Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

CONSOLIDATED ANNUAL REPORT

31 December 2023

CONTENT

KERESKEDELMI ÉS HITELBANK ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED 31 DECEMBER 2023

WITH THE REPORT OF INDEPENDENT AUDITOR

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INDEPENDENT AUDITOR'S REPORT

(Free translation)

To the shareholder of Kereskedelmi és HitelbankZrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of K&H Bank Zrt. (the "Company") and its subsidiaries (together the "Group") for the financial year ended on 31 December 2023 which comprise the consolidated statement of financial position as at 31 December 2023 (in which total assets equal to total liabilities and equity are MHUF 5,606,468), the consolidated income statement and the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 151,724 profit), the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year then ended and the notes to the consolidated financial statements comprising material accounting policy information and other explanatory information.

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

Our opinion is consistent with our additional report to the audit committee dated 24 April 2024.

Basis for opinion

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

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

We did not provide non-audit services to the Company and its controlled entities within the EU, in the period from 1 January 2023 to 31 December 2023.

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

Our audit approach

Overview

Overall group materiality	Overall group materiality applied was MHUF 4,950
Group Scoping	Besides K&H Bank Zrt., as parent company, we have not included any subsidiaries in our audit as the Bank represents 95% of the consolidated total assets and 98% of the consolidated comprehensive income.
Key Audit Matter	Impairment on loans and advances measured at amortised cost

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

Materiality

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

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

Materiality	MHUF 4,950
Determination	5% of the average consolidated profit before tax of the last 3 years including this current year.
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We believe that the three-year average of consolidated profit before tax is less fluctuating and therefore results in more stable materiality compared to the consideration of consolidated current year profit only. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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Group audit scope

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

We have not identified any subsidiaries, which, in our view, required an audit of its complete financial information, due to its financial significance or risk to the Group.

For the components we performed analytical review on Group level. This together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment on loans and advances measured at amortised cost	
The net amount of loans and advances to customers (excluding central bank and credit institution, and general government) was MHUF 2,086,466 as of 31 December 2023, representing 37% of the total assets. Impairment recognised in the consolidated statement of financial position amounted to MHUF 37,180. The management disclosed the related assumptions, balances and estimates in point 2.3.3 of the notes to the consolidated financial statements on accounting policy, as well as in notes 16, 22, 24 and 43.4-43.5. Impairment recognised on expected credit losses is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating individual and collective impairment, especially when considering the current uncertain economic environment. The first step in the expected credit loss	We understood and evaluated the lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval. Thereby the focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment in expected credit losses. We performed credit review for individually significant loans on a sample basis. We checked the stage classification of the customer based on credit application and monitoring documents as well as customer-related financial and non-financial information. For a sample of individually impaired loans, we checked whether assumptions, estimations and scenario weightings applied in calculations of the recoverable amount are reasonable and whether the calculations are correct. When assessing the collective impairment, with the support of our internal modelling expert we assessed

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

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

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

The modelling methodologies are developed using historical experience, which - in uncertain economic conditions that currently vary across customer segments and industry sectors - can result in limitations in their reliability to appropriately estimate expected credit loss.

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

To address these limitations, management applied quantitative and qualitative

the applied methodology, assessed, whether it is in accordance with the IFRS 9 Financial Instruments, reviewed the validation documents, recalculated (on a sample basis) selected model parameters and the impairment and assessed the tool used by the Group to calculate impairment.

We checked input data of expected credit loss calculation (including both data for modelling parameters and for the impairment calculation), indicators used to determine whether there was significant increase in credit risk and analysed the development of impairment.

To address increased estimation uncertainty, we evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to state payment support programs. We assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions.

We read points 2.3.3., 16, 22, 24 and 43.4-43.5 of the notes to the financial statements to assess whether disclosures are in line with IFRS 9 Financial instruments and IFRS 7 Financial instruments: Disclosures accounting standards.

adjustments to expected credit loss that include the following:

- Reassessing macroeconomic assumptions and weighted scenarios,
- Management overlay based on a central calculation engine which assesses the most susceptible sectors within the economic system, as well as a local overlay methodology that supplement the central engine based on country specific properties.

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

Other information: the consolidated business report

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

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

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

As the Company is a public interest entity preparing consolidated financial statements and the conditions in Paragraph a) and b) of Subsection (5) of Section 134 of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by Section 95/C and Section 134 in its consolidated business report relating to the companies included in the consolidation. In this respect, we shall state whether the consolidated business report includes the non-financial statement required by Section 95/C, and Section 134.

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

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

The consolidated business report includes the non-financial statement required by Section 95/C, and Section 134.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 28 April 2016. Our appointment has been renewed annually by shareholder's resolutions representing a total period of uninterrupted engagement appointment of 8 years.

Budapest, 24 April 2024

Könczöl Enikő
Partner
Statutory auditor
Licence number: 007367
PricewaterhouseCoopers Könyvvizsgáló Kft.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence number: 001464

Translation note:

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

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	2023 MHUF	2022 MHUF
Interest and similar income	5	582 134	357 888
Interest income calculated using the effective interest method	5	411 761	278 884
Other similar income	5	170 373	79 004
Interest and similar expense	5	(385 377)	(195 489)
Net interest and similar income	5	196 757	162 399
Fee and commission income	6	122 384	106 937
Fee and commission expense	6	(33 139)	(26 378)
Net fee and commission income	6	89 245	80 559
Net gains / (losses) from financial instruments at fair value through profit or loss	7	21 768	22 227
Foreign exchange differences		13 548	20 075
Net realised gains / (losses) from financial assets at fair value through other comprehensive income	8	(451)	(2 048)
Dividend income	9	10	14
Net gains / (losses) on the disposal of assets at amortised cost	10	279	(133)
Gains on the disposal of held-for-sale instruments		-	15
Other income	11	2 480	2 857
Other expense	11	(1 498)	(931)
Total income		322 138	285 034
Operating expenses excluding impairment losses		(182 207)	(165 487)
Staff expenses	14;38;39	(40 585)	(37 538)
General administrative expenses	12	(82 187)	(78 485)
Depreciation and amortisation of tangible and intangible assets	29;30	(16 488)	(15 826)
Bank tax	13	(42 947)	(33 638)
Impairment:		(1 323)	(14 154)
At amortised cost	24	2 934	(11 932)
At fair value through other comprehensive income	23	(104)	18
Other - impairment on non-financial assets	24	(4 153)	(2 240)
Modification losses on financial assets at amortized cost	3	(11 063)	(24 223)
Profit / (loss) before tax		127 545	81 170
Income tax expense	15	(18 646)	(13 555)
Profit / (loss) after tax		108 899	67 615

Approved by the Board of Directors on 17 April 2024.

Guy Libot
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2023 MHUF	2022 MHUF
Profit after tax		108 899	67 615
Other comprehensive income			
Items that may be reclassified to the profit or loss			
Revaluation reserve of debt instruments			
Net gain / (loss) from fair value changes		9 261	(5 005)
Deferred tax impact on fair value changes	27	(1 002)	542
Transfer from revaluation reserve to net profit:			
(Losses)/gains on impairment	23	104	(18)
(Losses)/ gains on disposal	8	451	2 048
Deferred income tax	27	(60)	(220)
Cash flow hedge			
Net gain / (loss) from fair value changes	25	37 156	(30 928)
Deferred tax impact on fair value changes	27	(3 344)	2 784
Transfer from cash flow hedge reserve to net profit:			
Gross amount	7;25	99	51
Deferred income tax	27	(9)	(5)
Items that will not be reclassified to the profit or loss			
Revaluation reserve of equity instruments			
Net gain / (loss) from fair value changes		182	393
Deferred tax impact on fair value changes	27	(20)	74
Actuarial result on defined benefit plans	39	8	(15)
Deferred income tax	27	(1)	1
Total other comprehensive income / (loss)		42 825	(30 298)
Total comprehensive income		151 724	37 317

Approved by the Board of Directors on 17 April 2024.

Guy Libot *Chief Executive Officer* *Member of the Board*	*Attila Gombás* *Chief Financial Officer* *Member of the Board*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2023 MHUF	2022 MHUF
ASSETS			
Cash and cash balances with central banks and other demand deposits with credit institutions		1 307 058	1 169 737
Cash		78 954	72 113
Cash balances with central banks	16;19;21	1 166 774	1 085 791
Other demand deposit with credit institutions	16;19;21	61 330	11 833
Financial assets		4 162 143	4 422 703
Held for trading	16;19;21;25	73 760	204 387
Mandatorily at fair value through profit or loss	16;19-21	330 460	272 012
At fair value through other comprehensive income	16;19;21	163 882	36 622
At amortised cost	16;19;21	3 464 184	3 703 299
of which asset pledged as collateral	*17*	*13 893*	*25 549*
Hedging derivatives	19;21;25	129 857	206 383
Fair value changes of hedged item under portfolio hedge of interest rate risk	25	(68 369)	(174 648)
Tax assets		2 978	6 959
Current tax assets		22	40
Deferred tax assets	27	2 956	6 919
Investment property	28	264	502
Property and equipment	29	47 186	45 871
Intangible assets	30	96 657	75 460
Other assets	26	58 551	40 111
Total assets		5 606 468	5 586 695
LIABILITIES AND EQUITY			
Financial liabilities		4 995 261	5 283 427
Held for trading	16;19;21	72 480	160 141
Designated at fair value through profit or loss	16;19-21	58 541	13 597
Measured at amortised cost	16;19;21	4 740 977	4 841 528
Hedging derivatives	16;19;21;25	123 263	268 161
Fair value changes of hedged item under portfolio hedge of interest rate risk	25	(45 288)	(189 356)
Tax liabilities		4 842	2 579
Current tax liabilities		4 837	2 579
Deferred tax liabilities	27	5	-
Provisions for risks and charges and credit commitments	24;31	5 986	4 656
Other liabilities	32	70 416	61 862
Total liabilities		5 031 217	5 163 168
Share capital	33	140 978	140 978
Share premium		48 775	48 775
Accumulated profit		341 581	243 551
Other reserves		43 917	(9 777)
Total equity	34;44	575 251	423 527
Total liabilities and equity		5 606 468	5 586 695

Approved by the Board of Directors on 17 April 2024.

Guy Libot
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital MHUF	Share premium MHUF	Other reserves: Statutory risk reserve MHUF	Other reserves: Revaluation reserve of securities MHUF	Other reserves: Cash flow reserve MHUF	Other reserves: Other revaluation reserves MHUF	Accumulated profit MHUF	Total equity MHUF
2022								
Balance at the beginning of the period	140 978	48 775	40 169	(763)	(24 630)	59	236 022	440 610
Transfer from revaluation reserve to retained earnings (see Note 8)	-	-	-	(1 077)	-	-	1 077	-
Net profit for the year	-	-	-	-	-	-	67 615	67 615
Other comprehensive income for the period	-	-	-	(2 186)	(28 098)	(14)	-	(30 298)
Total comprehensive income	-	-	-	(2 186)	(28 098)	(14)	67 615	37 317
Dividend paid	-	-	-	-	-	-	(54 400)	(54 400)
Transfer from retained earnings to statutory risk reserve	-	-	6 763	-	-	-	(6 763)	-
Total change	-	-	6 763	(3 263)	(28 098)	(14)	7 529	(17 083)
Balance at the end of the period	140 978	48 775	46 932	(4 026)	(52 728)	45	243 551	423 527
of which revaluation reserve for shares	-	-	-	*504*	-	-	-	*504*
of which revaluation reserve for bonds (Note 16)	-	-	-	*(4 531)*	-	-	-	*(4 531)*
2023								
Balance at the beginning of the period	140 978	48 775	46 932	(4 026)	(52 728)	45	243 551	423 527
Net profit for the year	-	-	-	-	-	-	108 899	108 899
Other comprehensive income for the period	-	-	-	8 916	33 902	7	-	42 825
Total comprehensive income	-	-	-	8 916	33 902	7	108 899	151 724
Transfer from retained earnings to statutory risk reserve	-	-	10 869	-	-	-	(10 869)	-
Total change	-	-	10 869	8 916	33 902	7	98 030	151 724
Balance at the end of the period	140 978	48 775	57 801	4 890	(18 826)	52	341 581	575 251
of which revaluation reserve for shares	-	-	-	*667*	-	-	-	*667*
of which revaluation reserve for bonds (Note 16)	-	-	-	*4 223*	-	-	-	*4 223*

Other revaluation reserves include own credit risk adjustments and the actuarial result on defined benefit plans. No dividend was paid in 2023. (The dividend paid on ordinary shares amounted to HUF 54 400 million in 2022). Dividend paid on ordinary shares amounted to 0.385876 HUF/share in 2022. See Note 44 for dividend proposed on ordinary shares in 2023.

Approved by the Board of Directors on 17 April 2024.

Guy Libot
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2023 MHUF	2022 MHUF
OPERATING ACTIVITIES			
Profit / (loss) before tax		127 545	81 170
Adjustments for:			
Interest and similar income	5	(582 134)	(357 888)
Interest and similar expense	5	385 377	195 489
Net transfer from revaluation reserve of securities	8	(555)	(2 030)
Net transfer from cash flow hedge reserve	7	(99)	(51)
Depreciation and impairment of property and equipment, intangible assets, financial assets at fair value through other comprehensive income and other assets	29;30	20 756	18 070
(Profit)/Loss on the disposal of property and equipment	11	(519)	(668)
(Profit)/Loss on the disposal of investment property	11	(136)	(261)
Change of modification result on financial assets at amortized cost	3	11 063	24 223
Change in impairment on financial assets valued at amortised cost*	24	(2 934)	11 932
Change in other provisions	31	487	685
Unrealised valuation differences		16 384	(18 828)
Cash flows from operating profit / (loss) before tax and before changes in operating assets and liabilities		(24 765)	(48 157)
Changes in financial assets held for trading		107 828	(85 354)
Changes in financial assets mandatorily valued at fair value through profit or loss		(6 155)	(65 235)
Changes in financial assets valued at fair value through other comprehensive income		(117 111)	24 588
Changes in financial assets valued at amortised cost		(284 570)	(235 765)
Changes in other assets		(181 195)	219 772
Changes in operating assets		(481 203)	(141 994)
Changes in financial liabilities held for trading		(70 608)	78 302
Changes in financial liabilities designated at fair value through profit or loss		(100 018)	7 944
Changes in financial liabilities measured at amortised cost		48 297	159 330
Changes in other liabilities		265 439	(210 031)
Changes in operating liabilities		143 110	35 545
Income taxes paid		(19 115)	(13 752)
Interest received		586 278	339 149
Interest paid		(412 298)	(158 855)
Net cash from/(used in) operating activities		(207 993)	11 935

* Including impairments on loan commitments.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2023 MHUF	2022 MHUF
INVESTING ACTIVITIES			
Purchase of securities at amortised cost		(75 152)	(10 680)
Proceeds from the repayment at maturity of securities at amortised cost		107 043	86 127
Dividends received from associated companies		10	14
Purchase of intangible assets	30	(34 529)	(26 842)
Purchase of property and equipment	29	(8 849)	(8 934)
Proceeds from the sale of property and equipment		504	891
Proceeds from the sale of Non-current assets held for sale & disposal groups		-	82
Purchase of investment property	28	-	(42)
Proceeds from the sale of investment property		347	694
Net cash from/(used in) investing activities		(10 626)	41 310
FINANCING ACTIVITIES			
Repayment of principal of mortgage bonds		(99 810)	-
Proceeds from issuance of mortgage bonds		85 000	15 000
Repayment of principal of lease liabilities		(3 503)	(3 337)
Dividend paid		-	(54 400)
Net cash from/(used in) financing activities		(18 313)	(42 737)
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase/(decrease) in cash and cash equivalents		(236 931)	10 508
Net foreign exchange difference		(485)	1 643
Cash and cash equivalents at beginning of the period		1 334 570	1 322 419
Cash and cash equivalents at end of the period		1 097 154	1 334 570

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2023 MHUF	2022 MHUF
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions		1 307 058	1 169 737
Loans and advances to banks repayable on demand and term loans to banks < 3 months	16	22 618	500 766
Deposits from banks repayable on demand and redeemable at notice	16	(232 522)	(335 933)
Total cash and cash equivalents		1 097 154	1 334 570

Loans and advances to banks repayable on demand and term loans to banks < 3 months are recorded as Loans and advances at amortised cost in the consolidated statement of financial position. Deposits from banks repayable on demand and redeemable at notice are presented as financial liabilities measured at amortised cost.

The Group uses the indirect method for presentation of cash flows resulting from operating activities.

Approved by the Board of Directors on 17 April 2024.

Guy Libot *Chief Executive Officer* *Member of the Board*	*Attila Gombás* *Chief Financial Officer* *Member of the Board*

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság ("K&H Bank Zrt." or "the Bank") is a limited liability company incorporated in Hungary. K&H Bank Zrt. and its subsidiaries ("the Group") provide a full range of banking services through a nation-wide network of 195 branches. As at 31 December 2023 K&H Bank Zrt.'s registered office was at Lechner Ödön fasor 9, Budapest. Website: www.kh.hu.

The parent company of K&H Bank Zrt. is KBC Bank N.V. The ultimate parent is KBC Group N.V.

Guy Libot Chief Executive Officer (Budapest) and Attila Gombás Chief Financial Officer (Budapest) are obliged to sign these consolidated financial statements.

The Bank and the Group are required to have its accounts audited under applicable law.

Person in charge of accounting tasks: Paula Ecsedi (Budapest), registration number: 140573.

NOTE 2 – ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below.

2.1 Basis of presentation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risk that are being hedged.

The Group maintains its accounting records and prepares its statutory accounts in accordance with commercial banking and fiscal regulations prevailing in Hungary. The Group entities' functional currency is the Hungarian Forint ("HUF"). All balances are presented in millions of Hungarian Forints ("MHUF") unless otherwise stated. The tables in this report may contain rounding differences.

The accounting policies are consistent with those applied in prior years.

2.1.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRSs that have been adopted by the EU.

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU.

On 1 January 2017 K&H Bank implemented IFRSs for statutory purposes instead of Hungarian Accounting Standards.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.1.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and all entities it controlled as at 31 December 2023. The Bank and the entities which it controls are referred to collectively as “the Group”. Control is presumed to exist if all of the following conditions are met:

- the Bank has power over the entity;
- the Bank has exposure, or rights, to variable returns from its involvement with the investee;
- the Bank has the ability to use its power over the investee to affect the amount of the investor’s returns.

In case of the Bank’s exclusive control the effects of all material intercompany balances and transactions are eliminated.

A list of subsidiary and associated companies is provided in Note 41.

2.2 Significant accounting judgements and estimates

In the process of applying the Groups’ accounting policies, Management has used its judgements and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on principal market at the measurement date. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g. fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale.

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives. For the sensitivity of the judgements used for fair value calculation see Note 19 and Note 43.3.

Allowance for impairment of loans and advances, provision for contingent liabilities and commitments

The impairment allowances of loans and advances and provision for contingent liabilities are determined based on the expected credit losses (ECL). Calculating ECL requires significant judgments on different aspects for example, but not limited to, the borrowers’ financial position and repayment capabilities, the value and recoverability of collaterals, forward looking and macroeconomic information. The Group applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments.

NOTE 2 – ACCOUNTING POLICIES (continued)

The Group regularly reviews its financial assets at amortised cost and financial assets valued at fair value through other comprehensive income and contingent liabilities and commitments to assess impairment and provision. The Group applies its judgement on the basis of experience to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and where there is little available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of amortised cost assets. Refer to Note 24 for further details and Note 43.4 for macro-economic forecast scenarios.

In cases when the historical loss experience is not able to capture all the specific risks expert-based calculation at portfolio level is performed via a management overlay.

Provision for litigations and claims

The amount of provision required to meet losses incurred as a result of litigations and claims is another principal area of estimation uncertainty in these consolidated financial statements. Refer to Note 31 for further details.

2.3 Significant accounting policies

2.3.1 Foreign currency translation

The functional and presentational currency of the Group is HUF. Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the Hungarian National Bank as at the date of the consolidated statement of financial position. Negative and positive exchange rate differences are recognized in the income statement. Exceptions to the above general rule are the cases when a monetary asset or liability is involved in a cash flow hedge relationship as a hedging instrument and in accordance with the hedging documentation the foreign exchange translation difference of the hedging instrument is recognized as other comprehensive income. Non-monetary items are translated into the functional currency at a historical exchange rate as at the date of transaction. Non-monetary items measured at FV through OCI, which are denominated in foreign currencies, are translated into HUF at exchange rates quoted by the Hungarian National Bank as at the date of the consolidated statement of financial position and recorded as foreign exchange differences in the income statement. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the income statement on line foreign exchange differences.

2.3.2 Financial assets

The Group applies all the requirements of IFRS 9 as from 1 January 2018, except for the hedge accounting transactions which continued to be accounted for in accordance with IAS 39.

2.3.2.1 Financial assets – recognition and derecognition

2.3.2.1.1 Recognition

Financial assets and liabilities are recognised in the consolidated statement in financial position when the Group becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.
All financial assets are measured initially at fair value plus transaction costs that are directly attributable to its acquisition; with the exception of financial assets measured at fair value through profit or loss.

NOTE 2 – ACCOUNTING POLICIES (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

- When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss.
- If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is deferred and is released in profit or loss during the life and until the maturity of the financial instrument.

2.3.2.1.2 Derecognition and modification

The Group derecognises a financial asset when the contractual cash flows from the asset expire or the Group transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred.

In specific transactions like repurchase agreements and securities lending and borrowing the Group assesses the transfer of the risks and rewards based on the applicable facts and circumstances and on the predetermined repurchase price. When this indicates that the Group has retained substantially all risks and rewards then financial assets and liabilities are not derecognised but the relating consideration or financial assets received/paid are presented as separate financial liability/asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Repo and reverse repo agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities if the repurchase price is not fair value at the time of reacquisition. The counterparty liability for amounts received under these agreements is included in financial liabilities measured at amortised cost. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in financial assets at amortised cost. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the consolidated statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gain or losses included in Net gains / (losses) from financial instruments at fair value through profit or loss.

When during the term of a financial asset there is a change in the terms and conditions, then the Group assesses whether the new terms are substantially different to the original terms indicating that the rights to the cash flows of the initial instruments have expired. In case the conclusion is that the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognising the existing financial asset and recognising a new financial asset based on the revised terms. Conversely, when the Group assesses that the terms are not substantially different than the transaction is accounted for as financial asset modification.

NOTE 2 – ACCOUNTING POLICIES (continued)

Renegotiated loans

Where possible, the Group seeks to renegotiate loans rather than to take possession of collateral.

The Group considers a loan (receivable) renegotiated if the loan or credit arrangements are renegotiated, rescheduled (prolonged) and renegotiated upon the debtor's or the financial institution's initiative, within the framework of the amendment of the underlying contract, where the underlying contract is amended because of the considerable deterioration in the financial condition or solvency of the borrower, on account of which he is unable to meet the obligations of repayment as originally contracted. Such amendments result in significant changes in the terms and conditions of the underlying contract, bringing considerably more favourable terms for the client - by way of derogation from the market conditions pertaining to contracts of the same type bearing similar terms and conditions.

The assessment of the substantially different terms is made when loans to customers are renegotiated or otherwise modified. In considering the substantially different terms, the Group evaluates whether:

- The borrower has changed;
- The loan has been partially written off because the Group estimates that the part or entirety of the loan became irrecoverable;
- Changes made to a loan or loans of the same borrower resulted in refinancing or consolidation of the loans into a new loan;
- Due to significant financial difficulty of the borrower, the Group has granted more than one concession;
- Substantial new terms have been introduced, such as profit share/equity-based return significantly modifying the risk profile of the loan;
- The nature of the interest rate or the reference rate has significantly changed;
- The currency of the contract has changed.

The amendments are representing, among others, the deferral of repayments (interest and/or principal) temporarily for a specific period (grace period), payment by instalments, modification of interest rates (for example repricing in the form of discount rates), capitalization of interest, changing the type of currency of denomination, extending the term of the loan, rescheduling instalment payments, reducing the level of collateralization or the level of security requested, or allowing other form of collateral or security, waiving the collateral or security requirements (non-collateralization), introducing new contract terms and conditions or eliminating certain existing terms and conditions. Furthermore a supplementary agreement or a new contract may be concluded between the debtor and the Group, or between the borrower and an affiliate of the original lender, for a new loan for refinancing the debts (interest and principal) outstanding on account of the existing contract, or for undertaking additional commitments with a view to avoiding any further increase in risk exposure or to cutting losses, upon which the claims of the Group (including the financial institution participating as the affiliate of the original lender) arising on account of the aforesaid supplementary agreement or new contract are also recognized as renegotiated loans (receivables).

The terms are considered as substantially different in any case if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset.

The process of financial asset modification requires adjusting the carrying amount of the previously recognised financial asset in order to reflect the changed terms on the contractual cash flows. In doing that the Group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss presented separately in the income statement. The carrying amount of the financial asset is recalculated as the present value of the estimated future cash payments through the expected life of the changed terms that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred as part of the modification shall adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

NOTE 2 – ACCOUNTING POLICIES (continued)

Loans where the relevant contract had to be amended due to changes in market conditions are not considered as renegotiated loans (receivables), furthermore, where the parties agree in market conditions pertaining to similar agreements and where the solvency of the debtor is such as to ascertain his ability to comply with his ensuing contractual obligations.

If the renegotiation does not result in derecognition, the impact of modification will be presented as change in the assets' gross carrying amount. The effect of contract modification on gross carrying amount is presented in the profit or loss on line of modification losses on financial assets at amortized cost.

Derecognition of renegotiated loans

For derecognition of the renegotiated loans the Group applies the following criteria. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset. A substantial modification of the terms of an existing financial asset or a part of it is accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the asset and are amortised over the remaining term of the modified liability.

2.3.2.1.3 Write-offs

A write-off is a direct reduction of the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering the financial asset on its entirety or a portion thereof. A write-off constitutes a derecognition event.
Write-offs do not constitute a debt forgiveness and the Group retains its legal enforceable rights towards the borrower until the official legal proceedings have concluded otherwise.

2.3.2.2 Equity and debt instruments classification

On initial recognition of a financial asset, the Group first assesses the contractual terms of the instrument in order to classify it as an equity or debt instrument. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets. In order to satisfy this condition, the Group reviews whether the instrument includes no contractual obligation for the issuer to deliver cash or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
Any instruments which do not meet the criteria of equity instruments are classified as debt instruments by the Group.

2.3.2.2.1 Classification and measurement – debt instruments

When the Group concludes that the financial asset is a debt instrument then on initial recognition, it can be categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL);
- Designated at initial recognition at fair value through profit or loss (FVO);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost (AC)

Debt instruments have to be classified in the FVPL category when (i) they are not held in business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets or alternatively (ii) they are held in such business model but the contractual terms of the instrument give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

NOTE 2 – ACCOUNTING POLICIES (continued)

Further, the Group may in some cases, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as at fair value (FVO) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.3.2.2.2 Business model assessment

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, the Group reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to key management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

2.3.2.2.3 Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

NOTE 2 – ACCOUNTING POLICIES (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

2.3.2.2.4 Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets which could occur when the Group begins or ceases to perform an activity that is significant to its operations (e.g.: when the Group acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

2.3.2.2.5 Classification and measurement – Equity instruments

Financial equity instruments are categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL) or
- Equity instruments elected for fair value through other comprehensive income (FVOCI).

In the banking activity all equity instruments is included in the FVOCI category when the investment is not held for trading. This is a specific designation that is be made on a case-by-case basis, applicable to strategic investments. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis which is interpreted by the Group as share-by-share basis. Equity categorised in the FVOCI category is subsequently measured at fair value with all changes recognised in other comprehensive income and without any recycling into the income statement even when the investments is disposed. The only exception applies to the dividend income which are recognised in the income statement.

2.3.2.2.6 Classification and measurement - Derivatives

The Group can recognise derivative instruments either for trading purpose or as hedging derivatives. Derivatives can have asset or liability positions depending on their actual market value.

Trading derivatives
Derivative instruments are always measured at fair value and the Group makes a distinction as follows:

- Derivatives that are held with a hedging intent but for which hedge accounting cannot be or is not applied (economic hedge): hedging instruments can be acquired with the intention of economically hedging an external exposure but without the application of hedge accounting. The interest component of these derivatives is recognised under 'Net interest income', while all other fair value changes are recognised under 'Net result from financial instruments at fair value through profit or loss'.
- Derivatives held without hedging intent (trading derivative): the Group can also enter into a derivative position without any intention to hedge economically a position. Such activity can relate to closing / selling an external position in the near term or for short-term profit taking purposes. All fair value changes on such derivatives are recognised under 'Net result from financial instruments at fair value through profit or loss'.

Hedging derivatives
Hedging derivatives are derivatives which are specifically designated in a hedge relationship. The accounting process of such derivatives are detailed in the section "Hedge Accounting".

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.2.3 Fair value hierarchy of financial instruments

The fair value measurements are classified into the levels of fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The Group assesses the significance of fair value adjustments at portfolio level in function of the proportion of the fair value adjustment relative to the size of the underlying portfolio.

A fair value adjustment related to the unobservable input is considered to be material for the Group if this fair value adjustment makes up at least 5% of the nominal exposure of the underlying portfolio.

The amount of the fair value which is calculated on transaction level is adjusted (MVA - Market Value Adjustment) by the Bank taking into account the elements listed below. The adjustment according to the following elements is calculated by instrument / transaction types or on customer level:

- close-out cost of the transactions,
- funding value adjustment,
- illiquidity of the markets,
- counterparty risk.

Changes to the fair value classification

The classification of a financial instrument into the fair value hierarchy is not static. Financial instruments can shift between different fair value levels for various reasons, for instance:

- Market changes: The market can become inactive. As a result, previously observable parameters can become unobservable (possible shift from level 1 to level 2 or 3);
- Model changes: The application of a new refined model that takes more observable input factors into account or reduces the fair value impact of unobservable inputs (possible shift from level 3 to level 2);
- Change in sensitivity: The sensitivity of a valuation input to the entire fair value may change over time. An unobservable input that used to be significant to the entire fair value measurement may become insignificant (or vice versa). The fair value classification in the hierarchy would consequently change from level 3 to level 2 (or vice versa).

Defining the fair value classification of a financial instrument can only be made taking into account changing market circumstances, upgraded models and the sensitivity of the valuation inputs. With this regard, the fair value classification per instrument/portfolio is reassessed by the Group on a regular basis.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.3 Financial assets - Impairment

2.3.3.1 Definition of default

The Group uses the definition for defaulted financial assets which is used for internal risk management purposes and it is in line with guidance and standards of the financial industry regulators. A financial asset is considered as defaulted if one or more of the following conditions are fulfilled:

- A significant deterioration in creditworthiness
- The asset is flagged as non-accrual
- The asset is flagged as high risk forborne in line with the internal policies for forbearance specified as stage 3 forborne
- Liquidation proceedings have been initiated against the client
- The counterparty has filed for bankruptcy or sought similar protection measures.
- The credit facility towards the customer is terminated due to decline in credit worthiness.

The Group applies a backstop for facilities that have at least 90 days past due status. In this context a backstop is used as a final control to ensure that all the assets that should have been designated as defaulted, are properly identified.

2.3.3.2 Expected credit loss model

The model for impairment of financial assets is called the Expected Credit Loss model (ECL). The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost;
- Debt instruments measured at fair value through the other comprehensive income;
- Loan commitments and financial guarantees;
- Finance lease receivables; and
- Trade and other receivables.

No ECL are calculated for equity investments. Financial assets that are in scope for the ECL carry an amount of impairments equal to the life-time ECL if the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month ECL (see below for the references to the significant increase in credit risk).
To distinguish between the different stages with regards the amount of ECL, the Group uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.

All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12 month ECL. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time ECL. Once an asset meets the definition of default it migrates to stage 3.

IFRS 9 allows for a practical expedient for leasing and trade receivables. The ECL for trade receivable are measured in an amount equal to the life-time ECL. The Group applies this practical expedient for trade receivables.

Impairment gains and losses on financial assets are recognised under the heading “Impairments” in the income statement.

NOTE 2 – ACCOUNTING POLICIES (continued)

Financial assets that are measured at amortised cost are presented on the consolidated statement of financial position at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other comprehensive income are presented on the consolidated statement of financial position at their carrying amount being the fair value at the reporting date. The adjustment for the ECL is recognised as a reclassification adjustment between the income statement and the other comprehensive income. For loan commitments and financial guarantees a provision for ECL is recognized as liability.

2.3.3.3 Significant increase in credit risk since initial recognition

In accordance to the ECL model, a financial assets attracts life-time ECL once the credit risk has increased significantly since initial recognition; therefore the assessment of the significant increase in credit risk defines the staging of financial assets. The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned at initial recognition. This is a multi-factor assessment, and, thus the Group has developed a multi-tier approach (MTA).

2.3.3.3.1 Multi-Tier Approach – Bond portfolio

For the bond portfolio the MTA consists of three tiers:
Low credit exception: Bonds always carry 12-months ECL if they have a low credit risk at the reporting date (i.e. stage 1). The Group uses the low credit risk exception for bonds which are BB+ and above based on internal rating.
Internal rating: only applicable if the first tier is not met. This is a relative assessment comparing the Probability of Default (PD) at initial recognition to the PD at the reporting date. The Group makes the assessment on a facility level at each reporting period.
Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If none of these triggers results in a migration to stage 2, then the bond remains in stage 1. A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default. The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not present in a subsequent reporting date.

2.3.3.3.2 Multi-tier approach – Loan portfolio

For the loan portfolio the Group uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, doesn't result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.

- Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. The Group makes the assessment on a facility level at each reporting period.
- Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.
- Days past due: the Group uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.
- Internal rating backstop: the Group uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the Group internal rating) before a financial asset is considered to be impaired.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default. The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not met at the reporting date.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.3.4 Measurement of ECL

The ECL is calculated as the product of the probability of default (PD), the estimated exposure at default (EAD) and the loss given default (LGD).

The ECL are calculated in a way that reflect:
- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

The life-time ECL represents the sum of the ECL over the life time of the financial asset discounted at the original effective interest. The 12 months ECL represent the portion of the life time ECL that results from a default in 12-month period after the reporting date.

The Group uses specific IFRS 9 models for PD, EAD and LGD to calculate ECL. To the extent possible the Group uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. Having said that, the Group ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:
- the Group removes the conservatism which is required by the regulator for Basel models
- the Group adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a “point-in-time” rather than “through-the-cycle” estimate (the latter is required by the regulator).
- the Group applies forward looking macroeconomic information in the models.

The Group also considers three different forward looking macro-economic scenarios with different weights in the calculation of ECL (see Note 43.4). The base case macro-economic scenario represents the Group’s estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.
The maximum period for measurement of the ECL is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period.

2.3.3.5 Purchased or originated credit impaired (POCI)

The Group defines POCI assets as financial assets in scope of the IFRS 9 impairment which at origination are already defaulted (i.e. meet the definition of default).
POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit adjusted effective interest rate. In subsequent period any changes to the estimated lifetime ECL are recognised in the income statement. Favourable changes are recognised as an impairment gain even if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

2.3.4 Cash, cash balances with central banks and other demand deposits

Cash comprises cash on hand and demand deposits, e.g. cheques, petty cash and central bank balances as well as other bank balances. For the purposes of reporting cash flows, cash and cash equivalents comprise balances with an original maturity less than 90 days, including cash, balances due from banks and balances with the Hungarian National Bank (including obligatory reserves) decreased with deposits from banks repayable on demand.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.5 Financial liabilities

Financial instruments or their component parts are classified as liabilities or as equity in accordance with the substance of the contractual arrangements on initial recognition and the definitions of financial liabilities and equity instruments. A financial instrument is classified as a liability if:

- the Group has a contractual obligation to deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that are potentially unfavourable to the Group; or
- the Group has a contractual obligation to settle the financial instrument in a variable number of its own equity instruments.

A financial instrument is classified as an equity instrument if both of the conditions are not met and in that case is covered under the section “Equity”.

2.3.5.1 Financial liabilities – recognition and derecognition

The Group recognises a financial liability when it becomes a party to the contractual provisions of the instrument which is typically the date when the consideration received in the form of cash or other financial asset has been received. At initial recognition the financial liability is recognised at fair value and less transaction costs that are directly attributable to its issuance, except for financial liabilities at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The Group can also derecognise the financial liability and recognise a new one when there is an exchange between the Group and the lenders of the financial liability with substantially different terms, as well as substantial modifications of the terms of the existing financial liabilities. In assessing whether terms are different, the Group compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then the Group derecognises the original financial liabilities and recognises a new one. When the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Financial liabilities held for trading

Held-for-trading liabilities are those incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking.
Trading liabilities can include derivative liabilities, short positions in debt and equity instruments, term deposits and debt certificates. In connection with derivative liabilities the Group makes similarly distinction between trading and hedging derivatives as in case for derivative assets.
Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting date, trading liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.

NOTE 2 – ACCOUNTING POLICIES (continued)

Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss

IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in profit or loss except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by the Group for the following reasons:

- the Group designates a financial liability or group of financial liabilities at fair value when these are managed and their performance are evaluated on a fair value basis.
- Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value. This results that both the embedded derivative and the host contract are measured at fair value. The Group uses this option when, for example, structured products contain non closely related embedded derivatives, in which case both the host contract and the embedded derivative are measured at fair value.

Financial liabilities measured at amortised cost

The Group classifies most of its financial liabilities under this category, also those used to fund trading activities, when the trading intent is not present in the financial liabilities (e.g.: issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments and plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued, but not yet paid, are recorded under accruals and deferrals.

2.3.5.2 Financial liabilities – own credit risk

For financial liabilities designated at fair value, IFRS 9 requires measuring the financial liability on initial recognition at fair value. Thereafter fair value changes are recognized in the income statement, except for fair value changes related to the changes in own credit risk which are presented separately in OCI.

Accordingly, the fair value movement of the liability is presented in different parts: changes in own credit risk are presented in OCI and all other fair value changes are presented in the income statement under the line item "Net result from financial instruments at fair value through profit or loss". The amounts recognized in OCI relating to the own credit risk are not recycled to the income statement even when the liability is derecognized and the amounts are realized. Although recycling is prohibited, the Group transfers the amounts in OCI to other reserves within equity at derecognition. The only situation when the presentation of the own credit risk in OCI is not applied when this would create an accounting mismatch in the income statement.

2.3.5.3 Financial liability – financial guarantee contract

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Such a contract is initially recognised at fair value and is subsequently measured at the higher of

- the amount determined in accordance with impairment provisions of IFRS 9 (see section "Financial Assets – Impairment") and
- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.6 Offsetting

The Group offsets and presents only a net amount in the consolidated statement of financial position of a financial asset and financial liability when and only when it has currently a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.3.7 Hedge accounting

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.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed regularly. The frequency is defined in the hedging document. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Fair value micro hedging: In relation to fair value hedges which meet the conditions for hedge accounting, any gains or losses from the changes in fair value of the derivative are recognized immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. Accrued interest income from interest rate swaps is recognized in net interest and similar income. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. Any adjustment up to the point of discontinuation that is made to a hedged item for which the effective interest method is used is amortised to the income statement over its remaining life or recognized directly when the hedged item is derecognized.

Fair value macro hedging: a group of derivatives can be viewed in combination and jointly designated as a hedging instrument. The Group uses interest rate swaps to hedge the interest rate risk for a portfolio of financial instruments (loans, deposits, securities). Interest rate swaps are measured at fair value, with fair-value changes being reported in the income statement. Accrued interest income from interest rate swaps is recognized in net interest and similar income. The hedged amount of loans is measured in fair value as well, with fair value changes being reported in the income statement. If a hedge is ineffective, the cumulative fair value change in the hedged amount will be amortised to the income statement over the remaining lifetime of the hedged assets or will be immediately removed from the statement of financial position if ineffectiveness is due to derecognition of the corresponding loans.

Cash flow hedges: 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 in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of a derivative is immediately recognized in the income statement. The amount recognized in OCI is reclassified to the income statement as a reclassification adjustment in the same period as the hedged cash flows affect the income statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, the cumulative gain or loss on a cash flow hedge recognized in the other comprehensive income remains in the other comprehensive income until the forecasted transaction occurs, when it is then transferred to the income statement for the period.

NOTE 2 – ACCOUNTING POLICIES (continued)

For hedges which do not qualify for hedge accounting and trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

2.3.8 Leasing

This classification is crucial for lessor positions; for lessee positions, this classification is of lesser importance since both classifications result in a similar recognition and measurement of the lease in the statement of financial position and profit or loss.

2.3.8.1 The Group, as a lessee

On initial recognition the Group recognises a right-of-use (ROU) asset and a lease liability which are both measured - in most cases - at the present value of the lease payments. The ROU asset will be recognized in the Group's statement of financial position similarly as to where the leased assets would be recognized if it were subject to a finance lease. The lease liability will be recognized as "Financial liabilities at amortised cost – other liabilities".

The ROU asset is measured at cost, less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. The depreciation requirements follow IAS 16, the impairment requirements follow IAS 36. The lessee shall depreciate the right-of-use asset 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 Group recognises a financial cost on the lease. The cost represents the unwinding of the discount rate of the lease. The Group uses the incremental borrowing rate for discounting the lease payments when and if the rate implicit in the lease is not readily determinable.

The lease term is determined as the non-cancellable period of the lease, taking into account the periods covered by an option to extend or terminate the lease. For assessing these options, the Group uses all economic facts and circumstances, including the factors listed in IFRS 16 B37 to determine the lease term.

The lease liability is remeasured when there is a lease modification or a reassessment such as an indexation of the rent payment or at the reassessment of the lease term. The lease liability shall be remeasured using a revised discount rate, whereby the revised rate is determined at the date of the remeasurement in case of a change in the lease term. The remeasurement shall occur when there are changes to the lease term or in case of other reassessments. The lease liability shall be remeasured using an unchanged discount rate when there are change in index or rate affecting payments.

The Group opts to apply the following practical expedients foreseen in the standard: the Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics ('portfolio approach'). The Group applies the recognition exemption for both leases with a low value (< 5.000 EUR recalculated at current HUF exchange rate) and short-term leases (< 12 months). The Group does not recognise contracts of intangibles as leasing agreement.

IFRS 16 requires that an lease should be recorded in the lessee's balance sheet both as an asset and as an obligation to pay future rentals. The derecognition requirements for finance lease liabilities are based on IFRS 9 rules. At the commencement of the lease term, the sum to be recognised both as an asset and as a liability is the present value of the minimum lease payments each determined at the inception of the lease. In calculating the present value of the minimum lease payments, the discount factor is the lessee's incremental borrowing rate. Any initial direct costs of the lessee are added to the amount recognised as an asset.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.8.2 The Group, as a lessor

All leases need to be classified as either finance leases or operating leases. The classification under IFRS 16 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset.

The amount due from the lessee under a finance lease is recognised in the Group's statement of financial position as claims from customers at an amount equal to the Group's net investment in the lease in the financial statement line item of financial assets at amortised cost. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and income. The net investment in a lease is its gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is equal to the minimum lease payments plus any unguaranteed residual accruing to the lessor.

During the lease term, the net investment in the lease will represent the remaining minimum lease payments, less that part of the minimum lease payments that is attributable to future gross earnings (i.e. interest) and it will also include the unguaranteed residual value. The unguaranteed residual value, which is expected to be small in a finance lease (even in a property lease), represent the amount the lessor expects to recover from the value of the leased asset at the end of the lease term that is not guaranteed in any way by either the lessee or third parties.

The requirements on subsequent measurement are based on IFRS 16, but for the impairment and derecognition of finance lease assets IFRS 9 must be applied.

Assets subject to operating leases are included in premises and equipment in the statement of financial position and lease payments received are presented as income in the income statement. When the Group provides lease incentive to the lessee, the aggregate cost of incentives are treated as a reduction of rental income over the lease term.

In case of financing the purchase of a vehicle or other equipment, the main collateral is the vehicle or the other equipment, on which the Group has got the right to buy. When the contract is extraordinarily terminated the assets received in the debt settlement are measured at the lower of cost and net realisable value which is defined as the fair value of the vehicle or other equipment. If the carrying amount of the received asset differs from the value defined at the subsequent valuation of the asset then impairment is accounted for or the formerly booked impairment is fully or partially released.

2.3.9 Equity (Reserves)

Reserves in the consolidated financial statements of the Group contains the following:

- In Other Comprehensive Income
  - revaluation reserve of financial instruments measured through other comprehensive income, where the fair value changes of FVOCI financial instruments are recognised.
  - accumulated amount of financial liabilities designated at fair value through profit or loss that is attributable only to the own credit changes of the Group
  - hedging reserve, which is the gain or loss on the hedging instrument included in a cash flow hedge that is determined to be an effective hedge.
  - remeasurement of defined benefit plans: the actuarial gains and losses recognised as remeasurements of the net defined benefit (e.g. effect of change in yield curves applied for estimating or discounting, or changes in tax rates related to the benefit)
- Statutory risk reserve which is set aside as 10% of the profit calculated in accordance with Hungarian Accounting Regulations for use against future losses.
- Share premium which is the excess amount received by the Group over the par value of its shares at the time of capital increase.

2.3.10 Dividend on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.11 Share based payment transactions

A number of employees of the Group receive remuneration in the form of share-based payment transactions. They are granted share appreciation rights, which can only be settled in cash (“cash-settled transactions”). The cost of cash-settled transactions is measured at fair value at the grant date, using the KBC share price determining the fair value. The value of the share-based payment is expensed in the year of the remunerated performance considering the vesting period with recognition of a corresponding liability. The liability is valued at the closing price of the underlying share at the end of the period. The liability is released at the date of pay-out.

2.3.12 Investment property

Investment property is defined as a real estate property either built, purchased or acquired under a finance lease by the Group, which is held to earn rentals or capital appreciations rather than used by the Group for the supply of services or for administrative purposes.
The Group subsequently measures investment property at initial cost minus accumulated depreciation and impairment losses.
Depreciation is provided on a straight-line basis during the useful life of the asset. The useful life of investment property is generally 33 years, except if the consideration of certain special circumstances results different useful lifetime.

2.3.13 Property and equipment

Property and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period. An item of property and equipment is recognized as an asset only when it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

The Group considers movables as tangible asset only above HUF 100,000 initial cost. Items under this amount – including decorative elements, art works with low value – are accounted for as material cost.

Property and equipment is initially measured at cost. Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

After initial recognition subsequent cost can increase the carrying amount of an asset or can be recognized as a separate asset, if it is probable that future economic benefits associated with the asset will flow to the Group and the cost can be measured reliably. The carrying amount of replaced components are derecognized. Repairs and maintenance are charged to the income statement as incurred

In case of compound assets, main components of these can differ regarding the economic characteristics. In this case the initial cost is divided among main components. Useful life, residual value and depreciation method is determined individually for every main components.

The subsequent measurement of property and equipment is based on the cost model, i.e. property and equipment are carried at initial cost less accumulated depreciation and any accumulated impairment losses.

Every part of property and equipment, which represents significant value compared to the total initial cost of the asset is depreciated separately. Depreciation is calculated on a straight-line basis under the estimated useful life of the asset. Land, art works have unlimited useful lives, therefore are not depreciated.

NOTE 2 – ACCOUNTING POLICIES (continued)

The estimated useful lives of property and equipment are the following:

Land and buildings (including leasehold rights, and leasehold improvements)	10-50 years
Right-of-use assets (leases)	3-20 years
IT and office equipments (including system software)	3-7 years
Other	10-50 years

System software (operating systems) are initial software linked to the purchase of hardware, without whose installation the hardware will not function or operate. Such software regulates the internal operation of the computer and ensures communication with the configuration or the network, and thus includes operating systems, support software and compilers, therefore system software forms an integral part of related hardware.
Leasehold rights are mainly right-of-use assets in connection with IFRS 16 Leases standard. For further details see Note 2.3.8. Leasing.

The Group prepares reassessment for the useful lives and the residual values at least on a yearly basis.

2.3.14 Intangible assets

An intangible asset shall be recognised if, and only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets can have a finite or indefinite useful life. The Group owns intangible assets with finite useful life.

Intangible assets with finite lives are amortised over the useful economic life; the amortisation expense is recorded as operating expense in the income statement. The impairment assessment of intangible assets with finite lives is the same as tangible assets. Intangible assets with finite lives have no residual value, as the Group does not intend to dispose the intangible assets before their economic useful lives.

The subsequent measurement of intangible assets is based on the cost model i.e. are carried at initial cost less accumulated amortisation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis under the estimated useful life of the asset:

Standard software and other intangibles	5 years
Core banking software	8 years

On a discretionary basis the accounting policy leaves room to use an extended useful life estimation for selected core systems compared to the general rules explained above if it is economically justified.

Core banking systems are software handling back-end data processing applications for processing all transactions that have occurred during the day and posting updated data on account balances to the mainframe. Core systems typically include deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools.

The Group owns purchased trademarks, the depreciation is based on the useful life determined in the purchase agreement.

2.3.15 Impairment of non-financial assets

When the Group prepares consolidated financial statements it ensures that the carrying amount of the non-financial asset does not exceed the amount what could be obtained from either using or selling it (“recoverable amount”). Property and equipment, investment property and software are subject to the impairment review only when an objective evidence of impairment indicator exists. The Group reviews at least annually whether there are any indicators of impairment.

NOTE 2 – ACCOUNTING POLICIES (continued)

When an impairment indicator is present, or the impairment test of an asset must be prepared, the Group estimates the asset's recoverable amount. The recoverable amount is defined as the higher of fair value less cost to sell or the value in use, determined individually by assets, except if the economic benefits realized on the asset can not be separated from economic benefits realized on other assets or group of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.3.16 Contingent liabilities

In the ordinary course of its business, the Group enters into off-statement of financial position commitments such as guarantees, commitments to extend credit, letters of credit, warranties and transactions with financial instruments. These commitments are recorded in the consolidated financial statements if and when they become payable.

Taking into account that IFRS 9 and IAS 37 do not contain specific requirements related to the accounting treatment of commitments for issuing non-financial guarantees, the Group treats them in the same way as financial guarantees.

To determine the allowance for losses on contingent liabilities the Group uses the Expected Credit Loss model (ECL) (for details see Note 2.3.3 Financial assets – Impairment).

2.3.17 Provisions

Provisions are recognised at the reporting date if and only if there is a present obligation (legal or constructive) due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
When the timing effect is material, the amount recognised as a provision is the net present value of the best estimate. Any compensation that arises in relation to provisions for operational losses from claims and legal disputes regarding commercial activity are presented in other income / (expense) when they become virtually certain.
When it is virtually certain that another party will repay the expenditure of the provisions, the reimbursement is treated as a separate asset.

2.3.18 Revenue recognition

2.3.18.1 Net interest and similar income

Net Interest Income falls under the scope of IFRS 9. Interest income and expense are calculated and recognised based on the effective interest rate method, or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation. The effective interest includes fees considered to be part of the effective interest rate of a financial instrument (generally fees received as compensation for risk or origination fees). Prepayment fees are also presented as interest income.

Interest income calculated using effective interest method is presented as a separate line item on the face of the income statement. Interest income related to assets held for trading, mandatorily at fair value through profit or loss and hedging derivatives are presented in a separate line item as "other similar income".

Interest income and expenses from financial instruments are, with the exceptions described below classified as "Net Interest Income".

For financial assets measured at amortised cost or debt instruments measured at fair value through other comprehensive income, the calculation of the interest income depends on the stage of the asset used in the calculation of ECL. For assets that are in stage 1 and stage 2 the interest recognition is based on the gross carrying amount while for assets in stage 3 and POCI on the carrying amount . The gross carrying amount of a financial asset is defined as the amortised cost before adjusting for any loss allowance.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.18.2 Net fee and commission income

The Group presents the revenue of different transaction under this line item. Most of these fall under the scope of IFRS 15 Revenue from Contracts with Customers as they cover services and goods provided by the Group to its customers while certain transactions reported under Commitment credit are accounted for under IFRS 9. The revenue recognised on these transactions reflect the amount of consideration to which it expects to be entitled in exchange for transferring goods or service to the customers. For the recognition of revenue the Group needs to identify the contract and define what the promises are (performance obligations) in the transaction. Thereafter the transaction price is calculated and allocated to all performance obligations identified in the contract. Revenue is recognised only when the Group has satisfied the performance obligation.

The revenue from fiduciary and trading services falls under the scope of IFRS 15. These transactions are straightforward because the Group provides series of distinct services which is consumed by the customer simultaneously when the benefits are provided. The Group is remunerated after executed transactions or on a timely basis, the fee is determined as a fixed amount or a percentage. The fee arrangements do not include variable compensation and revenue is estimated and recognised straightforward. Due to the nature of the promises the Group recognises these revenues at that point in time or over time.

Commitment credit represents revenue on fees received from lending and financial leasing business that are not considered as part of the Effective Interest Rate and consequently, have to be recognised under the scope of IFRS 15, except for financial guarantees which are accounted for in accordance with IFRS 9. This includes typically credit-related fees like loan administration fees or fees charged as prepayment fees. The Group also recognises fees received for the issuance of guarantees, letters of credit, standby credit agreement and similar transactions. It also includes fees charged to companies with specific financing needs requiring integrated or highly complex structure. The terms applied by the Group on these revenue do not contain complex arrangements and relates to a certain percentage of the transaction and variability is limited. The terms of the provided services are straightforward and are recognised in general at the point when the actual service has been performed or transferred to the customer except for financial guarantees for which the received fees are treated as income and recognised in general over time until expiry of the guarantee.

Fee income also contains fees related to payment services whereby the Group charges the customer for different transactions linked with its current accounts, domestic or foreign payments, payment services through ATM, etc. These services are mainly completed when the actual transaction is executed therefore the relating consideration can be recognised directly at that point in time.

2.3.19 Employee benefits

2.3.19.1 Short-term employee benefits

Short−term employee benefits, such as salaries, paid absences, performance−based cash awards and social security costs are recognised over the period in which the employees provide the related services. The relating expenses are presented under the income statement as Staff expenses.

2.3.19.2 Post-employment benefits

A number of employees of the Group receive post-employment benefits in the form of defined benefit plans. The defined benefit plan belongs to post-employment benefits. The components of the benefit costs related to the program are recorded as follows in the consolidated financial statements:

- vested benefits and costs arising from the change of the program’s conditions as personal expenses in the income statement
- interest expenses related to the defined benefit plan as interest and similar expense in the income statement
- the revaluation of the defined benefit plan (e.g. impact of change of the curves used to the estimation and discount calculation or change of the tax rate related to the benefit) in other comprehensive income.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.20 Levies

Public authorities could impose different levies on the Group. The amount of the levies can be dependent on the amount of revenue (mainly interest) generated by the Group, on the amount of deposits accepted from customers, on the total balance sheet volume with corrections based on some specific ratio's. Levies are recognised, in accordance with IFRIC 21, when the obligating event that gives rise to the recognition of the liability, as stated in the relevant legislation, has occurred. Depending on the obligating event, levies can be recognised at one point or over time. The majority of the levies imposed on the Group have to be recognised at one point, which occurs mainly at the beginning of the financial year. The Group recognises the levies as part of Operating Expenses (See Note 2.5).

2.3.21 Income tax

Income tax consists of two elements: current year's taxes paid/payable and changes in deferred tax assets/liabilities. Income tax is accounted for either in the income statement or in the Other Comprehensive Income depending on where the items that triggered the tax are accounted for. Income taxes that are initially accounted for in the Other Comprehensive Income and that relate to gains/losses that are subsequently recognised in the income statement, are recycled in the income statement in the same period that the item is accounted for in the income statement.
Current taxation is provided for in accordance with the fiscal regulations of Hungary.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.
Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred and current tax assets and liabilities are offset only if the Group has a legally enforceable right to set off, and the Group intend to settle them on a net basis or to realize the assets and settle the liabilities simultaneously

2.3.22 Non-current assets held-for-sale and liabilities associated with disposal groups

Non-current assets or group of assets and liabilities held for sale are those for which the Group will recover the carrying amount from a sale transaction that is expected to qualify as a sale within a year, instead of through continuing use.

In line with IFRS 5 standard the Group presents an instrument as Non-current asset or disposal group classified as held-for-sale only if it is available for immediate sale in its present condition and the sale of the asset is highly probable.

NOTE 2 – ACCOUNTING POLICIES (continued)

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

Non-current assets held for sale and liabilities held for sale are reported separately from the other assets and liabilities in the consolidated statement of financial position at the end of the reporting date.

Non-current assets held for sale (disposals groups) are not depreciated but measured at the lower of their carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business
- or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale.

2.3.23 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not assets of the Group and accordingly are not included in these consolidated financial statements.

2.3.24 Operating segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

Segment information is disclosed only in the consolidated financial statements. Detailed disclosures are in Note 4.

2.3.25 Events after reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date that the consolidated financial statements are authorised for issue. There are two types of events after the reporting period:

- those which provide evidence of conditions that existed at the reporting date (adjusting events)
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the statement of financial position and performance of the current year.
The impact and consequences of the non-adjusting events are disclosed in the notes of the consolidated financial statements.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4 Changes in accounting policies

2.4.1 Adoption of new or revised standards and interpretations

The following amended standard became effective from 1 January 2023, but did not have any material impact on the Group:

- Amendments to IAS 8: Definition of Accounting Estimates - The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
  Effective from: 1 January 2023

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 - The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations.
  Effective from: 1 January 2023

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies - IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The Group reviewed its accounting policy disclosures during 2023 and applied the amended requirements in its 2023 financial statements.
  Effective from: 1 January 2023

- Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules
  Effective from: 1 January 2023

- IFRS 17 Insurance contracts - IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. Regarding the non-financial guarantees issued by the Bank, the Bank has performed an assessment and concluded the performance guarantees should be accounted for as loan guarantees even following the effective date of IFRS17
  Effective from: 1 January 2023

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4.2 New accounting pronouncements

The Group has not applied the following IASs, IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective. The Group will apply these standards when they become mandatory.

The list of standards and amendments:

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback
  Effective from: 1 January 2024

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 - The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.
  Effective from: 1 January 2024

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements
  Effective from: not yet endorsed by the EU

- Amendments to IAS 21 Lack of Exchangeability
  Effective from: not yet endorsed by the EU

Other than referred to above the Group does not expect any material impact on its financial reporting.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.5 Taxes and levies payable by financial institutions

Credit institutions and financial institutions are exposed to pay the so called "bank tax" introduced in 2010 in Hungary (see Note 13). The actual bank tax and its reversal (if any) are recorded as expense in the financial period in which it is legally payable. As the bank tax is payable based on non-net income measures it does not meet the definition of income tax under IFRS and is therefore presented as an operating expense in the income statement.

The IFRIC 21 Levies interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Based on the interpretation of IFRIC 21 the "bank tax" amount is recognized at the beginning of the year in a lump sum in the Group's Consolidated Financial Statements.

In addition to the regular "bank tax" extraordinary tax payment had to be made in 2020. As the additional "bank tax" is deductible in the next 5 years' regular tax obligation, it has no effect on the profit or loss, but it is reported as an outstanding claim in the statement of financial position.

In 2013 a tax called financial transaction levy (FTL) has been introduced. The FTL is payable based on specified type of transactions (including cash movements and money transfers). Subject of the levy are financial service providers (with seat or branch in Hungary). The FTL is recorded as part of general administrative expenses when the underlying business transaction occurs.

In the case of bankcard transactions the FTL is recognized at the beginning of the year in a lump sum, because the base of this levy is the bankcard numbers of the previous year that triggers the payment obligation of the levy at the beginning of the year.

The Investor Protection Fund (IPF) is established to provide indemnity to investors against property damages arising from the potential insolvency of investment service providers. Members make annual contribution payments to the IPF. Based on the interpretation of IFRIC 21 the amount is recognized at the beginning of the year in a lump sum in the Group's Consolidated Financial Statements.

The Resolution Fund was established in 2014 to shift the costs of crisis management in the financial sector to the members of the sector. The Fund is financed by credit institutions and investment firms from the annual fees paid by the members. According to IFRIC 21 the Group records the total annual fee at the beginning of the period.

2.6 Change in estimate

When preparing the financial statements and applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Some degree of uncertainty is inherent in almost all amounts reported. The estimates are based on the experience and assumptions that the Group's management believes are reasonable at the time the financial statements are being prepared.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are detailed in the relevant notes.

2.7 Presentation changes

Some of the notes in the consolidated financial statements were changed in comparison with the previous year's presentation to provide 'a reliable and more relevant information'. The changed categories are marked in the concerned notes.

NOTE 2 – ACCOUNTING POLICIES (continued)

Presentation of changes in impairments on financial assets at amortised cost

The presentation of impairments used for loans and advances sold has been changed in these financial statements retrospectively to better align with Finrep (Regulation (EU) No 680/2014 on Supervisory Reporting) requirements. Previously recorded impairments used for compensation of the realised losses from sale of loans and advances were shifted from ‘Decrease due to write-offs/sales’ into ‘Decrease due to derecognition’ in Note 24. The names of the columns were changed accordingly. For ensuring the reconciliation between Note 24 and the consolidated income statement, a new line was created to present the amounts included in ‘Decrease due to derecognition’ but having no impact on profit or loss. This information is embedded in the table summarizing the changes in impairments by stages and IFRS 7 asset classes.

NOTE 3 – FINANCIAL MORATORIUM

With the aim of mitigating the economic impact of the coronavirus, on 18 March 2020 a financial moratorium was announced for the retail and corporate debtors for principal, interest and fee payments which would become due until 31 December 2020 (Government decree of 47/2020 and 62/2020). The payment moratorium was automatic for all eligible debtors and loans (but the debtor had the right to opt-out from the payment moratorium).

In the subsequent period, the duration of the financial moratorium was prolonged in more steps:

- according to the government decree of 637/2020 (announced on 22 December 2020) the financial moratorium became available for another half year until 30 June 2021
- on 9 June 2021 the government announced the decree of 317/2021, in which the financial moratorium was prolonged until 30 September 2021 with unchanged conditions
- according to the government decree of 536/2021 (as of 15 September 2021) the government announced the following decisions:
    - the financial moratorium was extended with another 1 month until 31 October 2021 (with unchanged eligibility criteria)
    - as from November 2021 until 30 June 2022 the following new rules are applicable for the financial moratorium:
        - participation in the moratorium is not automatic for all eligible debtors, the client has to submit an application to the bank (opt-in scheme)
        - eligibility criteria for retail debtors: pensioners, families (with children up to 25 years of age), publicly employed, unemployed people or private persons whose income persistently decreased; corporate debtors: revenue decreased by 25% in the last 18 months (for more details see government decree).
- The government decree of 537/2021 (announced on 15 September 2021) introduced an interest rate settlement rule for credit card and overdraft type exposures under moratorium (both prospectively and retrospectively from the beginning of the moratorium). The interest rate applicable for the settlement was the average rate for personal loans in February 2020 according to the statistical publications of the Magyar Nemzeti Bank.
- In June 2022, the government has extended the existing moratorium until 31 July (the extension was automatically applicable for all debtors in the moratorium). As from 1 August, only those who apply to their bank by 31 July was able to remain in the extended phase of the moratorium until 31 December 2022 (2nd opt-in-scheme).
- The government decree of 292/2022 introduced a credit moratorium on investment and working capital loans for the agricultural sector until the end of 2023 (eligible participants were able to decide whether or not to exercise the option).

The moratorium did not result in debt forgiveness: the unpaid interest and fee accumulated during the moratorium shall be redeemed after the moratorium in equal annual parts during the extended remaining tenor of the loan together with the due principal instalments. The tenor of the loan will be prolonged in a way that the debtor’s new instalment covering the deferred interest and fee as well next to the due capital shall not exceed the instalment determined in the original payment schedule. Although the debtors shall redeem all deferred payment obligations accumulated during the moratorium, as no interest can be charged on the unpaid interest the Group recognized a negative P&L impact arising from the time value of the payment deferral.

As an additional measure, the government decree of 782/2021 introduced an interest rate cap for short term repricing retail mortgage loans with floating interests (where interest rates are repriced between 27 October 2021 and 30 June 2022). In case of these loans the reference rates used as a basis for determining the interest rate at repricing cannot exceed the relevant reference rate as of 27 October 2021 for the period between 1 January 2022 and 30 June 2022. In 2022 the interest rate cap legislation was prolonged in more steps until 30 June 2023. Additionally, the scope of eligibility for the interest cap legislation was also extended:

- according to the government decree of 390/2022 (14 October) from 1 November 2022, the interest cap regulation is applicable also for borrowers with 3 and 5-year mortgages at market interest rates.
- the government decree of 415/2022 (26 October) extended the scope for the SME sector. In case of non state subsidized loans with variable rates the reference rate which will be used to determine the contractual interest rate shall be not higher than the reference rate on 28 June 2022 for the period from 15 November 2022 until 30 June 2023.

NOTE 3 – FINANCIAL MORATORIUM (continued)

In 2023 the interest rate cap was further prolonged:

- the government decree of 175/2023 (12 May) extended the interest rate cap for additional six months (until 31 December 2023)
- as of 30 November 2023, the government announced (government decree of 522/2023) a further prolongation with unchanged conditions (SMEs: until 1 April 2024, mortgage borrowers: until 30 June 2024).

The estimated negative impact of the above measures (HUF 11 063 million loss in 2023, HUF 24 223 million loss in 2022) is recognized as a modification to the gross carrying amount of the related loans in the Group's consolidated statement of financial position and as modification losses on financial assets at amortized cost in the Group's consolidated income statement.

The following table presents the Group's loan portfolio under moratorium as at 31 December 2023.

	Gross carrying amount		Accumulated impairment			
	Performing	Non-performing	Performing	Non-performing	Total carrying amount	Proportion of loans in moratorium
	MHUF	MHUF	MHUF	MHUF	MHUF	%
Loans and advances* at 31 December 2023						
Corporate	43 931	1 254	(163)	(150)	44 872	3.39
of which: Small and Medium enterprises	41 775	1 254	(147)	(150)	42 732	5.38
Households	3 496	-	(42)	-	3 454	0.45
Current account	16	-	(2)	-	14	0.19
Finance lease	53	-	(2)	-	51	2.63
Term loan	3 427	-	(38)	-	3 389	17.21
Total	47 427	1 254	(205)	(150)	48 326	3.84

The following table presents the Group's loan portfolio under moratorium as at 31 December 2022.

	Gross carrying amount		Accumulated impairment			
	Performing	Non-performing	Performing	Non-performing	Total carrying amount	Proportion of loans in moratorium
	MHUF	MHUF	MHUF	MHUF	MHUF	%
Loans and advances* at 31 December 2022						
Corporate	48 367	3 869	(374)	(1 586)	50 276	4.24
of which: Small and Medium enterprises	44 793	3 866	(354)	(1 585)	46 720	6.40
Households	3 589	18 897	(37)	(5 506)	16 943	2.29
Consumer credit	6	4 608	-	(1 936)	2 678	2.57
Credit card	-	72	-	(34)	38	0.64
Current account	15	131	(8)	(75)	63	0.70
Finance lease	52	-	(3)	-	49	2.27
Mortgage loan	3	14 077	-	(3 457)	10 623	1.77
Term loan	3 513	9	(26)	(4)	3 492	17.60
Total	51 956	22 766	(411)	(7 092)	67 219	6.52

NOTE 3 – FINANCIAL MORATORIUM (continued)

* The tables includes the net carrying amount of loans and advances at amortised cost. In 2022 the table includes also the net carrying amount of loans and advances mandatorily at fair value through profit or loss.

The fair value of loans and advances at fair value through profit or loss (presented as consumer credit and mortgage loan) amounted to HUF 1 520 million in 2022.

NOTE 4 – SEGMENT INFORMATION

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Definitions of customer segments:

Retail: private individuals, entrepreneurs and companies with an annual turnover of less than HUF 300 million. Services provided: loans and financing products, deposits and other savings products, transactional services, lease services, etc.

Corporate: companies with an annual turnover of higher than HUF 300 million, municipalities and related companies, structured and project financing, and institutions in the financial sector. Services: loans and other credit facilities, deposits and transactional services, lease services, etc.

Markets: Market services include active market position and risk taking activities in the Bank's trading books.

General Management: consists of items which are not directly attributable to the business activity of the above defined segments (these include e.g. the result of tax and commercial litigations (see Note 32), result of strategic investments and asset-liability management, fair value changes recognised under IFRS on derivatives used for hedging purposes that do not qualify for hedge accounting).

The Group only operates in Hungary (therefore the geographical breakdown of revenues from external customers is less relevant).

All investments in associates, deferred tax assets, property and equipment and intangible assets (including capital expenditures) are shown in “General management” segment

NOTE 4 – SEGMENT INFORMATION (continued)

Segment reporting information by customer segments for 2023:

	Retail	Corporate	Markets	General management	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Net interest income / (expense)	75 040	83 725	180	37 812	196 757
Net interest income calculated using the effective interest method	60 126	78 664	(155)	147 515	286 150
Net other similar income / (expense)	14 914	5 061	335	(109 703)	(89 393)
Net fee and commission income / (expense)	57 466	32 021	750	(992)	89 245
Investment services	12 108	215	750	(931)	12 142
Trust and fiduciary activities	1 146	1 877	-	268	3 291
Credit and guarantee fee income	1 369	6 869	-	25	8 263
Structured Finance	-	35	-	-	35
Payment services	41 959	32 856	-	(8)	74 807
Card services	16 311	1 126	-	-	17 437
Other	6 280	125	-	4	6 409
Fee and commission income	79 173	43 103	750	(642)	122 384
Investment services	(207)	(165)	-	(284)	(656)
Credit and guarantee fee expense	(1 743)	(5 369)	-	104	(7 008)
Commissions to agents	(1 061)	(4)	-	(8)	(1 073)
Structured Finance	(5)	(73)	-	(10)	(88)
Payment services	(3 100)	(4 667)	-	(214)	(7 981)
Card services	(8 213)	(583)	-	-	(8 796)
Insurance services	(5 030)	(158)	-	-	(5 188)
Other	(2 348)	(63)	-	62	(2 349)
Fee and commission expense	(21 707)	(11 082)	-	(350)	(33 139)
Net gains from financial instruments at fair value through profit or loss and Foreign exchange differences	10 129	13 541	16 795	(5 149)	35 316
Net realised gains / (losses) from financial assets at fair value through other comprehensive income	38	58	-	(547)	(451)
Dividend income	-	-	-	10	10
Other net income / (expense)	(767)	106	-	1 643	982
Gains on the disposal on held for sale instruments	-	-	-	-	-
Gain on the disposal of debt instruments at amortised cost	(285)		-	564	279
Total income / (expense)	141 621	129 451	17 725	33 341	322 138
Operating expenses	(117 196)	(57 534)	(3 625)	(3 852)	(182 207)
Impairment	8 470	(3 809)	-	(5 984)	(1 323)
Modification losses on financial assets at amortized cost	(9 745)	(1 318)	-	-	(11 063)
Gain on divestment	-	-	-	-	-
Profit / (loss) before tax	23 150	66 790	14 100	23 505	127 545
Income tax benefit / (expense)	(5 055)	(8 067)	(1 609)	(3 915)	(18 646)
Segment profit / (loss)	18 095	58 723	12 491	19 590	108 899
Total assets	1 172 170	1 733 679	73 760	2 626 859	5 606 468
Total liabilities and equity	1 929 648	2 291 464	81 006	1 304 350	5 606 468

NOTE 4 – SEGMENT INFORMATION (continued)

Segment reporting information by customer segments for 2022:

	Retail MHUF	Corporate MHUF	Markets MHUF	General management MHUF	Total MHUF
Net interest income / (expense)	70 203	61 513	997	29 686	162 399
Net interest income calculated using the effective interest method	60 424	58 521	585	105 023	224 553
Net other similar income / (expense)	9 779	2 992	412	(75 337)	(62 154)
Net fee and commission income / (expense)	51 589	29 622	555	(1 207)	80 559
Investment services	9 423	210	551	(707)	9 477
Trust and fiduciary activities	937	1 550	4	86	2 577
Credit and guarantee fee income	1 680	4 958	-	97	6 735
Structured Finance	-	39	-	-	39
Payment services	37 714	29 480	-	(10)	67 184
Card services	14 389	1 109	-	1	15 499
Other	5 311	99	-	16	5 426
Fee and commission income	69 454	37 445	555	(517)	106 937
Investment services	(339)	(103)	-	(262)	(704)
Credit and guarantee fee expense	(1 503)	(3 255)	-	(105)	(4 864)
Commissions to agents	(1 227)	(4)	-	(72)	(1 303)
Structured Finance	-	0	-	-	0
Payment services	(2 541)	(3 873)	-	(265)	(6 679)
Card services	(6 711)	(509)	-	38	(7 182)
Insurance services	(4 556)	(40)	-	-	(4 596)
Other	(988)	(38)	-	(24)	(1 050)
Fee and commission expense	(17 865)	(7 823)	-	(690)	(26 378)
Net gains from financial instruments at fair value through profit or loss and Foreign exchange differences	7 445	12 625	27 292	(5 060)	42 302
Net realised gains / (losses) from financial assets at fair value through other comprehensive income	8	39	-	(2 095)	(2 048)
Dividend income	-	-	-	14	14
Other net income / (expense)	(39)	(24)	-	1 989	1 926
Gains on the disposal on held for sale instruments	-	-	-	15	15
Gain on the disposal of debt instruments at amortised cost	486	(14)	-	(605)	(133)
Total income / (expense)	129 692	103 761	28 844	22 737	285 034
Operating expenses	(109 320)	(49 590)	(2 844)	(3 733)	(165 487)
Impairment	(9 264)	(2 796)	-	(2 094)	(14 154)
Modification losses on financial assets at amortized cost	(16 746)	(7 477)	-	-	(24 223)
Gain on divestment	-	-	-	-	-
Profit / (loss) before tax	(5 638)	43 898	26 000	16 910	81 170
Income tax benefit / (expense)	(2 162)	(5 121)	(2 621)	(3 651)	(13 555)
Segment profit / (loss)	(7 800)	38 777	23 379	13 259	67 615
Total assets	1 119 361	1 531 657	204 387	2 731 290	5 586 695
Total liabilities and equity	2 046 566	2 101 125	218 508	1 220 496	5 586 695

NOTE 5 – NET INTEREST AND SIMILAR INCOME

	2023 MHUF	2022 MHUF
Financial assets at amortised cost	398 029	276 956
Financial assets at fair value through other comprehensive income	13 586	1 512
Positive interest on financial liabilities	146	416
Interest income calculated using the effective interest method	411 761	278 884
Financial assets held for trading	335	412
Financial assets mandatorily fair value through profit or loss other than held for trading	19 975	12 771
Asset/liability management derivatives	50 232	26 339
Hedging derivatives	94 278	35 600
Interest and similar income from lease	5 553	3 882
Other similar income	170 373	79 004
Total interest and similar income	582 134	357 888
Financial liabilities measured at amortised cost	(125 448)	(53 707)
Negative interest on financial assets	(163)	(624)
Interest expense calculated using the effective interest method	(125 611)	(54 331)
Asset/liability management derivatives	(104 654)	(68 354)
Hedging derivatives	(151 165)	(71 790)
Other financial liabilities at fair value through profit or loss	(3 775)	(868)
Interest and similar expense of defined benefit plans	(20)	(15)
Interest and similar expense from lease	(152)	(131)
Other similar expense	(259 766)	(141 158)
Total interest and similar expense	(385 377)	(195 489)
Net interest and similar income	196 757	162 399

The Group recorded HUF 323 million interest income (unwinding discount effect) on impaired assets in 2023 (HUF 201 million in 2022).

NOTE 6 – NET FEE AND COMMISSION INCOME

	2023 MHUF	2022 MHUF
Credit and guarantee fee income	8 263	6 735
Structured finance	35	39
Total fee income related to financial instruments not at fair value through profit or loss	8 298	6 774
Investment services	12 142	9 477
Trust and fiduciary activities	3 291	2 577
Payment services	74 807	67 184
Card services	17 437	15 499
Other	6 409	5 426
Fee and commission income	122 384	106 937
Investment services	(656)	(704)
Credit and guarantee fee expense	(7 096)	(4 864)
Commissions to agents	(1 073)	(1 303)
Payment transactions	(7 981)	(6 679)
Card services	(8 796)	(7 182)
Insurance commissions	(5 188)	(4 596)
Other	(2 349)	(1 050)
Fee and commission expense	(33 139)	(26 378)
Net fee and commission income	89 245	80 559

Front-end fees related to financial assets at amortised cost (loans and receivables) are part of the effective interest rate method calculation and are recorded as interest income or expenses over the life of the underlying asset.

Although the Group is in the scope of IFRS 15, the disclosures prescribed by the standard are not presented due to immateriality.

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 MHUF	2022 MHUF
Trading securities	662	595
Interest rate derivatives (including interest and fair value changes in trading derivatives)	(39 708)	18 094
Other financial liabilities designated at fair value through profit or loss	133	7
Mandatorily at fair value through profit or loss other than held for trading	52 530	2 681
Foreign exchange trading (including interest and fair value changes in trading foreign exchange derivatives)	8 250	901
Fair value adjustments in hedge accounting*	(99)	(51)
Net gains / (losses) from financial instruments at fair value through profit or loss	21 768	22 227

The change in the fair value of financial instruments at fair value through profit or loss, where the fair value calculation is based on non-observable parameters was HUF 36 647 million gain in 2023 (HUF 23 538 million loss in 2022).

*Results of cash flow hedge derivatives transferred from Consolidated other comprehensive income to the Consolidated income statement amounted to HUF 99 million loss in 2023 (HUF 51 million loss in 2022). No result was recorded as the unrealised revaluation of the ineffective cash flow hedge transactions in 2023 (nor in 2022).

NOTE 8 – NET REALISED GAINS / (LOSSES) FROM SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 MHUF	2022 MHUF
Hungarian government bonds	(451)	(2 048)
Net realised gains / (loss)	(451)	(2 048)

In 2022 the Group converted a part of its Visa Inc. C series preferred shares into A series since Visa Inc. plan to revoke the C series. In 2022 the Group sold the converted shares. Due to the disposal a gain of HUF 1 077 million was transferred from revaluation reserve of equity instruments to accumulated profit in 2022. (See consolidated statement of changes in equity.)

NOTE 9 – DIVIDEND INCOME

The Group recognised HUF 10 million dividend income in 2023 (HUF 14 million in 2022). The dividend was paid by VISA Inc..

NOTE 10 – GAINS / (LOSSES) ON THE DISPOSAL OF ASSETS AT AMORTISED COST

	2023 MHUF	2022 MHUF
Loss on the disposal of debt securities	(1 244)	(605)
Gain on the disposal of loans and advances	1 523	472
(Loss) / Gain on the disposal of assets at amortised cost	279	(133)

The disposals were not in contradiction with the concerned business model.

NOTE 11 – OTHER INCOME AND EXPENSE

	2023 MHUF	2022 MHUF
Gain on property and equipment	657	936
Gain on sale of goods	244	206
Gain on other services	1 012	984
Recoveries related to operational risks	95	70
Other income – other	472	661
Other income	2 480	2 857

Majority of the income of HUF 1 012 million reported as gain on other services in 2023 (HUF 984 million 2022) results from finance and accounting, business management, technical, logistic and bank security services granted by the Group to other KBC Group entities operating in Hungary, but not included in the consolidation.

	2023 MHUF	2022 MHUF
Losses on property and equipment	(2)	(7)
Losses due to operational risks	(1 289)	(650)
Other expense – other	(207)	(274)
Other expense	(1 498)	(931)

NOTE 12 – GENERAL ADMINISTRATIVE EXPENSES

	2023 MHUF	2022 MHUF
IT expenses	(22 664)	(16 485)
Rental expenses	89	240
Repair and maintenance	(2 388)	(2 194)
Marketing expenses	(2 628)	(2 155)
Professional fees	(2 768)	(3 361)
Other facilities expenses	(5 796)	(4 510)
Communication expenses	(27)	(25)
Travel expenses	(56)	(38)
Training expenses	(601)	(490)
Personnel related expenses	(279)	(257)
Financial transaction levy	(40 823)	(36 837)
Other administrative expenses	(4 200)	(12 227)
Other provision	(46)	(146)
Total general administrative expenses	(82 187)	(78 485)

NOTE 13 – BANK TAX

The Group paid a bank tax of HUF 42 947 million in 2023 (HUF 33 638 million in 2022). The basis and the tax rate of the tax payable by financial institutions can differ per group members, dependent on their activities.
The tables below present the details of the bank tax paid by the group members in 2023 and 2022.

2023	Activity	Tax base MHUF	Tax rate* %	Tax MHUF
Group members:				
K&H Bank Zrt.	Credit institution	4 737 532	0.199	9 450
K&H Bank Zrt. (extraprofit tax)	Credit institution	230 858	14.397	33 236
K&H Faktor Zrt.	Other financial services	620	6.452	40
K&H Faktor Zrt. (extraprofit tax)	Other financial services	684	10.088	69
K&H Ingatlanlízing Zrt.	Finance lease	172	6.395	11
K&H Ingatlanlízing Zrt. (extra profit tax)	Finance lease	213	10.329	22
K&H Jelzálogbank Zrt.	Credit institution	8 949	0.145	13
K&H Jelzálogbank Zrt. (extraprofit tax)	Credit institution	1 060	10.000	106
Total		4 980 088	0.862	42 947

2022	Activity	Tax base MHUF	Tax rate* %	Tax MHUF
Group members:				
K&H Bank Zrt.	Credit institution	4 019 772	0.199	8 015
K&H Bank Zrt. (extraprofit tax)	Credit institution	255 070	10.000	25 507
K&H Faktor Zrt.	Other financial services	513	6.433	33
K&H Ingatlanlízing Zrt.	Finance lease	171	6.433	11
K&H Jelzálogbank Zrt.	Credit institution	2 428	0.165	4
K&H Jelzálogbank Zrt. (extraprofit tax)	Credit institution	680	10.000	68
Total		4 278 634	0.786	33 638

*Effective rate

NOTE 13 – BANK TAX (continued)

The bank tax payable by the Group members for the year 2023 is calculated as follows.

For credit institutions the tax base includes the total asset value as at 31 December 2021, less:

- Hungarian interbank loan receivables, including bank deposits and repo transactions;
- bonds and shares issued by Hungarian credit institutions, financial enterprises and investment enterprises;
- loan receivables, subordinated and supplementary subordinated loan receivables with respect to capital provided to Hungarian financial enterprises and investment enterprises (including receivables under repos, collateralized repos, repos settled in kind);
- receivables deriving from EU inter-bank credits, bonds and shares issued by other credit institutions.

In 2022 the tax base of credit institutions was the total asset value as at 31 December 2020 adjusted by the above mentioned decreasing items.

The bank tax for credit institutions is payable at 0.15% on tax base below HUF 50 000 million and 0.20% on tax base above HUF 50 000 million in 2023 (0.15% and 0.20% in 2022).

K&H Faktor Zrt. and K&H Ingatlanlízing Zrt. pays a bank tax of 6.5% calculated on total net interest and fee income presented in the annual financial statements prepared for the second financial year preceding the tax year.

The bank tax for the Group is expected to be HUF 10 878 million in 2024. The increase of the bank tax expected in 2024 is caused by the change of the total asset value. In 2024 the tax base of credit institutions is the total asset value as at 31 December 2022 adjusted by the above mentioned decreasing items.

For the Bank the liability of HUF 10 878 million is established on January 1, 2024.

In 2022-2024, the financial institution sector is obliged to pay a special tax (the so called extraprofit tax).

In 2023, the tax base consisted of two parts. One part is based on the adjusted total income (tax base of local business tax) for the business year preceding the tax year with a tax rate of 8%. The other part of the tax base was the adjusted profit before taxation, the tax rate was 13% for a tax base below HUF 10 000 million and 30% for more than HUF 10 000 million.

In 2024, the tax base is the adjusted pre-tax profit, where the tax rate is 13% for a tax base below HUF 20 000 million and 30% above HUF 20 000 million. The tax for 2024 can be reduced (by maximum 50%) via increasing the stock of government securities. In 2023, the Group paid HUF 33 433 million in additional tax. The Group's additional tax is expected to be HUF 20 954 million in 2024.

NOTE 14 – AVERAGE NUMBER OF PERSONNEL AND STAFF EXPENSES

	2023	2022
White-collar staff	3 263	3 179
Blue-collar staff	16	18
Management	47	47
Total average number of persons employed	3 326	3 244

	2023 MHUF	2022 MHUF
Wages and salaries	31 528	29 186
Social security charges	5 621	5 065
Defined benefit plan	(2)	(19)
Share based payments	140	51
Other staff expenses	3 298	3 255
Total staff expenses	40 585	37 538

NOTE 15 – INCOME TAXES

The components of income tax expense for the year ended 31 December 2023 and 2022 are:

	Notes	2023 MHUF	2022 MHUF
Statutory income tax expense		(10 777)	(6 716)
Statutory income tax from self-revision of prior years		4	199
Local business tax expense		(8 342)	(7 235)
Deferred taxes on income / (expense)	27	469	197
Income tax expense		(18 646)	(13 555)

Statutory income tax expense

In 2023 and 2022 corporate income tax was payable at 9% on yearly profits.

Considered their non-turnover characteristics, local business taxes are presented as an income tax expense for IFRS purposes. Local business taxes include local government tax and innovation tax.

There is no procedure for final agreement of tax assessments in Hungary. The tax authorities may examine the accounting records and revise assessments for up to six years after the period to which they relate. Consequently, the Group may be subject to further assessments in the event of an audit by the tax authorities. The corporate tax returns for the Bank have been reviewed and closed off by the taxation authorities for the years up to 2017. Management is not aware of any additional significant non-accrued potential tax liability which might arise relating to years not audited by the tax authorities.

NOTE 15 – INCOME TAXES (continued)

The effective income tax rate varied from the statutory income tax rate due to the following items:

	2023 MHUF	2022 MHUF
Profit / (loss) before tax	127 545	81 170
Income tax rate	9.00%	9,00%
Income tax calculated	(11 479)	(7 305)
Plus/minus tax effects attributable to:		
Tax base decreasing items	1 193	873
Adjustments related to prior years	4	199
Unrecognised tax credit used to reduce current tax expense	19	7
Local taxes and investment services tax	(8 342)	(7 235)
Tax base increasing items	(41)	(93)
Other	-	(1)
Total tax effects	(7 167)	(6 250)
Income tax expense (income tax calculated + total tax effects)	(18 646)	(13 555)

The effective income tax rate for 2023 is 14.62% (2022: 16.70%).

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY PORTFOLIO AND PRODUCT

	Held for trading	Mandatorily fair value through profit or loss	At fair value through other comprehensive income	At amortised cost*	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets at 31 December 2023						
Securities	320	-	163 882	881 009	-	1 045 211
Loans and advances	-	330 460	-	3 811 279	-	4 141 739
Derivatives	73 440	-	-	-	129 857	203 297
Total	73 760	330 460	163 882	4 692 288	129 857	5 390 247

	Held for trading	Mandatorily fair value through profit or loss	At fair value through other comprehensive income	At amortised cost*	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets at 31 December 2022						
Securities	11 322	-	36 622	922 719	-	970 663
Loans and advances	-	272 012	-	3 878 204	-	4 150 216
Derivatives	193 065	-	-	-	206 383	399 448
Total	204 387	272 012	36 622	4 800 923	206 383	5 520 327

*Including cash balance with central banks and other demand deposits to credit institutions.

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

	Held for trading	Designated at fair value through profit or loss	Hedging derivatives	Measured at amortised cost	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities as at 31 December 2023					
Deposits from central banks	-	-	-	180 892	180 892
Deposits from credit institutions and investment firms*	-	-	-	667 415	667 415
Deposits from customers and debt certificates	-	58 541	-	3 879 271	3 937 812
Deposits from customers	-	58 541	-	3 656 299	3 714 840
Demand deposits	-		-	2 600 426	2 600 426
Term deposits	-	58 541	-	812 314	870 855
Savings deposits	-	-	-	243 559	243 559
Debt certificates	-	-	-	222 972	222 972
Certificates of deposits	-	-	-	230	230
Issued mortgage bonds	-	-	-	174 101	174 101
Non-convertible subordinated liabilities	-	-	-	48 641	48 641
Derivatives	72 480	-	123 263	-	195 743
Other	-	-	-	13 399	13 399
Total carrying value	72 480	58 541	123 263	4 740 977	4 995 261

*Of which HUF 41 670 million is deposits from banks repayable on demand.

Deposits from credit institutions and investment firms includes repo transactions of HUF 42 489 million.

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Other includes a HUF 12 601 million financial lease liability (HUF 15 070 million in 2022) (see Note 37).

	Held for trading	Designated at fair value through profit or loss	Hedging derivatives	Measured at amortised cost	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities as at 31 December 2022					
Deposits from central banks	-	-	-	256 466	256 466
Deposits from credit institutions and investment firms*	-	-	-	522 228	522 228
Deposits from customers and debt certificates	-	13 597	-	4 046 940	4 060 537
Deposits from customers	-	13 597	-	3 807 965	3 821 562
Demand deposits	-		-	2 986 153	2 986 153
Term deposits	-	13 597	-	532 381	545 978
Savings deposits	-	-	-	289 431	289 431
Debt certificates	-	-	-	238 975	238 975
Certificates of deposits	-	-	-	230	230
Issued mortgage bonds	-	-	-	187 905	187 905
Non-convertible subordinated liabilities	-	-	-	50 840	50 840
Derivatives	160 141	-	268 161	-	428 302
Other	-	-	-	15 894	15 894
Total carrying value	160 141	13 597	268 161	4 841 528	5 283 427

*Of which HUF 53 278 million is deposits from banks repayable on demand.

Deposits from credit institutions and investment firms includes repo transactions of HUF 51 221 million.

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Details of financial instruments

Securities

Debt securities at fair value through other comprehensive income and at amortised cost are performing, non-past due bonds classified as stage 1 under IFRS 9.

The breakdown of securities is presented in the tables below.

	2023 MHUF	2022 MHUF
Held for trading		
Hungarian Treasury bills	-	1 167
Hungarian government bonds issued in HUF	320	10 155
Total held for trading securities	320	11 322

Securities at fair value through other comprehensive income are presented in the table below.

	2023 MHUF			2022 MHUF		
	Gross carrying amount MHUF	Fair value adjustment MHUF	Impair-ment MHUF	Gross carrying amount MHUF	Fair value adjustment MHUF	Impair-ment MHUF
Fair value through other comprehensive income						
Hungarian government bonds issued in HUF	161 670	8 094	(88)	34 637	(12 540)	(20)
Listed equity instrument	1 161	882	-	979	676	-
Unlisted equity instruments	646	-	-	646	-	-
Bond issued by non-financial corporations in HUF	530	-	(37)	381	-	(1)
Total fair value through other comprehensive income	164 007	8 976	(125)	36 643	(11 864)	(21)

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

FVOCI equity instruments contain as at 31 December 2023 unlisted equity instruments in a value of HUF 646 million (HUF 646 million at the end of 2022) for which a fair value cannot be measured reliably. These investments are not traded on active markets.

The fair value of the Group's investment in Visa Inc. (class C shares in 2023 and in 2022) is presented as listed equity instrument in the table above.

These FVOCI investments contain long term investments in companies where the Group does not have significant influence. These participations are not consolidated.

FVOCI investments disclosed on their net carrying amount are:

	2023 MHUF	2022 MHUF
Garantiqa Hitelgarancia Zrt.	640	640
SWIFT S.C.	6	6
	646	646

The Group recorded HUF 8 259 million gain after tax in other comprehensive income as a result of the fair value revaluation of FVOCI debt securities in 2023 (HUF 4 463 million loss after tax in 2022).

The unrealised result of FVOCI debt securities is cumulatively HUF 4 223 million gain after tax as at 31 December 2023 (HUF 4 531 million loss as at 31 December 2022).

Debt securities at amortised cost consisted of the following types of securities.

	2023 MHUF		2022 MHUF	
	Gross carrying amount MHUF	Impair-ment MHUF	Gross carrying amount MHUF	Impair-ment MHUF
At amortised cost				
Government bonds issued in HUF	754 552	(427)	781 714	(456)
Government bonds issued in foreign currency	86 138	(51)	92 494	(55)
Bonds issued by municipality issued in HUF	38	-	112	(4)
Bonds issued by financial corporations in HUF	6 435	-	13 830	(1)
Bond issued by non-financial corporations in HUF	35 653	(1 329)	35 355	(269)
Total at amortised cost	882 816	(1 807)	923 505	(785)

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Bonds issued by financial corporations include bonds issued by the Investor Protection Fund of Hungary.

The Group participated in the Bond Funding for Growth Scheme (BGS) launched by Hungarian National Bank with the aim of developing local bond market, boosting securitization of existing loans and diversifying the funding structure of corporate sector. Within the framework of the scheme, Hungarian National Bank purchases bonds in both the primary and secondary markets.

Assets pledged as collateral for liabilities and contingent liabilities

	Note	2023 Asset pledged MHUF	2023 Related liability MHUF	2022 Asset pledged MHUF	2022 Related liability MHUF
Assets pledged for:					
Hungarian government bonds pledged for repo liabilities	18	42 426	42 489	51 123	51 221
Hungarian government bonds pledged for Funding for Growth Scheme launched by the Hungarian National Bank		174 542	150 365	240 313	225 964
Other demand deposit with credit institutions pledged for derivative transactions	18	2 162	16 863	51 023	79 072
Hungarian government bonds pledged for clearing transactions		27 759	-	12 894	-
Hungarian government bonds pledged for issued mortgage bonds		11 926	10 704	21 389	21 952
Mortgage loans pledged for Issued mortgage bonds		182 437	163 739	179 285	166 481
Total		441 252	384 160	556 027	544 690

Assets pledged as collateral for refinancing credits, derivatives and clearing transactions contain cash and cash equivalents and securities. These assets are not transferred to the counterparty. In case of derivatives the terms and conditions of collateral settlement are defined in separate CSAs (Credit Support Annexes) between the counterparties. In case of securities the collateral requirement is defined on portfolio basis and it is held in custody at a central clearing house (KELER).

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

The following table presents the breakdown of cash balances with central banks and other demand deposits to credit institutions, financial assets mandatorily at fair value through profit or loss and at amortised cost by portfolio and product as at 31 December 2023.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2023						
Central bank and credit institutions*	15 447	-	15 447	1 534 317	(100)	1 534 217
General government	-	-	-	190 901	(305)	190 596
Corporate	-	-	-	1 345 155	(21 106)	1 324 049
of which: Small and Medium enterprises	-	-	-	807 055	(12 137)	794 918
Households	315 330	(317)	315 013	778 491	(16 074)	762 417
Consumer credit	232 805	(174)	232 631	117 167	(3 671)	113 496
Credit card	-	-	-	6 606	(198)	6 408
Current account	-	-	-	8 828	(1 288)	7 540
Finance lease	-	-	-	2 029	(91)	1 938
Mortgage loan	82 525	(143)	82 382	623 821	(10 473)	613 348
Term loan	-	-	-	20 040	(353)	19 687
Total	330 777	(317)	330 460	3 848 864	(37 585)	3 811 279

For details of the valuation method of loans and advances mandatorily at fair value through profit or loss see Note 19.

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

The following table presents the breakdown of cash balances with central banks and other demand deposits to credit institutions and loans and advances by portfolio and product as at 31 December 2022.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2022						
Central bank and credit institutions*	26 459	-	26 459	1 760 376	(54)	1 760 322
General government	-	-	-	189 890	(91)	189 799
Corporate	-	-	-	1 208 778	(22 121)	1 186 657
of which: Small and Medium enterprises	-	-	-	745 573	(15 553)	730 020
Households	246 135	(582)	245 553	768 185	(26 759)	741 426
Consumer credit	172 610	(268)	172 342	113 106	(8 904)	104 202
Credit card	-	-	-	6 221	(266)	5 955
Current account	-	-	-	10 648	(1 657)	8 991
Finance lease	-	-	-	2 218	(56)	2 162
Mortgage loan	73 525	(314)	73 211	615 975	(15 700)	600 275
Term loan	-	-	-	20 017	(176)	19 841
Total	272 594	(582)	272 012	3 927 229	(49 025)	3 878 204

*From the total balance of loans and advances to Central bank and credit institutions HUF 1 230 557 million is either repayable on demand or is maturing in less than 90 days (HUF 1 157 554 million in 2022). Reverse repo transactions amounted to HUF 15 384 million in 2023 (HUF 33 702 million in 2022).

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Refinancing credits

The Bank has entered into several refinancing credit facilities with financial institutions (such as EXIM Bank, MBH Bank) for the purpose of funding portions of the Bank's activities. There are several covenants governing the determination of qualified recipients, the on-going monitoring process of the ultimate recipients and the repayment process. In all cases the Bank assumes all credit risk related to the ultimate borrower and must check compliance with all covenants.

The National Bank of Hungary (MNB) launched a program called Funding for Growth Scheme in 2013. The aim of the program is the refinancing of small and medium enterprises (SME) through the Hungarian bank system. The MNB funds the credit institutions attending the program through below market rate refinancing loans during a temporary period and in a limited amount. These funds are used by the credit institutions for granting credits to SMEs with similar, favourable conditions for pre-determined purposes. The maximum maturity of the refinancing loans is 10 years at initiation and it corresponds to the maturity of the loans granted to the customers.

The latest phase of Funding for Growth Scheme launched in April 2020 aims to help SMEs and corporations to mitigate the negative financial effects of the Covid-19 crises. The scheme makes financial funds available to micro-, small and medium-sized businesses through credit institutions and financial businesses at a fixed interest rate of a maximum 2.5. The maximum tenor of the loans is set at 20 years. In a further easing of terms compared to previous phases of the scheme, it will be possible to draw down loans within three years from the signing of the contract. The minimum loan amount is reduced to HUF 1 million and the maximum loan amount per one SME is HUF 20 000 million. Financial institutions must assess loan applications within two weeks from the availability of the necessary information.

At 31 December 2023 and 2022, Management believes that the Bank is in compliance with all covenants. Refinancing credits are presented as financial liabilities at amortised cost in the consolidated statement of financial position.

	2023		2022	
	Liabilities	Assets	Liabilities	Assets
	MHUF	MHUF	MHUF	MHUF
Refinancing credits in the frame of the Funding for Growth Scheme	150 365	128 385	225 964	199 667
Other refinancing credits	213 487	236 056	137 939	126 020
Total refinancing credits	363 852	364 441	363 903	325 687

Issued mortgage bonds

In 2023 the Group issued a nominal of HUF 85 000 million mortgage bonds (HUF 15 000 million in 2022), which were mainly purchased by the National Bank of Hungary and KBC Group entities (for further details see Note 38). The mortgage bond portfolio consists fix payer bonds with a nominal of HUF 135 000 million (HUF 160 000 million in 2022) - with a maturity of 5 years -, and variable payer bonds with a nominal of HUF 37 000 million (HUF 27 000 million in 2022). The bonds are recorded as financial liabilities at amortised cost in the consolidated statement of financial position.

NOTE 16 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

The following table presents the notional amount of the issued mortgage bonds held at the end of the year by the date of issuance.

	2023 MHUF	2022 MHUF
Issued in 2019	-	100 000
Issued in 2020	45 000	45 000
Issued in 2021	27 000	27 000
Issued in 2022	15 000	15 000
Issued in 2023	85 000	-
Total nominal amount of mortgage bond portfolio	172 000	187 000

Non-convertible subordinated liabilities

	2023 MHUF	2022 MHUF
Subordinated loan from KBC Group	48 641	50 839

In June 2006, the Group borrowed EUR 60 million (HUF 22 967 million in 2023 and HUF 24 015 million in 2022) of subordinated debt from KBC Bank N.V. Dublin branch, a member of the KBC Group. In 2014 KBC Bank N.V. has taken over the facility from its branch. In March 2015 the loan's original maturity of 30 June 2016 was extended with 10 years. The loan bears a variable interest rate of 3 month-EURIBOR plus 2.70 percent per annum.

In September 2015 the Group agreed on an additional subordinated debt of EUR 30 million (HUF 11 483 million in 2023 and HUF 12 007 million in 2022) with KBC Bank N.V. with conditions of 10 years maturity and a variable interest rate of 3 month-EURIBOR plus 3.05 percent per annum.

The third subordinated loan contract between the Group and KBC Bank N.V. was made in December 2017. KBC Bank N.V. granted an additional EUR 37 million (HUF 14 163 million in 2023 and HUF 14 809 million in 2022) loan to the Group with a maturity of 10 years and a variable interest rate of 3 months-EURIBOR plus 1.53 percent per annum.

Non-convertible subordinated liabilities are presented as financial liabilities at amortised cost in the consolidated statement of financial position.

NOTE 17 – TRANSFERRED FINANCIAL ASSETS

The following table includes transferred financial assets continued to be recognised in their entirety.

	2023		2022	
	Carrying amount of transferred asset MHUF	Carrying amount of associated liability MHUF	Carrying amount of transferred asset MHUF	Carrying amount of associated liability MHUF
Debt securities at amortised cost	13 893	27 105	25 549	17 518
Total transferred assets and associated liabilities	13 893	27 105	25 549	17 518

Repo and reverse repo agreements

Under reverse repo transactions, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity, which generates a liability recorded as financial liability held at amortised cost in the consolidated statement of financial position. The Group recorded a HUF 15 384 million reverse repo transaction as at 31 December 2023 (HUF 33 702 in 2022).

The terms of repos and reverse repo transactions are less than three months and the interest rate is based on HUF interbank rates (BUBOR).

The Group has no associated liabilities which have recourse limited only to the transferred assets.

NOTE 18 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following tables present the financial assets and liabilities which are subject to enforceable master netting agreements as at 31 December 2023:

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial assets MHUF	Gross amount of financial liabilities set off MHUF	Net amounts of financial assets MHUF	Financial instruments MHUF	Cash collateral received MHUF	Securities collateral received MHUF	Net amount MHUF
Derivatives	203 297	-	203 297	178 880	5 643	-	18 774
Reverse repurchase agreements	15 384	-	15 384	-	-	15 366	18
Total financial assets subject to offsetting or master netting agreements	218 681	-	218 681	178 880	5 643	15 366	18 792

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial liabilities MHUF	Gross amount of financial assets set off MHUF	Net amounts of financial liabilities MHUF	Financial instruments MHUF	Cash collateral pledged MHUF	Securities collateral pledged MHUF	Net amount MHUF
Derivatives	195 743	-	195 743	178 880	2 162	-	14 701
Repurchase agreements	42 489	-	42 489	-	-	42 426	63
Total financial liabilities subject to offsetting or master netting agreements	238 232	-	238 232	178 880	2 162	42 426	14 764

NOTE 18 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following tables present the financial assets and liabilities which are subject to enforceable master netting agreements as at 31 December 2022:

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial assets	Gross amount of financial liabilities set off	Net amounts of financial assets	Financial instruments	Cash collateral received	Securities collateral received	Net amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives	399 448	-	399 448	349 230	580	-	49 638
Reverse repurchase agreements	33 702	-	33 702	-	-	30 919	2 783
Total financial assets subject to offsetting or master netting agreements	433 150	-	433 150	349 230	580	30 919	52 421

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial liabilities	Gross amount of financial assets set off	Net amounts of financial liabilities	Financial instruments	Cash collateral pledged	Securities collateral pledged	Net amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives	428 302	-	428 302	349 230	51 023	-	28 049
Repurchase agreements	51 221	-	51 221	-	-	51 123	98
Total financial liabilities subject to offsetting or master netting agreements	479 523	-	479 523	349 230	51 023	51 123	28 147

NOTE 18 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES (continued)

Derivatives, repurchase and reverse repurchase agreements are subject to different netting agreements as ISDA (International Swaps and Derivatives Association) Master Agreements, CSAs (Credit Support Annex) and GMRAs (Global Master Repurchase Agreement) in case of institutional clients (credit institutions and investment firms) or treasury limits in case of corporate customers.

Financial assets and liabilities subject to master netting agreements are not netted in the consolidated statement of financial position, since the Group has no intention to settle these instruments on a net basis in the normal course of business.

Given cash collaterals are recognised in the amortised cost portfolio as loans and advances to credit institutions and investment firms repayable on demand. Cash collaterals received are included in financial liabilities held on amortised cost and are recognised as demand deposits from credit institutions and investment firms.

Securities collaterals received are not recorded in the consolidated statements of financial position. Securities collaterals pledged are recognised in the consolidated statement of financial position in the appropriate portfolio (and are presented as assets pledged as collateral for liabilities and contingent liabilities in Note 16).

NOTE 19 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table below presents information concerning the fair value of financial assets and liabilities for year 2023:

	Fair value							
	Quoted market price (level 1)	Valuation techniques - observable inputs (level 2)	Valuation techniques - un-observable inputs (level 3)	Total fair value	Total carrying amount	Accumulated difference between FV and carrying amount not recognised in PL or equity	Recognised in other comprehensive income: unobservable input	Recognised in profit or loss un-observable inputs*
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Cash and cash balances with central banks and other demand deposits with credit institutions	78 954	1 228 104	-	1 307 058	1 307 058	-	-	-
Financial assets	918 336	282 814	2 843 741	4 044 891	4 162 143	(117 252)	182	38 819
Held for trading	27	70 823	2 910	73 760	73 760	-	-	2 184
Debt securities	27	294	-	321	321	-	-	-
Derivatives	-	70 529	2 910	73 439	73 439	-	-	2 184
Fair value through other comprehensive	161 582	493	1 807	163 882	163 882	-	182	-
Equity instruments	-	-	1 807	1 807	1 807	-	182	-
Debt securities	161 582	493	-	162 075	162 075	-	-	-
Measured at amortised cost	756 727	66 194	2 524 011	3 346 932	3 464 184	(117 252)	-	-
Debt securities	756 727	42 069	-	798 796	881 009	(82 213)	-	-
Loans and advances	-	24 125	2 524 011	2 548 136	2 583 175	(35 039)	-	-
Loans and advances mandatorily at fair value through profit or loss other than held for trading	-	15 447	315 013	330 460	330 460	-	-	36 635
Hedging derivatives	-	129 857	-	129 857	129 857	-	-	-
Total financial assets and cash and cash balances with central banks and other demand deposits with credit institutions	997 290	1 510 918	2 843 741	5 351 949	5 469 201	(117 252)	182	38 819
Financial liabilities								
Held for trading derivatives	-	69 544	2 935	72 480	72 480	-	-	(2 172)
Fair value option	-	58 541	-	58 541	58 541	-	-	-
Deposits	-	58 541	-	58 541	58 541	-	-	-
Measured at amortised cost	-	673 920	3 993 387	4 667 307	4 740 977	73 670	-	-
Deposits	-	452 967	3 979 988	4 432 955	4 504 606	71 651	-	-
Debt certificates	-	220 953	-	220 953	222 972	2 019	-	-
Other	-	-	13 399	13 399	13 399	-	-	-
Hedging derivatives	-	123 263	-	123 263	123 263	-	-	-
Total financial liabilities	-	925 268	3 996 322	4 921 590	4 995 261	73 670	-	(2 172)

*Recognised as Net gains / (losses) from financial instruments at fair value through profit or loss in the Consolidated income statement.

NOTE 19 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The table below presents information concerning the fair value of financial assets and liabilities for year 2022:

	Fair value							
	Quoted market price (level 1)	Valuation techniques - observable inputs (level 2)	Valuation techniques -un-observable inputs (level 3)	Total fair value	Total carrying amount	Accumulated difference between FV and carrying amount not recognised in PL or equity	Recognised in other comprehensive income: unobservable input	Recognised in profit or loss un-observable inputs*
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Cash and cash balances with central banks and other demand deposits with credit institutions	72 113	1 097 624	-	1 169 737	1 169 737	-	-	-
Financial assets	692 307	934 876	2 462 606	4 089 789	4 422 703	(332 914)	(637)	(19 263)
Held for trading	1 269	197 284	5 834	204 387	204 387	-	-	4 288
Debt securities	1 183	10 139	-	11 322	11 322	-	-	-
Derivatives	86	187 145	5 834	193 065	193 065	-	-	4 288
Fair value through other comprehensive income	34 616	380	1 626	36 622	36 622	-	(637)	-
Equity instruments	-	-	1 626	1 626	1 626	-	(637)	-
Debt securities	34 616	380	-	34 996	34 996	-	-	-
Measured at amortised cost	656 422	504 370	2 209 593	3 370 385	3 703 299	(332 914)	-	-
Debt securities	656 422	48 617	113	705 152	922 719	(217 567)	-	-
Loans and advances	-	455 753	2 209 480	2 665 233	2 780 580	(115 347)	-	-
Loans and advances mandatorily at fair value through profit or loss other than held for trading	-	26 459	245 553	272 012	272 012	-	-	(23 551)
Hedging derivatives	-	206 383	-	206 383	206 383	-	-	-
Total financial assets and cash and cash balances with central banks and other demand deposits with credit institutions	764 420	2 032 500	2 462 606	5 259 526	5 592 440	(332 914)	(637)	(19 263)
Financial liabilities								
Held for trading derivatives	57	154 153	5 932	160 142	160 141	-	-	(4 275)
Fair value option	-	13 597	-	13 597	13 597	-	-	-
Deposits	-	13 597	-	13 597	13 597	-	-	-
Measured at amortised cost	-	625 363	4 110 039	4 735 402	4 841 529	106 127	-	-
Deposits	-	390 307	4 094 145	4 484 452	4 586 660	102 208	-	-
Debt certificates	-	235 056	-	235 056	238 975	3 919	-	-
Other	-	-	15 894	15 894	15 894	-	-	-
Hedging derivatives	-	268 161	-	268 161	268 161	-	-	-
Total financial liabilities	57	1 061 274	4 115 971	5 177 302	5 283 428	106 127	-	(4 275)

*Recognised as Net gains / (losses) from financial instruments at fair value through profit or loss in the Consolidated income statement.

NOTE 19 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

In 2023 no debt instruments were transferred from Quoted market price to Valuation techniques-market observable inputs category (nor in 2022).

The following evaluation tables present the change in the fair value of financial instruments for which no market observable inputs are available.

Financial assets	Held-for trading-derivatives	Mandatorily at fair value through profit or loss	At fair value through other comprehensive income	Total
	MHUF	MHUF	MHUF	MHUF
Balance as at 31 December 2022	5 834	245 553	979	252 366
Net gains / (losses)				
In profit or loss	(510)	36 635	-	36 125
In other comprehensive income	-	-	182	182
Acquisitions	2 694	53 713	-	56 407
Settlement	(5 108)	(21 499)	-	(26 607)
Other	-	611	-	611
Balance as at 31 December 2023	2 910	315 013	1 161	319 084

NOTE 19 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets	Held-for trading-derivatives	Mandatorily at fair value through profit or loss	At fair value through other comprehensive income	Total
	MHUF	MHUF	MHUF	MHUF
Balance as at 31 December 2021	4 863	201 954	1 616	208 433
Net gains / (losses)				
In profit or loss	777	(23 551)	-	(22 774)
In other comprehensive income	-	-	(637)	(637)
Acquisitions	3 511	85 157	-	88 668
Settlement	(3 317)	(18 573)	-	(21 890)
Other	-	566	-	566
Balance as at 31 December 2022	5 834	245 553	979	252 366

Financial liabilities	Held-for-trading derivatives
	MHUF
Balance as at 31 December 2022	5 932
Net (gains) / losses	
In profit or loss	(546)
Acquisitions	2 718
Settlement	(5 169)
Balance as at 31 December 2023	2 935

NOTE 19 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities	**Held-for-trading derivatives**
	MHUF
Balance as at 31 December 2021	4 964
Net (gains) / losses	
In profit or loss	789
Acquisitions	3 486
Settlement	(3 307)
Balance as at 31 December 2022	5 932

Fair value of financial instruments

Financial instruments at fair value

Held-for-trading instruments, financial instruments designated at fair value through profit or loss, financial assets mandatorily at fair value through profit or loss, financial assets at fair value through other comprehensive income and hedging derivatives are carried at their fair value.

Financial instruments which have an active market with regularly published price quotations are marked to market. Usually treasury bills, Hungarian government bonds, other listed bonds and listed equity instruments belong to this category, excluding premium Hungarian government bonds denominated in EUR, bonus Hungarian government bonds denominated in HUF and some treasury bills. There are no price quotations for Hungarian government bonds denominated in HUF and maturing within 3 months therefore they are valued based on BUBOR yield curve within 3 months maturity. For premium Hungarian government bonds denominated in EUR no active secondary market exists therefore they are valued at the price quoted at issuance. Since the Government grants the repurchase of the bonds at the issuance price Management believes that the carrying amount of these bonds approximates their fair value.

If there is no active market or quoted prices for a financial instrument then valuation techniques based on observable market parameters are used, such as discounted cash flow analysis or option pricing models. Bonus Hungarian government bonds denominated in HUF, most of the financial liabilities designated at fair value through profit or loss and most of the derivatives are valued based on these techniques, such as currency forwards and swaps, foreign exchange and interest rate options, cross currency- and interest rate swaps and forward rate agreements.

When market parameters are not available, the Group uses its best estimations and assumptions to determine the relevant circumstances which have to be taken into account during the model valuation. Valuation techniques based on unobservable market parameters are used in case of held-for-trading exotic derivatives.

Exotic derivatives are primarily revalued by built-in models of the front office system using market observable parameters. For which no system model exists, there are two alternatives; (1) position is either back-to-back hedged, and the Group accepts the hedging partner prices (when hedging bank acts as valuation agent) or (2) valuation is based on internal model based best estimates (e.g. in case of municipality bonds embedded swaption valuation).

The Group provides exotic derivatives on back to back basis, accordingly immaterial result is recorded on held-for-trading exotic derivatives in the consolidated income statement. From the same reason, applying alternative assumptions for the fair value calculation would cause no result in the consolidated income statement.

NOTE 19 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The calculation of the fair value of Visa Inc. preferred shares is based on the amount of shares the Group holds, the conversion rate to Visa Inc. listed shares, the Visa Inc. share price as listed on the New York Stock Exchange and the illiquidity discount. An increase or decrease of 10 bp in the level 3 component (illiquidity gap) of the fair value model of Visa shares increases or decreases the fair value of the shares by 0.11% (0.12% in 2022).

For determination of the fair value of loan portfolios which failed the IFRS9 SPPI test the Group applies a discounted cash-flow model for subsequent measurement. The estimates of expected cash-flows are based on stochastic model using historical demographical data. The Group determines the fair value as the present value of the expected cash-flows to consider the time value and addition factors in the valuation model, such as impact of market rates, liquidity risk, credit risk, cost of capital, operational costs. For sensitivity analysis of the fair value see Note 43.3.

The difference between the fair value and the transaction price of financial instruments not recognised in profit or loss was immaterial at the end of the year in 2023 and 2022.

The following describes the methodology and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements.

FVOCI equity instruments

FVOCI equity instruments contain as at 31 December 2023 equity instruments in a value of HUF 646 million (HUF 646 million at the end of 2022) which fair value cannot be measured reliably.

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets and financial liabilities measured at amortised cost

Debt securities at amortised cost include Hungarian government bonds issued in HUF and EUR. The fair value of Hungarian government bonds denominated in HUF and maturing over 3 months disclosed in this Note is calculated based on regularly quoted market prices, since these instruments have an active market. Hungarian government bonds denominated in HUF and maturing within 3 months are valued based on BUBOR yield curve within 3 months maturity. Hungarian government bonds issued in EUR have an active market with regularly published price quotations and are marked to market.

For premium Hungarian government bonds denominated in EUR no active secondary market exists therefore premium Hungarian government bonds are held at the price quoted at issuance in the consolidated statement of financial position. Since the Government grants the repurchase of the bonds at an exit price of 98 the Group considers this exit price for calculation of the fair value in this note.

Bonus Hungarian government bonds denominated in HUF are valued by a valuation technique where the future cash flow is discounted by a curve calculated from IRS curves modified by asset swap and illiquidity spreads. Although illiquidity spread is non-market observable input, due to its immaterial effect in the fair value of the asset the bond is classified as financial instrument valued by valuation techniques – market observable inputs in the fair value hierarchy.

Municipality bonds were issued in HUF. There is an embedded option which assures that the municipality can change the denomination of the bond at any point of time during its duration to EUR or CHF at the spot rate of the conversion date. Nevertheless, the interest spread remains unchanged over the reference rate.

NOTE 19 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

This optionality corresponds to a sold, deferred premium, American type multicurrency differential swaption from the Group's point of view. Cross-currency swaption of this kind is an instrument for which no market value is available but its intrinsic value can be calculated from available market parameters. The value of the swaption is not material.

The municipality bond as such can be split to two components which fair values give the total fair value of the bond. The two instruments are (1) bonds and, (2) swaptions. The market value of the bonds is calculated using discounted present value of the future cash flows. The future cash flow of the bond is predicted by the default money market yield curve. The value of swaptions is calculated regularly.

There is no active market for these municipality bonds to get market observable parameters for the revaluation especially for credit spread which is a risk on the top of the Hungarian government bonds. To challenge the fair valuation model, the Group uses a reasonably possible alternative assumption to increase the applied credit spread.

Municipality bonds did not fail the IFRS 9 SPPI test since the reference interest follows the concerned currency before and after the conversion as well.

For loans and advances and financial liabilities that are liquid or have a short term remaining maturity (less than one year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments. Fair value adjustments of refinanced loans with fixed or variable interest are included in unrecognised gain / (loss) of financial assets at amortised cost, fair value adjustments of refinancing liabilities with fixed or variable interest are included in unrecognised gain / (loss) of financial liabilities measured at amortised cost.

The estimated fair value of fixed interest bearing deposits with more than one year remaining maturity and refinancing liabilities (carried at amortised cost) is based on discounted cash flows using current interbank market yield curve appropriate for the remaining term to maturity.

The estimated fair value of fixed interest bearing assets with more than one year remaining maturity and refinanced loans (carried at amortised cost) is based on discounted cash flows using current interbank market yield curve appropriate for the remaining term to maturity which is adjusted with the average margin of the retail and corporate loan portfolio of the Group to arrive at the estimated market yield curve of the asset.

The Group believes that the carrying amount of the impaired loans is the best estimation of their fair value and therefore does not present any unrecognised gain or loss on impaired loans and advances in this Note.

NOTE 20 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 MHUF	2022 MHUF
Financial assets mandatorily at fair value through profit or loss		
Loans to customers	330 460	272 012
	330 460	272 012

Loans to customers measured mandatorily at fair value through profit and loss include customer loans which failed the SPPI test due to their interest conditions.

	2023 MHUF	2022 MHUF
Financial liabilities designated at fair value through profit or loss		
Term deposits:		
- retail	4 488	3 076
- corporate	54 053	10 521
	58 541	13 597

Included in financial liabilities designated at fair value through profit or loss are retail and corporate term deposits combined with currency options which are accounted for as embedded derivatives. The fair value of the deposits and the options are not separated.

Based on the Group's treasury policy the long term fixed rate deposits from investment funds included in financial liabilities designated at fair value through profit or loss are economically hedged by interest rate derivatives, and do not qualify for hedge accounting.

The amount that the Group would contractually be required to pay at maturity is HUF 520 million higher than the fair value of the deposits and issued bonds (no difference in 2022).

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND GEOGRAPHIC LOCATION

The Group's financial assets, and financial liabilities before taking into account any collateral held or other credit enhancements as at 31 December 2023 can be analysed by the following geographical regions.

	Cash balances with central banks and other demand deposit with credit institutions	Held for trading	Designated at fair value through profit or loss	Mandatory fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets								
Hungary	1 174 125	19 845	-	314 999	162 709	3 327 751	470	4 999 899
EMU countries	47 282	52 827	-	15 454	6	126 515	129 020	371 104
East-European countries	499	211	-	-	-	3 183	-	3 893
Russia	24	-	-	-	-	17	-	41
Ukraine	0	-	-	-	-	7	-	7
Other European countries	1 783	877	-	-	-	4 688	367	7 715
Non-European countries	4 391	-	-	7	1 167	2 023	-	7 588
Total	1 228 104	73 760	-	330 460	163 882	3 464 184	129 857	5 390 247
Financial liabilities								
Hungary	-	17 856	58 415	-	-	4 213 584	-	4 289 855
EMU countries	-	54 022	126	-	-	496 997	121 101	672 246
East-European countries	-	-	-	-	-	12 477	-	12 477
Russia	-	-	-	-	-	1 950	-	1 950
Ukraine	-	-	-	-	-	747	-	747
Other European countries	-	602	-	-	-	8 072	2 162	10 836
Non-European countries	-	-	-	-	-	7 150	-	7 150
Total	-	72 480	58 541	-	-	4 740 977	123 263	4 995 261

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND GEOGRAPHIC LOCATION (continued)

The geographical breakdown of financial assets and financial liabilities as at 31 December 2022 is presented below:

	Cash balances with central banks and other demand deposit with credit institutions	Held for trading	Designated at fair value through profit or loss	Mandatory fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets								
Hungary	1 086 659	59 597	-	245 542	35 637	3 549 730	3 183	4 980 348
EMU countries	4 932	143 587	-	26 464	6	135 603	202 070	512 662
East-European countries	989	15	-	-	-	7 808	-	8 812
Russia	32	-	-	-	-	20	-	52
Ukraine	10	-	-	-	-	10	-	20
Other European countries	1 479	1 188	-	-	-	10 027	1 130	13 824
Non-European countries	3 523	-	-	6	979	101	-	4 609
Total	1 097 624	204 387	-	272 012	36 622	3 703 299	206 383	5 520 327
Financial liabilities								
Hungary	-	30 871	13 597	-	-	4 395 993	-	4 440 461
EMU countries	-	127 653	-	-	-	421 197	259 591	808 441
East-European countries	-	-	-	-	-	9 811	-	9 811
Russia	-	-	-	-	-	1 418	-	1 418
Ukraine	-	-	-	-	-	530	-	530
Other European countries	-	1 617	-	-	-	6 580	8 570	16 767
Non-European countries	-	-	-	-	-	5 999	-	5 999
Total	-	160 141	13 597	-	-	4 841 528	268 161	5 283 427

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY

Credit quality per class of financial assets

The tables below presents the credit quality by asset classes as at 31 December 2023:

	Loans and advances mandatorily at fair value through profit or loss			
	Gross carrying amount		Accumulated negative changes in fair value due to credit risk	
	Performing MHUF	Non-performing MHUF	Non-performing MHUF	Total MHUF
Loans and advances at 31 December 2023				
Central bank and credit institutions	15 447	-	-	15 447
Households	312 712	2 618	(317)	315 013
Consumer credit	231 206	1 599	(174)	232 631
Mortgage loan	81 506	1 019	(143)	82 382
Total	328 159	2 618	(317)	330 460

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Loans and advances mandatorily at fair value through profit or loss			
	Gross carrying amount		Accumulated negative changes in fair value due to credit risk	
	Performing	Non-performing	Non-performing	Total
	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2022				
Central bank and credit institutions	26 459	-	-	26 459
Households	242 958	3 177	(582)	245 553
Consumer credit	170 845	1 765	(268)	172 342
Mortgage loan	72 113	1 412	(314)	73 211
Total	269 417	3 177	(582)	272 012

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Loans and advances at amortised cost*					
	Gross carrying amount			Accumulated impairment		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2023						
Central bank and credit institutions	1 534 317	-	1 534 317	(100)	-	(100)
General government	190 899	2	190 901	(305)	-	(305)
Corporate	1 318 155	27 000	1 345 155	(11 681)	(9 425)	(21 106)
of which: Small and Medium enterprises	794 768	12 287	807 055	(7 673)	(4 464)	(12 137)
Households	753 673	24 818	778 491	(9 943)	(6 131)	(16 074)
Consumer credit	110 791	6 376	117 167	(1 561)	(2 110)	(3 671)
Credit card	6 456	150	6 606	(96)	(102)	(198)
Current account	7 048	1 780	8 828	(399)	(889)	(1 288)
Finance lease	1 931	98	2 029	(41)	(50)	(91)
Mortgage loan	607 456	16 365	623 821	(7 506)	(2 967)	(10 473)
Term loan	19 991	49	20 040	(340)	(13)	(353)
Total	3 797 044	51 820	3 848 864	(22 029)	(15 556)	(37 585)

*The table includes the net carrying amount of loans and advances at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Loans and advances at amortised cost*					
	Gross carrying amount			Accumulated impairment		
	Performing MHUF	Non-performing MHUF	Total MHUF	Performing MHUF	Non-performing MHUF	Total MHUF
Loans and advances at 31 December 2022						
Central bank and credit institutions	1 760 351	25	1 760 376	(54)	-	(54)
General government	189 890	-	189 890	(91)	-	(91)
Corporate	1 189 029	19 749	1 208 778	(13 393)	(8 728)	(22 121)
of which: Small and Medium enterprises	732 738	12 835	745 573	(10 044)	(5 509)	(15 553)
Households	733 028	35 157	768 185	(13 898)	(12 861)	(26 759)
Consumer credit	103 606	9 500	113 106	(3 453)	(5 451)	(8 904)
Credit card	5 957	264	6 221	(110)	(156)	(266)
Current account	8 339	2 309	10 648	(644)	(1 013)	(1 657)
Finance lease	2 218	-	2 218	(56)	-	(56)
Mortgage loan	592 952	23 023	615 975	(9 479)	(6 221)	(15 700)
Term loan	19 956	61	20 017	(156)	(20)	(176)
Trade receivables						
Total	3 872 298	54 931	3 927 229	(27 436)	(21 589)	(49 025)

*The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

Aging analysis of loans per class of financial assets

	Loans and advances*							
	Performing				Non-performing			
	Not past due	Past due <= 30 days	Past due > 30 days <= 90 days	Past due > 90 days	Past due <= 30 days	Past due > 30 days <= 90 days	Past due > 90 days	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2023								
Central bank and credit institutions	1 549 664	-	-	-	-	-	-	1 549 664
General government	190 539	55	-	-	-	-	2	190 596
Corporate	1 294 211	11 908	353	2	15 896	999	680	1 324 049
of which: Small and Medium enterprises	776 604	10 147	342	2	6 160	998	665	794 918
Households	1 041 337	13 124	1 600	381	17 101	816	3 071	1 077 430
Consumer credit	333 812	5 718	761	145	4 014	306	1 371	346 127
Credit card	6 247	105	8	-	21	1	26	6 408
Current account	5 203	1 242	70	134	740	31	120	7 540
Finance lease	1 877	11	2	-	48	-	-	1 938
Mortgage loan	674 755	5 845	755	101	12 268	472	1 534	695 730
Term loan	19 443	203	4	1	10	6	20	19 687
Total	4 075 751	25 087	1 953	383	32 997	1 815	3 753	4 141 739

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.
Past due assets include those that are past due even by one day. The financial moratorium does not increase the number of days in delay.

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Loans and advances*							
	Performing				Non-performing			
	Not past due MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Total MHUF
Loans and advances at 31 December 2022								
Central bank and credit institutions	1 786 756	-	-	-	25	-	-	1 786 781
General government	187 214	2 585	-	-	-	-	-	189 799
Corporate	1 172 942	2 545	143	6	9 659	143	1 219	1 186 657
of which: Small and Medium enterprises	720 822	1 727	142	3	5 968	143	1 215	730 020
Households	948 974	11 440	1 355	319	21 670	840	2 381	986 979
Consumer credit	266 176	4 159	578	85	4 678	186	682	276 544
Credit card	5 726	100	17	4	67	4	37	5 955
Current account	6 156	1 356	57	126	1 112	11	173	8 991
Finance lease	2 084	72	6	-	-	-	-	2 162
Mortgage loan	649 200	5 594	689	103	15 810	625	1 465	673 486
Term loan	19 632	159	8	1	3	14	24	19 841
Total	4 095 886	16 570	1 498	325	31 354	983	3 600	4 150 216

*The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

Maximum exposure to credit risk without taking into account of any collateral and credit enhancements

The table below presents the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2023 MHUF	2022 MHUF
Debt instruments	1 043 404	969 038
Loans and advances	4 220 693	4 222 329
Derivatives	203 297	399 448
Other assets	58 551	40 111
Total assets	5 525 945	5 630 926
Commitments to extend credit	946 089	823 442
Guarantees	446 551	460 465
Letters of credit	13 537	33 307
Total commitments and contingent liabilities	1 406 177	1 317 214
Total credit exposure	6 932 122	6 948 140

The amounts shown above represent the current credit risk exposure, which may change over time as a result of changes in values (derivative financial instruments, financial investments, etc.) and changes in FX rates (due to FCY lending). The effect of collateral and other risk mitigation techniques is shown in Note 43.4.

Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client/client group and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2023 was HUF 122 824 million (HUF 140 503 million as of 31 December 2022) before taking account of any collateral or other credit enhancements.

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Gross carrying amount transfers between impairment stages						
	From Stage 1 to Stage 2 MHUF	From Stage 2 to Stage 1 MHUF	From Stage 2 to Stage 3 MHUF	From Stage 3 to Stage 2 MHUF	From Stage 1 to Stage 3 MHUF	From Stage 3 to Stage 1 MHUF	Total MHUF
Loans and advances at 31 December 2023*							
General government	-	3 169	-	-	-	-	3 169
Corporate	58 764	139 924	11 276	109	105	7	210 185
of which: Small and Medium enterprises	53 429	112 119	2 640	109	84	7	168 388
Households	13 266	20 449	1 759	5 291	924	628	42 317
Consumer credit	3 467	1 461	965	1 120	703	122	7 838
Credit card	161	105	22	23	11	4	326
Current account	403	691	113	68	22	13	1 310
Finance lease	150	381	-	-	-	-	531
Mortgage loan	8 438	10 606	641	4 079	184	489	24 437
Term loan	647	7 205	18	1	4	-	7 875
Total	72 030	163 542	13 035	5 400	1 029	635	255 671
Loan commitments	27 536	55 058	244	62	47	44	82 991
Financial guarantees	12 014	40 524	4 668	-	92	-	57 298
Other commitments	346	2 413	-	-	-	-	2 759
Total	39 896	97 995	4 912	62	139	44	143 048

*The table includes the gross carrying amount of loans and advances at amortised cost.

The table shows year-to-year stage transfers.

NOTE 22 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Gross carrying amount transfers between impairment stages						
	From Stage 1 to Stage 2 MHUF	From Stage 2 to Stage 1 MHUF	From Stage 2 to Stage 3 MHUF	From Stage 3 to Stage 2 MHUF	From Stage 1 to Stage 3 MHUF	From Stage 3 to Stage 1 MHUF	Total MHUF
Loans and advances at 31 December 2022*							
General government	20	9 831	-	-	-	-	9 851
Corporate	309 821	65 370	1 162	2 247	3 099	914	382 613
of which: Small and Medium enterprises	209 085	37 126	1 162	38	1 072	-	248 483
Households	163 302	3 747	11 029	1 609	1 909	176	181 772
Consumer credit	20 043	489	2 608	212	1 228	33	24 613
Credit card	417	132	103	9	41	7	709
Current account	2 561	234	162	47	57	16	3 077
Finance lease	1 223	6	-	-	-	-	1 229
Mortgage loan	131 533	2 754	8 137	1 341	583	120	144 468
Term loan	7 525	132	19	-	-	-	7 676
Total	473 143	78 948	12 191	3 856	5 008	1 090	574 236
Loan commitments	83 407	5 656	143	34	216	25	89 481
Financial guarantees	95 610	5 045	7	-	1	-	100 663
Other commitments	2 638	-	-	-	-	-	2 638
Total	181 655	10 701	150	34	217	25	192 782

*The table includes the gross carrying amount of loans and advances at amortised cost.

The table shows year-to-year stage transfers.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group recorded an additional impairment of HUF 103 million on debt securities at fair value through other comprehensive income in 2023 (reversed an impairment of HUF 18 million in 2022).

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS

		Changes partly recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 1 at 31 December 2023												
Debt securities												
General government	517	45	(51)	(26)	-	-	-	-	-	(6)	-	479
Corporate	269	-	(1)	(17)	(224)	-	-	-	-	-	-	27
Total impairment on debt securities	786	45	(52)	(43)	(224)	-	-	-	-	(6)	-	506
Loans and advances*												
Central bank and credit institutions	51	65	(28)	11	-	-	-	-	-	-	-	99
General government	39	24	-	221	-	-	-	(13)	-	17	-	288
Corporate	2 443	1 816	(194)	623	(357)	917	1	(1)	(48)	219	(87)	5 332
of which: Small and Medium enterprises	1 710	945	(95)	508	(322)	616	1	(1)	(35)	67	(61)	3 333
Households	1 022	227	(332)	2 054	(100)	389	9	(70)	(6)	117	-	3 310
of which: POCI	-	-	-	0	-	-	-	-	-	-	-	-
Consumer credit	836	213	(331)	(336)	(80)	8	3	(16)	-	13	-	310
Credit card	36	3	-	-	(2)	1	-	-	-	1	-	39
Current account	46	-	(1)	(11)	(10)	8	-	-	(6)	1	-	27
Finance lease	8	1	-	(3)	(3)	6	-	-	-	1	-	10
Mortgage loan	91	10	-	2 335	(5)	248	6	(54)	-	51	-	2 682
Term loan	5	-	-	69	-	118	-	-	-	50	-	242
Total impairment on loans and advances	3 555	2 132	(554)	2 909	(457)	1 306	10	(84)	(54)	353	(87)	9 029

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes partly recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance MHUF	Incr. due to origin. MHUF	Decr. due to derecog. MHUF	Chg in cr. risk – no stage transfers MHUF	Chg in cr. risk – transf. from stage 1 MHUF	Chg in cr. risk – transf. from stage 2 MHUF	Chg in cr. risk – transf. from stage 3 MHUF	Chg due to modif. MHUF	Decr. due to write-offs MHUF	Other MHUF	Transl. diff. MHUF	Closing balance MHUF
Impairment on financial assets at amortised cost classified as stage 2 at 31 December 2023												
Debt securities												
Corporate	-	-	-	(22)	623	-	-	-	-	1	-	602
Total impairment on debt securities	-	-	-	(22)	623	-	-	-	-	1	-	602
Loans and advances*												
Central bank and credit institutions	3	-	-	-	-	-	-	-	-	(2)	-	1
General government	52	3	-	10	-	-	-	-	-	(48)	-	17
Corporate	10 950	1 205	(2 046)	(1 261)	1 108	(3 255)	10	(6)	(8)	(172)	(176)	6 349
of which: Small and Medium enterprises	8 334	600	(1 310)	(1 306)	-	(2 904)	10	(2)	(5)	966	(43)	4 340
Households	12 876	309	(1 979)	(4 144)	564	(1 098)	152	(29)	(94)	76	-	6 633
of which: POCI	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	2 617	292	(741)	(746)	270	(473)	90	(11)	-	(47)	-	1 251
Credit card	74	-	(2)	(17)	22	(23)	2	-	-	1	-	57
Current account	598	-	(59)	(63)	56	(142)	8	(7)	(19)	-	-	372
Finance lease	49	13	-	(16)	-	(15)	-	-	-	-	-	31
Mortgage loan	9 388	4	(1 173)	(3 340)	198	(340)	52	(12)	(75)	122	-	4 824
Term loan	150	-	(4)	38	18	(105)	-	1	-	-	-	98
Total impairment on loans and advances	23 881	1 517	(4 025)	(5 395)	1 672	(4 353)	162	(35)	(102)	(146)	(176)	13 000

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes partly recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance MHUF	Incr. due to origin. MHUF	Decr. due to derecog. MHUF	Chg in cr. risk – no stage transfers MHUF	Chg in cr. risk – transf. from stage 1 MHUF	Chg in cr. risk – transf. from stage 2 MHUF	Chg in cr. risk – transf. from stage 3 MHUF	Chg due to modif. MHUF	Decr. due to write-offs MHUF	Other MHUF	Transl. diff. MHUF	Closing balance MHUF
Impairment on financial assets at amortised cost classified as stage 3 at 31 December 2023												
Debt securities												
General government	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	-	-	-	-	699	-	-	-	-	-	-	699
						-						
Total impairment on debt securities	-	-	-	-	699	-	-	-	-	-	-	699
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	8 728	-	-	99	35	444	(27)	2 114	(1 813)	(58)	(97)	9 425
of which: Small and Medium enterprises	5 508	-	-	728	25	444	(27)	(131)	(1 812)	(228)	(43)	4 464
Households	12 861	-	(3 027)	(2 336)	321	496	(1 818)	(7)	(120)	(237)	(2)	6 131
of which: POCI	307	-	(121)	(165)	-	84	(19)	5	(2)	173	-	262
Consumer credit	5 451	-	(2 273)	(871)	227	287	(703)	(14)	-	6	-	2 110
Credit card	156	-	(61)	4	7	15	(18)	-	-	(1)	-	102
Current account	1 013	-	(158)	31	14	97	(64)	-	(27)	(15)	(2)	889
Finance lease	-	-	-	-	-	-	-	-	-	50	-	50
Mortgage loan	6 221	-	(533)	(1 493)	73	95	(1 032)	7	(93)	(278)	-	2 967
Term loan	20	-	(2)	(7)	-	2	(1)	-	-	1	-	13
Total impairment on loans and advances	21 589	-	(3 027)	(2 237)	356	940	(1 845)	2 107	(1 933)	(295)	(99)	15 556

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes partly recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 1 at 31 December 2022												
Debt securities												
General government	558	164	(210)	-	-	-	-	-	-	5	-	517
Corporate	18	269	(18)	-	-	-	-	-	-	-	-	269
Total impairment on debt securities	576	433	(228)	-	-	-	-	-	-	5	-	786
Loans and advances*												
Central bank and credit institutions	51	18	(24)	(1)	-	-	-	-	-	7	-	51
General government	20	-	-	33	-	2	-	-	-	(16)	-	39
Corporate	1 719	206	2	(269)	(83)	-	-	(239)	(64)	1 157	14	2 443
of which: Small and Medium enterprises	1 075	197	4	-	(62)	-	-	(17)	(2)	505	10	1 710
Households	1 088	618	(83)	(87)	(253)	-	(7)	(50)	(8)	(196)	-	1 022
of which: POCI	-	-	0	-	-	-	-	-	-	-	-	-
Consumer credit	919	609	(97)	(332)	(224)	-	-	(3)	1	(37)	-	836
Credit card	39	4	(2)	-	(4)	-	(1)	-	1	(1)	-	36
Current account	35	1	(4)	35	(12)	-	(6)	(30)	(8)	35	-	46
Finance lease	3	4	1	4	(3)	-	-	-	-	(1)	-	8
Mortgage loan	55	-	19	206	(10)	-	-	(17)	(2)	(160)	-	91
Term loan	37	-	-	-	-	-	-	-	-	(32)	-	5
Total impairment on loans and advances	2 878	842	(105)	(324)	(336)	2	(7)	(289)	(72)	952	14	3 555

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes partly recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance MHUF	Incr. due to origin. MHUF	Reclass. Decr. due to derecog. MHUF	Chg in cr. risk – no stage transfers MHUF	Chg in cr. risk – transf. from stage 1 MHUF	Chg in cr. risk – transf. from stage 2 MHUF	Chg in cr. risk – transf. from stage 3 MHUF	Chg due to modif. MHUF	Reclass. Decr. due to write-offs MHUF	Other MHUF	Transl. diff. MHUF	Closing balance MHUF
Impairment on financial assets at amortised cost classified as stage 2 at 31 December 2022												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	4	-	-	-	-	-	-	-	-	(1)	-	3
General government	679	-	-	(174)	-	(160)	-	-	-	(293)	-	52
Corporate	10 057	317	(273)	(79)	1 896	(263)	-	(511)	-	(265)	71	10 950
of which: Small and Medium enterprises	4 235	267	-	31	1 500	(207)	-	-	-	2 463	45	8 334
Households	7 189	751	(802)	(167)	7 265	(818)	75	1	(89)	(534)	5	12 876
of which: POCI	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	1 452	688	(255)	(260)	1 381	(310)	31	1	(51)	(60)	-	2 617
Credit card	119	7	(15)	(15)	48	(48)	(1)	-	-	(21)	-	74
Current account	468	31	(77)	119	218	(90)	3	3	(34)	(46)	3	598
Finance lease	25	18	(1)	(11)	22	(1)	-	(1)	-	(3)	1	49
Mortgage loan	4 835	7	(454)	-	5 596	(369)	42	(2)	(4)	(264)	1	9 388
Term loan	290	-	-	-	-	-	-	-	-	(140)	-	150
Total impairment on loans and advances	17 929	1 068	(1 075)	(420)	9 161	(1 241)	75	(510)	(89)	(1 095)	76	23 881

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes partly recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Reclass. Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Reclass. Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 3 at 31 December 2022												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	7 932	2	(370)	1 076	22	85	(7)	(7)	(39)	-	34	8 728
of which: Small and Medium enterprises	5 836	2	-	2	20	85	(7)	(7)	(1)	(434)	12	5 508
Households	11 057	603	(2 798)	236	819	2 656	(643)	61	(418)	1 270	18	12 861
of which: POCI	1 097	10	(1 089)	(129)	-	46	(127)	10	(14)	503	-	307
Consumer credit	3 548	291	(517)	(50)	713	1 236	(120)	32	(322)	640	-	5 451
Credit card	98	6	(21)	(6)	26	52	(8)	1	(1)	9	-	156
Current account	842	274	(81)	36	30	104	(90)	(7)	(95)	(7)	7	1 013
Finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage loan	6 556	32	(2 179)	256	50	1 264	(425)	35	-	621	11	6 221
Term loan	13	-	-	-	-	-	-	-	-	7	-	20
Total impairment on loans and advances	18 989	605	(3 168)	1 312	841	2 741	(650)	54	(457)	1 270	52	21 589

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

In case of stage 2 and stage 3 the column increase due to origination represents newly recognised impairment on assets originated in the period where the quality of the asset became worse within the year.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

The gross carrying amount of loans written-off amounted to HUF 2 025 million in 2023 (HUF 918 million in 2022).

The gross carrying amount of loans and advances which were sold by the Group amounted to HUF 5 048 million in 2023 (HUF 4 695 million in 2022). The Group recorded a HUF 2 962 million income on the disposals (HUF 2 014 million in 2022). The loans were mostly retail consumer credits in 2023 (retail mortgage loans in 2022).

Stage transfers show shifts between stages having impact on profit or loss. 'Stage transfers from' columns decrease the balance of impairments in the old stage category and increase the balance in the new stage category.

The breakdown of impairments on cash balances with central banks and other demand deposits to credit institutions and financial assets at amortised cost recorded in the income statement is presented below.

	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Changes in impairment on financial assets at amortised cost in 2023				
Debt securities				
General government	32	-	-	32
Corporate	242	(601)	(699)	(1 058)
Total impairment on debt securities	274	(601)	(699)	(1 026)
Loans and advances*				
Central bank and credit institutions	(48)	-	-	(48)
General government	(232)	(13)	-	(245)
Corporate	(2 805)	4 245	(2 665)	(1 225)
of which: Small and Medium enterprises	(1 652)	4 912	(1 039)	2 221
Households	(2 177)	6 225	6 371	10 419
of which: POCI	-	-	216	216
Consumer credit	539	1 319	3 347	5 205
Credit card	(2)	18	53	69
Current account	14	207	80	301
Finance lease	(1)	18	-	17
Mortgage loan	(2 540)	4 611	2 883	4 954
Term loan	(187)	52	8	(127)
Total movements partly recorded in the consolidated income statement	(4 988)	9 856	3 007	7 875
of which movements without impact on the consolidated income statement	259	654	3 131	4 044
Total impairment result	(5 247)	9 202	(124)	3 831

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

	Stage 1 MHUF	Reclassified Stage 2 MHUF	Reclassified Stage 3 MHUF	Reclassified Total MHUF
Changes in impairment on financial assets at amortised cost in 2022				
Debt securities				
General government	46	-	-	46
Corporate	(251)	-	-	(251)
Total impairment on debt securities	(205)	-	-	(205)
Loans and advances*				
Central bank and credit institutions	7	-	-	7
General government	(35)	334	-	299
Corporate	383	(1 087)	(801)	(1 505)
of which: Small and Medium enterprises	(122)	(1 591)	(95)	(1 808)
Households	(138)	(6 305)	(934)	(9 458)
of which: POCI	-	-	1 279	1 279
Consumer credit	47	(1 276)	(1 585)	(3 295)
Credit card	3	24	(50)	(23)
Current account	16	(207)	(266)	(457)
Finance lease	(6)	(26)	-	(32)
Mortgage loan	(198)	(4 820)	967	(5 651)
Term loan	-	-	-	-
Total movements partly recorded in the consolidated income statement	12	(7 058)	(1 735)	(8 781)
of which movements without impact on the consolidated income statement	-	167	1 914	2 081
Total impairment result	12	(7 225)	(3 649)	(10 862)

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on loan commitments and guarantees classified as stage 1 at 31 December 2023												
Loan commitments	553	961	(148)	(157)	(35)	59	-	-	-	(18)	-	1 215
Financial guarantees	42	31	(14)	(4)	(1)	25	-	-	-	-	-	79
Other commitments	31	2	(19)	(12)	-	2	-	-	-	-	-	4
Total	626	994	(181)	(173)	(36)	86	-	-	-	(18)	-	1 298
Impairment on loan commitments and guarantees classified as stage 2 at 31 December 2023												
Loan commitments	807	69	(414)	43	125	(167)	-	-	-	(25)	-	438
Financial guarantees	471	38	(150)	(82)	4	(74)	-	-	-	-	-	207
Other commitments	10	1	(8)	-	-	(2)	-	-	-	-	-	1
Total	1 288	108	(572)	(39)	129	(243)	-	-	-	(25)	-	646

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on loan commitments and guarantees classified as stage 3 at 31 December 2023												
Loan commitments	149	12	-	(72)	-	43	-	45	-	(11)	-	166
Financial guarantees	101	175	(6)	(3)	-	630	-	-	-	-	-	897
Other commitments	-	-	-	-	-	-	-	-	-	-	-	-
Total	250	187	(6)	(75)	-	673	-	45	-	(11)	-	1 063

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on loan commitments and guarantees classified as stage 1 at 31 December 2022												
Loan commitments	255	424	(130)	34	(36)	3	-	-	-	3	-	553
Financial guarantees	20	18	(4)	17	(11)	1	-	-	-	1	-	42
Other commitments	2	30	(2)	1	-	-	-	-	-	-	-	31
Total	277	472	(136)	52	(47)	4	-	-	-	4	-	626
Impairment on loan commitments and guarantees classified as stage 2 at 31 December 2022												
Loan commitments	268	408	(150)	10	282	(34)	-	-	-	23	-	807
Financial guarantees	61	127	(11)	17	280	(2)	-	-	-	(1)	-	471
Other commitments	-	8	-	-	2	-	-	-	-	0	-	10
Total	329	543	(161)	27	564	(36)	-	-	-	22	-	1 288

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on loan commitments and guarantees classified as stage 3 at 31 December 2022												
Loan commitments	392	-	(72)	(203)	-	-	-	-	-	32	-	149
Financial guarantees	40	95	(39)	-	-	6	-	-	-	(1)	-	101
Other commitments	-	-	-	-	-	-	-	-	-	-	-	-
Total	432	95	(111)	(203)	-	6	-	-	-	31	-	250

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

The breakdown of provision on loan commitments and guarantees recorded in the income statement in 2023 is presented below.

	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loan commitments	(680)	344	(28)	(364)
Financial guarantees	(37)	264	(796)	(569)
Other commitments	27	9	-	36
Total	(690)	617	(824)	(897)

The breakdown of provision on loan commitments and guarantees recorded in the income statement in 2022 is presented below.

	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loan commitments	(295)	(516)	275	(536)
Financial guarantees	(21)	(411)	(62)	(494)
Other commitments	(29)	(10)	-	(39)
Total	(345)	(937)	213	(1 069)

	2023 MHUF	2022 MHUF
Impairment on other		
Intangible assets	(4 320)	(977)
Investment property	-	(2)
Property and equipment	218	(1 281)
Other	(51)	20
Total impairment on other	(4 153)	(2 240)

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2023				Year ended 31 December 2022			
	Notional amount Assets	Notional amount Liabilities	Positive fair value Assets	Negative fair value Liabilities	Notional amount Assets	Notional amount Liabilities	Positive fair value Assets	Negative fair value Liabilities
Derivatives held for trading	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**
Foreign exchange derivatives								
Currency forwards	67 766	67 703	1 870	(1 383)	140 451	133 560	5 048	(1 836)
Currency futures	-	-	-	-	40 636	40 994	86	(57)
Currency swaps	1 539 679	1 539 755	6 656	(7 264)	1 815 674	1 824 010	17 699	(22 462)
Currency options	248 691	248 691	3 024	(3 141)	171 471	171 471	6 463	(6 497)
Total foreign exchange derivatives	1 856 136	1 856 149	11 550	(11 788)	2 168 232	2 170 035	29 296	(30 852)
Interest rate derivatives								
Interest rate swaps	1 453 825	1 453 825	59 677	(59 180)	1 822 712	1 822 712	159 892	(126 971)
Cross currency interest rate swaps	27 910	27 892	352	(202)	20 838	20 838	1 212	(116)
Interest rate options	23 177	23 177	649	(568)	25 153	25 153	1 419	(1 325)
Total interest rate derivatives	1 504 912	1 504 894	60 678	(59 950)	1 868 703	1 868 703	162 523	(128 412)
Commodity swaps	1 624	1 625	37	(35)	9 504	9 504	504	(458)
Commodity options	7 017	7 017	1 175	(707)	4 160	4 159	742	(419)
Total derivatives held for trading	3 369 689	3 369 685	73 440	(72 480)	4 050 599	4 052 401	193 065	(160 141)
Derivatives designated as micro fair value cash								
Interest rate swaps	92 901	92 901	3 726	(5 111)	49 512	49 512	5 422	(35)
Derivatives designated as portfolio fair value hedges								
Interest rate swaps	1 927 189	1 927 189	124 458	(95 788)	2 076 420	2 076 420	200 961	(204 942)
Derivatives designated as cash flow hedges								
Interest rate swaps	230 365	230 365	492	(22 364)	317 558	317 558	-	(57 413)
Cross currency interest rate swaps	21 016	18 066	1 181	-	21 016	21 043	-	(5 771)
Total derivatives held for hedging	2 271 471	2 268 521	129 857	(123 263)	2 464 506	2 464 533	206 383	(268 161)
Total derivative financial instruments	5 641 160	5 638 206	203 297	(195 743)	6 515 105	6 516 934	399 448	(428 302)

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the hedging instruments and the hedged items under micro fair value hedge in 2023.

	Hedging instruments					Hedged items			
	Notional amount		Carrying amount						
	Asset MHUF	Liability MHUF	Asset MHUF	Liability MHUF	Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period MHUF		Carrying amount MHUF	Accumulated fair value adjustments MHUF	Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period MHUF
Interest rate swaps	92 901	92 901	3 726	(5 111)	(1 791)	Loans and advances at amortised cost	18 527	(3 675)	1 791
Total micro fair value hedge	92 901	92 901	3 726	(5 111)	(1 791)		18 527	(3 675)	1 791

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the hedging instruments and the hedged items under portfolio fair value hedge in 2023.

	Hedging instruments					Hedged items				
	Notional amount		Carrying amount		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period				Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period	Result on discontinuation of hedge accounting recorded in profit or loss
	Asset	Liability	Asset	Liability			Carrying amount	Accumulated fair value adjustments		
	MHUF	MHUF	MHUF	MHUF	MHUF		MHUF	MHUF	MHUF	MHUF
						Debt securities at fair value through other comprehensive income	29 137	(2 163)	5 217	
						Debt securities at amortised cost	302 491	(58 861)	65 634	
						Loans and advances at amortised cost	407 171	(9 508)	38 890	
Interest rate swaps	1 927 189	1 927 189	124 458	(95 788)	35 698	Deposits at amortised cost	1 070 407	(47 451)	(142 313)	
Total portfolio fair value hedge	1 927 189	1 927 189	124 458	(95 788)	35 698		1 809 206	(117 983)	(32 572)	(3 126)

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the hedging instruments and the hedged items under cash flow hedge in 2023.

	Hedging instruments					Hedged items
	Notional amount		Carrying amount		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period	Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period
	Asset MHUF	Liability MHUF	Asset MHUF	Liability MHUF	MHUF	MHUF
Interest rate swaps	230 365	230 365	492	(22 364)		
Cross currency interest rate swaps	21 016	18 066	1 181	-		
Total cash flow hedge	251 381	248 431	1 673	(22 364)	37 156	37 156

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the hedging instruments and the hedged items under micro fair value hedge in 2022.

	Hedging instruments					Hedged items			
	Notional amount		Carrying amount		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period		Carrying amount	Accumulated fair value adjustments	Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period
	Asset	Liability	Asset	Liability					
	MHUF	MHUF	MHUF	MHUF	MHUF		MHUF	MHUF	MHUF
Interest rate swaps	49 512	49 512	5 422	(35)	5 670	Loans and advances at amortised cost	49 247	(5 466)	(5 670)
Total micro fair value hedge	49 512	49 512	5 422	(35)	5 670		49 247	(5 466)	(5 670)

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the hedging instruments and the hedged items under portfolio fair value hedge in 2022.

	Hedging instruments					Hedged items				
	Notional amount		Carrying amount		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period		Carrying amount	Accumulated fair value adjustments	Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period	Result on discontinuation of hedge accounting recorded in profit or loss
	Asset	Liability	Asset	Liability						
	MHUF	MHUF	MHUF	MHUF	MHUF		MHUF	MHUF	MHUF	MHUF
						Debt securities at fair value through other comprehensive income	17 920	(7 380)	(4 021)	
						Debt securities at amortised cost	233 534	(124 495)	(76 204)	
						Loans and advances at amortised cost	327 922	(50 153)	(33 096)	
Interest rate swaps	2 076 420	2 076 420	200 961	(204 942)	(4 419)	Deposits at amortised cost	(1 136 835)	182 734	117 988	
Total portfolio fair value hedge	2 076 420	2 076 420	200 961	(204 942)	(4 419)		(557 459)	706	4 667	(248)

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the hedging instruments and the hedged items under cash flow hedge in 2022.

	Hedging instruments					Hedged items
	Notional amount		Carrying amount			
	Asset	Liability	Asset	Liability	Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period	Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Interest rate swaps	317 558	317 558	-	(57 413)		
Cross currency interest rate swaps	21 016	21 043	-	(5 771)		
Total cash flow hedge	338 574	338 601	-	(63 184)	(30 928)	30 928

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Trading derivatives - Options

Although options are not accounted for as hedges, the Group has an operational policy where the risks of options sold and purchased are matched on a one to one basis with offsetting deals conducted with counterparties of sound credit standing.

Hedge accounting

The Group applies hedge accounting for some of its derivatives concluded in frame of Asset and Liability Management. The below sections outline the different types of hedge accounting techniques applied by the Group. As explained previously in note 2.3.7 hedging relationships are subject to regular retrospective and prospective hedge effectiveness testing and whilst the future might differ from management expectations and judgements due to the substantial headroom in each of the hedged portfolios and as a result of the construction of the hedge relationships management believes no significant inefficiencies due to changes to the volume or the fair value of the hedged portfolio are expected in the future that would lead to significant discontinuance or material inefficiencies even if assumptions change compared to current expectation. The sharp change in fair value of the hedging instruments and the hedged items in the fair value micro hedges and fair value hedges for a portfolio of interest rate risk for 2023 are attributable to the substantial decrease in market interest rates.

Cash flow hedge of interest rate risk

The aim of the cash-flow hedges designated by the Group is to hedge changes in cash flows group of assets and liabilities related to changes in interest and foreign exchange rates. The hedging instruments are EUR and HUF interest rate swaps.

Hedging relationships are subject to prospective and retrospective effectiveness measurement. Fair value changes in hedging instruments for the effective part of the hedging relationship are recognised in other comprehensive income and are accumulated to Cash flow hedge reserve. Since the exchange revaluation result of the hedged assets and liabilities is recorded as Net gains / (losses) from financial instruments at fair value through profit or loss, the foreign exchange revaluation effect of the hedging cross currency interest rate swaps recorded in Other comprehensive income was transferred to the Consolidated income statement at the same time.

The fair value change of hedging derivatives recorded in the consolidated comprehensive income as Cash flow hedge - Net gain / (loss) from fair value changes amounted to HUF 37 156 million gain in 2023 (HUF 30 928 million loss in 2022). In 2023 the Group did not transfer any result to the net profit due to ineffectiveness (nor in 2022).

The Group recognised a HUF 20 578 million accumulated loss in other comprehensive income as the effective portion at 31 December 2023 (HUF 57 735 million loss in 2022). Other comprehensive income includes HUF 109 million accumulated loss on discontinued cash flow hedges in 2023 (HUF 208 million loss in 2022).

NOTE 25 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The periods when the cash flows of the hedging instruments are expected to occur are the following:

	2023		2022	
	Expected cash flows		Expected cash flows	
	Inflow	Outflow	Inflow	Outflow
	MHUF	MHUF	MHUF	MHUF
< 3 months	482	(2 971)	560	(5 583)
3-6 months	2 454	(6 027)	1 048	(9 880)
6 months - 1 year	1 099	(5 864)	1 915	(16 124)
1-2 years	2 754	(7 320)	2 672	(19 573)
2-5 years	2 975	(8 603)	4 498	(24 298)
> 5 years	932	(2 288)	1 029	(5 043)
Total	10 696	(33 073)	11 722	(80 501)

Forecast transactions for which hedge accounting had previously been used but which is no longer expected to occur amounted to HUF 17 million as at 31 December 2023 (HUF 8 million as at 31 December 2022). The related transfer was presented as Cash flow hedges – Gross amount in the consolidated other comprehensive income.

Fair value hedge of interest rate risk on deposits and debt instruments

The risk to be hedged under fair value hedge of interest rate risk is interest rate risk, arising from changes in fair value of non-maturity deposits and debt instruments to changes in the risk-free (interest rate swap) yield curve. The hedging instruments are HUF interest rate swaps.

The accumulated fair value changes of hedged item under portfolio hedge of interest rate risk are presented separately in the consolidated statement of financial position and amounted to HUF 68 369 million loss on the asset side and HUF 45 288 million gain on the liability side in 2023 (HUF 174 648 million loss on asset side and HUF 189 356 million gain on liability side in 2022). The loss / gain recorded on the hedged item was compensated by a gain / loss recorded on the hedging instrument in the same amount. The fair value changes of the hedged item and the hedging instrument in the current year is recorded as Net gains / (losses) from financial instruments at fair value through profit or loss in the consolidated income statement.

Fair value hedge of fixed rate FVOCI bonds

The Group defines the risk to be hedged as the interest rate risk arising from changes in fair value of FVOCI bonds to changes in the risk-free (interest rate swap) yield curve. The hedging instruments are fixed rate payer-floating rate receiver (BUBOR 3M-6M) interest rate swaps.

The changes in the fair value of the FVOCI government bonds and the interest rate swaps due to interest rate risk are offset in the consolidated income statement and the unhedged credit spread of the bonds remains in the consolidated other comprehensive income. The change in the fair value of the hedged instrument amounted to a gain of HUF 5 217 million in 2023 (a loss of HUF 4 021 million in 2022).

NOTE 26 – OTHER ASSETS

	2023	2022
	MHUF	MHUF
Prepayments	2 324	3 624
Trade receivables	3 169	692
Receivables from employees	19	22
Receivables from bankcard service	24 562	16 083
Items in transit due to payment services	2 307	1 438
Items in transit due to trading in securities	147	79
Income accruals and cost prepayments	11 926	9 924
Inventories	676	435
Other receivables	13 421	7 814
	58 551	40 111

NOTE 27 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The deferred tax included in the consolidated statement of financial position and changes recorded in the consolidated income statement and equity are as follows:

For the period ended 31 December 2023:

	Assets MHUF	Liabilities MHUF	Income statement MHUF	Equity MHUF
Employee benefits	55	-	60	(1)
Losses carry forward	-	-	-	-
Tangibles and intangibles assets	1 363	5	460	-
Other provisions for risk and charges and credit commitments	195	-	(6)	-
Impairment for losses on loans and advances	75	-	42	-
Fair value adjustments FVOCI	(594)	-	(7)	(1 082)
Cash flow hedge	1 862	-	-	(3 353)
Other	-	-	(80)	-
Total	2 956	5	469	(4 436)

For the period ended 31 December 2022:

	Assets MHUF	Liabilities MHUF	Income statement MHUF	Equity MHUF
Employee benefits	-	4	(5)	1
Losses carry forward	-	-	1	-
Tangibles and intangibles assets	899	-	74	-
Other provisions for risk and charges and credit commitments	201	-	61	-
Impairment for losses on loans and advances	33	-	(22)	-
Fair value adjustments FVOCI	495	-	6	396
Cash flow hedge	5 215	-	-	2 779
Other	76	(4)	82	-
Total	6 919	-	197	3 176

NOTE 27 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

In 2023 and 2022 income taxes were calculated on all temporary differences under the asset and liability method using a tax rate of 9% or 10.82% (9% corporate income tax and 1.82% local business tax).
Deferred income tax for tax losses carried forward is calculated to the extent that realisation of the related tax benefit is assessed as probable. The tax benefit resulting from losses arising before 1 January 2015 can be realised until 2030. Losses carry forward from financial periods beginning on or after 1 January 2015 can be utilized for 5 years.

There is a total of HUF 426 million tax losses carried forward as at 31 December 2023 which has been assessed as not being probable and therefore was not included in the base of the deferred tax calculation (HUF 633 million in 2022).

NOTE 28 – INVESTMENT PROPERTIES

	Investment properties MHUF
At 31 December 2021	
Cost	937
Accumulated depreciation	(73)
Net book value	864
Movements in 2022	
Additions	42
Disposals - net	(380)
Impairment charge	(2)
Depreciation charge	(22)
At 31 December 2022	
Cost	550
Accumulated depreciation	(48)
Net book value	502
Movements in 2023	
Additions	-
Disposals - net	(227)
Impairment charge	-
Depreciation charge	(11)
At 31 December 2023	
Cost	298
Accumulated depreciation	(34)
Net book value	264

Investment properties include collaterals obtained by taking in possession. The Group intends to sell investment properties within a reasonable time period.

NOTE 28 – INVESTMENT PROPERTIES (continued)

The following table presents the results related to investment properties.

	2023 MHUF	2022 MHUF
Impairment on Investment property		
Additions	-	2
Reversals	-	-
Total impairment	-	2
Expenses from investment properties		
Acquisition cost	(7)	(15)
Maintenance expenses	(59)	(92)
Sale related cost	(12)	(29)
Total	(78)	(136)

Expenses recorded in 2023 (and 2022) were not recognised as asset in the consolidated statement of financial position.

The difference between the fair value and the carrying amount of the assets is immaterial as of 31 December 2023 (and as of 31 December 2022).

The Group believes that the carrying amount of investment properties approximates their fair value (classified as level 3 in the fair value hierarchy).

NOTE 29 – PROPERTY AND EQUIPMENT

	Land and buildings	IT equipment	Office equipment	Right of use assets	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2021						
Cost	49 976	13 485	9 836	20 567	3 519	97 383
Accumulated depreciation	(24 539)	(10 125)	(7 188)	(8 969)	(1 442)	(52 263)
Net book value	25 437	3 360	2 648	11 598	2 077	45 120
Movements in 2022						
Additions (acquired separately)	1 692	2 613	1 154	2 591	883	8 933
Disposals - net	-	(9)	(5)	(143)	(144)	(301)
Impairment charge	(47)	-	(32)	(1 187)	(14)	(1 280)
Depreciation charge	(2 134)	(1 108)	(466)	(2 507)	(386)	(6 601)
At 31 December 2022						
Cost	50 804	15 344	10 770	22 509	3 810	103 237
Accumulated depreciation	(25 856)	(10 488)	(7 471)	(12 157)	(1 394)	(57 366)
Net book value	24 948	4 856	3 299	10 352	2 416	45 871

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29 – PROPERTY AND EQUIPMENT (continued)

	Land and buildings	IT equipment	Office equipment	Right of use assets	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2022						
Cost	50 804	15 344	10 770	22 509	3 810	103 237
Accumulated depreciation	(25 856)	(10 488)	(7 471)	(12 157)	(1 394)	(57 366)
Net book value	24 948	4 856	3 299	10 352	2 416	45 871
Movements in 2023						
Additions (acquired separately)	2 301	3 646	267	1 656	979	8 849
Disposals - net	(116)	-	-	-	(160)	(276)
Impairment charge	-	(3)	(30)	251	-	218
Depreciation charge	(2 207)	(1 815)	(455)	(2 583)	(416)	(7 476)
At 31 December 2023						
Cost	52 491	18 689	10 149	24 147	4 341	109 817
Accumulated depreciation	(27 565)	(12 005)	(7 068)	(14 471)	(1 522)	(62 631)
Net book value	24 926	6 684	3 081	9 676	2 819	47 186

NOTE 29 – PROPERTY AND EQUIPMENT (continued)

Fully amortised tangible assets which were still in use amounted to HUF 23 795 million as at 31 December 2023 (HUF 21 529 million as at 31 December 2022).

NOTE 30 – INTANGIBLE ASSETS

	Software MHUF	Other intangible assets MHUF	Total MHUF
At 31 December 2021			
Cost	110 383	42	110 425
Accumulated depreciation	(51 562)	(42)	(51 604)
Net book value	58 821	-	58 821
Movements in 2022			
Additions (acquired separately)	26 842	-	26 842
Impairment charge	(977)	-	(977)
Depreciation charge	(9 226)	-	(9 226)
At 31 December 2022			
Cost	137 008	42	137 050
Accumulated depreciation	(61 548)	(42)	(61 590)
Net book value	75 460	-	75 460
Movements in 2023			
Additions (acquired separately)	34 529	-	34 529
Impairment charge	(4 320)	-	(4 320)
Depreciation charge	(9 012)	-	(9 012)
At 31 December 2023			
Cost	170 317	42	170 359
Accumulated depreciation	(73 660)	(42)	(73 702)
Net book value	96 657	-	96 657

Expenditure on items in the course of construction amounted to HUF 77 135 million as at 31 December 2023 (HUF 56 749 million as at 31 December 2022).

Fully amortised intangible assets which were still in use amounted to HUF 46 835 million as at 31 December 2023 (HUF 39 326 million as at 31 December 2022).

NOTE 31 – PROVISIONS FOR RISK AND CHARGES

	Provision for restructuring	Provision for tax litigation and pending legal disputes	Other	Total
	MHUF	MHUF	MHUF	MHUF
Balance as at 31 December 2021	150	1 059	647	1 856
Amounts allocated	596	63	146	805
Amounts used	(40)	(69)	-	(109)
Unused amounts reversed	-	-	(60)	(60)
Balance as at 31 December 2022	706	1 053	733	2 492
Amounts allocated	-	808	184	992
Amounts used	(96)	(270)	-	(366)
Unused amounts reversed	-	-	(139)	(139)
Balance as at 31 December 2023	610	1 591	778	2 979

The Group is party to litigation and claims arising in the normal course of business, the provision of HUF 1 591 million from the total provision for losses from tax litigation and pending legal disputes at 31 December 2023 relates to these litigations (HUF 1 053 million at 31 December 2022). Management considers the provision raised for the still pending cases adequate to cover any remaining potential losses.

Provisions on credit commitments of HUF 3 007 million as at 31 December 2023 (HUF 2 164 million as at 31 December 2022) is presented in Note 24 and Note 36. The sum of HUF 2 979 million provision for risk and charges and HUF 3 007 million provisions for credit commitments amounts to HUF 5 986 million (HUF 4 656 million in 2022).

NOTE 32 – OTHER LIABILITIES

	2023 MHUF	2022 MHUF
Trade creditors	12 341	9 105
Lease liabilities	472	479
Items in transit due to payment services	18 426	20 121
Items in transit due to lending activity	743	436
Items in transit due to trading securities	-	5
Liabilities from bankcard service	15 580	9 876
Other	22 854	21 840
Total other liabilities	70 416	61 862

Other liabilities include mainly short term liabilities.

Other includes trading tax liabilities, social charges, liability from transactional levy not settled yet, liabilities due to employees (see Note 38) and other accrued charges and deferred income arising from the normal course of business recorded as general administrative expenses in the consolidated income statement.

NOTE 33 – SHARE CAPITAL

	2023 MHUF	2022 MHUF
Ordinary shares issued and outstanding	140 978	140 978

The nominal value of the ordinary shares issued and outstanding at 31 December 2023 is HUF 1 per share (31 December 2022: HUF 1).

Shareholders of the Bank:

	2023 Shareholding %	2022 Shareholding %
KBC Bank N. V.	100.00	100.00
	100.00	100.00

NOTE 34 – EARNINGS PER SHARE

Earnings per share is the profit attributable to shareholders of the Group divided by the weighted average number of shares outstanding during the period, excluding treasury shares. There were no other potentially dilutive securities in existence at 31 December 2023 and 2022. The following amounts were used in the calculation of earnings per share:

	2023 number	2022 number
Net profit attributable to shareholders (MHUF)	108 899	67 615
Weighted average shares outstanding (in millions)	140 978	140 978
Earnings / (loss) per share in HUF (basic)	0.77246	0.47961

The figures of earnings per share calculated for basic and diluted shares do not differ.

NOTE 35 – ADDITIONAL INFORMATION TO THE CONSOLIDATED CASH FLOW STATEMENT

Net debt with regard to financing activities are presented in the table below.

	Notes	2023 MHUF	2022 MHUF
Cash and cash equivalents		1 097 154	1 334 570
Subordinated liabilities	16	(48 641)	(50 839)
Borrowing – repayable within 1 year		(50 389)	(87 519)
Borrowing – repayable after 1 year		(313 464)	(276 384)
Net debt		684 660	919 828

NOTE 35 – ADDITIONAL INFORMATION TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

The components of net debt changed as follows in 2023.

	Cash	Cash balances with central banks	Other demand deposits with credit institutions	Loans and advances to banks repayable on demand and term loans to banks < 3 months	Deposits from banks repayable on demand and redeemable at notice	Subordinated liabilities	Borrowing – repayable within 1 year	Borrowing – repayable after 1 year	Total net debt
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Net debt as at 31 December 2022	72 113	1 085 791	11 833	500 766	(335 933)	(50 839)	(87 519)	(276 384)	919 828
Cash flows	-	56 963	39 808	(500 209)	107 318	2 720	87 789	(29 532)	(235 143)
Foreign exchange adjustments	-	-	(473)	(2 592)	(2 203)	2 248	-	13 193	10 173
Other non-cash movements	6 841	24 020	10 162	24 653	(1 704)	(2 770)	(50 659)	(20 741)	(10 198)
Net debt as at 31 December 2023	78 954	1 166 774	61 330	22 618	(232 522)	(48 641)	(50 389)	(313 464)	684 660

NOTE 35 – ADDITIONAL INFORMATION TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

The components of net debt changed as follows in 2022.

	Cash	Cash balances with central banks	Other demand deposits with credit institutions	Loans and advances to banks repayable on demand and term loans to banks < 3 months	Deposits from banks repayable on demand and redeemable at notice	Subordinated liabilities	Borrowing – repayable within 1 year	Borrowing – repayable after 1 year	Total net debt
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Net debt as at 31 December 2021	63 510	91 734	111 347	1 377 024	(321 196)	(46 848)	(21 807)	(350 468)	903 296
Cash flows	8 603	973 157	(108 859)	(941 123)	(298)	1 218	(63 996)	105 481	(25 817)
Foreign exchange adjustments	-	-	7 937	4 363	(2 191)	(3 974)	-	(25 298)	(19 163)
Other non-cash movements	-	20 900	1 408	60 502	(12 248)	(1 235)	(1 716)	(6 099)	61 512
Net debt as at 31 December 2022	72 113	1 085 791	11 833	500 766	(335 933)	(50 839)	(87 519)	(276 384)	919 828

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

In the normal course of business, the Group is a party to credit related financial instruments recorded as off balance sheet items. These financial instruments include commitments to extend credit, financial guarantees and commercial letters of credit. These instruments involve elements of credit risk in excess of the amounts recognized in the consolidated statement of financial position.

Credit risk for off-statement of financial position financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Group uses the same credit policies in making commitments and conditional obligations as it does for financial instruments in the consolidated statement of financial position through established credit approvals, risk control limits and monitoring procedures.

Commitments are contractual agreements to extend credit which generally have fixed expiration dates or other termination requirements and may require payment of a fee. The potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending credit facilities to other customers. The Group applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under the guarantee.

Letters of credit represent a financing transaction by a Group to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

The Group has the following commitments, contingent assets and liabilities:

	2023 MHUF	2022 MHUF
Credit commitments – undrawn amount		
Received	10 175	20 092
Given		
Irrevocable	574 830	422 290
Revocable	373 078	402 661
Total given	947 908	824 951
Collaterals		
Given	447 734	461 079
Guarantees received/collateral		
For impaired and past due assets		
Non-financial assets	55 470	67 264
Financial assets	2 312	3 492
For assets that are not impaired or past due		
Non-financial assets	2 611 569	2 457 918
Financial assets	669 897	269 198
Total guarantees received/collateral	3 339 248	2 797 872
Other commitments given – irrevocable	13 542	33 348

The amount of the received guarantees and collaterals includes the indexed or reviewed collateral value.

The following table presents the nominal value and the provision for loan commitments and guarantees at 31 December 2023.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

The following table presents the nominal value and the provision for loan commitments and guarantees at 31 December 2023.

	Nominal amount			Provision			
	Performing		Non-performing	Performing		Non-performing	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loan commitments	798 452	146 887	2 569	(1 215)	(438)	(166)	946 089
Financial guarantees	287 023	154 116	6 595	(79)	(207)	(897)	446 551
Other commitments	12 335	1 207	-	(4)	(1)	-	13 537
Total	1 097 810	302 210	9 164	(1 298)	(646)	(1 063)	1 406 177

For evaluation of provision on commitments and contingent liabilities in 2023 see Note 24.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

The following table presents the nominal value and the provision for loan commitments and guarantees at 31 December 2022.

	Nominal amount			Provision			
	Performing		Non-performing	Performing		Non-performing	
	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loan commitments	619 504	201 919	3 528	(553)	(807)	(149)	823 442
Financial guarantees	260 378	199 009	1 692	(42)	(471)	(101)	460 465
Other commitments	28 910	4 438	-	(30)	(11)	-	33 307
Total	908 792	405 366	5 220	(625)	(1 289)	(250)	1 317 214

For evaluation of provision on commitments and contingent liabilities in 2022 see Note 24.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol of dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end the Group had several unresolved legal claims in the amount of HUF 153 million (HUF 386 million as at 31 December 2022) where the Group has been advised by its legal advisor that it is possible, but not probable, that the action will succeed. Accordingly no provision for these claims has been made in these consolidated financial statements.

NOTE 37 – FINANCE LEASES

Lessor position

The Group offers open end financial lease (OEFL) and closed end financial lease (CEFL) products for existing or targeted Corporate, Business and Micro SME customers of the Group. The products are handled in the Group's normal credit approval and monitoring process, which gives a well-defined and established basis for managing credit risk.
Leasing residual value risk management framework is in place which contains residual value policy, residual value limit setting methodology and guaranty framework.

The assets leased out by the Group are predominantly cars and trucks. In finance lease, the lessee selects an asset and the Group purchases that asset and gives it to the lessee. In this way the Group acts as a financier of the assets borrowed by the lessee. The lessee will have to use the asset during the lease period and will have to pay for the cost of repairs, maintenance and insurance of the asset. The Group is the legal owner of the asset during the period of lease and recovers a major part of the cost of the asset plus interest earned from lease payment by the lessee. The lessee assumes some risks of the ownership and enjoys some of the benefits. The lessee or the third party has the option to acquire ownership of the asset by paying a nominal price which is the repurchase price.

NOTE 37 – FINANCE LEASES (continued)

The following tables indicate the key amounts of the Group’s lease activity:

	2023	**2022**
	MHUF	**MHUF**
Finance lease receivables		
Total of gross investment in the lease, receivable:		
less than one year	34 619	32 680
one to five years	68 235	59 606
more than five years	6 352	5 820
	109 206	98 106
The present value of minimum lease payments receivables*:		
less than one year	30 883	28 276
one to five years	57 253	51 397
more than five years	5 347	4 358
	93 483	84 031
Unearned finance income	15 723	14 075
Contingent rents recognized as income - gross	5 536	3 881
Non-guaranteed residual values	15 700	14 340

*Net of impairment.

The total impairment recorded on finance lease receivables amounted to HUF 908 million as at 31 December 2023 (HUF 1 756 million as at 31 December 2022).

NOTE 37 – FINANCE LEASES (continued)

Lessee position

The Group has entered into property lease agreements. According to IFRS 16 these contracts are presented as lease liabilities and right-of-use assets.

The following tables give information about the client types and the remaining maturity of these liabilities recorded according to IFRS 16.

	2023	2022
	MHUF	MHUF
< 1 year	1 899	4 223
1-5 years	10 087	7 213
5 years	616	3 634
Total financial lease liabilities	12 602	15 070

	2023	2022
	MHUF	MHUF
General government	293	409
Corporate	9 879	12 646
of which small and medium enterprises	2 430	2 015
Total financial lease liabilities	12 602	15 070

Expenses relating to short-term leases and low-value lease are included in general administration expenses and amounted to HUF 347 in 2023 (HUF 164 million in 2022).

Following table shows the total cash outflow for leases.

	2023	2022
	MHUF	MHUF
Interest expense	145	118
Principal repayment	3 503	3 337
Total cash outflow	3 648	3 455

NOTE 38 – RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, related parties include all enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the Bank (this includes parents, subsidiaries and fellow subsidiaries), key management and associated companies.

Parent:

KBC Bank N.V. owns 100% of the ordinary shares in K&H Bank (2022: 100%). The ultimate parent of the Group is KBC Group N.V.

Subsidiaries:

See list of subsidiaries in Note 41.

Associates:

See list of associates in Note 41.

Members of KBC Group and other related parties:

CBC Banque SA
Československa Obchodni Banka a.s.
Československa Obchodna Banka a.s.
IVESAM N.V.
KBC Asset Management N.V.
KBC Fund Management Limited
KBC Global Services N.V.
KBC Securities N.V.
K&H Biztosító Zrt.
Patria Finance a.s.
K&H Pénzforgalmi Szolgáltató Kft.
Omnia N.V.

Other related parties through key management

If the Group’s key management has direct or indirect authority and responsibility for planning, directing and controlling the activity of a company outside of KBC Group, the companies are presented as other related parties through key management.

The banking transactions entered into with related parties in the normal course of business including loans and deposits were carried out on normal commercial terms and conditions and at market rates. All loans and advances to related parties are performing and are free of any provision for possible loan losses.

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

The year-end balances and the income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	Parent	Other related parties (KBC Group)	Other related parties (through key management)	Total
	MHUF	MHUF	MHUF	MHUF
As at 31 December 2023				
Assets				
Other demand deposit	46 777	31	-	46 808
Loans and advances	130 182	348	2 244	132 774
Current accounts	-	348	78	426
Term loans	130 182	-	2 166	132 348
Finance leases	-	-	-	-
Derivatives	181 652	730	-	182 382
Held fog trading	52 632	730	-	53 362
Hedging	129 020	-	-	129 020
Other receivables	42	4 993	-	5 035
Total assets	358 653	6 102	2 244	366 999
Liabilities				
Deposits	410 526	56 175	213	466 914
Current accounts	9 675	47 399	213	57 287
Term deposits (with agreed maturity)	400 851	8 776	-	409 627
Subordinated liabilities	48 641	-	-	48 641
Issued mortgage bonds	145 124	-	-	145 124
Derivatives	175 049	705	-	175 754
Held fog trading	53 948	705	-	54 653
Hedging	121 101	-	-	121 101
Other liabilities	469	755	-	1 224
Total liabilities	779 809	57 635	213	837 657
Income statement				
Net interest and similar income	(24 497)	(3 329)	276	(27 550)
Interest and similar income	3 731	111	276	4 118
Interest and similar expense	(28 228)	(3 440)	-	(31 668)
Net fee and commission income	(392)	14 226	19	13 853
Fee and commission income	811	15 147	23	15 981
Fee and commission expense	(1 203)	(921)	(4)	(2 128)
Other income	148	1 340	-	1 488
Other expense	(1 677)	(10 005)	-	(11 682)
Total income statement	(26 418)	2 232	295	(23 891)
Off-statement of financial position items				
Commitments and contingent liabilities	194 721	12 824	210	207 755
Guarantees received	6 206	9 025	-	15 231
Notional amount of derivatives	5 935 725	19 069	-	5 954 794

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

	Parent	Other related parties (KBC Group)	Other related parties (through key management)	Total
	MHUF	MHUF	MHUF	MHUF
As at 31 December 2022				
Assets				
Other demand deposit	911	33	-	944
Loans and advances	148 490	6 244	2 582	157 316
Current accounts	-	54	216	270
Term loans	148 490	6 190	2 366	157 046
Finance leases	-	-	-	-
Derivatives	344 579	376	-	344 955
Held fog trading	142 782	376	-	143 158
Hedging	201 797	-	-	201 797
Other receivables	153	3 566	-	3 719
Total assets	494 133	10 219	2 582	506 934
Liabilities				
Deposits	316 402	61 923	302	378 627
Current accounts	4 501	33 462	302	38 265
Term deposits (with agreed maturity)	311 901	28 461	-	340 362
Subordinated liabilities	50 839	-	-	50 839
Issued mortgage bonds	108 012	-	-	108 012
Derivatives	387 015	447	-	387 462
Held fog trading	127 423	447	-	127 870
Hedging	259 592	-	-	259 592
Other liabilities	83	2 563	-	2 646
Total liabilities	862 351	64 933	302	927 586
Income statement				
Net interest and similar income	(8 325)	(2 289)	138	(10 476)
Interest and similar income	1 829	621	138	2 588
Interest and similar expense	(10 154)	(2 910)	-	(13 064)
Net fee and commission income	44	11 251	19	11 314
Fee and commission income	994	12 329	22	13 345
Fee and commission expense	(950)	(1 078)	(3)	(2 031)
Other income	130	1 122	-	1 252
Other expense	(1 689)	(7 511)	-	(9 200)
Total income statement	(9 840)	2 573	157	(7 110)
Off-statement of financial position items				
Commitments and contingent liabilities	177 700	12 025	86	189 811
Guarantees received	11 329	9 611	-	20 940
Notional amount of derivatives	6 553 427	12 785	-	6 566 212

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

The interest rate of other demand deposits and loans and advances from related parties varied in a range of 0 and 11.8 percent in 2023 (0 and 21 percent in 2022). Deposits due to related parties bear a minimum interest rate of 0 and a maximum interest rate of 11 percent in 2023 (0 and 14.36 in 2022). For interest rate conditions of subordinated liabilities see Note 16.

Transactions with key management

The Group's key management includes the members of the executive committee, senior executive directors and executive directors.

Loans

In accordance with the Group’s internal policy, all employees of the Group, including key management may apply for loans with favourable conditions. Favourable conditions include a waiver of handling fees and lower than market interest rates.

The major part of the total of HUF 739 million outstanding amount of loans of key management at 31 December 2023 was housing loan (HUF 555 million at 31 December 2022), with the long-term maturity obligations ranging from 15-20 years.

Deposits

In accordance with the Group’s internal policy, all employees of the Group, including key management staff are entitled to have a bank account and a securities/bond account with condition of K&H 4000+ account package offered for companies with number of employees over 4 000. According to this package the interest paid on deposit is the basic interest rate of the Hungarian National Bank less 3.25 but if it is negative, then the interest rate for the K&H Demand Deposit Account.

At 31 December 2023 the outstanding amount of deposits was HUF 408 million (HUF 762 million at 31 December 2022).

Staff expenses

The following amounts have been recorded related to key management personnel:

Type of benefit	2023 MHUF	2022 MHUF
Short-term employee benefits	2 488	2 445
Other long-term benefits	8	16
Termination benefits	38	40
Share based payment (cash settled)	37	50
Total benefits	2 571	2 551

The liability of HUF 178 million in 2023 (HUF 150 million in 2022) resulting from the carrying amount of share based payment is recorded as other liability in the consolidated statement of financial position.

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

Share based payment

The Group applies specific rules for Key Identified Staff (KIS). The performance-based remuneration of Key Identified Staff is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking. This is ensured by specific rules, which are applicable to the variable remuneration of Key Identified Staff:

- At least 40% of variable remuneration awarded to Key Identified Staff may not be paid straightaway and its payment is spread over a period of four to five years;
- Half of the total amount of variable remuneration for Key Identified Staff is awarded in the form of non-cash instruments (phantom shares) with a one-year retention period;
- No advance payments may be made in relation to the variable component and claw-back/holdback is put in place (evidence of misconduct or serious error; significant deterioration in the financial performance of the Group; major shortcomings in risk management; significant changes in the economic or regulatory capital base of the Group).

Key Identified Staff who are allocated variable compensation of less than the amount stated in the Remuneration Policy are considered exempt Key Identified Staff. (In this case, variable remuneration is not subject to three years' deferral and payment in non-cash instruments, but 100% of the variable remuneration is settled upfront in cash.) The employees whose variable remuneration is subject to deferral and payment in non-cash instruments are called material Key Identified Staff.

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

Structure for 2023 variable compensation of material Key Identified Staff

	Individual variable remuneration awarded for 2023 performance year			
	Upfront part		Deferred part	
In case of CEO	(49% of award)		(51% of award)	
In Case of CEO Deputies whose variable compensation is below the limit prescribed in the Remuneration Policy	(54% of award)		(46% of award)	
In case of all KIS whose variable compensation is below the limit prescribed in the Remuneration Policy	(60% of award)		(40% of award)	
In case of all KIS whose variable compensation is equal to or exceeds the limit prescribed in the Remuneration Policy	(40% of award)		(60% of award)	
Vesting schedule for CEO	Cash (51% of Upfront)	Non-cash instrument (49% of Upfront)	Cash (49% of Deferred)	Non-cash instrument (51% of Deferred)
	fully vested at grant	fully vested at grant	5-year equal vesting tranches	5-year equal vesting tranches
Vesting schedule for Deputy CEO	Cash (56% of Upfront)	Non-cash instrument (44% of Upfront)	Cash (43% of Deferred)	Non-cash instrument (57% of Deferred)
	fully vested at grant	fully vested at grant	4-year equal vesting tranches	4-year equal vesting tranches
Vesting schedule for other roles	Cash (50% of Upfront)	Non-cash instrument (50% of Upfront)	Cash (50% of Deferred)	Non-cash instrument (50% of Deferred)
	fully vested at grant	fully vested at grant	4-year equal vesting tranches	4-year equal vesting tranches
Retention period		retention period ends April 2025		retention period ends one year after vesting

The cash is payable following vesting. The non-cash instrument is payable following the retention period.

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

The number of phantom shares to which each Key Identified Staff is entitled is calculated based on the average price of the KBC share during the first three months of the year following the year to which the variable remuneration relates. Phantom shares are converted into cash on the basis of the average price of the KBC share during the first three months of the pay-out year.

	2023		2022	
	number of shares	weighted average share price* HUF/share	number of shares	weighted average share price* HUF/share
Outstanding as at the beginning of the period	4 923	28 500	4 686	22 557
Granted	5 295	27 506	4 039	21 746
Exercised	(2 659)	25 316	(1 892)	21 190
Transferred**	-	-	(1 910)	21 190
Outstanding as at the end of the period	7 559	25 659	4 923	28 500

*Share prices as at the grant date weighted by the number of shares granted at that date.
**Shares granted to employees moving between KBC entities during the year may increase/decrease the number of shares to be exercised or paid off by the Group. These changes are presented as transferred shares. Transferred shares also include no longer payable deferred amounts due to employment termination.

The value of the phantom shares outstanding as at 31 December 2023 based on the year-end closing price of KBC shares was 20 875 HUF/share (21 737 HUF/share as at 31 December 2022).

There were no shares exercisable as at 31 December 2023 (and as at 31 December 2022).

The weighted average share price of shares converted to cash as at the date of the exercise was 27 506 HUF/share in 2023 (26 641 HUF/share in 2022).

The weighted average remaining contractual life of phantom shares outstanding as at 31 December 2023 is 18 months (17 months as at 31 December 2022).

The Group applied the share based payment plan for the 2023 performance as well.

As at 31 December 2023 the information related to the number of phantom shares for the 2023 performance is not available, since the first grant date is in April 2024.

From the grant date phantom shares are valued based on the quoted market prices of KBC shares. No intrinsic value is recorded.

NOTE 39 – DEFINED BENEFIT PLAN

A part of the Bank's employees are entitled to participate in defined benefit plan founded by the Bank. The amount of benefits to be provided depends on the employee's length of service in a certain past period and the level of reference interest rate. The future payments regarding to the plan have no significant effect on the Bank's cash flow.

The table below presents the reconciliation of defined benefit obligations recorded as other liabilities.

	2023 MHUF	2022 MHUF
Defined benefit obligations at the beginning of the period	262	261
Interest cost	20	15
Actuarial gains and losses arising from changes in financial assumptions	(8)	16
Benefits paid	(4)	(11)
Past service cost, including gains and losses arising from settlements	(2)	(19)
Defined benefit obligation at end of the period	268	262

Interest cost on defined retirement benefit plans are recorded as interest and similar expense in the consolidated income statement (see Note 5). Current service cost includes the effect of the renegotiation of defined benefit plans. Current service costs, benefits paid and past service costs are recorded as staff expenses in the consolidated income statement (see Note 14). Actuarial gains and losses arising from changes in financial assumptions are accounted directly in other comprehensive income.

NOTE 40 – AUDITOR'S REMUNERATION

	2023 MHUF	2022 MHUF
Fees for the statutory audit services	259	228
Fees related to permitted non-audit services provided by the statutory auditor	-	3
Total fees paid to audit firms	259	231

The amounts in the table above include VAT.

The Group is provided with statutory audit services by PricewaterhouseCoopers Könyvvizsgáló Korlátolt Felelősségű Társaság.

NOTE 41 – SUBSIDIARIES

Fully consolidated subsidiaries	Address of headquarter	Principal activities	Capital 2023 MHUF	Effective Shareholding 2023	Effective Shareholding 2022
K&H Jelzálogbank Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Other credit granting services	3 700	100%	100%
K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	Operating lease	11	100%	100%
K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Finance lease	50	100%	100%
K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	Group service center	60	100%	100%
K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Business and management consultancy	38	100%	100%
K&H Faktor Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Other financial services	51	100%	100%

The principal place of business of the companies mentioned in the table is Hungary.

NOTE 42 – SUBSEQUENT EVENTS

There were no subsequent events to be reported till the approval of the Consolidated Financial Statements.

NOTE 43 – RISK MANAGEMENT

43.1 General

The Group is not only a universal commercial bank and a major player in the Hungarian market but also part of the KBC Group. As such the activities of the Group cover a wide range including the retail, corporate and the professional money market segments. In its role as a financial intermediary, the Group faces different uncertainties presenting both risk and opportunity at the same time. The challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value.

Risk management makes it possible for management to effectively deal with this uncertainty and the risks and opportunities linked to it, enhancing the capacity to build value. Therefore at both KBC Group and K&H Group value and risk management is based on the following fundamental principles:
- Value, risk and capital management are inextricably linked to one another.
- Risk management is approached from a comprehensive, enterprise- wide angle, taking into account all the risks a company is exposed to and all the activities it engages in.
- Primary responsibility for value and risk management lies with line management, while within Capital and Risk Oversight (CRO) Services Division separate Value and Risk Management departments – operating independently of line management – perform advisory, supporting and supervisory role.
- Every material subsidiary is required to adhere to the same risk governance model as the parent company.

The Group risk management activity is primarily based on the on-going Internal Capital Adequacy Assessment Process (ICAAP) that is aligned with international standards and KBC Group principles. The ICAAP is subject of annual Supervisory Review and Evaluation Process (SREP) conducted by the local supervisor in the frame of Joint Capital Decision of home and host supervisors.

The Group has Recovery Plan prepared according to the guidelines set out by KBC Group and the local supervisor. The Recovery Plan of the Group is integrated into the Recovery Plan of KBC Group.

Risk management governance model

The risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organisations with a view to ensuring the sound management of value creation and all the associated risks to which the banking business is exposed. The Group's risk governance model is organised in three tiers:
- Overarching company and risk committees are the Board of Directors (BoD), the Audit Board (AB), Risk and Compliance Committee (RCC), the Executive Committee (ExCo), the Country Team (CT) and the Capital and Risk Oversight Committee (CROC). These committees concentrate on overarching risk management and on monitoring value creation.
- Specialised risk councils (Credit Risk Council (CRC), Asset Liability Management Risk Council (ALRC), Operational Risk Councils (ORC)) concentrate on implementing a group-wide framework for one particular type of risk and monitoring the associated risk management process. The risk councils are composed of representatives from line management and relevant Risk Management departments.
- Line management and activity-specific committees have primary responsibility for value and risk management on the operational level. Whereas Risk Management departments measure risks, economic capital and value creation for all relevant business entities and reports their findings directly to line management and the relevant activity-specific committees.
- Within CRO Services Division the Risk Value and Risk Integration Department is dedicated to overarch the three existing risk centres of competence (Credit Risk, Market and Liquidity Risk and Non-financial Risks), enhance coordination and report to Management regarding value creation, risk and capital.

The Board of Directors and the Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Risk and Compliance Committee – quarterly risk reports, yearly overview of the remuneration policy and the risk based pricing policy - ensures that there is an ample flow of information to the relevant members of the Board over the course of the year. Moreover, through the involvement of the entire Board in the annual round of approvals of risk-tolerance limits, the Board is able to take informed decisions on the degree of risk it finds acceptable for the Group and on the adequacy of the risk management structure.

NOTE 43 – RISK MANAGEMENT (continued)

Risk measurement and monitoring

Risk measurement and monitoring in general includes the following sub-processes:

- Identification of risks is a process of discovering and defining material risks, namely those risks that could have a positive or negative impact on the statement of financial position of the Group. Identification of risks is further ensured with setting up New and Active Products Process (NAPPs) in all business domains.

- Measurement of risks; qualitative and quantitative assessment of exposure to risk. The Group uses amongst others the following risk measures for the following most significant risk types:
  - Credit default and migration risks: nominal positions (outstanding/exposure), PD (probability of default), LGD/EL (loss given default/expected loss), credit concentration ratios, loan delinquency ratios, renegotiated loan ratios, credit loss ratios, RWA, stress test results;
  - Trading risk: historic VaR (value at risk), and stress test results;
  - ALM (asset-liability management) risk: BPV (basis point value), results of stress test on interest income, parametric VaR;
  - Operational risk: KRI (key risk indicator), results of risk self-assessment, level of compliance with Group Standards, availability of crisis management plans;
  - Liquidity risk: liquidity gaps, loan-to-deposit ratio, liquidity coverage ratio (LCR), net stable funding ratio (NSFR), liquidity concentration ratios, stress test results.

- Risk appetite and setting limits; is a way of authorizing specific forms of risk taking. A limit indicates how much risk the Group considers being 'an acceptable maximum' for a portfolio or a segment of a portfolio. They reflect the general risk appetite, set by the Board of Directors. This general risk appetite cascades down in specific risk limits or tolerances that reflect the degree of acceptable variation to the achievement of objectives. Risk appetite and limits are agreed upon by the Board of Directors.

- Reporting; delivery of risk measurement results and compliance with the limits (comparison of risk exposure with the risk limit) to the decision makers (relevant risk committees) in a structured format. The main types of reports used in the Group:
  - exposures to key risk types
  - key risk indicators
  - limit breaches
  - losses
  - advice from Risk Management Directorate regarding the risk response.

  A dual reporting system by the local risk departments exists: hierarchical reporting to the local Executive Committee via the local risk committees, and functional reporting via the KBC Group Value and Risk Management to the group risk committees and on to the KBC Group Executive Committee.

- Monitoring and response to shortcomings; the purpose of responding to risks is to constrain threats and take advantage of the opportunities. Management (or respective decision makers) need to come up with a response to risk and define, implement and execute controls instruments that help to achieve a residual risk level aligned with the Group's risk limits.

The following paragraphs deal with each of the material risk types in more detail.

43.2 Liquidity risk and funding management

Liquidity is the ability of the Group to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of the Bank in the maturity transformation of short-term deposits into long-term loans makes the Bank inherently vulnerable to liquidity risk both of an institution-specific nature and that which affects markets as a whole. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions. Financial market developments in the past decade have increased the complexity of liquidity risk and its management.

NOTE 43 – RISK MANAGEMENT (continued)

The objective of the liquidity risk management framework is to limit liquidity risks by taking into account an adequate level of funding, the potential growth of the Group, and in considering liquidity shocks to guarantee the availability of sufficient cash flow to meet all of the Group's financial commitments:

- in a normal business environment;
- under extreme circumstances (shocks);
- and on different time horizons (short, medium and long term).

The Group assesses the following liquidity risk aspects:

- Short-term liquidity risk represents the risk that the Bank will not be able to meet its payment obligations in full or in time. Short-term liquidity risk is measured up to 30-90 working days.
- Long-term liquidity risk represents the risk that additional refinancing funds will be available only at higher market interest rates. Long-term liquidity risk is measured from 1 year onwards.
- Concentration liquidity risk occurs when the Bank has an excessive level of exposure to individual depositor, type of deposit instrument, market segment or currency of denomination, mainly on the liabilities' side. However, concentration liquidity risk can be also due to concentration in a particular on- or off-statement of financial position instrument, which could significantly alter expected cash flows.
- Marketable asset risk represents the risk that the Bank will not be able to liquidate assets on the market only at a discount.

The core collateral pool (liquidity buffer or liquidity reserve) is considered as the liquidity resource of the Group. The Group maintains adequate liquidity resources at all times, both as to amount, maturity and quality, to ensure that the Group can continue to meet its liabilities as they fall due, both in normal and stressed times.

The structure of the core collateral pool reflects the Group's market position, and advantages resulting from the composition of shareholders and various internal and external prudential expectations such as:

- Attracting significant client funds (both corporate and retail);
- Having (indirect) access to international capital markets, funds provided by KBC Group (parent company);
- Keeping the cost of funding to a minimum, while maintaining competitiveness (prices should be in line with the rates of other key players in the market);
- Avoiding as much as possible reliance on volatile deposits;
- Offering full service to clients with the widest possible array of financial products.

The Group maintains adequate balances on its accounts with the Hungarian National Bank and foreign correspondents to continuously meet its obligations.

NOTE 43 – RISK MANAGEMENT (continued)

The following table shows a breakdown of the financial assets and financial liabilities by expected maturity at 31 December 2023:

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial assets					
Cash balances with central banks and other demand deposits with credit institutions	1 307 058	-	-	-	1 307 058
Held for trading	21 613	43 255	8 892	-	73 760
Mandatorily at fair value through profit or loss	29 232	63 963	237 265	-	330 460
Fair value through other comprehensive income	-	77 273	84 802	1 807	163 882
Amortised cost	924 510	1 483 502	1 056 172	-	3 464 184
Fair value changes of hedged item under portfolio hedge of interest rate risk	(68 369)	-	-	-	(68 369)
Hedging derivatives	2 222	49 939	77 696	-	129 857
Total financial assets and cash balances with central banks and other demand deposits with credit institutions	2 216 266	1 717 932	1 464 827	1 807	5 400 832

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial liabilities					
Held for trading	21 954	43 394	7 132	-	72 480
Designated at fair value through profit or loss	58 541	-	-	-	58 541
Hedging derivatives	14 256	77 772	31 235	-	123 263
Measured at amortised cost	4 021 508	649 501	69 968	-	4 740 977
Fair value changes of hedged item under portfolio hedge of interest rate risk	(45 288)	-	-	-	(45 288)
Total financial liabilities	4 070 971	770 667	108 335	-	4 949 973
Commitments and contingent liabilities	1 409 184	-	-	-	1 409 184
Total financial liabilities, commitments and contingent liabilities	5 480 155	770 667	108 335	-	6 359 157

Financial assets and liabilities repayable on demand are included in the <=1 year category.

NOTE 43 – RISK MANAGEMENT (continued)

The following table shows a breakdown of the financial assets and financial liabilities by expected maturity at 31 December 2022:

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial assets					
Cash balances with central banks and other demand deposits with credit institutions	1 169 737	-	-	-	1 169 737
Held for trading	45 966	100 022	58 399	-	204 387
Mandatorily at fair value through profit or loss	33 985	49 622	188 405	-	272 012
Fair value through other comprehensive income	11 787	5 368	17 841	1 626	36 622
Amortised cost	1 356 006	1 232 179	1 115 114	-	3 703 299
Fair value changes of hedged item under portfolio hedge of interest rate risk	(174 648)	- -	-	-	(174 648)
Hedging derivatives	5 230	73 465	127 688	-	206 383
Total financial assets and cash balances with central banks and other demand deposits with credit institutions	2 448 063	1 460 656	1 507 447	1 626	5 417 792

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial liabilities					
Held for trading	42 711	63 786	53 644	-	160 141
Designated at fair value through profit or loss	13 597	-	-	-	13 597
Hedging derivatives	35 983	139 711	92 467	-	268 161
Measured at amortised cost	4 183 002	547 643	110 883	-	4 841 528
Fair value changes of hedged item under portfolio hedge of interest rate risk	(189 356)	-	-	-	(189 356)
Total financial liabilities	4 085 937	751 140	256 994	-	5 094 071
Commitments and contingent liabilities	1 319 378	-	-	-	1 319 378
Total financial liabilities, commitments and contingent liabilities	5 405 315	751 140	256 994	-	6 413 449

Financial assets and liabilities repayable on demand are included in the <=1 year category.

NOTE 43 – RISK MANAGEMENT (continued)

The remaining maturity of non-financial assets and liabilities held as at 31 December 2023 is presented in the table below.

	< 1 year MHUF	> 1 year MHUF	Total MHUF
Tax assets	22	2 956	2 978
Investment property	-	264	264
Property and equipment	-	47 186	47 186
Intangible assets	-	96 657	96 657
Non-current assets held for sale and disposal groups	-	-	-
Other assets	58 551	-	58 551
Total assets	58 573	147 063	205 636
Tax liabilities	4 837	5	4 842
Provisions for risks and charges	5 656	330	5 986
Other liabilities	70 416	-	70 416
Total liabilities	80 909	335	81 244

The remaining maturity of non-financial assets and liabilities held as at 31 December 2022 is presented in the table below.

	< 1 year MHUF	> 1 year MHUF	Total MHUF
Tax assets	40	6 919	6 959
Investment property	-	502	502
Property and equipment	-	45 871	45 871
Intangible assets	-	75 460	75 460
Non-current assets held for sale and disposal groups	-	-	-
Other assets	40 111	-	40 111
Total assets	40 151	128 752	168 903
Tax liabilities	2 579	-	2 579
Provisions for risks and charges	3 995	661	4 656
Other liabilities	61862	-	61 862
Total liabilities	68 436	661	69 097

The expected remaining maturity breakdown above represents the current and non-current classification of non-financial assets and liabilities.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the future undiscounted cash flows of financial liabilities and commitments and contingent liabilities by remaining contractual maturity as at 31 December 2023. For held-for-trading derivatives fair values are disclosed in the table.

	Cash balances with central banks and other demand deposits with credit institutions	Held for trading derivatives	Mandatory fair value through profit or loss	Fair value through other comprehensive	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets							
On demand and less than three months	1 228 103	476 619	18 380	34 550	389 924	1 427 617	3 575 193
More than three months but not more than one year	-	692 572	9 219	196	738 447	313 860	1 754 294
More than one but not more than five years	-	702 368	64 283	76 352	1 761 822	1 528 571	4 133 396
More than five years	-	192 517	238 356	63 009	1 248 218	591 292	2 333 392
Total	1 228 103	2 064 076	330 238	174 107	4 138 411	3 861 340	11 796 275

	Held for trading derivatives	Designated at fair value through profit or loss	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities					
On demand and less than three months	476 434	54 577	3 734 655	1 428 035	5 693 701
More than three months but not more than one year	692 218	3 852	235 147	313 860	1 245 077
More than one but not more than five years	702 170	-	744 155	1 525 622	2 971 947
More than five years	192 517	-	159 279	591 292	943 088
Total	2 063 339	58 429	4 873 236	3 858 809	10 853 813

NOTE 43 – RISK MANAGEMENT (continued)

	Commitments to extend credit	Guarantees	Letters of credit	Total
	MHUF	MHUF	MHUF	MHUF
Commitments and contingent liabilities				
On demand and less than three months	947 908	447 734	13 542	1 409 184
More than three months but not more than one year	-	-	-	-
More than one but not more than five years	-	-	-	-
More than five years	-	-	-	-
Total	947 908	447 734	13 542	1 409 184

The following tables present the future undiscounted cash flows of financial liabilities and commitments and contingent liabilities by remaining contractual maturity as at 31 December 2022. For held-for-trading derivatives fair values are disclosed in the table.

	Cash balances with central banks and other demand deposits with credit institutions	Held for trading derivatives	Mandatory fair value through profit or loss	Fair value through other comprehensive	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets							
On demand and less than three months	1 097 624	722 681	28 779	8 122	718 240	1 394 052	3 969 498
More than three months but not more than one year	-	800 745	8 068	17 980	652 779	403 400	1 882 972
More than one but not more than five years	-	931 157	56 738	8 539	1 397 618	1 179 696	3 573 748
More than five years	-	421 837	215 385	13 886	1 141 262	508 198	2 300 568
Total	1 097 624	2 876 420	308 970	48 527	3 909 899	3 485 346	11 726 786

NOTE 43 – RISK MANAGEMENT (continued)

	Held for trading derivatives	Designated at fair value through profit or loss	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities					
On demand and less than three months	721 739	13 549	3 914 167	1 396 799	6 046 254
More than three months but not more than one year	799 617	-	169 496	403 400	1 372 513
More than one but not more than five years	921 205	-	635 951	1 179 724	2 736 880
More than five years	421 661	-	120 503	508 198	1 050 362
Total	2 864 222	13 549	4 840 117	3 488 121	11 206 009

	Commitments to extend credit	Guarantees	Letters of credit	Total
	MHUF	MHUF	MHUF	MHUF
Commitments and contingent liabilities				
On demand and less than three months	824 951	461 079	33 348	1 319 378
More than three months but not more than one year	-	-	-	-
More than one but not more than five years	-	-	-	-
More than five years	-	-	-	-
Total	824 951	461 079	33 348	1 319 378

The Group's exposure to the risk arising from the outflows of cash or other financial asset which can occur significantly earlier or can be for significantly different amounts from the data presented in the tables above is immaterial.

The Group uses different ratios to measure and limit liquidity risk that arises from financial intermediation. The operational liquidity is monitored via limits on the unsecured liquidity gap, stress tests and "Basel III" and local regulatory liquidity indicators. From a structural liquidity point of view a group wide net stable funding ratio is used. The Group is also analysing liquidity stress test results.

NOTE 43 – RISK MANAGEMENT (continued)

Operational liquidity is measured by the unsecured liquidity gap limit. The operational liquidity gap is the difference between the cash in and outflows in different time horizons (5 days, 30 days) and an internal limit was set for the gap to be covered by Hungarian National Bank eligible collaterals. The Group had sufficient liquidity gap surplus in 2023 and 2022, having increasing reliance on sight deposits.

Liquidity stress tests

Contingency liquidity risk is assessed in the Group on the basis of several liquidity stress scenarios. The aim of the stress tests is to measure how the liquidity buffer of the Group evolves under stressed scenarios. For each scenario the evolution of the liquidity buffer is calculated: this is the amount of excess liquidity per time bucket. Excess liquidity is the amount of cash that is available which is not required to cover immediately maturing liabilities. The simulated liquidity buffer is the sum of two components: the expected cash evolution under stressed scenarios and the expected liquidity increasing actions under stressed scenarios. In essence, there are four different types of stress tests: K&H specific empirical scenario, 2013's Cyprus banking crisis inspired empirical scenario, Combined general market turmoil and Central Europe specific scenarios, and a reverse stress scenario. Under all scenarios the Group would achieve the internally set survival period of one month and also the time to wall period is indicated which is sufficiently remote in each stress test.

Basel III and regulatory ratios

LCR and NSFR ratios prescribed in regulation from Basel III origin on liquidity measurement are calculated and reported regularly as key liquidity risk measure. Effective LCR threshold is 100 since 1 October 2015, the Group's LCR ratio stood at 209% at the end of 2023 and at 167% at the end of 2022 meeting all time the regulatory minimum requirement. NSFR's 100 regulatory compliance is launched from 30 June 2021. The Group stood at 147% at the end of 2023 and at 174% at the end of 2022.

43.3 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group classifies exposures to market risk into either trading or non-trading portfolios.

Market risk – trading

The Group is exposed to market risk via the trading books of the Bank's dealing room and via the FX exposure of the subsidiaries. The Group has set limits on the level of market risk that may be accepted. The Group applies VaR methodology to assess the market risk positions held and to estimate the potential economic loss based on a number of parameters and assumptions for various changes in market conditions. VaR is defined as an estimate of the amount of money that can be lost on a given portfolio due to market risk, over a defined holding period, to a given confidence level. The measure only considers the market risk of the current portfolio and does not attempt to capture possible losses due to further trading or hedging, counterparty default or operational losses.

In practice the actual trading results will differ from the VaR calculation and in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions. Market risk positions are also subject to regular stress tests to assess if the Group would withstand market shocks.

There are a number of different approaches used in the industry to generate VaR, with each having a varying level of suitability for different sizes and types of portfolios. The Group has chosen to use the historical VaR methodology to measure and manage market risks in the trading book.

NOTE 43 – RISK MANAGEMENT (continued)

The hVaR approach uses the actual historic market performance to simulate possible future market evolutions. The hVaR methodology does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years (500 scenario dates). The hVaR that the Group applies is an estimate - using a confidence level of 99 and one-day holding period. The use of the 99 confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, once every hundred days. However, the VaR method will not tell us how much we will lose on that day, only that it is expected to exceed a certain amount. HVaR has rapidly become the standard VaR approach in large, internationally active banks. Moreover, hVaR provides a much better fit with the increased emphasis on scenario-based risk management, which includes stress testing. HVaR calculates with 1 day holding period.

From 2020 Q2, the Group reports its trading risk capital requirement applying CRR. Art.94 – Derogation of Small Trading Book (STB), as a result of compliance with regulatory requirements. Hungarian National Bank accepted that the Group was going to use STB. Position risk' capital requirement is henceforth calculated under the credit risk framework, thus the trading risk capital requirement decreased significantly. There is continuous daily monitoring and strong control environment in place which was accepted by Hungarian National Bank to provide STB compliance and regulatory requirements. From this point of time, total VaR equals with the foreign exchange VaR figures and interest rate VaR is no longer considered within trading risk.

In 2023 STB has been compliant with all requirements, daily VaR average has remained overall low, with an increased maximum value due to a momentarily high EUR position (persisted 1 day).

No exposure to equity risk in order to meet STB rules.

hVaR results can be presented as follows:

	Foreign exchange	Interest rate	Total VAR
	MHUF	MHUF	MHUF
2023 – 31 December	21	-	21
2023 – Average daily	8	-	8
2023 – Highest	97	-	97
2023 – Lowest	1	-	1
2022 – 31 December	8	-	8
2022 – Average daily	4	-	4
2022 – Highest	18	-	18
2022 – Lowest	1	-	1

FX risk is handled via FX concentration limits in the Group.

Market risk – Non-trading

The Capital and Risk Oversight Committee (CROC) is responsible for controlling the value creation, the maturity transformation and the market risks of the banking book. Risk tolerance levels are allocated by KBC Group and approved by the K&H Board of Directors.

NOTE 43 – RISK MANAGEMENT (continued)

Majority of the Group's ALM risks are interest rate related risks; consequently the tolerance level is limited in BPV terms (10-basispoint upward parallel yield curve shift impact on net present value). The interest rate risk is also measured with scenario analyses (including stressed environment). ALM-Capital Model determines the amount of capital that is required in view of the ALM risk profile in the banking book. ALM-CM measures the impact of very severe events on the Available Capital under Pillar I. Banking book's inherent risks are interest rate risk, inflation, real estate and equity risk that are measured and monitored according to the Group approach. Foreign currency risk is not inherent in the banking book.

The BPV tables below present the results of reasonable possible changes of the net present value (NPV) of the full banking book on 31 December 2022 and 2023. Possible alternative was calculated based on the scenario of 10 basis point parallel shifts in yield curves. The banking book is limited in BPV by an internally set limit. The results contain the impact of derivative exposures too.

	2023	2022
EUR	584.94	162.79
CZK	(0.02)	(0.02)
HUF	(1212.13)	(239.23)
USD	3.38	(0.03)
GBP	0.41	0.30
Other	0.19	1.12
Total	(623.23)	(75.07)

NOTE 43 – RISK MANAGEMENT (continued)

Currency risk

Currency or foreign exchange (FX) risk basically arises from mismatches in the currency structure of the Group's assets and liabilities. Positions are monitored on a daily basis and the hedging strategy of the Group is to close all material FX positions in the bank's banking book, thus currency risk is managed exclusively within the trading book. Trading FX exposure is managed within the trading limit, and the global hVaR limit of the Group. For details see the market risk-trading section above.

Fair valuation

One of the building blocks of a sound market risk management is also the prudent valuation of positions valued at Fair Value. This applies to *HFT instruments*: Held For Trading (adjustments impact P&L), *FIFV instruments*: financial instruments designated at fair value through profit or loss (adjustments impact P&L) and *FVOCI instruments*: Fair value through other comprehensive income (adjustments impact equity).

The Group's overall Valuation Framework stipulates that, when available, published independent price quotations from well-established active markets are used to determine Fair Value. In case of non-active markets, other valuation techniques (i.e. mark-to-model) are used in order to arrive at realistic estimates of Fair Value.

Consequently a daily independent valuation of front-office positions is performed by the Dealing Room Risk and Control Department. Market-observed prices used in the valuation are regularly validated by the Dealing Room Risk and Control Department via a formal parameter review process. Apart from market parameters, valuation techniques/models are also subject of independent review by the Dealing Room Risk and Control Department.

43.4 Credit risk

Credit risk is the potential shortfall relative to the value expected consequent on non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to an inter-professional transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter risk is also referred to as 'country risk'.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position. The Group makes available to its customers guarantees which may require that the Group makes payment on their behalf. Such payments are collected from customers based on the terms of the credit contracts. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Credit risk is managed at both transactional and portfolio level. Managing credit risk at the transactional level means that there are sound procedures, processes and applications in place to estimate the risks before and after accepting individual credit exposures. Managing the risk at portfolio level encompasses periodic reporting on (parts of) the consolidated loan portfolio, monitoring limit discipline and the specific portfolio management function.

NOTE 43 – RISK MANAGEMENT (continued)

Expected credit loss (ECL)

Expected credit losses are modelled over the instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. The exception from determining the lifetime exposure based on contractual maturity, for credit cards and overdrafts, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, based on internal statistics it is set to 30 years.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument is based on various models developed both locally and centrally depending on the sub-portfolio. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

It is important to note that the ECLs estimated for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables (e.g. unemployment, GDP evolution) that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as loans affected by settlement of CHF mortgage loans which were NPL at the time of settlement. (On 16 June 2014, the Hungarian Supreme Court rendered its decision regarding the legal assessment of foreign currency based loans ("FX loans") for consumers under Hungarian civil law. In accordance with the Conversion Act the Group was required to convert foreign currency and foreign currency-based consumer mortgage loan contracts into Hungarian Forints with the effect date of 1 February 2015.)

For purposes of measuring PD, the Bank defines default as described in the Accounting policy – Definition of default chapter.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using the definition of cures.

Although the default/non-default flag is conceptually conceived on client level, a different treatment is allowed in case of retail exposures. For these exposures, the definition of default can be applied at the level of a particular facility, rather than at the level of the obligor. As a consequence, a default of a client on one retail exposure does not require to treat all other retail exposures of this client as defaulted as well.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. On loans issued to corporate entities, interbank loans and debt securities at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. For loans issued to individuals and other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Group's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Group considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

NOTE 43 – RISK MANAGEMENT (continued)

For interbank operations and bonds issued by banks or government:

- 30 days past due;
- award of risk grade "Special monitoring";
- SICR based on relative threshold based either on external ratings or internal ratings, which corresponds to an approximate increase of PD by 4.0 times.

For loans issued to legal entities and bonds issued by corporate customers:

- 30 days past due;
- award of risk grade "Special monitoring";
- SICR based on relative threshold based either on external ratings or internal ratings. The following thresholds are used for external ratings: decrease of rating by 2 notches, for internal ratings by 5 notches, which corresponds to approximate increase of PD by 2.5 times;
- inclusion of loan into a watch list according to the internal credit risk monitoring process.

For loans to Individuals:

- 30 days past due;
- Relative threshold defined on the basis of a portfolio for products without existing scoring models: the Group regularly monitors segments with increased credit risk (regions of higher credit risk, failed products, products on which issuing was stopped) and considers such portfolios to have a SICR; / Relative threshold defined on individual basis for products with existing scoring models: increase of the remaining lifetime PD compared to remaining lifetime PD estimated as of the date of initial recognition by 2.5 times.

The level of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed. The monitoring is done in an automated way in the engine which calculates ECL.

ECL for POCI financial assets is always measured on a lifetime basis. The Group therefore only recognises the cumulative changes in lifetime expected credit losses.

The Group has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio. The Group performs an assessment on an individual basis for non-retail clients above HUF 300mln exposure. The Group performs an assessment on a portfolio basis for the following types of loans: retail loans and non-retail loans where exposure is below HUF 300mln when no borrower-specific information is available.

NOTE 43 – RISK MANAGEMENT (continued)

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Management Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings/models is monitored and reviewed on yearly periodic basis by the Modelling Department and validated by Credit Risk Department locally or centrally depending on the specific model.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

PDs are used for calculating ECLs: The Group uses different statistical approaches depending on the segment and product type to calculated lifetime ECLs, such as the extrapolation of 12-month ECLs based on migration matrixes, developing lifetime ECL curves based on the historical default data, hazard rate.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards and overdrafts issued to both individuals and non-retail entities, and for financial guarantees is defined based on statistical analysis of past exposures at default.

NOTE 43 – RISK MANAGEMENT (continued)

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Group's Chief Economist and provide the best estimate of the expected macro-economic development over the next five years. After five years, a mean reversion approach is used, which means that economic variables tend to revert to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP). The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group's Credit Risk Department also provides other possible scenarios (e.g. stress tests) along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking into account the range of possible outcomes of which each chosen scenario is representative. The assessment of SICR is performed using the12 month PD as a proxy for Lifetime PD under each of the bases and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Group regularly reviews its methodology (back testing) and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed semi-annually.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Accounting judgements and estimates related to ECL

A sensitivity analysis of the impact of these multiple economic scenarios on the collectively calculated ECL (i.e. without the ECL on individually assessed files) of HUF 9 462 million at year-end 2023 (HUF 7 519 million in 2022), shows that the base scenario results in an ECL of HUF 22 817 million (HUF 41 308 million in 2022), which is HUF 1 696 million lower than the "down"-scenario and HUF 1 167 million higher than the "up"-scenario (HUF 4330 million lower and HUF 1 574 higher in 2022). The collectively calculated weighted ECL results (which was booked) amounts to HUF 27 134 million (HUF 50 264 million in 2022).

Due to the war between Russia and Ukraine that broke out in the 2022, an overlay was formed due to emerging risks. The size of the overlay is reviewed every quarter and the amount changes depending on the result.

The Group released a HUF 7 342 million net impairment for the geopolitical and emerging risks in 2023, compared to the HUF 7 023 million net impairment charge recorded for the Covid, geopolitical and emerging risks in 2022. The outstanding balance of ECL for the geopolitical and emerging risks amounts to 12 727 million HUF at the end of 2023. This is determined based on individual counterparties and sectors deemed to have incurred an increase in credit risk because they are either exposed to the current emerging risks or indirectly exposed to ongoing military conflicts.

NOTE 43 – RISK MANAGEMENT (continued)

The Group used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward looking assumptions for Hungary that correlate with ECL level and their assigned weights were as follows:

31 December 2023

Variable	Scenario	Assigned weight	Assumption for: 2024	2025	2026	2027	2028
Unemployment rate	Base	60%	3.8%	3.6%	3.5%	3.5%	3.5%
	Optimistic	10%	3.1%	2.7%	2.3%	2.5%	3.3%
	Pessimistic	30%	4.4%	4.5%	4.8%	4.6%	4.4%
Real GDP Growth rate	Base	60%	3.0%	3.6%	3.5%	3.2%	3.0%
	Optimistic	10%	4.8%	6.2%	6.8%	6.0%	2.9%
	Pessimistic	30%	1.1%	1.1%	0.4%	0.6%	2.2%

31 December 2022

Variable	Scenario	Assigned weight	Assumption for: 2023	2024	2025	2026	2027
Unemployment rate	Base	60%	4.4%	3.8%	3.3%	3.4%	3.5%
	Optimistic	5%	3.8%	3.2%	3.0%	3.2%	3.3%
	Pessimistic	35%	6.5%	5.5%	4.6%	4.5%	4.4%
Real GDP Growth rate	Base	60%	0.0%	3.6%	3.6%	3.3%	3.0%
	Optimistic	5%	2.8%	3.8%	3.5%	3.2%	2.9%
	Pessimistic	35%	-4.2%	2.4%	2.5%	2.4%	2.2%

The Group uses two variables for the ECL calculation: unemployment rate and real GDP growth rate. The Group updates the macroeconomic assumptions quarterly.

NOTE 43 – RISK MANAGEMENT (continued)

The industry breakdown of loans and advances is presented in the table below:

Industry sector	2023 MHUF	2022 MHUF
Agriculture, forestry and fishing	164 985	138 730
Mining and quarrying	246	122
Manufacturing	334 410	323 870
Electricity, gas, steam and air conditioning supply	86 226	84 666
Water supply	7 882	11 784
Construction	38 558	38 097
Wholesale and retail trade	202 700	161 405
Transport and storage	68 979	66 167
Accommodation and food service activities	20 825	22 547
Information and communication	9 489	9 693
Financial and insurance activities	123 439	115 204
Real estate activities	187 583	170 572
Professional, scientific and technical activities	61 959	35 537
Administrative and support service activities	26 634	22 917
Public administration and defence, compulsory social security	2 569	33
Education	833	1 049
Human health services and social work activities	3 128	2 587
Arts, entertainment and recreation	665	463
Central bank	1 174 756	1 500 271
Individuals	1 093 821	1 014 321
Central governments	138 015	164 935
Municipalities	52 886	24 955
Credit institutions	375 009	286 566
Other services	4 042	3 332
Gross loans and advances	4 179 639	4 199 823
Total impairment on loans and advances (see Note 24)	(37 900)	(49 608)
Total loans and advances	4 141 739	4 150 215

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Collateral and other credit enhancements

In compliance with its business policy the Group does not grant collateral-based financing (i.e. financing that is not based on the loan repayment capacity of the client), however, there is one exception to this rule in case of a special credit type when the loan is collateralized with cash deposit. The borrower's cash flow represents the primary – direct – source of loan repayment to the Group.

The inclusion of any type of collateral is subject to the assessment of the credit solvency of the client/guarantor, in the course of which the assets in question must be evaluated in compliance with the concerning internal regulations.

The main types of collateral applied are as follows:
- for retail lending, mortgages on residential real estate,
- for commercial lending, mortgage on real estate properties (both commercial and residential), state and institutional guarantees, and pledge on inventory and trade receivables,
- for securities lending cash deposits or security pledges.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

In case of corporate clients relationship-managers monitor the market value of collaterals, regularly request for a review of the concerning collateral or requests additional collateral behind the deal if necessary. For defaulted counterparties, collaterals are assessed thoroughly to estimate expected recovery in order to set necessary level of impairments. For retail clients the regularly updated indexed market values are used.

The carrying amount of investment properties and other assets, which were obtained by the Group by taking possession during 2023 amounted to HUF 31 million (HUF 89 million in 2022).

The Group sells its assets obtained as collateral instead of using them for its operation.

The following tables present un-, under- and full or over collateralised loans and advances. The tables include the fair value of collaterals maximized to the net carrying amount of loans and advances, loan commitments, guarantees and other commitments given.

NOTE 43 – RISK MANAGEMENT (continued)

	Under collateralised loans		Full and over collateralised loans				
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Uncollateralised loans	Total carrying amount of loans	Total fair value of collateral
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2023							
Central bank and credit institutions	177 931	169 868	-	-	1 371 733	1 549 664	169 868
General government	139 045	103 209	12 759	12 759	38 792	190 596	115 968
Corporate	845 423	417 968	150 922	150 922	327 704	1 324 049	568 890
of which: Small and Medium enterprises	572 272	297 493	118 287	118 287	104 359	794 918	415 780
Households	50 537	42 774	840 133	840 134	186 760	1 077 430	882 908
Consumer credit	29 854	29 735	202 930	202 931	113 343	346 127	232 666
Credit card	-	-	-	-	6 408	6 408	-
Current account	999	630	40	40	6 501	7 540	670
Finance lease	121	99	1 643	1 643	174	1 938	1 742
Mortgage loan	9 737	6 878	626 253	626 253	59 740	695 730	633 131
Term loan	9 826	5 432	9 267	9 267	594	19 687	14 699
Total	1 212 936	733 819	1 003 814	1 003 815	1 924 989	4 141 739	1 737 634
Loan commitments and guarantees at 31 December 2023							
Loan commitments	301 375	119 584	1 939	1 939	644 594	947 908	121 523
Financial guarantees	255 221	74 400	364	364	192 149	447 734	74 764
Other commitments	6 898	985	-	-	6 644	13 542	985
Total	563 494	194 969	2 303	2 303	843 387	1 409 184	197 272

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions. The fair value of collaterals is maximised to the net carrying amount of the loans and loan commitments.

NOTE 43 – RISK MANAGEMENT (continued)

	Under collateralised loans		Full and over collateralised loans				
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Uncollateralised loans	Total carrying amount of loans	Total fair value of collateral
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2022							
Central bank and credit institutions	95 312	87 543	-	-	1 691 469	1 786 781	87 543
General government	161 307	138 400	3 494	3 494	24 998	189 799	141 894
Corporate	769 233	337 768	141 774	141 774	275 650	1 186 657	479 542
of which: Small and Medium enterprises	521 460	243 675	114 477	114 477	94 083	730 020	358 152
Households	34 403	25 344	796 786	796 786	155 790	986 979	822 130
Consumer credit	43	14	172 792	172 792	103 709	276 544	172 806
Credit card	-	-	-	-	5 955	5 955	-
Current account	1 760	731	170	170	7 061	8 991	901
Finance lease	84	59	765	765	1 313	2 162	824
Mortgage loan	22 871	19 297	613 490	613 490	37 125	673 486	632 787
Term loan	9 645	5 243	9 569	9 569	627	19 841	14 812
Total	1 060 255	589 055	942 054	942 054	2 147 907	4 150 216	1 531 109
Loan commitments and guarantees at 31 December 2022							
Loan commitments	225 596	85 245	6 300	6 300	593 055	824 951	91 545
Financial guarantees	223 529	75 152	174	174	237 376	461 079	75 326
Other commitments	25 941	4 495	-	-	7 407	33 348	4 495
Total	475 066	164 892	6 474	6 474	837 838	1 319 378	171 366

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions. The fair value of collaterals is maximised to the net carrying amount of the loans and loan commitments.

NOTE 43 – RISK MANAGEMENT (continued)

The breakdown of loans and advances* by the type of collateral is presented below.

	Collateralised by									
	residential immovable property		commercial immovable property		debt securities		other			
	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Total carrying amount of loans MHUF	Total fair value of collateral MHUF
Loans and advances* at 31 December 2023										
Central bank and credit institutions	-	-	-	-	-	-	177 931	169 868	177 931	169 868
General government	-	-	8 810	1 510	-	-	142 994	114 458	151 804	115 968
Corporate	-	-	642 597	353 414	5 376	3 378	348 372	212 098	996 345	568 890
of which: Small and Medium enterprises	-	-	437 372	248 702	5 376	3 378	247 811	163 700	690 559	415 780
Households	868 774	865 794	7 992	4 602	42	45	13 862	12 467	890 670	882 908
Consumer credit	232 784	232 666	-	-	-	-	-	-	232 784	232 666
Credit card	-	-	-	-	-	-	-	-	-	-
Current account	-	-	558	461	-	-	481	209	1 039	670
Finance lease			-	-	-	-	1 764	1 742	1 764	1 742
Mortgage loan	635 990	633 128	-	-	-	3	-	-	635 990	633 131
Term loan	-	-	7 434	4 141	42	42	11 617	10 516	19 093	14 699
Total	868 774	865 794	659 399	359 526	5 418	3 423	683 159	508 891	2 216 750	1 737 634
Unsecured exposures	172 892	-	196	-	-	-	1 736 339	-	1 909 427	-
Total carrying value loans and advances to customers at amortised cost (amount representing exposure to credit risk for each class of loans at amortised cost)	1 041 666	865 794	659 595	359 526	5 418	3 423	2 419 498	508 891	4 126 177	1 737 634

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

	Collateralised by									
	residential immovable property		commercial immovable property		debt securities		other			
	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Total carrying amount of loans MHUF	Total fair value of collateral MHUF
Loans and advances* at 31 December 2022										
Central bank and credit institutions	-	-	-	-	-		95 312	87 543	95 312	87 543
General government	-	-	9 049	1 419	-	-	155 752	140 475	164 801	141 894
Corporate	-	-	598 564	318 078	3 051	2 613	309 392	158 851	911 007	479 542
of which: Small and Medium enterprises	-	-	411 349	234 844	3 051	2 613	221 537	120 695	635 937	358 152
Households	809 195	805 593	9 051	5 119	181	177	12 762	11 241	831 189	822 130
Consumer credit	172 835	172 806	-	-	-	-	-	-	172 835	172 806
Credit card	-	-	-	-	-	-	-	-	-	-
Current account	-	-	1 225	600	-	-	705	301	1 930	901
Finance lease	-	-	-	-	-	-	849	824	849	824
Mortgage loan	636 360	632 787	-	-	-	-	1	-	636 361	632 787
Term loan	-	-	7 826	4 519	181	177	11 207	10 116	19 214	14 812
Total	809 195	805 593	616 664	324 616	3 232	2 790	573 218	398 110	2 002 309	1 531 109
Unsecured exposures	140 977	-	5 156	-	3	-	2 001 771	-	2 147 907	-
Total carrying value loans and advances to customers at amortised cost (amount representing exposure to credit risk for each class of loans at amortised cost)	950 172	805 593	621 820	324 616	3 235	2 790	2 574 989	398 110	4 150 216	1 531 109

*The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

Collaterals behind non-performing or past due financial assets amounted to HUF 38 492 million as at 31 December 2023 (HUF 32 904 million as at 31 December 2022). The amount of the collaterals includes the indexed or reviewed collateral value limited to the carrying amount of the related asset.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the quality of loans and advances by stage categories.

	Loans and advances at amortised cost						
	Gross carrying amount			Accumulated impairment			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total net carrying amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances* at 31 December 2023							
Central bank and credit institutions	1 534 069	248	-	(99)	(1)	-	1 534 217
General government	164 487	26 412	2	(288)	(17)	-	190 596
Corporate	871 731	446 424	27 000	(5 332)	(6 349)	(9 425)	1 324 049
of which: Small and Medium enterprises	571 368	223 400	12 287	(3 333)	(4 340)	(4 464)	794 918
Households	556 149	197 524	24 818	(3 310)	(6 633)	(6 131)	762 417
of which: purchased or originated credit impaired	-	3 132	1 973	-	-	(262)	4 843
Consumer credit	86 015	24 776	6 376	(310)	(1 251)	(2 110)	113 496
Credit card	5 826	630	150	(39)	(57)	(102)	6 408
Current account	4 113	2 935	1 780	(27)	(372)	(889)	7 540
Finance lease	751	1 180	98	(10)	(31)	(50)	1 938
Mortgage loan	444 002	163 454	16 365	(2 682)	(4 824)	(2 967)	613 348
Term loan	15 442	4 549	49	(242)	(98)	(13)	19 687
Total	3 126 436	670 608	51 820	(9 029)	(13 000)	(15 556)	3 811 279

Including cash balance with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the quality of loans and advances by stage categories.

	Loans and advances at amortised cost						
	Gross carrying amount			Accumulated impairment			
	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total net carrying amount MHUF
Loans and advances* at 31 December 2022							
Central bank and credit institutions	1 760 080	271	25	(51)	(3)	-	1 760 322
General government	183 374	6 516	-	(39)	(52)	-	189 799
Corporate	599 643	589 386	19 749	(2 443)	(10 950)	(8 728)	1 186 657
of which: Small and Medium enterprises	391 265	341 473	12 835	(1 710)	(8 334)	(5 509)	730 020
Households	498 681	234 347	35 157	(1 022)	(12 876)	(12 861)	741 426
of which: purchased or originated credit impaired	-	3 045	2 479	-	-	(307)	5 217
Consumer credit	73 154	30 452	9 500	(836)	(2 617)	(5 451)	104 202
Credit card	5 352	605	264	(36)	(74)	(156)	5 955
Current account	4 030	4 309	2 309	(46)	(598)	(1 013)	8 991
Finance lease	512	1 706	-	(8)	(48)	-	2 162
Mortgage loan	409 231	183 721	23 023	(91)	(9 388)	(6 221)	600 275
Term loan	6 402	13 554	61	(5)	(151)	(20)	19 841
Total	3 041 778	830 520	54 931	(3 555)	(23 881)	(21 589)	3 878 204

Including cash balance with central banks and other demand deposits to credit institutions

NOTE 43 – RISK MANAGEMENT (continued)

Credit risk exposure for each internal risk rating

The table below includes outstanding exposure of loans and loan commitments to customers and banks (without any money market position). Past due assets are distributed to the internal risk rating classes.

	Historical default rates* 2023	Average unsecured share of exposure 2023	Total 2023 MHUF	Average unsecured share of exposure 2022	Total 2022 MHUF
PD 1-2	0.0000	0.8428	1 716 681	0.8183	866 896
PD 3-4	0.0003	0.5700	1 595 303	0.5523	1 549 521
PD 5-9	0.0155	0.6425	1 610 759	0.6264	1 441 393
PD 10-12	1.0000	0.5747	57 028	0.6374	56 246
Total			4 979 771		3 914 056

*Impaired (PD10-12) portfolio per credit grades compared to last year's total non-impaired portfolio.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the distribution of the loan portfolio according to the internal ratings.

	Performing (Stage1 + Stage2)									Non-performing (Stage3)			
	PD1	**PD2**	**PD3**	**PD4**	**PD5**	**PD6**	**PD7**	**PD8**	**PD9**	**PD10**	**PD11**	**PD12**	**Total**
	%	**%**	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%	%
Loans and advances* at 31 December 2023													
Central bank and credit institutions	4.2	34.5	0.2	-	-	-	-	-	-	-	-	-	38.9
General government	-	0.1	3.4	0.2	0.2	-	-	-	-	-	-	-	3.9
Corporate	0.4	2.4	2.4	5.9	10.2	4.0	3.4	0.5	0.3	0.5	-	0.1	30.1
of which: Small and Medium enterprises	0.3	2.4	1.6	3.4	6.9	2.9	2.4	0.4	0.2	0.2	-	0.1	20.8
Households	-	1.0	9.5	7.7	4.1	1.1	2.6	0.3	0.3	0.5	-	-	27.1
Consumer credit	-	-	-	5.3	0.5	0.4	2.2	0.1	0.1	0.1	-	-	8.7
Credit card	-	-	-	0.1	0.1	-	-	-	-	-	-	-	0.2
Mortgage loan	-	1.0	9.5	2.1	3.4	0.5	0.4	0.2	0.2	0.4	-	-	17.7
Term loan	-	-	-	0.1	0.1	0.2	-	-	-	-	-	-	0.4
Total	4.6	38.0	15.5	13.8	14.5	5.1	6.0	0.8	0.6	1.0	-	0.1	100.0

*The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the distribution of the loan portfolio according to the internal ratings.

	Performing (Stage1 + Stage2)									Non-performing (Stage3)			
	PD1	PD2	PD3	PD4	PD5	PD6	PD7	PD8	PD9	PD10	PD11	PD12	Total
	%	%	%	%	%	%	%	%	%	%	%	%	%
Loans and advances* at 31 December 2022													
Central bank and credit institutions	3.4	38.1	0.3	-	-	-	-	-	-	-	-	-	41.8
General government	-	0.5	3.6	0.3	-	-	-	-	-	-	-	-	4.4
Corporate	0.3	2.2	4.6	4.8	8.7	4.4	2.6	0.7	0.3	0.3	-	0.1	29.0
of which: Small and Medium enterprises	0.3	1.9	1.8	3.2	6.1	2.4	1.7	0.7	0.2	0.2	-	0.1	18.6
Households	-	0.8	8.7	6.7	3.6	1.3	2.3	0.3	0.3	0.7	0.1	-	24.8
Consumer credit	-	-	-	4.4	0.4	0.4	1.9	0.1	0.1	0.2	-	-	7.5
Credit card	-	-	-	0.1	0.1	-	-	-	-	-	-	-	0.2
Mortgage loan	-	0.8	8.6	2.1	3.0	0.7	0.4	0.2	0.2	0.5	0.1	-	16.6
Term loan	-	-	0.1	0.1	0.1	0.2	-	-	-	-	-	-	0.5
Total	3.7	41.6	17.2	11.8	12.3	5.7	4.9	1.0	0.6	1.0	0.1	0.1	100.0

The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

43.5 Credit risk – forborne loans

The policy on forbearance is based on the directive of the European Banking Authorities (EBA) harmonizing the definitions of forbearance and non-performing loans within the EU from 30/09/2014 on and on Regulation 39/2016 issued by the Hungarian National Bank

Forbearance is similar to distressed renegotiations, whereby the bank agrees to renegotiate the existing contracts and obligations for a borrower with financial difficulties in order to avoid default (e.g. in order to avoid overdue interest, rent, capital and/or fees). Please note that the moratorium instated by the Hungarian government is not an automatic trigger for forbearance.

However, in 2022, in a prudent manner, the bank reclassified customers who had been participating in the moratorium for 9 months as non-performing forborne loans, in accordance with EBA regulations. Based on the professional judgment of the experts, this is a conservative decision, we do not expect these loans to be completely defaulted when the moratorium expires. Also, by the end of 2022, only a small number of customers participated in the moratorium.

Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

A concession refers to either of the following actions:

a) a modification of the terms and conditions of an existing contract because the debtor is considered unable to comply with the terms and conditions of the contract due to its financial difficulties and whereby the modification in principle would not have been granted in case the debtor would not have been in financial difficulties;
b) a total or partial refinancing of a troubled debt contract because the debtor is considered unable to comply with the terms and conditions of the troubled debt due to its financial difficulties and whereby the partial refinancing in principle would not have been granted in case the debtor would not have been in financial difficulties.

The above means that an exposure should be perceived as forborne in case that two conditions are met:

a) The bank granted concessions towards the borrower
b) due to the fact that he borrower has financial difficulties.

The forbearance classification is discontinued when all the following conditions are met:

- a minimum 2 year probation period has passed from the date the forborne exposure was considered as performing;
- the contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period;
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

A non-performing exposure for which forbearance measurement has been applied cannot be considered as performing for at least one year after the forbearance measurement.

NOTE 43 – RISK MANAGEMENT (continued)

The rating category of the debtor does not improve due to the forbearance measurement. The Group classifies borrowers with forborne exposures to at least PD9. In the following cases forborne borrowers are classified to a default status (i.e. at least PD 10):

- a second forbearance during the probation period;
- in case of 30 days past due for an amount exceeding the default materiality threshold of 2 of the exposure or HUF 250 000 during the probation period;
- partial and/or full debt forgiveness.

Forbearance measurement is applied on facility level (not on entire exposure).

NOTE 43 – RISK MANAGEMENT (continued)

The following table presents forborne loans, loan commitments and guarantees.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2023						
Corporate	-	-	-	29 830	(7 405)	22 425
of which: Small and Medium enterprises	-	-	-	10 695	(2 699)	7 996
Households	4 035	(225)	3 810	33 986	(3 964)	30 022
Consumer credit	2 383	(99)	2 284	5 713	(1 072)	4 641
Credit card	-	-	-	126	(51)	75
Current account	-	-	-	278	(92)	186
Finance lease	-	-	-	53	(2)	51
Mortgage loan	1 652	(126)	1 526	27 332	(2 734)	24 598
Term loan	-	-	-	484	(13)	471
Total	4 035	(225)	3 810	63 816	(11 369)	52 447

NOTE 43 – RISK MANAGEMENT (continued)

The following table presents forborne loans, loan commitments and guarantees.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2022						
General government	-	-	-	3 493	(16)	3 477
Corporate	-	-	-	24 303	(6 457)	17 846
of which: Small and Medium enterprises	-	-	-	11 832	(4 198)	7 634
Households	4 058	(452)	3 606	39 238	(8 500)	30 738
Consumer credit	2 144	(189)	1 955	7 604	(3 044)	4 560
Credit card	-	-	-	166	(67)	99
Current account	-	-	-	374	(168)	206
Finance lease	-	-	-	52	(3)	49
Mortgage loan	1 914	(263)	1 651	30 541	(5 209)	25 332
Term loan	-	-	-	501	(9)	492
Total	4 058	(452)	3 606	67 034	(14 973)	52 061

NOTE 43 – RISK MANAGEMENT (continued)

There were no forborne commitments and guarantees in 2023 and 2022.

The following table explains the change of forborne loans.

	2023 MHUF	2022 MHUF
Balance as at the beginning of the period	55 667	65 344
Loans which have become forborne	13 931	4 626
Loans which are no longer considered to be forborne	(4 318)	(4 302)
Repayments	(17 355)	(16 270)
Change in the impairment of forborne loans	7 577	3 858
Other	755	2 411
Balance as at the end of the period	56 257	55 667

The Group recorded HUF 4 751 million interest income on forborne loans in the consolidated income statement in 2023 (HUF 2 783 million in 2022).

NOTE 43 – RISK MANAGEMENT (continued)

Aging analysis and quality of forborne loans and advances as at 31 December 2023 is as follows:

	Loans and advances*							
	Performing				Non-performing			
	Not past due MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Total MHUF
Loans and advances at 31 December 2023								
Corporate	8 875	177	2	-	12 533	710	128	22 425
of which: Small and Medium enterprises	3 568	174	4	-	3 411	711	128	7 996
Households	17 191	1 047	90	2	14 077	545	880	33 832
Consumer credit	3 292	220	13	1	3 059	147	193	6 925
Credit card	52	2	-	-	11	-	10	75
Current account	91	40	1	1	46	3	4	186
Finance lease	51	-	-	-	-	-	-	51
Mortgage loan	13 252	784	76	-	10 950	395	667	26 124
Term loan	453	1	-	-	11	-	6	471
Total	26 066	1 224	92	2	26 610	1 255	1 008	56 257

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Aging analysis and quality of forborne loans and advances as at 31 December 2022 is as follows:

	Loans and advances*							
	Performing				Non-performing			
	Not past due MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Total MHUF
Loans and advances at 31 December 2022								
General government	3 477	-	-	-	-	-	-	3 477
Corporate	10 374	25	8	-	6 728	119	592	17 846
of which: Small and Medium enterprises	2 868	25	8	-	4 022	119	592	7 634
Households	13 716	692	91	4	18 440	623	778	34 344
Consumer credit	2 318	91	7	-	3 865	99	135	6 515
Credit card	36	3	-	-	52	2	6	99
Current account	77	29	2	2	89	2	5	206
Finance lease	49	-	-	-	-	-	-	49
Mortgage loan	10 758	569	81	2	14 432	520	621	26 983
Term loan	478	-	1	-	2	-	11	492
Total	27 567	717	99	4	25 168	742	1 370	55 667

*The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Staging of forborne loans and advances are presented as follows.

	Loans and advances at amortised cost*						
	Gross carrying amount			Accumulated impairment			
	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loans and advances* at 31 December 2023							
Corporate	5	9 229	20 596	2	(182)	(7 225)	22 425
of which: Small and Medium enterprises	4	3 865	6 826	-	(123)	(2 576)	7 996
Households	2 121	14 547	17 318	(62)	(440)	(3 462)	30 022
of which: purchased or originated credit impaired	-	1 090	1 480	-	-	(158)	2 412
Consumer credit	152	2 029	3 532	-	(44)	(1 028)	4 641
Credit card	10	44	72	-	-	(51)	75
Current account	7	139	132	-	(13)	(79)	186
Finance lease	-	53	-	-	(2)	-	51
Mortgage loan	1 952	11 822	13 558	(62)	(375)	(2 297)	24 598
Term loan	-	460	24	-	(6)	(7)	471
Total	2 126	23 776	37 914	(60)	(622)	(10 687)	52 447

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Staging of forborne loans and advances are presented as follows.

	Loans and advances at amortised cost*						
	Gross carrying amount			Accumulated impairment			
	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loans and advances* at 31 December 2022							
General government	-	3 493	-	-	(16)	-	3 477
Corporate	-	10 699	13 604	-	(292)	(6 165)	17 846
of which: Small and Medium enterprises	-	3 071	8 761	-	(170)	(4 028)	7 634
Households	9	13 112	26 117	-	(238)	(8 262)	30 738
of which: purchased or originated credit impaired	-	658	1 832	-	-	(169)	2 127
Consumer credit	-	1 588	6 016	-	(44)	(3 000)	4 560
Credit card	-	41	125	-	(2)	(65)	99
Current account	-	137	237	-	(27)	(141)	206
Finance lease	-	52	-	-	(3)	-	49
Mortgage loan	9	10 813	19 719	-	(160)	(5 049)	25 332
Term loan	-	481	20	-	(2)	(7)	492
Total	9	27 304	39 721	-	(546)	(14 427)	52 061

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

The industrial breakdown of forborne loans is included in the table below.

	2023	2022
	MHUF	MHUF
Industry sector		
Agriculture, forestry and fishing	5 151	1 020
Manufacturing	10 622	15 571
Water supply	4	8
Construction	55	34
Wholesale and retail trade	10 061	661
Transport and storage	755	909
Accommodation and food service activities	2 306	2 704
Information and communication	27	47
Administrative and support service activities	106	178
Real estate activities	498	536
Professional, scientific and technical activities	209	280
Public administration and defence, compulsory social security	-	2
Education	10	16
Human health services and social work activities	17	26
Arts, entertainment and recreation	6	2
Other	5	2 309
Individuals	38 019	43 296
Non-credit institutions	-	3 493
Forborne loans and advances - gross	67 851	71 092
Accumulated impairment	(11 369)	(14 973)
Accumulated negative changes in fair value due to credit risk	(225)	(452)
Total forborne loans to customers	56 257	55 667

All forborne loans are granted to domestic clients in 2023 and 2022.

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

43.6 Operational risk

In line with KBC Group, the Group applies the official Basel definition of Operational Risk and Operational Risk Management. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems and from external events. It includes legal and tax risks, but excludes strategic and systemic risks. The Group takes reputation risk into account to a certain level. When controls fail to adequately perform, operational risks can result in financial loss, damage to reputation, have legal or regulatory consequences. The operational risks cannot be completely eliminated; but using sound control framework these risks can be mitigated to an acceptable level.

Processes and risk event types together are used as common and universal/uniform framework of reference for reporting purposes. The Group implemented the use of a uniform set of processes, risk event types, risk mitigating/measuring processes and a toolkit for operational risk management.

The first element of the toolkit is the use of *Group-wide Control requirements (Group Key Controls)* which are the key controls, defined by a centre of competence intended to control or mitigate major inherent risks. All KBC Group entities must implement these Key Controls. The compliance with the Group Key Controls is monitored via a benchmarking (assessment) exercise, assessments which are used to determine the gap between the group-wide requirements and the local practice. The derived action plans are continuously monitored and reported to the Capital and Risk Oversight Committee and Operational Risk Councils. The Local line management is responsible for translating the Group Key Controls into local procedures as well as for the timely and proper implementation of action plans.

Risk Self-Assessments aim to identify and assess the operational risk inherent in all material products, activities, processes and systems by the line management with the involvement of other concerned parties.

A '*Case Study Assessment'* is the process of testing the level of the protection of the current control environment against severe operational risk events that have actually happened in the banking and insurance industry by detecting gaps in subsequent control layers.

In line with the guidelines of KBC, the Group collects the *operational loss events* in a unified and integrated database which is also used for analysis and reporting purposes.

The method and framework of *Key Risk Indicators* were implemented in 2009. These are measurable metrics or indicators which help the organization with monitoring the inherent and / or residual exposure to certain key risks, and combine the measurement of risk with the actual management of risk. Changes in the risk exposure versus the risk tolerance of the Group are measured by warning and alert thresholds that are set for each Key risk indicator.

Risk scans for operational, and business and reputation risks were performed there by the main business lines, Information security and ICT (Information and Communication Technology), to assess the most important non-financial risks using a top-down approach.

In order to assure the continuity of its critical business services, the Group has an extensive business continuity framework in place, that includes business continuity plans for material activities, the testing of such plans in order to be prepared for potential crisis situations.

NOTE 44 – SOLVENCY AND CAPITAL

In accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (banking law) and the EU Regulation No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Group must have a minimum capital in place. The Group reports its level of capital adequacy situation to the Hungarian National Bank on a quarterly basis and also forecasts are prepared to the Capital and Risk Oversight Committee (CROC) of the Group on a regular basis. When needed, the Group's Executive Committee decides and proposes to KBC Group any necessary steps that the Committee believes need to be taken (such as capital increase, subordinated debt increase, dividend payment etc.).

	2023	2022
	MHUF	MHUF
Tier 1 capital elements	487 795	359 154
Adjustments due to prudential filters	18 455	51 682
Tier 1 total	506 251	410 836
Tier 2 capital elements	30 148	49 033
Tier 2 total	30 148	49 033
Own funds	536 398	459 869

The Group fulfilled the capital requirements set by Hungarian National Bank continuously during years 2023 (and 2022) and at 31 December 2023 (and at 31 December 2022).

The Bank is required to set aside 10% of its profit calculated as a statutory reserve for use against future losses. The balance of this reserve as at 31 December 2023 was HUF 57 801 million (HUF 46 932 million as at 31 December 2022).

The Bank had distributable reserves of HUF 336 196 million as at 31 December 2023 (HUF 239 459 million as at 31 December 2022).

There is no dividend proposed on ordinary shares for 2023 (no dividend proposed on ordinary shares for 2022).

Approved by the Board of Directors on 17 April 2024.

Guy Libot
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

K&H Bank Zrt.

Business report (consolidated)

31 December 2023

On 31 December 2023, the consolidated total assets of K&H Bank Group (hereunder “the Group”) stood at 5,606 bln. As a financial institution which offers banking and insurance products alike and has a nation-wide branch network of 195 branches, the Group offers the full range of financial services to its clients.

1. Economic environment

Following the technical recession of the third and fourth quarter in 2022, the Hungarian economy continued to struggle at the start of the year: GDP fell in the first and second quarters compared to the previous quarter. Although the country recovered from the technical recession in the third quarter, this was thanks to agriculture, which could significantly outperform the very weak, drought-affected year of 2022. Industrial production struggled in 2023, partly due to weak domestic demand and partly to a deteriorating external environment. The construction sector's performance was hampered by a high interest rate environment, a shortfall in EU funding, lower government orders and an uncertain economic outlook. Household consumption remained weak throughout the year due to a fall in real wages as a result of high inflation, while retail sales showed some recovery in the last month of the year. The Hungarian economy contracted for the year as a whole and fell well short of euro area growth, diverging from the EU average level in 2023. Despite the recession, the labor market remained tight throughout the year, with an increase in the number of people in employment, while the unemployment rate rose slightly, highlighting the structural problems in the Hungarian labor force.
Inflation peaked at 25.7% in January 2023, then eased slowly in the first half of the year and more sharply in the second half to 5.5% by the end of the year. Although the CPI converged with the inflation trend in the region by the end of the year, average annual inflation in Hungary was by far the highest in the EU.
The current account deficit of above 8 percent of GDP was rebalanced within a year, partly driven by falling energy and commodity prices, but also a decline in domestic consumption and investments.
The general government deficit, on the other hand, has evolved unfavourably, with the government adjusting the deficit target upwards several times during the year and ending up with a higher deficit than in 2022 (primarily due to tax revenues linked to falling consumption and rising interest expenditure). The government intends to gradually restore fiscal discipline in the coming years, which is surrounded by a number of questions and uncertainties.
By the end of the year, an agreement was reached with the European Commission on the dispute over the judiciary and courts independence issues, releasing €10.2 billion for Hungary for 2021-2027.
The country’s risk perception improved during the year. Following negative rating opinions at the beginning of the year – Standard & Poor’s downgraded the country’s debt rating but kept it in investment grade – the major rating agencies issued neutral statements on Hungary in the second half of the year.

	2022 actual	2023 preliminary
GDP growth	+4.6%	-0.9%
CPI (average)	+14.5%	+17.6%
Households’ consumption	+6.4%	-2.0%
Investments	+1.5%	-8.5%
Unemployment rate	3.9%	4.4%
Budget deficit (ESA) (in % of GDP)	-6.2%	-6.5%
Debt/GDP rate	73.9%	73.5%
Balance of payments (in % of GDP)	-8.1%	+0.3%

Source: MNB, KSH, K&H

The world’s leading central banks maintained their tight monetary policy (the Fed ended its rate hike cycle in July and the ECB in September) and reduced their balance sheets throughout the year. In May 2023, the Magyar Nemzeti Bank (MNB) began to reduce the level of the extraordinary high rate of 18% implemented in October 2022 by 100 basis point steps. After closing the overnight deposit tender rate at the 13 percent base rate in September, it continued the easing cycle with monthly cuts of 75 basis points, bringing the base rate to 10.75 percent by the end of the year. The new central bank base rate became the overnight deposit rate. Meanwhile, a number of measures were put in place to withdraw excess liquidity from the forint market. The required reserve ratio was set at a minimum of 10 percent,

while domestic fund managers and banks were encouraged to hold more government securities through various regulations. The MNB is strongly committed to bring inflation down as soon as possible and therefore intends to settle into a positive real interest rate in the period ahead. The high interest rate environment significantly reduced forint borrowings.
Volatility in the forint market was high for most of the year. In the first half of the year, the forint appreciated significantly against the euro, but during the summer, partly as a result of falling forint interest rates, the appreciation trend stopped and, after some weakening, fluctuated in a range of 5 percent.

2. The Strategic Objectives of the Group

K&H Bank Group is a universal bank-insurer, providing banking, leasing, asset management and insurance services for individuals and corporate (focusing on SME and Mid-cap) customers with a strong emphasis on introducing innovative solutions.

In order to fulfil our mandate by our shareholder and our clients:

- we put the client at the centre of all our activities
- we provide our clients with easy & smooth access through various channels
- we strive to maintain long-term relationship by making the difference through superior service and personal bond
- we combine the best international practice with sound local knowledge.

We want to be the reference in bank-insurance.

<u>Customer strategy:</u>

We help our clients realise their dreams and protect them.

Retail: customers are served based on the different segments' special needs providing convenient banking and insurance services and superior client experience.

Corporate clients: as a stable and independent advisor, building on personal relationship management and deep customer knowledge, we deliver tailor made and convenient financial solutions that best suit our clients' needs.

<u>Product strategy:</u>

Retail:

- Growth in lending, based on a good understanding of real client needs and credit risk.
- Strong focus on convenient daily banking services and primary banking relationships.
- Innovative saving products and advisory services to keep up our market leader status.
- Fast and simple processes.

Small and medium-sized enterprises (SME):

- Reliable and convenient transactional banking services.
- More standard products fitting client needs with simple, easy to access services.
- Fast and simple lending process to support financing SME businesses.

Corporate:

- Full service provider, emphasis on advisory to provide tailored solutions to our clients.

<u>Strategy on distribution channels:</u>

Omni-channel distribution approach – best fit combination of:

- e-bank, mobile bank
- extensive branch network with high level of cash automation and focus on advisory
- TeleCenter, remote advisory
- tied agents and brokers.

<u>Key differentiators of the Bank Group:</u>

- being close to our clients: easy access both physically (via our large branch network) and digitally (via remote channels)
- K&H Group acts as a full service provider for our clients in banking and insurance (universal financial institution)
- expertise and advice in the whole spectrum of financial services
- innovation: we continuously adopt to the changes in client behaviour and in the environment, continuing our digital transformation to be the best innovator in the market
- sustainability: with a wide range of “green” products and services, we help our customers in the transition towards climate neutrality.

3. The Group’s consolidated activities

3.1 Balance sheet

Total assets of the Group amounted to 5,606 bln on 31 Dec 2023 (0.4% growth in 2023 compared to 31 Dec 2022).

HUF Bln	31 Dec 2022	31 Dec 2023	Variance
Total assets	5,587	5,606	+0.4%
Central Banks and credit institutions	1,787	1,550	-13.3%
Hungarian government bonds	906	1,011	+11.5%
Loans and advances to customers	2,363	2,592	+9.7%
Deposits from customers	3,822	3,715	-2.8%
Equity	424	575	+35.8%

The most important elements of the evolution of the consolidated balance sheet are as follows:

- *Loans and advances to customers* increased by 10% in 2023:
    - Corporate lending expanded dynamically by 13% yoy. K&H Bank is participating in state subsidized financing schemes. At the end of 2023, the total contracted volume of K&H’s Széchenyi Card program reached HUF 230 bln and in Eximbank’s Baross Gábor Loan scheme it was more than HUF 125 bln contracted volume.
    - Retail loan portfolio increased by 4% yoy. New housing loans reached HUF 123 bln in 2023.
    - At the end of 2023 K&H’s green loan portfolio amounted to HUF 197 bln.[1]

- *Deposits from customers* decreased compared to the same period of last year driven by lower deposits in retail segment. Within retail savings, the lower deposit volume was compensated by the increasing sale of mutual funds managed by the Group (total retail AuM grew by 11% yoy).

- *Shareholders’ equity* increased by 151 bln (+36%) in 2023. Main elements of the change: profit of 2023 (+108.9 bln), higher cash flow hedge reserve (+33.9 bln) and revaluation reserve of securities (+8.9 bln). Based on a shareholders’ resolution no dividend will be paid from the net result of 2023. The capital adequacy ratio was 17.3% at 31 December 2023.

	31 Dec 2022	31 Dec 2023
Guarantee capital (bln HUF)	460	536
Capital adequacy ratio (%)	17.1	17.3

[1] Green loans according to EU taxonomy: HUF 11 bln, Green loans according to EU taxonomy based on voluntary reporting: HUF 4 bln, other (local green lending framework or according to the 'significant contribution' criterion of the EU taxonomy): HUF 182 bln.

3.2 Profit & loss

HUF Bln	31 Dec 2022	31 Dec 2023
Profit after tax	67.6	108.9

The Bank Group's profit was impacted by several government measures in 2023:

- windfall tax for financial institutions (-33.4 bln)
- interest rate cap for variable rate and 3-5 years interest period mortgages and variable rate loans to SMEs (-11.1 bln)
- full recovery of extra payment to the Deposit Guarantee Fund related to Sberbank Hungary (+3.6 bln).

The evolution of the main P&L items:

- *Net interest income* went up by 21% compared to previous year due to the combined impact of increasing loan volumes and impact of higher interest rate environment.
- There was 11% growth in *net fee and commission income* (2023: 89.2 bln, 2022: 80.6 bln) driven by higher transactional income and investment services (mutual funds volume managed by the Group increased by 44% in 2023).
- *Net gains from financial instruments at fair value & foreign exchange differences* amounted to 35.3 bln in 2023, the lower result compared to 2022 (42.3 bln) was primarily related to the volatile market activities.
- 0.5 bln negative result was reported under the heading of *net realised gains from financial assets at fair value through other comprehensive income* (2022: -2.0 bln).
- *Operating expenses* amounted to 182.2 bln in 2023 (2022: 165.5 bln). Disregarding banktax and the impact of extra payment to the Deposit Guarantee Fund the remaining increase of 11% is primarily related to staff expenses (general salary increase), IT costs (digitalization and regulatory investments) and facilities (higher energy costs).
- There was a 2.9 bln positive P&L impact of impairment on financial assets at amortised cost (driven by primarily model impacts and release of overlay for geopolitical and other emerging risks).

Non-performing loans	31 Dec 2022	31 Dec 2023
Retail	3.9%	2.6%
Corporate	1.3%	1.5%
Total	**2.3%**	**1.9%**

Detailed description on financial instruments' valuation is included in the consolidated financial statements (in the following notes: 16-22 and 25), while Note 43 in the consolidated financial statements is about risk management.

The business performance of the Group is illustrated by the following figures:

	2022	2023	variance
Cost / income	58.1%	56.6%	-1.5%
Non-interest type income / total income	43.0%	38.9%	-4.1%
Fee and commission income / total income	28.3%	27.7%	-0.6%
Operating income / average headcount	87.9	96.9	+10.2%
Credit cost ratio	0.4%	-0.1%	-0.5%
Non-performing loans	2.3%	1.9%	-0.4%
Loan / deposit ratio	68.0%	76.4%	+8.3%
Capital adequacy ratio (consolidated)	17.1%	17.3%	+0.2%
LCR	167%	209%	+42%
NSFR	174%	147%	-27%
ROE (based on average balance of equity)	16.6%	22.6%	+5.9%
ROA (based on average balance sheet total)	1.3%	1.9%	+0.7%

4. Introduction of strategically important subsidiaries[2]

Leasing operation

At the end of December 2023, the Leasing operation consisted of two legal entities next to the leasing operations performed by the bank (three entities were merged with K&H Bank Zrt. in previous years).

Name	Main profile
K&H Autópark Kft.	Operative leasing, fleet management
K&H Ingatlanlízing Zrt.	Financial leasing (real-estate)

On 31th December 2023 the **Group's leasing** portfolio stood at 93.5 bln (9% higher than the level of the previous year).

K&H Csoportszolgáltató Kft. (K&H Shared Service Center Kft.)

In 2005 the Bank decided to set up a group services centre. The purpose of this unit was the centralization and efficient organization of supplementary service activities closely linked to the core activities of individual group members. Comprehensive service activities performed for the group include the management of the real estate portfolio, logistical and bank security tasks, operative business responsibilities (the booking of trade receivables and payables, fixed assets, tax accounting and payroll management) and support of business activities.

The company takes out service level agreements and contracts with individual group members for each individual services.

[2] Note 41 in the consolidated financial statements provides a comprehensive overview on all subsidiaries.

As part of the K&H group strategy, K&H+ app started in September 2020. This application provides digital solutions and offers beyond banking services through K&H mobile bank application, which operation is managed in close cooperation with K&H Bank.

K&H Faktor Zrt. (K&H Factoring)

The K&H Factor Zrt's main activity is factoring (purchase of receivables, financing, discounting). The company's business activities have started in 2010, factoring turnover has been continuously increasing since then (2023 YE: 291 bln, +23.3% yoy). The amount of trade receivables towards debtors amounted to 24.2 bln at YE 2023, +22.8% yoy increase (22.4 bln on 30 June 2023).

K&H Jelzálogbank Zrt. (K&H Mortgage Bank)

As from April 1st 2017 MNB implemented a new indicator (Mortgage Financing Adequacy Ratio) to constrain the banking sector level systemic risk of maturity transformation related to the long term HUF retail mortgage loan portfolio. According to the current rules, at least 25% of the retail HUF mortgage loan portfolio is to be financed by long-term sources with maturity of at least 3 years (be it mortgage bonds or refinancing loans taken out from mortgage credit institutions).
K&H Mortgage Bank was established in 2016. The core business activity of the Mortgage Bank is refinancing of retail mortgage loan portfolios of K&H Bank Zrt. and mortgage bond issuance, started in Q1 2017.

Starting in March 2017, K&H Mortgage Bank issued several mortgage bonds, initially in the framework of private placements, then during public placements. On 31 December 2023, K&H Mortgage Bank's stock of mortgage bonds was 172 bln, of which 60 bln were publicly issued on the Budapest Stock Exchange, of which 15 bln were green mortgage bonds issued under MNB Program.

5. Non-financial statement

Our aim is to increase our positive impact on society, covering four topics closely related to our core business: environmental responsibility, financial literacy, the promotion of entrepreneurship, and health.

I. ESG

K&H Group's sustainability strategy
We primarily focus on environmental protection, and specifically on climate protection. In line with the United Nations Framework Convention on Climate Change, we have undertaken to shape our financing portfolios so that their carbon dioxide emissions meet the Paris Agreement. As a member of the KBC Group, we have set public CO2 emission targets that are taken into consideration in risk management and decision-making. Our products and services are continuously developed to achieve those targets. K&H provides financing to both retail and corporate clients in line with domestic and EU-level green frameworks, and we offer a green leasing product that is unique on the market. We also manage significant assets in responsible investment funds. K&H Insurance uses green incentives, too. We negotiate with corporate clients about sustainability, and help them understand the importance of green transition. For retail clients, we have developed a utility cost calculation tool as tailor-suited assistance in energy-efficient home renovation. As another unique feature, K&H offers a carbon footprint calculator tool to agricultural customers.

The KBC Sustainable Finance Programme and its local counterpart, the K&H Sustainability Program have been established to meet the targets set out in KBC's overall commitments. The local program coordinates all sustainability activities of K&H Group in Hungary and expresses our company's commitment during the activities implemented across the country. Components: monitoring business activities; collecting data related to sustainability; facilitating the engagement of relevant corporate clients; reporting to regulators; corporate social responsibility.

The programme has 5 tracks:

- business policy, organisational issues, engagement of employees
- sustainability data, metrics
- sustainability risk issues
- the engagement of our clients
- social issues related to sustainability, CSR, communication

Sustainability of our own operations
In addition to its financial activities, K&H Group places particular emphasis on energy efficiency as part of our sustainable operations. K&H is one of the first players in Hungary's banking sector to have achieved carbon neutrality at the end of 2021, which means that we fully offset the emissions related to our own operations. But responsible behaviour does not stop there. By 2030, our financial institution will have reduced its carbon emissions drastically: by 80%, compared to 2015; and we are currently standing at 72%.

- Compared to 2015, our water consumption has dropped by 67%
- In 2023, we generated 126,442 kWh of electricity using solar panels
- Our total energy consumption has declined by 25% compared to 2015
- We have reduced our waste transported to landfills and incinerators by 25% compared to 2022
- We have continued the energy modernization of our sales points
- In 2023, our fleet included over 410 hybrid vehicles (71% of the total fleet)

K&H for Sustainable Agriculture scholarship grant
In 2023, we announced the K&H for Sustainable Agriculture scholarship grant for the ninth time, with the aim of providing financial support to students committed to the study and research of sustainable, long-term development in the agricultural sector.
Over the past 9 years, 427 talented students have submitted high-quality applications for a "K&H for Sustainable Agriculture" scholarship. Including this year's winners, 70 of them have received a total of HUF 13 million in funding to continue their research, which can contribute to making agriculture more efficient, safer and more sustainable.
In addition, for the second time, we also gave an award to the institution nominating the most students. This prize was awarded to the Veterinary University.

The Month of Sustainability
Throughout the year, we do more and more for sustainability, making it a priority in our day-to-day operations. The month of September has been dedicated specifically to this cause. In 2023, we concluded a cooperation agreement with WWF, a reputed conservation organisation that has been present in Hungary for over three decades. The partnership is focused on biodiversity and is aimed at the reconstruction of natural habitats.

K&H Cooling Groves
Launched in 2022, our K&H Cooling Groves programme aims to expand green spaces in the courtyards of educational institutions by planting trees and shrubs and educating children about their beneficial effects, thus contributing to environmental awareness. Educational institutions could apply for the programme, and by May 2023, we had planted a total number of 555 trees and 1,110 shrubs in the yards of the 100 selected institutions under the professional guidance of the 10 Million Trees Foundation. The programme will also be integrated into the schools' environmental education curricula, highlighting the importance of increasing green spaces in the fight against climate change. As an extension of the programme, the "K&H Animal-Friendly Groves" initiative was launched in November in order to lay even more emphasis on biodiversity by luring birds, hedgehogs and insects to the school courtyards.

II. Financial education

K&H Ready, Steady, Money! financial competition
The competition is in line with K&H's corporate social responsibility policy, of which financial education is an integral part. Improving financial literacy will ensure that, as adults, today's children will be able to navigate the maze of everyday finances, banking services, and the digital innovations now ubiquitous in the financial arena as well. Over the past 13 years, almost 78,000 children have taken part in the competition, from over 800 municipalities fielding close to 1,900 school teams. In the 2022/2023 school year, almost 9,000 students competed with the help of their teachers, parents and mentors. The first

three rounds were executed online, while the finals were held at a grand event that the contestants attended in person.

Safe banking
The rise of online banking and payment solutions has been accompanied by more and increasingly varied digital fraud attempts. K&H maintains strong focus on customer safety and security and, in addition to providing technical protection, we are also committed to promoting security-conscious behaviour among its customers.
Our webpage at https://www.kh.hu/digitalis-bankolas/biztonsagos-bankolas describes the most common threats to users, and how they can protect themselves against them. By clicking on the various topics, users can learn about the threats related to phishing, digital banking and instant payment services, can receive advice from security experts, and can gain an overview of the basics of protecting their personal data and assets.
The section on phishing (https://www.kh.hu/digitalis-bankolas/adathalaszat) deals with today's most common form of attack, namely phishing, which is aimed specifically at obtaining banking and customer data. In addition to a list of the most common telltale signs of phishing, the site calls customers' attention to the scenarios and channels used in recent phishing attacks and advises them on how to defend themselves against such attacks, and how to report them.
In periods of frequent phishing attempts (e.g., at Christmas and Easter) K&H publishes targeted news items to draw attention to these risks. In the event of extensive attacks, we use our digital channels to warn customers directly.

III. Promotion of entrepreneurship

K&H Family Business Excellence Award
The K&H Family Business Excellence Award has been created to recognise the contribution of Hungarian family businesses to the economy, and their dedication to society. In 2023, we again rewarded businesses whose success stories can inspire other family firms in Hungary to develop further.

- 4 categories
- 7 award winners

K&H Family Business Club
We have created the K&H Family Business Club to offer an intimate environment for family business owners to learn from each other and be inspired by professional speakers, where they can talk openly about their family and business challenges and successes.

K&H NextGen Academy
One of the biggest challenges for family businesses is how to pass on the business to the next generation in the most effective way. To support this process, eight years ago we launched the K&H NextGen Academy series to offer comprehensive, inspiring and complementary knowledge in areas that will help businesses grow and become sustainable in the future.

Start it @K&H
Our CSR-based Start it @K&H incubation programme is open to start-ups with high growth potential, particularly to those in the early stages of their development, without any industry restrictions. As Hungary's largest corporate incubator, it helps them achieve product development and investment goals over 6-12 months through its Budapest and Győr offices operating as inspirational communities, with the support of experienced mentors and K&H's domestic and international contact networks. In the latest selection process in autumn 2023, which focused on the environmental and social aspects of sustainability, 16 teams were chosen to participate in the programme, 4 of which are sustainability-focused start-ups, while 6 are established by women.

IV. Health

K&H MediMagic scheme
The year 2023 marked the 20th anniversary of the start of the K&H MediMagic Programme. This time, the equipment purchase scheme was focused on metabolic diseases. The jury selected 10 winning

institutions in 2023; they received new and innovative devices worth HUF 20 million for accurate and speedy paediatric diagnosis and treatment. Our colleagues were also involved in the MediMagic programme, donating HUF 2.2 million at Christmas for the procurement of medical equipment to two institutions. In addition, an ambulance station received assets worth HUF 600,000 thanks to K&H employees who offered 1 percent of their personal income taxes for charitable purposes. As to the total results of the MediMagic scheme since its launch, innovative devices worth HUF 875 million have been donated to paediatric institutions on 556 occasions.

K&H Future Healers Award
On the 20th anniversary of the K&H MediMagic scheme, the K&H Future Healers Award was announced for paediatric doctors below 40 years of age who put their hearts and souls into healing children with innovative technology. From the 81 applications, the jury, our media sponsors, and the general public selected eight doctors to be awarded in three categories. Each Future Healer received HUF 1.3 million, with HUF 300,000 of that amount earmarked for professional training, so that the award winners can heal their little patients even more effectively, using innovative technologies.

K&H go!

Plogging

Following the previous year's popular K&H Go! exercise involving jogging combined with picking up litter, another plogging event was held in 2023. The merry participants picked up more than 100 bags of litter while engaging in physical exercise along the Danube shore, on the Pest side of the river.

Paralympic cooperation
K&H remains a sponsor of the Hungarian Paralympic Committee and the Financial Institution of the Hungarian Paralympic Team until the Paralympic Games to be held in Paris in 2024. Besides supporting the Committee, we once again provided financial support to individual athletes who set an example of commitment and perseverance. The scholarships were awarded to outstanding Hungarian para-athletes in three categories. The recipients included a person who had already achieved good results in a world competition, another athlete who showed strong potential, and a helper. The K&H Go! Paralympic scholarship scheme is intended to help these participants maintain key focus on preparations and successful competition.

E-sport
As the sport of the 21st century, e-sport shares several characteristics with conventional sports, because it develops the mind and also requires physical stamina. That is why we wish to set an example in e-sport, too, by supporting commitment, perseverance and outstanding performance. K&H intends to support, right from the beginning, Hungarian talents who plan to excel in e-sports.
Supported events:

- K&H Hungarian National E-Sport Championship (K&H MNEB)
- K&H Junior Rocket League Cup
- K&H University E-Sport Cup

V. Responsibility towards employees

K&H Group considers its employees to be its most important resource, and believes that only healthy, satisfied, duly motivated and highly skilled employees can be successful. Therefore, in all areas of human resource management, we strive to create an environment that supports the alignment of employee expectations with the needs of the company, offering opportunities for the professional fulfilment and work-life balance of employees.

- we always offer opportunities for improvement;
- our employees can try themselves and hone their skills in various functions;
- they can work with experienced professionals, inspiring leaders and innovative digital technologies in interesting, novel projects, thus gaining new professional skills and up-to-date knowledge
- we support diversity and effective cooperation between generations, and consider loyalty as a value

- we have made it possible for more than 1,600 K&H head-office employees to work from home in 50% of their work time, while our sales-point colleagues may carry out their network tasks from home for up to 13 days a year.

Equal opportunities and women
Gender equality and merits-based promotion have always been core values for us and part of our corporate culture. In order to better position women for professional development, we have supported our ambitious and talented female colleagues with leadership potential by means of a targeted initiative. The K&H Career School 'meNŐk' was launched in 2020 to provide training to our female managers. We continued with our K&H 'meNŐk' female managers' mentoring programme, and we supported our '#együtt a sokszínűségért' ('together for diversity') volunteer community in the organisation of our first 'kitűNŐk' event, not only for women.
In 2023, 63.5% of our promoted colleagues were women. As of 1 January 2023, a resigning member of the K&H Group Country Team who was also the member of the K&H Bank Executive Committee was replaced with a female executive manager.

Remuneration
As one of Hungary's leading financial institutions, K&H is committed to operating a remuneration system that is competitive in this market. To that end, we regularly collect market information not least to compare our own remuneration system with those of our peers.
We have been offering employee discounts and various other benefits to help our colleagues live fuller lives, and in 2023 we added some extraordinary items to that list. Our staff can use our company cars free of charge on weekends as further support in various life situations. Our Group supports its employees and pensioners in need with social benefits.

Excellent work conditions
Excellence at work and continuous professional development require proper conditions. Factors that contribute to that include a modern and spacious head office with collaboration and focus rooms, in line with the nature of the work. We offer bicycle parking, a recreation room and a fitness corner with four stationary exercise bikes in our head-office building. In 2023, we took further steps to facilitate (where the nature of a job allows) working from home for a sound work-life balance. We provided each one of our employees with a smartphone and a laptop computer for remote access. We operate a weekly mental-hygiene consultation service for our colleagues, available online or by telephone.

Budapest, 17 April 2024

Guy Libot Chief Executive Officer	Attila Gombás Chief Financial Officer