominated loans. Overall, following year 2021's HUF 500 billion profit that was realized on the banking sector's domestic operations and translates into a 10% return on equity, last year's after-tax profit likely fell short of HUF 400bn, which implies only 7% return on equity.

2.1.1 New mortgage loan contracts to households

The Green Home Program, which was launched at the end of 2021, soon gained enormous popularity, but in the rapidly rising yield environment the central bank supplemented its budget only once, hence the total of HUF 300 billion budget was depleted by May. Up to that month the volume of new mortgage loan contracts expanded at a fairly strong 40% annual rate, but from June the new monthly contractual volume permanently fell short to the one, which materialized in the same month of the previous year. In the last two months of 2022 the rate of annual decline exceeded even 50%. In the end of last year's HUF 1,276 billion new contractual volume was 9% less than 2021's HUF 1,401 billion. Within this the rate of decline was 8.3% in the case of housing loans, and 17.7% in the case of home equity loans.

2.1.2 The outstanding stock of household mortgage loans

The stock of household mortgage loans stood at HUF 5,694 billion at the end of 2022 according to the central bank's data release. This represents HUF 282 billion increase (+5.2%) over end-2021's HUF 5,412 billion stock. This is rather inferior to the previous year's growth of HUF 565 billion (nearly +12%), but the latter can also be attributed to the fact that 45 to 50% of the portfolio participated in the repayment moratorium (introduced in March 2020 and running along almost unchanged conditions up to the end of October, 2021), hence that part was not subject to amortization. The stock of housing loans increased from HUF 4,593 billion at the end of 2021 to HUF 4,943 billion by the end of 2022, which translates into a growth rate of 7.6%. Meanwhile, the stock of home equity loans contracted from HUF 819 billion at the end of 2021 to HUF 751 billion, i.e. by HUF 68 billion (-8.3%). The share of foreign currency denominated loans within total mortgage loans was just around 0.1% at the end of last year.

2.1.3 The market of mortgage bonds

The total nominal value of mortgage bonds issued by the five Hungarian specialized mortgage banks increased by 20% from end-2021 to end-2022, and consequently on December 31, 2022 the aggregate nominal value of outstanding mortgage bonds was HUF 1,940 billion. The most significant development behind this spectacular growth rate was the total of HUF 200 billion issuance by the market leader (OTP Mortgage Bank) in the third quarter of the year. Takarék Mortgage Bank Plc. lost 1 percentage point from its market share with respect to the aggregate nominal value of mortgage bonds still in circulation, but with a 19% share it is still the second largest issuer in this segment of the financial markets.

3 REPORT ON THE BANK'S BUSINESS AND FINANCIAL RESULTS

Takarék Mortgage Bank Plc. continued its mortgage bond issue strategy communicated to the investors of organizing public stock exchange auctions in each month of the first half of 2022 (except for April) despite the increased uncertainty and volatility of the market–with increasing interest and yield premium and drying investor demand–emerged after the escalation of the Russian-Ukrainian war. Through its issuance activity, the Bank actively participated in MNB's both Green Mortgage Bond Purchase Program and its Mortgage Bond Renewal Facility. In 2022 the total volume of mortgage bonds issued by the Bank amounted to HUF 70.27 billion through ten mortgage bond auctions. Three transactions of them were green mortgage bond issuances amounting to a total of HUF 8.61 billion.

3.1 MAJOR FINANCIAL INDICATORS (IFRS, NON-CONSOLIDATED FIGURES)

The total assets of the Bank based on non-consolidated figures according to IFRS increased by 22.4% (i.e. by HUF 148.9 billion) in 2022, and by the end of the year its volume reached HUF 813.9 billion. Pre-tax profit, down 24,4% from 2021, amounted to HUF 2,158 million, while profit for the year reached HUF 1,811 million. The total comprehensive income for 2022 was HUF 2,101 million (2021: HUF 2,252 million).

Major indicators (HUF million; %)	**December 31, 2022**	**December 31, 2021**	**Change (%)**	**Change**
Total assets	813 948	665 015	22,4%	148 933
Financial assets measured at amortised cost	781 737	625 177	25,0%	156 560
Loans and advances to banks	437 013	342 707	27,5%	94 306
Loans and advances to customers	24 733	31 573	-21,7%	-6 840
Securities	319 726	250 521	27,6%	69 205
Financial liabilities measured at amortised cost	734 183	585 534	25,4%	148 649
Amounts due to other banks	377 771	263 131	43,6%	114 640
Issued debt securities	355 799	321 714	10,6%	34 085
Equity	71 037	68 936	3,0%	2 101
Profit before taxation	2 158	2 855	-24,4%	-697
Profit for the year	1 811	2 745	-34,0%	-934
Total comprehensive income for the year	2 101	2 252	-6,7%	-151
ROAA (average return on assets)	0,2%	0,4%	-	-0,2%-pt
ROAE (average return on equity)	2,6%	4,0%	-	-1,4%-pt

3.2 REFINANCING

From the second quarter of 2018 the Bank performs solely classic mortgage bank functions, i.e. it issues mortgage bonds, raising funds for for refinancing the mortgage loan portfolios of its partnerbanks both within the MKB Group and also for external partners. Within the Group, the Bank is a special entity: it is able to raise funds in the form of mortgage bond or uncovered bond issuances either at domestic or international financial markets. Due to the latter, it is able to obtain foreign currency financing if needed.

In its strategy the Bank puts special emphasis on cooperating with external partners. It strives to become an attractive alternative for banking groups that are involved in mortgage lending but do not have their own mortgage bank license and thus need mortgage refinancing.

The stock of refinancing loans granted by the Bank went up by 11.0% (or HUF 36.5 billion) in 2022 and their volume at the end of the year was HUF 368.5 billion.

3.3 LENDING TO CLIENTS

The Bank discontinued originating new loans from the second quarter of 2018, lending activity is provided by Takarékbank, yet, the already existing portfolio remains in the Bank's books until full expiry. From the second quarter of 2018 the Bank is only active in the refinancing segment, and thus the stock of its still existing client loans are gradually shrinking due to natural amortization and successful workout process.

Among financial assets measured at amortised cost, gross customer loans - in line with the above - continued to decrease, sinking to HUF 24.7 billion at the end of 2022 down 21.7% from end-2021's HUF 31.6 billion. 98.2% of this stock are household loans, the volume of which decreased by HUF 9.6 billion compared to the previous year. The stock of corporate loans amounted to HUF 0.5 billlion at the end of 2022. The bulk of the household loan portfolio are mortgage loans, which implies 0.5% market share for the Bank in this segment (down from 0.7% back in 2021).

3.4 PORTFOLIO QUALITY, IMPAIRMENT

The Bank's gross loan volume amounted to HUF 394.7 billion at the end of the year. The value of contingent liabilities on December 31, 2022 was HUF 27.1 billion. Hence the full exposure of gross loans and contingent liabilities (excluding securities) was HUF 421.8 billion.

Claims on clients amounted to HUF 24.7 billion, moreover, based on already signed contracts there was a commitment for disbursing loans of HUF 0.09 billion at the end of 2022. Out of these volume 967 loan contracts were classified as Stage 3 category with an underlying volume of HUF 2.92 billion in claims with HUF 0.78 billion in impairments. HUF 23.38 billion in claims and HUF 0.09 billion in commitments were classified as Stage 1 and Stage 2 categories, with HUF 0.77 billion in impairments and provisions.

The stock of refinancing loans was HUF 368.46 billion, with a minimal HUF 14.4 million in impairments.

The Bank has ownership interest in three entities: the MTB, the Takarék United Cooperatives (TESZ) and the COICI. The nominal value of these investments is HUF 0.01 billion.

In the interbank market the Bank had placements of HUF 0.3 billion in the form of sight deposits.

The share of problem free (Stage 1 and Stage 2) loans was 88.9% as of December 31, 2022, consequently the share of Stage 3 loans was 11.1%.

Average impairment levels for both the total portfolio (excluding swaps) and the loan portfolio have increased since the previous measurement date.

3.5 ISSUED SECURITIES

In ten public auctions last year the Bank raised HUF 70.27 billion funds by issuing mortgage bonds compared to HUF 24.51 billion in the previous year. Most of the issuances took place in the first half of the year, when the overal market environment was a more favorable environment in terms of investors' demand. Unsecured bonds were not issued in 2022.

The activity of the domestic mortgage bond market was significantly influenced by the availability of the MNB's asset purchase programmes in 2022 as well. The HUF 200 billion Green Mortgage Bond Purchase Programme, launched on 2 August 2021, was temporarily closed by the MNB at the end of April 2022 and it is still inactive at the time of reporting. In the framework of the Green Bond Purchase Programme, which was still in operation at the beginning of the year, the Bank issued HUF 6.6 billion of series TZJ27NF1 and HUF 1.97 billion of series TZJ32NF1 at favorable pricingdue to the MNB's participation as an investor. In the rest of the year, mortgage bond issuers were left only with the Mortgage Bond Renewal Facility. Within this framework, the Bank sold mortgage bonds worth HUF 57.16 billion in 5 auctions in order to renew the maturities due in 2023.

Despite the changing market environment, the Bank continued its announced issuance strategy and sought to maintain a regular market presence as an issuer: it offered mortgage bonds maturing in 2025, 2026, 2027, 2031 and 2032 to investors. The Bank typically announced volumes of between HUF 1 billion and HUF 10 billion in the auctions. Yield spreads rose gradually in 2022 relative to benchmark government bond yields, tracking the deteriorating domestic and international market sentiment, reflecting adverse macroeconomic developments and investor cautiousness.

In each quarter, the Bank issued mortgage bonds with a nominal value of HUF 24.91 billion, HUF 42.16 billion, HUF 1.2 billion and HUF 2.0 billion. With the exception of one auction, fixed-rate mortgage bonds were issued in the period.

In 2022, three covered bond series expired: the FJ22NV01 series of HUF 3 billion floating rate notes, the FJ22ZF01 series of EUR 15.85 million fixed rate notes denominated in euro and the FJ22NF01 series of HUF 4.9 billion fixed rate forint mortgage bonds. In June 2022, a buy-back transaction was conducted in a public auction on the stock exchange, where the Issuer bought back and withdrew HUF 12.2 billion of the original HUF 5-year fixed rate mortgage bond series FJ23NF01.

As a result of the above transactions, the total nominal value of the outstanding mortgage bonds issued by the Issuer was HUF 367.25 billion at the end of 2022.

The Hungarian National Bank (HNB) has authorised Takarék Mortgage Bank Co. Plc. to use the 'European (premium) covered bond' logo for its future mortgage bonds by Resolution No. H-KE-III-533/2022 dated 12 September 2022. The Issuer fully complies with the requirements of the European Covered Bond Regulation, i.e. Directive 2019/2162 of the European Parliament and of the Council, and its procedures and practices ensure that its issued mortgage bonds also meet enhanced prudential requirements for European credit institutions.

In accordance with the provisions of the Act on Act on Mortgage Banks and Mortgage Bonds and in keeping with its rules on collateral registration, the Bank monitored the level of mortgage bond collaterals and compliance with proportionality requirements. In order to ensure appropriate mortgage bond coverage, the Bank verified upon the disbursement of loans, whether the eligibility criteri for ordinary collaterals were met.

The net value of ordinary collaterals covering mortgage bonds issued by the Bank was HUF 529.1 billion on December 31, 2022, versus December 31, 2021 (HUF 447.2 billion) resulting a 18.3% increase due to the extension of the refinancing loan portfolio. The inclusion of liquid assets into the cover pool required by the new domestic regulation on mortgage banks and mortgage bonds (which entered into force on 8 July 2022 in compliance with the respective Europena covered bond directive) - also contributed to the increase in the stock of cover pool assets in addition to the expansion of normal collateral in 2022.

Value of mortgage bonds and cover assets

HUF million	December 31, 2022	December 31, 2021	Change
Outstanding mortgage bonds in circulation			
Face value	367,249	323,019	13.7%
Interest	55,666	46,377	20.0%
Total	422,915	369,396	14.5%
Value of ordinary collateral			
Principal	376,389	348,868	7.9%
Interest	152,742	98,269	55.4%
Total	529,131	447,137	18.3%
The value of the liquid assets involved (principal and interest amount)	35,827	-	100.0%
Value of assets involved as supplementary collateral	-	-	-
Value of mortgage bonds and assets involved as collateral	-	-	-
Total	564,958	447,137	26.4%

As of December 31, 2022, the present value of the cover assets was HUF 339.0 billion and the present value of the items to be covered was HUF 291.1 billion, so that the present value of the assets represented 116.45% of the present value of the outstanding mortgage bonds. The ratio of the net value of collateral assets' principal to the nominal amount of outstanding mortgage bondswas 111.77%, while the ratio of the interest amount of collateral assets and the unpaid interest amount of outtanding mortgage bonds was 276.77% at 31 December 2022.

3.6 BALANCE SHEET DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

As of 31 December 2021, the Bank's total assets according to non-consolidated IFRS figures amounted to HUF 813.9 billion, 22.4% above the end-2021 figure of HUF 665.0 billion.

Balance sheet items (HUF million; %)	31 December, 2022	31 December, 2021	change (%)	change
Assets				
Cash and cash equivalents	**342**	**229**	**49,3%**	**113**
Financial assets measured at fair value through profit or loss	**11 854**	**12 146**	**-2,4%**	**-292**
Loans and advances to customers mandatorily at fair value through profit or loss	*6 593*	*9 787*	*-32,6%*	*-3 194*
Derivative financial assets	*5 261*	*2 359*	*123,0%*	*2 902*
Hedging derivative assets	**975**	**0**	**-**	**975**
Financial assets measured at fair value through other comprehensive income	**18 172**	**26 242**	**-30,8%**	**-8 070**
Securities	18 172	26 242	-30,8%	-8 070
Financial assets measured at amortised cost	**781 737**	**625 177**	**25,0%**	**156 560**
Loans and advances to banks	*437 013*	*342 707*	*27,5%*	*94 306*
Loans and advances to customers	*24 733*	*31 573*	*-21,7%*	*-6 840*
Securities	*319 726*	*250 521*	*27,6%*	*69 206*
Other financial assets	*265*	*376*	*-29,5%*	*-111*
Property, plant and equipment	**63**	**95**	**-33,7%**	**-32**
Intangible assets	**239**	**203**	**17,7%**	**36**
Income tax assets	**468**	**518**	**-9,7%**	**-50**
Current income tax assets	0	6	-	-6
Deferred income tax assets	468	512	-8,5%	-44
Other assets	**98**	**405**	**-75,8%**	**-307**
Total assets	**813 948**	**665 015**	**22,4%**	**148 933**
Liabilities				
Financial liabilities measured at fair value through profit or loss	**5 146**	**2 309**	**122,9%**	**2 837**
Derivative financial liabilities	*5 146*	*2 309*	*122,9%*	*2 837*
Financial liabilities designated at fair value through profit or loss	**0**	**6 121**	**-100,0%**	**-6 121**
Financial liabilities measured at amortised cost	**734 183**	**585 534**	**25,4%**	**148 649**
Amounts due to other banks	*377 771*	*263 131*	*43,6%*	*114 640*
Issued debt securities	*355 799*	*321 714*	*10,6%*	*34 085*
Other financial liabilities	*613*	*689*	*-11,0%*	*-76*
Hedging derivative liabilities	**2 639**	**1 112**	**137,3%**	**1 527**
Provisions	**17**	**28**	**-39,3%**	**-11**
Income tax liabilities	105	148	-29,1%	-43
Current income tax liabilities	105	148	-29,1%	-43
Deferred income tax liabilities	0	0	-	0
Other liabilities	821	827	-0,7%	-6
Total liabilities	**742 911**	**596 079**	**24,6%**	**146 832**
Equity				
Share capital	*10 849*	*10 849*	*0,0%*	*0*
Treasury shares	*-207*	*-207*	*0,0%*	*0*
Share premium	*27 926*	*27 926*	*0,0%*	*0*
Retained earnings	*28 981*	*26 417*	*9,7%*	*2 564*
Other reserves	*1 620*	*1 439*	*12,6%*	*181*
Profit for the year	*1 811*	*2 745*	*-34,0%*	*-934*
Accumulated other comprehensive income	*57*	*-233*	*-*	*290*
Total equity	**71 037**	**68 936**	**3,0%**	**2 101**
Total liabilities and equity	**813 948**	**665 015**	**22,4%**	**148 933**

3.6.1 Financial assets measured at fair value through other comprehensive income

The value of financial assets measured at fair value through other comprehensive income was HUF 18.2 billion at the end of 2022, 30.8% lower than a year earlier. Debt-type securities are the most significant within this item, whereas the share of ownership-type instruments is below 1%.

Within this class of assets there was a rearrangement in the stock of debt-type securities between 2021 and 2022. By 2022, the discount treasury tickets were completely removed from the stock, while at the same time the stock of credit institution bonds expanded to HUF 9.2 billion. The stock of government bonds increased by 149.4% compared to the previous year (from HUF 3.6 billion to HUF 8.9 billion).

3.6.2 Financial assets measured at amortised cost

The volume of financial assets measured at amortized costs increased by 25.0% in 2022, thus the volume amounted to HUF 781.7 billion by the end of the period. The gross stock of debt-type securities within this increased by 27.6% and stood at HUF 319.7 billion at the end of the year. 90.4% of the total securities portfolio is made up of government bonds, the stock of which was HUF 289.0 billion at the end of 2022.

Within this class of assets the other major component is the stock of gross loans. This increased by 8.3% in the course of 2022, rising to HUF 394.7 billion by the end of the year.

The gross stock of interbank deposits and claims on central bank increased from HUF 10.8 to HUF 68.6 billion, which represents a significantly higher level.

3.6.3 Financial liabilities measured at amortized costs

Financial liabilities measured at amortized costs take up 90.2% of the Bank's total liabilities. Their volume at the end of 2022 was 25.4% higher than a year before, thus reaching HUF 734.2 billion. Within these liabilities it is debt-type securities, i.e. the mortgage bonds issued by the Bank to secure the long-term refinancing of the mortgage debt portfolio, represent the highest share (48.5%). The value of mortgage bonds issued at the end of 2022 reached HUF 355.8 billion, which represents a 10.6% increase compared to 2021. During 2022, however, the stock of loans received increased significantly by 43.6%, thanks to the increase in loans from the MNB with maturities beyond one year. At the end of the period, it reached HUF 377.8 billion.

3.6.4 Equity, capital adequacy

Shareholders' equity amounted to HUF 71.0 billion at the end of 2022, up HUF 2.1 billion (or 3.0%) from the end of 2021.

Takarék Mortgage Bank Plc. is member of Central Body of Integrated Credit Institutions (CBIC). The members of CBIC should examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured by the relevant statutory and resolution of the National Bank of Hungary.

On the capital adequacy of the members of the integration the MKB Bank Nyrt. publishes the audited financial statements in the disclosure document of the business year.

3.6.5 Off balance sheet items

The value of off balance sheet items amounted HUF 27.1 billion at the end of 2022, 11.1% higher than a year before. It entirely consisted of the volume of unused (or not yet drawn upon) credit lines by clients and refinancing partners.

3.7 PROFIT & LOSS DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

P&L items (HUF million)	2022.	2021.	change (%)	change
Interest and similar to interest income	**32 640**	**14 704**	**122,0%**	**17 936**
Interest income using effective interest rate method	28 248	13 522	108,9%	14 726
Other interest income	4 392	1 182	271,6%	3 210
Interest expense	**-26 085**	**-10 456**	**149,5%**	**-15 629**
Interest expense using effective interest rate method	**-21 102**	**-9 457**	**123,1%**	**-11 645**
Other interest expenses	**-4 983**	**-999**	**-**	**-3 984**
Net interest income	**6 555**	**4 248**	**54,3%**	**2 307**
Income from commission and fees	557	589	-5,4%	-32
Expense from commission and fees	-548	-620	-11,6%	72
Net income from commissions and fees	**9**	**-31**	**-**	**40**
Results from financial instruments, net	**-307**	**787**	**-**	**-1 094**
Results from financial instruments measured at fair value through profit or loss, net	-886	439	-	-1 325
Gains on financial assets and liabilities designated at fair value through profit or loss	50	238	-79,0%	-188
Results from financial instruments measured at fair value through other comprehensive income, net	-273	269	-	-541
Results from financial instruments measured at amortized cost, net	361	-83	-	443
Results from hedge accounting, net	-8	-76	-89,5%	68
Exchange differences result, net	449	0	-	449
Impairment / (Reversal) on financial and non-financial instruments	**-1 176**	**-283**	**-**	**-893**
Impairment / (Reversal) on financial instruments held for credit risk management	-557	-224	148,7%	-333
Provision (loss) / gain	2	3	-33,3%	-1
Modification (loss) / gain on financial instruments	-622	-62	-	-560
(Impairment) / Reversal on other financial instruments	1	0	-	1
Operating expense	**-2 808**	**-2 301**	**22,0%**	**-507**
Other income	**75**	**442**	**-83,0%**	**-367**
Other expense	**-190**	**-7**	**-**	**-183**
Profit before taxation	**2 158**	**2 855**	**-24,4%**	**-697**
Income tax income / (expense)	**-347**	**-110**	**215,5%**	**-237**
Profit for the year	**1 811**	**2 745**	**-34,0%**	**-934**

Other Comprehensive Income (HUF million)	2022.	2021.	Change (%)	Change
Profit for the year	**1 811**	**2 745**	**-34,0%**	**-934**
Other comprehensive income	**290**	**-493**	**-**	**783**
Items that will not be reclassified to profit or loss	**0**	**9**	**-**	**-9**
Income tax relating to items that will not be reclassified	0	9	-	-9
Items that may be reclassified to profit/loss	**290**	**-502**	**-**	**792**
Hedging instruments (unmarked items)	0	183	-	-183
Debt instruments at fair value through other comprehensive income	290	-685	-	975
Total comprehensive income for the year	**2 101**	**2 252**	**-6,7%**	**-151**

The Bank's pre-tax profit was HUF 2.2 billion in 2022, which represents a 24.4% lower level compared to the profit in 2021. Full-year profit was HUF 1.8 billion in 2022 (HUF 2.7 billion in 2021).

The total comprehensive income was also below the performance of the previous year, reaching HUF 2.1 billion in 2022 (HUF 2.3 billion in 2021).

3.7.1 Net interest income

Net interest income reached HUF 6.6 billion in 2022 (HUF 4.2 billion in 2021) as a result of HUF 32.6 billion in income (up 122.0% from 2021) and HUF 26.1 billion in expenses (up 149.5% from 2021). In sum, net interest income was HUF 2.3 billion (54.3%) higher in 2022 than in the previous year.

In terms of interest income, the HUF 14.3 billion increase in interest income from financial assets measured at amortized cost in 2022 was decisive. Its value was HUF 27.4 billion in 2022 (HUF 13.1 billion in 2021).

Interest expenses were HUF 15.6 billion higher than the previous year, totaling HUF 26.1 billion (2021: HUF 10.5 billion). Among the interest expenses, the interest expenses of financial liabilities measured at amortized cost represent the most significant item; this amounted to HUF 21.1 billion in 2022 which was HUF 11.6 billion higher than the previous year (HUF 9.5 billion in 2021).

3.7.2 Net fees and commissions

The net fees and commissions result was HUF 9 million in profit in 2022, compared to the HUF 31 million loss in 2021.

Income from fees and commissions reached HUF 557 million (down 5.4% from 2021). The lower revenues were mainly caused by the decrease in fee and commission revenues related to the valuation, and to a lesser extent to the processing commission.

The amount of fee and commission expenses in 2022 was HUF 548 million (HUF 620 million in 2021). The lower level of expenses can be explained by the lower expenses of agency fees and valuation, while the expenses of the treasury activity increased.

3.7.3 Results from financial instruments

The result related to financial asstes amounted to HUF 307 million loss compared to last year's HUF 787 profit 2021. This is mostly explained by losses from financial instruments measured at fair value.

3.7.4 General and administrative expenses

The general and administrative expenses of the Bank increased by 22.0% (i.e. by HUF 507 million) in 2022, reaching a level of HUF 2.808 billion overall compared to HUF 2.301 billion in 2021. One element of the government's budget adjustment package announced in May, the extra profit tax, had a significant impact on the development of operating costs. The extra profit tax amounted to HUF 615.7 million.

At the same time, consultancy fees decreased from the previous year's HUF 430 million to HUF 230 million, thanks to the reduction of the management service fee.

The HUF 134 million increase in salary expenses was the result of several factors: the increase in the number of members of the Board of Directors and the Supervisory Board, the growth of the remuneration, wage inflation and the increase of severance payments.

Operating expenses (HUF million)	**2022**	**2021**	**change (%)**	**change**
Staff costs	449	315	42,5%	134
Marketing and advertising	5	6	-16,7%	-1
General and administrative costs	107	96	11,5%	11
Rental fee	0	21	-100,0%	-21
Depreciation of tangible assets	36	28	28,6%	8
Amortisation of intangible assets	31	22	40,9%	9
Consultancy fees	230	430	-46,5%	-200
Maintenance costs	433	423	2,4%	10
Banking tax	842	0	-	842
Other taxes	55	67	-17,9%	-12
Insurance fees	6	7	-14,3%	-1
Database system usage	24	78	-69,2%	-54
Supervisor fee	32	52	-38,5%	-20
CBIC* fee, CBIC* Capital Fund and Resolution and Compensation Fund fees	439	463	-5,2%	-24
SLA service costs	81	203	-60,1%	-122
Other	38	90	-57,8%	-52
Total	**2 808**	**2 301**	**22,0%**	**507**

* CBIC= Central Body of Integrated Credit Institutions

3.7.5 Impairment / (Reversal) on financial instru-ments held for credit risk management and provision (loss) / gain

The net balance of impairment and provisioning was HUF 555 million in 2022.

3.7.6 Modification (loss) / gain on financial instruments

The cost of the repayment moratorium that came into effect on March 18, 2020 is derived from the loss impact on the net present value of not served and thus accrued credit cash-flows. The total impact for the Bank was HUF 622 million loss in 2022.

3.7.7 Pre-tax profit

The Bank's pre-tax profit amounted to HUF 2.2 billion in 2022 (HUF 2.9 billion in 2021).

4 LIQUIDITY MANAGEMENT

Due to its special legal mortgage bank status the Bank is not allowed to collect client deposits, hence among its liabilities the components with the highest weight are mortgage bonds and interbank liabilities. In the course of 2022 the weight of long-term (3- and 5-year) central bank refinancing sources originating from the MNB's long-term covered refinancing operations was also decisive (at the end of July 2021 the central bank finished these operations, new deals are not available, but the outstanding stock remains intact).

According to the amendment of the Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (Jht.) liquid assets are also recognized as eligible collateral assets (apart from normal and substitute assets), while the rules on the management of liquidity buffer were defined. In accordance with the above the Bank has been applying a liquidity buffer consisting of liquid assets with the aim of covering the net liquidity putflow in relation to its coved bond issue programme from July 8, 2022. Also, based on the amenden Jht. the Bank maintains a minimum overcollateralization level of 2%.

S&P Global Ratings (Madrid) announced on January 26, 2023 that it placed on CreditWatch positive its 'BBB' credit ratings on Takarék Mortgage Bank Co. Plc's Hungarian mortgage covered bond program and related issuances.

The above decision reflects S&P's view that following the improvement in its assessment on the issuer's creditworthiness, the covered bonds could be eligible for collateral-based uplift based on further analysis above the current rating, which reflects the covered bonds' jurisdiction-supported rating level (JRL) of 'bbb'

Developments in the structure of the Bank's liabilities

The structure of the Bank's liabilities - following the adoption of the purely mortgage bank strategy in 2018 - are primarily influenced by developments in the stock of refinanced loans, and the level of activity in primary mortgage bond issuances with a view to secure the MFAR compliance of MTB Group.

In 2022, the stock of mortgage bonds increased by 13.7% (+ HUF 44.2 billion) from a nominal value of HUF 323.0 billion to HUF 367.2 billion.

In 2022 the total volume of mortgage bonds issued by the Bank amounted to HUF 70.27 billion through ten mortgage bond auctions. Three transactions of them were green mortgage bond issuances amounting to a total of HUF 8.61 billion.

In the framework of MNB's Green Mortgage Bond Purchase Program, the Bank managed to sell mortgage bonds of HUF 7.4 billion with discounted yield spreads. The Green Mortgage Bond Purchase Program was suspended by the MNB in the spring of 2022. Participation in the mortgage bond renewal facility was dominant in the period of the first half: in Q2 2022, a total of HUF 42.16 billion nominal amount was issued with the aim of rolling over upcoming mortgage bond maturities, while the respective volume reached total of HUF 56.66 billion in H1 2022.

5 Risk management principles

The Bank's risk management is governed by the Hungarian and EU legislation in force, as well as by additional supervisory regulations. Mortgage Bank Co. Plc. is a member of the Central Organisation of Integrated Credit Institutions (IHKSZ), the MKB Group (managed by MKB Bank Plc.) and also the MTB Group, which is part of the MKB Group. Therefore the Bank has to comply with the internal risk regulations of the IHKSZ, the MKB Group and the MTB Group.

The Mortgage Bank Co. Plc. considers prudent risk-taking as a core value and conducts its risk management and risk control activities in accordance with the principles set out in MKB's Group-wide Risk Strategy. The Bank complied with the legal requirements in 2022.

5.1 RISK STRATEGY

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

In its operations, the Bank strives to maintain a risk culture that ensures the identification, measurement and management of emerging risks in accordance with the risk appetite. Internal policies, strategies, regulations and guidelines, communication and employee training are the primary means of ensuring a corresponding risk culture.

The primary objectives of Mortgage Bank Co. Plc. risk management activities are to protect the Bank's financial strength and reputation and to contribute to the use of capital for competitive business activities that enhance shareholder value. Protecting financial strength and reputation means managing risks to limit the impact of adverse events on the Bank's capital and earnings.

The Bank's risk appetite should be consistent with the financial resources available to cover potential losses. In order to ensure this, the Bank calculates the current and future economic capital requirements for the quantifiable types of risk, as well as the capital requirements under Pillar 1.

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

5.2 CREDIT RISK

The main activity of the Bank remains the refinancing of the mortgage loan portfolio of its partner banks. The Mortgage Funding Adequacy Ratio (JMM) introduced by MNB created a business opportunity for mortgage credit institutions by supporting them to extend refinancing loans with similar maturity profile as that of the long-term residential mortgage loans of partner banks, helping them in eliminating their Forint maturity mismatches. This provided an exceptional opportunity for the Bank to acquire new business partners and to expand its refinancing activities.

In 2022, the main factor of the change in credit risk was the change in methodologies used due to the pandemic period, both for the corporate and retail portfolios.

In line with the MNB's expectations and the uniform impairment calculation methodology at MKB Banking Group level, the staging logic for customers in the moratorium and leaving the moratorium was standardised.

For customers exiting the moratorium or not on a contracted repayment schedule, the measurement of traditional credit behaviour continues to be implemented. For retail customers, the Bank has reverted to the standard lifetime ECL calculation.

For corporate clients, the Bank continues to determine the level of impairment based on the rating and the monitoring result.

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

Given that no new information on the paying capacity of customers has emerged during the moratorium period and that the repayment rates of customers affected by the interest rate freeze are lower than those in the contracts, it is necessary to take into account the uncertainties about the capacity and willingness of debtors to pay. In addition, MNB expects that the risk arising from modelling uncertainty needs to be mitigated.

The Bank has considered the following aspects in determining the year end management overlays:

- the rate at which the income of retail customers entering the moratorium4 has decreased compared to 18.03.2020,
- the credit risk models are not aware of the agricultural moratorium and therefore the willingness and capacity to pay for customers entering the agricultural moratorium may contain a hidden high probability of default,
- the application of transitional staging rules alone does not always reflect the full increase in lifetime loss, even when macro parameters are updated.

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

5.3 LIQUIDITY AND MATURITY RISK

Liquidity risk is defined as the risk that the Bank could encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking, which can be ensured by managing the maturity mismatch of receivables and payables. Also, the Bank applies maturity transformation regulated by limits to manage profitability while maintaining solvency at all times. The Bank regularly reviews clients' prepayments prior to the maturities of loans and takes into consideration their impact in managing market and liquidity risks.

Due to its specialized credit institution status and its strategy (applied since 2018) of a purely classic mortgage bank, the company's balance sheet structure is much simpler than that of a classic commercial bank. On the asset side it is the increasing stock of refinancing loans (the stock of own loans gradually narrows, new disbursements did not take place since 2018) and liquid securities, while on the liabilities side it is issued mortgage bonds and the long-term central bank financing sources (exclusively 3- and 5-year maturity loans) qualify as decisive items. Since in the framework of LTRO the central bank extends covered credit to market players, for the Company it is the mismatches in the maturity structure of mortgage bonds and the stock of refinanced loans (and the still outstanding own credit), as well as the potential loss on bonds locked for MNB as the beneficiary, where the liquidity risk to be addressed comes from.

The Bank prepares its plans for liquidity management and financing position based on different assumption that also considers the impact of stress scenarios.

The Bank maintains a significant amount of liquid assets on an ongoing basis, mainly in the form of government securities and deposits at MTB.

5.4 EXCHANGE RATE RISK

The Bank is a specialized credit institution, which significantly narrows the scope of business activites, where exchange rate related risks may arise. Moreover, it is the Bank's explicit policy to keep exchange rate risk at a low level.

The Bank intends to immediately hedge exchange rate risks emanating from its core business, provided market conditions are supportive to do so. Therefore, open FX positions may occur primarily due to liquidity management, settlements related to lending and refinancing, or accrued expenses and deferred charges in those currencies, in which the Bank keeps nostro accounts.

5.5 INTEREST RATE RISK

Interest rate risk stems from interest rate changes, which impact the value of the underlying financial instruments. The Bank is also exposed to interest rate risk, when the amounts of assets, liabilities and off-balance sheet instruments maturing or being revaluated in a particular period are not in accordance with each other.

The Bank is monitoring interest rate risk on a continuous basis by the analysis of stress scenarios and sensitivity analyses and mitigates exposures by setting limits. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as the repurchase of mortgage bonds, swap deals as well as adjusting mortgage bond maturities and interest rates to correspond to the underlying assets are made use of in order to ensure the harmony between assets and liabilities.

5.6 OPERATIONAL RISK

Mortgage Bank Co. Plc. continues to manage operational risk primarily through internal policies, guidelines and the operation of built-in controls in line with the defined supervisory requirements.

MKB's Group Level Operational Risk Management Policy and Operational Risk Management Rules set out the methodology for the operational risk management framework tools used by the Bank.

The operational risk loss data collection is based on uniform definitions and limits. The Bank promotes the recognition and identification of operational risks with internal training.

The adequacy of key risk indicators (KRIs) is reviewed by the Bank every year, several KRIs were modified in 2022 and new group level KRIs defined by MKB were introduced.

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

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

6 ORGANIZATION CHANGES AND HEADCOUNT

The Bank functions as a classic mortgage bank: business and mortgage loan extending and managing functions as well as group control, supervision and support functions are performed by the MTB. The Bank's organizational setup was unchanged in 2022, the full-time equivalent number of employees was 14 at the end of 2022.

Talent management at MKB Bank:

The MKB Group places great emphasis on training employees and nurturing talent, supporting the development of professional knowledge and skills through a wide range of educational programmes. The following programmes were launched in 2022:

Digitised and gamified pre-boarding programme:

The programme focuses on our colleagues who are in the pre-entry period after accepting our offer. The solution, available online, supports new talent engagement in the pre-joining period; we not only accompany prospective employees on their journey until their onboarding day, but also maintain a positive experience while providing them with ongoing engagement.

Fusion programme:

The next step in our talent retention activities in 2022 was the award-winning Fusion programme. Fusion is one of Hungary's largest internship programmes, currently hosting nearly 300 talented students aged 19-25 from across the country. During the programme they gain relevant work experience, which provides us with a solid pool of young talent.

Ambassador Academy:

An innovative tool was called for to introduce new values, associated behaviour patterns and leadership tools, a new culture roadmap and to retain talent and maintain engagement. We therefore developed the Ambassador Academy of around 100 people. It is a change management initiative, with members working together to ensure engagement between different talent, teams and the delivery of information to all colleagues.

Leadership Academy:

Our Leadership Academy is an integral part of preparing managers for the transition to the new way of banking. Our leadership training programme is modular and supports the continuous development of talented leaders through a variety of solutions and topics (inspiring leadership, heterogeneous cross-generational teams, transparent leadership, motivating leadership, etc.). A specific programme supports the training of newly appointed managers.

We created the Change Management Academy, which more than 1,500 of our management and non-management colleagues attended in 2022. Within the framework of the Academy, we not only provide the re-skilling needed for change management, but we also introduced the communication of corporate values in an interactive form, working with colleagues through workshops to help them understand and accept these values.

Our retention programmes focus on colleagues with specialist skills, as retention is key (Key Employee Programme), and equally focus on those with a consistently high performance and excellent attitude (High Performer Retention Programme).

MKB Bank’s 2022 talent management programme was recognised with a special award by the Joint Ventures Association on 4 February 2023.

Work-life balance at MKB Bank:

At MKB Bank, flexible working is a core element of the HR strategy and an important component of improving the employee experience.

As part of its HR strategy, MKB Bank aims to increase the share of atypical employment. In addition, the company aims to make working from home available to as many employees as possible, which is why it is also continuously improving its equipment. Working from home reduces workplace stress, improves work-life balance and thus increases employee satisfaction, morale, efficiency and loyalty.

MKB Bank and health:

Health promotion and health maintenance is an important area for MKB Bank, which is emphasised in various sports and health campaigns. Providing sporting opportunities for employees in a variety of ways and promoting healthy lifestyles is being implemented on multiple fronts.

Employees have access to preferential health insurance, including diagnostic services and extended occupational health services within the Bank, seven days a week.

MKB Bank and sports:

MKB provides significant support to its sports association where effective professional and recreational sports work is carried out. In 2022, the association has a membership of between 400 and 450 people, including 200-250 members in the various sports sections.

In addition to sports sections support, the association also provides its members with sports equipment, logoed sportswear, sports accessories, and even individual support to sports section members on request.

Safe working environment:

MKB Bank complies with its legal obligations by carrying out a workplace risk assessment of its headquarters and premises, including all bank branches. As the Bank is an office working environment, the risk of accidents is fortunately low. The incidence of accidents at work is therefore low and on a downward trend.

Every year, employees are required to attend mandatory training on health and safety and fire prevention. Special training material has been prepared for bank branch staff on what to do in the event of an attack on the branch. The personnel, material and organisational conditions for safe work are laid down in the Bank's Health and Safety at Work Manual in accordance with the legal requirements.

The Bank also employs a safety and health representative on behalf of the Works Council, who is entitled to check that the requirements for safe and healthy working conditions are met.

7 PROTECTION OF ENVIROMENT

Green Covered Bond Committee

Mortgage Bank Co. Plc. established its Green Covered Bond Committee (hereinafter referred as GCBC) to increase the role of green factors in its business and risk management governance. The Committee consists of the CEO, the deputy CEO, Heads of Capital Market, Refinancing, ALM, Collateral Registry, Collateral Management. GCBC reports directly to the Management of Board. Pursuant to the internal regulations, the GCBC decides on the 'green' quality if new collateral is involved, and regularly reviews the adequacy of the green collateral behind the issued green mortgage bonds.

8 POST BALANCE SHEET DATE EVENTS

Mortgage bond auction

The Bank organized the auction of the second tranche of TZJ32NF1 Takarek mortgage (covered) bond (maturity: 27.05.2032, coupon rate: fixed: 5.75%) on 17 January 2023. The result of the auction was the following: the total offered (nominal) value was HUF 10,000 million, the total nominal value of valid bids was HUF 15,175 million, the total nominal value issued was HUF 10,000 million, while the average selling price (net) was 80.4442%.

Rating

S&P Global Ratings (Madrid) announced on January 26, 2023 that it placed on CreditWatch positive its 'BBB' credit ratings on Takarék Mortgage Bank Co. Plc's Hungarian mortgage covered bond program and related issuances.

The above decision reflects S&P's view that following the improvement in its assessment on the issuer's creditworthiness, the covered bonds could be eligible for collateral-based uplift based on further analysis above the current rating, which reflects the covered bonds' jurisdiction-supported rating level (JRL) of 'bbb'.

Changes in the management of MKB Bank Plc.

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

Rebranding and change of the name of the Bank

MKB Bank Plc., as the leading member of the group, decided on the new brand architecture and visual appearance of the banking group, which includes the name of individual members, too. At the same time, this also means that the legal name of the Group members would need to be changed in a manner that it would give sufficient indication that a Group member belongs in the group – under a new name – led by MBH Bank Plc. as of 1 May 2023. It, therefore, became necessary to modify the corporate name of Takarék Jelzálogbank Nyrt., a subsidiary of MKB Bank Plc., as of 1 May 2023, as in the following MBH Mortgage Bank Co. Plc.

Budapest, 3 April 2023

dr. Gyula László Nagy Chief Executive Officer	**Illés Tóth** Deputy CEO

Issuer Declaration

Takarék Jelzálogbank Nyrt. (Takarék Mortgage Bank Co. Plc.) as the Issuer (represented by: dr. Gyula László Nagy CEO, and Illés Tóth Deputy CEO), hereby declares that the **2022 Annual report** of Takarék Mortgage Bank Co. Plc. has been prepared in accordance with the applicable accounting standards, its best knowledge and accordance with the International Financial Reporting Standards adopted by the European Union. The included **Stand-alone Financial Statements** give a true and fair view of assets, liabilities, financial position and profit of Takarék Mortgage Bank Co. Plc., furthermore the **Stand-alone Management report** gives a fair view of the position, development and performance of Takarék Mortgage Bank Co. Plc., disclosing the risks and the factors of uncertainty.

Budapest, 3 April 2023.

dr. Gyula László Nagy	**Illés Tóth**
Chief Executive Officer	Deputy Chief Executive Officer

TAKARÉK MORTGAGE BANK PLC.

STAND-ALONE MANAGEMENT REPORT FOR 2022

Budapest, 3 April 2023

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1 OVERVIEW OF TAKARÉK MORTGAGE BANK PLC.

Takarék Mortgage Bank Public Limited Company (formerly FHB Mortgage Bank Plc., hereafter referred to as "the Bank" or "the Company") was established on October 21, 1997 as a limited liability company with a share capital of HUF 3 billion.

The Bank received its operating license as a specialized financial institution in accordance with the provision of Act CXII of 1996 on Credit Institutions and Financial Enterprises (previous Hpt.) and Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (Jht.) on March 6, 1998. The Bank started operation as of March 16, 1998.

The Bank grants refinancing mortgage loans provided by commercial banks to their customers and issues mortgage bonds to raise funds for its refinancing activity.

On October 31, 2003 the Hungarian Financial Supervision Authority (HFSA) granted permission for the Bank to publish an issuance prospectus and introduce its shares to the Budapest Stock Exchange (BSE). The ordinary shares were listed on the BSE on November 24, 2003.

The ownership structure of Takarék Mortgage Bank Plc at the end of 2022 and 2021

Shareholder	December 31, 2022		December 31, 2021	
	Ownership ratio %	Nr of shares	Ownership ratio %	Nr of shares
Ordinary shares listed on BSE (Series "A")				
Domestic institutional investors	52,1	56 527 893	53,28	57 801 776
Foreign institutional investors	0,00	5 980	0,01	6 343
Domestic private investors	2,83	3 062 275	2,82	3 057 946
Foreign private investors	0,01	10 089	0,01	8 621
Employees, management	0	0	0	0
Treasury shares	0,23	253 601	0,23	253 601
Government held owner	44,8	48 597 602	4,45	4 832 225
Other investors	0,03	32 860	0,04	39 498
Subtotal (Series "A")	*100,00*	*108 490 300*	*60,84*	*66 000 010*
Dividend preference not listed on BSE (Series "B")				
Domestic institutional investors	0	0	13,05	14 163 430
Subtotal (Series "B")	*0*	*0*	*13,05*	*14 163 430*
Ordinary shares not listed on BSE (Series "C")				
Domestic institutional investors	0	0	26,11	2 832 686
Subtotal (Series "C")	*0*	*0*	*26,11*	*2 832 686*
Total	**100,00**	**108 490 300**	**100,00**	**82 996 126**

The Bank founded new subsidiaries in 2006, among them the Commercial Bank Ltd. (henceforth "the Commercial Bank").

In September 2015 the Bank and the Commercial Bank (under the Bank's majority ownership) became a member of the Integration Organisation of Cooperative Credit Institutions (SZHISZ), the latter created by Act CXXXV of 2013 on the integration of cooperative credit institutions and the amendment of selected economic legislation. In parallel, it also became the member of the Guarantee Community of Cooperative Credit Institutions.

At the end of December 2015 the Bank increased its share capital by HUF 4,249 million face value, which equaled HUF 30.5 billion issue value. The capital increase took place through private issuance of dematerialized dividend preference shares (Series “B”) and registered, dematerialized ordinary shares (Series “C”). The new shares (Series “B” and Series “C”) were not listed on the Budapest Stock Exchange, they were purchased by the members of Takarék Group.

In the fourth quarter of 2016 the share of the Bank of Hungarian Cooperatives Ltd. (the central bank of the integration of cooperative credit institutions, hereafter referred to as MTB) and the cooperative credit institutions increased to more than 68%.

The integration process of the Bank and the Commercial Bank into the Integration of Cooperative Credit Institutions (today known as the Central Organization of Integrated Credit Institutions, i.e. COICI) that started in the autumn of 2015 was finished in 2017. Subsequently, the restructuring of these companies – to fit into the strategy of the broader Integration – started in the same year.

As a first step, the Bank simplified its business profile retaining only mortgage bond issuance and refinancing functions, while all other human resources and capacities were transferred to the MTB and the Commercial Bank.

From April 2018 the Bank discontinued new own originated loan disbursement. Previously made credit contracts are kept in the Bank’s portfolio until their expiry, while the active functions of the Bank remained solely those that relate to classic mortgage bank functions.

The General Assembly of the Company drew a decision on changing the name of the Bank on April 27, 2018. From June 25, 2018 the official Company’s name is Takarék Mortgage Bank Plc.

In the second half of 2019 the shares of Takarék Commercial Bank oparting as Commercial Bank Ltd. since April 2018 – upon approval of General Assembly held on August 27 2019 – were sold to MTB Bank of Hungarian Savings Cooperatives Ltd. (hereinafter: MTB Ltd.) by Takarék Mortgage Bank (hereinafter: the Bank), therefore consolidated financial statements were not prepared by the Bank since 2020. As the parent company of the Bank, - MKB Bank Plc. (the main ultimate parent) prepared the Bank’s consolidated financial statement for companies included in the scope of consolidation.

The credit rating of mortgage bonds issued by the Bank is provided by S&P Global (Madrid) since March 28, 2019. The BBB rating assigned to the Bank’s mortgage bond issuance program and the issued mortgage bond series either in forint or foreign currency was confirmed by S&P on June 2, 2021 with a stable outlook. S&P revised to negative from stable the outlook on its credit ratings on the Bank's mortgage covered bonds ("jelzáloglevél") on August 22, 2022. At the same time, it affirmed the 'BBB' ratings on the covered bonds. The move was initiated by the revision of Hungary’s outlook to negative from stable, while the rating of ‘BBB/A-2’ long-term and short-term foreign and local currency sovereign credit ratings were affirmed.

On December 30, 2020 MTB published through official publication platforms its mandatory public purchasing bid for all shares issued by the Bank, and submitted its application for a permit to the Hungarian central bank. Based on the central bank’s permit the period for the purchase offer started on January 19, 2021, while the deadline for the acceptance of the bid was February 17, 2021. MTB accepted all the shares that were offered and declared the mandatory public purchasing bid process successful. With all the preconditions set in the bidding process being met, following the transfer of the shares the ownership ratio of MTB in the Bank increased from 86.20% to 88.14%, whereas the combined share of MTB and other owners acting in concert with it increased from 94.82% to 96.76%.

The bid was made after the majority owners of BB, MKB and MTB transferred their shares to the MBH on December 15, 2020.

On December 15, 2021 the main bodies of MKB, Budapest Bank and MTBH Ltd. (which was the owner of Takarék Group) approved the first step of the fusion process of MKB, Budapest Bank and Takarék Group. According to this, two member banks of MBH, namely MKB and Budapest Bank as well as MTBH Ltd. merged on March 31, 2022. During this process Budapest Bank merged into MKB, while MTB (Takarék Group) becomes a subsidiary of the merged bank. Takarékbank joins the merged bank in the second quarter of 2023. The unified brand for the new banking group has been introduced in early-2023.

Upon request of Hungarian Bankholding the National Bank of Hungary with its decision nr. H-EN-I-119/2022. dated on 8 March 2022, revoked the licence issued to Hungarian Bankholding by decision nr. H-EN-I-358/2020. dated 12 June 2020 for operating as a financial holding company with effect from 29 April 2022, and MKB Bank took over the group management function over the banking group after 29 April 2022, based on a new group resolution issued by the National Bank.

In accordance with the authorisation by the Magyar Nemzeti Bank (central bank of Hungary, MNB), Budapest Bank and Hungarian Takarék Bankholding (MTBH) merged into MKB Bank on 1 April 2022. At that time, MTB Bank of Hungarian Savings Cooperatives had a direct ownership stake of 88.13% in Takarék Mortgage Bank Co. Plc. and directly owned 88.33% of the voting rights. Given that MTBH had 88.13% ownership stake and 88.33% of the voting rights in Takarék Mortgage Bank Co. Plc. through MTB Bank of Hungarian Savings Cooperatives, as a result of the merger MKB Bank as the legal successor of MTBH became the indirect owner of Takarék Mortgage Bank Co. Plc. with a stake of 88.13%, and indirectly acquired 88.33% of the voting rights that may be exercised in the company.

The extraordinary general meeting of Takarék Mortgage Bank held on 12 July 2022 converted the 14,163,430 series “B” preference shares (dividend preference shares) with a nominal value of HUF 100 each, with a total nominal value of HUF 1,416,343,000 into 14,163,430 series “A” ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 1,416,343,000, and converted its 2,832,686 series “C” ordinary shares with a nominal value of HUF 1,000 each and a total nominal value of HUF 2,832,686,000 into 28,326,860 series “A” ordinary shares with a nominal value of HUF 100 each and a total nominal value of HUF 2,832,686,000. The converted shares were registered on the Budapest Stock Exchange (BÉT) on 7 October 2022.

On 18 October 2022, as a result of the sale and purchase of shares, MKB Bank Plc. acquired 43,076,417 series “A” dematerialised ordinary shares with a nominal value of HUF 100 each owned by MTB Ltd. in Takarék Mortgage Bank. With this transaction, MKB Bank acquired a 39.8 % direct qualifying holding (voting rights) in Takarék Mortgage Bank. The ownership stake of MTB Ltd. decreased to 48.42%. On 2 December 2022, Magyar Posta Ltd. acquired from MKB Bank Plc. its full stake in Takarék Mortgage Bank by way of an exchange of shares; with this transaction, Magyar Posta Ltd. acquired a 39.71 % direct qualifying holding (voting rights) in Takarék Mortgage Bank.

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

Takarék Jelzálogbank Nyrt. has announced on December 1, 2022 that the position of Mr Attila Mészáros, the internal member of the board of directors and managing director, the position of deputy CEO at the Company was terminated by mutual consent as of 30 November 2022. Furthermore Takarék Jelzálogbank Plc. informed the capital market players that the General Meeting elected Illés Tóth as an internal member of the Company's Board of Directors as of December 1, 2022, who also holds the position of Deputy CEO.

Illés Tóth has been responsible for the Bank's covered bond issuance activity, rating process and investor relations as the Head of Capital Markets Department at Takarék Mortgage Bank Co. Plc. (or TMB) is since 2019. Since 2020 he has been involved in the development of the Bank's sustainability and green finance strategy and reporting, green covered bond framework and the issuance green covered bonds. Between 2015 and 2019 he was acting as a senior capital market expert at TMB. Between 200 and 2015 he was working at the treasury of UniCredit Mortgage Bank as a senior expert and later as the head of the treasury managing the mortgage bank-related ALM, liquidity management and covered bond issuance activities. In 2015 he was responsible for liquidity risk control at Raiffeisen Bank Hungary as a senior expert. Before his career in the mortgage banking sector, he was working as a fixed income analyst at DZ Bank CEE Research covering mainly CEE and other emerging market sovereign bond markets between 2000 and 2008. He graduated from the Colleague of Finance and Accountancy specialized in financial institutions in 2000.

2 THE MACROECONOMIC ENVIRONMENT IN 2022

2.1 THE HUNGARIAN ECONOMY IN 2022

International and domestic economic processes in 2022 were significantly influenced by the military conflict between Russia and Ukraine that started in February. Due to the elevated risks concerning the energy supply of Europe – partly secured from imported Russian gas and oil – energy prices effectively exploded. This thoroughly amplified inflationary processes, which already unfolded in the wake of a demand-supply mismatch created by the pandemic restrictions in 2020 and 2021. Accelerating inflation, sanctions imposed on Russia and measures to markedly reduce energy consumption clearly increased the danger of the Euro Area's economy turning into recession in the second half of last year. Yet, towards the end of the year a significant correction took place in energy prices, adjustment processes also proved to be mostly successful, hence the Euro Area's economy, which is imperative from the viewpoint of Hungary's growth opportunities, finally avoided recession. Compared to its European peers Hungary's economy was impacted more severely by the war in its neighbourhood, since it is more reliant on Russian gas and oil and the Forint experienced exceptionally heavy downward pressures partly owing to the war itself, partly to disputes with the EU over the rule of law and hence financing issues. Although GDP-growth remained fairly dynamic in the first quarter supported by expansionary fiscal policies, the aforementioned negative developments gradually started to weigh on performance, besides, an unusually severe drought led to a marked contraction in agricultural output. In the last two quarters of 2022 the quarterly growth rate of GDP (adjusted for seasonal effects) was already negative, hence Hungary slipped into a technical recession, and following 7.1% growth back in 2021, it finally realized an average annual growth rate of below 5% in 2022.

Inflation has already been on an upward trajectory before the Russian-Ukrainian war broke out, core inflation, which captures underlying inflation processes, was continuously above the upper edge of the central bank's tolerance band from the second half of 2021. The rate of inflation gained speed with the outbreak of the Russian-Ukrainian war through the fast increase of energy prices, while the Forint's sharp depreciation, the inferior growth rate of supply to that of demand and direct supply shortages also played a decisive role. By introducing caps on the price of fuel and certain key food items the government made efforts to slow the speed of CPI-growth. Yet, this partly resulted in speculative purchases and supply problems, while some retailers, who sell a wide range of foodstuff, were able to raise the prices of food items, not subject to the fixed caps, to an extent, which cannot be explained on pure cost basis. These problems eventually led to the termination of price caps in the case of fuel by December. As a consequence, inflation was pushed even higher by year-end and stood at 24.5% year-on-year, while on annual average it amounted to 14.5%.

In accordance with its anti-inflationary mandate the Hungarian central bank implemented one of the strictest tightening of interest rate conditions throughout 2022: it raised its base rate from 2.4%

prevailing at the end of 2021 to 13% by September last year, also declaring that the rate hike cycle that began in June 2021, came to its end. However, the base rate acted as the effective policy rate for only a short, transitional period, since up to June's rate setting meeting the interest rate on the one-week deposit facility was the decisive policy rate, and it was only between June and October that the base rate was equal to that rate. In the middle of October the central bank had to react to strong pressures on Hungarian financial asset prices (most notably to the downward pressure on the Forint's exchange rate) by transforming its monetary policy tools, at the end of which the 18% interest paid on the daily quick deposit tenders becoming the effective policy rate. Besides tightening interest rate conditions the central bank made efforts to alleviate the pressure on Hungarian financial asset prices by markedly raising the mandatory reserves ratio and introducing measures that limited the volume of instant liquidity of the banking system (like holding tenders for longer term deposits, more frequently auctioning the discount bill etc.). In its statements towards the end of 2022 the central bank emphasized that a gradual cutting of the effective policy rate becomes realistic only after marked improvements in Hungary's risk perception take place, in which reaching an agreement with the EU over development and cohesion funds should be vital.

Following a sharp increase in expenditures in the first quarter of 2022 the central government implemented massive corrective measures (imposing new sector specific taxes, delaying investment projects), which were necessitated by rising energy prices that became a heavy burden on the expenditure side of the budget, but interest payments on public debt also increased sharply. Whereas higher than expected inflation led to significant overperformance in some income items (like consumption related tax revenues), the annual cash-flow based deficit finally amounted to HUF 4,750 billion, almost 50% above the original budget plan. Taking into account the impact of an exceptional natural gas purchase to fill up gas reservoirs this translates into a 6% of GDP accruals based deficit for 2022, thus only a modest improvement following 6.8% deficit back in 2021. Yet, as nominal GDP growth was outstanding due to high inflation, public debt relative to GDP declined quite considerably, down by close to 4 percentage points from the preceding year's 76.8%.

Due to adverse terms of trade changes reflecting mainly the impact of rising energy prices the deficit of the current account widened further in 2022: following 4.2% of GDP back in 2021 it likely deteriorated to 7.5% of GDP. Taken together with the capital account, which mostly includes transactions related to the EU budget, Hungary's net external financing need rose above 4% of GDP as opposed to 1.6% a year before. This, of course, resulted in an increase of net external debt, albeit only in nominal terms. Relative to GDP neither gross, nor net external debt exhibits actual growth, due to the strong increase of nominal GDP. Compared to end2021 their levels are approximately the same at 84% and 15% respectively.

Credit institutions were also subject to diverse impacts in 2022. While the marked increase in the yield environment led to spectacular growth in net interest income, operating costs were driven up by soaring inflation, net impairment and provisioning on loans multiplied due to a marked deterioration in the economic outlook, new levies were imposed on the banking sector and the largest credit institution suffered a heavy loss on its Russian and Ukrainian exposures. In the second half of the year the previously dynamic lending activity markedly slowed due to rising interest rates especially in the household segment, meanwhile, in the corporate segment demand for credit was diverted towards relatively less expensive foreign exchange denominated loans. Overall, following year 2021's HUF 500 billion profit that was realized on the banking sector's domestic operations and translates into a 10% return on equity, last year's after-tax profit likely fell short of HUF 400bn, which implies only 7% return on equity.

2.1.1 New mortgage loan contracts to households

The Green Home Program, which was launched at the end of 2021, soon gained enormous popularity, but in the rapidly rising yield environment the central bank supplemented its budget only once, hence the total of HUF 300 billion budget was depleted by May. Up to that month the volume of new mortgage loan contracts expanded at a fairly strong 40% annual rate, but from June the new monthly contractual volume permanently fell short to the one, which materialized in the same month of the previous year. In the last two months of 2022 the rate of annual decline exceeded even 50%. In the end of last year's HUF 1,276 billion new contractual volume was 9% less than 2021's HUF 1,401 billion. Within this the rate of decline was 8.3% in the case of housing loans, and 17.7% in the case of home equity loans.

2.1.2 The outstanding stock of household mortgage loans

The stock of household mortgage loans stood at HUF 5,694 billion at the end of 2022 according to the central bank's data release. This represents HUF 282 billion increase (+5.2%) over end-2021's HUF 5,412 billion stock. This is rather inferior to the previous year's growth of HUF 565 billion (nearly +12%), but the latter can also be attributed to the fact that 45 to 50% of the portfolio participated in the repayment moratorium (introduced in March 2020 and running along almost unchanged conditions up to the end of October, 2021), hence that part was not subject to amortization. The stock of housing loans increased from HUF 4,593 billion at the end of 2021 to HUF 4,943 billion by the end of 2022, which translates into a growth rate of 7.6%. Meanwhile, the stock of home equity loans contracted from HUF 819 billion at the end of 2021 to HUF 751 billion, i.e. by HUF 68 billion (-8.3%). The share of foreign currency denominated loans within total mortgage loans was just around 0.1% at the end of last year.

2.1.3 The market of mortgage bonds

The total nominal value of mortgage bonds issued by the five Hungarian specialized mortgage banks increased by 20% from end-2021 to end-2022, and consequently on December 31, 2022 the aggregate nominal value of outstanding mortgage bonds was HUF 1,940 billion. The most significant development behind this spectacular growth rate was the total of HUF 200 billion issuance by the market leader (OTP Mortgage Bank) in the third quarter of the year. Takarék Mortgage Bank Plc. lost 1 percentage point from its market share with respect to the aggregate nominal value of mortgage bonds still in circulation, but with a 19% share it is still the second largest issuer in this segment of the financial markets.

3 REPORT ON THE BANK'S BUSINESS AND FINANCIAL RESULTS

Takarék Mortgage Bank Plc. continued its mortgage bond issue strategy communicated to the investors of organizing public stock exchange auctions in each month of the first half of 2022 (except for April) despite the increased uncertainty and volatility of the market–with increasing interest and yield premium and drying investor demand–emerged after the escalation of the Russian-Ukrainian war. Through its issuance activity, the Bank actively participated in MNB's both Green Mortgage Bond Purchase Program and its Mortgage Bond Renewal Facility. In 2022 the total volume of mortgage bonds issued by the Bank amounted to HUF 70.27 billion through ten mortgage bond auctions. Three transactions of them were green mortgage bond issuances amounting to a total of HUF 8.61 billion.

3.1 MAJOR FINANCIAL INDICATORS (IFRS, NON-CONSOLIDATED FIGURES)

The total assets of the Bank based on non-consolidated figures according to IFRS increased by 22.4% (i.e. by HUF 148.9 billion) in 2022, and by the end of the year its volume reached HUF 813.9 billion. Pre-tax profit, down 24,4% from 2021, amounted to HUF 2,158 million, while profit for the year reached HUF 1,811 million. The total comprehensive income for 2022 was HUF 2,101 million (2021: HUF 2,252 million).

Major indicators (HUF million; %)	**December 31, 2022**	**December 31, 2021**	**Change (%)**	**Change**
Total assets	813 948	665 015	22,4%	148 933
Financial assets measured at amortised cost	781 737	625 177	25,0%	156 560
Loans and advances to banks	437 013	342 707	27,5%	94 306
Loans and advances to customers	24 733	31 573	-21,7%	-6 840
Securities	319 726	250 521	27,6%	69 205
Financial liabilities measured at amortised cost	734 183	585 534	25,4%	148 649
Amounts due to other banks	377 771	263 131	43,6%	114 640
Issued debt securities	355 799	321 714	10,6%	34 085
Equity	71 037	68 936	3,0%	2 101
Profit before taxation	2 158	2 855	-24,4%	-697
Profit for the year	1 811	2 745	-34,0%	-934
Total comprehensive income for the year	2 101	2 252	-6,7%	-151
ROAA (average return on assets)	0,2%	0,4%	-	-0,2%-pt
ROAE (average return on equity)	2,6%	4,0%	-	-1,4%-pt

3.2 REFINANCING

From the second quarter of 2018 the Bank performs solely classic mortgage bank functions, i.e. it issues mortgage bonds, raising funds for for refinancing the mortgage loan portfolios of its partnerbanks both within the MKB Group and also for external partners. Within the Group, the Bank is a special entity: it is able to raise funds in the form of mortgage bond or uncovered bond issuances either at domestic or international financial markets. Due to the latter, it is able to obtain foreign currency financing if needed.

In its strategy the Bank puts special emphasis on cooperating with external partners. It strives to become an attractive alternative for banking groups that are involved in mortgage lending but do not have their own mortgage bank license and thus need mortgage refinancing.

The stock of refinancing loans granted by the Bank went up by 11.0% (or HUF 36.5 billion) in 2022 and their volume at the end of the year was HUF 368.5 billion.

3.3 LENDING TO CLIENTS

The Bank discontinued originating new loans from the second quarter of 2018, lending activity is provided by Takarékbank, yet, the already existing portfolio remains in the Bank's books until full expiry. From the second quarter of 2018 the Bank is only active in the refinancing segment, and thus the stock of its still existing client loans are gradually shrinking due to natural amortization and successful workout process.

Among financial assets measured at amortised cost, gross customer loans - in line with the above - continued to decrease, sinking to HUF 24.7 billion at the end of 2022 down 21.7% from end-2021's HUF 31.6 billion. 98.2% of this stock are household loans, the volume of which decreased by HUF 9.6 billion compared to the previous year. The stock of corporate loans amounted to HUF 0.5 billlion at the end of 2022. The bulk of the household loan portfolio are mortgage loans, which implies 0.5% market share for the Bank in this segment (down from 0.7% back in 2021).

3.4 PORTFOLIO QUALITY, IMPAIRMENT

The Bank's gross loan volume amounted to HUF 394.7 billion at the end of the year. The value of contingent liabilities on December 31, 2022 was HUF 27.1 billion. Hence the full exposure of gross loans and contingent liabilities (excluding securities) was HUF 421.8 billion.

Claims on clients amounted to HUF 24.7 billion, moreover, based on already signed contracts there was a commitment for disbursing loans of HUF 0.09 billion at the end of 2022. Out of these volume 967 loan contracts were classified as Stage 3 category with an underlying volume of HUF 2.92 billion in claims with HUF 0.78 billion in impairments. HUF 23.38 billion in claims and HUF 0.09 billion in commitments were classified as Stage 1 and Stage 2 categories, with HUF 0.77 billion in impairments and provisions.

The stock of refinancing loans was HUF 368.46 billion, with a minimal HUF 14.4 million in impairments.

The Bank has ownership interest in three entities: the MTB, the Takarék United Cooperatives (TESZ) and the COICI. The nominal value of these investments is HUF 0.01 billion.

In the interbank market the Bank had placements of HUF 0.3 billion in the form of sight deposits.

The share of problem free (Stage 1 and Stage 2) loans was 88.9% as of December 31, 2022, consequently the share of Stage 3 loans was 11.1%.

Average impairment levels for both the total portfolio (excluding swaps) and the loan portfolio have increased since the previous measurement date.

3.5 ISSUED SECURITIES

In ten public auctions last year the Bank raised HUF 70.27 billion funds by issuing mortgage bonds compared to HUF 24.51 billion in the previous year. Most of the issuances took place in the first half of the year, when the overal market environment was a more favorable environment in terms of investors' demand. Unsecured bonds were not issued in 2022.

The activity of the domestic mortgage bond market was significantly influenced by the availability of the MNB's asset purchase programmes in 2022 as well. The HUF 200 billion Green Mortgage Bond Purchase Programme, launched on 2 August 2021, was temporarily closed by the MNB at the end of April 2022 and it is still inactive at the time of reporting. In the framework of the Green Bond Purchase Programme, which was still in operation at the beginning of the year, the Bank issued HUF 6.6 billion of series TZJ27NF1 and HUF 1.97 billion of series TZJ32NF1 at favorable pricingdue to the MNB's participation as an investor. In the rest of the year, mortgage bond issuers were left only with the Mortgage Bond Renewal Facility. Within this framework, the Bank sold mortgage bonds worth HUF 57.16 billion in 5 auctions in order to renew the maturities due in 2023.

Despite the changing market environment, the Bank continued its announced issuance strategy and sought to maintain a regular market presence as an issuer: it offered mortgage bonds maturing in 2025, 2026, 2027, 2031 and 2032 to investors. The Bank typically announced volumes of between HUF 1 billion and HUF 10 billion in the auctions. Yield spreads rose gradually in 2022 relative to benchmark government bond yields, tracking the deteriorating domestic and international market sentiment, reflecting adverse macroeconomic developments and investor cautiousness.

In each quarter, the Bank issued mortgage bonds with a nominal value of HUF 24.91 billion, HUF 42.16 billion, HUF 1.2 billion and HUF 2.0 billion. With the exception of one auction, fixed-rate mortgage bonds were issued in the period.

In 2022, three covered bond series expired: the FJ22NV01 series of HUF 3 billion floating rate notes, the FJ22ZF01 series of EUR 15.85 million fixed rate notes denominated in euro and the FJ22NF01 series of HUF 4.9 billion fixed rate forint mortgage bonds. In June 2022, a buy-back transaction was conducted in a public auction on the stock exchange, where the Issuer bought back and withdrew HUF 12.2 billion of the original HUF 5-year fixed rate mortgage bond series FJ23NF01.

As a result of the above transactions, the total nominal value of the outstanding mortgage bonds issued by the Issuer was HUF 367.25 billion at the end of 2022.

The Hungarian National Bank (HNB) has authorised Takarék Mortgage Bank Co. Plc. to use the 'European (premium) covered bond' logo for its future mortgage bonds by Resolution No. H-KE-III-533/2022 dated 12 September 2022. The Issuer fully complies with the requirements of the European Covered Bond Regulation, i.e. Directive 2019/2162 of the European Parliament and of the Council, and its procedures and practices ensure that its issued mortgage bonds also meet enhanced prudential requirements for European credit institutions.

In accordance with the provisions of the Act on Act on Mortgage Banks and Mortgage Bonds and in keeping with its rules on collateral registration, the Bank monitored the level of mortgage bond collaterals and compliance with proportionality requirements. In order to ensure appropriate mortgage bond coverage, the Bank verified upon the disbursement of loans, whether the eligibility criteri for ordinary collaterals were met.

The net value of ordinary collaterals covering mortgage bonds issued by the Bank was HUF 529.1 billion on December 31, 2022, versus December 31, 2021 (HUF 447.2 billion) resulting a 18.3% increase due to the extension of the refinancing loan portfolio. The inclusion of liquid assets into the cover pool required by the new domestic regulation on mortgage banks and mortgage bonds (which entered into force on 8 July 2022 in compliance with the respective Europena covered bond directive) - also contributed to the increase in the stock of cover pool assets in addition to the expansion of normal collateral in 2022.

Value of mortgage bonds and cover assets

HUF million	December 31, 2022	December 31, 2021	Change
Outstanding mortgage bonds in circulation			
Face value	367,249	323,019	13.7%
Interest	55,666	46,377	20.0%
Total	422,915	369,396	14.5%
Value of ordinary collateral			
Principal	376,389	348,868	7.9%
Interest	152,742	98,269	55.4%
Total	529,131	447,137	18.3%
The value of the liquid assets involved (principal and interest amount)	35,827	-	100.0%
Value of assets involved as supplementary collateral	-	-	-
Value of mortgage bonds and assets involved as collateral	-	-	-
Total	564,958	447,137	26.4%

As of December 31, 2022, the present value of the cover assets was HUF 339.0 billion and the present value of the items to be covered was HUF 291.1 billion, so that the present value of the assets represented 116.45% of the present value of the outstanding mortgage bonds. The ratio of the net value of collateral assets' principal to the nominal amount of outstanding mortgage bondswas 111.77%, while the ratio of the interest amount of collateral assets and the unpaid interest amount of outtanding mortgage bonds was 276.77% at 31 December 2022.

3.6 BALANCE SHEET DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

As of 31 December 2021, the Bank's total assets according to non-consolidated IFRS figures amounted to HUF 813.9 billion, 22.4% above the end-2021 figure of HUF 665.0 billion.

Balance sheet items (HUF million; %)	**31 December, 2022**	**31 December, 2021**	**change (%)**	**change**
Assets				
Cash and cash equivalents	**342**	**229**	**49,3%**	**113**
Financial assets measured at fair value through profit or loss	**11 854**	**12 146**	**-2,4%**	**-292**
Loans and advances to customers mandatorily at fair value through profit or loss	*6 593*	*9 787*	*-32,6%*	*-3 194*
Derivative financial assets	*5 261*	*2 359*	*123,0%*	*2 902*
Hedging derivative assets	**975**	**0**	**-**	**975**
Financial assets measured at fair value through other comprehensive income	**18 172**	**26 242**	**-30,8%**	**-8 070**
Securities	18 172	26 242	-30,8%	-8 070
Financial assets measured at amortised cost	**781 737**	**625 177**	**25,0%**	**156 560**
Loans and advances to banks	*437 013*	*342 707*	*27,5%*	*94 306*
Loans and advances to customers	*24 733*	*31 573*	*-21,7%*	*-6 840*
Securities	*319 726*	*250 521*	*27,6%*	*69 206*
Other financial assets	*265*	*376*	*-29,5%*	*-111*
Property, plant and equipment	**63**	**95**	**-33,7%**	**-32**
Intangible assets	**239**	**203**	**17,7%**	**36**
Income tax assets	**468**	**518**	**-9,7%**	**-50**
Current income tax assets	0	6	-	-6
Deferred income tax assets	468	512	-8,5%	-44
Other assets	**98**	**405**	**-75,8%**	**-307**
Total assets	**813 948**	**665 015**	**22,4%**	**148 933**
Liabilities				
Financial liabilities measured at fair value through profit or loss	**5 146**	**2 309**	**122,9%**	**2 837**
Derivative financial liabilities	*5 146*	*2 309*	*122,9%*	*2 837*
Financial liabilities designated at fair value through profit or loss	**0**	**6 121**	**-100,0%**	**-6 121**
Financial liabilities measured at amortised cost	**734 183**	**585 534**	**25,4%**	**148 649**
Amounts due to other banks	*377 771*	*263 131*	*43,6%*	*114 640*
Issued debt securities	*355 799*	*321 714*	*10,6%*	*34 085*
Other financial liabilities	*613*	*689*	*-11,0%*	*-76*
Hedging derivative liabilities	**2 639**	**1 112**	**137,3%**	**1 527**
Provisions	**17**	**28**	**-39,3%**	**-11**
Income tax liabilities	105	148	-29,1%	-43
Current income tax liabilities	105	148	-29,1%	-43
Deferred income tax liabilities	0	0	-	0
Other liabilities	821	827	-0,7%	-6
Total liabilities	**742 911**	**596 079**	**24,6%**	**146 832**
Equity				
Share capital	*10 849*	*10 849*	*0,0%*	*0*
Treasury shares	*-207*	*-207*	*0,0%*	*0*
Share premium	*27 926*	*27 926*	*0,0%*	*0*
Retained earnings	*28 981*	*26 417*	*9,7%*	*2 564*
Other reserves	*1 620*	*1 439*	*12,6%*	*181*
Profit for the year	*1 811*	*2 745*	*-34,0%*	*-934*
Accumulated other comprehensive income	*57*	*-233*	*-*	*290*
Total equity	**71 037**	**68 936**	**3,0%**	**2 101**
Total liabilities and equity	**813 948**	**665 015**	**22,4%**	**148 933**

3.6.1 Financial assets measured at fair value through other comprehensive income

The value of financial assets measured at fair value through other comprehensive income was HUF 18.2 billion at the end of 2022, 30.8% lower than a year earlier. Debt-type securities are the most significant within this item, whereas the share of ownership-type instruments is below 1%.

Within this class of assets there was a rearrangement in the stock of debt-type securities between 2021 and 2022. By 2022, the discount treasury tickets were completely removed from the stock, while at the same time the stock of credit institution bonds expanded to HUF 9.2 billion. The stock of government bonds increased by 149.4% compared to the previous year (from HUF 3.6 billion to HUF 8.9 billion).

3.6.2 Financial assets measured at amortised cost

The volume of financial assets measured at amortized costs increased by 25.0% in 2022, thus the volume amounted to HUF 781.7 billion by the end of the period. The gross stock of debt-type securities within this increased by 27.6% and stood at HUF 319.7 billion at the end of the year. 90.4% of the total securities portfolio is made up of government bonds, the stock of which was HUF 289.0 billion at the end of 2022.

Within this class of assets the other major component is the stock of gross loans. This increased by 8.3% in the course of 2022, rising to HUF 394.7 billion by the end of the year.

The gross stock of interbank deposits and claims on central bank increased from HUF 10.8 to HUF 68.6 billion, which represents a significantly higher level.

3.6.3 Financial liabilities measured at amortized costs

Financial liabilities measured at amortized costs take up 90.2% of the Bank's total liabilities. Their volume at the end of 2022 was 25.4% higher than a year before, thus reaching HUF 734.2 billion. Within these liabilities it is debt-type securities, i.e. the mortgage bonds issued by the Bank to secure the long-term refinancing of the mortgage debt portfolio, represent the highest share (48.5%). The value of mortgage bonds issued at the end of 2022 reached HUF 355.8 billion, which represents a 10.6% increase compared to 2021. During 2022, however, the stock of loans received increased significantly by 43.6%, thanks to the increase in loans from the MNB with maturities beyond one year. At the end of the period, it reached HUF 377.8 billion.

3.6.4 Equity, capital adequacy

Shareholders' equity amounted to HUF 71.0 billion at the end of 2022, up HUF 2.1 billion (or 3.0%) from the end of 2021.

Takarék Mortgage Bank Plc. is member of Central Body of Integrated Credit Institutions (CBIC). The members of CBIC should examine the prudential requirements on consolidation bases. The exemption of individual compliance is ensured by the relevant statutory and resolution of the National Bank of Hungary.

On the capital adequacy of the members of the integration the MKB Bank Nyrt. publishes the audited financial statements in the disclosure document of the business year.

3.6.5 Off balance sheet items

The value of off balance sheet items amounted HUF 27.1 billion at the end of 2022, 11.1% higher than a year before. It entirely consisted of the volume of unused (or not yet drawn upon) credit lines by clients and refinancing partners.

3.7 PROFIT & LOSS DEVELOPMENTS (IFRS, NON-CONSOLIDATED FIGURES)

P&L items (HUF million)	2022.	2021.	change (%)	change
Interest and similar to interest income	**32 640**	**14 704**	**122,0%**	**17 936**
Interest income using effective interest rate method	28 248	13 522	108,9%	14 726
Other interest income	4 392	1 182	271,6%	3 210
Interest expense	**-26 085**	**-10 456**	**149,5%**	**-15 629**
Interest expense using effective interest rate method	**-21 102**	**-9 457**	**123,1%**	**-11 645**
Other interest expenses	**-4 983**	**-999**	**-**	**-3 984**
Net interest income	**6 555**	**4 248**	**54,3%**	**2 307**
Income from commission and fees	557	589	-5,4%	-32
Expense from commission and fees	-548	-620	-11,6%	72
Net income from commissions and fees	**9**	**-31**	**-**	**40**
Results from financial instruments, net	**-307**	**787**	**-**	**-1 094**
Results from financial instruments measured at fair value through profit or loss, net	-886	439	-	-1 325
Gains on financial assets and liabilities designated at fair value through profit or loss	50	238	-79,0%	-188
Results from financial instruments measured at fair value through other comprehensive income, net	-273	269	-	-541
Results from financial instruments measured at amortized cost, net	361	-83	-	443
Results from hedge accounting, net	-8	-76	-89,5%	68
Exchange differences result, net	449	0	-	449
Impairment / (Reversal) on financial and non-financial instruments	**-1 176**	**-283**	**-**	**-893**
Impairment / (Reversal) on financial instruments held for credit risk management	-557	-224	148,7%	-333
Provision (loss) / gain	2	3	-33,3%	-1
Modification (loss) / gain on financial instruments	-622	-62	-	-560
(Impairment) / Reversal on other financial instruments	1	0	-	1
Operating expense	**-2 808**	**-2 301**	**22,0%**	**-507**
Other income	**75**	**442**	**-83,0%**	**-367**
Other expense	**-190**	**-7**	**-**	**-183**
Profit before taxation	**2 158**	**2 855**	**-24,4%**	**-697**
Income tax income / (expense)	**-347**	**-110**	**215,5%**	**-237**
Profit for the year	**1 811**	**2 745**	**-34,0%**	**-934**

Other Comprehensive Income (HUF million)	2022.	2021.	Change (%)	Change
Profit for the year	**1 811**	**2 745**	**-34,0%**	**-934**
Other comprehensive income	**290**	**-493**	**-**	**783**
Items that will not be reclassified to profit or loss	**0**	**9**	**-**	**-9**
Income tax relating to items that will not be reclassified	0	9	-	-9
Items that may be reclassified to profit/loss	**290**	**-502**	**-**	**792**
Hedging instruments (unmarked items)	0	183	-	-183
Debt instruments at fair value through other comprehensive income	290	-685	-	975
Total comprehensive income for the year	**2 101**	**2 252**	**-6,7%**	**-151**

The Bank's pre-tax profit was HUF 2.2 billion in 2022, which represents a 24.4% lower level compared to the profit in 2021. Full-year profit was HUF 1.8 billion in 2022 (HUF 2.7 billion in 2021).

The total comprehensive income was also below the performance of the previous year, reaching HUF 2.1 billion in 2022 (HUF 2.3 billion in 2021).

3.7.1 Net interest income

Net interest income reached HUF 6.6 billion in 2022 (HUF 4.2 billion in 2021) as a result of HUF 32.6 billion in income (up 122.0% from 2021) and HUF 26.1 billion in expenses (up 149.5% from 2021). In sum, net interest income was HUF 2.3 billion (54.3%) higher in 2022 than in the previous year.

In terms of interest income, the HUF 14.3 billion increase in interest income from financial assets measured at amortized cost in 2022 was decisive. Its value was HUF 27.4 billion in 2022 (HUF 13.1 billion in 2021).

Interest expenses were HUF 15.6 billion higher than the previous year, totaling HUF 26.1 billion (2021: HUF 10.5 billion). Among the interest expenses, the interest expenses of financial liabilities measured at amortized cost represent the most significant item; this amounted to HUF 21.1 billion in 2022 which was HUF 11.6 billion higher than the previous year (HUF 9.5 billion in 2021).

3.7.2 Net fees and commissions

The net fees and commissions result was HUF 9 million in profit in 2022, compared to the HUF 31 million loss in 2021.

Income from fees and commissions reached HUF 557 million (down 5.4% from 2021). The lower revenues were mainly caused by the decrease in fee and commission revenues related to the valuation, and to a lesser extent to the processing commission.

The amount of fee and commission expenses in 2022 was HUF 548 million (HUF 620 million in 2021). The lower level of expenses can be explained by the lower expenses of agency fees and valuation, while the expenses of the treasury activity increased.

3.7.3 Results from financial instruments

The result related to financial asstes amounted to HUF 307 million loss compared to last year's HUF 787 profit 2021. This is mostly explained by losses from financial instruments measured at fair value.

3.7.4 General and administrative expenses

The general and administrative expenses of the Bank increased by 22.0% (i.e. by HUF 507 million) in 2022, reaching a level of HUF 2.808 billion overall compared to HUF 2.301 billion in 2021. One element of the government's budget adjustment package announced in May, the extra profit tax, had a significant impact on the development of operating costs. The extra profit tax amounted to HUF 615.7 million.

At the same time, consultancy fees decreased from the previous year's HUF 430 million to HUF 230 million, thanks to the reduction of the management service fee.

The HUF 134 million increase in salary expenses was the result of several factors: the increase in the number of members of the Board of Directors and the Supervisory Board, the growth of the remuneration, wage inflation and the increase of severance payments.

Operating expenses (HUF million)	2022	2021	change (%)	change
Staff costs	449	315	42,5%	134
Marketing and advertising	5	6	-16,7%	-1
General and administrative costs	107	96	11,5%	11
Rental fee	0	21	-100,0%	-21
Depreciation of tangible assets	36	28	28,6%	8
Amortisation of intangible assets	31	22	40,9%	9
Consultancy fees	230	430	-46,5%	-200
Maintenance costs	433	423	2,4%	10
Banking tax	842	0	-	842
Other taxes	55	67	-17,9%	-12
Insurance fees	6	7	-14,3%	-1
Database system usage	24	78	-69,2%	-54
Supervisor fee	32	52	-38,5%	-20
CBIC* fee, CBIC* Capital Fund and Resolution and Compensation Fund fees	439	463	-5,2%	-24
SLA service costs	81	203	-60,1%	-122
Other	38	90	-57,8%	-52
Total	**2 808**	**2 301**	**22,0%**	**507**

* CBIC= Central Body of Integrated Credit Institutions

3.7.5 Impairment / (Reversal) on financial instru-ments held for credit risk management and provision (loss) / gain

The net balance of impairment and provisioning was HUF 555 million in 2022.

3.7.6 Modification (loss) / gain on financial instruments

The cost of the repayment moratorium that came into effect on March 18, 2020 is derived from the loss impact on the net present value of not served and thus accrued credit cash-flows. The total impact for the Bank was HUF 622 million loss in 2022.

3.7.7 Pre-tax profit

The Bank's pre-tax profit amounted to HUF 2.2 billion in 2022 (HUF 2.9 billion in 2021).

4 LIQUIDITY MANAGEMENT

Due to its special legal mortgage bank status the Bank is not allowed to collect client deposits, hence among its liabilities the components with the highest weight are mortgage bonds and interbank liabilities. In the course of 2022 the weight of long-term (3- and 5-year) central bank refinancing sources originating from the MNB's long-term covered refinancing operations was also decisive (at the end of July 2021 the central bank finished these operations, new deals are not available, but the outstanding stock remains intact).

According to the amendment of the Act XXX of 1997 on Mortgage Loan Companies and Mortgage Bonds (Jht.) liquid assets are also recognized as eligible collateral assets (apart from normal and substitute assets), while the rules on the management of liquidity buffer were defined. In accordance with the above the Bank has been applying a liquidity buffer consisting of liquid assets with the aim of covering the net liquidity putflow in relation to its coved bond issue programme from July 8, 2022. Also, based on the amenden Jht. the Bank maintains a minimum overcollateralization level of 2%.

S&P Global Ratings (Madrid) announced on January 26, 2023 that it placed on CreditWatch positive its 'BBB' credit ratings on Takarék Mortgage Bank Co. Plc's Hungarian mortgage covered bond program and related issuances.

The above decision reflects S&P's view that following the improvement in its assessment on the issuer's creditworthiness, the covered bonds could be eligible for collateral-based uplift based on further analysis above the current rating, which reflects the covered bonds' jurisdiction-supported rating level (JRL) of 'bbb'

Developments in the structure of the Bank's liabilities

The structure of the Bank's liabilities - following the adoption of the purely mortgage bank strategy in 2018 - are primarily influenced by developments in the stock of refinanced loans, and the level of activity in primary mortgage bond issuances with a view to secure the MFAR compliance of MTB Group.

In 2022, the stock of mortgage bonds increased by 13.7% (+ HUF 44.2 billion) from a nominal value of HUF 323.0 billion to HUF 367.2 billion.

In 2022 the total volume of mortgage bonds issued by the Bank amounted to HUF 70.27 billion through ten mortgage bond auctions. Three transactions of them were green mortgage bond issuances amounting to a total of HUF 8.61 billion.

In the framework of MNB's Green Mortgage Bond Purchase Program, the Bank managed to sell mortgage bonds of HUF 7.4 billion with discounted yield spreads. The Green Mortgage Bond Purchase Program was suspended by the MNB in the spring of 2022. Participation in the mortgage bond renewal facility was dominant in the period of the first half: in Q2 2022, a total of HUF 42.16 billion nominal amount was issued with the aim of rolling over upcoming mortgage bond maturities, while the respective volume reached total of HUF 56.66 billion in H1 2022.

5 Risk management principles

The Bank's risk management is governed by the Hungarian and EU legislation in force, as well as by additional supervisory regulations. Mortgage Bank Co. Plc. is a member of the Central Organisation of Integrated Credit Institutions (IHKSZ), the MKB Group (managed by MKB Bank Plc.) and also the MTB Group, which is part of the MKB Group. Therefore the Bank has to comply with the internal risk regulations of the IHKSZ, the MKB Group and the MTB Group.

The Mortgage Bank Co. Plc. considers prudent risk-taking as a core value and conducts its risk management and risk control activities in accordance with the principles set out in MKB's Group-wide Risk Strategy. The Bank complied with the legal requirements in 2022.

5.1 RISK STRATEGY

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

In its operations, the Bank strives to maintain a risk culture that ensures the identification, measurement and management of emerging risks in accordance with the risk appetite. Internal policies, strategies, regulations and guidelines, communication and employee training are the primary means of ensuring a corresponding risk culture.

The primary objectives of Mortgage Bank Co. Plc. risk management activities are to protect the Bank's financial strength and reputation and to contribute to the use of capital for competitive business activities that enhance shareholder value. Protecting financial strength and reputation means managing risks to limit the impact of adverse events on the Bank's capital and earnings.

The Bank's risk appetite should be consistent with the financial resources available to cover potential losses. In order to ensure this, the Bank calculates the current and future economic capital requirements for the quantifiable types of risk, as well as the capital requirements under Pillar 1.

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

5.2 CREDIT RISK

The main activity of the Bank remains the refinancing of the mortgage loan portfolio of its partner banks. The Mortgage Funding Adequacy Ratio (JMM) introduced by MNB created a business opportunity for mortgage credit institutions by supporting them to extend refinancing loans with similar maturity profile as that of the long-term residential mortgage loans of partner banks, helping them in eliminating their Forint maturity mismatches. This provided an exceptional opportunity for the Bank to acquire new business partners and to expand its refinancing activities.

In 2022, the main factor of the change in credit risk was the change in methodologies used due to the pandemic period, both for the corporate and retail portfolios.

In line with the MNB's expectations and the uniform impairment calculation methodology at MKB Banking Group level, the staging logic for customers in the moratorium and leaving the moratorium was standardised.

For customers exiting the moratorium or not on a contracted repayment schedule, the measurement of traditional credit behaviour continues to be implemented. For retail customers, the Bank has reverted to the standard lifetime ECL calculation.

For corporate clients, the Bank continues to determine the level of impairment based on the rating and the monitoring result.

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

Given that no new information on the paying capacity of customers has emerged during the moratorium period and that the repayment rates of customers affected by the interest rate freeze are lower than those in the contracts, it is necessary to take into account the uncertainties about the capacity and willingness of debtors to pay. In addition, MNB expects that the risk arising from modelling uncertainty needs to be mitigated.

The Bank has considered the following aspects in determining the year end management overlays:

- the rate at which the income of retail customers entering the moratorium4 has decreased compared to 18.03.2020,
- the credit risk models are not aware of the agricultural moratorium and therefore the willingness and capacity to pay for customers entering the agricultural moratorium may contain a hidden high probability of default,
- the application of transitional staging rules alone does not always reflect the full increase in lifetime loss, even when macro parameters are updated.

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

5.3 LIQUIDITY AND MATURITY RISK

Liquidity risk is defined as the risk that the Bank could encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Maintaining liquidity is an essential element of banking, which can be ensured by managing the maturity mismatch of receivables and payables. Also, the Bank applies maturity transformation regulated by limits to manage profitability while maintaining solvency at all times. The Bank regularly reviews clients' prepayments prior to the maturities of loans and takes into consideration their impact in managing market and liquidity risks.

Due to its specialized credit institution status and its strategy (applied since 2018) of a purely classic mortgage bank, the company's balance sheet structure is much simpler than that of a classic commercial bank. On the asset side it is the increasing stock of refinancing loans (the stock of own loans gradually narrows, new disbursements did not take place since 2018) and liquid securities, while on the liabilities side it is issued mortgage bonds and the long-term central bank financing sources (exclusively 3- and 5-year maturity loans) qualify as decisive items. Since in the framework of LTRO the central bank extends covered credit to market players, for the Company it is the mismatches in the maturity structure of mortgage bonds and the stock of refinanced loans (and the still outstanding own credit), as well as the potential loss on bonds locked for MNB as the beneficiary, where the liquidity risk to be addressed comes from.

The Bank prepares its plans for liquidity management and financing position based on different assumption that also considers the impact of stress scenarios.

The Bank maintains a significant amount of liquid assets on an ongoing basis, mainly in the form of government securities and deposits at MTB.

5.4 EXCHANGE RATE RISK

The Bank is a specialized credit institution, which significantly narrows the scope of business activites, where exchange rate related risks may arise. Moreover, it is the Bank's explicit policy to keep exchange rate risk at a low level.

The Bank intends to immediately hedge exchange rate risks emanating from its core business, provided market conditions are supportive to do so. Therefore, open FX positions may occur primarily due to liquidity management, settlements related to lending and refinancing, or accrued expenses and deferred charges in those currencies, in which the Bank keeps nostro accounts.

5.5 INTEREST RATE RISK

Interest rate risk stems from interest rate changes, which impact the value of the underlying financial instruments. The Bank is also exposed to interest rate risk, when the amounts of assets, liabilities and off-balance sheet instruments maturing or being revaluated in a particular period are not in accordance with each other.

The Bank is monitoring interest rate risk on a continuous basis by the analysis of stress scenarios and sensitivity analyses and mitigates exposures by setting limits. The Bank manages market risk mainly by natural hedging. In addition, active management tools such as the repurchase of mortgage bonds, swap deals as well as adjusting mortgage bond maturities and interest rates to correspond to the underlying assets are made use of in order to ensure the harmony between assets and liabilities.

5.6 OPERATIONAL RISK

Mortgage Bank Co. Plc. continues to manage operational risk primarily through internal policies, guidelines and the operation of built-in controls in line with the defined supervisory requirements.

MKB's Group Level Operational Risk Management Policy and Operational Risk Management Rules set out the methodology for the operational risk management framework tools used by the Bank.

The operational risk loss data collection is based on uniform definitions and limits. The Bank promotes the recognition and identification of operational risks with internal training.

The adequacy of key risk indicators (KRIs) is reviewed by the Bank every year, several KRIs were modified in 2022 and new group level KRIs defined by MKB were introduced.

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

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

6 ORGANIZATION CHANGES AND HEADCOUNT

The Bank functions as a classic mortgage bank: business and mortgage loan extending and managing functions as well as group control, supervision and support functions are performed by the MTB. The Bank's organizational setup was unchanged in 2022, the full-time equivalent number of employees was 14 at the end of 2022.

Talent management at MKB Bank:

The MKB Group places great emphasis on training employees and nurturing talent, supporting the development of professional knowledge and skills through a wide range of educational programmes. The following programmes were launched in 2022:

Digitised and gamified pre-boarding programme:

The programme focuses on our colleagues who are in the pre-entry period after accepting our offer. The solution, available online, supports new talent engagement in the pre-joining period; we not only accompany prospective employees on their journey until their onboarding day, but also maintain a positive experience while providing them with ongoing engagement.

Fusion programme:

The next step in our talent retention activities in 2022 was the award-winning Fusion programme. Fusion is one of Hungary's largest internship programmes, currently hosting nearly 300 talented students aged 19-25 from across the country. During the programme they gain relevant work experience, which provides us with a solid pool of young talent.

Ambassador Academy:

An innovative tool was called for to introduce new values, associated behaviour patterns and leadership tools, a new culture roadmap and to retain talent and maintain engagement. We therefore developed the Ambassador Academy of around 100 people. It is a change management initiative, with members working together to ensure engagement between different talent, teams and the delivery of information to all colleagues.

Leadership Academy:

Our Leadership Academy is an integral part of preparing managers for the transition to the new way of banking. Our leadership training programme is modular and supports the continuous development of talented leaders through a variety of solutions and topics (inspiring leadership, heterogeneous cross-generational teams, transparent leadership, motivating leadership, etc.). A specific programme supports the training of newly appointed managers.

We created the Change Management Academy, which more than 1,500 of our management and non-management colleagues attended in 2022. Within the framework of the Academy, we not only provide the re-skilling needed for change management, but we also introduced the communication of corporate values in an interactive form, working with colleagues through workshops to help them understand and accept these values.

Our retention programmes focus on colleagues with specialist skills, as retention is key (Key Employee Programme), and equally focus on those with a consistently high performance and excellent attitude (High Performer Retention Programme).

MKB Bank's 2022 talent management programme was recognised with a special award by the Joint Ventures Association on 4 February 2023.

Work-life balance at MKB Bank:

At MKB Bank, flexible working is a core element of the HR strategy and an important component of improving the employee experience.

As part of its HR strategy, MKB Bank aims to increase the share of atypical employment. In addition, the company aims to make working from home available to as many employees as possible, which is why it is also continuously improving its equipment. Working from home reduces workplace stress, improves work-life balance and thus increases employee satisfaction, morale, efficiency and loyalty.

MKB Bank and health:

Health promotion and health maintenance is an important area for MKB Bank, which is emphasised in various sports and health campaigns. Providing sporting opportunities for employees in a variety of ways and promoting healthy lifestyles is being implemented on multiple fronts.

Employees have access to preferential health insurance, including diagnostic services and extended occupational health services within the Bank, seven days a week.

MKB Bank and sports:

MKB provides significant support to its sports association where effective professional and recreational sports work is carried out. In 2022, the association has a membership of between 400 and 450 people, including 200-250 members in the various sports sections.

In addition to sports sections support, the association also provides its members with sports equipment, logoed sportswear, sports accessories, and even individual support to sports section members on request.

Safe working environment:

MKB Bank complies with its legal obligations by carrying out a workplace risk assessment of its headquarters and premises, including all bank branches. As the Bank is an office working environment, the risk of accidents is fortunately low. The incidence of accidents at work is therefore low and on a downward trend.

Every year, employees are required to attend mandatory training on health and safety and fire prevention. Special training material has been prepared for bank branch staff on what to do in the event of an attack on the branch. The personnel, material and organisational conditions for safe work are laid down in the Bank's Health and Safety at Work Manual in accordance with the legal requirements.

The Bank also employs a safety and health representative on behalf of the Works Council, who is entitled to check that the requirements for safe and healthy working conditions are met.

7 PROTECTION OF ENVIROMENT

Green Covered Bond Committee

Mortgage Bank Co. Plc. established its Green Covered Bond Committee (hereinafter referred as GCBC) to increase the role of green factors in its business and risk management governance. The Committee consists of the CEO, the deputy CEO, Heads of Capital Market, Refinancing, ALM, Collateral Registry, Collateral Management. GCBC reports directly to the Management of Board. Pursuant to the internal regulations, the GCBC decides on the 'green' quality if new collateral is involved, and regularly reviews the adequacy of the green collateral behind the issued green mortgage bonds.

8 POST BALANCE SHEET DATE EVENTS

Mortgage bond auction

The Bank organized the auction of the second tranche of TZJ32NF1 Takarek mortgage (covered) bond (maturity: 27.05.2032, coupon rate: fixed: 5.75%) on 17 January 2023. The result of the auction was the following: the total offered (nominal) value was HUF 10,000 million, the total nominal value of valid bids was HUF 15,175 million, the total nominal value issued was HUF 10,000 million, while the average selling price (net) was 80.4442%.

Rating

S&P Global Ratings (Madrid) announced on January 26, 2023 that it placed on CreditWatch positive its 'BBB' credit ratings on Takarék Mortgage Bank Co. Plc's Hungarian mortgage covered bond program and related issuances.

The above decision reflects S&P's view that following the improvement in its assessment on the issuer's creditworthiness, the covered bonds could be eligible for collateral-based uplift based on further analysis above the current rating, which reflects the covered bonds' jurisdiction-supported rating level (JRL) of 'bbb'.

Changes in the management of MKB Bank Plc.

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

Rebranding and change of the name of the Bank

MKB Bank Plc., as the leading member of the group, decided on the new brand architecture and visual appearance of the banking group, which includes the name of individual members, too. At the same time, this also means that the legal name of the Group members would need to be changed in a manner that it would give sufficient indication that a Group member belongs in the group – under a new name – led by MBH Bank Plc. as of 1 May 2023. It, therefore, became necessary to modify the corporate name of Takarék Jelzálogbank Nyrt., a subsidiary of MKB Bank Plc., as of 1 May 2023, as in the following MBH Mortgage Bank Co. Plc.

Budapest, 3 April 2023

dr. Gyula László Nagy	**Illés Tóth**
Chief Executive Officer	Deputy CEO

Issuer Declaration

Takarék Jelzálogbank Nyrt. (Takarék Mortgage Bank Co. Plc.) as the Issuer (represented by: dr. Gyula László Nagy CEO, and Illés Tóth Deputy CEO), hereby declares that the **2022 Annual report** of Takarék Mortgage Bank Co. Plc. has been prepared in accordance with the applicable accounting standards, its best knowledge and accordance with the International Financial Reporting Standards adopted by the European Union. The included **Stand-alone Financial Statements** give a true and fair view of assets, liabilities, financial position and profit of Takarék Mortgage Bank Co. Plc., furthermore the **Stand-alone Management report** gives a fair view of the position, development and performance of Takarék Mortgage Bank Co. Plc., disclosing the risks and the factors of uncertainty.

Budapest, 3 April 2023.

dr. Gyula László Nagy
Chief Executive Officer

Illés Tóth
Deputy Chief Executive Officer