Gránit Bank
PRIVATE LIMITED COMPANY

CONSOLIDATED BUSINESS REPORT

31 DECEMBER 2022

BUDAPEST, May 2023

REPORT OF THE BOARD OF DIRECTORS

ON BUSINESS OPERATIONS IN 2022

1. Introduction to Gránit Bank

1.1. A brief history

In the last decade, the Bank has consistently achieved dynamic growth, and in doing so it has proved that an innovative business model that focuses on digital solutions can be as successful in Hungary as elsewhere.

Gránit Bank closed its most successful business year to date in 2022

The Bank started trading under the name Gránit Bank in May 2010, when it was still effectively an empty, "greenfield" bank operating with total assets of barely over HUF 7 billion. After twelve and a half years of operations, as at the end of December 2022 Gránit Bank's balance sheet total exceeds HUF 1,018 billion and it has achieved a pre-tax profit of HUF 13 billion for the year, having steadily increased the number of its retail and corporate customers, as well as its deposit and loan volumes.
As a result of this dynamic growth, Gránit Bank has now become a mid-sized bank, and the business model it has implemented has brought it widespread professional recognition. The Bank participates in a wide range of economic development and residential programmes (MNB NHP, NKP bond programme, Gábor Baross Reindustrialisation Loan Programme, Széchenyi card/loan schemes, MFB Points, Eximbank refinancing schemes, CSOK, Green Loan Programme, etc.), has been a BUBOR market maker since 2018, actively participates in programmes aimed at improving financial literacy, is a committed supporter of environmentally conscious banking, and also supports the development of national culture and sports.
The Bank is an attractive investment opportunity for investors, as is reflected by the fact that its circle of owners is constantly expanding. The Bank is entirely owned by domestic private and institutional investors.

1.2. The Bank's ownership structure

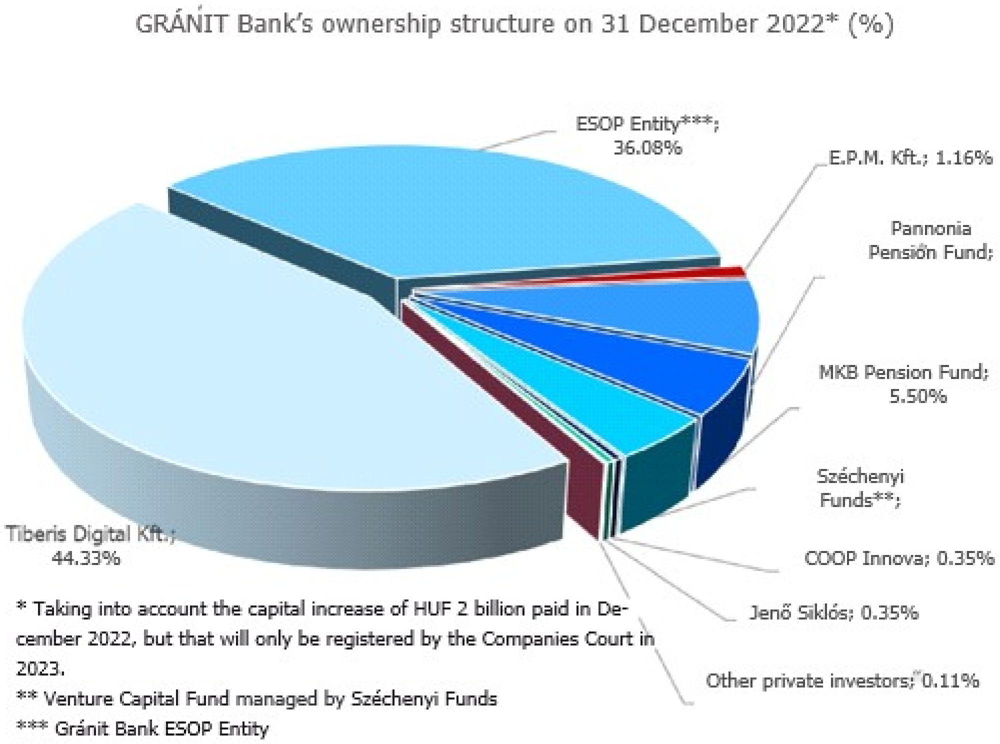
Gránit Bank was established in 2010, when Sándor Demján bought the former Hungarian subsidiary of WestLB. Éva Hegedüs has led the bank since its inception, and as owner, through her share in E.P.M. Kft., she has a personal interest in increasing the bank's shareholder value.

Since 2010, the Bank's ownership circle has gradually expanded to include bankers, businesspersons and financial investors.

In 2022, István Tiborcz invested in the Bank as a financial investor through Tiberis Digital Kft. He was prompted to make the transaction by the bank's innovative digital strategy and dynamic growth, and therefore no changes were made to the strategy. One of the terms of the agreement concluded with E.P.M. Kft. was that two thirds of the Board of Directors and the Supervisory Board could continue to be appointed by the company owned by Éva Hegedüs in the future too, and thus the management rights remained in the hands of the founding owner and Chairperson & CEO.

Gránit Bank launched its first employee share ownership programme (ESOP) in 2017, which was followed by two more. The main goal of the programmes was to further motivate employees to increase shareholder value in the long term.

The current ownership structure of the Bank as at 31 December 2022 is shown in the figure below.



* Taking into account the capital increase of HUF 2 billion paid in December 2022, but that will only be registered by the Companies Court in 2023.
** Venture Capital Fund managed by Széchenyi Funds
*** Gránit Bank ESOP Entity

The Bank's management has remained unchanged since the beginning

1.3. The Bank's Management

The management team tasked with the Bank's day-to-day management and operations has remained unchanged since the Bank's inception. The table below shows the composition of the Board of Directors and the Supervisory Board as at the end of December 2022.

Board of Directors	Supervisory Board
Éva Hegedüs (Chairperson & CEO)	Sándor Nyúl (Chairperson)
László Balázs Hankiss (Deputy CEO)	István Árkovics
Péter Bence Jendrolovics (Deputy CEO)	Dr. Judit Gubuznai
János Major	Mrs. Gyula Lajtos
Dr. Judit Tóth	István Vida

2. Macroeconomy[1]

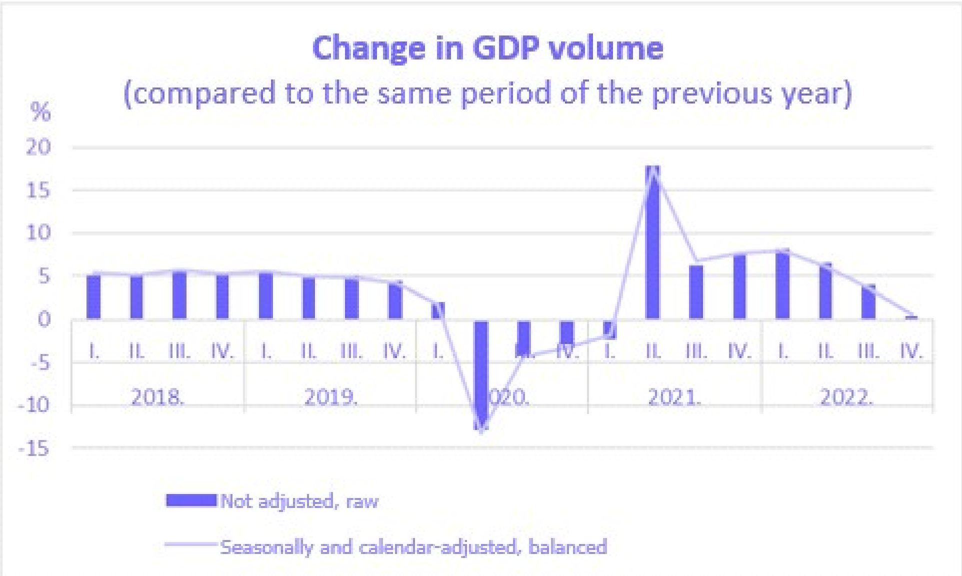
[1]For the macroeconomic section we used the MNB's 2022 Q4 and 2023 Q1 inflation report and the KSH's 2022 first releases on gross domestic product and inflation.

There was significant uplift in terms of economic growth in Hungary after the Covid epidemic had been contained; however, by the end of 2022, this improvement had come to a halt due to increased geopolitical tensions, high energy prices and a fragmentation of supply chains

Before the pandemic, Hungary's economy had been growing by an average of 4.1% per year, which turned into a 5% fall in the year of the Coronavirus pandemic. After that, growth started to pick up again in 2021 and in the second quarter of 2021 the Hungarian economy grew by 17.9% compared to the same period of the previous year, reaching its pre-crisis level. However, from February 2022, the negative economic effects of the Russian-Ukrainian conflict, combined with rising energy prices and soaring inflation, caused growth in Hungary to stall again. In the third and fourth quarters of 2022, GDP fell compared to the previous quarter, with the economy thus entering a technical recession. Inflation in Hungary increased to 14.5% for the year as a whole, making it the unenvied leader in Europe in this regard. The annual growth of the Hungarian economy was 4.6% compared to 7.1% the previous year. Hungary's current credit ratings by the main rating agencies are as follows: Moody's: Baa2 (outlook: stable), S&P: BBB- (negative), Fitch: BBB- (negative).

2.1. Gross domestic product (GDP)

The volume of Hungary's gross domestic product increased by 4.6% over 2022 as a whole, but in the last quarter the increase was only 0.4% on a year-on-year basis. In the 4th quarter, on the production side, the added value of agriculture fell by 32.3%, while that of industry rose by 2.7%, that of construction by 0.9% and that of services by 2.8%. On the consumption side, the actual consumption of households rose by 2.1%, while community consumption fell by 2.4%, which together resulted in a 0.7% rise in the final consumption volume. Gross accumulation fell by 2.4% in the last quarter of the year, of which gross fixed-asset accumulation decreased by 8.6%. The volume of exports rose by 9.8%, and that of imports by 9.2%.



Source: KSH

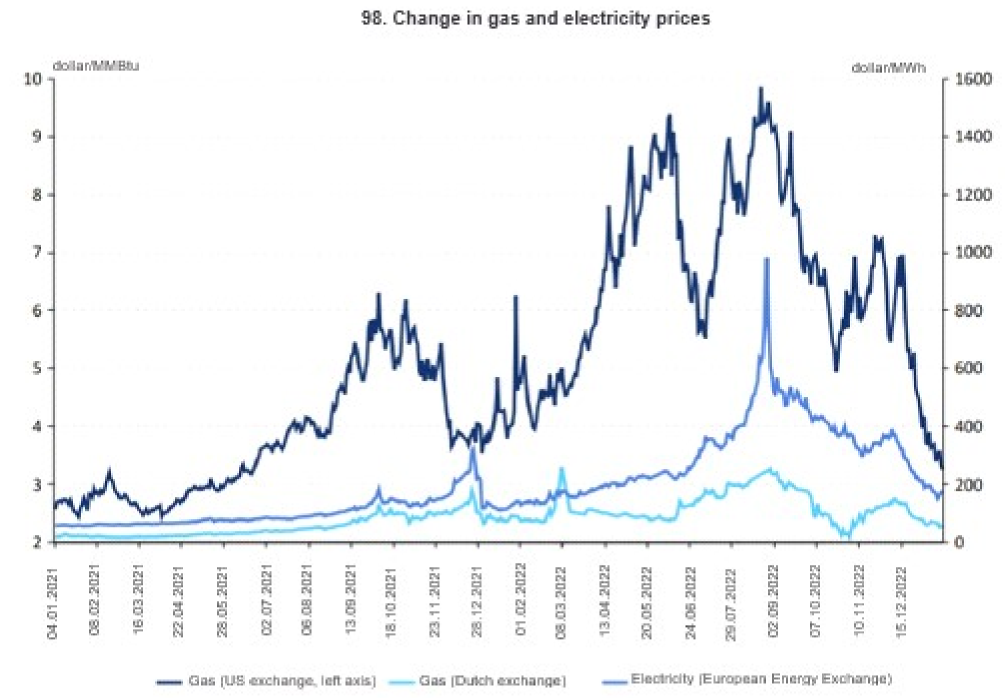
Services contributed 4.1 percentage points, industry 1.0, and construction 0.2 percentage points to the 4.6% annual GDP growth. Agriculture reduced GDP growth by 1.0 percentage point. On the consumption side, final consumption contributed 3.5 percentage points, and gross accumulation 0.4 percentage points, while the balance of trade contributed 0.7 percentage points to the rise in gross domestic product.

In the external trade of the national economy – at current prices – a deficit of HUF 998 billion was recorded. The volume of exports (9.8%) grew more than the volume of imports (9.2%). In the turnover of goods, which accounted for 84% of exports, exports increased by 8.5% and imports by 8.3% compared to the previous year. In the foreign trade, exports of services (including tourism) increased by 15.6% and imports by 15.4% compared with the same period of the previous year.
The development in the trends in foreign trade was also influenced by the change in the forint exchange rate. The forint depreciated by 9.2% against the euro and by 23% against the dollar compared to a year earlier. The devaluation has also had an impact on producer and consumer prices through the consumption of imports, with consumer prices increasing by 14.5% on average in 2022.
In 2022, the average number of people in employment for the year as a whole was 4,696,000. 74.4% of the employees (3,494,000) were aged 15-64, with the employment rate for this age group rising by 1.3% in a year. Unemployment increased from 3.4% in June to 3.9% by the end of the year; the annual average rate was 3.6%. The proportion of those who had been out of work for at least a year was 34.2%.

2.2. Changes in the interest environment

In 2021, the National Bank of Hungary began to gradually raise the key interest rate to curb rising inflation, which it continued to do in 2022. By the end of September 2022, it had raised the base interest rate to 13% in several steps, while the 1-day (overnight) deposit rate, which is considered the benchmark rate, was raised to 18%.
By the end of 2021, the FGS Go! and the Bond Funding for Growth Scheme were exhausted and not renewed by the central bank. From 2023, the Government launched the Gábor Baross Reindustrialisation Loan Programme for business, with an overall budget of HUF 700 billion. Following the FGS Go! scheme, the central bank launched the FGS Green Home scheme in October 2021. For the population, the “babaváró” (“waiting-for-baby”) programme, which expires at the end of 2022, has been extended by another two years. A loan agreement can be concluded until 31.12.2024.

In the second half of 2021, raw material and energy prices started to rise globally. By the 3rd quarter of 2022 the price of natural gas had risen to historic highs, but by the end of the year it had fallen to 75-70EUR/m3 as a result of the mild winter and falling demand due to cost-saving measures. Central banks in the region have all started to raise their base rates to curb the rise in consumer prices.



Source: Bloomberg.

The EUR/HUF exchange rate moved in the 353-423 range in 2022, ending the year at 400.25 forints to the euro. Based on market forecasts, the exchange rate can be expected to be between HUF 370 and 400 in 2023. The Hungarian bankruptcy risk indicator stood at 202.5 basis points at the end of 2022.

2.3. Credit institutions sector

According to the preliminary data for Q1-Q4 2022, the Hungarian credit institutions sector achieved a pre-tax profit of HUF 557 billion, which is 96.1% of the 2021 result. Excluding the impact of changes in impairment and risk provisions, non-consolidated profit before tax increased by 123.2%.
The non-consolidated balance sheet total of credit institutions at the end of 2022 is 17.1% higher than a year earlier. The volume of loans held by credit institutions increased by 12.0% (including NKP bonds), and within this total, loans to non-financial businesses increased by 10.0%, loans to the SME sector by 13%, and loans to households by 6.3%.
Based on the stand-alone data of the various credit institutions, the ratio of non-performing loans rose from 2.86% at the end of 2021 to 2.91% at the end of 2022. The proportion of loans in arrears by more than 90 days rose from the previous year's 1.24% to 1.48% in the household sector, and from 0.86% to 1.36% for non-financial companies by the end of 2022.

To stimulate lending to small and medium-sized enterprises and to promote economic growth, on 1 June 2013 the MNB launched the Funding for Growth Scheme (FGS in English, or NHP in Hungarian), which, with its two phases combined, led to a resurgence in growth in SME lending volumes. The FGS had a beneficial effect on investment activity, employment and economic growth overall. In early 2016, the third phase of the FGS was launched as part of a growth support programme to help banks to switch to market-based lending; at the end of 2018, the MNB announced a new FGS Fix programme to maintain the growth rate of lending to the SME sector, and in 2019 it also announced the Bond Funding for Growth Scheme

for companies. On 20 April 2020, the MNB launched the FGS Go! scheme, as part of the FGS, to provide micro, small and medium-sized enterprises with a fast and reliable solution for financing their latest investments and their operations, in order to mitigate the negative economic impact of the coronavirus and avoid disruptions in the credit market.
In 2021, the FGS Go! and Bond Funding for Growth Schemes were exhausted. For the rest of the year, lending was supported by the Garantiqa crisis guarantee schemes, the schemes available under the Széchenyi programmes and those offered by MFB and Eximbank. In October 2021, the NHP Green Home scheme was introduced in order to promote environmental sustainability in the domestic housing loan market, which could contribute to stimulating the demand for and thereby the supply of green homes.
In February 2023, the Government launched the Gábor Baross Reindustrialisation Loan Programme (*Baross Gábor Újraiparosítási Hitelprogram*, BGH), which is available to businesses and has an overall budget of HUF 700 billion. With this, in 2023 the Government will provide financing sources of approximately HUF 3,000 billion, equivalent to 4 percent of GDP, to companies through the loan and capital programmes of the Hungarian Development Bank (*Magyar Fejlesztési Bank*, MFB) and Eximbank, as well as the Széchenyi Card (SZKP) programmes. The BGH can be used for any credit purpose on a forint and euro basis. The Programme provides an additional interest discount for investments that improve energy efficiency.
An important contributing factor to the growth in household loan volumes was the borrowing linked to the “babaváró” support scheme for expectant mothers launched in July 2019, a product that has served as a catalyst for growth in retail lending in general in 2022, while the measures launched under the Family Protection Action Plan will also provide support for an upswing in demand for loans.

2.4. Outlook

While in 2020 it was the fight against the coronavirus pandemic and in 2021, the economic recovery, that determined economic developments, in 2022 it was the fight against inflation and the consequences of the Russian-Ukrainian conflict (high inflation, sanctions, fluctuating energy prices) and monetary and economic policy responses that determined them, and these challenges will continue in 2023 with high inflation and high interest rates, limited economic growth, albeit with some prospect of these improving towards the end of the year (with a fall in interest rates and more robust economic growth predicted).
During 2023, monetary tightening should have an increasingly broad disinflationary impact, resulting in a noticeable slowdown in inflation. Price hiking by companies also contributed to the overall growth in prices, and this can be seen in the increase in company profits. In the coming months, a gradual fall in the consumer price index is expected, and then the disinflation process should accelerate in the second half of the year as the base effect of household energy prices and the various tax measures subsides. Domestic inflation is expected to decrease slowly in the first half of 2023 and more significantly from the middle of the year. The consumer price index should return to the central bank’s tolerance band in 2024. Inflation is expected to range from 15.0-19.5% in 2023, 3.0-5.0% in 2024, and 2.5-3.5% in 2025.
This year’s growth is characterised by a structural and temporal duality. Looking ahead, the economy is set to slow this year, primarily due to a fall in domestic demand, to which falling real wages and rising business expenses will contribute, while the growing share of foreign markets in overall sales will support the expansion of GDP through net exports. Based on the National Bank of Hungary’s forecasts, GDP will grow by 1.0-1.5% in 2023, 3.5-4.5% in 2024, and 3.0-4.0% in 2025.

In 2023, the rate of growth of corporate loans will slow, the volume of new contracts will fall, and there will likely be a decrease in demand for residential loans due to the fall in real wages caused by high inflation and high interest rates.
The growth of the global economy in 2023 will also be determined and influenced by the high inflation and interest rate environment, fluctuations in the global market price of energy, and the continuation of the Russian-Ukrainian conflict. According to the IMF's latest forecast, the growth rate of the global economy will decrease from 3.4% in 2022 to 2.8% in 2023, and then reach 3% in 2024.

3. Gránit Bank Group's business strategy

The Bank' Groups digital strategy is unchanged: delivering quality financial services to corporate and retail customers through innovative electronic channels

Gránit Bank Group, a domestically owned bank that is committed to improving the competitiveness of the Hungarian economy, aims to serve household customers and companies as a strategic partner, and to provide innovative and integrated financial services as a result of which finances can be managed simply, conveniently and quickly, as well as flexibly in terms of time and space.

A key element of Gránit Bank Group's strategy is to provide corporate and retail customers with clearly understandable, yet high-quality and value-added financial services through customised solutions in the context of a cost-effective operating model. Gránit Bank Group wishes to leverage all the technological advances of the modern age to provide a fast and convenient customer service, while at the same time considering the environmental and sustainability ramifications of its business, and for this reason it ascribes a key role to the provision of services through electronic channels.
Gránit Bank Group is a partner in the pre-financing and co-financing of state and EU subsidies, and has an interest in the long-term operations of the projects thus implemented. In this regard the Bank Group relies, in strategic terms too, on relationships with large corporations that, with the Bank's active involvement, can help stimulate the small and medium-sized enterprise sector.

Other key areas of the Bank Group's strategy include the provision of retail payment services, the sale of diversified account packages and bank cards based on varied customer requirements, the provision of investment services, and the sale of home loans, home improvement loans, "babaváró" loans, green loans and overdrafts to its customers. The Bank Group also builds on the owners and employees of its corporate clients using financial services, who can conduct their personal banking at Gránit Bank Group on favourable terms.

The basis of the Bank Group's strategy is to develop its services for retail and corporate customers in line with the latest developments in electronic banking, and at the same time to optimise its internal processes for this purpose. The changes in the available means of using banking services, in parallel with the spread of the internet and mobile devices (laptops, smart phones, tablets), have generally resulted in the vast majority of transactions already being conducted electronically, while a considerable proportion of sales are no longer generated by the traditional branch networks, and sales of financial services – including the opening of first accounts – over the internet are also growing.

The Bank Group's digital business model uses resources

Gránit Bank Group's business model assures lower costs than the average for the banking sector (in terms of operating costs/total assets, Gránit Bank Group's 0.9% figure is already significantly better than the 1.6% average for the banking sector), and this allows the Bank to provide customers with sustainably competitive terms while still achieving a high rate of return and prof-

efficiently and at the same time promotes the development of sustainable economic structures

itability. This strategy is in line with the changes in customer habits, as numerous international and domestic research studies show that the proportion of people who bank online, and more specifically, on their mobile phones, is growing.

The Bank Group achieved profitable operations significantly sooner than the international benchmark, in its fourth full business year, and has consistently posted a profit ever since, and 2022 was its ninth profitable year.

The Bank Group has achieved an average growth of 48% over the past twelve and a half years, proving that customers satisfied by high-quality, innovative financial services offered at favourable terms can be acquired even in a highly competitive environment.

Innovative digital solutions for managing finances more simply

Innovation is the driving force behind Gránit Bank Group's growth and the cornerstone of its strategy, with which the Bank Group aims to simplify and facilitate for its customers what are traditionally considered complex financial transactions. Gránit Bank Group regards the continuous expansion of its range of convenience services provided to customers as a fundamental business objective.
Gránit Bank Group has always been at the forefront of online banking. It was already possible to open a retail account online simply and quickly, but on 20 July 2017, immediately after it had fulfilled the required legal conditions, Gránit Bank Group became the first in the country to launch an online retail account-opening function linked to video-based authentication, with its state-of-the-art Gránit Bank VideóBank service. Thanks to this development, the Bank's prospective retail customers are able to open a fully usable retail bank account from anywhere in the country without having to show up in person. For the first time in Hungary, with this innovative service a bank account can be opened on a smartphone, laptop or desktop computer without having to visit a branch. An account can be opened in as little as 15 minutes, during which time the customer receives their contract and can already transfer money to the account they have opened. Experience shows that more than 80% of the Bank's retail customers open their account in VideóBank or via another online channel.

Customers can manage their day-to-day financial matters via NetBank, using a computer or an application optimised for smartphones, and monitor their card transactions via text message. Gránit Bank Group uses electronic signatures, so all bank certificates and documents are available to customers via the NetBank. If the customers have questions, they can use the live-voice call centre or VideóBank, which provides the personal banking experience mentioned earlier. The VideóBank service, introduced in 2012, has created a unique opportunity on the Hungarian market for customers to deal with a member of the Bank's staff in person, receive official banking documents and perform various banking transactions without travelling or standing in line.

In 2014, the Bank introduced the innovative Gránit eBank service, which has been continuously developed since then for the convenience of customers. This award-winning mobile application not only makes day-to-day financial transactions faster and easier, but also more cost-effective and environmentally friendly, and helps the Bank to reduce costs for its customers. The application includes a number of innovative, security and convenience features. The new feature in 2015 was that customers would receive free iSMS messages after their transactions, instead of the previous SMS format.

Launched in 2016 as the first service of its kind to be introduced in Europe, Gránit Pay is a new-generation mobile banking wallet, which is able to digitise a bank card in a few seconds, after which the NFC compatible Android phone can be used to pay at touch-pay enabled POS terminals.
In the summer of 2018, for the first time in the Hungarian banking market, Gránit Bank's mobile banking application (Gránit eBank) was extended to include a cost-analysing financial management function (My Finance), a function that until then had not been integrated into any mobile banking application. The module of eBank shows the expenditures and revenues, which are represented by the app's self-learning algorithm on charts, in a monthly breakdown, categorised by type.
Customers were able to block and unlock their card through the app before, as well as to set limits on card transactions (separately for purchases via a physical POS terminal, for ATM cash withdrawals and for online purchases), and in 2018 it became possible to launch payments and open term deposits through the app.
With these services, customers can effectively hold their personal bank branch in their hands via their smartphones, reflecting the Bank's slogan "My mobile is my branch". The application can be downloaded from the App store, the Android marketplace or the Google Play webshop. This solution is becoming more and more popular among customers, as the smartphone is effectively the new bank branch that can be accessed at the touch of a button without having to travel or queue, and through which customised solutions needed to achieve private or business goals are immediately accessible.

New additions in 2019 include, as part of the drive to expand digital functionality, the option of opening a securities account and purchasing government securities through VideóBank, which is also available via the internet banking system. Besides this, the Bank introduced a function enabling retail customers to apply for a "babaváró" loan online, and added ApplePay to its own GránitPay function.

Among the innovations introduced in 2020 are the launch and acceptance of payment requests through the Instant Payment System and the possibility to make payments based on the MNB standard QR code. The account opening process has been revolutionised by artificial intelligence, which enabled Gránit Bank to be the first in Hungary to introduce the selfie-based account opening function, which means that a full-fledged retail bank account can be opened from home, without the help of an administrator, in just a few minutes. Another development is the Gránit Digital Card Service, which provides new customers with a plastic-free digital bank card suitable for purchases, as early as on the next day after account opening; Gránit Bank was also the first among Hungarian banks to introduce this service. In 2020, the FGS Go! business loan first became available in Hungary at Gránit Bank with instant online prescreening and fast online application. In the field of lending, the Bank has launched a unique digital smart calculator for household customers. With the Kiszámítható Mortgage Calculator, customers can calculate precisely, in just 5 minutes and with just a few swipes or clicks, what size mortgage (home loan) they can apply for, and what the repayments will be.

In 2021, the Bank has optimised the entire mortgage lending process for the digital channel. The customer can use the calculator to set up the optimal combination of loans and available state schemes (home loan, "babaváró" loan, CSOK). Customers can submit and monitor the entire loan process through the digital customer account.

Gránit Bank was one of the first banks in the world – and the first commercial bank – to introduce the Mastercard Carbon Calculator on 15 November 2021, which allows cardholders to see the impact (CO_2 emissions) of their purchases on the environment in their mobile bank. In the eBank app, this impact can be offset with one click by financing tree planting. The function is popular among customers; thousands of trees have already been planted.
At the same time as the Eco Calculator, the "My Assets" function was added to the app, which customers can use to track their total assets (current account, savings account and long-term savings account balance, time deposits and government bonds).
The Bank has introduced a green bank card, which is made of a rapidly degradable, environmentally friendly material. In the spirit of environmental awareness, the letters accompanying the cards and even the envelopes are made from recycled paper.

The Gránit Family app was a market-leading innovation of 2022: it gives 6-18-year-olds a tool they can use to take control of their finances and improve their financial literacy under the safety of parental supervision. The app is paired with the Gránit end-to-end user experience and a design tailored for children.

The Bank also launched the FairPay service, which is a payment request-based electronic payment solution integrated with the Neptun system used in higher education.

All of these innovative solutions and services, tailored to suit customer needs, are a part of the "Bank of the Future Today" concept being implemented by Gránit Bank.

4. The Bank group applies a sustainable business model and conducts an increasingly wide range of CSR activities

The digital business model protects the environment and contributes to healthier living conditions

Since its establishment in 2010, Gránit Bank's strategic goal has been to make financial transactions simpler, faster and more convenient through innovative digital solutions. In implementing the strategy, the Bank considers its mission to be strengthening environmental awareness among its counterparties and customers, in addition to developing financial awareness. The radically innovative digital operating model applied by the Bank focuses on customer needs and aims to enhance the customer experience, while operating in a cost-effective manner and promoting environmentally conscious and sustainable economic operations through the full digitalisation of financial management. We are convinced that Gránit Bank's digital operating model contributes to the social realisation of responsible and sustainable development.

The basis of Gránit Bank's sustainability strategy is the development of services based on digital banking solutions. As a result of the rapid development of information technology, society is becoming more and more digitally oriented, creating new needs in the financial sector and enabling banks to increasingly contribute to the provision of environmentally conscious, resource-efficient financial services through digital technology. Gránit Bank is committed to minimising the environmental impact of retail customer acquisition and financial transactions through electronic channels (as opposed to the branch banking model, which leaves a significantly larger ecological footprint), thus enhancing the customer experience and reducing harmful environmental impacts.

Gránit Bank structures its sustainability strategy around ESG (Environmental, Social and Governance) factors.

Gránit Bank is proud to contribute to the spread of environmentally conscious digital banking through its digital services and processes.
Gránit Bank has identified 4 priority objectives within the environmental aspects.

Environmentally conscious internal operations	Reducing pollutant emissions
Reducing energy use	Promoting sustainability

The Bank's digital processes and products have a positive impact on the following measurable environmental key performance indicators (KPIs):

Use of paper: Gránit Bank, by promoting digital banking and its financial products, contributes significantly to the significant reduction of paper use by the Bank and its customers, and in some cases to paperless operations.

CO_2 emissions: Gránit Bank, as a digital bank, strives to enable customers to bank from home with as little travel as possible, in a convenient and environmentally conscious way, thus saving travel time and pollutant emissions.

Electricity consumption: Gránit Bank serves its tens of thousands of customers with only one large central branch and one small sales point. By using digital technology, Gránit Bank, unlike traditional financial institutions, does not need to set up an extensive, expensive and energy-intensive branch system, as a result of which it saves significant amounts of electricity, paper, construction-related emissions and waste.

Environmentally conscious lending: Gránit Bank is continuously striving to finance environmentally conscious, ‘green’ projects in its corporate lending, while the MFB lending point operating at the Bank also targets energy efficiency in the SME and retail sectors. The FGS Green Home Scheme provided a retail green mortgage loan during 2021 with unique favourable conditions in the market through a digital application process.

Continued expansion of the range of green banking products: At Gránit Bank, nearly 80 percent of retail bank accounts are opened fully online with an electronically downloadable bank account agreement. During 2021, the Bank digitised its loan application processes. The online application process for the “Babaváró” Loan was moved to a 100 percent digital platform with the conclusion of contracts in VideóBank, while in the case of the Market Home Loan and the FGS Green Home Loan an end-to-end digital loan application process was developed, which is unique in the domestic market. In 2021, Gránit Bank became one of the first banks in Hungary to start issuing bank cards made of environmentally friendly materials.

Gránit Bank considers it its mission to strengthen environmental awareness among its customers, in addition to developing financial awareness. In this context, it was the first in Hungary to introduce the Carbon Calculator solution based on a cooperation between Mastercard and Doconomy, a Swedish company, which calculates the estimated size of the individual ecological footprint of cardholders based on their spending and, with the help of the Eco Calculator downloadable from the Gránit eBank application, offers its customers the opportunity to monitor and – with a donation intended for tree planting – reduce their ecological footprint.

As a result of the business model and principles applied, since 2011, we and our customers have saved a total of more than 806 tonne of paper, saved 8,064 trees from felling and prevented 49,814 tonne of CO_2 emissions.

Since the closed business year of 2020, the Bank has completed the Scope 1 and Scope 2 modules of the official Carbon Footprint calculation every year to obtain a more realistic and accurate picture of the extent of its carbon emissions. By offsetting Scope 1 and Scope 2 emissions calculated based on the internationally recognised methodology of the GHG Protocol, the Bank's operation is carbon neutral.

As the financial institution with the smallest ecological footprint in Hungary, Gránit Bank was awarded third place in the category "Sustainable Bank of the Year" in the Mastercard Bank of the Year competition in 2021.

Gránit Bank makes sustainable, cost-effective banking available to a wide range of consumers through new, high-tech digital solutions that are free for customers. The VideóBank, NetBank and eBank applications come as free basic functions with the account packages, and the chat function that is available in VideóBank helps people with disabilities to manage their finances. 100% digital, paperless bank-account and securities-account opening, purchase of government securities and requesting a "babaváró" loan enables a significant reduction in environmental impact.

In 2021, the Bank continued to give priority to supporting disadvantaged families and children, in which the Hungarian Ecumenical Aid Organisation is its strategic partner, based on a multi-year cooperation agreement. In 2021, the Bank donated HUF 2 million to support day-care camps for children in need organised by the Kaposvár-based institution of the aid organisation.

The Bank's employees organised several charity collections during the year. They provided material donations, warm clothes, long-life food and sweets to some 80 residents of the Saint Francis Foundation children's institution in Déva, Transylvania, in the villages of Harghita affected by the epidemic. School supplies were donated to children in need supported by the Ecumenical Aid Organisation, and Christmas gifts and toys worth hundreds of thousands of forints were purchased for 71 disadvantaged children from Hernádcéce.

In the first quarter of 2022, Gránit Bank, together with its customers, counterparties and employees, supported the humanitarian work of the Ecumenical Aid Organisation by donating more than HUF 7 million to support Ukrainian refugees.

As part of its social responsibility programme, the Bank has made financial education a priority, while maintaining its support for culture and sports activities, and in 2021, in recognition of the sacrifice of health workers in epidemic situations, it created a Gránit Hero account package, which is completely free of charge, for employees – subject to specific conditions – for the rest of their lives.

To support financial education, the managers of the Bank participate each year as volunteers in its "Pénz7" (MoneyWeek) programmes for school financial education, as well as in regular university lectures to introduce young people to the latest banking trends and technologies,

The employees of Gránit Bank participated in the JÓTETT ('Good Deed') Bank programme of the Hungarian Banking Association by donating blood.

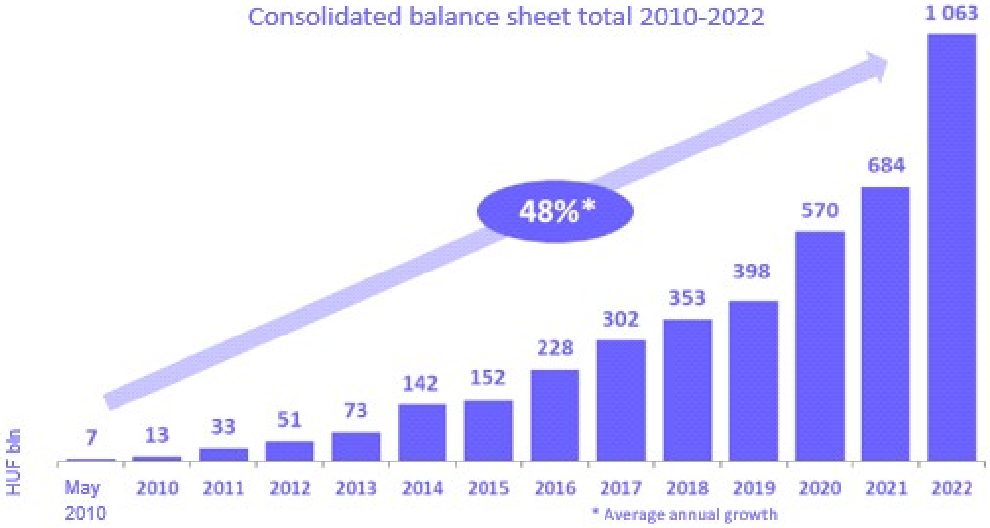
The Bank has been a major supporter of kayaking and canoeing for many years, in both the competitive and recreational sports arena. The Chairperson & CEO of the Bank, as the social chairperson of the Hungarian Water Polo Association, helps ensure the success of the sport.

5. Report on business operations in 2022

In 2022, the Bank Group continued its bank-building process in line with the long-term strategy adopted by the General Meeting. As a result of the growth in business activity, the Bank's consolidated balance sheet total exceeded HUF 1062 billion by the end of 2022, a 55% increase compared to the previous year.

The Bank closed its twelfth full business year with outstanding results

Gránit Bank broke into profit in 2014, its fourth full business year, as a result of the capital investments it had made until then and the building of an excellent portfolio. In 2022, the Bank Group achieved a record pre-tax profit of HUF 13,758 million, which was 199% higher than the previous year's profit.



Customer savings held at the Bank Group (deposits and government securities) exceeded HUF 749 billion, which was 64% higher than at the end of the previous year.

The Bank's total exposure (credit, bonds, guarantees) exceeded HUF 477 billion, 49% up from the end of the preceding year. Within the corporate loan portfolio, the share of loans of the SME sector was 60% as at the end of 2022. The quality of the portfolio remains excellent: the ratio of performing loans is 99.98%, principally as a result of the Bank's continuous conservative lending policy.

Gránit Bank Group's customer base continued to grow dynamically in 2022, as

78% of retail customers initiated the opening of their account online

a result of the continued premium level of customer service, continuous innovation, online services that were fully available throughout the pandemic as well, and its effective marketing communication activities. The satisfaction of customers and growing awareness of the Bank Group have helped to drive the dynamic growth in the number of customers. The role of digital platforms in raising awareness of the Bank is extremely important, and this is also reflected in our marketing presence: although last year the Bank Group was featured on TV and in print media, customer feedback surveys show that nearly three quarters of retail customers first encountered the Bank online and then became customers through online transactions. In 2022, more than 73% of customers opened their account at Gránit Bank Group entirely digitally, and another 5% initiated their opening of their accounts digitally but ultimately decided to complete the process at the branch, meaning that a total of 78% of customers initiated account opening through a digital channel.
It is important to highlight that satisfied customers are also helping to grow the customer base, since one third of new customers say they chose the Bank as a result of a recommendation from an existing Gránit Bank customer.

In 2022, the Bank's performance was acknowledged through six awards

In 2022, Gránit Bank won first place in two out of the six categories of the Mastercard Bank of the Year competition, the most prestigious competition for banks in Hungary, and also received a second and a third placing. The independent panel of judges awarded Gránit Bank gold for "Digital Banking UX Solution of the Year" and "Young People's Programme of the Year", second prize for "Sustainable Initiative of the Year" thanks to the Eco Calculator, and third place in the "Premium Banking Activity of the Year" category. In justifying the awards, it was highlighted that the Bank differentiates itself from its competitors through continuous innovation and premium solutions that provide an outstanding customer experience.
The Bank is a Superbrands winner and received the "Outstanding Digital Credit Institution" trademark under the "Digital Wellbeing Programme".

5.1. The Bank's key financial indicators

At the end of December 2022, the Bank Group's consolidated balance sheet total exceeded HUF 1,062 billion, which is 55% higher than the year-end balance sheet total of 2021.

The Bank's balance sheet total exceeded HUF 1,000 billion

The Bank Group's consolidated equity as at 31 December 2022 was HUF 59.1 billion, which is 122% higher than the previous year-end figure.

The Bank's financial ratios developed favourably again in 2022: return on equity exceeded 25%

Balance Sheet, Profit (HUF million)	2021	2022	Change
Balance sheet total	683,931	1,062,856	155%
Loans and advances to customers	225,037	307,769	137%
Customer deposits	401,388	698,904	174%
Equity	26,676	59,101	222%
Regulatory capital	26,724	52,810	198%
Profit before tax	4,609	13,758	299%
Profit after tax	3,910	11,838	303%

The Bank Group achieved a consolidated pre-tax profit of HUF 13,758 million and a consolidated after-tax profit of HUF 11,838 million in 2022, which is 199%

higher than the previous year's consolidated pre-tax profit of HUF 4,609 million and consolidated after-tax profit of HUF 3,910 million.

In its ninth profitable business year, the Bank achieved a consolidated pre-tax profit of HUF 13,758 million

International experience shows that 6-8 years are usually required following launch to reach the profit-generating phase, and so it can be regarded as an exceptional achievement that Gránit Bank was already operating profitably by its fourth full year of business. This exceptional result was due to the excellent quality of its portfolio and to its cost-effective digital business model.

Consolidated return on equity exceeded 26%

Indicators		2021	2022	Change
EPS (profit after tax/number of shares)	HUF	348	769	221%
CIR (operating costs/net business profit)	%	55.6%	44.7%	80%
ROAA (return on average assets)	%	0.6%	1.5%	231%
ROAE (return on average equity)	%	15.8%	26.6%	168%
Non-performing loan ratio	%	0.0%	0.0%	0%

The Bank Group also ensured the fulfilment of the capital adequacy ratios specified in the legal conditions during 2022.
Gránit Bank's total capital adequacy ratio as at 31 December 2022 was 20.5% (as against 13.3% at the end of 2021), and the total capital requirement was HUF 33 billion.
As at 31 December 2022, the amount of the capital requirement of Equilor Zrt. calculated on the basis of its fixed overheads requirements was the highest, and therefore this indicator gives the amount of the capital requirement (HUF 529.8 million).

In 2022, in line with the significant increase in business activity, the average annual number of employees at the Bank Group – alongside a three-fold growth in profits, a 47% increase in the asset portfolio and a 74% rise in deposits – increased by 71, to 287 persons (meaning the average annual number of employees grew by 33%).

Average number of employees (persons) - Bank Group	2021	2022	Change
Annual average number of persons on the payroll	216	287	133%

Gránit Bank Group is one of the most liquid banks in Hungary

5.2. Liabilities

The Bank Group was able to continuously provide favourable offers to its customers in the rising interest-rate environment, and as a result, the deposit portfolio had increased by 74% by the end of 2022 compared to the end of 2021, approaching HUF 699 billion. The average annual growth in deposits was 47% between the time of the Bank's foundation and the end of the reporting period. Customer savings held at the Bank (deposits and retail government securities) exceeded HUF 749 billion, which was 64% higher than at the end of the previous year.

The Bank Group has significant refinancing on the liabilities side as a result of the intermediation of refinanced facilities.

Overall, the Bank Group remains Hungary's most liquid bank, with a loan-to-deposit ratio of around 65%, and loans are financed in a diversified funding structure.

5.3. Receivables

On the asset side, the Bank Group continued to hold a significant volume liquid assets in 2022 – central-bank and interbank deposits, government securities – in line with its prudent and conservative business policy. The share of debt securities in the balance sheet at the end of 2022 is 27.3%.

The Bank Group's loan portfolio is growing steadily every year, while the quality of the portfolio is constantly excellent

5.3.1. Lending

The Bank Group's receivables from customers (loans and corporate bonds) exceeded HUF 453 billion at the end of 2022, which was 44% higher than the previous year-end figure. The average annual growth in the portfolio from the Bank's foundation to the end of the reporting period was 78.7%.

The quality of the portfolio is excellent, and the Bank's asset portfolio is 99.98% problem-free. In 2022, the Bank Group recognised impairment of HUF 394 million in accordance with IFRS 9, which is the result of the expected-loss-based impairment methodology that forms the basis of the IFRS standard. The outstanding portfolio quality is due to the Bank's highly regulated and conservative risk-taking policies and practices.

The Bank Group is an active participant in the MNB's Funding for Growth Scheme (FGS) and Bond Funding for Growth Scheme (BGS), besides which the Bank offers a full range of lending products, from plain vanilla loans to complex financing facilities, in accordance with their needs.

5.4. Treasury

During the year, Treasury grew its business activity further while ensuring stable liquidity management remained a priority.

On the assets side, in parallel with the increase in loans, part of the asset-side activity of the balance sheet was managed by Treasury using money and capital market instruments. The gains from managing the securities portfolio made a positive contribution to the Bank's profit for the year.

During the year, the number of customers carrying out spot and forward FX (hedge), deposit and securities transactions with the Bank's Treasury department continued to grow.

In the course of the Bank's liquidity management and its management of currency and interest-rate risk, the Treasury also successfully made use of the altered range of options provided by the MNB, thus contributing substantially to the Bank's positive profit figure.

Prudent risk management is one of the key pillars of the Bank Group's business philosophy

5.5. Risk management

The management of the Bank Group considers risk management to be key in terms of protecting depositors, operating profitably over the long term and thus increasing shareholder value. In its risk management standards, the Bank Group has taken a very conservative approach since its inception. One of the most important elements of the risk management policy is that there is virtually no purely collateral-based lending; all customers must primarily fund their loan repayments from cashflow, although in all cases the Bank Group tries to minimise credit risk by requesting additional collateral.

The primary objective of risk management is to protect the financial strength and reputation of the Bank Group, to contribute to the use of capital for competitive business activities, and thereby to increase shareholder value.

The Bank, in its risk management system, identifies, measures and analyses its various types of risk exposures. During the process of risk management, the Bank processes the information, analyses the portfolio, formulates risk-taking rules, maintains a limit system, and operates the daily processes involved in risk management. The Bank extends its risk management system to relevant risks in accordance with the profile of its subsidiaries.
In the multi-stage business decision-making process for loan transactions, a

thorough assessment is made of the macroeconomic environment, the customer's activity and the specified objective of the loan. In the course of this, the Bank Group pays special attention to providing financial instruments for the objectives of companies that, through their stable and efficient operation, create value for themselves and the economy as a whole.

Credit risk is the risk that the Bank Group will incur a loss due to the failure of the debtor, customer or counterparty to fulfil its contractual obligations to the bank. Before assuming credit risk, the Bank Group rates the creditworthiness of its customers and partners and classifies them into debtor and counterparty rating categories. Risks can only be undertaken with respect to customers of a suitable rating. The creditworthiness of customers and counterparties is regularly monitored.

Strict regulations are applied regarding the range of acceptable collateral, the way these are evaluated, and the coverage ratio. The Bank Group uses a wide range of collateral to reduce risk, in particular loan guarantees, cash collateral, securities collateral, payment guarantees, mortgages, and pledges established on receivables and/or movable assets.

The Bank Group uses benchmark-based pricing or offers fixed interest-period schemes. As part of this process, in the case of self-funded loans the Bank Group applies regularly repriced, margin-based interest rates tied to a market reference rate and adjusted to the currency of the loan, in a manner that is transparent for the customer. For refinanced products, the interest rate risk is also minimised. In the case of fixed interest rate schemes, the interest rate risk is covered by the Bank Group.
Market Risk Management works with the business departments to oversee the entire portfolio in terms of the matching of the repricing periods of liabilities and assets.

Ensuring liquidity is a fundamental part of banking and financing activity. The Bank Group ensures its liquidity by matching the maturities of its receivables and liabilities, and at the same time, while maintaining solvency at all times, it performs limit-restricted maturity transformations to help ensure the Bank's profitability.

Currency risk is kept at a low level in accordance with both strategic and short-term business objectives. Depending on market circumstances, wherever possible the FX open position arising in the course of its business operations is immediately hedged.

The assessment of asset and liability matching is performed separately for each currency, to ensure the maintenance of matching by currency.

The Bank Group's trading book typically contains transactions aimed at the management of liquidity, the servicing of partner banks and customers and the conclusion of hedging transactions, primarily with spot FX and securities transactions and currency forwards.

Owing to its conservative product policy, at present the Bank Group does not deal in high-leverage options or volatile commodity and precious metal trades.

In the course of the risk management of liquid-market transactions, as a part of the limit system the partner bank and customer limits, margin requirements, decision-making levels and limits, and market variable-based exposure rates, are all regulated.

The objective of operational risk management is to support efforts to keep operating costs low, and to promote efficient organisational operations. The Bank Group primarily manages operational risks, concentrating on prevention, through the establishment of suitable internal regulations and procedures, the appropriate training of employees participating in the work processes, and the provision of built-in control mechanisms.

The after-tax profit of the Bank Group was HUF 11,838 million, 203% higher than the previous year's profit

Measurement of the levels of risk takes place through the continuous gathering of data on events that occur, and regular self-assessments based on forward-looking estimates made at the level of the individual departments. These surveys outline the patterns in the distribution of the events, thereby helping to identify the areas where intervention is necessary. The process is supported by a network of operational risk officers appointed in each department of the organisation.

5.6. Income statement

The Bank Group closed 2022 with an after-tax profit of HUF 11,838 million.

The net business profit of HUF 28,722 million was 122%, or HUF 15,772 million, higher than in 2021, with the difference down to the net income generated by the growing business portfolio, rising interest rate environment and the active use of banking services among customers. Within this, net interest income increased by 182%.

The net business profit of the Bank Group increased by 122%

In 2022, the Bank Group paid HUF 1.12 billion in bank tax, HUF 1.3 billion in extra profit tax and HUF 1.06 billion in transaction tax. The economic loss calculated due to the loan-repayment and agricultural moratorium will have an impact of HUF -11 million in 2022, while the loss accounted for in connection with the interest-rate freeze on SME transactions introduced this year is HUF 579 million.

The increase in operating expenses was due to the growth in business activity, the implementation of digital innovations and to more intensive marketing activity, as well as to the increasing depreciation recorded on capital investments.

Income statement (HUF million)	2021	2022	Change
NET BUSINESS PROFIT	**12,950**	**28,722**	**222%**
Net interest income	8,760	24,743	282%
Net fee and commission income	1,966	2,346	119%
Other business profit	2,224	1,633	73%
Other profit	-839	-1,533	183%
Risk costs	-296	-582	197%
NET OPERATING PROFIT	**11,815**	**26,608**	**225%**
Operating costs	-7,206	-12,850	178%
PROFIT BEFORE TAX	**4,609**	**13,758**	**299%**
Income taxes	-699	-1,920	275%
PROFIT AFTER TAX	**3,910**	**11,838**	**303%**

5.7. Equilor Befektetési Zrt.

The more than 30-year-old Equilor began its operations at the same time as the restructuring of the Hungarian capital market and the Budapest Stock Exchange, just a few days apart. Equilor provides professional, client-focused and personalised investment banking services, portfolio and wealth management, as well as corporate financial advice to its private and institutional clients.

Over the past years, alongside the continuous development of its services, Equilor has endeavoured to assure its clients fast and reliable access to the ever-expanding world of money and capital markets, as well as to provide support through well-founded financial advice and thoroughly researched analyses in order to increase assets under management.

These extensive services are provided by Equilor Befektetési Zrt. together with its two subsidiaries Equilor Corporate Advisory Kft. and Equilor Fine Art Kft.
Equilor Corporate Advisory provides consulting services to corporate clients to help them implement their growth and acquisition plans, as well as to secure their financing needs.
Equilor Fine Art provides art investment advice and consultancy in relation to the funding of art projects.

In recent decades, its corporate consulting wing has participated in numerous major stock-exchange and OTC securities issues, the arrangement of syndicated financing deals, venture capital and private equity transactions, and corporate acquisitions on behalf of high-profile players both in Hungary and internationally.

As a result of its dedicated efforts of the past years, Equilor is constantly growing in terms of client numbers, managed assets and profitability, and at the same time it aims to maintain the direct contact with its clients that they are accustomed to. The assets managed by the Equilor group exceeded HUF 580 billion in 2022.

Thanks to the long period of time that it has spent in the domestic investment market, Equilor has over the years become an increasingly dominant player in the domestic securities and foreign exchange market. Thanks to its conservative business policy, it has managed to maintain the trust of its clients in the face of ever-increasing competition in the market, combining the security expected of an investment company with flexible, client-focused services.

Equilor was a founding member of the Budapest Stock Exchange in 1990, participated in the creation of the Investor Protection Fund in 1997, of which it has been a member ever since, and joined the Hungarian Venture and Private Equity Association in 2006. It has been a full member of the Warsaw Stock Exchange since 2010 and of the Prague Stock Exchange since 2011.

In 2022, Gránit Bank acquired a share of 50% +1 vote in Equilor Befektetési Zrt, as a result of which the company can provide the entire range of its services now backed by a bank, and with even greater liquidity at its disposal.

Capital market services constitute one of the world’s fastest growing financial services sectors, and so in order for Equilor to be able to offer suitable investment and banking services to its private and corporate clients, it continues to make continuous improvements not only in terms of product structure, but also in terms of technology. Equilor places great emphasis on stability and the provision of reliable, transparent information, which is the basis of responsible investment services and is also in line with the ever-tightening market regulations.

In recognition of its work of the past decades, the independent professional judging panel of the Budapest Stock Exchange has awarded Equilor the "Investment Service Provider of the Year" as well as "Team of the Year" and "Stock-Exchange Credit Issue Arranger of the Year" awards several times in recent years.

5.8. Key events occurring after the closure of the balance sheet

On 1 February 2023, the Bank's Board of Directors decided to acquire a stake in Diófa Alapkezelő Zrt. Through the transaction, the Bank will acquire 95% of the shares of Tarragona Holding Zrt. from BDPST Capital Zrt., thus acquiring 90.82% ownership of Diófa Alapkezelő Zrt.

The transaction has been approved by the National Bank of Hungary (MNB) and the completion of the transaction and the actual acquisition of ownership is expected to take place in the second quarter of 2023.

6. Overview of the Bank Group's business plan for 2023

The results of the last twelve and a half years have confirmed that the implementation of the conservative portfolio building and digital banking strategy launched by the Bank in 2010 has been successful, and that the business model has been well received by customers. Accordingly, in the 2023 business year the Bank will continue its business operations in accordance with the approved 10-year strategic plan. The most important objective is to increase shareholder value through sustainable, balanced business and profit growth over the long term. Along with the digital strategy already launched, the Bank will continue to strengthen its market role, and increase its market share and its recognition.

The Bank Group, in contrast to the performance of recent years, expects a more restrained expansion of business activity in 2023, in an economic environment that continues to be marked by high inflation and stagnating growth. In an economy that is expected to support slower growth, the Bank Group has set the goal of implementing major IT developments and of establishing new business lines by 2023 in order to access a broader range of business opportunities over the medium term. This growth will be accompanied by a further increase in cost efficiency. The plan is to build a conservative loan portfolio by providing the appropriate stable resources and taking advantage of the available guarantee facilities. The Bank Group plans to grow above the market average, both in terms of customer loans and customer deposits. Besides this lending activity and besides the innovative new services it regularly launches, the redesigned corporate image of the Bank Group that was introduced in April 2023 will also help spur a growth in customer numbers.
The Bank won a non-refundable grant within the framework of the "Support for Market-Driven R&D and Innovation Projects (2019-1.1.1-MARKET RDI)" ten-

der, with its development concept for “A Progressive Payment Solution Focusing on Bulk Invoice Issuers”, which it intends to improve and refine further in 2023.

The aim of the Bank Group is to make greater use of co-operation opportunities between the subsidiaries in the coming period, while the individual companies continue to expand their already successful operations through business development methods that have worked well so far.

Whatever happens, the Bank Group's operations and results in 2023 will be affected by the geopolitical tensions detailed above, the expected difficulties in supply chain operations and the uncertainties in economic growth. The Bank Group will implement a fully digital model and adopt a conservative lending approach that allows for greater flexibility as uncertainty increases. The Bank Group is continuously monitoring changes in its customers’ financial situations and, in accordance with government and MNB measures, is working hard to serve the changing needs of customers and play an active role in countering the potential negative economic effects and in stimulating the economy.

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Board of Directors of Gránit
Bank Zrt.

GRÁNIT BANK PRIVATE LIMITED COMPANY

CONSOLIDATED FINANCIAL STATEMENT

IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE EUROPEAN UNION

31 DECEMBER 2022

WITH AN INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the shareholders of Gránit Bank Zrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Gránit Bank Zrt. (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet for the financial year ended on 31 December 2022 (in which total assets equal to total liabilities and equity are MHUF 1,062,856), the consolidated income statement and the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 11,439 profit), the consolidated statement of changes in equity, the consolidated cash flows statement for the financial year then ended and the notes to the consolidated financial statements comprising significant accounting policies 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 2022, 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 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 22 May 2023.

Basis for opinion

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

The non-audit services that we have provided to the Group in the period from 1 January 2022 to 31 Deccember 2022 are disclosed in note 36 to the consolidated financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

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

PricewaterhouseCoopers Könyvvizsgáló Kft., 1055 Budapest, Bajcsy-Zsilinszky út 78.
T: (+36) 1 461 9100, F: (+36) 1 461 9101, www.pwc.hu

Our audit approach

Overview

Overall group materiality	Overall group materiality applied was MHUF 532
Group Scoping	The Group consists of the Company and four subsidiaries operating in Hungary. We included two subsidiaries in our audit which amount up to 99.7% of the consolidated revenue, 100% of the consolidated net profit.
Key Audit Matters	Expected credit loss allowance on loans and advances to customers

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, both individually and in aggregate on the consolidated financial statements as a whole.

Materiality	MHUF 532
Determination	0.9% of consolidated net assets
Rationale for the materiality benchmark applied	We chose consolidated net assets as the benchmark because, in our view, it is a balanced benchmark which reflects the interests of shareholders and of the regulator and is a generally accepted benchmark. We chose 0.9% as quantitative materiality threshold.

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 identified two subsidiaries, which, in our view, required an audit of their complete financial information, due to their financial significance or risk to the group.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, 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*
Expected credit loss allowance on loans and advances to customers	
The net balance of loans and advances to customers at amortised cost was MHUF 260,349 as at 31 December 2022, representing 24% of total assets. Expected credit loss (ECL) allowance included in the carrying amount of loans and advances to customers is MHUF 751. Management disclosed related assumptions, balances and estimates in sections 4.6.3, 19., 20. and 39.7 of the notes. ECL allowance is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating individual and collective ECL allowances especially when considering the current uncertain economic environment. The first step in the ECL calculation is to identify whether there was significant increase in credit risk. The selected indicators will determine whether a 12-month or a lifetime ECL is calculated. In the calculation of individual ECL, the most significant uncertainty is involved in the estimation of expected future cash flows, and in probability weighting of cash-flow scenarios, where cash flows include recoveries both from collections of contractual cash flows and from collaterals. The Group applies impairment models to calculate collective ECL. These models quantify the probability of default, exposure at default and the loss given default as the primary parameters in the estimation of the recoverable amount, taking into account forward looking information – in line with the requirements of *IFRS 9 Financial instruments* standard.	We gained an understanding of the lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval. Thereby the focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment in ECL. We performed credit review for individually significant loans on a sample basis. We checked the stage classification of the loans based on credit application and monitoring documents as well as customer-related financial and non-financial information. For a sample of individually impaired loans, we checked whether assumptions, estimations and scenario weightings applied in calculations of the recoverable amount are reasonable and whether the calculations are correct. For collective ECL we assessed whether the methodology applied by the Group was compliant with *IFRS 9 Financial instruments* with the support of our internal modelling experts. We read the validation documents, recalculated, on a sample basis, selected model parameters and the ECL. We checked input data for the ECL allowance calculation (both historical and measurement data), indicators used to determine whether there was significant increase in credit risk and analysed the development of credit losses. To address increased estimation uncertainty, we evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to state payment support programs. We also

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 ECL.

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 complicated a timely reflection of a potential deterioration of the loan portfolio and resulted in artificially low observed default rates.

To address these limitations, management experts reviewed stage classifications considering sectorial and individual impacts and executed adjustments in the calculation of impairment based on this review.

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.

critically assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions.

We read sections 4.6.3., 19., 20. and 39.7 of the notes to the consolidated financial statements to assess whether disclosures are in line with *IFRS 9 Financial instruments* and *IFRS 7 Financial instruments: Disclosures* standards.

Other information: the consolidated business report

Other information comprises the consolidated business report of the Group. 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 the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the consolidated business report 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 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 Subsection (5) of Section 134.

In our opinion, the 2022 consolidated business report of the Group, is consistent with the 2022 consolidated financial statements in all material respects, 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 Subsection (5) of Section 134 of the Accounting Act.

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 judgment 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 10 April 2018. Our appointment has been renewed annually by shareholders' resolutions representing a total period of uninterrupted engagement appointment of five years.

Budapest, 22 May 2023

Barsi Éva
Consultant Partner
Statutory auditor
Licence number: 002945
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

CONSOLIDATED INCOME STATEMENT

Data in HUF millions

Item	Annex	2022	2021
Interest income based on the effective interest method		38,038	12,922
Other interest income		19,559	1,823
Interest income		**57,597**	**14,745**
Interest expense based on the effective interest method		25,828	4,116
Other interest expense		7,026	1,869
Interest expense		**32,854**	**5,985**
Net interest income	5	**24,743**	**8,760**
Fee and commission income		3,596	2,209
Fee and commission expense		1,250	243
Net fee and commission income	6	**2,346**	**1,966**
Net gains less losses (+)/net losses (-) from financial instruments measured at fair value through profit or loss	7	-1,095	1,248
Net gains less losses from financial instruments not classified as measured at fair value through profit or loss	8	216	-41
Gains from FX transactions		2,512	1,017
NET BUSINESS PROFIT		**28,722**	**12,950**
Other operating income	9	315	223
Other expenses	9	1,152	1,056
Expected credit loss charge on amortized assets	10	410	245
Provisioning or (-) release of provisions		172	51
Modification gain/loss	11	-696	-6
NET OPERATING PROFIT		**26,608**	**11,815**
Personnel expenses	12	4,460	2,447
Other general administrative costs	13	7,403	4,187
Depreciation and amortization	27-28	987	572
PROFIT BEFORE TAX		**13,758**	**4,609**
Income taxes	14	1,920	699
PROFIT AFTER TAX		**11,838**	**3,910**
Share of parent company's owners in profit after tax		**11,390**	**3,893**
Share of non-controlling owners in profit after tax		**448**	**16**

The Board of Directors approved the consolidated financial statements on 22.05.2023

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

CONSOLIDATED OTHER COMPREHENSIVE INCOME STATEMENT

Data in HUF millions

Other comprehensive income statement	Annex	2022	2021
Profit after tax		**11,838**	**3,910**
Profit/loss from change in fair value		-479	-854
Deferred-tax effect of change in fair value		81	23
Change in impairment on debt securities measured at fair value through other comprehensive income		-1	1
Items to be reclassified to profit or loss subsequently:		**-399**	**-830**
TOTAL OTHER COMPREHENSIVE LOSS		**-399**	**-830**
TOTAL COMPREHENSIVE INCOME		**11,439**	**3,080**
Share of parent company's owners in total comprehensive income		10,991	3,063
Share of non-controlling owners in total comprehensive income		448	16

The Board of Directors approved the consolidated financial statements on 22.05.2023.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

CONSOLIDATED BALANCE SHEET

Data in HUF millions

Item	Annex	31.12.2022	31.12.2021
Assets			
Cash and cash equivalents	15	83,290	15,642
- of which restricted assets	15	27,597	0
Receivables from the MNB	16	280,196	165,142
Interbank placements	16	49,513	26,666
Securities	17	290,036	236,510
Derivative financial assets	18	36,603	9,342
Loans and advances to customers	19, 20	307,769	225,037
Other assets	26	6,711	2,590
Intangible assets	27	4,701	2,155
Goodwill	27	971	0
Tangible assets	28	2,924	815
Deferred tax assets	29	142	32
TOTAL ASSETS		**1,062,856**	**683,931**
Liabilities			
Liabilities to the MNB	21	219,698	218,390
Liabilities to credit institutions	21	72,844	28,873
Liabilities to customers	22	698,904	401,388
Derivative financial liabilities	18	5,127	1,019
Issued bonds	23	0	5,252
Income tax payment liability		1,580	422
Deferred tax liability	29	115	0
Provisions	30	237	65
Other liabilities	31	5,250	1,846
TOTAL LIABILITIES		**1,003,755**	**657,255**
Equity			
Subscribed capital	32	15,395	11,247
Capital reserve		23,466	8,948
Treasury stock		-19,707	-3,040
Profit reserve		16,467	6,188
Reserve for share-based payment transactions settled in equity instruments		303	141
Other reserves		2 061	942
Accumulated other comprehensive income (AOCI)		-1,160	-760
Total Equity attributable to owners of the parent company		36,825	23,666
Non-controlling interests	37	22,275	3,010
TOTAL EQUITY		59,101	26,676
Liabilities and equity		**1,062,856**	**683,931**

The Board of Directors approved the consolidated financial statements on 22.05.2023.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

CHANGE IN CONSOLIDATED EQUITY

Data in HUF millions

	Subscribed capital	Capital reserve	Treasury stock	Accumulated other comprehensive income (AOCI)	Profit reserve	Other reserves	Reserve for share-based payment transactions settled in equity instruments	Share of non-controlling owners	Total
Balance at start of period - 01.01.2022	11,247	8,948	-3,040	-760	6,188	942	141	3,010	26,676
Other transfer	0	0	0	0	8	0	0	0	8
Profit after tax	0	0	0	0	11,390	0	0	448	11,839
Other comprehensive income	0	0	0	-400	0	0	0	0	-400
Total comprehensive income	0	0	0	-400	11,390	0	0	448	11,438
Issue of new shares	444	1,556	0	0	0	0	0	0	2,000
Employee Stock Ownership Plan (transactions with owners)	3,704	12,962	-16,667	0	0	0	162	16,667	16,828
Acquisition of Equilor Group (pls. refer tp Note 2)	0	0	0	0	0	0	0	2,150	2,150
Transfer of general reserve	0	0	0	0	-1,119	1,119	0	0	0
Balance at end of period - 31.12.2022	**15,395**	**23,466**	**-19,707**	**-1,160**	**16,467**	**2,061**	**303**	**22,275**	**59,101**

	Subscribed capital	Capital reserve	Treasury stock	Accumulated other comprehensive income (AOCI)	Profit reserve	Other reserves	Reserve for share-based payment transactions settled in equity instruments	Share of non-controlling owners	Total
Balance at end of period - 01.01.2021 (restated)	11,247	8,948	-2,910	71	2,665	561	70		20,652
Profit after tax	0	0		0	3,905	0	0		3,905
Other comprehensive income	0	0		-831	0	0	0		-831
Total comprehensive income	0	0		-831	3,905	0	0		3,074
Employee Stock Ownership Plan II (transaction with owners)	0	0	-130	0	0	0	71	3,010	2,951
Transfer of general reserve	0	0		0	-381	381	0		0
Balance at end of period - 31.12.2021	**11,247**	**8,948**	**-3,040**	**-760**	**6,188**	**942**	**141**	**3,010**	**26,676**

The Board of Directors approved the consolidated financial statements on 22.05.2023.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

CONSOLIDATED CASH FLOW STATEMENT

Data in HUF millions

	2022	2021
Profit before tax	**13 758**	**4 609**
Modifying items		
Interest income	-57 597	-14 745
Interest expense	32 854	5 985
Impairment of tangible assets, and intangible assets	-987	-572
Net realised profit on the sale of tangible assets	-9	-2
Impairment on debt securities, loans and other assets not measured through profit or loss	1 106	-430
Change in provisions	-172	-51
Non-realised profit from financial instruments measured at fair value through profit or loss	21 120	6 538
Deferred tax	-29	-39
Change in ESOP benefit plan reserve	162	71
Dividend income	0	0
Change in the revaluation difference of financial instruments measured at fair value through other comprehensive income	-401	-830
Non-controlling interests	2 158	0
Cash flow from pre-tax operating income before change in operating assets and liabilities	**11 964**	**534**
Change in held-for-trading debt securities	15 884	-26 355
Change in debt securities designated as measured at fair value through profit or loss	-27 387	-10 749
Change in receivables from the MNB and other credit institutions	-136 975	-4 447
Change in loans and advances to customers	-87 078	-29 308
Change in other assets	-739	573
Change in operating assets	**-236 295**	**-70 286**
Change in liabilities to the MNB and credit institutions	45 192	51 295
Change in liabilities to customers	267 164	54 036
Change in other liabilities	5 023	523
Change in operating liabilities	**317 379**	**105 854**
Change in derivative transactions	-23 153	-7 755
Interest received	49 728	13 373
Interest paid	-30 260	-5 816
Income tax paid	-1 891	-660
Net cash flow from operating activities	**75 507**	**34 710**
change in securities obligatorily measured at fair value through profit or loss, not held for trading	-26	465
Purchase of debt securities measured at fair value through other comprehensive income	-93 535	-49 443
Income from the sale or maturity of debt securities measured at fair value through other comprehensive income	99 796	41 949
Purchase of debt securities held at amortised cost	-84 017	-32 795

	2022	2021
Income from the sale or principal repayment of debt securities held at amortised cost	24 548	387
Purchase of tangible assets	-3 360	-423
Sale of tangible assets	13	-6
Acquisition of intangible assets	-4 503	-1 024
Net cash flow from investment activities	**-61 083**	**-40 890**
Net cash flow from financing activities		
Issue of shares	4 148	0
Non-share capital contribution by shareholders	14 520	0
Repurchase of treasury shares	0	0
Issue (+) / repaiment (-) of bonds	-5 252	0
Consideration paid in cash	-3 100	0
Acquired cash balances	30 944	0
Net cash flow from financing activities	**41 260**	**0**
Net increase/decrease in liquid assets	67 648	-5 646
Liquid assets at the beginning of the year	15 642	21 288
Liquid assets at the end of the year	83 290	15 642
Liquid assets components	**2022**	**2021**
Cash	536	330
Account receivables from central banks	28 913	3 569
Other demand deposits	53 840	11 743
Total	**83 290**	**15 642**

Details of consolidated cash flow from financing activities

	Subscribed capital	Capital reserve	Issued bond
Items related to financing activities 01.01.2021	**11,247**	**8,948**	**5,252**
Capital raise	0	0	0
Bond issue	0	0	0
Items related to financing activities 31.12.2021	**11,247**	**8,948**	**5,252**
Capital raise	4,418	14,488	0
Repayment of issued bond	0	0	-5,252
Items related to financing activities 31.12.2022	**15,395**	**23,436**	**0**

The Board of Directors approved the consolidated financial statements on 22.05.2023.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

1. GENERAL INFORMATION

Date of establishment

GRÁNIT BANK ("Bank") is a commercial bank operating as a private limited company incorporated in Hungary, established on 25 September 1985 under the name Általános Vállalkozási Bank Rt.

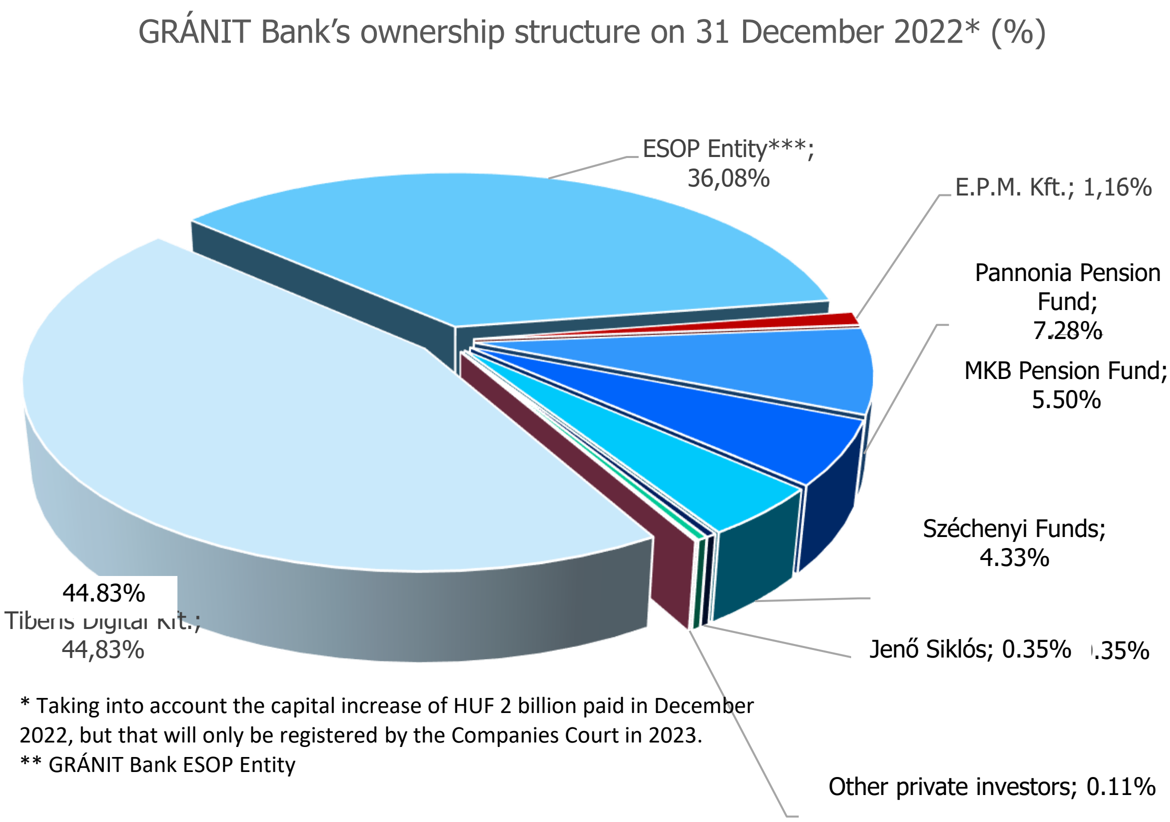
Following several changes of ownership, as the legal successor of the previous banks, the Bank has, since 20 May 2010, been trading under the name GRÁNIT Bank Zrt.

The company's registered office:	1095 Budapest, Lechner Ödön fasor 8.
Company court registration number:	01-10-041028
Website:	www.granitbank.hu

Range of activities

The Bank is entitled to offer financial and supplementary financial services as listed in Section 3 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises.
The National Bank of Hungary issued a foreign-exchange authority licence to the Bank on 20 July 1994, in which it authorised the Bank to provide financial services in foreign currencies.
Since 17 April 2000, based on resolution 41031-4/1999 of the Hungarian Financial Supervisory Authority (MNB), the Bank has been engaged in universal banking activities.

Ownership structure



*ESOP Entity – GRÁNIT Bank ESOP Entity

Ultimate controlling party of the Bank

Gránit Bank has a special share structure.

Tiberis Digital (ultimate beneficial owner controlling it is Mr. István Ferenc Tiborcz) has 44.83% ownership rights, and beside ordinary shares he also has Type C preference shares and Type D voting preference shares. E.P.M. (ultimate beneficial and controlling owner of it is Ms. Éva Hegedűs) ownership rights are 0.80% and E.P.M also has Type A and Type B, Type C, and Type F preference shares as well as Type D voting preference shares.

Type A and Type B preference shares provide a right for the appointment of two thirds of the members of the Board of Directors and the Supervisory Board according to the Articles of Association. Type A and Type B preference shares are only valid until Ms Éva Hegedűs is the CEO.

Type C preference shares provide a pre-emption right to purchase any new issued GRÁNIT Bank shares.

Type D preferential shares providing ten times voting rights in case of the following topics: listing the shares of the Bank on the stock exchanges (IPO), appointment and withdrawal of Chairperson, Deputy Chairperson and members of Board and Supervisory Board as well as determination of their remuneration in respect of the Type A and Type B shares, appointment of CEO, decision on the raise of Bank' share capital). Tiberis Digital owns the majority of Type D shares.

Type F preferred shares provides pre-emption right for buying GRÁNIT Bank shares offered for sale by Gránit Bank ESOP entity.

Companies in which the Bank has a majority influence

In 2022 the following change in the Group's corporate structure took place, designed to support the Group's economic activity and to help it achieve its strategic and business plans:

- In October 2022, the Group acquired 50.01% of the ownership of Equilor Befektetési Zrt. and of two of its subsidiaries, Equilor Corporate Advisory Zrt. and Equilor Fine Art Kft. (hereinafter the Equilor group). The HUF 3,100 million price for the above share in the Equilor group was paid by the Group in cash. The transaction was classified as a business combination.

The Bank's ownership interest in GB Solutions Zrt. was sold during the year.

The Bank's stake in the ESOP Entity will have fallen below 20% by the end of 2022, but it has nevertheless been included in the consolidation as a subsidiary of the Bank Group, given that the company qualifies as a structured entity under IFRS 12, where the control necessary for inclusion is in place.

Further information on the changes in the structure of the Group is presented in Note 2.

Persons authorised to sign the consolidated annual financial statements of the Bank Group

Éva Hegedűs (Chairperson & CEO)
1037 Budapest, Testvérhegyi út 56-58.

Jenő Siklós (Deputy CEO)

2481 Velence, Muskotály u. 1.

Members of the Bank's Board of Directors and Supervisory Board

Board of Directors	Supervisory Board
Éva Hegedűs (Chairperson & CEO)	Sándor Nyúl (Chairperson)
Péter Bence Jendrolovics (Deputy CEO)	István Vida
László Balázs Hankiss (Deputy CEO)	Lajtos Gyuláné
Dr. Judit Tóth	Dr. Judit Gubuznai
János Major	István Árkovics

2. CHANGES IN THE STRUCTURE OF THE GROUP

Acquisitions

1. *Acquisitions made during the reporting year*

On 21 October 2022, the Group acquired a 50.01% stake in Equilor Befektetési Zrt. (hereinafter "EQB") and two of its subsidiaries (hereinafter the "Equilor group"). EQB provides investment services to both retail and institutional investors. Equilor Corporate Advisory Zrt., a subsidiary 90% owned by EQB (hereinafter "EQCA"), provides financial advisory services to corporate clients on a project basis in the areas of financing, M&A advisory, capital market transactions and corporate finance advisory. Equilor Fine Art Kft., a wholly owned subsidiary of EQB (hereinafter "EQFA"), is engaged in the business of dealing in and advising on fine art.

The acquisition was classified as a business combination under IFRS 3.

Details of the purchase price, the net assets acquired, and goodwill are as follows:

Purchase price:	*data in HUF millions*
Consideration paid in cash	3,100
Total purchase price	**3,100**

The purchase price under IFRS 3 consisted solely of a cash consideration.
Fair value of the assets and liabilities of the acquired companies at the acquisition date:

HUF million	**Fair value**
Cash and cash equivalents	30,944
Securities	1,364
Other assets	713
Existing intangible assets	181
Newly identified intangible assets	1,153
Intangible assets	1,334
Tangible assets	1,071
Deferred tax receivables	1
TOTAL ASSETS	**35,427**
Liabilities to customers	(29,432)
Derivative financial liabilities	(4)
Income tax payment liability	(135)
Existing tax liability	(1)
Deferred tax liability arising due to PPA	(120)
Deferred tax liability	(116)
Other liabilities	(1,460)
Total liabilities	**(31,147)**
Net asset value	**4,280**

Goodwill derivation | Equilor Group 50.01% | 31.10.2022

HUF million	
Purchase price	3,100
Fair value of Equilor Group net assets	(4,280)
10% of EQCA net asset value	22
49.99% of Equilor Group's net asset value	2,128
Value of minority interests	2,151
Goodwill	**971**

In allocating the purchase price under IFRS 3, the Bank treated the three acquired companies as a single cash-generating unit.

No acquisitions were made in the 2021 financial year.

In addition to the 50.01% stake held by the Group, the remaining 49.99% non-controlling interest is held by private individuals, which was determined as a proportion of the fair value of the Equilor group's net assets.

The goodwill is attributable to the profitable operation of the workforce and the companies acquired, and the Bank expects significant synergies in line with its strategy.

Costs related to acquisitions

Acquisition-related costs of HUF 88 million have been charged to administrative expenses in the income statement and are included among operating activities in the cash flow statement.

Contribution to profit

The acquired companies contributed net interest income of HUF 362 million, net fee and commission income of HUF 613 million and profit after tax of HUF 462 million to the Group's results for the period from 1 November to 31 December 2022.

Purchase price – cash outflow

Cash outflow due to the acquisition of subsidiaries without the liquid assets of the acquired companies:

Consideration paid in cash	3,100
Less: Acquired balances:	
Cash and cash equivalents:	30,944
Use of a bank credit line	0
	30,944

Net cash inflow - investment activity cash flow 27,844

2. *Sale of subsidiary*

On 14 February 2022, the Bank signed an agreement with CitiFund Pénzügyi és Vezetési Tanácsadó Kft. to sell its stake in GB Solutions Zrt. The shares sold represent 100% of the share capital of GB Solutions Zrt.
The agreed purchase price was HUF 120 million.
On 31.05.2022, Gránit Bank successfully completed the sale transaction with CitiFund Pénzügyi és Vezetési Tanácsadó Kft. and therefore the Bank presents it as a discontinued operation in the financial statements for the 2022 financial year.

Details of the sale of the subsidiary:

	2022
Details of the sale of a subsidiary	
Sale price	120
ex-post purchase price	38
Total consideration for the sale	**158**
Book value of net assets sold	**167**
Profit on sale of subsidiary	**-9**

3. SIGNIFICANT AND UNUSUAL EVENTS THAT OCCURRED DURING THE YEAR

Russian-Ukrainian war

The Russian-Ukrainian war broke out on 24 February 2022. In this regard, the Bank has assessed the potential risk factors in relation to the two countries involved, and has not identified any significant direct exposure and therefore the war has not had a direct significant impact on the Bank's financial statements for 2022.

Economic measures related to the coronavirus (COVID-19) and Russian-Ukrain war

Loan repayment moratorium

The Government extended the loan repayment moratorium, which was introduced on 11 March 2020 and had already been extended several times, in June 2022, to 31 December 2022. Under the extension, those concerned could remain in the moratorium until 31 July 2022 under the previous conditions, after which they would have to notify their bank again if they wanted to continue to have their payments suspended.

The moratorium ended on 31 December 2022.

Agricultural moratorium

Government Decree 292/2022 (VIII. 8.) granted a moratorium on payments for agricultural producers' credit, loan and financial lease contracts between 1 September 2022 and 31 December 2023.

The agricultural moratorium was available to join until midnight on 15 September 2022 by submitting a declaration of intent to participate. After that, it was no longer possible to participate in it.

Interest rate freeze

By Government Decree 782/2021 (XII.24.) published on 24 December 2021, the Government ordered the fixing of the benchmark interest rates for floating-rate retail mortgage loans until 30 June 2022. The interest rate freeze applied to floating-rate retail mortgage loans linked to a reference interest rate; under the terms of the Decree, between 1 January and 30 June 2022, the reference rate applied under the loan agreement could not be higher than the rate applicable on 27 October 2021.

in 2022, the interest rate freeze was first extended until 31.12.2022, and then, under Government Decree 390/2022 (X. 14.), which entered into force on 15 October 2022, it was extended until 30 June 2023, and under the Decree, the interest rate freeze was extended from 1 November 2022 to mortgage loans with an interest period of up to 5 years.

Pursuant to Government Decree 415/2022 (X. 26.) on micro, small and medium-sized enterprises and support for their development, the applicable reference rate for credit and loan contracts (hereinafter Contract) concluded by borrowers qualifying as micro, small and medium-sized enterprises under Act XXXIV of 2004 on small and medium-sized enterprises and support for their development (hereinafter SMEs) is set to change from 15 November 2022 to 30 June 2023. The Government has thus fixed the reference rate used to calculate the interest rate on floating-rate loans to SMEs at an earlier level (28 June 2022), so that the reference rate of the loan cannot be higher than the reference rate applicable to the relevant Contract on 28 June 2022, thus protecting micro, small and medium-sized enterprise debtors from increases in interest and repayment rates for a transitional period.

The impact of the moratorium and the interest rate freeze on the Bank's results is presented under Note 12. Gain or loss due to modification.

Inflation and interest rate hikes

From February 2022 the negative economic effects of the Russian-Ukrainian conflict, as well as the rising energy prices since 2021, the supply chain fragmentation and the resulting inflation, have also disrupted the growth momentum of the Hungarian economy from 2021. In both the third and fourth quarters of 2022, GDP declined compared to the previous quarter, pushing the economy into a technical recession. Inflation rose sharply compared to the end of 2021 (reaching 24.5% by December), accelerating to 14.5% on an annual average.
In September 2022, the MNB completed its cycle of interest rate hikes, which started in 2021, raising the base rate in several steps to 13.0%, with the two edges of the interest rate corridor at 12.5% and 25.0%. As the benchmark, the 1-week deposit of the MNB has been replaced by the overnight deposit quick tender, with an interest rate of 18.0%.
As Granit Bank has a well-balanced asset-liability structure in terms of interest rate risk, the rising interest rate environment has contributed to the increase of interest income primarily through the income realised on excess liquidity.
Inflation peaked in January 2023 and has been on a downward trend in the following three months. At its meeting on 25 April 2023, the Monetary Council of the National Bank of Hungary, after reviewing economic and financial developments, decided to tighten the interest rate corridor with effect from 26 April 2023. The level of the O/N deposit rate remained unchanged at 12.5%, while the O/N covered lending rate was reduced by 4.5 percentage points from 25% to 20.5%. Decreasing of the 18% overnight deposit quick tender rate presumably begins in the second half of the year and in case of favourable inflation trend the base rate is expected to be cut in the last quarter of this year.

Liquidation of Sberbank Magyarország Zrt., extraordinary OBA fee

The European resolution authority has opened a liquidation procedure for the Hungarian parent company of Sberbank, Sberbank Europe AG of Austria. Due to Sberbank Magyarország Zrt.'s severe liquidity and capital situation, the MNB has also withdrawn the Hungarian credit institution's operating licence and ordered its liquidation.

As a result of the compensation process of Sberbank Magyarország Zrt., the National Deposit Insurance Fund (OBA) imposed an extraordinary payment obligation on its member institutions for a total amount of HUF 73,550 million, with a payment deadline of 25 May 2022. The amount of the extraordinary payment obligation of GRÁNIT Bank Zrt. for 2022 was HUF 563 million. This extra payment has been fully refunded by OBA partly in December, 2022 (HUF 337 million), and partly in 2023 (HUF 226 million). In 2022 HUF 226 million expenditure was recognized on the "General administrative costs' line of the Group's consolidated income statement.

4. ACCOUNTING POLICY

Name of person responsible for compiling the IFRS statements: Jenő Siklós (registration number: 133130),

4.1. Basis for preparing the statements

The Bank's financial statements were prepared on a historical cost basis, except for the following essential elements:

Items	Basis for measurement

Financial instruments measured at fair value through profit or loss	Fair value
Financial assets measured at fair value through other comprehensive income	Fair value

The Bank (or Group) keeps its accounting records and compiles its ledger in accordance with the provisions of commercial banking and financial legislation in force in Hungary. The Bank's books are kept in Hungarian forint ("HUF"). Unless otherwise stated, balances are shown in million forints ("million HUF").

Declaration of conformity

As from 1 January 2018, the Bank uses IFRSs for statutory purposes instead of the Hungarian accounting standards (the date of transition is therefore 1 January 2017).
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and also comply with the additional requirements of Act C of 2000 on Accounting for individual financial statements prepared in accordance with the IFRS as adopted by the EU.

The Bank's stand-alone and consolidated statements are approved and published on the same day.

4.2. Estimates
In some cases, the management needs to make significant estimates or assumptions when preparing the financial statements under IFRS. These significant estimates and assumptions affect the value of assets and liabilities, and of income and expenses, shown in the financial statements, as well as the presentation of contingent assets and liabilities presented in the Notes. Actual results may differ from estimated data.

Estimates and related assumptions are based on past experience and other factors considered relevant. Accounting estimates and the underlying assumptions are reviewed by the Bank on an annual basis. Changes to accounting estimates are recognised by the Bank during the period of the respective change.

The Bank discloses the nature and amount of changes in accounting estimates that have an impact on the current period or are expected to have an impact on future periods, except for the effect on future periods in cases when making an advance estimate is impossible. If the amount of an impact on future periods is not disclosed because an estimate cannot be made, the Bank must disclose this fact.

Future changes in the economic environment, financial strategy, regulatory environment, accounting regulations, and other areas may result in changes in estimates that may have a significant impact on future financial statements.

The most important estimates and assumptions that have an impact on the Group's report:

- Classification of financial assets: assessment of the exclusive principal and interest requirement pertaining to the characteristics of the business model and the contractual cash flows (see Section 4.6.1 for details)
- Impairment on financial assets (see Sections 4.6.3, 40.7.1 and Note 21 for details)
- Determination of the fair value of financial instruments in cases where the fair value of a financial instrument is determined by the Bank on the basis of significant unobservable inputs (see Sectipn 4.6.2 and Note 25 for more details).
- Determination of deferred tax receivables: assessment with respect to the attainment of future taxable profit (see Section 4.5.15 for details).
- Provisioning: estimation of the likelihood or extent of liabilities arising from a past event (see Section 4.6.12 for details).
- The economic loss recognised as a result of the moratorium on payments due to Covid-19 (see paragraph 4.5.11 and Npte 12 for details).

- Adjustment loss recognised as a result of the interest rate freeze introduced (see paragraph 4.5.11 and Note 12 for details).
- IFRS 2 share based payment reserve (see paragraph 4.6.14 and Note 36 for details).

4.3. Currency translation

The functional currency of the Bank is Hungarian forint (HUF). **The Bank presents its financial statements in Hungarian forints rounded to the nearest million.**

The Bank records its foreign exchange and foreign currency reserves, as well as its receivables and payables denominated in foreign currency, at the time of their acquisition or generation, in the respective currency, and also records them in forint at the MNB mid-exchange rate valid at the time of acquisition.

The Bank revalues its foreign currency held on account and in cash, as well as its receivables and liabilities denominated in foreign currencies, once a month, at the MNB's prevailing mid foreign exchange rate.

The Bank recognises the profit from revaluation in its end-of-month and end-of-year financial statements in the Profit or loss from FX transactions line, except for the foreign currency exchange rate difference related to financial instruments measured at fair value through profit or loss, which is recorded in the Profit or loss from changes in fair value of financial instruments line.

Realised exchange rate differences arise when the transactions are settled, if the rates at acquisition and settlement differ. The resulting exchange rate gain or loss is usually recognised in profit after tax. Exceptions are investments in proprietary equity instruments for which, at the time of initial recognition, the Bank has made an irrevocable decision to measure them at fair value through other comprehensive income (FVOCI), in the case of which the exchange rate difference is recognised in other comprehensive income.

In the case of financial assets measured at fair value through other comprehensive income (FVOCI), the Bank recognises the exchange rate difference against their amortised cost through profit or loss, in the Profit from FX transactions line, and other changes in book value are recognised through other comprehensive income.

4.4. Subsequent events

Events occurring after the end of the reporting period that provide additional information on circumstances existing at the end of the Bank's reporting period (Modifying items) are presented in the financial statements. Events after the reporting period that do not affect the data of the financial statements are presented in the Notes if they are material.

If the Bank determines the dividend payable to its owners after the balance sheet date; this dividend is not presented as a liability at the balance sheet date. Such dividends are disclosed by the Bank in the Notes if it has been determined after the balance sheet date but before the financial statements are approved for publication.

4.5. Income Statement
4.5.1. Interests
Effective interest rate

The Bank determines interest income and interest expense using the effective interest method and recognises them in profit or loss. The effective interest rate is the rate at which the estimated future cash flows over the term of the financial asset or financial liability can be discounted:

- in the case of financial assets, to the gross book value,
- in the case of financial liabilities, to the amortised cost.

When the Bank determines the effective interest rate for (non-impaired) financial instruments, it estimates future cash flows by taking into account all contractual conditions of the financial instrument (prepayment, prolongation of term, callback, or similar options), **but disregarding any expected credit losses.**

In the case of purchased or originated credit-impaired financial assets (i.e. financial assets that are already impaired at the time of initial recognition) the Bank determines the interest income by applying the *credit-adjusted effective interest rate* method. The credit-adjusted effective interest rate is the rate by which the estimated future cash payments or cash incomes over the life of the financial asset may be discounted precisely down to the amortised cost of the purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, the Bank estimates the expected cash flows taking into account all contractual terms applicable to the financial asset **and the expected credit loss**.

The effective or credit-adjusted effective interest rate includes all fees and items paid or received by the contractual parties that are an integral part of the effective interest rate, as well as transaction costs and any other premium or discount. Transaction costs are ancillary costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Determining interest income and interest expense

The Bank determines interest income or interest expense based on the gross book value in the case of (non-impaired) financial assets and amortised cost in the case of financial liabilities, using the effective interest rate.

For financial assets that became impaired after initial recognition, the Bank applies the effective interest rate to the amortised cost in the subsequent reporting periods, using the principle of gross settlement. Therefore in this case the effective interest rate is determined separately for the gross value and separately for the impaired amount and is also separately recorded in the balance sheet for the gross value and the impairment of the financial asset. If, during a subsequent period, as a result of a significant improvement in credit risk, the financial asset no longer qualifies as an impaired financial asset, the Bank determines the interest income by applying the effective interest rate to the gross book value. In the case of purchased or generated financial assets that were impaired at initial recognition, the Bank applies the credit-adjusted effective interest rate to the amortised cost from the initial recognition of the financial asset to determine the interest income.

Recognition of interest income and interest expense

In the consolidated income statement, interest income and interest expense related to the following financial instruments are presented under *Interest income* and *Interest expense*:

- interest on financial assets and financial liabilities measured at amortised cost, that is determined using the effective interest method;
- interest on debt securities measured at fair value through other comprehensive income, that is determined using the effective interest method;
- other interest and similar income not determined using the effective interest method
    - interest income on derivative financial instruments: In case of interest rate swaps the Bank applies the "dirty" method: interest income/expense including interest accruals are recognized on the "other interest and similar income" profit and loss line, whereas the change in fair value is recognized on the "Net gains from financial instruments measured at fair value through profit or loss" P/L line. This is in line with the aim of economically hedging the interest rate risk of fixed interest bearing securities and loans via these interest rate derivatives.
    - interest income on loans and securities measured at fair value through profit or loss

4.5.2. Fees and commissions

Fees and commissions that are part of the effective interest rate are recognised in the income statement under *Interest income* or *Interest expense*. All other fee and commission income is recognised in the income statement under *Fee and commission income*.

Recognised fees that are not an integral part of the effective interest rate of a financial instrument include:

- commitment fees for the origination of a loan for which the loan commitment is not measured at fair value through profit or loss and it is unlikely that a special loan agreement will be concluded;
- credit syndication fees received by the Bank that arise where the Bank intermediates a loan and keeps nothing from the loan package for itself (or keeps a part of the package at the same effective interest rate and at similar risk as other participants).

Fees and commission expenses not included in the effective interest rate are usually service fees that are recognised by the Bank as an expense when it receives the service.

4.5.3. Net gains from financial instruments measured at fair value through profit or loss

In this line, the Bank recognises its net gains from held-for-trading financial instruments, financial instruments obligatorily measured at fair value through profit or loss, not for trading, as well as from financial securities designated as measured at fair value through profit or loss, except for the profit from the interest on those instruments, which is shown under other interest income line.

4.5.4. Net gains less losses from financial instruments not classified as measured at fair value through profit or loss

In this line the Bank recognises the net gains realised on the sale of securities measured at amortised cost and at fair value through other comprehensive income.

Impairment and other gains or losses realised on customer loans measured at amortised cost are shown by the Bank on the Credit gains and losses line. Likewise on the Credit gains and losses line it shows the sum of impairment recognised on securities held at amortised cost and on debt securities measured at fair value through other comprehensive income.

4.5.5. Net profit from hedge accounting

The Bank does not currently use hedge accounting in its statements.

4.5.6. Profit from FX transactions

Under Profit from FX transactions are recognised the realised exchange rate gains on financial instruments held in non-functional currencies as well as the unrealised gains on exchange rate changes in respect of financial assets and liabilities not measured at fair value through profit or loss.

4.5.7. Dividend income

The Bank only recognises dividends in profit or loss when its right to the dividends has been established, it is likely that the economic benefits associated with the dividend will be realised as income and the amount of the dividend can be measured reliably.

4.5.8. Other operating income

Under other income the Bank recognises

- the net result from the sale of non-financial assets, if it is net income
- other income related to non-financial assets and liabilities

4.5.9. Other expenses

Under other expenses the Bank recognises

- the net result from the sale of non-financial assets, if it is a net loss
- Non-income tax expenses, except for taxes on personnel expenses, which are recognised under personnel expenses.
- Recognised impairment on non-financial assets
- other expenses related to non-financial assets and liabilities

4.5.10. Credit gains and losses

Under this line the Bank recognises the following items:

- Impairment on financial assets (see the description of impairment in Section 3.6.3)

4.5.11. Gain or loss due to modification

The Bank shows on this line the impact of the economic loss recognised as a result of the payment moratorium introduced due to Covid-19, in accordance with IFRS 9, section 5.4.3. Also on this line, the Bank shows the impact of the cash flow change due to the interest rate freeze on floating-rate mortgages imposed in December 2021, extended in 2022, and extended in scope to include the SME sector. If the Bank renegotiates or modifies the contractual cash flows of a financial asset, and such renegotiation or modification does not result in derecognition of the financial asset in accordance with IFRS 9, then the Bank recalculates the gross book value of the financial asset, and recognises a gain or loss due to modification in the income statements. The gross book value of the financial asset is recalculated by the Bank as the present value of the renegotiated or modified contractual cash flows, where the discount rate is the original effective interest rate of the financial asset (in the case of purchased or originated credit impaired financial assets, this is the loan-adjusted effective interest rate). In the Bank's understanding, the cash flows adjusted due to the moratorium and the interest rate freeze do not result in the derecognition of the loans concerned, and therefore the Bank recognises the economic loss resulting from the moratorium and the interest rate freeze in the 'gain or loss due to modification' line.

4.5.12. Personnel expenses

Under Personnel expenses are recognised

- wage costs, which are the gross earnings (wages) due to employees
- other payments to personnel, including all payments related to the calendar year that the Bank recognises or pays to a private individual in accordance with other regulations under a heading other than wage costs, excluding considerations paid for contractor activities.
- wage contributions, namely pension insurance and health insurance contributions, health contributions, employers' contributions, vocational training contributions, and all other taxes and contributions that are based on payments related to personnel or the number of employees.

4.5.13. Other general administrative costs

Under Other administrative costs the Bank recognises material expenses (the value of the use of purchased materials, fuel costs and impairment on inventories) and other administrative costs (telecommunication and postal charges, IT operating costs, rents paid, costs of services used, costs of other services), as well as transaction tax and special bank tax. Since 2010, credit and financial institutions in Hungary have been subject to a special bank tax. The bank tax and its reversal must be recognised as an expense in the year to which it legally applies. As the bank tax is based on non-net revenue values, it does not qualify for income tax under IFRS and must therefore be presented as an operating expense in the report. In 2020, in addition to the bank tax already applied, an extraordinary special epidemiological tax liability has also been incurred. Pursuant to the relevant provision, the extraordinary special tax paid in 2020 is deductible from the ordinary bank tax liability for the next 5 years, so this item had no impact on the result for 2020, and is recognised as a receivable in the balance sheet under other assets.

4.5.14. Depreciation

On intangible assets and tangible assets, the Bank recognised depreciation up to the gross cost of the intangible assets and tangible assets. The Bank depreciates tangible assets below an individual purchase or production value of HUF 100,000 immediately, at the time of the purchase. Depreciation recognised in the financial year is shown as a separate cost item in the income statement as part of the net operating profit.

4.5.15. Income taxes

Recognised profits or losses from current and deferred corporate tax are recognised under Income taxes.

Actual and deferred tax is recognised as income or expense and is included in the after-tax profit or loss for the period, except when the tax is incurred in the settlement of transactions or events – in the same or another period – that the Bank recognises through other comprehensive income or directly in equity.

Actual tax

Actual tax on profits includes corporate income tax, local tax and innovation contribution. The corporate tax is paid to the national tax authorities competent with respect to the Bank's place of business. The basis for tax payment is the pre-tax profit calculated from the tax-paying company's accounting profit adjusted by items reducing and increasing the tax base. The local tax and the innovation contribution are paid to the relevant local authority, and the tax is based on the Bank's annual net turnover determined by law.

Actual taxes relating to the current period and prior periods that are still not settled are recognised as liabilities by the Bank. If the amount already paid for the current period and prior periods exceeds the amounts due for these periods, the excess is recognised as an asset.

Actual tax liabilities (tax receivables) for the current period and prior periods are valued at the amount that is expected to be paid to the tax authority (or expected to be recovered from the tax authority), using tax rates (and tax laws) that were in force or substantially in force by the date on which the statement of financial position is based.

Deferred tax

The corporate income tax is determined by the Bank in accordance with the regulations of the Hungarian tax laws. Deferred taxes are calculated using the balance sheet liability method:

- temporary differences are determined in the difference between the value of assets and liabilities shown in the accounting report and the amounts recognised for corporate tax purposes; and
- deferred tax is calculated on the basis of the temporary difference.

Under the liability method, deferred tax is recognised at the balance sheet date for the temporary differences between the tax base of assets and liabilities and their carrying amount recognised for reporting purposes. The method of accounting for deferred taxes on a balance sheet basis is based on the exploration of cumulative differences. Accordingly, the Bank prepares its tax and accounting balance sheet and examines the difference between the two from the point of view of deferred tax.

The key to calculating deferred taxes is to offset the tax effect of temporary income and tax differences. Accordingly, the deferred tax is calculated for the differences between tax law and IFRS statements.

The amount of the deferred tax is calculated by the Bank using tax rates stipulated by the relevant tax law, as known at the balance sheet date, which are expected to be effective at the time when the deferred tax receivable will be collected or the deferred tax liability settled.

Any deferred tax receivables are recognised to the extent that it is probable that future taxable profits (or reversible deferred tax liabilities) will be available against which the deferred tax receivable can be offset.

The Bank examines the value of the deferred tax receivable at each balance sheet date and reduces it to the extent that it is unlikely that sufficient taxable profit will be generated for it to be enforced partially or fully. The Bank reverses any such reduction to the extent that it becomes probable that sufficient taxable profit will be available.

The Bank offsets its deferred tax receivables and deferred tax liabilities against each other when and only if:

- it has a legally enforceable right to offset its actual tax receivables against its actual tax liabilities; and
- the deferred tax receivables and deferred tax liabilities are related to income taxes imposed by the same tax authority.

4.6. Balance sheet items
4.6.1. Financial instruments

The Bank recognises financial instruments in accordance with IFRS 9.

Financial assets include liquid assets, government securities, receivables from credit institutions, loans and advances to customers, debt securities, shares, participations, and derivative transactions. Financial assets are recognised by the Bank in the following balance sheet lines:

(a) Cash and cash equivalents
(b) Receivables from the MNB
(c) Interbank placements
(d) Securities
(e) Derivative financial assets
(f) Loans and advances to customers
(g) Other assets (customer receivables)

Financial liabilities arise from claims for the repayment of money or other financial assets. They mostly include liabilities to credit institutions, liabilities to customers, suppliers, and derivative financial liabilities. Financial liabilities are recognised by the Bank in the following balance sheet lines:

(a) Liabilities to the MNB
(b) Liabilities to credit institutions
(c) Liabilities to customers
(d) Derivative financial liabilities
(e) Other liabilities (trade creditors)

Recognition and initial measurement

The Bank recognises loans and receivables, deposits, and debt securities when they are originated. All other instruments are recognised on the day the Bank commits to purchase or sell the asset.
With the exception of trade receivables, the Bank recognises all financial assets not measured at fair value at their fair value adjusted by the transaction costs that are directly related to their issue or purchase.

Financial assets measured at fair value are recognised at fair value, and the transaction costs directly related to their issue and purchase are recognised through profit or loss.

With the exception of financial liabilities measured at fair value through profit or loss, the Bank recognises financial liabilities at fair value adjusted by transaction costs. In the case of financial liabilities measured at fair value through profit or loss, the value at initial recognition is the fair value; directly related transaction costs are recognised through profit or loss.

Transaction costs include fees and commissions paid to agents, advisers, brokers, and traders, as well as fees charged by regulators and stock exchanges, and taxes and fees related to the transfer. Transaction costs exclude premiums and discounts arising from lending, financing costs, internal administrative or holding costs.

Trade receivables, if they do not contain a material financing component, are recognised by the Bank at transaction price.

Trade-date and settlement-date accounting

All financial assets purchased or sold “in a standard way” are recognised on the settlement date, i.e. when the asset is transferred to the counterparty. Standard purchases or sales include transactions where the asset is to be transferred within a period specified by regulations or market practices.

First-day profit or loss

The best approximation of the initial fair value of financial instruments is the transaction price. Gains or losses can arise at initial recognition only if there is a difference between the fair value and the transaction price, as supported by measurement techniques based on other observable market transactions of the same instrument or some observable market data. In the case of other financial instruments where fair value is based on measurement techniques using Level 3 parameters, the initial difference is recognised as (other) assets or (other) liabilities and subsequently a steady-rate amortisation is applied to it until the maturity of the instrument.

Classification
Classification of financial assets

The Bank classifies its financial assets in the following categories:

a) financial assets measured at fair value through profit or loss;
b) financial assets measured at amortised cost;
c) debt instruments measured at fair value through other comprehensive income; and
d) investments in equity instruments measured at fair value through other comprehensive income.

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

- the financial asset belongs to a group in which the business model is the collection of contractual cash flows; and
- the contractual cash flows of the financial asset only include principal and interest on the outstanding principal.

The amortised cost of financial assets or financial liabilities is the value of the financial asset or financial liability as determined at initial recognition less principal repayments, increased or decreased by the accumulated amortisation of the difference between this original value and the value at maturity using the effective interest rate method, and, in the case of financial assets, decreased by accumulated impairment.

The gross book value of financial assets is the amortised cost of the asset before impairment.

The Bank measures the financial asset as a financial asset measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset belongs to a group in which the business model is the collection of contractual cash flows and sale; and
- the contractual cash flows of the financial asset only include principal and interest on the outstanding principal.

Investments in equity instruments are measured by the Bank at fair value through profit or loss (FVTPL), unless the Bank, at the time of initial recognition, makes an irrevocable decision to choose the “measured at fair value through other comprehensive income” category for the financial asset in question.

All other financial assets are categorised by the Bank in the measured at fair value through profit or loss category.

At initial recognition, the Bank has the option to classify a financial instrument measured at amortised cost or measured at fair value through other comprehensive income as irrevocably classified in the measured at fair value through profit or loss category if this eliminates or significantly reduces an accounting inconsistency.

The decision-making person or body determines the classification of financial instruments at the time of purchase.

Classification of financial liabilities

The Bank classifies its financial liabilities in the following categories:

- financial liabilities measured at amortised cost

Non-trading financial liabilities are measured by the Bank at fair value at initial recognition, less directly attributable transaction costs; any subsequent measurement is at amortised cost using the effective interest method, unless the Bank at initial recognition designated the financial liability as measured at fair value through profit or loss.
If the Bank designated a financial liability as measured at fair value through profit or loss at initial recognition, in any subsequent measurements

- the changes in fair value, if related to the Bank's own credit risk, are recognised through other comprehensive income,
- all other fair value changes are recognised through profit or loss.

During the initial recognition of a financial liability designated as measured at fair value through profit or loss, the Bank examines whether the recognition of fair value changes related to its own credit risk in other comprehensive income triggers (or increases) any accounting inconsistencies. If the measurement against other comprehensive income causes or deepens accounting imbalances, the Bank fully records the change in fair value through profit or loss.

The Bank uses the contractual conditions of the issued instrument as a basis for classifying the instrument as a financial liability or equity.

Specification of business model

The Bank specifies the purpose of its business model relating to its portfolio of assets. To do this, it takes the following information into consideration:

- principles and objectives attached to the portfolio and the practical applications of these principles. The management's portfolio-related strategy may focus on collecting contractual interest income, maintaining a given interest rate level, adjusting the maturity of financial assets to the maturity of the financial liabilities that finance them, or realising cash flows through the sale of the asset;
- how the portfolio's performance is evaluated and reported to management;
- the risks affecting the performance of the business model (and the financial assets included in it), and the manner in which these risks are managed;
- the method of remuneration of the Bank's managers: whether it depends on the development of the fair value of the managed assets or the collection of contractual cash flows; and
- the frequency, extent and timing of sales of previous periods, the reason for sales, the expectations for future sales. When evaluating information about past sales, it takes into account the reasons for sales, the conditions prevailing at the time of the sales, and compares them with current conditions. The Bank does not evaluate the information on sales in an isolated manner but collectively, i.e. it looks at how the objective formulated by the Bank is achieved and how the cash flows related to the financial instrument are realised.

Based on the above, the Bank classifies its financial assets according to three business models:

- "Collection of contractual cash flows" includes the financial assets for which the key business objective is the collection of contractual cash flows;
- "Collection of contractual cash flows and sale" includes the financial assets for which the business objective is partly achieved by collecting the contractual cash flows of the financial assets and partly by selling the financial assets; and
- "Other" includes the financial assets that do not belong to the groups under the other two business models.

The financial assets held by the Bank for trading purposes, or the performance of which is measured at fair value, are measured at fair value through profit or loss, as in the case of these the objective is neither the collection of contractual cash flows nor the collection of contractual cash flows and the sale of the assets.

Measurement of the characteristics of contractual cash flows

Classification in a measurement group also depends on the characteristics of the cash flows associated with the financial asset. For financial assets that the Bank intends to measure at amortised cost or at fair value through other comprehensive income, the Bank must consider whether they in terms of the cash flows of the financial asset meet the solely principal and interest (SPPI) requirement under IFRS 9. The principal is the fair value of the financial asset at initial recognition. Interest primarily expresses the consideration for the time value of the outstanding amount of principal and the credit risk in a given period, but it also includes other basic credit risks and costs, as well as a profit margin.

If the SPPI requirement is met, the Bank examines, in the denominated currency of the financial asset, whether the cash flows arising from the contract are consistent with the basic loan agreements.

To assess whether the contractual cash flows only include principal and interest payments, the Bank examines the contractual terms of the financial instrument. The examination also includes the assessment of whether the financial asset contains any contractual conditions that result in a change in the amount or timing of contractual cash flows that makes the financial asset no longer meet the SPPI requirement. To assess this, the Bank takes into account:

- future events, the occurrence of which affects the amount and timing of contractual cash flows;
- leverage characteristics;
- conditions for prepayment and term extension;
- conditions that put a limit on the Bank’s claims related the given asset’s cash flows (e.g. non-recourse asset agreements); and
- the existence of a modified element related to the time value of money.

Contractual cash flows do not solely include principal and interest, if in the contractual cash flows there are risks or volatility exposures not associated with a basic loan agreement. Thus a financial instrument fails to meet SPPI requirements if the contractual cash flows include exposure to changes in share prices or commodity prices, or if they include leverage.

If the element related to the time value of money is imperfect – for example, the frequency of the repeated establishment of the interest rate does not correspond to the interest rate period, or if the interest rate of the financial instrument is adjusted to the average of short- and long-term interest rates on a regular basis –, the Bank must assess the change individually to establish whether the contractual cash flows solely include principal and interest. Depending on the given situation, this is determined by a qualitative assessment of the time value element and, if necessary, by a quantitative assessment. If the Bank arrives at the conclusion that the undiscounted cash flows arising from the contract are significantly different from the undiscounted reference cash flows, the financial asset must not be measured at amortised cost or at fair value through other comprehensive income.

In the case of state-regulated interest rates, the financial asset meets the SPPI requirement if the regulated interest rate represents a consideration that basically is in harmony with the passing of time and does not represent a risk or volatility exposure regarding the cash flows that are inconsistent with a basic loan agreement.

The Bank has such loans to customers (NHP) in respect of which the interest rate has an upper cap. When examining the contractual cash flows of these financial assets, the Bank has determined that they include only principal and interest, and therefore their subsequent valuation is measured at amortised cost.

Reclassification of financial instruments

After initial recognition, the Bank will not reclassify its financial instruments in another measurement category with the exception of the rare cases when the business model underlying the financial assets has changed. In such cases, the Bank performs reclassification on the first day of the next reporting period and explains the reason and effect of the classification in the Notes.

Derecognition

Derecognition of financial instruments

The Bank derecognises a financial asset if

- the contractual right to the cash flows from the financial asset expires; or
- the contractual rights are transferred in a manner by which substantially all risks and rewards associated with the financial asset are transferred; or
- the Bank does not transfer and neither does it retain substantially all risks and gains associated with the financial asset, but does not retain control over the financial asset.

When a financial asset is derecognised, the difference between the book value of the asset (or the book value associated with the derecognised part of the asset) and the consideration received for the derecognised asset (or part of the asset) (including any new asset received, less any liability assumed) is recognised in profit or loss.

The cumulative other comprehensive income recognised for a derecognised asset (or part of an asset) must be reclassified to profit or loss upon derecognition, except for investments in equity instruments measured at fair value through other comprehensive income: in their case, the cumulative other comprehensive income is transferred directly to Profit reserve upon derecognition, without affecting profit or loss.

Any remaining or generated interest related to the derecognised asset is recognised by the Bank as an independent asset.

If the Bank transfers a financial asset in such a way that it retains substantially all risks and gains associated with the transferred asset (part of an asset), the Bank must not derecognise the financial asset from its balance sheet. On this basis, the Bank will not derecognise from its books any securities lent or financial assets sold with a repurchase agreement for which it has retained substantially all risks and gains.

Should the Bank transfer an asset without either transferring or retaining substantially all risks and gains associated with the financial asset, but retaining the control of the asset, the Bank will continue to recognise the financial asset to the extent of its continuing interest in the asset transferred. The extent of continuing interest is the extent to which the Bank is exposed to the risks of changes in the value of the asset transferred.

If the Bank derecognises a financial asset and retains the right to manage the financial asset for a fee, it will recognise a management instrument or a management liability in relation to the management contract in question. If the stipulated fee is not expected to cover the management duties to be performed, the Bank will recognise a management obligation with respect to the commitment. If the stipulated fee is expected to exceed the value of the management activities, the Bank will recognise a management asset with respect to the management right.

Derecognition of financial instruments

The Bank derecognises a financial liability when it is terminated, i.e. when the commitments specified in the given contract have been fulfilled, they have been cancelled, or they have expired.

Change in the conditions of financial assets and financial liabilities

Change in the conditions of financial assets

If the conditions of a financial asset are changed, the Bank will examine whether the cash flows related to the modified financial asset are significantly different. If the cash flows are significantly different, the contractual cash flows associated with the original financial asset are considered to have expired: the original financial asset must be derecognised and the new financial asset must be recognised at fair value.

If the cash flows of a modified financial asset measured at amortised cost do not show any significant differences, the Bank will not derecognise the financial asset. In such cases, the Bank recalculates, adjusts the gross book value of the financial asset and recognises the resulting difference in profit or loss. If the change is made on account of the debtor's financial difficulties, the profit effect of the change must be recognised together with the impairment loss. In all other cases, the effect on the profit or loss must be recognised as interest income. The Bank shows the impact of the economic loss recognised as a result of the payment moratorium introduced due to Covid-19 – in view of its specific nature – in a separate "Gain or loss due to modification" line, in its income statements.

Change in the conditions of financial liabilities

The Bank will derecognise a financial liability if the underlying contractual terms have changed and the cash flows of the changed liability show significant differences. In this case, the new liability is recognised by the Bank at fair value in accordance with the modified contractual terms, the old liability is derecognised and the difference is recognised in profit or loss.

Netting of financial assets and financial liabilities

Financial assets and financial liabilities are offset by the Bank against one another, and the resulting net amount is recognised in the balance sheet when and only if the Bank has a legally enforceable right to offset the amounts and it intends to realise the asset and meet the liability by netting or concurrently.

Repo and reverse repo agreements

Assets that the Bank sells under an agreement for the subsequent repurchase of the asset (repo agreement) are not derecognised; their measurement is subject to accounting standards pertaining to financial assets. The repurchase obligation is recognised as a liability held at amortised cost in the statement of financial position at the amount of the proceeds from the sale. The difference between the sale price and the repurchase price must be treated as interest expense and recognised pro rata over the term of the transaction in profit or loss.
Assets that the Bank purchases under an agreement for the subsequent resale of the asset (reverse repo) are not included in the balance sheet because the Bank has no control of these assets. Receivables arising from such agreements can appear in the balance sheet in an amount identical to the purchase value under Loans and advances to customers. The difference between the purchase price and the future selling price must be treated as interest income and recognised pro rata over the term of the transaction in profit or loss.

4.6.2. Determining fair value

Fair value is the price that the Bank would receive upon the sale of an asset, or that it would pay upon transferring a liability, on the primary market, or in the absence of this, on an optimal market, under a standard transaction between market participants at the time of the measurement. The fair value of a liability reflects the effect of the risk of default. Besides measurement at the time of initial recognition, the Bank performs the measurement of fair value on a daily basis.

IFRS 13 "Fair value measurement" creates a fair value hierarchy in order to increase the consistency and comparability of measurements at fair value and related disclosures. The hierarchy categorises the inputs of measurement methods used to determine fair value into the following three levels:

- Level 1 inputs: Quoted (unadjusted) prices on active markets of identical assets or liabilities to which the Bank has access at the time of the measurement;
- Level 2 inputs: Inputs included in Level 1 other than quoted prices, that are directly or indirectly observable concerning the asset or liability; and
- Level 3 inputs: Non-observable inputs of the assets or liabilities.

If available, the Bank determines the fair value of the instrument based on the price quoted on an active market. A market is considered active if transactions relating to the asset or liability are carried out with sufficient frequency and quantity to enable the market to provide ongoing pricing information.

If no quoted prices from an active market are available, the Bank uses measurement techniques that are appropriate under the given circumstances and for which sufficient data are available to determine fair value. The use of relevant observable inputs must be maximised and the use of non-observable inputs must be minimised during the process. Measurement techniques are regularly reviewed by the Bank and each measurement technique is based on the latest market data. Measurement techniques are based on available market data, so their use must entail certain estimates and assumptions (correlations, volatilities, etc.). Changes in assumptions may affect the fair value of financial instruments presented.

The fair value of a financial asset at initial recognition is usually the transaction price. If the Bank determines that the transaction price differs from the fair value at initial recognition, it will do the following:

- if the financial asset has an active market or the fair value is based on a measurement technique that only uses data from observable markets, the Bank immediately recognises the difference between the fair value at initial recognition and the transaction price in profit or loss.
- in all other cases, the Bank defers or accrues the difference between the fair value at initial recognition and the transaction price. The accrued or deferred difference is recognised in profit or loss so as to be consistent with the change in the value of the financial asset.

In the case of NHP loans (both receivables and payables) the Bank accrues or defers the difference between the transaction price and the fair value at initial recognition, and recognises it in profit or loss over the term of the loan in accordance with the change in the value of the loan.

Transfers between various levels of the fair value hierarchy are recognised at the end of the reporting period in which the change occurred and the movements between hierarchy levels are presented in the Notes.

The methodology used for the measurement of fair value, and the inputs and assumptions used for the calculations, are detailed in Note 24.

4.6.3. Impairment

Due to expected credit losses, the Bank recognises impairment in respect of the following financial instruments not measured at fair value through profit or loss:

(a) debt instruments,
(b) issued financial guarantees, and
(c) issued loan commitments.

The Bank recognises no impairment on investments in equity, as these are recognised at fair value in the balance sheet.

The Bank calculates the impairment for the remaining term, except for the following financial instruments, for which impairment is calculated for 12 months:

- debt securities with low credit risk at the reporting date,
- other financial instruments the credit risk of which has not deteriorated significantly compared to that at initial recognition.

The Bank considers debt securities to be low-risk if their credit rating qualifies as “investment grade” (bonds rated Baa by Moody's or BBB by S&P and Fitch or above.

Impairment calculated for a 12-month period for expected credit losses is the part of the expected losses for the entire term that results from default events that may occur within 12 months of the reporting date.

For purchased or originated credit-impaired (POCI) financial assets the Bank recognises as a loss at the reporting date only the cumulative changes that have occurred since initial recognition in the lifetime expected credit losses.

Determining the expected credit loss

Expected credit losses are the probability-weighted estimates of credit losses incurred over 12 months for exposures in Bucket 1 and for the expected life of the financial asset in case of Bucket 2 and Bucket 3 exposures.

Expected loss on modified financial assets

If the conditions of a financial asset are renegotiated or changed, or an existing financial instrument is replaced with another because of the debtor's financial difficulties, it must be examined whether the financial instrument is to be derecognised. As a result, the Bank determines the expected credit loss for the existing financial asset as follows:

- if the expected change in the financial asset does not result in the derecognition of the existing financial asset, the Bank will take the expected cash flows associated with the changed financial asset into consideration when determining the lost cash flows related to the original financial asset.
- if the expected change in the financial asset results in the derecognition of the financial asset, the Bank will consider the expected fair value of the new financial asset to be the last cash flow related to the existing financial asset at the date of derecognition. This value will be used to determine the cash flow losses associated with the existing financial asset by discounting the value at derecognition at the original effective interest rate of the financial asset to the value at the reporting date.

Impaired financial assets

At each reporting date, the Bank assesses whether its financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income are impaired. A financial asset is considered impaired if one or more events have occurred that had an adverse effect on the expected future cash flows associated with the financial asset.

If the conditions of a loan are renegotiated due to the deterioration of the debtor's position, the loan must be considered impaired, unless it can be shown that the risk of collecting the contractual cash flows is significantly reduced and there are no other indicators for impairment.

Methodology for establishing impairment

The Bank has developed a detailed methodology for the establishment of impairment, which is included in the effective RISK-007/2011 Transaction rating, measurement, and impairment and provisioning rules. See Note 39.7.1 for a summary of the methodology.

Recognising impairment in the balance sheet

Impairment recognised on expected credit losses is reported by the Bank as follows:

(i.) in the case of financial assets measured at amortised cost, as an amount decreasing gross book value;

(ii.) in the case of financial guarantee contracts and loan commitments, as a provision (when it exceeds the amount pf unamortized fee);

(iii.) if a financial instrument contains both drawn and undrawn components, and the Bank is unable to separate the expected credit loss calculated for the undrawn component from that related to the drawn component, the Bank determines the impairment on the two components in aggregate. The aggregate impairment will decrease the gross book value of the drawn component. If the impairment loss so determined exceeds the gross book value of the drawn component, the difference is recognised by the Bank as a provision.

(iv.) in the case of financial assets measured at fair value through other comprehensive income, the recognised impairment is not shown in the balance sheet as in the case of these the balance sheet value is the fair value. Recognised impairment modifies cumulative other comprehensive income (the Fair value reserve).

4.6.4. Derecognition of financial assets

Loans and debt securities are derecognised (in full or in part) by the Bank if the Bank cannot reasonably expect the return of the financial asset. In the event that the Bank establishes that the debtor's assets or sources of income do not provide sufficient cash flow to pay the cash flows associated with the financial asset, the Bank derecognises the financial asset. Despite the derecognition, the financial assets may still be subject to the Bank's enforcement of its rights in respect of the amounts due.

4.6.5. Designation as measured at fair value through profit or loss

At initial recognition, the Bank classifies some financial assets as measured at fair value through profit or loss, as this designation eliminates or significantly reduces an accounting inconsistency that would otherwise arise.

The Bank designates certain financial liabilities as measured at fair value through profit or loss if any of the following conditions is met:

- the liabilities are managed, measured and reported internally on the basis of their fair value; or
- this designation eliminates or significantly reduces an accounting inconsistency that would otherwise arise.

4.6.6. Hedging transactions

The Bank does not currently use hedge accounting in its statements.

4.6.7. Tangible assets

Recognition and measurement

Tangible assets are recognised by the Bank at cost less accumulated depreciation and impairment.

Purchased software that forms an integral part of a computer-controlled mechanical device are treated by the Bank under tangible assets.

If the useful life of a significant part of an item classified under tangible assets is different, the Bank will treat them as a separate item (as a significant component). If the useful life and depreciation method of a significant component is the same as the useful life and depreciation method used for another significant part of the same asset, the Bank treats those parts as a group for when determining depreciation.

Any property, plant or equipment item is only recognised by the Bank as an asset if and only if:
- it is probable that the future economic benefits attributable to the asset will be realised; and
- its cost can be measured reliably.

The book value of tangible assets items is reviewed by the Bank at established, regular intervals to determine whether the property or equipment item is impaired. To determine whether an item of property, plant or equipment is impaired, the Bank uses the IAS 36 Impairment of assets standard. Impairment and reversal thus determined are recognised in the income statement.

Derecognition

The Bank determines the gain or loss from the derecognition of any item of property or equipment as the difference between the net proceeds from the disposal, if any, and the book value of the asset, and recognises the result under *Other operating income/Other expense* in the Income Statement.

Cost

The items of tangible assets that meet the conditions for recognition as an asset are recognised at cost.

The cost of tangible assets is the sum of the cash or cash equivalents paid for the acquisition of the given asset, or the fair value of any other consideration given for the acquisition of the asset at the time of the acquisition or creation, or, where applicable, the value assigned to the asset at initial recognition in accordance with the specific requirements of other IFRSs.

The Bank measures all costs related to tangible assets at the time the cost is incurred. These costs include the cost of acquiring or producing the asset, as well as any subsequent costs incurred that are associated with supplementing, replacing some part of, or servicing the asset.

The cost of items of tangible assets includes:

- the item's purchase price, including import duties and non-recoverable sales taxes, less any trade and quantity discounts; and
- the costs that can be attributed directly to the fact that the asset was transferred to the place and put in the condition necessary to be able to function properly in accordance with the management's intentions.

Costs subsequently incurred are only recognised in the book value of the asset or recognised in the books as a separate asset when it is probable that the item in question will provide future economic benefits to the Bank and the cost of the item can be measured reliably. Additional costs related to existing assets that prolong the useful life of the asset or extend the asset's scope of use are activated by the Bank. All other repair and maintenance costs are recognised by the Bank as an expense in the income statement at the time they are incurred.

The cost of tangible assets obtained through a finance lease is recognised by the Bank at the fair value of the leased asset or, if this is lower, at an amount equivalent to the present value of the minimum lease payments. Initial direct costs increase the cost of the asset.

Depreciation

Depreciation of tangible assets is recognised by the Bank using the straight-line method and is shown in profit or loss.
The depreciable amount of tangible assets is determined by deducting the residual value of the asset.

Assets obtained through a finance lease are depreciated over the shorter period of the asset's lease term or useful life, unless the Bank has reasonable assurance that it will acquire ownership of the asset by the end of the lease term; in this case the expected term of use will be the useful life of the asset. Pursuant to the requirements of IFRS 16 effective from 01.01.2019, the lease rights included in the assets are depreciated by the Bank over the period for which it has a valid lease agreement. See Note 28 for more information.

Depreciation of an asset begins when it becomes available for use, that is, when the asset is transferred to the place and put in the condition necessary to be able to function properly in accordance with the management's intentions.

The end of an asset's depreciation is the earlier of:
- the date on which the asset is classed as held for sale under IFRS 5 (or on which it is classified as belonging to a "bad Bank" classed as held for sale);
- the date of the derecognition of the asset.

Depreciation of most significant tangible assets:

Property, buildings:	6.0%
Information technology devices:	33.3% (5% residual value)
Machines, administrative and telecommunication devices:	33.3% (5% residual value)
Vehicles (procurements before 2019):	20.0% (50% residual value)
Vehicles (procurements after 2019):	20.0% (20% residual value)
Furniture and fittings:	10.0% (5% residual value)

The depreciation methods, useful lives and residual values are reviewed at each reporting date and, if necessary, adjusted.

4.6.8. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical form. The Bank recognises an intangible asset in its balance sheet if it meets the requirements of identifiability, control over the resource, the existence of future economic benefits, as well as reliable measurement. If an intangible asset does not meet the recognition requirements, the Bank recognises the cost of its acquisition or production as an expense when it is incurred (except for acquisition in a business combination, as this forms part of the goodwill recognised at the date of the acquisition).

Software

Intangible assets consist mainly of software. Computer software often contains both tangible and intangible elements. The Bank determines whether the asset is to be treated in accordance with IAS 16 Property, plant and equipment or IAS 38 Intangible assets by looking at which component of the given asset is more significant. When the software is not an integral part of a particular hardware, the software is treated as an intangible asset by the Bank.

The Bank measures purchased software at cost less accumulated depreciation and impairment.

The cost of the purchased software is the cash or cash equivalent paid for the acquisition, at the time of the acquisition of the given asset, or the fair value of any other consideration given.

The cost of an intangible asset acquired individually includes:

- the item's purchase price, including import duties and non-recoverable sales taxes, less any discounts (trade discounts and quantity discounts); and
- costs directly attributable to the preparation of the device for its intended use.

The subsequent costs associated with the software are activated by the Bank only if they increase the future economic benefits associated with the software. All other subsequent costs are recognised as an expense at the time they are incurred.

The useful life of all software owned by the Bank is fixed. The Bank depreciates software on a straight-line basis over its expected useful life and recognises depreciation in profit or loss.

The Bank does not calculate a residual value for core software and applies a depreciation rate of 10% for these assets. In the case of non-core software, the estimated residual value is 5% and the depreciation rate is 16.67%.

The depreciation methods and useful lives are reviewed by the Bank at each reporting date and, if necessary, adjusted.

Self-funded investments

The Bank recognises various projects as self-funded investments.

In accordance with the general rule relating to intangible assets, the Bank recognises self-funded investments in its balance sheet only if they meet the requirements of identifiability, control over the resource, the existence of future economic benefits, as well as reliable measurement.
For internally produced intangible assets, as required by IAS 38, processes need to be separated into a research and a development phase. Expenditures related to research must be recognised immediately through profit or loss.
Self-funded investments must meet the following additional conditions in order to be activated as intangible assets:

a) they must be technically feasible,
b) an intention to implement must be present,
c) the technical, financial and other conditions necessary for the implementation must be available,
d) an ability to utilise the investment must be present,
e) the investment must demonstrably generate future benefits.

The costs incurred can be activated as an asset only if the conditions (a) to (e) exist concurrently and if they can be reliably measured.

In terms of the eligibility of the costs incurred, IAS 38 requires that only the costs directly incurred for the development can be recognised, such as:

- materials, services directly used by the Bank for the development,
- personnel expenses that were needed for the production.

The Bank's accounts of self-funded investments do not include expenditures related to the research phase, as the settlements for each project begin/began when the given project reaches/reached the development phase.

Of the various costs settled in relation to self-funded investments, IAS 38 only accepts the costs that were incurred directly.

For self-funded investments, the Bank applies a 10% depreciation rate.

Brand name, customer contracts

The brand name and customer contracts acquired in the business combination are recognised at fair value at the acquisition date. The customer contracts have a finite useful life and are subsequently measured at cost less impairment and accumulated amortisation. Brand names are not assets with finite useful lives and therefore are not amortized; however, they are required to be tested for impairment annually regardless of whether any impairment indicators have occurred.

4.6.9. Leases

In accordance with IFRS 16, the lessee recognises a "right of use" receivable and a lease liability in its records. The "right of use" receivable is to be recorded in the manner of other non-financial assets, and depreciation must also be recognised on it. The lease liability is to be recorded in the books as the present value of the lease payments to be made during the lease term, discounted based on the internal rate of return of the transaction. As a result of the introduction of the new standard, the Bank writes off the right of use receivables (and lease liabilities) recognised in its balance sheet over 3-5 years. Further details are provided in Note 28. Tangible assets. The Bank does not apply the standard to intangible assets.

The Bank does not act as a lessor, so the requirements of the new standard pertaining to the lessor side are not relevant.

4.6.10. Other assets

Inventories

Inventories include bank cards not yet issued, recognised at their cost or net realisable value, whichever is lower, as required under IAS 2.

- **The cost of inventories** includes all acquisition costs and conversion costs related to the inventories, and all other costs incurred by the Bank in bringing the inventories to their current location and condition.
- **The net realisable value of inventories** is the net amount expected to be realised by the Bank from the sale of inventories in the ordinary course of business.

When determining the cost value of inventories, the Bank uses the FIFO (first in, first out) method.

The Bank determines the net realisable value of inventories once a year using an estimation during year-end closing. The cost of inventories is not recovered if the inventories are damaged, if they become totally or partially obsolete, or if their selling price is reduced. The cost of inventories is also not recovered if the estimated costs of completion or the estimated costs related to their sale have increased. In these cases, the Bank writes the inventories off to their net realisable value.

- When selling inventories, their book value must be recognised as a material expense that forms part of the net operating expenses in the period in which the related income is recognised.
- The amount of any write-down of inventories to their net realisable value and the total loss of inventories must be recognised as a material expense that forms part of the net operating expenses in the period in which the write-off or loss occurs.
- Any amount arising from an increase in the net realisable value – the reversal of any earlier write-down – of inventories is to be recognised as a reduction in the amount of material expenses forming part of the net operating expenses in the period in which the reversal occurs.

4.6.11. Impairment of non-financial assets

At each reporting date, the Bank reviews the book value of its non-financial assets (excluding properties held for investment and deferred tax receivables) to determine whether there is any indication of impairment. Where impairment is indicated, the Bank estimates the recoverable value of the asset. Where there are intangible assets activated in relation to self-funded investments, the Bank reviews their book value annually, regardless of whether there is any indication of impairment.

The recoverable value of an asset or cash-generating unit is the fair value less costs of disposal or the value-in-use of the asset, whichever is higher. The value-in-use is the present value of the expected future cash flows from an asset or cash-generating unit. The present value is determined by the Bank using a pre-tax discount rate that reflects the market's current rating for the time value of money and the specific risks associated with the asset or cash-generating unit.

The Bank recognises impairment if, and only if, the recoverable value of an asset or cash-generating unit is less than its book value; in such cases, the book value of the asset or cash-generating unit is reduced to its recoverable value.

The Bank's corporate assets are assets that do not generate any cash income on their own but contribute to the future cash flows of several cash-generating units. The corporate assets are assigned to cash-generating units on a reasonable and consistent basis by the Bank. In the impairment test, the book value of the cash-generating unit, including the part of the book value of the corporate asset allocated to the given cash-generating unit, must be compared to the recoverable value.

When recognising impairment, the Bank first reduces the book value of the goodwill allocated to the cash-generating unit (group of units), then it proportionately allocates the remaining impairment loss to the other assets belonging to the unit (group of units) on the basis of the book value of each asset of the unit (group of units).

4.6.12. Provisions

A provision is recognised by the Bank if there is an existing obligation resulting from a past event, and it is probable that the fulfilment of the obligation will entail an outflow of resources representing economic benefits to third parties, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the existing obligation at the balance sheet date, taking into account the risks and uncertainties inherent in the given obligation.

If the effect of the time value of money is significant, the present value of the expenses expected to settle the obligation is recognised by the Bank as the amount of the provision. The periodic breakdown of the discount is recognised as financing cost.

The Bank creates a provision for reorganisation if it has a detailed formal plan for the reorganisation and has either started the reorganisation or has announced it to those concerned, thereby giving rise to a legitimate expectation in those concerned that it will implement the reorganisation. The reorganisation provision includes only expenditures directly related to the reorganisation that the reorganisation necessarily entails and that are not related to the Bank's continuing operations.

If the Bank has an onerous contract, it creates a provision in the present value of the loss. The Bank considers the lower of the expected costs of termination of the onerous contract and the net cost of performing the onerous contract as the expected loss on the onerous contract. Prior to determining the provision, the Bank recognises impairment for the assets related to the contract, if justified.

The Bank sets aside provisions for taxes and duties if doing so is in compliance with the rules related to the levying of taxes and duties. If the fulfilment of a minimum threshold is required to do this, the provision is recognised when the required threshold is reached.

The Bank also recognises the established expected credit loss on financial guarantees and loan commitments among provisions.

4.6.13. Financial guarantees and loan commitments

A financial guarantee agreement is a contract that requires the issuer to make specific payments to indemnify the owner for a loss resulting from the fact that a specific debtor has failed to pay at the due date in accordance with the original or modified terms of a debt instrument.

Loan commitments provide credit in an obligatory manner at a future date subject to predetermined conditions.

At initial recognition, the Bank measures the issued financial guarantees and the loan commitments that it has provided below market rates at fair value, and then this initial fair value is amortised over the term of the financial guarantee or loan commitment. In the subsequent measurement, the value of financial guarantees and loan commitments is the higher of the amounts of amortised cost and expected credit loss.
All other loan commitments are recognised by the Bank at the amount of the calculated credit loss.

4.6.14. Employee benefits

Defined contribution plans

Defined contribution plans are post-employment benefit schemes where the Bank pays a pre-determined contribution to a separate organisation (fund) without any legal or assumed obligation to pay additional contributions in case the fund's assets are not sufficient to pay all employee benefits related to the employees' employment during the current or prior period.

The Bank makes payments to the following defined contribution plans:

- pension,
- other welfare funds.

The Bank recognises the liabilities of a defined contribution plan as an expense when the related service (work) is performed. The expense is recognised by the Bank in profit or loss, under personnel expenses. Prepaid contributions are recognised by the Bank as an asset in the value of the cash refunds or future decreases in payment it expects.

Defined benefit plans

Any post-employment benefit schemes that do not qualify as a defined contribution plan are treated as a defined benefit plan by the Bank.
Currently, the Bank does not operate any such defined benefit plans.

Other long-term employee benefits

Other long-term employee benefits include items that do not become due within 12 months after the reporting date. They may include:

- long-service leave or sabbatical leave,
- jubilee or other long-service benefits,
- long-term disability benefits,
- profit-sharing, bonuses and deferred compensation.

The net liability from other long-term employee benefits reflects the amount to which the employees are entitled for their service rendered in the current or previous periods. These benefits are discounted by the Bank to their present value. The effect of their revaluation is recognised in profit or loss in the period in which it arises.

Termination benefits

The Bank recognises termination benefits as a personnel expense at the earlier of the following two dates:

- when the Bank is no longer able to withdraw its offer regarding this benefit, or
- when the Bank recognises the reorganisation costs.

If the benefit is not paid in full within 12 months after the reporting date, the Bank will discount these items.

Short-term employee benefits

Short-term employee benefits include:

- wages, salaries and social security contributions;
- paid short-term absences, if the absence is payable within twelve months of the end of the related employment service period;
- profit-sharing and bonuses, if payable within twelve months of the end of the related employment service period; and
- non-monetary benefits for current employees.

Short-term employee benefits are recognised by the Bank as personnel expenses when the related employee service is performed. The Bank will recognise a liability in the amount of the expected payment if the Bank has a legal or assumed obligation to pay the amount as a result of the employee's past service, and the obligation can be estimated reliably.

Share-based benefits

The Bank provides its employees with share-based benefits through the ESOP entity. The benefit is paid by the Bank's shareholders, but it is the Bank that receives the services as a consideration for the benefit, therefore the benefit is recognised by the Bank as a share-based payment transaction settled in equity instruments in accordance with IFRS2.43B(b). The expense or the related increase in equity is recognised in the period in which the employees render the service. When applying to transactions with employees, the Bank must determine the fair value of the services received on the basis of the fair value of the equity instruments granted, as the fair value of the services received typically cannot be determined reliably. The fair value of these equity instruments is to be determined at the date they are granted.

4.6.15. Subscribed capital and reserves

The Bank divides its equity in the balance sheet as follows:

(i.) Subscribed capital
(ii.) Capital reserve
(iii.) Profit reserve
(iv.) Other reserves
(v.) Cumulative other comprehensive income

Cumulative other comprehensive income reflects the cumulative fair value changes and impairment losses of financial assets measured at fair value through other comprehensive income (FVOCI).

4.6.16. Consolidation

4.6.16.1. Consolidation of subsidiaries

Subsidiaries, i.e. companies in which the Bank Group holds more than 50% of the voting rights or whose financial and operating policies are controlled by it in any other way, are consolidated.

Subsidiaries are consolidated from the date on which their control is obtained by the Bank Group (or when the subsidiary is established) and are excluded from consolidation upon the termination of such control. This date may also occur in the course of the year, that is, the exact date of obtainment (or establishment) must be taken into account.

The consolidated financial statements include the profit or loss of the subsidiary's operations from the date on which the acquisition (or establishment) took place, that is, after the control over the acquired subsidiary is actually transferred to the buyer, in which case the profit and loss statement of the subsidiary is to be split between the two periods.

Companies within the Bank Group are required to apply the single accounting policy when preparing their financial statements. If any companies do not apply a single accounting policy, this fact must be indicated in the consolidated financial statements, and the differences must be disclosed. Where there are material differences and their impact on the consolidated financial statements is significant, the differences caused by the different accounting policies in each balance sheet and profit or loss line must be explained. The Bank does not apply any significant differences in its consolidated financial statements from the accounting policies of the Bank Group companies.

4.6.16.2. Capital consolidation

During capital consolidation the book value of the parent company's investment in each subsidiary and the parent company's share in the equity of each subsidiary is eliminated.

The acquisition of a subsidiary is recognised in accordance with the accounting policy for acquisitions. The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.
The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired

is recorded as goodwill.
If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Loss of control: a reduction in ownership interest in a subsidiary that results in a loss of control necessitates a reassessment of the fair value of the remaining interest. If a subsidiary is removed from the consolidation circle, the amount of the remaining interest in the subsidiary must be measured at fair value. The difference between the fair value and the book value is the gain or loss on the derecognition of the interest that is to be recognised through profit or loss. Accordingly, the parent company may only realise any gain or loss on subsequent capital acquisitions of a subsidiary during disposal. The parent company is required to remove a subsidiary from the consolidation when it ceases to have control over it.

4.6.16.3. Debt consolidation of subsidiaries

Transactions and balances, and unrealised profits and losses on the transactions between members of the Bank Group are eliminated.

The receivables, liabilities, accruals, deferrals and provisions existing between the companies involved in the consolidation must be eliminated.

Assets and liabilities of the same title, if their amount is equal, must be derecognised from the preliminary balance sheet against one another.
If their amount is not the same, then of the amount of the difference

- an amount equal to the difference from the previous year must be recognised as a change in equity (profit reserve),
- the amount of the difference between the differences of the current year and the previous year must be recognised in the consolidated income statement as an item adjusting the profit or loss.

Based on the principle of materiality and economy, it is not necessary to carry out the consolidation of the debt with respect to items that do not materially affect the assessment of the Bank's true equity and financial position.

4.6.16.4. Profit and loss consolidation of subsidiaries

Assets acquired from entities belonging to the Bank Group must be recognised in the consolidated balance sheet at the value at which they could have been recognised in the annual balance sheet if the companies legally constituted a single company together.

In order to achieve the above, their interim profit or loss content must be eliminated from the balance sheet value of these assets. If the interim profit or loss eliminated in the current year and the previous year is not the same, then

- the amount of interim profit or loss eliminated in the previous year must be recognised as a change in the Bank's equity (profit reserve),
- and the change in volume (the difference between the eliminated interim profit or loss of the current year and the previous year) must also be recognised in the consolidated income statement as a change in profit or loss.

It is not necessary to consolidate any interim profit or loss that does not significantly affect the assessment of the Bank Group's situation.

4.6.16.5. Income and expense consolidation of subsidiaries

Besides eliminating debts and interim profits or losses generated (from intercompany transactions) within the Bank Group, costs, expenditures and revenues generated within the Bank Group must be consolidated. The purpose of consolidation is to compile an income statement that does not include any accumulation.
During the compilation of the consolidated income statement the following must be eliminated:

- the amount of revenues resulting from the delivery of goods, rendering and use of services between undertakings included in the consolidation, as well as the amount of the related expenditure and direct costs,
- items arising from other business relationships between such companies that are recognised under other income, financial income or extraordinary income or expense in the stand-alone income statement.

4.6.16.6. Deferred tax difference resulting from consolidation

As a final step in the consolidation process, the amount of the deferred tax difference resulting from the consolidation must be determined. In the course of this, the amount of pre-tax profits or losses in the individual accounts are to be compared to the amount of pre-tax profit or loss adjusted as a result of the consolidation (i.e. Bank Group level pre-tax profit or loss).

Of this difference, corporate income tax must be calculated for the amount expected to be balanced out during subsequent years. If the amount of the corporate income tax calculated on the basis of the consolidated income statement is lower than the sum of the amounts of corporate income tax from the individual financial statements, the difference must be recognised as deferred tax receivable arising from consolidation and as a reduction in corporate tax expense.

In the opposite case, the amount of corporate income tax expense must be increased, while simultaneously recognising it as an increase in deferred tax liabilities arising from consolidation. In the consolidated income statement the deferred tax difference arising from consolidation is to be added to the amount of the total deferred tax arising from the stand-alone financial statements.

4.6.17. Restatement of comparative figures in the income statement

In the consolidated income statement for 2021, in the share of profit after tax attributable to the owners of the parent company, the Bank erroneously stated only the relevant data of the subsidiary that was included in the consolidation circle. In its consolidated financial statements for 2022, the Bank has amended the previous year's erroneous disclosure as follows:

Data in HUF millions

	2021 restated	2021 original	Impact
Share of parent company's owners in profit after tax	3,894	25	3,869

4.6.18. Reclassification of comparative figures in the income statement

The Bank has made the following reclassifications in respect of the comparative figures for net interest and similar income in the income statement:

- Interest income on loans and securities measured at fair value through profit or loss was previously reported by the Bank under interest income based on the effective interest rate method, whereas these should be presented under other interest income. This year the Bank has revised the classification and reclassified the comparative figures for the previous year.

	2021 reclassified	2021 original	Impact
Interest income based on the effective interest method	10,552	12,878	(2,326)
Other interest income	4,150	1,823	2,326

4.6.19. Standards and interpretations that became effective during the present reporting period

Standards and interpretations that became effective during the present reporting period

As of 1 January 2022, a number of new amendments entered into effect without any material impact on the Bank's financial statements.

- Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)
- Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Annual Improvements to IFRS Standards 2018-2020 Cycle.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to the Conceptual Framework (Amendments to IFRS 3).

4.6.20. Future changes to the accounting policy

New and amended but not yet effective standards and interpretations issued by the IASB and adopted by the EU

The following new and revised standards are not expected to have a material impact on the Bank's financial statements.

- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Defining Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)
- IFRS 17 Insurance Contracts (issued on 18 May 2017) including Amendments to IFRS 17 Insurance Contracts (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

Standards and interpretations not referred to above are not expected to have a material impact on the Bank's financial statements, exceot for change of IAS 1 in relation to Disclosure of Accounting Policies. Due to this change the Bank will revisit all disclosed accounting policies and remove those, which are not material for the Group.

Standards and interpretations issued by the IASB but not adopted by the EU

- Amendment to IAS 1 Presentation of Financial Statements:
- Classification of Liabilities as Current or Non-current (issued on 23 January 2020)
- Classification of Liabilities as Current and Non-current – Deferral of Effective Date (issued on 15 July 2020) and
- Non-current Liabilities with Covenants (issued on 31 October 2022)
- Amendment to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued 22 September 2022)

The implementation of the above amendments, new standards and interpretations would not significantly affect the Bank's annual financial statements in the period of first application.

5. NET INTEREST AND SIMILAR INCOME

Data in HUF millions

	2022	2021 reclassified
Interest income based on the effective interest method		
Interest income on financial assets measured at fair value through other comprehensive income	2,426	691
Interest income on financial assets measured at amortised cost	35,612	9,905
Total interest income based on the effective interest rate method	**38,038**	**10,596**
Interest income on financial assets held for trading	13,753	2,313
Interest income on financial assets designated as measured at fair value through profit or loss	5,298	1,633
Interest income on financial assets obligatorily measured at fair value through profit or loss, not for trading	458	208
Other	50	-5
Total other interest income	**19,559**	**4,149**
Total interest and similar income	**57,597**	**14,745**
Interest expense based on the effective interest method		
Interest expense on financial liabilities measured at amortised cost	25,828	4,116
Total interest expense based on the effective interest rate method	**25,828**	**4,116**
Other interest expense		
Interest expense on financial liabilities held for trading	7,026	1,869
Total other interest expense	**7,026**	**1,869**
Interest expenses	**32,854**	**5,985**
Total net interest and similar income	**24,743**	**8,760**

Total interest and similar income has significantly increased compared to prior year due to increased interest earning balances and interest rate hikes in 2022 (see more details in Note 3).

6. NET FEE AND COMMISSION INCOME

Data in HUF millions

	2022	2021
Investment services	744	121
Custody services	38	34
Loan and guarantee fees	20	0
Cash flow and account management	2,051	1,435
Bank card services	622	458
Other	121	161
Total fee and commission income	**3,596**	**2,209**
Investment services	104	0
Custody services	62	31
Loan and guarantee fees	0	13
Brokerage commission	3	7
Cash flow and account management	933	32
Bank card services	132	127
Other	16	33
Total fee and commission expense	**1,250**	**243**
Net fee and commission income	**2,346**	**1,966**

Lump sum fees related to the origination of loans are part of the interest calculated with the effective interest method, so they are recognised under interest and similar income and expense over the life of the loan or receivable.

7. GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Data in HUF millions

	2022	2021
Gains or (-) loss from financial assets and liabilities held for trading, net	19,733	7,297
- profit from securities held for trading	122	-115
- net profit from derivatives held for trading	19,623	7,190
- profit or loss from loans held for trading	-12	222
Net profit or loss (-) from financial assets obligatorily measured at fair value through profit or loss, not for trading	-1,029	-149
Net profit or loss (-) from financial assets designated as measured at fair value through profit or loss	-19,799	-5,900
Total net profit from financial instruments measured at fair value through profit or loss	**-1,095**	**1,248**

Financial assets

The net profit/loss from financial assets obligatorily measured at fair value through profit or loss, not held for trading, include the profit impact of changes in the fair value of loans that failed the SPPI test. The net earnings figure was largely the result of the follow-up fair value measurement of "babaváró" loans. Additional information related to the valuation is provided in Note 23. Fair valuation of financial instruments. The interest income from these instruments is recognised in the interest income line.

The profit/loss from financial assets designated as measured at fair value through profit or loss include changes in the fair value of fixed-rate customer loans and securities to which IRSs treated as hedges from an economic point of view are related. The FVTPL designation is intended to reduce the otherwise existing accounting mismatch. Additional information related to the valuation is provided in Note 23. Fair valuation of financial instruments. The Bank recognises the interest income of the designated assets in its interest income.

Derivatives

The net result on derivatives mainly includes the fair value result of interest rate swaps entered into to economically hedge the interest rate risk on fixed-rate loans to customers and securities.

8. PROFIT OR LOSS FROM FINANCIAL INSTRUMENTS NOT CLASSIFIED AS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Data in HUF millions

	2022	2021
Impairment of securities measured at fair value through other comprehensive income	0	-1
Profit realised from the sale of securities measured at fair value through other comprehensive income	216	-16
Total net profit from financial instruments not classified as measured at fair value through profit or loss	**216**	**-17**

Profit or loss from loans not classified as measured at fair value through profit or loss is recognised by the Bank in the Credit gains and losses line.

9. OTHER INCOME AND EXPENSES

Data in HUF millions

	2022	2021
Intermediated services	9	14
Marketing support	119	0
Income from insurer	38	2
Other operating income	149	185
Total other operating income	**315**	**223**

	2022	2021
Taxes	80	47
Authority fees	546	190
Resolution Fund	349	500
Claim Settlement Fund	35	29
Other operating expenses	84	288
Disposal of a subsidiary	47	0
Net profit or loss (-) from the derecognition of non-financial assets	11	2
Total other expenses	**1,152**	**1,056**

10. CREDIT GAINS AND LOSSES

Data in HUF millions

Item	**2022**	**2021**
Individual impairment on loans (net)	54	150
Collective impairment on loans (net)	263	45
Management overlay (net)	0	50
Total credit impairment	**317**	**245**
Collective impairment of securities held at amortised cost	4	24
Securities measured at fair value through other comprehensive income	-1	1
Collective impairment of securities	**3**	**25**

Data in HUF millions

Item	2022	2021
Other (write-offs, recovery from write-offs, impairment of other assets, etc.)	89	0
Total credit gains and losses	**410**	**271**
Provisioning or (-) release of provisions	**172**	**51**

In addition to the impairment loss derived from the impairment model, the Bank also created a portfolio-level management overlay of HUF 50 million in 2021 for transactions classified as riskier within the portfolio. The Bank considers as riskier those transactions that are either special credit exposures, or have a subjective Stage2 rating at year-end (predominantly customers under moratorium), or balloon/bullet transactions. The overlay remains in unchanged amount as at 31.12.2022.

For further information on changes in profit or loss from impairment and provisioning, see Note 39.7.

11. GAIN OR LOSS DUE TO MODIFICATION

Loan repayment moratorium

The economic loss in the Bank's books in connection with the moratorium ending on 31.12.2022 was HUF 80 million on 31.12.2022 as compared to HUF 98 million on 31.12.2021, i.e. the impact on profit or loss was HUF 18 million this year.

Agricultural moratorium

The Bank recognised an economic loss of HUF 29 million in profit or loss in connection with the agricultural moratorium introduced this year.

Interest rate freeze

The Bank recognised an economic loss of HUF 106 million in this year's profit (HUF 21 million in the previous year) in connection with the interest rate freeze on retail transactions, while the loss recognised in connection with the interest rate freeze on SME transactions introduced this year amounted to HUF 579 million.

12. PERSONNEL EXPENSES

Data in HUF millions

Average number of personnel	**2022**	**2021**
Knowledge workers	277	210
Physical workers	0	0
Management	10	6
Average number of employees in total	**287**	**216**

	2022	**2021**
Wage costs	3,486	1,913
Other expenditure related to personnel	377	105
Share based payments	162	71
Social contribution	415	322
Vocational training contribution	0	24
Rehabilitation contribution	20	12
Total gross personal expenses	**4,460**	**2,447**

13. GENERAL ADMINISTRATIVE COSTS

Data in HUF millions

	2022	2021
Material costs	104	52
Bank card service	730	559
IT costs	800	478
Property rentals	18	14
Advertising, commercials	863	510
Membership fees	9	10
Education, further training	16	9
Information line rental	106	85
Expert fees	712	731
Insurance	11	6
Other rentals	16	3
Other non-material services	164	67
Transaction levy	1,057	503
Special bank tax	1,122	757
Office maintenance	170	116
Telecommunication	16	11
Other operating costs	186	276
Extra profit tax	1,303	0
Other general administrative costs	**7,403**	**4,187**

Bank tax

The Bank paid HUF 1,122 million in bank tax in 2022 (HUF 757 million in 2021). The tax base was HUF 573,536 million for 2022 and HUF 398,168 million for 2021. The effective tax rate was 0.2% in 2022 (0.2% in 2021).
In the case of credit institutions, the tax base in 2022 is the balance sheet total according to IFRS as at 31 December 2020 (in 2021, it was the IFRS balance sheet total as at 31 December 2019). In 2022 (and in 2021) the applicable tax rate was 0.15% for the part of the tax base below HUF 50,000 million and 0.20% for the part above HUF 50,000 million.

The tax base of the bank tax imposed on the Bank in 2023 is the IFRS balance sheet total as at 31 December 2021, the tax base was HUF 685,758 and the amount of the tax is expected to be HUF 1,347 million. The Bank's 2023 obligation arises on 1 January 2023.

Extra profit tax

During the year, the extra profit tax for credit institutions was introduced by Government Decree 197/2022 (4.VI.).
The Bank paid HUF 1,303 million in extra profit tax in 2022. The tax base is HUF 13,029 million.
For credit institutions, the taxable base in 2022 is the net turnover as at 31 December 2021, determined in accordance with the Local Taxes Act. The applicable tax rate is 10%.

The base of the extra profit tax prescribed for the Bank in 2023 is the net turnover as at 31 December 2022, determined in accordance with the Local Taxes Act, i.e. HUF 28,236 million, and the amount of the tax, at a rate of 8%, is expected to be HUF 2,259 million. The Bank's 2023 obligation arises on 1 January 2023.

14. INCOME TAX

The components of income tax for 2022 and 2021 are as follows:

Data in HUF millions

	2022	2021
Corporate tax	1 182	358
Local taxes	767	301
Deferred tax	- 29	40
Total	**1,920**	**699**

Corporate tax expense
In 2022 the corporate income tax was 9% on annual profits (also 9% in 2021).
Due to their non-sales nature, local taxes are part of the income tax in the income statement. The local tax includes business tax and innovation tax.
In Hungary there is no agreement on the determination of taxes that would be final from a legal point of view. Within six years of the tax year, the tax authority may review the accounting records at any time and may adjust the tax imposed. Consequently, in the case of a tax authority audit, a tax adjustment may also occur at the Bank. The tax authority reviewed and closed the corporate tax returns of the Bank until 2010, and it also reviewed and closed the Bank's 2015, 2017 and 2018 tax returns. The management is unaware of the existence of any significant tax liability arrears that could arise in years not yet audited by the tax authority.
The effective tax rate applied to the Bank's profit differs from the statutory requirement on account of the following items:

Data in HUF millions

	2022	2021
Profit before tax	**13 758**	**4,609**
Corporate tax rate (%)	**9%**	**9%**
Calculated corporate tax	1 238	415
Tax implications		
Calculated corporate tax	1 238	415
Local taxes	767	301
Other	- 85	17
Income taxes	**1 920**	**699**
Effective tax rate (%)	13,96%	15.17%

15. CASH AND CASH EQUIVALENTS

Data in HUF millions

	31.12.2022	31.12.2021
Cash	536	321
Account receivables from central banks	28,913	3,568
Restricted cash	27,597	0
Other demand deposits	26,244	11,753
Cash and cash equivalents	**83,290**	**15,642**

The restricted cash balance comprises client funds shown among the liquid assets of Equilor Befektetési Zrt.

16. RECEIVABLES FROM THE MNB AND INTERBANK PLACEMENTS

Data in HUF millions

	31.12.2022	31.12.2021
Receivables from the MNB	280,196	165,142
Interbank placements	49,513	26,666
Total interbank receivables	**329,709**	**191,808**

17. SECURITIES

Data in HUF millions

	31.12.2022	31.12.2021
Discount treasury bills	10,633	26,408
Government securities	0	1
Total debt securities	**10,633**	**26,409**
Financial assets held for trading	**10,633**	**26,409**
Credit institution shares	8	10
Other shares	33	11
Corporate bonds	19	33
Financial assets obligatorily measured at fair value through profit or loss	**60**	**54**
Corporate bonds	49,565	36,636
Bank bonds	5,517	4,969
Total debt securities	**55,082**	**41,605**
Financial assets designated as measured at fair value through profit or loss	**55,082**	**41,605**
Equity instruments	**16**	**116**
Government securities	6,930	10,432
Bank bonds	27,918	29,535
Total debt securities	**34,848**	**39,967**
Financial assets measured at fair value through other comprehensive income	**34,864**	**40,083**
Government securities	129,117	110,205
Corporate bonds	0	17,141
Bank bonds	60,280	1,015
Financial assets measured at amortised cost	189,397	128,360
Total	**290,036**	**236,510**

Securities designated as measured at fair value through profit or loss are fixed-interest-rate securities whose interest rate risk is, from an economic point of view, hedged by the Bank with IRSs.
The FVTPL designation is intended to reduce an otherwise existing accounting mismatch. In addition to bank bonds, the portfolio as at 31 December 2022 includes premium corporate bonds purchased within the framework of the Bond Funding for Growth Scheme (BGS) launched by the MNB in 2019, in an amount of 29,696 (in 2021: HUF 35,578 million).

In the case of shares measured at fair value through other comprehensive income, not held for trading, the management has made an irrevocable decision at initial recognition to recognise the change in the fair value of these instruments in other comprehensive income instead of profit or loss. The decision primarily aims to represent the business objective that these shares are not held by the Bank for trading purposes, but rather in an ancillary manner, relating to banking activities.

This category includes the following shares on 31.12.2022:

- Garantiqa Hitelgarancia Zrt. (0.1276%)
- MKB-Pannónia Alapkezelő Zrt. (2%)

This category included the following shares on 31.12.2021:

- CO-OP HITEL Zrt. (6,71%)
- Garantiqa Hitelgarancia Zrt. (0,1276%)
- MKB-Pannónia Alapkezelő Zrt. (2%)

The fair value of the shares listed above cannot be reliably established, as there is no active market for these shares. In the opinion of the Management, the cost of the investments equates approximately to their fair value.

On 31.12.2022 an impairment loss of HUF 2 million (HUF 3 million as at 31 December, 2021) was recognised for securities measured at fair value through other comprehensive income (for details, see: Note 20).

Please refer to Note 21 for impairment information and Note 25 for fair value information. Also see additional information in Note 40 Risk management.

18. DERIVATIVE FINANCIAL INSTRUMENTS

Data in HUF millions

31.12.2022	Nominal value, assets	Nominal value, liabilities	Positive fair value (assets)	Negative fair value (liabilities)
MIRS	15,939	0	4,554	0
IRS	0	14,225	0	3,457
Other	858	83,274	92	1,670
Total derivatives held for trading	**16,797**	**97,499**	**4,646**	**5,127**
IRSs covering the interest rate risk of securities	32,002	0	5,851	0
IRSs covering the interest rate risk of BGS corporate bonds	47,460	0	16,169	0
IRSs covering the interest rate risk of loans	62,484	0	9,938	0
Total derivative transactions for fair value hedging from an economic point of view	**141,946**	**0**	**31,958**	**0**
Total derivative financial instruments	**158,742**	**97,499**	**36,604**	**5,127**

31.12.2021	Nominal value, assets	Nominal value, liabilities	Positive fair value (assets)	Negative fair value (liabilities)
MIRS	15,939	0	2,123	0
IRS	0	14,225	0	993
Other	21,445	2,286	159	18
Total derivatives held for trading	**37,384**	**16,511**	**2,282**	**1,011**
IRSs covering the interest rate risk of securities	6,002	800	526	6
IRSs covering the interest rate risk of BGS corporate bonds	42,060	0	4,702	0

IRSs covering the interest rate risk of loans	13,499	1,700	1,209	1
IRSs covering portfolio-level interest rate risk	7,500	0	622	0
Total derivative transactions for fair value hedging from an economic point of view	**69,061**	**2,500**	**7,060**	**8**
Total derivative financial instruments	**106,445**	**19,011**	**9,342**	**1,019**

Derivatives for trading

MIRS transactions have been introduced by the MNB, for monetary policy purposes – they are unconditional interest rate swaps with a general scope.

Derivatives held, from an economic point of view, for hedging purposes

Derivatives held, from an economic point of view, for hedging purposes are entered into by the Bank to cover the interest rate risk of fixed-interest customer loans and securities (government securities, bank bonds and corporate bonds purchased under the Bond Funding for Growth Scheme). The Bank does not apply hedge accounting to these transactions, but has designated the underlying transactions as measured at fair value through profit or loss to reduce an otherwise existing accounting mismatch.

19. LOANS AND ADVANCES TO CUSTOMERS

Data in HUF millions

	31.12.2022	**31.12.2021**
Held-for-trading loans	371	402
Customer receivables obligatorily measured at fair value through profit or loss	10,919	7,338
Customer receivables designated as measured at fair value through profit or loss	36,130	16,241
Exposure of customer receivables measured at amortised cost	261,180	201,598
Impairment (-)	-701	-394
Portfolio-level overlay (-)	-50	-50
Modification loss (-)	-80	-98
Net exposure of customer receivables held at amortised cost	260,349	201,056
Total customer receivables	**307,769**	**225,037**

Held-for-trading loans

Among held-for-trading customer receivables, the Bank recognises purchased receivables that were purchased in 2019 at a discounted price for sale.

Customer receivables obligatorily measured at fair value through profit or loss

Customer receivables obligatorily measured at fair value through profit or loss are customer loans that, based on their business model, would be measured at amortised cost, but as shown by the SPPI test their cash flows do not consist exclusively of principal and interest payment components, so even after their initial recognition they continue to be recognised by the Bank at fair value, and changes in their fair value are recognised through profit or loss. Loans that have failed the SPPI test can be categorised as follows:

- Loans with family housing allowance “CSOK” subsidies for which the subsidy also includes a non-market-based component
- MFB refinanced loans in the case of which the loans are denominated in EUR but repayments are made in HUF, and therefore the transactions also entail a currency risk
- “Babaváró” loans, for which the interest rate scheme also includes a non-market-based component (a scheme launched in 2019; the Bank did not yet have any such transaction on its books in the previous years)

Customer receivables designated as measured at fair value through profit or loss

Customer receivables designated as measured at fair value through profit or loss are fixed-interest-rate loans whose interest rate risk is hedged by the Bank with IRSs. The FVTPL designation is intended to reduce an otherwise existing accounting mismatch (the Bank does not apply hedge accounting to these transactions).

Customer receivables measured at amortised cost

The portfolio of loans held at amortised cost includes HUF 7,916 million of transactions financed in the framework of the MNB's Funding for Growth Scheme (NHP Program I and II), the initial fair value of which differs from the transaction price, and the difference is deferred by the Bank over the life of the transactions. As a result of the amortisation of the related effective interest rate, the settlement has no overall impact on profit. The deferred initial difference is HUF 5,614 million and the amount not yet amortised is HUF 386 million. For subsequent NHP schemes, the Bank did not identify any initial fair value difference.

Loans held at amortised cost include receivables of HUF 1,177 million purchased in 2019.

Loans held at amortised cost also include receivables purchased in 2021 for an amount of HUF 78 million. The total amount of the portfolio purchased at discount (discount price) was HUF 6,395, of which the Bank sold a sub-portfolio of HUF 6,144 million during 2021. The remaining portfolio was classified by the Bank into the business model of holding transactions to collect contractual cash flows and therefore subsequently measured at amortised cost.

20. IMPAIRMENT OF FINANCIAL INSTRUMENTS, PROVISIONS (BALANCE SHEET)

Data in HUF millions

31.12.2022	Gross exposure		Allowance/provisions		Net exposure	
	Receivables	Guarantees/Undrawn lines	Allowance	Provision	Receivables	Guarantees/Undrawn lines
Customer loans measured at amortised cost						
Retail segment	26,872	4,648	74	18	26,798	4,630
Corporate segment	151,223	39,456	221	126	151,002	39,330
Other financial corporate segment	67,493	25,670	69	5	67,424	25,665
Project loans	55,200	12,655	272	5	54,928	12,650
Local municipalities	128	0	0	0	128	0
Non-profit segment	1,204	398	3	0	1,201	398
State segment	33,417	7,000	62	0	33,355	7,000
Total customer loans measured at amortised cost	**335,537**	**89,827**	**701**	**154**	**334,836**	**89,673**
Securities measured at amortised cost						
Other financial corporate segment	0	0	0	0	0	0
Bank segment	110,673	0	0	0	110,673	0
State segment	128,972	0	37	0	128,935	0
Total securities measured at amortised cost	**239,645**	**0**	**37**	**0**	**239,608**	**0**
Securities measured at fair value through other comprehensive income						
Other financial corporate segment	6	0	0	0		
Bank segment	27,557	0	0	0	27,557	0
State segment	6,146	0	2	0	6,144	0
Total securities measured at fair value through other comprehensive income	**33,709**	**0**	**2**	**0**	**33,701**	**0**
Interbank placements						
Interbank placements	275,005	0	0	0	275,005	0
Total interbank placements	**275,005**	**0**	**0**	**0**	**275,005**	**0**

31.12.2021	Gross exposure		Allowance/provisions		Net exposure	
	Receivables	Guarantees/Undrawn lines	Allowance	Provision	Receivables	Guarantees/Undrawn lines
Customer loans measured at amortised cost						
Retail segment	21,928	1,413	53	12	21,875	1,401
Corporate segment	97,215	23,437	99	45	97,116	23,392
Other financial corporate segment	25,862	29,992	48	1	25,814	29,991
Project loans	47,984	6,511	173	7	47,811	6,504
Local municipalities	241	0	0	0	241	0
Non-profit segment	671	0	1	0	670	0
Bank segment	192,170	0	8	0	192,162	0
State segment	4,739	2,529	10	0	4,729	2,529
Total customer loans measured at amortised cost	**390,810**	**63,882**	**392**	**65**	**390,418**	**63,817**
Securities measured at amortised cost						
Other financial corporate segment	0	0	0	0	0	0
Bank segment	17,141	0	0	0	17,141	0
State segment	111,251	0	32	0	111,219	0
Total securities measured at amortised cost	**128,392**	**0**	**32**	**0**	**128,360**	**0**
Securities measured at fair value through other comprehensive income						
Bank segment	29,535	0	0	0	29,535	0
State segment	10,432	0	3	0	10,429	0
Total securities measured at fair value through other comprehensive income	**39,967**	**0**	**3**	**0**	**39,964**	**0**
Interbank placements						
Interbank placements	192,170	0	8	0	192,162	0
Total interbank placements	**192,170**	**0**	**8**	**0**	**192,162**	**0**

The securities measured at fair value through other comprehensive income lines do not include shares classified in this category as they are not subject to impairment.

In addition to existing impairment and provisions, the Bank created a portfolio-level management overlay of HUF 50 million in 2021, and the amount of the overlay remained unchanged in 2022. Further information on the overlay is presented in Note 10. Credit gains and losses.

21. LIABILITIES TO THE MNB AND CREDIT INSTITUTIONS

Data in HUF millions

	31.12.2022	31.12.2021
Funding for Growth Scheme (NHP)	83,947	85,279
MNB refinancing loan	131,665	131,665
Interest rate swap collateral account	4,086	1,446
Liabilities to the MNB	**219,698**	**218,390**
EXIM	9,624	4,180
FHB	4,700	2,787
MFB	14,962	24
interbank deposits	43,558	21,882
Liabilities to credit institutions	**72,844**	**28,873**
- of this, measured at amortised cost	72,844	28,849
- of this, designated as measured at fair value through profit or loss	0	24

Funding for Growth Scheme (NHP) line in the portfolio of liabilities to the MNB includes HUF 7,916 million of refinancing received in the framework of the MNB's Funding for Growth Scheme (FGS I, II), the initial fair value of which differs from the transaction price, and the difference is deferred by the Bank over the life of the transactions. As a result of the amortisation of the related effective interest rate, the settlement has no overall impact on profit. The deferred initial difference is HUF 5,614 million and the amount not yet amortised is HUF 386 million. For subsequent NHP schemes, the Bank did not identify any initial fair value difference. The liability shown under the FGS line includes HUF 65 billion of loans taken out under the FGS Go! scheme.

The FGS line under Liabilities to the MNB also includes so-called synthetic EUR transactions in an amount of HUF 1,099 million, created with the consolidation of HUF funds drawn under the Funding for Growth Scheme and related CCIRS transactions (foreign exchange rate swaps) concluded with the MNB.

The liability shown in the refinancing loan to the MNB line includes funds raised under the MNB's fixed-interest secured loan tender with a maturity of 5 years.

Refinancing loans

The Bank entered into several refinancing credit line agreements with various financial institutions (FHB – Jelzálogbank, MFB – Fejlesztési Bank; EXIM Bank) to finance part of its activities. The definition of eligible beneficiaries, and the monitoring of the final borrowers and the repayment process are governed by a number of contractual provisions. All credit risks related to the final borrower are borne by the Bank in all cases, and the Bank is also responsible to ensure compliance with all obligations.

In 2013 the National Bank of Hungary (MNB) launched a new programme under the name Funding for Growth Scheme. The aim of the programme is to offer refinancing to small and medium-sized enterprises (SMEs) through the Hungarian banking system. For a temporary period and up to a specified amount, the MNB provides credit institutions participating in the programme with funds at a lower interest rate than the market rate. The credit institutions use these funds to extend loans with similarly favourable conditions to SMEs for specific purposes. The maximum term of the refinancing loans is 10 years at the start and is consistent with the maturity of the loan granted to the customer. In order to mitigate the negative economic impact of the coronavirus epidemic and to avoid credit market disruptions, the MNB launched the FGS Go! scheme on 20 April 2020 with a HUF 1,500 billion budget, which was increased by HUF 1,000 billion to HUF 2,500 billion through the Monetary Council's decision of 17 November 2020. Under this scheme, the central bank provides refinancing loans to credit institutions at 0% interest for a maximum maturity of 20 years, which they will, on the one hand, lend further to the SME sector in the form of loans or financial leases at a capped annual cost, and, on the other hand, use for refinancing financial enterprises for the same purpose. Refinancing loans are recognised in the balance sheet as financial liabilities held at amortised cost.

The National Bank of Hungary (MNB) introduced a fixed-interest secured loan transaction from 25 March 2020 until withdrawal, the purpose of the monetary tool being to ensure liquidity at longer maturities. The interest rate on the loan is the fixed interest rate published in the tender notice, while interest payments are due quarterly. Possible maturities of the loans are 3 months, 6 months, 12 months, 3 years and 5 years; the Bank took out loans with a maturity of 5 years.

The management of the Bank thinks it is in full compliance with the covenants related to the loans taken out as at 31 December 2022 (and at 31 December 2021).

22. LIABILITIES TO CUSTOMERS

Data in HUF millions

	31.12.2022	31.12.2021
Demand deposits	322,862	248,575
within 3 months	328,907	138,525
Over 3 months, within 1 year	35,126	13,451
between 1 year and 5 years	8,001	608
between 5 years and 10 years	3,796	228
between 10 years and 15 years	212	0
more than 15 years	0	0
Total liabilities to customers	**698,904**	**401,388**

The Bank recognises its liabilities to customers at amortised cost, and has no liability to customers that it has designated as measured at fair value through profit or loss.

23. ISSUED BONDS

In 2022, the Bank repurchased 52,500 bonds of subordinated loan capital issued on 29 March 2019 with a nominal value of HUF 100,000 each, with a total nominal value of HUF 5,250 million, i.e. five billion one hundred and fifty million forints, constituting additional Tier 1 capital of GRÁNIT 2019/A bonds before maturity.

Data in HUF millions

	31.12.2022	31.12.2021
Par value of issued bonds	0	5,250
Accrued interest	0	2
Issued bonds	**0**	**5,252**

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Data in HUF millions

31.12.2022	Fair value				
	Level 1 input	Level 2 input	Level 3 input	Total fair value	Book value
Assets					
Cash and cash equivalents	536	82,754		83,290	83,290
Receivables from the MNB		280,196		280,196	280,196
Interbank placements		49,513		49,513	49,513

Securities	116,332	95,174	49,658	261,164	290,036
- of which:					
Held-for-trading securities	*5,518*	*5,115*	*0*	*10,633*	*10,633*
Securities obligatorily measured at fair value through profit or loss, not held for trading	*40*	*0*	*20*	*60*	*60*
Securities designated as measured at fair value through profit or loss	*3,385*	*2,076*	*49,622*	*55,082*	*55 .82*
Securities measured at fair value through other comprehensive income	*9,806*	*25,042*	*16*	*34,864*	*34,864*
Securities measured at amortised cost	*97,583*	*62,941*	*0*	*160,524*	*189,397*
Derivative financial assets		36,603		36,603	36,603
Loans and advances to customers			268,721	268,721	288,196
- of which:					
Held-for-trading customer receivables			*375*	*375*	*371*
Customer receivables obligatorily measured at fair value through profit or loss, not for trading			*10,916*	*10,916*	*10,919*
Customer loans designated as measured at fair value through profit or loss			*36,130*	*36,130*	*36,130*
Customer loans measured at amortised cost			*221,300*	*221,300*	*240,775*
Liabilities					
Liabilities to the MNB		4,086	198,587	202,674	219,698
Liabilities to credit institutions		43,558	6,011	49,569	57,844
Liabilities to customers		24,556	672,905	697,461	698,923
Derivative financial liabilities		5,127		5,127	5,127

Data in HUF millions

31.12.2021	**Fair value**				
	Level 1 input	**Level 2 input**	**Level 3 input**	**Total fair value**	**Book value**
Assets					
Cash and cash equivalents	15,642			15,642	15,642
Receivables from the MNB		165,142		165,142	165,142
Interbank placements		26,666		26,666	26,666
Securities	135,964	53,027	35,728	224,719	236,510
- of which:					
Held-for-trading securities	*19,623*	*6,786*		*26,409*	*26,409*
Securities obligatorily measured at fair value through profit or loss, not held for trading	*21*	*0*	*33*	*53*	*53*
Securities designated as measured at fair value through profit or loss	*5,461*	*566*	*35,578*	*41,605*	*41,605*
Securities measured at fair value through other comprehensive income	*10,381*	*29,586*	*116*	*40,083*	*40,083*
Securities measured at amortised cost	*100,479*	*16,090*		*116,568*	*128,360*
Derivative financial assets		9,342		9,342	9,342
Loans and advances to customers			217,854	217,854	225,037

- of which:				
Held-for-trading customer receivables		*402*	*402*	*402*
Customer receivables obligatorily measured at fair value through profit or loss, not for trading		*7,338*	*7,338*	*7,338*
Customer loans designated as measured at fair value through profit or loss		*16,241*	*16,241*	*16,241*
Customer loans measured at amortised cost		*193,873*	*193,873*	*201,056*
Liabilities				
Liabilities to the MNB	195,095		195,095	218,390
Liabilities to credit institutions	27,220		27,220	28,873
- of which:				
Financial liabilities designated as measured at fair value through profit or loss	*24*		*24*	*24*
Financial liabilities measured at amortised cost	*27,196*		*27,196*	*28,849*
Liabilities to customers		401,292	401,292	401,388
Derivative financial liabilities	1,019		1,019	1,019
Issued bonds	5,252		5,252	5,252

Fair value of financial instruments

Financial instruments measured at fair value

Trading instruments (including derivatives), transactions obligatorily measured at fair value through profit or loss, transactions designated as measured at fair value through profit or loss, as well as instruments measured at fair value through other comprehensive income (OCI), are subsequently measured and accounted for at fair value as detailed below.

Liquid market products
In the case of liquid market products, the Bank determines the fair value either by applying the market price directly or by applying the relevant market yield curve directly.

In the case of liquid market products, it is not necessary to adjust the applied market price or market yield curve by additional cost elements, as these are actively included in the price and yield curves by the operations of the market.

Typically these include spot and futures products that are standard transactions concluded with government and bank counterparties and where at least monthly quotes or yield curve quotes are available.

In the case of measurement based on liquid market prices or market yield curves, the Bank classifies the inputs used as level 1 or level 2 inputs under the fair value hierarchy established by IFRS 13.

Non-liquid market products
In the case of non-liquid market products, the Bank discounts the cash-flow elements of the transaction with the discount rate resulting from the sum of the relevant value of the risk-free yield curve and the cost elements assigned to the transaction.

The Bank applies the following additional cost elements as a diversion of the risk-free yield curve:

1. credit risk premium,
2. saleability premium (liquidity premium)

Instruments measured at fair value using level 3 inputs

The Bank uses level 3 inputs for the following financial instruments that are subsequently measured at fair value:

- Customer receivables obligatorily measured at fair value through profit or loss, not for trading
- Customer loans designated as measured at fair value through profit or loss
- Held-for-trading customer receivables
- Securities measured at fair value through other comprehensive income
- Corporate bonds purchased under the Bond Funding for Growth Scheme (BGS)

Loans that are required to be obligatory measured at fair value through profit or loss (because they failed the SPPI test, i.e. the future cash flows of the given loan do not only include principal and interest components), and loans designated as measured at fair value through profit or loss are measured by the Bank using the discounted cash flow method, applying the premium components described above.

Loans obligatorily measured at fair value through profit or loss as at 31.12.2022 include "babaváró" loans in the amount of HUF 10,365 million (at 31.12.2021: HUF 6,818 million) that were subsequently measured at FVTPL due to their failure to pass the SPPI test. The Bank also estimates the fair value of "babaváró" loans using the discounted cash flow model, estimating the expected cash flows at the transaction level. The Bank assumes that the expected cash flow for "babaváró" loans is most affected by the following factors:

- the woman's age at the time of applying for the loan
- the number of children already born to the family when applying for the loan
- whether an application for suspension has been submitted at the time of the valuation

Based on these factors, the Bank classified customers into groups, assessed the expected behaviour of the groups through a representative sample as well, and determined the expected cash flows for the transactions at an individual level, which it then discounted using a market swap yield curve, adjusted by the premiums detailed above.

The Bank quantified in the fair value sensitivity analysis of "babaváró" loans that a shift of +100 bp in the market swap yield curve used for discounting would reduce the fair value amount by HUF 534 million. This impact is expected to be mitigated by a shift in the yield curve of the Government Debt Management Agency (ÁKK) through interest cash flows.

As at 31.12.2022, the balance of held-for-trading loans includes receivables purchased in 2019, which the Bank purchased at a discounted price for the purpose of sale, and thus their subsequent measurement falls under FVTPL, i.e. the fair value through profit or loss category. The fair value of these loans is also determined by the Bank based on the discounted cash flow model, applying the premiums detailed above. In making the estimate, the Bank takes into account the fact that it has entered into an agreement with an independent party to whom it may sell the receivables at an option price equal to the purchase price, while the buyer also receives the return on capital above the purchase price, pursuant to the terms of the agreement. Accordingly, the DCF model calculates future capital cash flows only until the purchase price is recovered, and the default risk of the independent counterparty (to whom the Bank has a sell option) has been included in the valuation as a credit risk premium.

The Bank's non-trading shares are ancillary investments that do not have an active market and in the case of which the Bank's management believes that their book value, which is based on their cost, approximately equals their fair value.

No market price can be observed for the fair valuation of the bonds purchased under the BGS scheme (although the bonds have been listed on the stock exchange, no liquid market has been established), so they are valued using the discounted cash flow (DCF) method – similarly to loans valued at fair value – also taking into account the premiums detailed above.

The effect of premiums as non-observable components on fair values is as follows:

Data in HUF millions

Customer loans	31.12.2022 Fair value with premium	Fair value without premium	effect of premium component
For trading	375	376	-1
Obligatorily measured at fair value	10,916	10,985	-69
Designated as measured at fair value	36,130	36,778	-648
BGS bonds	29,949	32,948	-2,999

Customer loans	31.12.2021 Fair value with premium	Fair value without premium	effect of premium component
For trading	1,854	1,876	-22
Obligatorily measured at fair value	7,278	7,327	-48
Designated as measured at fair value	16,233	16,548	-315
BGS bonds	35,578	38,669	-3,091

The balance of securities obligatorily measured at fair value through profit or loss includes – in addition to shares listed on the stock exchange – the Bank's investment in VISA Inc. which, due to its specific characteristics, is classified as a bond. For VISA Inc., the Bank uses an unobservable component in fair valuation: It includes a multiplier of 0.9 in the calculation as a liquidity premium.

Among financial instruments measured at fair value under the subsequent measurement, there was no transfer between the levels of the measurement hierarchy either in 2022 or in 2021.

For the results of fair value measurement, see Note 6. Profit or loss from financial instruments measured at fair value through profit or loss.

Financial instruments not measured at fair value

In the following we present the methods and assumptions used to quantify the fair value of financial instruments that are not held at fair value through profit or loss in the financial statements and their subsequent measurement is based on their amortised cost. The fair value of these instruments is determined only for presentation in the Notes.

Securities held at amortised cost
The Bank's portfolio currently includes bank bonds and government securities, the fair value of which is determined by the Bank directly applying the market yield curve.

Customer loans and interbank transactions held at amortised cost, liabilities held at amortised cost

In the case of liquid assets and liabilities or those with a short remaining term (less than 1 year), the Bank assumes that their book value, based on their amortised cost, approximately equals their fair value. This assumption also applies to demand assets and liabilities, savings assets and liabilities without a specific maturity, and floating-rate assets and liabilities.
The estimated fair value of fixed-rate liabilities held at amortised cost with a residual maturity of over 1 year (including refinancing liabilities) is determined using the discounted cash flow calculation method on the basis of the market yield curve corresponding to the remaining maturity.
The fair value of fixed-rate assets held at amortised cost with a residual maturity of over 1 year is determined using the discounted cash flow calculation method on the basis of the estimated market yield curve of the asset, corresponding to the remaining maturity, applying the premium components described above.

The Bank believes that the book value, less impairment, is the best approach to the fair value of defaulted transactions classified in Bucket 3, during the calculation of which an individual cash flow stress method is used to determine the value of the transaction and therefore no non-realised profit or loss is recognised for these transactions in these Notes.

25. OTHER INFORMATION RELATING TO FINANCIAL INSTRUMENTS

Assets used as collateral for liabilities and contingent liabilities

Data in HUF millions

	31.12.2022	**31.12.2021**
Encumbered assets:		
Total debt securities	131,671	127,901
Loans and advances other than demand receivables	95,115	88,514
- of which: loans secured on property	33,339	29,083
Liquid assets	27,597	0
Total assets used as collateral	**254,383**	**216,415**

	31.12.2022	**31.12.2021**
Received collaterals related to encumbered assets:		
Total debt securities	3,704	3,699
Loans and advances other than demand receivables	2,258	2,567
Other received collateral	54,102	51,575
	60,064	**57,841**

Among the encumbered assets, the debt securities serve as collateral for loans from the MNB and are disclosed in the balance sheet on the Securities line. Loans and advances other than demand receivables consist in part of the assets that used as collateral for the MNB Funding for Growth Scheme, and in part, of loans refinanced by MFB, Eximbank and Takarékbank, which are included in the balance sheet under Receivables from customers. The liquid assets consist of client funds stemming from the investment services activity related to the Equilor group that was acquired in 2022, and are stated in the balance sheet under Cash and cash equivalents and are also distinguished as sequestered funds in the Note on Cash and cash equivalents.

Transferred financial assets

At 31 December 2022, the Bank had no transferred assets that do no qualify for derecognition or in which the Bank has continuing involvement (the situation was the same on 31 December 2021).

Offsetting of financial assets and liabilities

The following tables show the financial assets and liabilities that are subject to an enforceable, primary netting agreement as at 31 December 2022:

Data in HUF millions

31.12.2022	Volumes stated in the balance sheet		
	Gross value of financial assets	Gross value of financial liabilities to be offset	Net value of financial assets
Derivatives	36,603		36,603
Total financial assets subject to offsetting or primary netting agreements	**36,603**		**36,603**

	Volumes stated in the balance sheet		
	Gross value of financial liabilities	Gross value of financial assets to be offset	Net value of financial liabilities
Derivatives	5,127		5,127
Total financial liabilities subject to offsetting or primary netting agreements	**5,127**		**5,127**

31.12.2021	Volumes stated in the balance sheet		
	Gross value of financial assets	Gross value of financial liabilities to be offset	Net value of financial assets
Derivatives	9,342		9,342
Total financial assets subject to offsetting or primary netting agreements	**9,342**		**9,342**

	Volumes stated in the balance sheet		
	Gross value of financial liabilities	Gross value of financial assets to be offset	Net value of financial liabilities
Derivatives	1,019		1,019
Total financial liabilities subject to offsetting or primary netting agreements	**1,019**		**1,019**

The derivatives are subject to the following netting agreements: ISDA (International Swaps and Derivatives Association) agreements, CSAs (Credit Support Annexes) and GMRAs (Global Master Repurchase Agreements). The Bank has no open repurchase or reverse repurchase (repo) transactions on the reporting dates.

The Bank has no primary netting agreements, the financial assets and liabilities under which are not offset against each other in the balance sheet.

Financial asset reclassifications due to a business model during the year

In 2022, no reclassification was effected due to a business model.

Information on credit, market and liquidity risk management

Information on the management of credit, market and liquidity risks of the Bank is provided in Note 40 on Risk management.

26. OTHER ASSETS

Data in HUF millions

	31.12.2022	31.12.2021
Banking operation stocks	18	16
Advances	19	7
Central budget subsidies	2,970	653
Buyers	77	59
Deferred operating costs	226	133
Bank card activity settlements	712	624
Account management settlements	1,798	251
Special epidemiological tax	346	461
Other receivables	545	386
Other assets	**6,711**	**2,590**

Of the other assets, items recognised in the Buyers line are classified as financial instruments, which were mainly received in January 2022.
In order to mitigate the economic damage caused by COVID-19, the Government decided to introduce a special epidemiological tax under the Economy Protection Action Plan (Govt. Decree 108/2020 (IV.14.)). The credit institution may choose to reduce its liability for the special bank tax in the following years by the amount paid as the special epidemiological tax, and the Bank will therefore record this as a receivable in its books.

27. INTANGIBLE ASSETS

Change in intangible assets 2022

Data in HUF millions

Change in the gross value of intangible assets (2022)	Cost (gross value)				
	Opening	Acquisition*	Increase	Decrease	Closing
Concessions, licences and similar rights	14	0	0	0	14
Intellectual property	3,138	688	1,691	62	5,455
Customer list	0	945	0	0	945
Brand name	0	208	0	0	208
Goodwill	0	971	0	0	971
Gross value of intangible assets	**3,152**	**2,812**	**1,691**	**62**	**7,593**

Accumulated depreciation of intangible assets (2022)	Accumulated depreciation				
	Opening	Acquisition*	Increase	Decrease	Closing
Concessions, licences and similar rights	11	0	1	0	12
Intellectual property	986	507	462	62	1,893
Customer list	0	16	0	0	16
Accumulated depreciation of intangible assets	**997**	**523**	**463**	**62**	**1,921**

*Acquisition represents the balances attributable to the acquisition of the Equilor Group (please refer to Note 2 for further details).

Net value of intangible assets (2022)	Net asset value
Concessions, licences and similar rights	2
Intellectual property	3,562
Customer list	929
Brand name	208
Goodwill	971
Net value of intangible assets	**5,672**

Customer list and brand name

The customer list (or customer contracts) and brand name are recognised in the context of a business combination. They were recognised at fair value on acquisition. Contracts for the purchase of goods are amortised on a straight-line basis over their useful lives based on the schedule of cash flows outlined in the relevant contracts. The brand name has an indefinite useful life, and thus no amortisation is recognised on it.

Goodwill

Goodwill was generated in relation to business combination in connection with the acquisition of the Equilor group, in accordance with the provisions of IFRS 3. Further details are provided in Note 2.

Impairment of brand name and goodwill

No impairment is recognized for brand name and goodwill as at 31 December, 2022 due to the reason that acquisition was completed very close to year end (as at the end of October, 2022), therefore no any changes occurred in the underlying assumptions applied at the purchase price allocation exercise.

Change in intangible assets 2021

Data in HUF millions

Change in the gross value of intangible assets (2021)	Cost (gross value)			
	Opening	Increase	Decrease	Closing
Concessions, licences and similar rights	14	0	0	14
Intellectual property	2,114	1,024	0	3,138
Gross value of intangible assets	**2,128**	**1,024**	**0**	**3,152**

Accumulated depreciation of intangible assets (2021)	Accumulated depreciation			
	Opening	Increase	Decrease	Closing
Concessions, licences and similar rights	10	1	0	11
Intellectual property	739	247	0	986
Accumulated depreciation of intangible assets	**749**	**248**	**0**	**997**

Net value of intangible assets (2021)	Net asset value
Concessions, licences and similar rights	2
Intellectual property	2,153
Net value of intangible assets	**2,155**

28. TANGIBLE ASSETS

Change in tangible assets 2022

Data in HUF millions

Change in the gross value of tangible assets (2022)	Cost (gross value)				
	Opening	Acquisition*	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	841	785	1,393	841	2,178
Equipment, machinery and vehicles	841	574	608	229	1,794
Gross value of tangible assets	**1,682**	**1,359**	**2,001**	**1,070**	**3,972**

Accumulated depreciation of tangible assets (2022)	Accumulated depreciation				
	Opening	Acquisition*	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	445	18	282	524	221
Equipment, machinery and vehicles	440	270	226	110	826
Accumulated depreciation of tangible assets	**885**	**288**	**508**	**634**	**1,047**

*Acquisition represents the balances attributable to the acquisition of the Equilor Group (please refer to Note 2 for further details).

Net value of tangible assets (2022)	Net asset value
Property and related concessions, licences and similar rights	1,956
Equipment, machinery and vehicles	968
Net value of tangible assets	**2,924**

Change in tangible assets 2021

Data in HUF millions

Change in the gross value of tangible assets (2021)	Cost (gross value)			
	Opening	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	686	154	0	841
Equipment, machinery and vehicles	760	113	8	865
Gross value of tangible assets	**1,446**	**268**	**8**	**1,706**

Accumulated depreciation of tangible assets (2021)	Accumulated depreciation			
	Opening	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	279	166	0	445
Equipment, machinery and vehicles	293	159	5	447
Accumulated depreciation of tangible assets	**572**	**325**	**5**	**892**

Net value of tangible assets (2021)	Net asset value
Property and related concessions, licences and similar rights	397
Equipment, machinery and vehicles	418
Net value of tangible assets	**815**

Rights of use

On 31.12.2022, 'Property and related concessions, licences and similar rights' include property lease rights in the amount of HUF 1,791 million (on 31.12.2021: HUF 227 million), which the Bank recognised as an asset in its balance sheet in accordance with the requirements of IFRS 16 effective from 1 January 2019. In addition, the balance as at 31.12.2022 includes the property lease rights acquired through the acquisition of the Equilor group in 2022. Lease rights comprise the right to lease the Bank Group's head offices, bank branches, parking spaces and vehicles.

Recognised rights of use apply to the following types of assets:

Presentation of changes in rights of use 2022

Data in HUF millions

	Cost (gross value) 2022				
	Opening	Acquisition*	Increase	Decrease	Closing
Properties	612	646	934	468	1,724
Vehicle	0	17	0	0	17
Parking spaces	15	100	123	15	223
Gross value of rights to use assets	**627**	**763**	**1,057**	**483**	**1,964**

	Accumulated depreciation 2022				
	Opening	Acquisition*	Increase	Decrease	Closing
Properties	384	15	191	434	156
Vehicle	0	1	0	0	1
Parking spaces	15	2	13	15	15
Gross value of rights to use assets	**399**	**18**	**204**	**449**	**172**

*Acquisition represents the balances attributable to the acquisition of the Equilor Group (please refer to Note 2 for further details).

	31.12.2022
Properties	1,568
Vehicle	16
Parking spaces	208
Net value of rights to use assets	**1,792**

Presentation of changes in rights of use 2021

Data in HUF millions

	Cost (gross value) 2021			
	Opening	Increase	Decrease	Closing
Properties	457	155	0	612
Parking spaces	15			15
Gross value of rights to use assets	**472**	**155**	**0**	**627**

	Accumulated depreciation 2021			
	Opening	Increase	Decrease	Closing
Properties	236	148	0	384
Parking spaces	10	5		15
Gross value of rights to use assets	**246**	**153**	**0**	**399**

	Net asset value
Properties	227
Parking spaces	0
Net value of rights to use assets	**227**

29. DEFERRED TAX RECEIVABLES AND TAX LIABILITIES

Deferred tax and its changes recognised in the balance sheet:

31 December 2022

	Asset	Liability	Profit	Equity
Fair value difference of securities - instruments measured through comprehensive income	**101**	**0**	**0**	**80**
Tax adjustment items				
Deferred tax items due to acquisition	0	115	-1	0
Intangible assets and tangible assets	24	0	14	0
Impairment	3	0	2	0
Credit provision	14	0	13	0
Total tax adjustment items	**41**	**115**	**29**	**0**
Accrued losses	0	0	0	0
Total deferred tax	**142**	**115**	**29**	**80**

‘Deferred tax items due to acquisition’ represent mostly the deferred tax effect of newly recognized assets via business combination (brandname with HUF 208 million asset value and customer list with HUF 915 million asset value).

31 December 2021

Data in HUF millions

	Asset	Liability	Profit	Equity
Fair value difference of securities - instruments measured through comprehensive income	**21**	**0**	**0**	**23**
Tax adjustment items				
Intangible assets and tangible assets	**9**	**0**	**5**	**0**
Impairment	**1**	**0**	**0**	**0**
Credit provision	**1**	**0**	**0**	**0**
Total tax adjustment items	**11**	**0**	**5**	**0**
Accrued losses	0	0	-44	0
Total deferred tax	**32**	**0**	**-39**	**23**

The Bank recognises the profit effect of deferred tax in the Income taxes line.
The full amount of the accrued losses has been utilised by 31.12.2021, so at the balance sheet date the bank has no deferred tax receivables (at 31.12.2020 the bank had HUF 44 million in deferred tax receivables arising from the accrued losses).

30. PROVISIONS

The development of provisions related to lending activities is detailed in Note 18, together with the development of impairment.

31. OTHER LIABILITIES

Data in HUF millions

	31.12.2022	31.12.2021
Suppliers	277	153
Leasing liabilities	1,992	231
Liabilities to central budget	691	194
Account management settlements	196	200
Accrual of operating costs	1,798	322
Accrual of bonuses	69	403
Accrued income	131	144
Recognitions relating to inherited portfolio	0	199
Other liabilities	96	0
Total other liabilities	**5,250**	**1,846**

Of the other liabilities, items recognised in the Suppliers line are classified as financial instruments, which have been settled by the date of approval of the statements.

32. SUBSCRIBED CAPITAL

	31.12.2022	31.12.2021
Issued ordinary shares in circulation, no.	15,394,922	11,246,773
The nominal value of issued ordinary shares in circulation is HUF 1,000.	15,394,922	11,246,773

Shareholders of the Bank:

By ownership share	31.12.2022	31.12.2021
Tiberis Digital Kft.	44.83%	0.00%
E.P.M Kft. (Éva Hegedűs Chairperson & CEO)	0.80%	57.03%
ESOP Entity	36.08%	16.45%
MKB Pension Fund	5.50%	7.53%
Pannonia Pension Fund	7.28%	9.97%
Gold Taurus	0.00%	1.47%
Coop Innova	0.35%	0.49%
Jenő Siklós, Deputy CEO	0.35%	0.48%
Széchenyi Funds	4.33%	5.93%
Small investors	0.48%	0.65%
Total	**100.00%**	**100.00%**

The changes to the Bank's ownership structure announced in December 2021 and the process of registering and permission of MNB and closing process were completed in the first quarter of 2022. As a result, the BDPST group, through Tiberis Digital Kft., became the Bank's major shareholder and a committed, long-term strategic investor, holding 44.83% of the Bank's shares at 31.12.2022.

The National Bank of Hungary has also approved the launch of the Bank's new GRÁNIT Bank Employee Stock Ownership Plan (ESOP III), which will strengthen the stake of the Bank's key employees in increasing shareholder value. With the launch of the plan, the ownership of the ESOP Entity was 36.08% on 31.12.2022.

33. CONTINGENT RECEIVABLES AND LIABILITIES

In its ordinary course of business, the Bank concludes business transactions with financial instruments related to loans that carry off-balance-sheet risk. This includes credit lines, financial guarantees, and letters of credit. These instruments contain credit risk elements that exceed the amounts recognised in the balance sheet.

The credit risk of off-balance-sheet financial instruments means the possibility of loss arising from the non-contractual performance of any other party to the financial instrument. With respect to contingent liabilities, the Bank follows the same lending policy as in the case of financial instruments in the balance sheet, from approval procedures to risk management limits to monitoring processes.

Credit lines are contractual agreements for the provision of credit, usually with a fixed or otherwise specified maturity, and with payment obligations. The potential credit loss is less than the amount of undrawn funds, since in the case of most credit lines provision of the credit depends on the customer's compliance with the terms to be fulfilled. As many credit lines are expected to expire without the credit being actually drawn down, the amount of the commitments does not necessarily reflect future cash needs.

Issued financial guarantees are contingent liabilities by which the Bank guarantees the performance of one of the Bank's customers to a third party. The credit risk inherent in the issuance of a guarantee is essentially the same as in the case of lending to other customers. When determining the probability of loss resulting from the guarantee, the Bank applies the same principles as for the establishment of the provision to be generated for potential loss of other credit lines.

Letters of Credit are financing transactions between the Bank and a customer, where the customer is usually the buyer/importer whereas the beneficiary is typically the seller/exporter of goods. The credit risk is limited, as the delivered goods serve as collateral for the transaction.

The Bank generates provisions for the credit risk of its contingent liabilities related to its lending activities as detailed in Note 20.

The Bank's contingent receivables and contingent liabilities related to lending are as follows:

Data in HUF millions

	2022	2021
Contingent liabilities	**114,288**	**67,053**
Guarantees	14,001	4,247
Revolving loans commitments	29,708	37,285
Approved credit lines	70,563	25,505
Other	16	16
Contingent receivables	**673,573**	**421,335**
Guarantees and received sureties	14,417	12,493
Property received as collateral	176,232	139,771
Guarantees received from the Hungarian state	358,770	159,442
Other guarantees	120,122	105,753
Received credit lines	4,032	3,876

34. TRANSACTIONS WITH RELATED PARTIES

The concept of related party includes the entities that are directly or indirectly under the control of the Bank Group, have an influence over the Bank Group, are controlled by the same entity as the Bank Group, as well as associates and the management of the Bank Group.

	Credit		Deposit	
	2022	2021	2022	2021
The parent company	0	0	0	0
BDPST group (controlled by the ultimate owner of the Bank)	1,981	0	9,201	0
Other related parties	2,680	0	324	0
Owners with a significant influence and their close relatives*	330	0	4,910	0
Total	**4,991**	**0**	**14,435**	**0**

* The owners with a significant influence and their close relatives were presented in the Board of Directors – Management category last year.

Credit and deposit transactions with related parties were concluded at market terms.

Management in key positions

The Management of the Bank Group includes the members of the Bank's Board of Directors and Supervisory Board, the CEO and the Deputy CEOs.

Data in HUF millions

	Credit		Deposit	
	2022	2021	2022	2021
Supervisory Board	0	0	29	89
Board of Directors – Management	273	45	275	105
Total	**273**	**45**	**304**	**194**

Credit and deposit transactions with the Management were concluded at market terms.

Compensation paid to the Management for the financial year

2022

Item	Number of persons receiving compensation	Short term employee benefits	Other long term benefits	Share-based payment
Board of Directors - Management	10	379	81	99
Supervisory Board	6	27	0	0
Total	**16**	**406**	**81**	**99**

2021

Item	Number of persons receiving compensation	Short term employee benefits	Other long term benefits	Share-based payment
Board of Directors - Management	5	258	38	48
Supervisory Board	3	19	0	0
Total	**8**	**277**	**38**	**48**

35. DEFINED BENEFIT PLANS

The Bank manages its Remuneration Policy by defining remuneration principles ensuring a safe and prudent operation that is in line with the Bank's business strategy, goals, values, and the long-term interests of the organisation, as well as an effective and efficient risk management, and in harmony with all of these ensures the increase of shareholder value.

The Remuneration Policy applies to all employees of the Bank, with a particular focus on senior executives and employees with risk-taking and control functions as defined in the internal regulations and employees in the same remuneration category as the above, whose activities have a material impact on the risk taking of the Bank.

The Bank's System of Remuneration consists of the following:

- Basic wage,
- Fringe benefits,
- Annual bonus,
- Target bonus (project bonus),

- Rewards,
- Participation in ESOP Entity.

Annual bonus, reward

Data in HUF millions

	2022	2021
Liability at the beginning of the period	**451**	**372**
Increase due to acquisition	299	
Payment	-703	-314
Periodic deferral	613	393
Liability at the end of the period	**659**	**451**

Employee Stock Ownership Plan (ESOP)

ESOP II

The Bank's Board of Directors decided on the ESOP II Plan on the basis of a resolution adopted by the Bank's General Meeting on 15.12.2020. The ESOP Entity used all of the founder's equity of HUF 2,910 million placed at its disposal by the Bank (1,799,484 shares at a price of 161.7%) for the subscription of ordinary shares issued by the Bank.

The structure of ESOP II is identical to that of ESOP I, with a similar 3-year duration, and the fulfilment conditions are set out in the ESOP Articles of Association and the Remuneration Policy. The benefit is paid by the Bank's shareholders, but it is the Bank that receives the services as a consideration for the benefit, therefore the benefit is recognised by the Bank as a share-based payment transaction settled in equity instruments in accordance with IFRS2.43B(b). The expense or the related increase in equity is recognised in the period in which the employees rendered the service, i.e. over the 3 years of the plan, in a linear manner. The Bank must determine the fair value of the services received on the basis of the fair value of the equity instruments granted, as the fair value of the services received typically cannot be determined reliably. Similar to the previous plan, the Bank determined the fair value using a methodology based on scenario analysis, estimating the value of the likely share price increase resulting from the service provided by the employees participating in the plan. The fair value at the time of the provision was HUF 210 million, and correspondingly the increase in equity and cost per year was HUF 70 million.

In 2021, the founding assets of the ESOP II Plan increased by an additional HUF 100 million.

ESOP III

On 16.11.2021, the Extraordinary General Meeting of the Bank decided to launch the ESOP III Remuneration Policy, which, as in previous programmes, will have a 3-year reference period of 2022-2024. The General Meeting authorised the Bank's Board of Directors to issue new ordinary shares as follows: the number of shares issued is 3,703,704, the per-share nominal value of the shares issued is HUF 1,000, the issue price is 450%, the total value of the issue is HUF 16,667 million. The issued shares will be financed by the ESOP Entity partly from the contribution of the Bank, as founder, (HUF 1,667 million) and partly from a loan from an independent bank (HUF 15,000 million). The transfer of the founders' assets to the ESOP took place in 2021 (with this sum increasing the Bank's stake in the ESOP Entity accordingly), but the related share issue by the Bank was only effected in 2022, as was the borrowing from an independent bank and the related capital increase.
Given that IFRS 2 requires the expense or the related increase in equity to be recognised in the period in which the employees render the service (i.e. over the 3 years of the plan), this had no impact on the 2021 financial year. The fair value at the grant date was HUF 270 million, with a corresponding annual increase in equity and costs of HUF 90 million from 2022 onwards.

36. COMPENSATION OF THE AUDITOR

Data in HUF millions

	2022	2021
Fees for statutory audit services	74	58
Fees for non-audit services provided by a statutory auditor	13	4
Fees for services provided by other audit firms	29	43
Total fees paid to audit firms	**116**	**105**

As required by the Accounting Act, the Bank is a company subject to an audit. In 2022 (and in 2021) PricewaterhouseCoopers Könyvvizsgáló Kft. provided statutory audit services to the Bank. The auditing for the Equilor Group, acquired in 2022, was performed in 2022 by Blue Ridge Audit Hungary Kft.
Non-auditing services provided by a registered auditor include the performance of statutory investigations in connection with the transfer of mortgage loans (2022, 2021).
The fees for services provided by other auditing firms include legal services and tax advisory fees.

37. NOT EXCLUSIVELY OWNED SHARES

The Bank Group has less than 100% ownership in the following company:

- Name of share: GRÁNIT Bank ESOP Entity
- Head office of share: Budapest, 1095 Lechner Ödön fasor 8.
- Share of the Bank Group: 19.28%
- Share of non-controlling owners: 80.72%
- Share of non-controlling owners in comprehensive income: HUF 217 M in 2022
- Share of non-controlling owners in accumulated earnings and profits: HUF 217 M on 31.12.2022

The Bank’s stake in the ESOP Entity will have fallen below 20% by the end of 2022, but it has nevertheless been included in the consolidation as a subsidiary of the Bank Group, given that the company qualifies as a structured entity under IFRS 12, where the control necessary for inclusion is in place.

Financial information on the share:

Data in HUF millions

Item	**31.12.2022**	**31.12.2021**
Assets		
Cash and cash equivalents	20	1,713
Customer loans measured at amortised cost	19,676	3,010
Investments in affiliated undertakings	19,707	3,040
Other assets	375	44
TOTAL ASSETS	**39,778**	**7,808**
Liabilities		
Long-term liabilities	15,000	
Liabilities to the founder	63	63
Other liabilities	51	17
Liabilities to central budget	1	0
TOTAL LIABILITIES	**15,115**	**80**
Equity		
Subscribed capital	4,676	4,676
Capital reserve	19,677	3,010
Profit reserve	310	42
of which this year’s profit/loss	268	42
TOTAL EQUITY	24,663	7,728
Liabilities and equity	**39,778**	**7,808**

- Name of share: Equilor group
- Head office of share: Budapest, 1026 Pasaréti út 122-124
- Share of the Bank Group: 51.01%
- Share of non-controlling owners: 49.99%
- Share of non-controlling owners in comprehensive income: HUF 231 M in 2022
- Share of non-controlling owners in accumulated earnings and profits: HUF 231 M on 31.12.2022

Data in HUF millions

	31.12.2022
Assets	
Cash and cash equivalents	29,929
Securities	1,154
Other assets	594
Intangible assets	1,314
Tangible assets	1,041
TOTAL ASSETS	34,032
Liabilities	
Liabilities to customers	27,545
Derivative financial liabilities	8
Income tax payment liability	212
Deferred tax liability	114
Other liabilities	1,427
TOTAL LIABILITIES	29,305
Equity	
Subscribed capital	1,000
Capital reserve	21
Profit reserve	2,655
Revaluation reserves (IFRS transition)	-
Reserve for share-based payment transactions settled in equity instruments	-
Other reserves	1,035
Accumulated other comprehensive income (AOCI)	15
TOTAL EQUITY	4,727
Liabilities + equity	34,032

38. EVENTS AFTER THE BALANCE SHEET DATE

Acquisition of a stake in Diófa Alapkezelő Zrt.

On 1 February 2023, the Bank's Board of Directors decided to acquire a stake in Diófa Alapkezelő Zrt. Through the transaction, the Bank will acquire 95% of the shares of Tarragona Holding Zrt. from BDPST Capital Zrt., thus acquiring 90.82% ownership of Diófa Alapkezelő Zrt.

The transaction has been approved by the National Bank of Hungary (MNB) and the completion of the transaction and the actual acquisition of ownership is expected to take place in the second quarter of 2023.

IIB exposure

In April, 2023 US sanctions were imposed against International Investment Bank (IIB).

The Group has a bond receivable of HUF 1,000 million from IIB, maturing in March, 2024. Before the sanctions were imposed, IIB fulfilled its interest payment due on March 18, 2023 on time without any delay.

On the 17th of April, 2023 IIB made the following official statement:

"US sanctions imposed against IIB - a multilateral development institution - threaten legitimate interests of its clients, partners and counterparties.

With deep regret, IIB states that currently, because of the imposed US sanctions, it has been deprived of the possibility to fulfil obligations to its counterparties.

Nevertheless, the Bank has accumulated enough financial resources and assets to honour commitments towards its partners in full.

IIB has already begun to contact corresponding authorities with a view to obtain appropriate licences and other necessary decisions to be able to fulfil these undertakings."

The Group continuously monitors the situation with IIB and will make the necessary steps to cover potential losses if needed.

Extended interest rate freeze

Under Government Decree 169/2023 (V.12) interest rate freeze has been extended until 31.12. 2023, both for retail segment and micro, small and medium-sized enterprises.

39. RISK MANAGEMENT

The Bank Group's risk management policy is the same as the Bank's individual risk management policy given that the consolidation of the Equilor group took place close to the end of the year (at the end of October); the development of the consolidated risk management policies and procedures are currently underway. The ESOP Entity included in the consolidation alongside the Equilor group does not require processes that are any different from the Bank's risk management procedures.

39.1 Risk Management Committees

The **Asset-Liability Committee** ("ALCO") is a standing committee set up by the Board of Directors. It has, within specified limits, decision-making rights concerning the management of the Bank's assets and liabilities and related risk management and capital adequacy issues. The detailed rules of operations of the committee are defined in a separate regulation. The Committee had 12 meetings in 2022.

The **Credit Committee** ("CC") is a standing Committee set up by the Board of Directors. It has decision-making rights concerning the Bank's risk-taking, as well as issues related to risk-taking and its monitoring. The detailed rules of operations of the committee are defined in a separate regulation. In 2022, the Committee met twice and several written votes were held.

The **Problem Claims Committee** ("PCC") is a standing committee set up by the Board of Directors. It has decision-making rights to recover the Bank's overdue receivables, to conduct activities concerned with other breaches of contract or other facts, and to monitor, manage and recover the Bank's claims and commitments related to problematic claims and customers. The detailed rules of operations of the committee are defined in a separate regulation. The PCC met twice in 2022.

39.2 Risk strategy, processes, scope

The Bank manages its risks prudently, conservatively, and makes sure that its customers should not become indebted to an extent over their capacity of repayment, which must not be exceeded even during a potential economic turbulence.

The Bank's portfolio of assets is of impeccable quality thanks to the Bank's exceptionally well-regulated and conservative risk-taking policy.

Since 2010 the Bank has used the standard method for calculating the credit and market risk capital requirement in Pillar I, while it uses the basic indicator method for calculating the capital requirement for operational risk.

The Bank develops its portfolio in compliance with conservative risk management and prudent business policy to ensure the best possible quality of it. As part of its risk management strategy and policy, the Bank uses the following tools:

- The ultimate goal of all of the Bank's business activities is to make a profit of sufficient magnitude in the long term.
- The Bank's strategy for defining asset-side growth targets is to build what in risk terms is a high-quality portfolio, regarding the quality of the portfolio as the primary objective rather than quantity-based growth.
- The business and risk management functions are jointly responsible for the quality of the Bank's asset portfolio.
- An independent risk management function has been established, separate from the business area within the organisation, and directly reporting to the Bank's Chairperson and CEO as an organisational unit.
- Those responsible for Compliance and Anti-Money Laundering (hereinafter: AML) perform their activities, in terms of organisation, separately from operating and risk-taking processes.
- The prudent and conservative risk management policies are regularly reviewed by the Bank, so they were also reviewed in 2022. It is part of the Bank's risk-taking policy that it must be implemented in a dynamically changing business environment.
- The Bank continuously monitors the operations of the established risk management systems and, if possible, subsequently measures the results and improves and ameliorates them on the basis of the experience gained.
- The Bank's management body with control powers approves, regularly reviews, and evaluates strategies and rules for segregation of responsibilities within the organisation, prevention of conflicts of interest, the taking, measurement, management, monitoring and evaluation of risks, including risks resulting from the macro-economic environment and changes in the current economic cycle.
- A part of the risk management strategy is the development of effective risk management processes.
- The risk management process is part of the Bank's comprehensive management system, the aspects of which play a role in strategic and annual planning.
- In any case, risk taking can only take place within the approved limit, in accordance with the guidelines of the Credit Policy.
- The Bank assumes only risks that can be measured and managed and that do not exceed its risk-bearing capacity. The risks are taken into account in the course of business decisions.
- The Bank focuses its risk-taking on business activities in which it possesses the necessary expertise and technical conditions for the assessment, measurement and monitoring of the risks entailed.
- The Bank's risk management policy includes the principle of safe operations, the principle of the avoidance of conflicts of interest, the principle of managing material risks, the cost-benefit principle, and the principle of avoiding prohibited activities.
- The Bank uses multi-level decision making in its lending decisions.
- Bank risks are determined on the basis of the ICAAP and the relevant EU Regulation.
- The Bank continuously monitors exposures and compliance with the limits at the level of the Credit Committee, the Asset-Liability Committee, the Board of Directors and the Supervisory Board as well. Risk management policy also involves a balance between the risk and return of positions and the continuously monitoring of it.

- The prior approval of the Asset-Liability Committee is required before the submission of the more important risk management rules/regulations detailed in the ELC Rules of Procedure to other bodies.
- The Bank also applies the four-eye principle when implementing risk-taking decisions to ensure compliance and fully conformity with the relevant policies.
- In order to reduce risks and capital requirements, the Bank only assumes any risks, depending on the creditworthiness of the customer and the risk structure of the transaction, if collateral or security of adequate quality (e.g. received guarantee, security deposit, government security collateral, surety, mortgage, etc.) is available.

39.3 Organisational units and functions that ensure the identification, measurement and monitoring of risks

The Bank has developed and operates its internal lines of defence, as well as each element that forms part of them, in accordance with the relevant legal requirements and the specificities, scope, complexity and risks of the service activities conducted by the Bank.

Accordingly, the Bank has developed and operates internal lines of defence that promote:

- the reliable and efficient operations of the Bank in accordance with laws and internal regulations,
- the protection of the Bank's assets, as well as the economic interests and social goals of its customers and owners,
- through these, the Bank's smooth and efficient operations and the preservation of trust towards the Bank.

The most important task of the Bank's internal lines of defence is to contribute preventively and proactively to the achievement of the above objectives by identifying and addressing potential problems and deficiencies that may arise during their operations at the earliest stage possible, as soon as they arise or possibly even before that, ensuring the speed and efficiency of a solution.

The Bank's internal lines of defence include the responsible internal management and internal control functions. The Bank ensures the implementation of responsible internal management by establishing and operating the organisational structure, organisation and system of bodies defined in its Organisational and Operational Regulations, and by exercising management and control functions. The tools of the internal control functions are risk management functions, the compliance function and the internal audit system. The Bank's separate policies govern these tools, which are independent of each other and the functions they control.

The ALC regularly reviews the operations of internal lines of defence as well as the individual sub-systems that form part of them, and prepares a report of its findings regularly for the Board of Directors and the Supervisory Board.

Separate policies and rules of procedure govern the operations and interrelationship of all the Bank's decision-making bodies and organs (Board of Directors, Supervisory Board, Management Committee, CC, ALC, PCC), as well as Internal Audit and Compliance.

Overall, the lines of defence work effectively. Meetings of the Management Committee and the ALC are held at least once a month, whereas the Board of Directors and the Supervisory Board meet at least quarterly. Any deficiencies that may arise are addressed by immediate measures.

Those responsible for Compliance and AML also perform their activities separately from operating and risk-taking processes.

Risk Management function:

Risk Management is independent of the activities it supervises and controls, as well as from the Compliance function and Internal Audit.

The organisational framework of the process by which risk appetite can be established, the extent of the risks undertaken can be monitored and continuously maintained, has been set out within the risk strategy. The Bank does not limit risk management activities to the risk management area only, as being a company with a risk-conscious approach, the management of the Bank's risks is also the responsibility of its governing body, its management and employees alike.

As regards the Bank's growth, risk management areas have been separated, and a Risk Management Directorate and a Risk Management Methodology Directorate operate within the risk management function.

The Risk Management Directorate is headed by a Managing Director, whose immediate operational superior is the Chairperson & CEO of the Bank. They have an obligation of accountability and regular reporting to the Chief Risk Officer (CRO) during the performance of the risk control function, which is separate from the operational risk management areas. All subordinate employees of the Board of Directors have an obligation to report to the managing director of the Board of Directors.

The Risk Management Directorate is divided into the following departments:

- Corporate Credit Risk Management Department
- Retail Credit Risk Management Department
- Corporate Credit Monitoring Group

The Risk Management Methodology Directorate is headed by a Managing Director, with the Deputy CEO, Strategy and Analysis as their immediate operational superior. They have an obligation of accountability and regular reporting to the Chief Risk Officer (CRO) during the performance of the risk control function, which is separate from the operational risk management areas. All subordinate employees of the Board of Directors have an obligation to report to the managing director of the Board of Directors.

The Risk Management Methodology Directorate is divided into the following department(s):

- Market and Operational Risk Management

The independent control of the system and operations of risk management is primarily provided by the ALC and its members, the competence of which is defined in detail in the relevant Rules of Procedure. Central risk control is implemented at the level of the Deputy CEO responsible for Strategy and Analysis.

Risk assumption activities are conducted by the Bank on the basis of a system of detailed written rules, and rules are reviewed by the Bank on an annual basis.

39.4 Mitigating and covering risks

The main principles of the policies pertaining to risk mitigation and credit risk coverage, the strategies and processes for risk mitigation and the control of the effectiveness of credit risk coverage tools, as well as the key aspects of the measurement of collateral, are set out in the Bank's Collateral measurement policy.

Principles:

The policy defines the proportion of collateral that the Bank assigns to various collateral types.

Methodology used to determine collateral value (depending on the type of collateral):

- Collaterals specified by law and 100% recognised: e.g. security deposits, state surety/guarantee.
- Collateral/liquidation value established by appraisers approved by the Bank. The policy sets out for the appraisers the system of requirements used for different types of collateral, as well as the minimum discount rate that can be applied.
- By discounting the value recorded in the guarantor's books, if the value cannot be established on the basis of the previous 2 methodologies.
- In the case of a surety/guarantee assumed by a third party for the claims of a debtor of the Bank, a value determined by using a discount rate adjusted to the third party's debtor rating.
- In the case of securities, a value determined by using discount rates taking into account the volatility of the exchange rate in accordance with the methodology set out in the policy.

The determination of the collateral value of a collateral is done in accordance with the methodology set out in the policy; in case appraisers approved by the Bank are employed, the collateral value determined by them is validated under the control of the risk manager.

The Bank reviews the collateral value of all collaterals with a frequency that is in accordance with prevailing legislation and internal regulations and, in the case of negative information, reviews it immediately after such information has arisen. The Bank verifies the existence of each collateral at least annually, and at least every six months in the case of certain collaterals.

The Bank also accepts collateral that does not meet the requirements for reducing the capital requirement (e.g. surety guarantees, specific pledges on an asset, warrants, etc.); however, only collateral that meets the requirements of Regulation 575/2013/EU is taken into account to reduce the capital requirement for credit risk.

39.5 Risk types relevant for the Bank, covered in Pillar I

a) Credit risk. In particular:

- Risk of default concerning the loans granted by the Bank,
- Counterparty risk,
- Transfer risk,
- Settlement risk.

The Bank calculates its capital requirement allocated for credit risk using a standard approach, and used the same method for the calculation in the past year as well.

b) Market risk

- Trading book price rate risk.
- Trading book interest rate risk.
- Currency risk of the entire portfolio.

The monitoring of the market risk of the trading book by the use of appropriate IT systems, and the Bank fully complies with the legal requirements in the field of risk management.

c) Operational risk that includes all related risk sub-types defined by law (human, system, legal, external, etc.).

The Bank uses the basic indicator method for calculating the capital requirement for operational risk.

39.6 Principles and strategy for the ICAAP capital adequacy assessment process

Risk appetite, desired risk structure:

Risk appetite is the amount of risk an organisation is willing to take and can tolerate.

Aspects of the determination of risk appetite:

- what type and what degree of risk the Bank intends to take and what return can be expected from it;
- whether the Bank has any comparative advantage in an area;
- what the capital requirement for actual risks is in the Bank,
- taking stock of all risks the Bank assumes, including the risks inherent in off-balance-sheet activities;
- risk assumption regularly reviewed and adjusted by the Bank on the basis of environmental, business, and risk information and analyses.

It is the responsibility of the governing body and the management of the Bank to define risk appetite and risk tolerance levels for the Bank’s business and risk strategy.

The Bank builds up its loan portfolio in line with the asset-liability strategy, whereby it is a basic requirement that the borrower should repay the loan from its regular cash flow (cash-flow-based lending), of course still with the involvement of a maximum level of collateral to secure the loan. Non-preferred product: e.g. retail loans in foreign currencies.

Designating target variables and indicators:

It is a principle of the Bank's risk management policy is that the risk cost of the loan portfolio should not exceed 3.5% of the balance sheet total.

The Bank pursues a business policy that ensures that the Bank's capital adequacy ratio at all times exceeds the minimum capital requirements set out in Article 92 of Regulation (EU) No 575/2013 and complies with the provisions of the Credit Institutions Act on capital buffers (Hpt. Sections 86-96).

The Bank's Board of Directors, based on the medium-term strategy, adopts a detailed annual financial plan. In the framework of this, the Bank takes market information into account and conservatively assesses the proportion of default and risk costs of loans by corporate division and product class.

The composition and quality of the portfolio is monitored monthly by the Asset-Liability Committee. A quarterly report on the development of the results and the quality of the portfolio is made to the Board of Directors and the Supervisory Board. The Board of Directors and the Supervisory Board discuss and approve the reports and take the appropriate measures as necessary.

The Bank limits its risk appetite by setting limits. Compliance with this is monitored and regularly measured by the Bank in accordance with the limits established and defined in the internal regulations, employing the Management Information System developed by the Strategy and Analysis Directorate in accordance with internal regulations. This will ensure (even under stress conditions) that the set limits, risk indicators, etc. should be consistent with the Bank's risk appetite and risk tolerance.

Based on a risk map the Bank identified the risk factors relevant to it. The Bank needs to know its risk structure in detail, i.e. needs to know the proportion, concentration and significance of each type of risk in the portfolio. For this reason these are continuously monitored by Risk Management together with the strategic area. The Bank currently considers credit risk to be its most important type of risk.

Responsibilities and duties are set out in detail in the Bank's internal regulations.

II. Risk types covered in Pillar II.

- Credit concentration risk
- Country risk
- Interest rate risk in the banking book
- Foreign currency risk
- Liquidity risk
- Settlement risk
- Operational and Reputational risks
- Strategic risk

The risk management concept and order of each risk type are set out in separate policies.

39.7 Credit risk

The Bank pays special attention to the fact that customers should be able to repay the loan from their regular income, but at the same time in order to protect deposit owners, it applies a wide range of collaterals as an adequate protection against credit risk. The high quality of the portfolio is the joint result of a thorough risk management analysis work conducted prior to decision making, the decision-making mechanism (pre-screening, risk analysis, decision by, depending on the amount, of the Lending Committee or of the Board of Directors), the application of a wide range of collaterals, and strict credit monitoring.

a. *The Bank determines the credit risk (limit) of customers/customer groups on the basis of strict procedures, by individual decisions in the following structure:*

Types of risk assumption limits

- Credit limit: for all loans and credit substitute products

- Guarantee limit: for guarantees in a narrower sense, letters of credit, bill broker transactions, and similar transactions in which the Bank commits to fulfil an obligation of the debtor,
- Substitution limit (pre-settlement): for foreign exchange transactions, derivatives, forward rate agreements, repo transactions, securities-based loans, etc.
- Settlement limit: the risk arising from the execution and clearing of trading products,
- Issuer limit: includes debtor and issuer risks shown in the trading or investment book.

The sum of the above limits is the gross aggregate limit.

In all cases, the prerequisite for entering into risk assumption transactions is prior approval by the body having decision-making power in accordance with the effective regulations, and by the retail business and risk management manager in the case of standard retail overdrafts and “babaváró” loans.

Limit monitoring is based on the daily closing balance. There is a separate internal regulation for dealing with limit overruns, which includes the obligation of immediate reporting.

b. *The threshold of the maximum credit risk that can be assumed concerning each customer/customer group is determined by the approved limits, which take into account the Bank’s current high-risk assumption limit.*

c. *Causal (industry) concentration means the risk of concurrent default attributable to the same common cause or causes.*

The role of industry limits is to control the magnitude of the risks assumed by the Bank and to mitigate the Bank’s risk-taking in sectors that pose a higher risk.

The Bank defines limits for the corporate portfolio concerning each industry of the national economy.

The Bank also applies product limits in respect of retail mortgage loans, overdrafts, Lombard (securities-backed) loans, “babaváró” loans and the refinancing of the NFK’s “Land for Farmers” scheme.

d) *The country limit* limits the amount of all risks that can be assumed *regarding a particular country*, i.e. the given government itself, any party entering into an agreement with the Bank or risk-bearing party incorporated in the given country, the citizens of the foreign state and any other economic entity that belongs under the jurisdiction of that foreign state for any other reason.

Country risk also includes the cases where the recovery of a receivable or receivables from a particular customer depends on income from a foreign country. If several criteria are at play, the transaction is to be charged against the limit of the country with the lower rating.

39.7.1 Customer and transaction rating, determination of expected credit loss

I. Schedule of ratings

I.1 Quarterly rating:

The Bank performs the rating of transactions for its exposures subject to IFRS 9 at least once per calendar quarter, for the last day of the quarter. The aim of the quarterly transaction rating is to classify the exposures in accordance with the MNB’s requirements and the requirements of IFRS 9, and to recognise or reverse the impairment and the provision for the transaction rating in accordance with the relevant segment methodology.

I.2. Extraordinary rating:

In the intervals between quarterly ratings, an extraordinary rating must be performed for individual exposures in the case when during the processing of the information received by any of the Bank’s organisational units, a level of risk is detected with a receivable or off-balance sheet liability that necessitates the recognition of a loss significantly higher than the impairment or provision recorded in the books, and/or the exposure must be reclassified into the non-performing and/or restructured category.

II. Measurement of the expected credit loss

When measuring expected credit losses, the Bank does not necessarily identify all possible scenarios, but takes into account the risk or likelihood of a credit loss occurring by calculating with both the likelihood of the occurrence and of the non-occurrence of the credit loss, even if the likelihood of the occurrence of the credit loss is very low. In practice this means that the Bank:

- For financial assets whose repayment if based on a schedule, if individually assessed in the context of a unique scenario analysis for estimating expected credit losses, in addition to the original scenario included in the agreement, it examines two more scenarios, assigning likelihoods to their occurrence and then employing the DCF method to calculate the amount of the required impairment.
- For financial assets where the expected credit loss is estimated on the basis of collective principles – on the basis of the PD*LGD*EAD formula – rather than by outlining individual cash flow scenarios, it incorporates the probability of the various scenarios into its model during the determination of the PD value and thus calculates the amount of the required impairment.

III. Exposure portfolios for transaction rating

In order to estimate the impairment or provisioning as accurately as possible, the Bank identified the following exposure portfolios from its current portfolio. Each portfolio adequately aggregates transactions that have characteristics similar to each other, so each portfolio is internally sufficiently homogeneous while being sufficiently different from each other so that the rating indicators that form the basis for impairment and provisioning, and their relative weight, can be calibrated separately for each portfolio in order to reach a more accurate estimate.

(a) Retail customers
  - private individuals
  - primary producers
  - sole traders

(b) Non-retail customers
  - Companies (non-financial corporations)
  - Project companies (special lending exposures)
  - Other financial corporations (e.g. leasing companies, factoring companies)
  - Other non-profit companies
  - Local municipalities
  - Credit institutions (financial institutions)
  - Government/State

(c) Other receivables (fee claims)

(d) Off-balance-sheet liabilities

IV. Transaction rating categories under IFRS 9 (with a different term: buckets)

As a first step in determining the expected credit loss of its financial instruments, the Bank classifies its financial instruments into one of three transaction rating categories (valuation buckets).

(a) Bucket 1 – Well-performing financial instruments

Basically, this bucket includes the financial instruments that the Bank considers to be performing well, as their credit risk is typically low or has not significantly increased compared to the initial recognition.

(b) Bucket 2 – Underperforming financial instruments

This bucket includes financial instruments whose credit risk has increased significantly since the initial recognition, but which have not yet reached non-performing status.

The following are considered to be a significant increase in credit risk:

- Change in lifetime PD in all segments except for the Government/State, Local municipalities and Credit institutions segments: in the lower PD ranges absolute change of PD of 0.25% is the trigger for bucket 2 classification, while in the higher PD ranges relative, 3 times change of PD is the trigger.
- Arrears of more than 30 days (the assumption may be refuted and the period and fact of the moratorium ordered by the authority must also be taken into account)
- A deterioration of 3 categories compared to the initial recognition on the master scale, in the case of segments evaluated using the master scale or a deterioration in lifetime PD compared to the initial lifetime PD value, as described in the regulation
- The deterioration 3 categories in customer rating compared to the initial recognition in the case of financial institutions and the government and municipal segments
- Restructuring of a risk assumption agreement
- “Problematic” classification as described in the policy for problematic transactions (to be considered carefully)
- In the case of retail mortgage loans, a significant increase of over 95% of the loan-to-value ratio compared to at that the time of the disbursement
- In the case of speculative property financing project loans, indicators specified in recommendation 12/2018. (II.27.) of the MNB
- In addition, the Bank may classify certain sectors or certain retail customers as “vulnerable” (e.g. due to the exposure of their jobs/income to a crisis situation) – this “vulnerable” classification also implies a Bucket 2 classification.
- Special circumstances indicating the need for a lifetime assessment

(c) Bucket 3 – Non-performing (defaulted) financial instruments

This bucket includes only the financial instruments that are non-performing (defaulted), classified in the 17th, i.e. last, category (“default”) of the Bank’s 17-grade credit loss master scale, and those that have been overdue for more than 90 days and the part affected by the delay is significant, as well as those classified by the Bank as non-performing according to other criteria specified in the relevant policy.

The real difference between the classification into the three classification categories (buckets) under IFRS 9 is not the individual or collective methodology used for measuring the expected credit loss, or the absolute value of the loss, but rather the relative magnitude of the change in the credit risk, and the fact that

- the expected credit loss is calculated by the Bank on the basis of the 12-month default risk in Bucket 1, whereas in Buckets 2 and 3 the Bank bases its calculation on the lifetime default risk (except for bullet/balloon type transactions where the Bank determines the rate of the expected loss on the basis of the lifetime default risk in Bucket 1 as well, given that in the case of such transactions the default pattern is concentrated over the period beyond the next 12 months), and
- the Bank calculates the interest income on the basis of the gross amortised cost (excluding impairment) in the case of transactions in Bucket 1 and Bucket 2, and on the net amortised cost (including impairment) in the case of transactions in Bucket 3.

V. Overview of the measurement methods used by the Bank

The Bank measures and recognises impairment/provisions in accordance with the rules of IFRS 9 as follows.

V.1. Simplified collective measurement method

The Bank applies the collective measurement method in the case of other receivables (receivables from financial and investment services, typically fees).

Other receivables are receivables from financial and investment services, typically without collateral, which the Bank classifies into the transaction rating buckets set out in the MNB Decree using a simplified rating based on the number of days in delay.

Under the simplified collective measurement method, the Bank determines the amount of impairment on the basis of a predetermined fixed percentage applied to the exposure outstanding on the date of the measurement.

V.2. Individual measurement method

- includes *the PD * LGD * EAD method that shows collective characteristics but is based on individual data, and*
- the *discounted cash flow method based on individual cash flow estimates* ("DCF method").

The Bank applies the individual DCF method to its exposures exceeding HUF 1 billion (subject to certain exceptions set out in the relevant policy), based on expert analysis; while impairment/provision is primarily calculated for exposures below HUF 1 billion on the basis of the method with collective characteristics, taking into consideration PD, LGD and other correction factors estimated on a statistical basis in Bucket 1 and Bucket 2, while the Bank uses the DCF model in Basket 3. In 2021, the Bank increased the threshold for individual assessment from HUF 500 million to HUF 1 billion in order to narrow the range of transactions where expert estimates are used.

V.2.1. Individual measurement model with collective characteristics

As a general rule, the Bank calculates impairment loss on the basis of indicators developed for the estimation of Expected Loss ("EL"), i.e. Probability of Default (PD), Exposure at Default ("EAD") and Loss Given Default ("LGD"). The method used to determine exposure at default depends on whether the item is on-balance-sheet or off-balance-sheet.

(a) In the case of an on-balance-sheet item, "EAD", i.e. the exposure at default means, for the purpose of simplification, the book exposure of that item at the reporting date.

(b) For off-balance-sheet items, "EAD" must first be determined using a credit conversion factor ("CCF"), which is the probability of an exposure ("E") being included in the balance sheet or not.

The Bank establishes the credit conversion factor (equivalent) pursuant to Regulation (EU) No. 575/2013 of the European Parliament (CRD IV), according to a standard method.

Based on the above, the Bank, as a general rule, establishes the expected credit loss using the following formula:

$$EL = PD \times LGD \times EAD \times CCF$$

The calculations are made in accordance with the requirements of IFRS9 using the point in time estimation method, applied in the macroeconomic correction component of PD.

V.2.2. Individual impairment establishment method based on the cash-flow stress model

In addition to the impairment model used as a general rule, the Bank may also use a purely individual measurement model that determines the expected credit loss of a given individually measured transaction using the discounted cash flows ("DCF") method based on CF scenarios developed by an expert.

To establish the basis of the individual impairment established using the DCF method, the credit risk manager of the given loan, in addition to the original contractual cash-flow scenario, based on their best knowledge of the customer and the given transaction develops at least two more potential cash-flow scenarios, where at least one of these is expected to be based on the assumption that the transaction becomes non-performing. The credit risk manager assigns probabilities to the two or more cash flow stress scenarios.

VI. Combined transaction rating (credit risk master scale)

The Bank, combining

(a) its own regularly monitored and updated customer rating categories based on historical data, and

(b) its scoring system for the behaviour of a particular customer concerning a specific transaction ("behavioural scoring"), which also includes forward-looking information,

has created a 17-grade master scale in order to measure credit risk changes for the following segments:

- Retail segment
- Corporate segment
- Other financial corporate segment
- Project loans segment
- Non-profit segment

The 17-grade master scale shows the increase in credit risk from category 1, the lowest credit risk, up to 17, the highest credit risk category characterised by non-performance.

This master scale evaluates the Bank's transactions in a particular portfolio based on a complex set of criteria that not only take into account past data of the particular customer and transaction, but also consider several pieces of forward-looking information based on the customer's transaction behaviour. Based on the master scale, the Bank also adjusts the PD calculated for each transaction by incorporating macroeconomic indicators. Such a complex credit risk monitoring system enables the Bank to detect an increase in credit risk before the particular transaction becomes overdue. As a result, a transaction with a significantly increased credit risk is classified into a transaction rating category (impairment/provisioning bucket) where the impairment/provision calculation is based on a lifetime estimate of the expected credit loss.

The Bank has developed various behavioural point systems for its customer portfolios with significantly different characteristics. These behavioural point systems examine different characteristic behavioural elements concerning transactions under a particular customer portfolio, thereby allowing the transactions belonging to each customer portfolio to be classified to the appropriate level of the single master scale on the basis of the Bank's customer rating/debtor rating and their most typical behavioural patterns during the combined transaction rating process.

The Bank relies on the available ratings of external rating agencies to determine the probability of default concerning the government, municipal and banking segments.

VII. Macroeconomic adjustment of the PD calibration

In addition to keeping the forward-looking nature of the probability of default (PD) in mind, the Bank monitors external macroeconomic indicators and the MNB's indicator forecasts to ensure the monitoring of economic cycles, and in response to these, adjusts, for each transaction, the base PD values determined in the first round, with the macro factor being a constituent component of the final PD as a multiplying factor. In selecting the model variables, the Bank has taken into account the fact that these external macroeconomic indicators are in all cases publicly available to users and the forecasts of those indicators are continuously available and expected to remain so for the long term. The differentially defined macroeconomic indicators include:

- Gross Domestic Product (GDP) volume indices – seasonally and calendar-adjusted and balanced data (previous quarter = 100.0%),
- Customer price index (CPI),
- Unemployment rate.

In line with the MNB's requirements, the Bank uses indicator forecasts according to the 3 scenarios (baseline, favourable, adverse) prepared by the MNB in its model, where the baseline corresponds to the most probable forecast trajectory, and the favourable and adverse ones are respectively based on more favourable and less favourable projected trajectories. The average of the impairment results calculated with macro-correction multipliers modelled in this way, weighted by the probabilities according to the scenarios, gives the final impairment rate.

Probabilities of the macro scenarios used for the end of 2022:

- baseline: 66.7%
- favourable: 7.7%
- adverse: 25.6%

VIII. Application of a risk multiplier

The PD calculated as described above is in line with IFRS requirements and reflects the Bank's expected credit loss; however, in the case of a combination of specific economic circumstances, the

Bank may decide to apply a multiplier factor that increases PD levels across the board. This combination could, for example, be a risk of unanticipated macroeconomic risks materialising. In such a case, the Bank may use a specific methodology to determine what it considers to be the likely PD increase in the event of a significant deterioration in the general economic situation, and apply this as a multiplier.

IX. LGD calibration

The value of loss given default (LGD) is the difference between the book value of the exposure at the time of default and the amount of collateral that the Bank is expected to be able to use. The Bank determines the value of the collateral that is expected to be available on the basis of a general discount predetermined for each type of collateral, based on the market value of the collateral. The Bank determined the general discount to be used with the market value by collateral type by using external expert estimates.

X. Restructured loans

The Bank has detailed regulations that set forth the rules of restructuring as follows:

(1) The Bank treats all loans, acquired receivables or any other receivables arising from transactions classified as money lending or from other financial services, if containing a discount and granted to the debtor, obligor (hereinafter collectively referred to as the obligor or the customer) at the request of the obligor or the Bank, as restructured receivables. In addition, restructured receivables include commitments related to lending that may become receivables at the customer's discretion (collectively: receivables) if the discount was granted to an obligor that has or is expected to have financial difficulties in meeting its financial obligations.

(2) The Bank recognises receivables as restructured receivables that include a discount and where the original agreement that gave rise to the receivable has been amended to avoid non-payment because the debtor is or, in the absence of the discount, would be unable to meet its repayment obligation under the original contractual terms.

(3) In the absence of information to the contrary, it may be assumed that the debtor has no financial difficulties if the debtor has not had a payment delay of more than 30 days in respect of any of its liabilities to the Bank within 90 days prior to the conclusion or the amendment of the contract.

(4) The Bank does not consider as restructured loans (receivables) those loans in relation to which the underlying agreements have been amended due to changes in market conditions, and where the parties agree on market terms relevant to similar types of agreements, furthermore, the obligor's solvency demonstrates that it will be able to meet its obligations under the agreement.

(5) The Bank does not automatically consider its exposures as restructured for the purposes of MNB Decree 39/2016 (X.11), with regard to repayment rescheduling due to the moratorium, if the exposure is affected by the moratorium. However, this option for preferential treatment is not applicable to exposures that joined the moratorium as of 1 November 2021. The Bank will decide on a case-by-case basis whether to recognise an exposure as a restructured exposure due to the exceptional situation caused by the coronavirus pandemic or due to contractual amendments concluded in the context of the moratorium.

XI. Tables related to credit risk

Loan portfolio by industry

The following table shows the loan portfolio broken down by industry on 31 December 2022 and 31 December 2021.

Data in HUF millions

Sector	31.12.2022	31.12.2021
Agriculture, forestry, fishing	6,294	5,721
Mining, mining services	181	182
Manufacturing	41,797	34,717
Electricity, gas, steam supply, air conditioning	25,249	18,035

Water supply, wastewater collection and treatment, waste management, decontamination	169	369
Construction	12,483	9,003
Trade, vehicle repair	20,872	16,646
Transportation, warehousing	15,367	2,079
Accommodation and food service activities	6,552	5,055
Information and communication	699	262
Financial and insurance activities	114,847	60,343
Properties	67,525	43,856
Professional and scientific activities, administrative and service support activities	21,970	7,198
Other activities	3,671	2,770
Household/Retail	41,233	31,115
Public administration and defence, compulsory social security	128	241
Training	83	103
Human health services and social work activities	1,122	819
Arts, entertainment and recreation	741	11
Other services	31,155	10,017
Total	**412,138**	**248,542**

Breakdown of customer portfolio by rating

The following table shows the breakdown of customer loans by internal rating categories (master scale rating).

Data in HUF millions

		31.12.2022		31.12.2021	
	Internal rating	Gross exposure	Impairment	Gross exposure	Impairment
Retail segment	1-4 High rating	0	0	0	0
	5-8 Average rating	23,048	33	16,743	47
	9-12 Below average rating	1,865	21	4,643	2
	13-17 Non-performing	1,958	19	541	4
		26,872	**74**	**21,927**	**53**
Corporate segment	1-4	0	0	18,150	3
	5-8	146,731	204	76,310	85
	9-12	1,993	0	2,696	0
	13-16	2,499	16	58	11
		151,223	**221**	**97,215**	**99**
Other financial corporate segment	1-4	0	0	10,941	8
	5-8	51,215	68	13,421	41
	9-12	15,970	0	1,500	0
	13-16	308	1	0	0
		67,493	**69**	**25,862**	**48**
Project loans	1-4	0	0	4,562	0
	5-8	55,113	186	43,312	87
	9-12	0	0	0	0
	13-17	87	87	111	87
		55,200	**272**	**47,984**	**173**

Non-profit segment	1-4	0	0	671	1
	5-8	1,204	3	0	0
	9-12	0	0	0	0
	13-16	0	0	0	0
		1,204	**3**	**671**	**1**
		301,992	**639**	**193,659**	**374**

		31.12.2022		31.12.2021	
	Internal rating	**Undrawn lines/issued guarantees**	**Provision**	**Undrawn lines/issued guarantees**	**Provision**
Retail segment	1-4	0	0	0	0
	5-8	4,567	17	1,385	12
	9-12	80	0	27	0
	13-16	0	0	1	0
		4,648	**18**	**1,413**	**12**
Corporate segment	1-4	0	0	1,068	0
	5-8	39,456	126	21,616	45
	9-12	0	0	753	0
	13-16	0	0	0	0
		39,456	**126**	**23,437**	**46**
Other financial corporate segment	1-4	0	0	29,842	0
	5-8	25,670	5	150	1
	9-12	0	0	0	0
	13-16	0	0	0	0
		25,670	**5**	**29,992**	**1**
Project loans	1-4	0	0	363	0
	5-8	12,655	5	6,148	6
	9-12	0	0	0	0
	13-16	0	0	0	0
		12,655	**5**	**6,511**	**7**
Non-profit segment	1-4	0	0	0	0
	5-8	398	0	0	0
	9-12	0	0	0	0
	13-16	0	0	0	0
		398	**0**	**0**	**0**
		82,828	**154**	**61,354**	**66**

The above table does not include the portfolio-level overlay, which amounts to HUF 50 million at 31.12.2022 (it was also HUF 50 million at 31.12.2021).

Loan portfolio coverage

The following table shows the market value of collateral related to the segments of the loan portfolio as of 31.12.2022 and 31.12.2021.

Data in HUF millions

	31.12.2022			31.12.2021		
	Net exposure	Collateral	Not covered	Net exposure	Collateral	Not covered
Retail segment	26,798	39,133	0	21,874	29,975	0
Corporate segment	151,003	152,659	0	97,116	138,253	0
Other financial corporate segment	67,424	91,731	0	25,814	53,122	0
Project loans	54,928	82,893	0	47,811	81,651	0
Local municipalities	128	416	0	241	730	0
Non-profit segment	1,201	1,201	0	671	692	0
Bank segment	40,000	70,000	0	10,023	0	10,023
State segment	33,354	20,013	13,342	4,729	486	4,243
Total	**374,836**	**458,045**	**13,342**	**208,279**	**304,910**	**14,266**

Exposures and their collaterals classified in Bucket 3

Data in HUF millions

	Gross exposure	Collateral
31.12.2022	1,505	2,338
31.12.2021	529	2,338

Collaterals by segment by type of collateral

Data in HUF millions

Collateral type	31.12.2022	31.12.2021
Retail segment		
Guarantee	763	746
Property	34,405	20,726
Deposit / Cash / Hungarian government securities / Other security deposit	4,556	8,474
Other	27	29
Retail segment total	**39,751**	**29,975**
Corporate segment		
Guarantee	19,194	19,741
Property	59,658	50,643
Suretyship	16,362	15,044
Deposit / Cash / Hungarian government securities / Other security deposit	32,295	12,637
Other	25,150	34,519
Corporate segment total	**152,659**	**132,584**
Other financial corporate segment		
Guarantee	5,620	3,170
Property	1,404	1,890
Suretyship	75,560	34,850
Deposit / Cash / Hungarian government securities / Other security deposit	9,147	12,343
Other	0	869
Other financial corporate segment total	**91,731**	**53,122**
Project loans		
Guarantee	11,443	10,908
Property	54,528	54,184

Suretyship	1,875	1,952
Deposit / Cash / Hungarian government securities / Other security deposit	2,590	3,408
Other	12,457	9,498
Project loans total	**82,893**	**79,950**
Non-profit segment		
Suretyship	304	107
Other	897	585
Non-profit segment total	**1,201**	**692**
Grand total	**368,235**	**296,323**

Movements between IFRS 9 buckets

Data in HUF millions

2022

Bucket classification at the beginning/end of year	Bucket 1	Bucket 2	Bucket 3	Derecognised during the period	Total
Impairment					
31.12.2021	**301**	**18**	**99**	**-25**	**393**
Created during the period	216	36	0	0	
Bucket 1	43	71	6	-150	
Bucket 2	0	90	1	-3	
Bucket 3	0	0	0	0	
31.12.2022	**561**	**215**	**105**	**-178**	**704**
Provision					
31.12.2021	**67**	**3**	**0**	**-4**	**66**
Created during the period	127	7	0	0	
Bucket 1	-16	0	0	-30	
Bucket 2	0	0	0	0	
Bucket 3	0	0	0	0	
31.12.2022	**178**	**11**	**0**	**-34**	**154**

Data in HUF millions

2021

Bucket classification at the beginning/end of year	Bucket 1	Bucket 2	Bucket 3	Derecognised during the period	Total
Impairment					
31.12.2020	**120**	**2**	**86**	**-8**	**200**
Created during the period	123	4	0	0	
Bucket 1	58	2	13	-17	
Bucket 2	0	10	0	0	
Bucket 3	0	0	0	0	
31.12.2021	**301**	**18**	**99**	**-25**	**393**
Provision					
31.12.2020	**14**	**3**	**0**	**-3**	**14**

2021

Bucket classification at the beginning/end of year	**Bucket 1**	**Bucket 2**	**Bucket 3**	**Derecognised during the period**	**Total**
Created during the period	61	0	0	0	
Bucket 1	-8	0	0	-1	
Bucket 2	0	0	0	0	
Bucket 3	0	0	0	0	
31.12.2021	**67**	**3**	**0**	**-4**	**66**

Restructured transactions

At 31.12.2022, the Bank has 60 transactions of 49 customers, totalling HUF 9,257 million, recorded as restructured, all of which have been restructured due to the moratorium. (At 31.12.2021, the Bank had 84 transactions of 70 customers, totalling HUF 10,822 million, recorded as restructured.)

Impairment movement board

Data in HUF millions

Bucket 1	Impairment					Gross exposure				
	Opening - 01.01.2022	Created	Credit risk change	Derecognition	Closing - 31.12.2022	Opening - 01.01.2022	Created	Change in exposure	Derecognition	Closing - 31.12.2022
Customer loans measured at amortised cost										
Retail segment	44	5	7	-40	16	21,367	12,239	-1,329	-6,856	25,420
Corporate segment	84	74	13	-7	163	94,643	74,135	-4,910	-18,551	145,318
Other financial corporate segment	48	40	12	-32	69	22,467	50,138	-1,727	-6,780	64,098
Project loans	76	38	22	-71	65	42,406	18,817	-2,455	-8,733	50,035
Local municipalities	0	0	0	0	0	241	0	-58	-55	128
Non-profit segment	1	2	1	0	3	671	948	-100	-315	1,204
Bank segment	8	0	0	-8	0	175,270	265,005	0	-182,170	258,105
State segment	10	59	-6	-1	62	4,739	30,415	234	-1,971	33,418
Total customer loans measured at amortised cost	**271**	**218**	**50**	**-158**	**378**	**361,803**	**451,697**	**-10,345**	**-225,431**	**577,724**
Securities measured at amortised cost										
State segment	32	5	0	0	37	110,337	18,642	-907	-15	128,057
Bank segment							93,622	0	-90	93,531
Total securities measured at amortised cost	**32**	**5**	**0**	**0**	**37**	**110,337**	**112,264**	**-907**	**-105**	**221,588**
Securities measured at fair value through other comprehensive income										
Bank segment	0	0	0	0	0	33,088	26,594	89	-28,662	31,109
State segment	3	1	0	-3	2	10,431	4,258	166	-8,709	6,147
Total securities measured at fair value through other comprehensive income	**3**	**1**	**0**	**-3**	**2**	**43,519**	**30,853**	**255**	**-37,371**	**37,256**
Interbank placements										
Interbank placements	0	0	0	0	0	16,900	0	0	0	16,900
Total interbank placements	**0**	**0**	**0**	**0**	**0**	**16,900**	**0**	**0**	**0**	**16,900**
Bucket 1 total	**308**	**224**	**50**	**-161**	**418**	**532,561**	**594,814**	**-10,997**	**-262,908**	**853,469**

	Impairment					Gross exposure				
Bucket 2	**Opening - 01.01.2022**	**Created**	**Credit risk change**	**Derecognition**	**Closing - 31.12.2022**	**Opening - 01.01.2022**	**Created**	**Change in exposure**	**Derecognition**	**Closing - 31.12.2022**
Customer loans measured at amortised cost										
Retail segment	6	36	10	-1	52	565	856	385	0	1,805
Corporate segment	5	6	32	0	43	1,660	1,150	2,036	112	4,957
Other financial corporate segment	0	0	0	0	0	0	0	0	0	0
Project loans	11	2	110	-2	122	8,146	228	714	0	9,089
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	0	0	0	0	0
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total customer loans measured at amortised cost	**24**	**44**	**152**	**-3**	**216**	**10,371**	**2,234**	**3,135**	**112**	**15,851**
Securities measured at amortised cost										
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at amortised cost	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Securities measured at fair value through other comprehensive income										
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Interbank placements										
Interbank placements	0	0	0	0	0	0	0	0	0	0
Total interbank placements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Bucket 2 total	**24**	**44**	**152**	**-3**	**216**	**10,371**	**2,234**	**3,135**	**112**	**15,851**

Bucket 3	Impairment Opening - 01.01.2022	Impairment Created	Impairment Credit risk change	Impairment Derecognition	Impairment Closing - 31.12.2022	Gross exposure Opening - 01.01.2022	Gross exposure Created	Gross exposure Change in exposure	Gross exposure Derecognition	Gross exposure Closing - 31.12.2022
Customer loans measured at amortised cost										
Retail segment	3	0	3	0	6	4	0	33	0	37
Corporate segment	11	3	0	0	14	12	132	4	0	147
Other financial corporate segment	0	0	0	0	0	0	0	0	0	0
Project loans	86	0	0	0	86	111	0	-25	0	86
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	0	0	0	0	0
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total customer loans measured at amortised cost	**99**	**3**	**4**	**0**	**106**	**127**	**132**	**12**	**0**	**270**
Securities measured at amortised cost										
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at amortised cost	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Securities measured at fair value through other comprehensive income										
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Interbank placements										
Interbank placements	0	0	0	0	0	0	0	0	0	0
Total interbank placements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Bucket 3 total	**99**	**3**	**4**	**0**	**106**	**127**	**132**	**12**	**0**	**270**
Grand total	**430**	**271**	**206**	**-164**	**740**	**543,060**	**597,179**	**-7,850**	**-262,796**	**869,592**

Bucket 1	Provision Opening - 01.01.2022	Provision Created	Provision Credit risk change	Provision Derecog-nition	Provision Closing - 31.12.2022	Undrawn line Opening - 01.01.2022	Undrawn line Created	Undrawn line Change in exposure	Undrawn line Derecog-nition	Undrawn line Closing - 31.12.2022
Customer loans measured at amortised cost										
Retail segment	12	10	0	-12	10	1,412	4,270	1	-1,372	4,311
Corporate segment	45	113	8	-41	125	26,886	29,141	1,419	-15,777	41,669
Other financial corporate segment	1	0	4	0	5	25,992	24,132	1,022	-29,477	21,670
Project loans	1	4	-1	-4	-1	3,995	9,764	79	-3,697	10,141
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	0	398	0	0	398
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	5,576	7,000	0	-2,529	10,047
Total customer loans measured at amortised cost	**59**	**127**	**11**	**-58**	**139**	**63,861**	**74,706**	**2,522**	**-52,853**	**88,235**
Bucket 1 total	**59**	**127**	**11**	**-58**	**139**	**63,861**	**74,706**	**2,522**	**-52,853**	**88,235**

Bucket 2	Provision Opening - 01.01.2022	Provision Created	Provision Credit risk change	Provision Derecog-nition	Provision Closing - 31.12.2022	Undrawn line Opening - 01.01.2022	Undrawn line Created	Undrawn line Change in exposure	Undrawn line Derecog-nition	Undrawn line Closing - 31.12.2022
Customer loans measured at amortised cost										
Retail segment	0	7	0	0	7	0	337	-1	0	335
Corporate segment	3	0	0	0	3	18	1,132	104	0	1,254
Other financial corporate segment	0	0	0	0	0	0	0	0	0	0
Project loans	0	0	0	0	0	2	0	0	-2	0
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	0	0	0	0	0
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total customer loans measured at amortised cost	**3**	**7**	**0**	**0**	**10**	**20**	**1,469**	**103**	**-2**	**1,589**
Bucket 2 total	**3**	**7**	**0**	**0**	**10**	**20**	**1,469**	**103**	**-2**	**1,589**
Grand total	**62**	**134**	**11**	**-58**	**149**	**63,880**	**76,175**	**2,625**	**-52,855**	**89,824**

The movements tables for impairment and provisions do not include the portfolio-level overlay, which amounts to HUF 50 million at 31.12.2022 (it was also HUF 50 million at 31.12.2021).

39.8 Market risk

The Bank controls its market price risks, and thus, in particular, its foreign exchange, interest rate and security exposures, through an appropriate internal and external targeted limit system. At present, Treasury's own-account trading is largely related to liquidity management, meeting customer needs and hedging these and other transactions of the Bank.

Counterparty and customer limits are set for the Treasury's counterparties, which are recorded in the Treasury's front office system (Inforex). The Bank mitigates its risks concerning major institutional counterparties through netting and margin (ISDA, CSA, GMRA) agreements.

Any market risks resulting from trading book exposures have been limited in scope, and the thresholds have been respected – trading was mostly done in government securities and discount treasury bills. The Bank also had stock-exchange listed equity positions, which are not in the trading book, since they are to be held and not sold. The Bank does not currently trade in non-linear foreign currency or interest rate derivatives or commodities.

Interest rate risk

The Bank considers the management of interest rate risk in the banking book (IRRBB) to be of high importance, and, via Interbank Transactions (IRS, CCIRS), replaces its major fixed-rate assets with variable-rate assets that are adjusted to the liabilities. The trading book interest rate risk is described in the Market Risks section of the Trading Book.

Interest rate risk typically arises due to the fact that the repricing time, repricing reference, or the repricing rate or mark-up of the asset and liability items differ from each other.

The capital requirement for the Bank Book's interest rate risk under Pillar 2 is determined by the Bank through interest rate sensitivity stress calculations based on the time remaining until repricing, taking into account the individual cash flow elements (assets, liabilities) of the transactions, as well as through their gap values and indicators for each repricing band. The calculations examine the potential changes in the Bank's economic value of equity ("EVE"), the expected net interest income ("NII") for the year, and the potential changes in expected fair value of earnings ("VE") on the portfolio as a function of the changes in yield curve levels. During the modelling process, in the case of loans, the Bank takes into account the results of the impairment model, applies a scenario rate and direction-dependent specific model for the repricing delay and the inflow and outflow of demand deposits into and from time deposits, and takes into account the options for legal and embedded negative interest rates. During its stress tests, the Bank also examines stress cases of its own design, in addition to the supervisory requirements (the "standard" tests). The stress scenarios are as follows, of which both EVE, NII and VE versions have been produced.

Main stress scenarios:

Number	Scenario	Type	Method
1	Parallel_UP	standard	Parallel yield upshift
2	Parallel_DOWN	standard	Parallel yield downshift
3	Steepening	standard	short-term yields fall, long-term yields rise
4	Flattening	standard	short-term yields rise, long-term yields fall
5	Short_UP	standard	short-term yields rise
6	Short_DOWN	standard	short-term yields fall
7	Long_UP	Gránit Bank requirement	long-term yields rise
8	Long_DOWN	Gránit Bank requirement	long-term yields fall
9	Sensitivity_UP	Gránit Bank requirement	Parallel yield upshift
10	Sensitivity_DOWN	Gránit Bank requirement	Parallel yield downshift
11	Parallel_UP_Dinamic	Gránit Bank requirement	Parallel yield upshift, taking into account the effects of portfolio changes
12	Parallel_DOWN_Dinamic	Gránit Bank requirement	Parallel yield downshift, taking into account the effects of portfolio changes
15	Parallel_UP_OLD_STANDARD	For the Supervisory Limit	200 bp parallel upshift
16	Parallel_DOWN_OLD_STANDARD	For the Supervisory Limit	200 bp parallel upshift

Stress rates used in the calculations, by currency:

CCY	Type	Base scenario	Shift in base points	CCY	Type	Base scenario	Shift in base points
HUF	standard	Parallel +/-	250	CHF	standard	Parallel +/-	100
HUF	standard	Short +/-	350	CHF	standard	Short +/-	150
HUF		Long +/-	160	CHF		Long +/-	100
EUR	standard	Parallel +/-	200	GBP	standard	Parallel +/-	250
EUR	standard	Short +/-	250	GBP	standard	Short +/-	300
EUR		Long +/-	100	GBP		Long +/-	150
USD	standard	Parallel +/-	200	JPY	standard	Parallel +/-	100
USD	standard	Short +/-	300	JPY	standard	Short +/-	100
USD		Long +/-	150	JPY		Long +/-	100
All		Sensitivity +/-	100	PLN	standard	Parallel +/-	250
All		Parallel Dinamic +/-	conforming to the standard	PLN	standard	Short +/-	350
All	"old standard"	Parallel +/-	200	PLN		Long +/-	150

The Bank quantifies the interest rate risk, checks compliance with the limit and presents it to the Assets and Liabilities Committee on a monthly basis.

Given its activities, the Bank's reference interest rate risks are not significant.

Stress test results at the end of 2022:

Reference no.	Scenario	Type	Results by currency (in HUF) Total Stress amount	HUF	EUR	USD	Other
EVE - 1	Parallel_UP	standard	-2,111,853,765	-2,328,566,855	201,960,451	14,784,446	-31,806
EVE - 2	Parallel_DOWN	standard	2,484,548,271	2,703,925,206	-205,422,294	-13,987,176	32,534
EVE - 3	Steepening	standard	684,509,052	513,793,655	183,269,066	-12,583,424	29,755
EVE - 4	Flattening	standard	-9,609,211	95,807,743	-121,990,733	16,609,580	-35,802
EVE - 5	Short_UP	standard	-1,866,944,254	-1,817,563,291	-70,403,998	21,067,668	-44,633
EVE - 6	Short_DOWN	standard	2,152,731,072	2,067,251,671	104,836,931	-19,403,607	46,076
EVE - 7	Long_UP	Gránit Bank requirement	638,510,178	490,360,667	147,638,955	510,583	-28
EVE - 8	Long_DOWN	Gránit Bank requirement	379,046,850	520,720,426	-141,162,105	-511,499	28
EVE - 9	Sensitivity_UP	Gránit Bank requirement	-710,711,835	-820,049,153	101,916,894	7,434,207	-13,784
EVE - 10	Sensitivity_DOWN	Gránit Bank requirement	774,023,290	883,640,116	-102,110,759	-7,519,982	13,914
EVE - 11	Parallel_UP_Dinamic	Gránit Bank requirement	-975,961,438	-1,215,183,889	224,469,811	14,784,446	-31,806
EVE - 12	Parallel_DOWN_Dinamic	Gránit Bank requirement	2,484,548,271	2,703,925,206	-205,422,294	-13,987,176	32,534
EVE - 15	Parallel_UP_OLD_STANDARD	For the Supervisory Limit	-1,620,291,938	-1,837,009,396	201,960,451	14,784,446	-27,438
EVE - 16	Parallel_DOWN_OLD_STANDARD	For the Supervisory Limit	1,863,350,243	2,082,732,101	-205,422,294	-13,987,176	27,611
NII - 1	Parallel_UP	standard	3,218,563,312	4,415,106,624	-165,114,866	-1,037,673,931	6,245,486
NII - 2	Parallel_DOWN	standard	-3,155,557,554	-4,296,346,445	167,081,744	979,887,277	-6,180,130
NII - 3	Steepening	standard	-2,487,279,203	-3,597,554,824	164,222,194	951,702,875	-5,649,447
NII - 4	Flattening	standard	3,465,272,933	4,868,117,576	-169,770,212	-1,240,103,185	7,028,755
NII - 5	Short_UP	standard	4,159,084,562	5,919,982,964	-217,818,842	-1,551,869,504	8,789,944
NII - 6	Short_DOWN	standard	-4,094,888,659	-5,709,309,893	166,578,030	1,456,486,522	-8,643,317
NII - 7	Long_UP	Gránit Bank requirement	128,577,042	124,910,314	5,982,091	-2,320,696	5,334
NII - 8	Long_DOWN	Gránit Bank requirement	-138,091,737	-133,865,291	-6,541,815	2,320,696	-5,327
NII - 9	Sensitivity_UP	Gránit Bank requirement	1,161,178,184	1,762,124,226	-84,793,227	-518,836,966	2,684,151
NII - 10	Sensitivity_DOWN	Gránit Bank requirement	-1,137,249,488	-1,722,378,003	88,966,913	498,780,396	-2,618,795
NII - 11	Parallel_UP_Dinamic	Gránit Bank requirement	3,416,720,088	4,603,700,819	-155,552,286	-1,037,673,931	6,245,486

NII - 12	Parallel_DOWN_Dinamic	Gránit Bank requirement	-3,155,557,554	-4,296,346,445	167,081,744	979,887,277	-6,180,130
NII - 15	Parallel_UP_OLD_STANDARD	For the Supervisory Limit	2,332,052,520	3,529,473,016	-165,114,866	-1,037,673,931	5,368,301
NII - 16	Parallel_DOWN_OLD_STANDARD	For the Supervisory Limit	-2,297,802,789	-3,439,636,773	167,081,744	979,887,277	-5,135,038

Stress test results at the end of 2021:

			Results by currency (in HUF)				
Reference no.	**Scenario**	**Type**	**Total Stress amount**	**HUF**	**EUR**	**USD**	**Other**
EVE - 1	Parallel_UP	standard	-1,970,071,313	-2,175,500,448	205,141,202	315,544	-27,611
EVE - 2	Parallel_DOWN	standard	3,274,951,456	3,282,718,597	-7,604,291	-184,452	21,601
EVE - 3	Steepening	standard	445,786,173	437,717,124	8,233,448	-184,452	20,053
EVE - 4	Flattening	standard	-658,480,499	-648,514,295	-10,289,998	355,381	-31,586
EVE - 5	Short_UP	standard	-1,326,732,366	-1,392,254,662	65,111,066	450,388	-39,159
EVE - 6	Short_DOWN	standard	2,267,531,326	2,263,436,290	4,257,085	-184,452	22,404
EVE - 7	Long_UP	Gránit Bank requirement	-656,962,882	-677,077,148	20,103,513	10,475	278
EVE - 8	Long_DOWN	Gránit Bank requirement	881,495,808	899,904,015	-18,397,438	-10,490	-279
EVE - 9	Sensitivity_UP	Gránit Bank requirement	-744,873,885	-811,161,746	66,142,176	158,694	-13,009
EVE - 10	Sensitivity_DOWN	Gránit Bank requirement	1,453,984,245	1,464,189,031	-10,055,445	-160,578	11,237
EVE - 11	Parallel_UP_Dinamic	Gránit Bank requirement	-1,970,071,313	-2,175,500,448	205,141,202	315,544	-27,611
EVE - 12	Parallel_DOWN_Dinamic	Gránit Bank requirement	3,137,470,050	3,140,002,389	-2,371,998	-181,949	21,608
EVE - 15	Parallel_UP_OLD_STANDARD	For the Supervisory Limit	-1,536,500,820	-1,741,931,663	205,141,202	315,544	-25,902
EVE - 16	Parallel_DOWN_OLD_STANDARD	For the Supervisory Limit	2,642,421,047	2,650,191,521	-7,604,291	-184,452	18,268
NII - 1	Parallel_UP	standard	3,368,106,101	3,295,962,310	81,112,214	-14,400,798	5,432,375
NII - 2	Parallel_DOWN	standard	-3,223,981,396	-3,222,434,910	0	480,504	-2,026,990
NII - 3	Steepening	standard	-2,610,315,296	-2,608,768,810	0	480,504	-2,026,990
NII - 4	Flattening	standard	3,651,534,268	3,579,944,425	82,640,563	-17,175,157	6,124,437
NII - 5	Short_UP	standard	4,642,644,993	4,544,554,159	111,936,560	-21,505,015	7,659,289
NII - 6	Short_DOWN	standard	-4,198,224,683	-4,196,678,196	0	480,504	-2,026,990
NII - 7	Long_UP	Gránit Bank requirement	55,803,432	56,143,282	-296,749	-48,091	4,990
NII - 8	Long_DOWN	Gránit Bank requirement	-65,933,145	-65,977,091	0	48,091	-4,145
NII - 9	Sensitivity_UP	Gránit Bank requirement	1,329,886,055	1,300,974,506	33,440,265	-7,200,399	2,671,683
NII - 10	Sensitivity_DOWN	Gránit Bank requirement	-1,314,824,883	-1,314,023,928	0	480,504	-1,281,458
NII - 11	Parallel_UP_Dinamic	Gránit Bank requirement	3,368,106,101	3,295,962,310	81,112,214	-14,400,798	5,432,375
NII - 12	Parallel_DOWN_Dinamic	Gránit Bank requirement	-3,018,460,572	-3,016,914,085	0	480,504	-2,026,990
NII - 15	Parallel_UP_OLD_STANDARD	For the Supervisory Limit	2,697,217,684	2,625,162,903	81,112,214	-14,400,798	5,343,365
NII - 16	Parallel_DOWN_OLD_STANDARD	For the Supervisory Limit	-2,607,378,181	-2,605,831,695	0	480,504	-2,026,990

Currency risk

The Bank does not have any significant open foreign exchange positions, and Treasury continuously monitors the risk coverage needs.

The additional Pillar 2 capital requirement of foreign exchange positions is quantified using the methodology of the standardised VaR calculator required by the Regulator, also taking into account the Regulator's relevant recommendations. The capital requirement for foreign exchange risk is, in line with the net positions, not significant. VaR is by definition the estimated amount of money that can be lost on a given portfolio due to market risk over a specified period and at a given confidence level. This measurement takes into account the market risk associated with the current portfolio. The

Bank also quantifies stressed VaR values, the essence of the calculation being that a correlation matrix reflecting high volatilities caused by a former market crisis period is used.

The total currency risk capital requirement is determined by the higher of the VaR and SvaR measures. Pillar 2 parametric VaR calculation results at a confidence level of 99% and with a 10-day retention period are as follows:

Value at Risk calculations for the Bank's total foreign exchange risk

Confidence level:	99%	
Portfolio retention period:	1 day	
	Maximum calculated loss with 99% certainty (in million HUF)	
VaR values	**2022**	**2021**
Average daily value	3.58	1.75
Lowest value	0.53	0.63
Highest value	13.44	4.84
At the end of the year	1.72	1.63
SvaR values	**2022**	**2021**
Average daily value	5.11	5.03
Lowest value	0.73	1.59
Highest value	19.89	11.51
At the end of the year	3.34	4.63
Total capital requirement (Pillar II)	33.75	24.48

In addition, the Bank operates its own VaR model using a dedicated system (Varitron), whose results are used alongside the analytical targets for limit monitoring purposes regarding foreign exchange risks, using parametric VaR calculation results at a confidence level of 99% with a 10-day retention period.

Trading Book Market Risks

With respect to the interest rate risk of the Trading Book and the exchange rate risk of the shares in it, during 2020 the Bank introduced the value at risk calculation, which is a parametric VaR and SVaR calculation with a 99% confidence level and a 10-day retention period, in line with the methodology mentioned in relation to currency risk. These risks are moderate. Results of the calculations:

<u>Value at Risk calculations for the interest rate risk of the Trading Book</u>

Confidence level:	99%	
Portfolio retention period:	10 days	
	Maximum calculated loss with 99% certainty (in million HUF)	
VaR values	**2022**	**2021**
Average daily value	59.09	4.30
Lowest value	7.75	0.52
Highest value	656.24	27.99
At the end of the year	56.37	7.91

SvaR values	**2022**	**2021**
Average daily value	65.33	18.30
Lowest value	20.63	5.11
Highest value	307.03	80.86
At the end of the year	55.36	21.96
Total capital requirement (Pillar II)	366.53	38.03

Value at Risk calculations for the equity risk of the Trading Book

Confidence level:	99%
Portfolio retention period:	10 days

	Maximum calculated loss with 99% certainty (in million HUF)	
VaR values	**2022**	**2021**
Average daily value	0.00	0.00
Lowest value	0.00	0.00
Highest value	0.00	0.00
At the end of the year	0.00	0.00

SvaR values	**2022**	**2021**
Average daily value	0.00	0.00
Lowest value	0.00	0.00
Highest value	0.00	0.00
At the end of the year	0.00	0.00
Total capital requirement (Pillar II)	0.00	0.00

At the end of 2022, the securities in the Trading Book were all government bonds with a nominal value of HUF 2,537 million. There was no equity position.

The Bank does not trade in commodities or non-linear interest rate derivatives.

Organisational structure

The Bank's market risk management area is located within Market and Operational Risk Management, which reports to the Risk Management Methodology Directorate under the CRO. This department is responsible for all market risk analysis tasks, individual analyses and regular monitoring, also including the monitoring of market risk limits (daily, weekly, monthly, etc.). This department also conducts the rating of counterparties and the maintenance of related regulations. The activity is supervised by the Asset-Liability Committee, through which, and through regular monthly monitoring and limit approvals, the management is also involved in the processes.

39.9 Liquidity risk

The operative management of liquidity risks is the responsibility of the Treasury Directorate, while regulatory and monitoring tasks are carried out jointly with Market and Operational Risk Management.

In compliance with the regulations pertaining to prudent operations, the Bank is required to manage its own resources and the resources entrusted to it by other parties in a way that ensures the maintenance of both its prompt liquidity and long-term solvency. The Bank's liquidity management procedure applies to and is based on "normal" market conditions. Separate instructions regulate the requirements to be met in the case of a liquidity emergency. In addition, the procedure is based on and is in compliance with the current monetary policy and legislation; any changes affecting liquidity must immediately be discussed and the appropriate changes, if necessary, must be approved by the Asset-Liability Committee or, where appropriate, the Board of Directors.

The Bank manages its liquidity risks primarily through the establishment of appropriate processes and control mechanisms and the creation of an adequate level of liquidity reserves.

Principles to be applied in the liquidity management process:

- The Bank draws up a liquidity plan for assets, liabilities and relevant off-balance-sheet items. Continuous monitoring and updating of this plan is an essential part of the Bank's liquidity management and the management of assets and liabilities. Liquidity planning is supervised by the Asset-Liability Committee.
- A short-term (30-day, with particular attention to the first two weeks) cash flow plan is made
- concerning the Bank, broken down by day and currency at least for the first week.
- A rolling type financing plan is made concerning the Bank, broken down by month, for the next three-month period. The plan must be prepared for one expected situation and, depending on the uncertainty of the estimate, for one or more stress scenarios, in line with the MNB's recommendation on the measurement, management and control of liquidity risks.
- The liquidity forecast – in its normal and stressed versions – is prepared by the Treasury's Liquidity Management area and is submitted for approval to the Bank's Asset-Liability Committee.
- In order to monitor maturity compliance, long-term maturity coverage calculations are also required.
- Regarding customer deposits, the Bank regularly monitors and analyses the composition and maturity structure of deposits and the development of the key deposits. During the analysis, particular attention must be paid to the development of deposit concentrations
- When preparing the regular weekly liquidity status report – which Treasury compiles from customer-level data and distributes to the Bank's Managers on a weekly basis – the deposit situation is examined in a weekly/monthly/3-monthly maturity breakdown. In respect of the above periods, the changes in the volume of fixed deposits above HUF 100 million are assessed, while the volume of deposits subject to renewal risk is identified separately. Treasury examines individually the renewal of large maturing deposits that are particularly important in terms of liquidity (deposits of at least 10% of own funds), and conducts regular business-line reconciliation in these cases.

Maturity transformation is a major source of income for the Bank, however, only risks of an acceptable degree must be assumed for the sake of profitability. A strategic question is the degree of liquidity risk (maturity transformation) tolerated by the Bank's management. With regard to the maturity structure of liabilities and assets, to be established by the Bank, the Bank must strive to extend the maturity structure of the funds to be raised and to determine the maturity of loans on the basis of the structure of available/attainable funds.

Liquidity table of financial assets and liabilities -- 31.12.2022 (contracted, remaining non-discounted capital and interest cash flows)

Financial assets	Remaining maturity						
	0-7 days	8-30 days	31-90 days	91-180 days	181-365 days	over 365 days	Total
Liquid assets	294	0	0	0	0	0	**294**
Securities	155,672	6	100,485	3,291	2	170	**259,627**
Loans and advances to customers	3,808	4,902	1,883	40,787	14,920	287,056	**353,355**
Receivables from the MNB and other credit institutions	301,597	41,172	107	54	0	83,019	**425,949**
Other assets	908	0	0	0	0	0	**908**
Derivative financial assets	53,020	34,431	6,620	9,934	21,966	265,499	**391,470**
Contingent receivables	426	0	0	0	0	0	**426**
of which: Guarantees, letters of credit received	26	0	0	0	0	0	**26**
Received credit lines	400	0	0	0	0	0	**400**
Total	**515,725**	**80,511**	**109,095**	**54,066**	**36,888**	**635,743**	**1,432,028**

Financial liabilities	Remaining maturity						
	0-7 days	8-30 days	31-90 days	91-180 days	181-365 days	over 365 days	Total
Liabilities to customers	396,642	85,067	27,845	12,940	15,399	13,657	**551,549**
Liabilities to the MNB and other credit institutions	113,216	26,709	21,995	9,614	14,587	214,569	**400,690**
Issued securities	0	0	0	0	0	0	**0**
Derivative financial instruments	52,690	35,576	3,662	7,596	13,388	205,797	**318,709**
Contingent liabilities	92,712	0	0	0	0	0	**92,712**
of which: Guarantees, letters of credit granted	23,830	0	0	0	0	0	**23,830**
Granted credit lines	68,882	0	0	0	0	0	**68,882**
Total	**655,260**	**147,353**	**53,502**	**30,149**	**43,373**	**434,023**	**1,363,661**

Liquidity table of financial assets and liabilities -- 31.12.2021 (contracted, remaining non-discounted capital and interest cash flows)

Financial assets	Remaining maturity						
	0-7 days	8-30 days	31-90 days	91-180 days	181-365 days	over 365 days	Total
Liquid assets	330	0	0	0	0	0	**330**
Securities	136,358	11	84,463	3,525	0	166	**224,523**
Loans and advances to customers	2,000	3,653	2,835	6,688	19,133	213,453	**247,762**
Receivables from the MNB and other credit institutions	195,949	0	0	101	0	13,669	**209,720**
Other assets	1,353	0	0	0	0	0	**1,353**
Derivative financial assets	5,469	17,640	7,325	1,834	5,254	125,313	**162,835**
Contingent receivables	228	0	0	0	0	0	**228**
of which: Guarantees, letters of credit received	228	0	0	0	0	0	**228**
Received credit lines	0	0	0	0	0	0	**0**
Total	**341,687**	**21,304**	**94,623**	**12,149**	**24,387**	**352,601**	**846,752**

Financial liabilities	Remaining maturity						
	0-7 days	8-30 days	31-90 days	91-180 days	181-365 days	over 365 days	Total
Liabilities to customers	260,566	17,058	31,169	12,142	5,614	13,339	**339,887**
Liabilities to the MNB and other credit institutions	49,241	25,832	8,692	2,876	2,405	224,466	**313,513**
Issued securities	0	1	52	52	105	8,100	**8,309**
Derivative financial instruments	5,463	17,470	6,879	1,571	5,440	118,726	**155,550**
Contingent liabilities	64,639	0	0	0	0	0	**64,639**
of which: Guarantees, letters of credit granted	4,855	0	0	0	0	0	**4,855**
Granted credit lines	59,784	0	0	0	0	0	**59,784**
Total	**379,909**	**60,361**	**46,792**	**16,641**	**13,564**	**364,631**	**881,899**

39.10 Management of counterparty risk

During the management of counterparty risk, credit and trading limits are adapted to the counterparty risk management system as follows:

In terms of market risks, the rules for establishing counterparty limits and the limit management method have been approved by the Bank's Board of Directors, and continuous monitoring is performed in Treasury's front office system (Inforex). Market risk management monitors compliance with the limits based on information from the system.

It is a general rule that the Bank only assumes any obligation that entails risk-taking if an approved limit exists. For any bank/counterparty and customer with whom Treasury wishes to conclude a business transaction that entails risk-taking, a limit approved by a body with the appropriate decision-making powers must first be set, or the credit risk must be excluded.

Derivative transactions are typically concluded with counterparties in the framework of ISDA, CSA, and GMRA agreements.

In the process of setting limits and analysing and monitoring counterparties, the following factors must be taken into account, also meeting the relevant stipulations of the Counterparty risk assessment policy, the Customer and counterparty rating policy and the Counterparty limit management policy:

- Collateral that can be recognised in terms of capital reduction, such as government/surety guarantees, financial collateral, property collateral. The degree of coverage required for the counterparties depends on the counterparty rating and the magnitude of the counterparty as detailed in the Collateral measurement policy.

  In the case of an institutional counterparty, the Bank typically does not open a counterparty limit based on collateral different from financial or other strong guarantees.

- In order to manage wrong-way risk exposures, counterparty groups and group limits are set up for counterparties between whom a credit risk dependency exists.

For each Treasury transaction the Bank determines the risk weight and percentage charge for the given transaction in the manner and to the extent specified in the Counterparty limit management policy, charging them to the limits set for the counterparty institution (typically lending pre-settlement, settlement, issuer limit types, etc.).

In order to identify and manage risks, counterparty rating as a function involves, on the one hand, an examination that is performed before the assumption of the exposure, as well as continuous risk monitoring.

Limit monitoring and customer risk measurement as a minimum requirement for monitoring is complemented by close cooperation in the mandatory quarterly receivables rating process and actions related to collateral in accordance with the Transaction Rating and Collateral Measurement Regulations.

Partner ratings must be reviewed at least once a year, or whenever an event arises that requires a review of the rating. The measurement of counterparty risk must take into account related market, liquidity, legal and operational risks. During the monitoring process, the Bank also monitors the transparency of the counterparty/group.

If any of the analysts or managers of the Bank becomes aware of significant warning signs (e.g.: the Counterparty's external rating deteriorates, its economic situation worsens significantly, the launch of bankruptcy or winding-up proceedings is published, there are long-term payment delays, etc.), the rating must be updated immediately after the information has become known. In justified cases, an extraordinary rating may serve as a basis for measures to promote the Bank's security.

In the case of negative news from the market, the manager of Treasury or the Risk Management may temporarily suspend the counterparty limit applicable to the Bank's given counterparty.

The Asset-Liability Committee has the decision-making power to close a counterparty limit or to terminate the existing transactions.

The Bank essentially limits the unexpected risk of financial deposits arising from ISDA contracts, even as may arise due to the downgrading of the Bank, by taking minimal trading and typically hedging, i.e. overall moderate net derivative, positions in its activities, while maintaining significant liquid assets. In addition, when regulating the minimum level of liquidity reserves, the Bank takes into account the preparation for stress situations and the results of stress tests that are run regularly.

When concluding ISDA agreements, the Bank properly enforces the principle of symmetric obligations between the parties and the observance of market standards.

With regard to counterparty risk, for the transactions listed in Annex II to Regulation (EU) No 575/2013, the Bank determines the exposure value on the basis of the market pricing method.

39.11 Operational risk

The objective of operational risk management is to support efforts to keep operating costs low, and to promote efficient organisational operations.

The Bank primarily manages operational risks by focusing on prevention and with the continuous monitoring and appropriate elaboration of internal processes, regulations and procedures, event collection and forward-looking self-assessment, the appropriate training of employees participating in the working processes, and the ongoing development and implementation of built-in control mechanisms.

Numerical measurement of the levels of risk takes place through the continuous gathering of data on events that occur, and regular self-assessments based on forward-looking estimates made at individual department level. These surveys outline the patterns in the distribution of the events and the risk factors, thereby helping to identify the areas where intervention is necessary. The process is supported by a network of operational risk officers appointed in each department of the organisation.

All operational risks are to be reported to the operational risk manager, and a relevant report must be submitted to the Asset-Liability Committee on a quarterly basis and at least annually to the Board of Directors.

The Bank prepares an annual self-assessment concerning its operational risks, which is also reported to the Asset-Liability Committee and the Board of Directors.

Based on the collection of loss events, it can be stated that a total of HUF 21,663 million losses were identified in 2022, thus the conservative capital requirement rate created using the robust basic indicator approach under Pillar I (HUF 1,424.9 million) proved to be sufficient to cover operational risks in 2022. By 2022, the Bank completed its self-assessment of operational risks and, according to the results of the audit, no further capital formation is required.

39.12 Risk of excessive leverage

The Bank monitors the risks resulting from excessive leverage through monthly monitoring. The Bank calculates leverage on the basis of the relevant Regulation (EU) 575/2013 and reports it to the Asset-Liability Committee.

The Asset-Liability Committee is entitled to order specific measures in case the value of the indicator falls below the alert level or below the limit value.

39.13 High-risk portfolios

The Bank sets limits for “High-risk portfolios” (balloon, bullet, portfolios built with the cooperation of an independent intermediary, etc.) as defined by the MNB, and accordingly the Bank develops a diversified portfolio paying special attention to risk assessment prior to credit decisions and follow-up management of loans. The Asset-Liability Committee receives monthly information on portfolio developments and limit utilisation.

39.14 Risks considered as not relevant and their justification

Risk of securitisation:

The Bank does not plan to act as a risk transferor, risk taker or sponsor concerning securitisation transactions.

Modelling risk:

The Bank uses control processes to handle modelling risks, which include regular validation and measurement and repeated measurement, where applicable. Modelling risk arises primarily from VaR models related to impairment and provisioning, and market risk.

40. CAPITAL AND CAPITAL ADEQUACY

The following tables show equity in two structures, as required by Section 114/B of Act C of 2000 in order to facilitate the comparability of equity components presented in these IFRS statements with those presented in previous years' HAS statements.

Data in HUF millions

Based on IFRS financial statements

	31.12.2022	31.12.2021
Subscribed capital	15,395	11,247
Capital reserve	23,466	8,948
Treasury stock	-19,707	-3,040
Profit reserve	16,467	6,188
Reserve for share-based payment transactions settled in equity instruments	303	141
Other reserves	2,061	942
Accumulated other comprehensive income (AOCI)	-1,160	-760
Non-controlling interests	22,275	3,010
Total equity	**59,101**	**26,676**

Based on the Hungarian Accounting Act (Act C of 2000, Section 114/B)

	31.12.2022	31.12.2021
Share capital under IFRS	15,395	11,247
Capital reserve	26,337	9,059
General reserve	2,061	942
Valuation reserve	-1,160	-760
Profit reserve	4,629	2,278
Profit after tax	11,838	3,910
Total equity	**59,101**	**26,676**

Information related to own funds

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR) require that the Bank have a certain level of own funds. The Bank reports its capital adequacy position to the National Bank of Hungary (MNB) on a quarterly basis, and forecasts are regularly made regarding the expected capital adequacy developments.

Data in HUF millions

	2022	2021
Common equity Tier 1 capital (CET1)	44,137	22,252
Additional Tier 1 capital (CET1)	0	5,150
Total Tier 1 capital	**44,137**	**27,402**
Subordinated loan capital	0	100
Total Tier 2 capital	**0**	**100**
OWN FUNDS	**44,137**	**27,502**

According to information presented internally to key management, during the years 2022 and 2021, as well as on 31.12.2022 and 31.12.2021, the Bank met the capital adequacy requirements of the MNB.

The Bank pays no dividends from this year's profit.

The 2022 own funds data presented are preliminary and do not yet include the full 2022 earnings, only the nine months' earnings that can be included as part of the Tier 1 capital, subject to the MNB's approval. Information presented represent Bank only data as prudencial consolidation has been prescribed for the Bank in relation to the Equilor group by the National Bank only in April, 2023.

The Board of Directors approved the financial statements on XX.XX.2023.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO