Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Separate Financial Statements

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

31 December 2022

Fundamenta

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INDEPENDENT AUDITOR’S REPORT
(Free translation)

To the shareholders of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság (the “Company”) which comprise the separate statement of financial position for the financial year ended on 31 December 2022 (in which total assets are MHUF 673 580), the separate statement of total comprehensive income (in which the total comprehensive income for the year is MHUF 4 508 profit), the separate statement of changes in equity, the separate cash flows statement for the financial year then ended and the notes to the separate financial statements comprising significant accounting policies and other explanatory information.

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

Our opinion is consistent with our additional report to the audit committee dated 28 February 2023.

Basis for opinion

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

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

The non-audit services that we have provided to the Company, in the period from 1 January 2022 to 31 December 2022, are disclosed in note 38 to the separate financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company 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.

Our audit approach

Overview

Overall materiality	Overall materiality applied was MHUF 436
Key Audit Matters	Expected credit loss on receivables from customers

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

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

Materiality

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

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

Materiality	MHUF 436
Determination	Adjusted, 5% of the separate profit before tax
Rationale for the materiality benchmark applied	We chose separate profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. The separate profit before tax was adjusted in the calculation for the individual items incurred during the financial year (the amount of extra profit tax and extraordinary OBA payment recognised as expenses). We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Expected credit loss on receivables from customers	
The net amount of receivables from customers valued at amortised cost in the balance sheet (after recognizing credit loss allowance of MHUF 10 394) was MHUF 534 608 as at 31 December 2022, representing 79% of total assets. Management disclosed related assumptions, balances and estimates in points 4.1.b and 6.3 of the notes to the separate financial statements on accounting policy, as well as in notes 11, 28, and 35.1. Credit loss allowance recognised on expected credit losses is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating collective expected credit loss allowances especially when considering the current uncertain economic environment. The first step in the expected credit loss calculation is to identify whether there was significant increase in credit risk. The selected indicators will determine whether a 12-month or a lifetime expected credit loss is calculated. The Company applies impairment models to calculate collective credit loss allowances. These models quantify the probability of default, exposure at default and the loss given default as the primary parameters in the estimation of the recoverable amount, taking into account forward looking information – in line with the requirements of IFRS 9. The modelling methodologies are developed using historical experience, which - in uncertain economic conditions that currently vary across customer segments - can result in limitations in their reliability to appropriately estimate expected credit loss.	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 design and operational effectiveness, including management's approval. Thereby the focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment in expected credit losses. For collective loss allowances we assessed whether the methodology applied by the Company was compliant with IFRS 9 with the support of our internal modelling experts. We recalculated, on a sample basis, selected model parameters and the expected credit loss allowances, and assessed the tool used by the Company to calculate expected credit loss parameters. We checked input data for the expected credit loss allowance calculation (both historical and measurement data), indicators used to determine whether there was significant increase in credit risk and analysed the development of credit losses. In order to address the increased uncertainty of the estimate, we examined the appropriateness of credit risk parameters and models, taking into account the possible distortions of the data currently observed due to public payment facilitation programmes. We assessed the plausibility of expectations and estimates, that have been introduced due to the aforementioned distortions, to identify significant increases in credit risk of single customers or customer groups. We read points 4.1.b, 6.3, 11, 28, and 35.1. of the notes to the separate financial statements to assess whether disclosures are in line with the IFRS 9 regulations.

A further limitation is caused by the fact, that, to reduce the economic consequences of the COVID-19 pandemic, the Hungarian government maintained the loan support programs introduced in 2020, including moratoria on loan repayment transactions available to and still used by many debtors in 2022. These programs complicate a timely reflection of a potential deterioration of the loan portfolio and result in artificially low observed default rates. In addition, the energy crisis and economic slowdown following the Russian-Ukrainian war are also acting in the direction of a deterioration in portfolio quality.

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

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

We have paid special attention to this area, as its balance is significant and requires subjective assumptions and judgments on the part of the management, especially due to the high level of uncertainty we are currently experiencing.

Other information: the separate business report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the separate financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Report on other legal and regulatory requirements

We were first appointed as auditors of the Company on 23 February 2021. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 2 years.

Budapest, 28 February 2023

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

Translation note:

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

(HUF million)	Note	31.12.2022	31.12.2021
ASSETS			
Cash and cash equivalents	9.	36 422	75 494
Securities	10.	82 858	103 286
Receivables from customers	11.	534 608	510 233
Other financial receivables	12.	852	815
Investments in subsidiaries	13.	1 359	1 359
Property, plant and equipment	14.	5 885	6 917
Intangible assets	15.	8 679	8 082
Current income tax assets	32.	1 201	803
Other assets	16.	1 716	2 223
TOTAL ASSETS		**673 580**	**709 212**
EQUITY AND LIABILITIES			
Liabilities to credit institutions	17.	514	0
Liabilities to customers	18.	590 529	630 953
Other financial liabilities	19.	5 802	6 038
Provisions	20.	1 390	1 535
Current income tax liabilities	32.	101	434
Deferred tax liabilities	32.	589	577
Other liabilities	21.	2 019	1 547
TOTAL LIABILITIES		**600 944**	**641 084**
Share capital	22.	2 001	2 001
Capital reserve	22.	2 100	2 100
Retained earnings	22.	49 948	45 006
Statutory reserves	22.	14 079	13 628
Settlement reserve	22.	6 959	6 959
General reserve	22.	7 120	6 669
Profit for the year	22.	4 508	5 393
TOTAL SHAREHOLDERS' EQUITY		**72 636**	**68 128**
TOTAL EQUITY AND LIABILITIES		**673 580**	**709 212**

Budapest, 27 February 2023

Bernadett Tátrai

Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel

Member of the Board

SEPARATE STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

(HUF million)	Note	2022	2021
Interest income	23.	33 508	29 956
Interest expense	23.	-8 090	-9 374
NET INTEREST INCOME	**23.**	**25 418**	**20 582**
Fee and commission income	24.	1 912	1 824
Fee and commission expense	24.	-1 634	-1 596
NET FEE AND COMMISSION INCOME/EXPENSE	**24.**	**278**	**228**
Dividend income	25.	0	800
Foreign exchange translation gains less losses	26.	82	79
Net profit arising from derecognition of financial assets and liabilities measured at amortised cost	27.	-1 273	917
Loss from contract amendments due to payment moratorium	39.	-119	-821
Change in impairment of financial assets and changes in credit provisions	28.	-1 309	-1 553
Other operating income	29.	1 197	871
Other operating expenses	30.	-5 734	-1 948
Operating costs	31.	-13 240	-12 559
PROFIT BEFORE TAX		**5 300**	**6 596**
Income taxes	32.	-792	-1 203
NET PROFIT		**4 508**	**5 393**
OTHER COMPREHENSIVE INCOME		**0**	**0**
TOTAL COMPREHENSIVE INCOME		**4 508**	**5 393**

Budapest, 27 February 2023

Bernadett Tátrai

Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel

Member of the Board

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

(HUF million)	Note	2022	2021*
NET PROFIT		**4 508**	**5 393**
Adjustments for operating activities			
Depreciation and amortisation	31.	2 370	2 615
Interest income	23.	-33 508	-32 325
Interest expenses		8 090	6 569
Impairment of securities and reversal thereof, net	28.	-19	9
Impairment of receivables from customers and reversal thereof, net	28.	1 380	1 506
Impairment of other financial receivables and reversal thereof, net	28.	3	15
Dividend received	25.	0	-800
Net profit from sale of financial assets (securities)	27.	1 273	-917
Profit from sale of property, plant and equipment, intangible assets	29.	-20	-5
Effects related to leases without change in cash flows	33.	100	-217
Loss on derecognition of property, plant and equipment, intangible assets	14.,15.	0	43
Recognition and release of provisions	20.	-145	-25
Income tax expense	32.	792	1 203
Operating cash flows before changes in assets and liabilities from operating activities		**-19 684**	**-22 329**
Changes in assets and liabilities from operating activities			
Securities	10., 27.	1 755	650
Receivables from customers	11.	-25 903	-30 131
Other financial receivables	12.	-40	-10
Other assets	16.	506	-445
Liabilities to customers	18.	-39 934	10 043
Other financial liabilities without leases	19.	445	-304
Other liabilities	21.	619	350
Total changes in assets and liabilities from operating activities:		**-62 552**	**-19 847**
Interest received	23.	30 542	23 240
Dividends received	25.	0	800
Interest paid	23.	-8 375	-6 716
Income taxes paid	32.	-1 657	-722
Net cash from/used in operating activities		**-57 218**	**-20 181**

Investment cash flow	Note	2022	2021
Acquisition of securities	10.,27.	-4 236	-10 353
Proceeds from sale and expiry of securities	10.,27.	22 846	47 567
Acquisition of property, plant and equipment	14.	-428	-390
Proceeds from sale of property, plant and equipment, intangible assets	14.	80	19
Acquisition of intangible assets	15.	-1 667	-1 544
Interest received	23.	1 922	5 705
Net cash from/used in investing activities		**18 517**	**41 004**

Financing cash flow	Note	2022	2021
Interest paid	23.	-204	-160
Borrowing from credit institutions	17.	515	0
Repayment of borrowings	17.	-1	0
Repayment of lease liabilites	33.	-681	-795
Dividend paid	22.	0	-557
Net cash from/used in financing activities		**-371**	**-1 512**
Net increase/decrease in cash and cash equivalents		**-39 072**	**19 311**
Balance at 31 December of the previous year	9.	75 494	56 183
Cash and cash equivalents at 31 December	**9.**	**36 422**	**75 494**

*The data described in the text related to the Separate Statement of Cash Flows for the year ended 31 December 2021 are presented in the column for comparative data in the Separate Statement of Cash Flows for the year ended 31 December 2022 in the corresponding group.

The Company reports cash flows from operating activities using the indirect method.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022 (NOTES 1., 6.18. AND 22.)

(HUF million)	Share capital	Capital reserve	Retained earnings	Statutory reserves		Revaluation reserve	Profit for the year	Total
				Settlement reserve	General reserve			
Balance at 1 January 2021	**2 001**	**2 100**	**43 259**	**6 959**	**6 130**	**0**	**2 286**	**62 735**
Net profit	***0***	***0***	***0***	***0***	***0***	***0***	***5 393***	***5 393***
Total comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**5 393**	**5 393**
Transfer of previous year's profit to retained earnings	0	0	2 286	0	0	0	-2 286	**0**
Total contributions and distributions	**0**	**0**	**2 286**	**0**	**0**	**0**	**-2 286**	**0**
General reserve	0	0	-539	0	539	0	0	**0**
Total other changes in equity	**0**	**0**	**-539**	**0**	**539**	**0**	**0**	**0**
Balance at 31 December 2021	**2 001**	**2 100**	**45 006**	**6 959**	**6 669**	**0**	**5 393**	**68 128**
Net profit	***0***	***0***	***0***	***0***	***0***	***0***	***4 508***	***4 508***
Total comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**4 508**	**4 508**
Transfer of previous year's profit to retained earnings	0	0	5 393	0	0	0	-5 393	**0**
Total contributions and distributions	**0**	**0**	**5 393**	**0**	**0**	**0**	**-5 393**	**0**
General reserve	0	0	-451	0	451	0	0	**0**
Total other changes in equity	**0**	**0**	**-451**	**0**	**451**	**0**	**0**	**0**
Balance at 31 December 2022	**2 001**	**2 100**	**49 948**	**6 959**	**7 120**	**0**	**4 508**	**72 636**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. General information

Fundamenta-Lakáskassza Zrt. – up to 30 June 2003 Fundamenta Magyar-Német Lakás-takarékpénztár Rt. – (hereinafter referred to as the “Company”) was established by deed of foundation dated 5 December 1996.

The Company is consolidated as a subsidiary by the following entities:

- in the largest unit: DZ BANK AG (DE-60265 Frankfurt am Main, Platz der Republik; https://www.dzbank.com)
- in the smallest unit, which is the immediate parent company of the Company: Bausparkasse Schwäbisch Hall AG (DE-74523 Schwäbisch Hall, Crailsheimer Str. 52; https://www.schwaebisch-hall.de).

The Company also publishes these financial statements on its website (www.fundamenta.hu/eredmenyek) and ensures continuous availability for inspection of the published data at least until data relating to the second succeeding financial year are published.

Ownership structure as at 31 December 2022:

The ownership structure was the same as at 31 December 2021.

Shareholders	Nominal value (HUF)	Registered ordinary share Quantity (no)	Registered ordinary share Value (THUF)	Ownership share (%)
Bausparkasse Schwäbisch Hall AG (DE-74523 Schwäbisch Hall, Crailsheimer Str. 52)	10,000	102,551	1,025,510	51.25
Bausparkasse Wüstenrot AG (BWAG) (A-5020 Salzburg, Alpenstrasße 70)	10,000	27,278	272,780	13.63
Wüstenrot & Württembergische AG (DE-70176 Stuttgart, Gutenbergstraße 30)	10,000	22,942	229,420	11.47
Generali Biztosító Zrt. (HU-1066 Budapest, Teréz krt. 42-44.)	10,000	29,770	297,700	14.88
UniCredit Bank Hungary Zrt. (HU-1054 Budapest, Szabadság tér 5-6.)	10,000	14,777	147,770	7.38
Sberbank Magyarország Zrt. u.v.l. (HU-1088 Budapest, Rákóczi út 1-3.)	10,000	2,782	27,820	1.39
TOTAL	**-**	**200,100**	**2,001,000**	**100.00**

In accordance with Act CXIII of 1996 on Home Savings and Loan Associations the Company’s core activity is home savings and loans, including the collection of deposits under contracts, the granting of loans under contracts, and the granting of bridging loans related to such contracts.

The National Money and Capital Market Supervisory Authority (the legal predecessor to the Hungarian Financial Supervisory Authority) authorised its establishment in resolution no. 80/1997 dated 20 March 1997, and the start of its operations in resolution 255/1997 dated 15 May 1997.

The Company was registered in the company register by the Metropolitan Court as the Court of Registration on 24 April 1997, as a company limited by shares, under no. Cg. 01-10-043304.

Fundamenta-Lakáskassza Zrt.:

Tax number:	12217595-4-44
CSO statistical code:	12217595-6419-114-01

Fundamenta-Lakáskassza Zrt. and Fundamenta-Lakáskassza Kft. have conducted their activity since 1 January 2011 as a VAT group, which was authorised by the National Tax and Financial Control Office (currently known as the National Tax and Customs Administration) in a resolution dated 14 December 2010.

At this time, the ninth digit of the tax number of the two group members changed from 2 to 4.

Group ID number: 17781121-5-44

Group EU VAT number: HU17781121.

The group is represented by Fundamenta-Lakáskassza Zrt. Fundamenta-Lakáskassza Zrt. and Fundamenta-Lakáskassza Kft. have been using the option of corporate tax group since 1 January 2019; this option is provided by Act LXXXI of 1996 on Corporate and Dividend Tax as from 2019. Fundamenta Értéklánc Kft. joined the group as of 1 January 2020. The group representative is Fundamenta-Lakáskassza Zrt.

Group ID number: 17100157-6-44

Internal Board members are authorised to sign the financial statements.

Members of the Board of Directors in the financial year:

Bernadett Tátrai

Chairwoman of the Board, Chairwoman-CEO

1121 Budapest, Hegyhát út 15.

László Morafcsik

Deputy CEO, Member of the Board

2112 Veresegyház, Kilátó utca 9.

Rainer Kaschel

Member of the Board

1065 Budapest, Lázár utca 8. 5.em 1.

Attila Soós

Member of the Board

2030 Érd, Iparos utca 136.

2. Compliance with IFRSs

The separate financial statements were prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as: IFRSs) as adopted by the European Union (EU).

The Company meets its annual reporting obligation under Act C of 2000 on Accounting (“Act on Accounting”) with these separate financial statements, in accordance with Section 9/A of the Act on Accounting.

The Company prepared separate financial statements in accordance with the International Financial

Reporting Standards as adopted by the European Union (EU) for the first time as of 31 December 2018. The Company has kept its accounting records and satisfied its reporting obligation under the Act on Accounting in accordance with IFRSs since 1 January 2018.

These financial statements were approved for issue by the Board of Directors on 27 February 2023.

3. Functional and presentation currency

These financial statements were prepared in Hungarian forints as the presentation currency, which is the Company's functional currency.

Unless otherwise indicated, financial data presented in Hungarian forints in the financial statements is rounded to HUF million, while figures in other currencies are rounded to one unit of the foreign currency.

4. Judgements and estimates used in the financial statements

In preparing the financial statements in conformity with the accounting policies, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Future changes in the economic environment, financial strategy, regulatory environment, accounting regulations and other areas may result in changes in estimates, which may have a significant effect on future financial statements.

When preparing the financial statements, the management made an assessment of the entity's ability to continue as a going concern and established that it has the necessary resources to continue as a going concern in the foreseeable future.

The management is not aware of any material uncertainty that would cast significant doubt on the Company's ability to continue as a going concern. Therefore the financial statements have been prepared on a going concern basis.

4.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the financial statements is as follows:

a) IFRS 9 business model and SPPI considerations

Upon the first adoption of IFRS 9, and thereafter upon the recognition of financial assets, the Company assesses whether based on the facts and circumstances that exist at that date it holds the given financial asset in a business model whose objective is to hold assets to collect contractual cash flows, or both to collect contractual cash flows and to sell financial assets.

If the Company determines that the objective of the business model for the given financial asset is to collect contractual cash flows, at the time of initial recognition the Company examines the contractual cash flows of financial assets that are debt instruments, based on which it determines whether the contractual terms of the given financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The classification of financial assets under IFRS 9, and the accounting policies for the business model as well as for SPPI, are laid out in more detail in Note 6.2 b).

b) Use of the IFRS 9 model to determine expected credit loss (ECL)

Under IFRS 9, expected loss is assessed rather than incurred loss.

The Company uses the following parameters for determining expected credit loss:

- LGD = loss given default = expected loss likely to occur in connection with the transaction, expressed in percent
- PD = probability of default = the probability of default of the transaction
- ECL = expected credit loss = the amount of expected loss
- CR = cure rate
- EAD = exposure at default = the gross amortised cost of the transaction at a point in time
- EADD(n) = exposure at default discounted = the average EAD value of the transaction for period n, discounted using EIR
- EIR = effective interest rate
- LEL = Lifetime Estimated Loss = the loss expected for the entire life of the transaction
- 12M EL = 12 Month Estimated Loss = 12-month expected loss

For ECL calculations under IFRS 9, all contracts are classified into a Stage (Stage 1, Stage 2, Stage 3) as part of the rating process.

A transaction is classified into Stage 3 if it is in default, i.e., it meets any of the default criteria. Stage 3 transactions also represent the credit-impaired and non-performing category.

In such cases impairment relating to the transaction is calculated as follows:

ECL = Exposure * LGD* (1 –CR).

Contracts, where the credit risk has increased significantly, but which do not meet any default criteria are classified into Stage 2. (Related indicators are included in Note 6.4.) For Stage 2, lifetime ECL needs to be calculated as follows:

ECL = LEL = PD(1) * LGD(1) * EADD(1) +…+ PD(n) * LGD(n) * EADD(n)

For transactions classified into Stage 1, 12-month expected loss is calculated:

ECL = 12M EL = PD(1) * LGD(1) * EADD(1) +…+ PD(12) * LGD(12) * EADD(12)

The parameters necessary for the determination of ECL are calculated by the Company based on historical data; the method and results of the calculations are fully documented and are updated and revised annually.

Incorporation of forward-looking information based on IFRS 9 is described in Note 35.1/d (Forward-looking information). Furthermore, IFRS 9 allows to apply management overlay, if justified; for more details please refer to Note 35.1/d.

c) Treatment of bridging loans, immediate bridging loans and housing loans

For its customers with home savings contracts in the saving phase, the Company may grant a bridging or immediate bridging loan on one occasion during the savings period if the terms set forth in the loan agreement are met (both bridging and immediate bridging loans hereinafter referred to as: "bridging loans"); following the disbursement date the Company may grant a housing loan based on the loan agreement.

When the contractual amount in the home savings contract is disbursed, the bridging loan is paid off from the amounts deposited by the customer and from the housing loan amount granted.

The Company treats the two contracts, the bridging loan and the subsequent housing loan, as two different financial instruments. The bridging loan ends and is derecognised upon the disbursement of the contractual amount, while the granted housing loan is entered into the books as a new loan.

The transaction costs related to the granting of the bridging loan are amortised until the payment of the contractual amount, not until the end of the housing loan phase. During the housing loan phase, the transaction cost associated with the bridging loan phase is not amortised.

The bridging loans bear different interest to the housing loans. The Company applies two different effective interest rates for the bridging loan and for the housing loan created as of the disbursement date, in light of the different interest conditions for the loans and the practice regarding the amortisation of the transaction cost detailed above.

In the case of the housing loan, the commissions payable on the housing loan are accounted for as transaction cost using the effective interest method.

4.2. Assumptions and estimation uncertainties

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the reporting year, is as follows:

Provisions

The recognition and measurement of provisions and contingent liabilities also imply a high degree of estimation uncertainty, particularly with regard to the most important assumptions on the magnitude and probability of an outflow of resources. For more details please refer to Note 20.

Impairment of financial instruments under IFRS 9

When determining the impairment of financial assets under IFRS 9 the management uses estimates to assess whether or not the credit risk of the financial asset has risen significantly following the initial recognition, and also makes estimates when using forward-looking information for measuring expected credit loss. For more details please refer to Note 6.3.

Impairment of non-financial instruments under IAS 36

The Company monitors indications that the carrying amount of a non-financial asset within the scope of IAS 36 Impairment of assets exceeds its recoverable amount. If any such indication exists, then the asset's recoverable amount is estimated. For more details see Note 6.11.

Determination of the effective interest rate (customer bonus)

From time to time the Company advertises customer campaigns, and for certain groups of customers it gives permanent customer bonuses. The common feature in the customer campaigns is that customers receive the bonus upon disbursement (after 4-10 years of saving). Customers do not receive the customer bonus automatically, it is subject to the terms advertised in the promotion campaign.

The Company prepares an analysis on the probability of a customer becoming entitled to the bonus by reaching the end of the savings period (the terms of the campaign are fulfilled and the contract is not cancelled). The Company takes the amount of the customer bonus into account with the probability determined in this way when recording the initial cash flow of the deposit, and reviews the probability estimate every year. If the backtested probability differs from the probability in the system by more than 5 percentage points, this is treated as an estimate change. The loss of entitlement to the bonus is also treated as an estimate change by the Company.

5. Measurement principles

When preparing the financial statements the assets and liabilities were measured at their historical cost.

6. Significant accounting policies

6.1. Transactions in foreign currency

Transactions in foreign currency are translated into the Company's functional currency using the official exchange rate of the MNB as of the transaction dates.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated using the official MNB exchange rate at the end of the period.

Non-monetary items measured at cost are translated into the functional currency using the exchange rate valid on the date of the transaction.

6.2. General rules on the recognition, classification and measurement of financial instruments

a) Recognition and measurement

The Company recognises financial instruments in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Company applies settlement date accounting for regular-way purchases or sales of financial assets.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). If the Company determines that the fair value at initial recognition differs from the transaction price, it accounts for that instrument at that date as follows:

- At fair value (plus or minus transaction costs, except for financial instruments measured at fair value through profit or loss) if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. In this case the Company recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- At fair value (plus or minus transaction costs, except for financial instruments measured at fair value through profit or loss) adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Company recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

b) Classification

On initial recognition the Company can classify the financial assets as measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss.

Financial assets that are debt instruments are measured by the Company at amortised cost, if both of the following conditions are met:

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

Business model applied to manage financial assets

In the case of its financial assets the Company determined the business model at portfolio level, during which it identified the following portfolios:

- Current accounts and bank deposits
- Securities
- Receivables from customers
- Other receivables from customers: deposit-related fee receivables (e.g. account-opening fees) and other receivables from customers
- Other financial receivables

When assessing the business model applied to manage financial assets the Company takes all relevant evidence into account, including the following:

- how the performance of the business model and the financial assets held within the business model is evaluated and reported to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within the model), and particularly the method for managing these risks;
- the way managers are compensated (for example, whether the compensation depends on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, value and timing of sales from the given portfolio in previous periods (including the reasons for the sales and the conditions valid at the time of sale), the reason for the sales and expectations regarding future sales activity.

When determining the business model the Company does not take into account scenarios that cannot be reasonably expected, so-called “worst-case” or “stress” scenarios. The Company takes into consideration all the relevant information available at the time the business model is assessed, along with the method previously used to realise cash flows.

For the given portfolio the Company defined three business models,

- Business model whose objective is to hold financial assets to collect contractual cash flows;
- Business model whose objective is to hold financial assets to collect contractual cash flows and sell financial assets;
- Other business model.

For all sub-portfolios the objective of the Company’s business model is to hold to maturity and collect the contractual cash flows.

Assessment of contractual cash flows

On initial recognition the Company examines the contractual cash flows of financial assets that are debt instruments, based on which it determines whether the contractual terms of the given financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test passed) or not (SPPI test not passed).

When assessing whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding, principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example liquidity risk and administrative costs), as well as profit margin.

The Company analyses the contractual terms of the financial asset to determine whether they give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, i.e. whether they are consistent with the terms of a basic loan agreement. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows, and whether the contractual cash flows that can be collected based on this contractual condition during the life of the financial asset are solely payments of principal and interest on the principal amount outstanding. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage;
- prepayment and extension terms;
- terms that restrict the Company's claim to specified assets of the debtor or to cash flows from specified assets (e.g. non-recourse financial assets); and
- terms that modify the component related to the time value of money – for example, periodical reset of the interest rate of the financial asset.

In order to assess the fulfilment of the SPPI criterion, the Company classifies its debt instruments (cash and cash equivalents, securities, receivables from credit institutions, receivables from customers, other financial receivables) into sub-portfolios based on their characteristics.

Reclassifications

The Company reclassifies its affected financial assets when, and only when, it changes its business model for managing financial assets.

If the Company reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Company does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

Classification of financial liabilities

The Company measured all of its financial liabilities at amortised cost.

c) Derecognition

Derecognition of financial assets

The Company derecognises financial assets when its rights to the contractual cash flows cease or expire, or if the contractual rights related to the asset (significant risks and rewards of ownership) are transferred.

In the case of financial assets measured at amortised cost, the gain or loss on the derecognition is the difference between the carrying amount and the consideration received, and it is recognised in profit or loss.

Derecognition of financial liabilities

The Company derecognises financial liabilities when the contractual obligations are discharged, cancelled or expire. The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to a third party and the consideration paid (including non-cash assets and assumed liabilities transferred) must be recognised net in profit or loss.

d) Changes in respect of expected cash flows

Changes in expected cash flows

In the case of a change in the estimated cash flows of the transaction, the Company changes the gross carrying amount of the financial asset or liability by re-calculating the net present value of the "new" debt instrument based on the new cash flows and the original effective interest rate. The difference between the net present value determined as described above and the carrying amount before the change in cash flows is recognised in profit or loss as interest income/expense.

Modifications resulting in derecognition

The Company accounts for exchanges between an existing borrower and lender of debt instruments with substantially different terms as an extinguishment of the original financial asset or financial liability and the recognition of a new financial asset or financial liability at fair value. Similarly, a substantial modification of the terms of an existing financial asset or financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for by the Company as an extinguishment of the original financial asset or financial liability and the recognition of a new financial asset or financial liability at fair value.

In this respect, the terms are substantially different if, based on the new terms, the present value of the cash flows – including paid fees and excluding received fees – discounted using the original effective interest rate differs by at least 10 percent from the discounted present value of the remaining cash flows of the original financial asset or liability.

If the exchange of debt instruments or the modification of terms is accounted for as an extinguishment, the gain or loss on derecognition is recognised as interest income/interest expense. Direct costs and fees connected to the new financial asset or liability are accounted for over the remaining term of the new debt instrument using the effective interest method, as interest income/ interest expense.

Modifications not resulting in derecognition

If the exchange or modification is not accounted for as an extinguishment, the arising costs or fees modify the carrying amount of the liability, and such are amortised over the remaining period of the modified loan.

If the financial asset or liability is not derecognised, the Company has to change the carrying amount of the financial asset or liability by re-calculating the net present value of the "new" financial asset or liability based on the new contractual terms (cash flows) and the original effective interest rate. In this case, the difference between the present value of the "new" financial asset or liability and the carrying amount of the financial asset or liability before the modification of terms shall be recognised in profit or loss as Interest income / Interest expense.

e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its default risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When determining the fair value of financial instruments, the Company applies market prices in the case of transactions with an active market. For the majority, however, there is no reliable public market information available, so the Company applies different valuation techniques to measure the fair value of financial instruments.

The fair value hierarchy of financial instruments was determined as follows:

- Level 1: based on quoted prices (unadjusted) for identical assets and liabilities on an active market.
- Level 2: based on input information other than those included within Level 1, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices) in connection with the given asset or liability. This category includes instruments valued using: quoted market prices on active markets for similar instruments; quoted market prices for identical or similar instruments on markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable.
- Level 3: inputs for assets and liabilities which are not based on observable market data (unobservable inputs).

The Company recognises transfers between the levels in the fair value hierarchy at the end of the reporting period in which the change took place.

As at the end of the reporting period, the Company does not have any financial assets and liabilities measured at fair value in the statement of financial position. The fair value of instruments not measured at fair value is presented in Note 37.3.

6.3. Impairment of financial assets, write-offs

General rules on impairment of financial assets

The Company recognises loss allowances for expected credit loss in the case of financial assets measured at amortised cost or for loan commitments to which the impairment requirements of IFRS 9 apply.

At the end of each month the Company assesses whether the credit risk on the financial asset has risen significantly since the initial recognition. During the assessment the Company examines the change in the default risk over the expected life of the financial asset.

To carry out this assessment the Company compares the default risk of the financial asset at the end of the month with the default risk at initial recognition, taking into account any reasonable and supportable information, available without undue cost or effort, which points towards significant growth in the credit risk since initial recognition. The Company may assume that the credit risk of a financial asset has not risen significantly since initial recognition if it is found that the credit risk of the financial asset is low as of the reporting date.

If forward-looking, reasonable and supportable information is available without undue cost or effort, the Company may not rely solely on default information when determining whether the credit risk has risen significantly since initial recognition, but it also considers other indications of credit deterioration of the customer, which are the following:

- Contracts without Initial Rate
- Contracts in default for more than 30 days
- Contracts in default for no more than 30 days where repayment method is not in line with contract – not disbursed in the month under review
- Contracts in default for fewer than 30 days, verification for housing purposes requested
- Contracts appearing on list of transactions that likely become problematic during Covid-19, based on historical data; list derived from probit model applied during IFRS 9 model revision

- Contracts in moratorium for more than 9 months
- Contracts in Moratorium 4 or agricultural moratorium

Application of persistence in the case of Stage 2:

- If, in any of the three months preceding the rating, the difference between the current and the initial rating of a transaction reaches the threshold of significant change relevant for its portfolio group, the transaction is transferred to Stage 2.
- If a retail transaction was in the moratorium for more than 9 months, and thus was transferred to Stage 2, it can be released provided it complies with certain criteria.
- If a corporate transaction (multi-occupancy building or housing co-operative) was in the moratorium for more than 9 months, and thus was transferred to Stage 2, the staging relevant for restructured contracts must be applied.

If the credit risk of a financial asset has not risen significantly from the initial recognition until the reporting date, the Company measures the loss allowance for the given financial asset at an amount equal to 12-month expected credit loss (*Stage 1*).

On each reporting date the Company measures the loss allowance for the financial asset at an amount equal to lifetime expected credit loss, if the credit risk of the financial asset – assessed either individually or collectively – has risen significantly since initial recognition, taking all reasonable and supportable information into account, including forward-looking information (*Stage 2 or Stage 3*). The Stage 3 portfolio is the same as the credit-impaired portfolio.

The rating is the category of risk for individual transactions. The value on the rating scale is the main parameter for defining impairment. This is the basis for classification into individual Stages and for determining the size of significant change. If the current classification of a given transaction is at least 2 ratings higher than the original, the increase in the credit risk is deemed significant. The definition of default is included in Note 35.1. If a financial asset is considered to be in default, the Company classifies it into Stage 3. In subsequent periods, if – for a period of 3 months – there is no default in relation to the financial asset that exceeds 90 days, the financial asset is reclassified to Stage 1 or Stage 2 based on the criteria defined in the Default policy.

For financial assets measured at amortised cost, the Company recognises – as an impairment gain or loss in the profit or loss – the amount of expected credit losses (or reversal thereof) which is used to adjust the loss allowance to the amount determined as of the reporting date.

The Company applies the general principles presented above to determine the expected credit loss for the following financial assets:

- Cash and cash equivalents
- Securities
- Receivables from customers (bridging loans; housing loans granted after bridging loans; housing loans granted without preceding bridging loans; bridging loans granted based on preferential list of fees).

Despite the above, the Company always measures the loss allowance for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 which do not contain a significant financing component in line with IFRS 15 at an amount equal to lifetime expected credit loss (or if the Company applies the practical expedient for contracts that are one year or less). Such include during the Company’s operation deposit-related fee receivables as well as other financial receivables, for which the Company adopts a simplified approach.

i. Measurement of expected credit loss

Expected credit losses are probability-weighted estimates of the credit losses arising during the expected life of the financial asset (i.e. the present value of all cash shortfall). The estimated expected credit loss always has to reflect the possibility of the credit loss occurring and not occurring, even if the most likely outcome is that there will be no credit loss. The expected credit loss estimate has to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. (For a detailed description of incorporation of forward-looking information see Section “Forward-looking information” in Note 35.1 “Credit risk”.)

The credit loss of financial assets is the present value of the difference between the contractual cash flows due to the Company under contract and the cash flows that the Company expects to receive.

The Company measures the expected credit losses of the given financial asset in a way that reflects the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, as well as the time value of money, and reasonable and supportable information available without undue cost or effort on the reporting date regarding past events, current conditions and forecasts of future economic conditions.

When measuring expected credit losses the Company takes into account the risk or probability of a credit loss occurring by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if a credit loss does not occur.

The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the Company is exposed to credit risk. For financial assets that include both a loan and an undrawn commitment component, the Company’s ability to demand repayment and cancel the undrawn commitment does not limit the Company’s exposure to credit losses to the contractual notice period. For these financial assets only, the Company measures expected credit losses over the period that it is exposed to credit risk, and expected credit losses cannot be mitigated by credit-risk management actions, regardless whether or not this period extends beyond the maximum contractual period.

The payment moratorium was taken into account in relation to expected credit loss as follows.

The Company classified into Stage 3 those customers in Moratorium 2+ who remained in the moratorium due to unemployment or reduction in income, while continued to carry in or classified into Stage 2 the contracts in the other (following) moratoriums, in accordance with the requirements of the applicable MNB circular.

For contracts in Moratorium 4 the Company retained the reasoning and impact on staging of remaining in Moratorium 2+, that is, customers who remained in Moratorium 2+ due to unemployment or reduction in income, still remained in Stage 3. Customers in the agricultural credit moratorium were classified into Stage 2 by the Company, if there were no Stage 3 indicators.

ii. Low credit-risk financial assets

The credit risk on a financial asset is considered low, if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers financial assets with an external rating of “investment grade” to have a low credit risk. The low credit risk (i.e. whether the conditions for the rating as a financial asset with a low credit risk still apply) is reviewed by the Company as of every reporting date, taking also into account previous experience with the external ratings agency and its ratings, or the experience available through the parent company.

The Company uses a standardised model to assess impairment for all products and segments.

iii. Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired assets (hereinafter referred to as: “POCI assets”) are impaired on initial recognition. A financial asset is impaired if the occurrence of one or more event has a detrimental impact on the estimated future cash flows of the financial asset (such as for example significant financial difficulty of the issuer or the borrower).

The Company considers financial assets to be POCI assets if the counterparty has Stage-3 status on initial recognition. When calculating the credit-adjusted effective interest rate for POCI assets that are credit-impaired on initial recognition the Company takes the initial estimated credit loss into account in the estimated cash flows, and on the reporting date only recognises cumulative changes since initial recognition in the lifetime expected credit loss in profit or loss.

Special rules governing the impairment of financial assets

i. Impairment of government securities

The investment grade category includes the government securities which are rated as investment grade by at least two rating agencies from Moody's, Standard & Poor's and Fitch. If a given security is in the investment grade category, the Company considers it to be a low credit risk, classifies it in Stage 1, and applies a 1-year probability of default (PD) to quantify the impairment.

If the given security does not qualify as having a low credit risk as of the measurement date, a threshold calculation (relative change in lifetime probability of default) is required to determine whether the rating of the security has deteriorated significantly since initial recognition.

ii. Impairment of interbank and central bank deposits, sight deposits

The Company's interbank and central bank deposits as well as sight deposits are essentially short-term financial assets measured at amortised cost.

Impairment is only booked on interbank and central bank deposits by the Company if they expire after more than 4 working days following the given close date and the amount to be booked exceeds the significance threshold set in the accounting policies. Given the short term of these financial assets, impairment is always booked with a 1-year PD.

iii. Impairment of bridging loans and housing loans

In the case of bridging loan/housing loan arrangements, when the contractual amount specified in the home savings contract is paid out, the bridging loan is paid off from the deposits collected by the customer and from the housing loan, without a new loan assessment. The Company measures the expected credit loss for the period it is exposed to credit risk. Owing to the relationship between the bridging loan and the housing loan, for the purposes of assessing impairment and measuring credit loss the period for measuring expected credit loss during the bridging period lasts until the end of the housing loan.

The credit risk still exists during the period of the housing loan, which is why the Company calculates the lifetime expected loss not until the end of the disbursement phase but until the end of the housing loan phase, i.e. until the complete elimination of the credit risk.

When calculating impairment, aside from the losses expected in the bridging loan phase, the housing loan anticipated to be drawn and the expected losses as a result are also quantified (taking the term of the housing loan into account if lifetime expected loss needs to be accounted for).

In the housing loan phase, the impairment takes into account the term of the housing loan if lifetime expected loss needs to be accounted for.

iv. Impairment of deposit-related fee receivables

Concluding home savings contracts creates an account-opening fee receivable for the Company from its customers; these receivables are not exactly loan-type claims, but receivables in relation to which, given their economic substance, the Company is not exposed to a credit risk. If the customer does not pay the account-opening fee by the deadline specified in the contract, the contract lapses and therefore no financial instrument is originated (no deposit, and subsequently no loan). In this case the Company does not incur a loss. In addition, the account-opening fee is a transaction fee that is accounted for in profit or loss over the term of the transaction using the effective interest method, that is, it is not recognised as a revenue right upon entering into the transaction. On this basis, the Company treats these receivables as trade receivables that result from transactions within the scope of IFRS 15 and that do not contain a significant financing component.

v. Impairment of other financial receivables

Other financial assets measured at amortised cost include receivables from sales partners as sales agents, other trade receivables, advances paid to employees as well as compensation receivables and other financial receivables.

The Company treats these receivables as trade receivables that result from transactions within the scope of IFRS 15, and that do not contain a significant financing component. These receivables are measured by the Company at an amount equal to lifetime expected credit loss, applying simplified impairment methodology to determine the impairment. To this end, expected credit losses are quantified using a provision matrix, and drawing on past experience in relation to credit losses.

vi. Impairment of loan commitments

In the case of loan commitments and for the purpose of applying the impairment requirements the Company considers the date of initial recognition to be the date when the Company becomes a party to the irrevocable commitment.

In the case of loan commitments, the Company takes into account the changes in the default risk for the loan to which the loan commitment relates.

In the event certain financial assets comprise both a loan component and an undrawn commitment component, the Company's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Company's exposure to credit losses to the contractual notice period.

Loan commitments in relation to which a loan has been granted receive the same Stage classification and the same impairment rate is applied for them as in the case of the related loan granted.

If there is no loan granted connected to the given loan commitment, the Company assesses the amount of the expected credit loss for the loan commitment on a group basis, for provisions no individual assessment is performed.

Presentation of loss allowance for expected credit losses in the statement of financial position

The Company recognises loss allowances for financial assets in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments: as a provision. The Company recognises loss allowances for loan commitments separately, as a provision, if the financial instrument contains both a loan component (i.e. a financial asset) and an undrawn commitment component (i.e. a loan commitment).

Write-offs

If there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, then the Company classifies the financial asset as unrecoverable and reduces the gross carrying amount of the financial asset directly. A write-off is a derecognition event, for which the Company applies the rules detailed in Note 6.2 c).

In the case of receivables subject to legal enforcement and classified as unrecoverable during such proceedings and which have been written off as a result, the Company does not terminate the legal proceedings, given that the receivables concerned still exist irrespective of the write-off; however, it does not initiate any further procedural step or other action to enforce the receivable. If as a result of proceedings started before the write-off any recovery is received after the write-off, it is booked on the recorded receivable thus reducing the exposure written off.

6.4. Cash and cash equivalents

Cash and cash equivalents include cash in hand, the balances of current accounts, and deposits maturing in three months, which the Company uses to settle current liabilities and which do not have a significant fair value risk.

From 1 January 2018 the Company prepares a separate business model test for cash and cash equivalents, in which current accounts are bank accounts whose sole purpose is to handle monetary transactions. The interest on current accounts is only the interest paid on outstanding principal amounts; the fees payable are reasonable compensation for the administrative costs payable to the financial institution.

The Company measures cash and cash equivalents at amortised cost after their initial recognition; related interest is accounted for using the effective interest method.

6.5. Securities

Securities include government bonds. There are measured at amortised cost based on the business model test and SPPI test performed.

Upon initial recognition, securities measured at amortised cost are measured by the Company at fair value plus or minus transaction costs that are directly attributable to the acquisition of the security. Subsequent measurement is at amortised cost.

The Company considers the related transaction costs, fees and commissions to be part of the cost, and these are taken into account during the effective interest rate calculation. Consequently, interest and amortisation costs are accounted for using the effective interest method.

6.6. Receivables from customers

Receivables from customers comprise immediate bridging loans and bridging loans (collectively referred to as: bridging loans), housing loans, bridging loans granted based on preferential list of fees, and other customer receivables.

Upon initial recognition, the Company measures receivables from customers at fair value plus or minus transaction costs that are directly attributable to the origination or acquisition of the receivable. Subsequent measurement is at amortised cost based on the business model and SPPI tests conducted.

For receivables from customers measured at amortised cost the Company considers the related transaction costs, fees and commissions to be part of the cost, and these are taken into account during the effective interest rate calculation. Consequently, interest as well as transaction costs, fees and commissions are accounted for using the effective interest method.

6.7. Other financial receivables

Other financial receivables mainly include sales agent commission reversals, trade receivables, deposits paid for the office rent and finance lease receivables.

After initial recognition the Company measures these receivables at amortised cost.

6.8. Investments in subsidiaries

A subsidiary is a unit, including unincorporated business associations such as partnerships, which is controlled by a different enterprise, the parent company. The Company controls an entity if, and only if, it has all the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect the amount of its returns.

Following initial recognition the Company measures its subsidiary investment at cost as per IAS 27, less any impairment.

If the carrying amount of the investment exceeds the recoverable amount, the Company records the necessary impairment. If the recoverable amount of the investment exceeds the carrying amount, there is no need for any impairment and the impairment previously recorded can be reversed, but only to the extent that the carrying amount does not exceed the recoverable amount. Such reversals require a careful consideration of future risks and contingent liabilities, as well as the assessment of whether the conditions of reversal are permanent, that is, exist over more than one year.

The recoverable amount is the higher of the fair value less costs to sell and the value in use of the interest. If any of the two amounts exceeds the carrying amount of the interest, no impairment needs to be booked on the interest and it is not necessary to calculate the other value. Taking into account IFRS rules on the impairment of interests, the differences between fair value less costs and value in use, and the reliable data available to the Company, the Company primarily applies the value in use method to calculate the recoverable amount of the interest. The Company calculates the value in use applied as the recoverable amount if there is an indication of impairment. The value in use is calculated based on the accepted 3-year future plans that are updated annually, by determining potential dividend payments calculated based on profit and their discounted amount is the value in use. Any losses are taken into account to the extent not covered by the cash of the valued entity. During the calculations, the Company uses the profit of the last year as perpetual annuity, assuming 1% future growth.

6.9. Property, plant and equipment

The Company classifies assets within the scope of IAS 16 Property, Plant and Equipment and assets within the scope of IFRS 16 Leases into the following groups: own plant and office equipment, own other tangible assets, leased plant and office equipment or assets under construction.

a) Initial recognition and measurement

The Company measures property, plant and equipment at cost, less depreciation and impairment. The cost for property, plant and equipment is the invoiced consideration, including customs duties and non-deductible value added tax, all costs and expenses attributable individually to the property, plant and equipment which arose until such were ready for use, including taxes and duties as well as the value of expected disassembly costs discounted to present value.

The cost of right-of-use assets comprises the present value of net lease payments, less the amount of any lease incentives provided to the lessee, plus direct costs of obtaining the lease incurred by the lessee and the discounted present value of expected costs of restoration obligation, less the amount of any government grants to be deducted from the value of the asset.

b) Measurement after recognition

The Company applies the cost model to measure property, plant and equipment after their initial recognition.

c) Subsequent expenditure

In the carrying amount of an item of property, plant and equipment the Company does not recognise the costs of day-to-day operation. These costs are recognised in profit or loss when incurred.

d) Depreciation/ Amortisation

The Company records depreciation on property, plant and equipment from the day such are ready for use. The depreciation on property, plant and equipment is recognised on a straight-line basis, taking into account the expected duration of use and the residual value.

The useful lives defined for property, plant and equipment are as follows:

Categories	useful life (years)
Leasehold improvements	up to the term of the lease
Right-of-use assets	up to the term of the lease
IT equipment	3-12 years
Telephones and other telecommunication devices	2-7 years
Furniture, equipment, fittings, administration equipment	7 years
Motor vehicles	4-6 years
Non-bank machinery and equipment	7 years
Other items of property, plant and equipment	7 years

In certain cases amortisation rates and useful lives different from the above may also be applied, if justified by a contract of by other reasons.

Depreciation methods, useful lives and residual values are reassessed annually at each reporting date.

e) Impairment

Details of impairment of property, plant and equipment are included in Note 6.11.

f) Derecognition

The Company derecognises the carrying amount of an item of property, plant and equipment if the asset is disposed, or if no future economic benefits are expected from its use or disposal.

The Company determines the gain or loss arising from the derecognition of an item of property, plant and equipment on a net basis as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is then recognised under other operating income or other operating expense, as appropriate.

6.10. Intangible assets

a) Initial recognition and measurement

Purchased intangible assets

Purchased intangible assets shall be measured at cost less booked amortisation and impairment. For a purchased intangible asset the cost comprises the invoiced consideration, including non-deductible value added tax as well as all costs directly attributable individually to the intangible asset which arose until such was ready for use, including taxes and duties.

Internally generated intangible assets

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the generation of the asset into:

- a research/assessment phase; and
- a development phase.

The Company recognises research costs as cost when they arise. An intangible asset arising from development or from the development phase of an internal project is recognised and costs can be capitalised if, and only if, the Company can demonstrate that all of the following criteria are satisfied:

- the technical feasibility of completing the intangible asset so that it will be suitable for use or sale;
- the Company's intention to complete the intangible asset, and use it or sell it;
- the Company's ability to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits. Among other things, the Company shall demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the Company's ability to reliably measure the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

If the Company cannot distinguish the research/assessment phase from the development phase of an internal project to create an intangible asset, it shall account for the expenditure on the project as expense in the period when it is incurred.

b) Measurement after recognition

The Company applies the cost model to measure intangible assets after their initial recognition.

c) Subsequent expenditure

Costs are capitalised to the carrying amount of the intangible asset until it is brought to the condition that enables it to be operated in the manner intended by management. This means the costs that arise during the use of the asset do not form part of the carrying amount. Subsequent expenditure shall be recognised in profit or loss when incurred and thus cannot be capitalised; this includes, for example, expenses on training activities or advertising and promotion activities.

d) Amortisation

The Company assesses whether the useful life of a given intangible asset is finite or indefinite. The Company does not have any intangible assets with indefinite useful lives. Intangible assets are recognised based on their useful lives.

The amortisation of intangible assets with a finite useful life is recorded from the first day after the asset becomes ready for use.

The useful lives for intangible assets with finite useful lives are as follows:

- Rights and concessions: as per contract, or 3-12 years;
- Intellectual property, own software: 3-12 years.

In certain cases amortisation rates and useful lives different from the above may also be applied, if justified by a contract of by other reasons.

Useful lives are reviewed once a year. The Company does not record amortisation for intangible assets that are not yet ready for use, but every year it performs an impairment test, whereby it compares the carrying amount of the intangible asset with its recoverable amount, regardless whether or not there is any indication of impairment.

e) Impairment

Details of impairment of intangible assets are included in Note 6.11.

f) Derecognition

Intangible assets shall be derecognised on disposal, or when no future economic benefits are expected from their use or disposal.

The Company determines the gain or loss arising from the derecognition of an intangible asset on a net basis as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is then recognised in profit or loss under other operating income or other operating expense, as appropriate, when the asset is derecognised.

6.11. Impairment of non-financial assets

If there is an indication that the carrying amount of a non-financial asset exceeds its recoverable amount, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When assessing impairment the Company takes both internal and external information into account.

Irrespective of the amount, the Company always determines the impairment and reversal of impairment on non-financial assets based on individual assessment.

If the carrying amount of the assets is higher than the recoverable amount, then impairment has to be recorded; if it is lower, then the asset's net carrying amount has to be increased by reversing the impairment. Following the reversed impairment the asset's carrying amount may not exceed the original carrying amount less depreciation/amortisation.

The Company recognises impairment under other operating expenses and reversed impairment under other operating income.

6.12. Leases

a) Definition of and identifying a lease

In accordance with IFRS 16 applied, at inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset the Company considers the following:

- the contract includes the use of an identified asset. The identified asset is specified explicitly or implicitly, is physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has actual right to substitute the asset, the asset is not identified;
- throughout the period of use, the Company has the right to obtain substantially all of the economic benefits from use; and
- the Company has the right to direct the use of the asset. The Company has this right if it has the decision-making rights relating to issues that significantly influence decisions about how and for what purpose the asset is used. In rare cases, when decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset, if:
    - the Company has the right to operate the asset; or

- the Company designed the asset in a way that predetermines the decisions about how and for what purpose the asset is used.

The non-lease components of the contracts are not separated. As a practical expedient, the Company has elected not to separate non-lease components from lease components, and instead account for them as a single lease component. The Company assesses each contract whether it contains a lease component.

b) The Company acting as a lessee

As a lessee, the Company has property lease transactions (office, car park and warehouse leases).

The Company recognises the right-of-use asset and the lease liability as at the commencement date.

The right-of-use asset is initially measured at cost, which comprise the amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs and an estimate of costs to be incurred in dismantling and removing the underlying asset and restoring the site, less any lease incentives.

After initial recognition, the Company measures the right-of-use asset applying the cost model.

After the commencement date the Company depreciates the right-of-use asset using the straight-line method, from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment (Note 6.6). Furthermore, if necessary, the Company periodically books impairment on the right-of-use asset and adjusts its amount for any remeasurement of the lease liability.

Initially the Company recognises the lease liability at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, using the Company's incremental borrowing rate.

For contracts concluded in HUF, the Company uses BUBOR or BIRS benchmark interest closest to the term of the transaction to determine the incremental borrowing rate. For contracts concluded in EUR, the yield of the German government bond closest to the term of the transaction is adjusted for the difference (Hungarian CDS – German CDS) of CDS quotes specific to the term describing the country risks. In both cases the premium specific in corporate lending is added to this calculated value in line with the size of the transaction.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease, unless the Company is reasonably certain not to terminate early.

After recognition, the Company measures the lease liability using an interest rate defined by the Treasury Department that causes the present value of the future lease payments and the unguaranteed residual value to equal the sum of the fair value of the asset and the related incremental costs. The recognised liability is remeasured if the term of the lease changes, when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee. The Company recognises the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset, or, if the carrying amount of the right-of-use asset is reduced to zero, the adjustment is recognised in profit or loss as other operating income.

The Company presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and lease liabilities in 'Other non-current financial liabilities' and 'Trade and other current liabilities' in its statement of financial position.

After the commencement date, the Company recognises in profit or loss, unless the costs are included in the carrying amount of another asset, the interest on the lease liability in 'Net finance income/expense', and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs in 'Material-type expenses'. The Company recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense in 'Material-type expenses' on a straight-line basis over the lease term.

c) The Company acting as a lessor

The Company sub-leases offices leased by it, partly to subsidiaries under operating lease contracts, and through its subsidiary to external third parties under finance lease contracts.

When the Company acts as an intermediate lessor, it accounts for head lease and sub-lease contracts separately. The sub-lease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset (in the case of sub-leases the right-of-use asset).

If all material risks and rewards incidental to ownership of the asset is transferred to the lessee, a lease is considered a financial lease. All lease transactions not classified as finance lease are operating leases.

Finance lease

At the commencement date, the Company recognises assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

The Company uses the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sub-lease, if the interest rate implicit in the sub-lease cannot be readily determined, the Company as intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sub-lease) to measure the net investment in the sub-lease.

Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

The Company applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Company applies the requirements relating to derecognition of financial assets (see Note 6.2. c)) and impairment of financial assets (see Note 6.3) to the net investment in the lease, and reviews regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the Company revises the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

Leases in terms of which substantially all the risks and rewards of ownership remain with the Company are classified as operating leases. The leased asset is still recognised in the books of the Company.

Lease payments received are recognised in profit or loss on a straight-line basis over the related period as other income.

Operating leases

The Company recognises lease payments received under operating leases on a straight-line basis. The Company recognises costs, including depreciation, incurred in earning the lease income as an expense (in 'Depreciation').

The Company adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the sub-leased asset and recognise those costs as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets.

The Company calculates depreciation based on the method described in Note 6.9. d).

The lease transactions of the Company are presented in Note 33.1.

6.13. Liabilities to customers

The liabilities to customers item shall include liabilities from financial services to non-banks and non-financial institutions, including the deposits placed by customers as well as government grants received by customers in connection with their deposits.

The Company measures liabilities to customers at amortised cost. The Company takes the related transaction costs, fees and commissions into account in the effective interest rate calculation, consequently, interest as well as transaction costs, fees and commissions are accounted for using the effective interest method.

6.14. Other financial liabilities

Under other financial liabilities the Company recognises trade liabilities and liabilities to sales agents as well as other liabilities. The Company measures these items at amortised cost, and they are accounted for using the effective interest method.

6.15. Provisions

The Company recognises provisions if it has a present obligation or liability (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

The Company measures provisions at the present value of the expenses expected to be required to settle the obligation, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks associated with the obligation. The increase in the value of the provisions over time is recognised as an interest expense.

For more details on the provisions recorded by the Company see Note 20.

6.16. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

The Company classifies, among others, loan commitments into contingent liabilities and commitments.

A loan commitment is an irrevocable commitment of the Company.

The loan agreement enters into force on the date the signed loan agreement is received back; however, the date on which the agreement was sent is considered the start date of the loan agreement, therefore the Company has to make a credit facility available for the customer from the date on which the agreement was sent.

Contingent liabilities are not recognised in the statement of financial position, but are recorded as off-balance sheet items.

The Company recognises provisions for loan commitments; for further details see Note 6.3.

6.17. Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets include, for example, guarantees received set forth in a contract, deposits and other collaterals accepted from customers in the framework of lending activities.

Contingent assets are not recognised in the statement of financial position, but are recorded in account class 0, since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

6.18. Capital and reserves

a) Share capital

Registered capital is the nominal value of issued equity instruments. All amounts are considered share capital that are subscribed by the shareholders or other owners in accordance with relevant laws.

b) Capital reserve

Any amount paid by the Company to acquire its own shares reduces equity directly (the nominal value reduces share capital, the difference between the paid consideration and the nominal value shall be recognised through the capital reserve), regardless whether the repurchased share is immediately withdrawn or held for resale.

Furthermore, the items recognised in equity that cannot be classified in the other equity components are included here too, for example, cash or non-monetary assets received without consideration from the owner in its capacity as owner.

c) Retained earnings

Retained earnings essentially include the following:

- The reserves derived from the profits or losses of previous periods:
  - profit or loss carried forward from previous years;
  - any movements derived from transfers between retained earnings and other equity components;
- the impacts of the retrospective application of changes in accounting policies, except when transitional provisions of a standard or interpretation require the impacts of retrospective application as adjustments to other components of equity;
- amounts restated retrospectively due to error corrections, except when a standard or interpretation requires the retrospective restatement of another equity component;
- gains and losses that must be recognised directly in retained earnings.

Dividend payments are decided upon by the General Meeting, and must be recognised directly against retained earnings as of the day of the dividend decision.

d) Statutory reserves

Statutory reserves are the reserves required by law, which for the Company can be the following: settlement reserve and general reserve.

Settlement reserve

With a view to protecting those with home savings contracts, the Company recognises a settlement reserve from the yield on the placement of free assets defined by Act CXIII of 1996 on Home Savings and Loan Associations (hereinafter referred to as: Home Savings and Loans Act), and on 31 December of the reporting year supplements the settlement reserve recognised in the previous year. The settlement reserve is outside the scope of IAS 37. In the IFRS financial statements the Company recognises the settlement reserve from retained earnings and its amount limits the dividend that can be paid.

The base for the settlement reserve recognised in the reporting year shall be calculated as the difference between the reporting-year yield on the placement of free assets (including the fee income received on bridging loans as well as commissions paid and expected to be payable, and the impairment recorded on such loans) and the interest amount on the average portfolio of free assets in the reporting year determined using the rate of collective interest. The settlement reserve may not exceed 10% of the deposit portfolio as of 31 December of the reporting year.

The Company shall use the settlement reserve to settle the difference between the interest payable pro rata for the reporting year on any loan drawn to cover the granting of housing loans, and the pro rata interest for the reporting year on such loans determined using the rate of collective interest.

The recording and use of the settlement reserve affects the retained earnings and therefore does not influence the given year's profit or loss in any way.

General reserve

In accordance with Section 83 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter referred to as: “Credit Institutions Act”), a general reserve amounting to ten percent of the after-tax profit must be recognised. A general reserve recognised and used in accordance with Hungarian legal regulations directly affects retained earnings in the financial statements, so there is no impact on the given year's profit or loss.

6.19. General principles on revenue recognition based on IFRS 15

The Company account for customer contracts only if all of the following conditions are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to performing their respective obligations;
- the Company can identify each party's rights regarding the goods or services to be transferred;
- the Company can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Company considers only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the Company will be entitled may be less than the price stated in the contract if the consideration is variable because the Company may offer the customer a price concession.

If a contract with a customer meets the criteria above at contract inception, the Company reassesses those criteria only if there is an indication of a significant change in facts and circumstances.

The Company recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For each performance obligation identified, the Company determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- the Company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date.

In any other case, the performance is at a point in time.

When (or as) a performance obligation is satisfied, the Company recognises as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained) that is allocated to that performance obligation.

When determining the transaction price the Company takes contractual terms and conditions and its customary business practice into account; the estimated transaction price is influenced by the nature, timing and amount of consideration promised by the customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (such as sales taxes). When determining the transaction price the Company assumes that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

6.20. Interest income and interest expense

The interest income item in the income statement may only include interest income determined using the effective interest method. The Company currently only has assets measured at amortised cost.

When using the effective interest method the Company applies the effective interest rate to the gross carrying amount of the financial asset, except for the following:

- purchased or originated credit-impaired financial assets, where the Company applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition;
- financial assets that subsequently became credit-impaired financial assets. For these financial assets the Company applies the effective interest rate to the amortised cost of the financial assets in subsequent reporting periods.

In line with the above rule, for loans that are not credit-impaired (i.e. classified in Stage 1 and Stage 2) the Company applies the effective interest rate to the gross carrying amount, while for credit-impaired loans (classified in Stage 3) to the net carrying amount.

Interest income and interest expense comprise the interest income and interest expense along with commission income and commission expense as well as other fees that are part of the effective interest rate calculation for the individual financial assets and financial liabilities.

Interest income and interest expense are recognised in profit or loss using the effective interest method. The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument (or a shorter period if appropriate) to the net carrying amount of the financial asset or financial liability.

The accounting policy applied by the Company for amounts recognised in interest income/interest expenses upon modification of financial assets and liabilities is described in Note 6.2 d).

6.21. Fee and commission income, fee and commission expense

The accounting of income related to the fees for financial services depends on the targets in relation to which the fees were determined, and depends on the accounting basis for the associated financial instruments. Fees that form an integral part of the effective interest rate for a financial instrument are recognised by the Company under interest income or interest expense.

Under fee and commission income and fee and commission expenses the Company recognises the fees and commissions related to loans and deposits along with the commissions on other securities transactions and payment transactions which do not form an integral part of the effective interest rate for the financial instruments.

This fee and commission income is recognised when the Company provides the related service, and the fee and commission expense is recognised when the service is performed.

6.22. Dividend income

The Company accounts for dividend income when the dividend payment is approved and the amount can be reliably quantified.

The Company can receive dividend income from its subsidiary, the amount of which is approved by the owner of the subsidiary, i.e. the Company's Board of Directors, and until such time there is no dividend entitlement.

Interim dividends must be accounted for as a liability against the cash payment.

6.23. Exchange gain/loss on foreign exchange items

Exchange gain/loss on FX items comprises the exchange differences (gains and losses) derived from changes in the exchange rate.

6.24. Net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost

Net profit/loss arising from derecognition of financial assets measured at amortised cost includes net profit/loss arising from derecognition of securities classified as measured at amortised cost.

6.25. Employee benefits

Short-term employee benefits are accounted for as current costs in the period when the employee rendered the service in return for the benefits. Short-term employee benefits are employee benefits (other than termination benefits) that shall be settled within twelve months after the end of the period in which the employee renders the related service to the Company. Paid leave (for example summer holiday, etc.) shall be recognised in the period when the employee works. When an employee accumulates unused holiday entitlement, the Company recognises an accrued expense item so that the Company does not account for the cost when the employee takes the holiday, given that the employee does not perform a service for the Company during the holiday period. Bonuses and task-specific bonuses payable to staff, recognised under provisions (if long-term) and under accruals (if short-term), are accounted for by the Company under personnel expenses (Other operating costs).

The Company currently does not provide post-employment benefits.

Other long-term employee benefits provided by the Company include bonuses that the Company is not likely to pay in full before twelve months have elapsed from the end of the annual reporting period during which the employees rendered the related services.

6.26. Income tax

The Company considers corporate tax, local business tax and innovation contribution as income taxes.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income and directly in equity, in which case it is recognised in other comprehensive income and in equity.

Current tax is the expected tax payable on the taxable income for the reporting year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

The Company shall offset deferred tax assets and deferred tax liabilities if, and only if:

- it has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is only recognised by the Company to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax assets and liabilities from and to local governments are determined (net) for all local tax authorities on an aggregate basis.

6.27. Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The Company has no items that are to be recognised in other comprehensive income and which will not need to be reclassified to profit or loss subsequently.

6.28. Liabilities to credit institutions

The Company records liabilities to credit institutions at amortised cost. The accounting treatment of financial instruments serving as collateral of liabilities to credit institutions depends on whether the recipient has the right to sell the collateral or provide it as a collateral, and whether any breach of contract occurred. Financial assets still have to be recognised in the financial statements for transactions where based on the contractual terms the Company retains substantially all the risks and rewards incidental to ownership.

7. Application of new or amended standards and interpretations

The Company consistently applied the accounting policies set forth in Note 6 to all periods presented in the financial statements.

The following amendments became effective from 1 January 2022:

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The amendments did not affect the Company's financial statements.

8. New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Company has not early adopted.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

The new standard will not affect the Company's financial statements.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services:* Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held, the amount of retained reinsurance contracts and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance

contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

These amendments will not affect the Company's financial statements.

Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

These amendments will not affect the Company's financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Company is currently assessing the impact of the amendments on its financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

The Company is currently assessing the impact of the amendments on its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Company is currently assessing the impact of the amendments on its financial statements.

Notes to the financial statement items

9. Cash and cash equivalents

Table 9.1. - Cash and cash equivalents

(HUF million)	31.12.2022	31.12.2021
HUF current accounts held at MNB	69	99
Deposit accounts held at MNB and due within 3 months	31 846	72 007
HUF and FX current deposit accounts held at other credit institutions	4 507	3 388
Total cash and cash equivalents	**36 422**	**75 494**

The change in cash and cash equivalents relative to the end of the previous year is due to the decrease in deposits in line with plans.

The credit rating classification of cash and cash equivalents is included in Note 35.

10. Securities

Table 10.1. - Securities

(HUF million)	31.12.2022	31.12.2021
Investment securities measured at amortised cost	82 934	103 381
Impairment allowance (-)	-76	-95
Total securities	**82 858**	**103 286**

In the reporting year securities decreased owing to sale.

Securities include Hungarian government bonds.

Table 10.2. - Securities measured at amortised cost in the reporting year

(HUF million)	31.12.2022
2024/B MÁK	8 815
2024/C MÁK	25 326
2025/B MÁK	12 086
2025/C MÁK	2 969
2026/D MÁK	2 254
2026/F MÁK	42
2027/A MÁK	10 571
2028/A MÁK	11 061
2030/A MÁK	909
2031/A MÁK	8 825
Total debt instruments	**82 858**

Table 10.3. - Securities measured at amortised cost in the previous year

(HUF million)	31.12.2021
2022/A MÁK	6 146
2022/B MÁK	2 124
2023/A MÁK	12 689
2023/C MÁK	3 543
2024/B MÁK	6 744
2024/C MÁK	25 257
2025/B MÁK	10 874
2025/C MÁK	2 963
2026/D MÁK	1 432
2027/A MÁK	10 525
2028/A MÁK	11 288
2030/A MÁK	909
2031/A MÁK	8 792
Total debt instruments	**103 286**

11. Receivables from customers

Table 11.1. - Overview of receivables from customers

(HUF million)	31.12.2022	31.12.2021
Receivables from customers measured at amortised cost	545 002	518 961
Impairment allowance (-)	-10 394	-8 728
Total receivables from customers	**534 608**	**510 233**

Table 11.2. - Receivables from customers (by product type)

(HUF million)			31.12.2022
	Gross value	Expected credit loss	Carrying amount
Bridging loans	113 248	-764	112 484
Immediate bridging loans	374 047	-9 049	364 998
Housing loans	57 451	-581	56 870
Other receivables from customers	256	0	256
Total	**545 002**	**-10 394**	**534 608**

(HUF million)			31.12.2021
	Gross value	Expected credit loss	Carrying amount
Bridging loans	110 360	-479	109 881
Immediate bridging loans	353 406	-7 744	345 662
Housing loans	54 977	-505	54 472
Other receivables from customers	218	0	218
Total	**518 961**	**-8 728**	**510 233**

12. Other financial receivables

Table 12.1. - Other financial receivables

(HUF million)	31.12.2022	31.12.2021
Lease receivables	483	399
Trade receivables	20	90
Security deposit	322	297
Other	58	57
Impairment allowance (-)	-31	-28
Total other financial receivables	**852**	**815**

Note 33.1. contains more detailed information on leases as a lessor.

13. Investments in subsidiaries

Fundamenta-Lakáskassza Pénzügyi Közvetítő Korlátolt Felelősségű Társaság

The Company is the sole owner (31 December 2021: 100%) of Fundamenta-Lakáskassza Kft. The activity of the subsidiary includes financial service brokerage as a multi-agent, work as a tied agent brokering mortgage loans, and in the case of other products (e.g. home savings contracts) tied-agent activity, insurance brokerage as a tied (multi-) agent as well as capital market tied-agent activity in respect of mediation of government securities contracts.

The carrying amount of the investment as of 31 December 2022 was HUF 459 million (31 December 2021: HUF 459 million). No impairment was recognised.

Table 13.1. - Equity and reserves of Fundamenta-Lakáskassza Kft.

(HUF million)	31.12.2022	31.12.2021
Registered capital	150	150
Capital reserve	306	306
Retained earnings	2 062	1 939
Profit for the year	19	123
Total equity components of the subsidiary	**2 537**	**2 518**

The profit for the reporting year of the subsidiary derives mainly from net commission income.

Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Korlátolt Felelősségű Társaság

The Company established Fundamenta Értéklánc Kft. in 2019; it is the sole owner of the subsidiary (31 December 2021: 100%). The deed of foundation of the subsidiary is dated 18 March 2019; its activity includes real estate agency.

The carrying amount of the investment as of 31 December 2022 was HUF 900 million (31 December 2021: HUF 900 million). No impairment was recognised.

Table 13.2. - Equity and reserves of Fundamenta Értéklánc Kft.

(HUF million)	2022.12.31	2021.12.31
Registered capital	50	50
Capital reserve	850	850
Retained earnings	-462	-266
Loss for the year	-177	-196
Total equity components of the subsidiary	**261**	**438**

The sales performance, and thus the net commission income from mediation of the subsidiary increased significantly in the reporting year; however, in line with plans, this could not yet cover fix costs and the depreciation due to high initial capex. The upturn of the division is continuous, stable and profitable operations are expected at the end of the 2023-2025 planning period.

14. Property, plant and equipment

Table 14.1. - Changes to property, plant and equipment

(HUF million)	Leasehold improvements	Office equipment	Motor vehicles	Assets under construction	Total
Gross value					
Balance at 1 January 2021	***1 316***	***3 684***	***402***	***0***	***5 402***
Installation	20	332	38	-390	**0**
Purchase	0	0	0	390	**390**
Disposals	-133	-118	-14	0	**-265**
Balance at 31 December 2021	***1 203***	***3 898***	***426***	***0***	***5 527***
Balance at 1 January 2022	***1 203***	***3 898***	***426***	***0***	***5 527***
Installation	4	285	106	-395	**0**
Purchase	0	0	0	323	**323**
Disposals	-42	-54	-103	0	**-199**
Other reclassifications	0	0	0	105	**105**
Balance at 31 December 2022	***1 165***	***4 129***	***429***	***33***	***5 756***
Depreciation and impairment					
Balance at 1 January 2021	***-290***	***-1 895***	***-116***	***0***	***-2 301***
Depreciation for the year	-131	-531	-52	0	**-714**
Disposals	91	110	5	0	**206**
Balance at 31 December 2021	***-330***	***-2 316***	***-163***	***0***	***-2 809***
Balance at 1 January 2022	***-330***	***-2 316***	***-163***	***0***	***-2 809***
Depreciation for the year	-119	-534	-47	0	**-700**
Disposals	13	48	47	0	**108**
Balance at 31 December 2022	***-436***	***-2 802***	***-163***	***0***	***-3 401***
Net value					
Balance at 31 December 2021	***873***	***1 582***	***263***	***0***	***2 718***
Balance at 31 December 2022	***729***	***1 327***	***266***	***33***	***2 355***

Reporting-year changes in right-of-use assets related to leases are presented separately in Note 33.1.

As at 31 December 2022 the Company had HUF 118 million contractual commitments connected to future acquisitions (31 December 2021: HUF 0 million).

15. Intangible assets

Table 15.1. - Changes to intangible assets

(HUF million)	Internally developed software	Intellectual property	Rights and concessions	Intangible assets not taken into use	Total
Gross value					
Balance at 1 January 2021	***2 349***	***1 654***	***8 482***	***493***	***12 978***
Installation	413	130	746	-1 289	**0**
Acquisitions	0	0	0	1 533	**1 533**
Disposals	0	-116	-7	0	**-123**
Balance at 31 December 2021	***2 762***	***1 668***	***9 221***	***737***	***14 388***
Balance at 1 January 2022	***2 762***	***1 668***	***9 221***	***737***	***14 388***
Installation	1 085	69	813	-1 967	**0**
Acquisitions	0	0	0	1 772	**1 772**
Other reclassifications	0	0	0	-105	**-105**
Balance at 31 December 2022	***3 847***	***1 737***	***10 034***	***542***	***16 055***
Amortisation and impairment					
Balance at 1 January 2021	***-678***	***-1 297***	***-3 159***	***0***	***-5 134***
Amortisation for the year	-301	-116	-862	0	**-1 279**
Disposals	0	100	7	0	**107**
Balance at 31 December 2021	***-979***	***-1 313***	***-4 014***	***0***	***-6 306***
Balance at 1 January 2022	***-979***	***-1 313***	***-4 014***	***0***	***-6 306***
Amortisation for the year	-334	-135	-601	0	**-1 070**
Disposals	0	0	0	0	**0**
Balance at 31 December 2022	***-1 313***	***-1 448***	***-4 615***	***0***	***-7 376***
Net value					
Balance at 31 December 2021	***1 783***	***355***	***5 207***	***737***	***8 082***
Balance at 31 December 2022	***2 534***	***289***	***5 419***	***542***	***8 679***

In the case of internally developed software, the acquisitions item also includes personnel expenses arising during the development of the software.

The gross value of intangible assets rose as a result of IT development at the Company. Intangible assets include devices used by the Company for administration, recording and calculation purposes in connection with its business activities. Intangible assets are tested for impairment annually; no impairment had to be accounted for either in the reporting year or in the previous year.

In 2022 research and development expenses booked totalled HUF 2 million (2021: HUF 6 million).

Contractual commitments of the Company related to future acquisitions of intangible assets amounted to HUF 926 million as at 31 December 2022 (31 December 2021: HUF 484 million).

16. Other assets

Table 16.1. - Other assets

(HUF million)	31.12.2022	31.12.2021
Inventories	14	14
Accruals and deferrals	825	1 002
Advances	13	7
Other items similar to tax	712	872
Additional other assets	152	328
Total other assets	**1 716**	**2 223**

In 2020 other items similar to tax included the one-off special tax for financial institutions levied on the banking sector in connection with the pandemic, amounting to HUF 956 million. The amount of the tax paid can be deducted in equal instalments during five years starting in 2021 from the special tax for financial institutions payable in the given year, consequently, the amount of the special tax for financial institutions further decreased in the reporting year.

17. Liabilities to credit institutions

Table 17.1 - Liabilities to credit institutions (type of instrument)

(HUF million)	31.12.2022	31.12.2021
Loan related to the Green Home Program	14	0
Refinancing loan	500	0
Total liabilities to credit institutions	**514**	**0**

In compliance with legal regulations, the refinancing loan drawn in 2022 is used to finance bridging loans.

Table 17.2 - Movements in liabilities to credit institutions

(HUF million)	
Balance at 1 January 2021	***0***
Balance at 31 December 2021	***0***
Borrowing from credit institutions	515
Repayment of borrowings	-1
Balance at 31 December 2022	***514***

18. Liabilities to customers

Table 18.1. - Liabilities to customers (product type)

(HUF million)	31.12.2022	31.12.2021
Retail customers:		
Payments by customers and interest thereon	455 850	482 005
Government grant and interest thereon	101 535	115 062
Other liabilities to customers	762	742
Multi-occupancy buildings, cooperatives:		
Payments by customers and interest thereon	27 122	27 144
Government grant and interest thereon	5 234	5 964
Other liabilities to customers	26	36
Total liabilities to customers	**590 529**	**630 953**

The home saver or the beneficiary thereof is entitled to government grant in the given savings year on the amount of monthly savings made, in line with the deposit amount paid in the given savings year; the government grant is given every savings year by the Hungarian State Treasury (MÁK). Under the legislative amendment related to government grant that entered into force on 17 October 2018, home savings contracts concluded after the amendment entered into force shall not entitle the home saver to government grant.

The amount of government grant is transferred by the MÁK, then the Company credits this once a year to the separate home savings account of the home saver within a month of the end of the savings year. The Company treats the credited government grant and related interest separately on the account of the home saver. Credited government grant is recognised under liabilities to customers in the statement of financial position.

For savings years beginning after 1 January 2007, those who do not make regular payments during the savings year may miss out on government grant and interest. (For the amount paid in the third and fourth savings quarter, maximum 25% of the government grant earned based on the entire annual saving may be requested from the Hungarian State Treasury in each quarter.) Entitlement to government grant is lost by home savers if the savings period does not last for four years until the deposit is withdrawn, or the deposit increased with the government grant and interest is not used for appropriate housing purposes within Hungary. If the savings period is shorter than four years when the deposit is withdrawn, the Company deducts all the credited government grant from the separate account of the home saver, together with all the credited deposit interest, and transfers the deducted amount to the Hungarian State Treasury. If the beneficiary, or for lack of such, the home saver does not use part of the amount – underlying the government grant entitlement – for housing purposes, the proportionate sum of the government grant including the deposit interest is deducted by the Company from the home saver's separate account, and the deducted amount is transferred to the central budget; if the home saver or the beneficiary has already withdrawn the amount increased with the government grant, a proportionate sum of the government grant must be repaid.

19. Other financial liabilities

Table 19.1. - Other financial liabilities

(HUF million)	31.12.2022	31.12.2021

Lease liabilities	5 193	5 523
Liabilities and accruals from commissions to sales agents	132	129
Trade liabilities	33	64
Other	444	322
Total other financial liabilities	**5 802**	**6 038**

Information on leases is included in Note 33.1.

20. Provisions

Table 20.1. - Balance of provisions

(HUF million)	31.12.2022	31.12.2021
Provision for retention commissions	542	671
Provision for quality commission bonus	336	243
Provision based on remuneration policy	208	205
Provision for other liabilities	259	316
Provision for line of credit	45	100
Total balance of provisions	**1 390**	**1 535**

The table below presents changes to provisions recognised based on IAS 37 and IFRS 9:

Table 20.2. - Changes to provisions

(HUF million)	Provision for litigations	Provision for retention commissions	Provision for quality commission bonus	Provision based on remuneration policy	Provision for other liabilities	Provision for line of credit	Total
Balance at 1 January 2021	***2***	***704***	***233***	***228***	***316***	***77***	***1 560***
Provisions recognised during the period	0	16	51	52	65	879	***1 063***
Provisions used during the period	0	-49	-41	-75	-65	-856	***-1 086***
Provisions released during the period	-2	0	0	0	0	0	***-2***
Balance at 31 December 2021	***0***	***671***	***243***	***205***	***316***	***100***	***1 535***
Provisions recognised during the period	1	11	108	37	25	758	**940**
Provisions used during the period	-1	-140	-15	-34	-82	-813	**-1 085**
Provisions released during the period	0	0	0	0	0	0	**0**
Balance at 31 December 2022	***0***	***542***	***336***	***208***	***259***	***45***	***1 390***
Non-current portion	***0***	***279***	***33***	***208***	***43***	***0***	***563***
Current portion	***0***	***263***	***303***	***0***	***216***	***45***	***827***

20.1. Provisions for pending litigation

When evaluating during litigation whether a past event resulted in a present obligation, the Company takes into account expert opinions (internal or external), judicial practice in similar cases as well as experience from authorities and the profession to estimate the expected loss. The amount of any provision for litigation is determined using the expected payable amount (e.g. compensation), together with the default interest (based on the central bank's key interest rate), and legal costs.

In the event the lawsuit is lost, the Company uses the provision; otherwise it releases the provision. Provisions are used and released at the level of individual cases.

20.2. Provisions for retention commissions

In the case of commissions payable on loans, a contract commission is calculated when concluding the contract, and a retention commission is calculated in line with legal provisions after the contract. The retention commission is paid in the period after the contract is concluded. The length of the period depends on the term of the contract. The Company recognises a provision for expected retention commission payments existing as of the reporting date.

An expected cash flow is recorded based on the product of the selected, unpaid commissions and the probability of payment based on experience. The amount of the provision is the discounted present value of the recorded cash flow.

20.3. Provision for quality commission bonus

The quality commission bonus relates to the savings contracts brokered by Fundamenta-Lakáskassza Kft. (hereinafter referred to as: the Kft.).

If the ratio of expected to completed payments for a given savings contract is at least 80% over the 12 months from the start of the saving (from receipt of the first monthly savings payment), then the Company pays the commission bonus detailed in the prevailing contract to the Kft. The month containing the savings start date is also included in the period considered, i.e. 13 months are taken into account.

The expected cash flow, the expected savings start dates and payments, the expected contract cancellations and as a result, the expected commission bonus payments are forecast by the Company based on prior experience. The amount of the provision is the estimated amount of commission bonuses payable in the future for contracts already concluded.

20.4. Provision recognised based on remuneration policy

Based on the Company's remuneration policy, the payment of task-specific bonuses to a select group of senior managers is distributed over several years. The amounts due for payment in the following year are accrued by the Company, while a provision is recognised for the payments affecting subsequent years. The amounts derived from previous-year results but affecting subsequent years are not fixed in light of the backtesting of multi-year targets; they are recalculated depending on the yearly reassessment and based on the updated forecasts.

20.5. Provision for other liabilities

Provisions for other commitments comprises the following main items:

- In connection with the amendment to the Home Savings and Loans Act in October 2018, a significant number of offers and contract amendments were received dated 16 October 2018, which was late compared to the deadline set by the Company. For the offers and amendments which were received after 18 October 2018 but the delay was not attributable to the client, the Company will pay compensation following a management decision, and it has recognised a provision for this.

- If the customer is entitled to receive customer bonus and reached the end of the term of the contract but has not yet given instructions relating to payment, the Company recognises a provision for the amount of customer bonus due to the customer.

20.6. Provision for line of credit

Further information is included in Note 6.3.

21. Other liabilities

Table 21.1. - Other liabilities

(HUF million)	31.12.2022	31.12.2021
Accruals and deferrals	670	396
Returned government grant	279	238
Other liabilities related to employees	843	808
Payment liabilities to tax authorities	227	105
Total other liabilities	**2 019**	**1 547**

The increase in liabilities to tax authorities related to wages resulted from the fact that the employees who previously had multiple employers were employed only by the Company in 2022.

22. Shareholders' equity

22.1. Share capital

The Company's official, issued, called and fully paid share capital comprises 200,100 (31 December 2021: 200,100) shares, each with a nominal value of HUF 10,000 (31 December 2021: HUF 10,000). Issued shares are completely equal in the event of a liquidation.

22.2. Capital reserve

Capital reserve amounted to HUF 2,100 million as at 31 December 2022 (31 December 2021: HUF 2,100 million). Since the capital restructuring carried out during the merger of Lakáskassza-Wüstenrot Rt. and Fundamenta Rt. as of 1 July 2003 the amount of the capital reserve has not changed.

The value of the capital reserve did not change because the capital reserve is not directly distributable, the amount can change only in certain cases (withdrawal form capital reserve accompanied by asset withdrawal and transfer to other components of equity).

22.3. Retained earnings

The Company's retained earnings comprises the accumulated earnings of previous years less dividends paid to owners.

After the reporting date the Company's management did not propose to pay dividend.

22.4. Statutory reserves

Settlement reserve

Rules relating to making settlement reserves are described in Note 6.18 d).

No settlement reserve was made in the reporting year.

General reserve

Rules relating to making and using general reserve are described in Note 6.18 d).

In the reporting year the Company recognised HUF 451 million general reserve from retained earnings (2021: HUF 539 million). The reserve was not used during the year.

23. Net interest income

23.1. Interest income

Table 23.1.1. - Interest income

(HUF million)	2022	2021
Interest income from cash and cash equivalents	3 817	859
Interest income from securities	3 114	3 468
Interest income from government bonds	*3 114*	*3 452*
Interest income from discounted Treasury bills	*0*	*7*
Interest income from mortgage bonds	*0*	*9*
Interest income from receivables from customers	26 560	25 616
Interest income from immediate bridging loans	*18 673*	*17 813*
Interest income from bridging loans	*5 064*	*5 006*
Interest income from housing loans	*2 823*	*2 797*
Interest income from leases	17	13
Total interest income	**33 508**	**29 956**

The interest income presented in the above table was accounted for using the effective interest method. Interest income includes the gain or loss from the modification of financial assets not resulting in derecognition as well as from change in the estimate relating to the expected cash flows of the instrument; this reduced interest income by HUF 135 million (2021: HUF 44 million).

Due to the changed interest rate environment, no new securities were purchased to replace the sold securities, the money so generated was deposited in short-term MNB and interbank deposits, thus decreasing interest income from securities and increasing interest income from cash and cash equivalents.

23.2. Interest expense

Table 23.2.1. - Interest expense

(HUF million)	2022	2021
Interest expense on liabilities to customers	-7 855	-9 203
Interest expense paid on amounts paid by customers	*-6 803*	*-7 951*
Interest expense attributable to government grant	*-1 052*	*-1 252*
Negative interest income on financial assets	-49	-11
Interest expense on leases	-186	-160
Total interest expense	**-8 090**	**-9 374**

The drop in interest expenses compared to the previous year resulted from the decrease in deposits in the reporting year.

24. Net fee and commission income

24.1. Fee and commission income

Table 24.1.1. - Fee and commission income

(HUF million)	2022	2021
Fee and commission income from home savings transactions	1 284	1 258
Fee income from loans	373	313
Fee income from deposits	911	945
Other fee and commission income	628	566
Total fee and commission income	**1 912**	**1 824**

24.2. Fee and commission expense

Table 24.2.1. - Fee and commission expense

(HUF million)	2022	2021
Commission expense on loans	-157	-243
Commission expense on deposits	-1 151	-997
Commission expense on securities transactions	-10	-11
Commission expense on payment transactions	-316	-345
Total fee and comission expense	**-1 634**	**-1 596**

25. Dividend income

In 2022 the Company did not realise dividend income from its subsidiaries (2021: HUF 800 million).

26. Exchange gain/loss on foreign exchange items

Table 26.1. - Foreign exchange translation gains less losses

(HUF million)	2022	2021
Foreign exchange differences	82	79
Total foreign exchange translation gains less losses	**82**	**79**

27. Net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost (AC)

Table 27.1. - Net profit arising from derecognition of financial assets and liabilities measured at amortised cost

(HUF million)	2022	2021
Total net profit arising from derecognition of securities measured at amortised cost	-1 273	917
Realised gains from derecognition of securities	*67*	*1 134*
Realised losses from derecognition of securities	*-1 340*	*-217*
Total net profit arising from derecognition of financial assets and liabilities measured at amortised cost	**-1 273**	**917**

Securities are classified by the Company as measured at amortised cost, and so the net profit/loss arising from their derecognition is recognised in the income statement under net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost.

The loss in the reporting year was driven by government bond sales in accordance with the accounting policies. Only securities with a remaining term less than 1 year were sold, therefore the only limitation contained in the accounting policies for the transactions concerned is that a significant part (more than 90%) of the nominal cash flows should be recovered. During the sales concerned the required criteria were met in all cases. The sales were driven by the objective of increasing efficiency of short-term liquidity management, thus the realised capital gains/losses cannot be evaluated individually, only in the context of the overall impact on profit or loss.

28. Change in impairment of financial assets and changes in credit provisions

Table 28.1. - Change in impairment of financial assets and changes in credit provisions

(HUF million)	2022	2021
Impairment of receivables from customers and reversal thereof	-1 380	-1 506
Impairment of securities and reversal thereof	19	-9
Impairment of other financial receivables and reversal thereof	-3	-15
Changes in provision for loan commitments	55	-23
Total changes in impairment of financial assets and in credit provisions	**-1 309**	**-1 553**

Table 28.2. - Impairment of receivables from customers and reversal thereof

(HUF million)	2022	2021
Increase due to origination	-493	-615
Further amounts recognised	-5 196	-4 120
Release	3 386	2 394
Decrease due to derecognition	923	832
Write-off/forgiveness	0	3
Total impairment of receivables from customers and reversal thereof	**-1 380**	**-1 506**

29. Other operating income

Table 29.1. - Other operating income

(HUF million)	2022	2021
Profit from re-charged services	874	424
Miscellaneous income	323	447
Total other operating income	**1 197**	**871**

Profit from re-charged services grew due to income invoiced to subsidiaries for general support of operating processes.

30. Other operating expenses

Table 30.1. - Other operating expenses

(HUF million)	2022	2021
NDIF annual fee, fee to the Resolution Fund	-1 872	-668
Extra-profit tax	-2 449	0
Special tax for financial institutions	-1 358	-1 231
Other expenses due to tax	-26	-9
Miscellaneous expenses	-29	-40
Total other operating expenses	**-5 734**	**-1 948**

Other operating expenses increased owing to the extraordinary NDIF fee and the extra-profit tax, the details of which are included in Note 39.

31. Operating costs

Table 31.1. - Operating costs

(HUF million)	2022	2021
Personnel expenses	-6 165	-5 558
Material-type expenses	-4 705	-4 386
Depreciation/ Amortisation	-2 370	-2 615
Total operating costs	**-13 240**	**-12 559**

Table 31.2. - Personnel expenses

(HUF million)	2022	2021
Wage costs	-5 000	-4 457
Taxes and contributions	-769	-819
Other	-396	-282
Total personnel expenses	**-6 165**	**-5 558**

Wage costs rose because of the general wage increase. Year-end headcount as at 31 December 2022 was 664 (31 December 2021: 695). Of the amount of taxes and contributions, social contribution tax amounted to HUF 718 million in 2022 (2021: HUF 669 million).

Table 31.3. - Material-type expenses

(HUF million)	2022	2021
Office stationery	-1 290	-1 108
Building maintenance costs	-145	-85
Contributions and fees	-133	-132
Expenses of hired personnel	-26	-20
Advisory services	-352	-382
IT costs	-1 817	-1 680
Rentals	-227	-219
PR/marketing costs	-248	-329
Authorities	-158	-124
Other costs	-309	-307
Total material-type expenses	**-4 705**	**-4 386**

Table 31.4. - Depreciation/ Amortisation

(HUF million)	2022	2021
Property, plant and equipment	-700	-714
Intangible assets	-1 070	-1 279
Right-of-use assets	-600	-622
Total	**-2 370**	**-2 615**

32. Income taxes

The Company considers corporate tax, local business tax and innovation contribution as income taxes. The taxable bases for the individual tax types differ.

In Hungary the standard rate of corporate tax is 9%, which is why the Company assumes this rate of tax when calculating tax. The corporate tax base is defined based on Act LXXXI of 1996 on Corporate and Dividend Tax.

The rate of local business tax is no more than 2%; the individual local governments can make their own decisions on the rate of the tax. The base for local business tax is the reporting-year sales revenue, less material costs, the cost of goods sold and the value of re-invoiced services, and adjusted for other reconciling items. Reporting-year sales revenue contains interest income along with the fee and commission income from home savings transactions. In addition, sales revenue also includes the exchange gain realised on securities as well as the revenue from sales of inventories and services. Other reconciling items include paid and payable fees and commissions accounted for in the financial year that reduced the amount of interest income.

The innovation contribution rate is 0.3% and is calculated using the same base as the local business tax.

The tax authority may examine books and records, and set additional taxes or fines at any time within 6 years of the given tax year. The management of the Company is not aware of any circumstances which may result in significant liabilities on these grounds.

32.1. Income tax booked for the current period

Table 32.1.1. - Income tax booked for the current period

(HUF million)	2022	2021
Current income tax		
Income tax on profit for the year	-780	-1 198
Total current income tax (expense (-)/ income (+))	**-780**	**-1 198**
Deferred tax expense		
Origination and reversal of temporary differences	-12	-5
Total deferred tax expense (-) / income (+)	**-12**	**-5**
Total income tax	**-792**	**-1 203**

32.2. Income tax recognised in the statutory reserve

The Company recognises deferred tax on the settlement reserve in the statutory reserve; it amounted to HUF 688 million as at 31 December 2022 (31 December 2021: HUF 688 million). The Company considers this deferred tax asset non-current.

32.3. Reconciliation of effective tax rate

The table below presents quantitative reconciliation of income tax calculated based on accounting profit and the income tax recognised in profit or loss for the year, as well as the applicable tax rate (9% corporate tax, 2% local business tax, 0.3% innovation contribution) and the average effective tax rate.

Table 32.3.1. - Reconciliation of effective tax rate

(HUF million)		2022		2021
	%	Amount	%	Amount
Profit before tax		5 300		6 596
Tax calculated using the Company's domestic tax rate	-9,00%	-477	-9,00%	-594
Other income taxes	-6,27%	-332	-11,47%	-756
Effect of other income taxes on the corporation tax	0,56%	30	1,03%	68
Tax effect related to other member of the tax group	0,30%	16	0,27%	18
Adjustments for prior years	-0,36%	-19	-0,03%	-2
Other	-0,18%	-10	0,97%	63
Total income tax	**-14,95%**	**-792**	**-18,24%**	**-1 203**

32.4. Movement in deferred tax balances

The Board of Directors of the Company decided that taking advantage of the option provided for by laws the Company shall use any expenses arising because of the tax difference due to transition in 3 equal instalments in the tax base of the tax year of the transition and of the 2 following tax years. In the tax year of the transition and the next tax year the Company could not use its deferred tax credits that relate to the local business tax and innovation contribution. The reason behind is that the mentioned tax and contribution were calculated based on the minimum tax base in 2018, while in 2019 the Company applied for the use of the option to calculate such levies in accordance with Hungarian accounting rules. Thus, according to original plans, 2020 would have been the first year when the tax base would have been calculated under IFRS, therefore these tax assets would have been used in 2020 and the two following years. In 2021 the treatment of the tax difference due to transition related to the business tax and innovation contribution was revised by the Company. As a result of the revision the Company determined, that based on the provisions of the law, the whole amount of the tax difference due to transition should have been used in the tax in 2018, the year of transition, i.e. the asset should not have been carried forward to 2020. Therefore the Company re-calculated the 2020 business tax and innovation contribution in 2021, and the whole amount recognised as deferred tax asset related to the tax difference due to transition was derecognised. Current changes during the year are presented in the table below.

Table 32.4.1. - Movement in deferred tax balances

(HUF million)	Net balance at 01.01.2022	Recognised in profit or loss	Recognised in other comprehensive income	Net balance at 31.12.2022		
				Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	-21	-3	0	-24	0	-24
Allowance for expected credit losses	3	0	0	3	0	3
Settlement reserve	-688	0	0	-688	0	-688
Other provisions	129	-9	0	120	0	120
Tax assets (+) / Tax liabilities (-)	**-577**	**-12**	**0**	**-589**	**0**	**-589**

(HUF million)	Net balance at 01.01.2021	Recognised in profit or loss	Recognised in other comprehensive income	Net balance at 31.12.2021		
				Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	-23	2	0	-21	0	-21
Allowance for expected credit losses	1	2	0	3	0	3
Settlement reserve	-688	0	0	-688	0	-688
Other provisions	138	-9	0	129	0	129
Tax assets (+) / Tax liabilities (-)	**-572**	**-5**	**0**	**-577**	**0**	**-577**

Table 32.4.2 - Changes in the balance of current income tax assets

(HUF million)	Opening balance at 01.01.2022	Recognised in profit or loss	Payments	Transfers	Closing balance at 31.12.2022
Corporation tax	803	447	381	0	737
Local business tax	0	0	661	-197	464
Current income tax assets	**803**	**447**	**1 042**	**-197**	**1 201**

Table 32.4.3 - Changes in the balance of current income tax liabilities

(HUF million)	Opening balance at 01.01.2022	Recognised in profit or loss	Payments	Transfers	Closing balance at 31.12.2022
Innovation contribution	120	89	108	0	101
Local business tax	314	244	0	557	0
Current income tax liabilities	**434**	**333**	**108**	**557**	**101**

33. Other disclosures

33.1. Leases

The Company acting as a lessee

As a lessee, the Company has office lease transactions. The property leased by the Company under a lease contract in Budapest is used as its registered office and customer service office. The contracts contain no restrictions, purchase and termination options or escalation clauses. The majority of the lease contracts contain extension options, which are mostly exercisable only by the Company.

The accounting policy on leases is included in Note 6.12.

Table 33.1.1. - Carrying amount of property, plant and equipment and right-of-use assets

(HUF million)	2022	2021
Property, plant and equipment owned	2 355	2 718
Right-of-use assets, except for investment property	3 530	4 199
Total	**5 885**	**6 917**

Table 33.1.2. - Changes in right-of-use assets

(HUF million)	Property
Balance at 1 January 2021	***5 289***
Additions	57
Other decrease	-525
Depreciation charge for the year	-622
Balance at 31 December 2021	***4 199***
Additions	404
Other decrease	-473
Depreciation charge for the year	-600
Balance at 31 December 2022	***3 530***

A part of the office areas that were no longer needed due to the new working schedule introduced as a result of the pandemic (Fundarend 2.0) was returned to the lessor, while another part was sub-leased through Fundamenta Értéklánc Kft. Other disposals in 2022 mainly include derecognition of right-of-use assets of rented areas that were sub-leased under finance lease. In 2021 the same line item included the derecognition of right-of-use assets related to the areas returned to the lessor. In 2022 rentals increased significantly relative to the previous year, which is reflected in the Additions line item.

Table 33.1.3 - Changes in lease liabilities

(HUF million)	Property
Balance at 1 January 2021	***6 995***
Additions	58
Lease payments	-955
Effect of modification	-753
Effect of changes in foreign exchange rates	18
Other changes	160
Balance at 31 December 2021	***5 523***
Additions	442
Lease payments	-867
Effect of modification	-465
Effect of changes in foreign exchange rates	374
Other changes	186
Balance at 31 December 2022	***5 193***

See Table 35.2.3 for the maturity analysis of lease liabilities.

Table 33.1.4. - Fixed and variable lease payments

(HUF million)			31.12.2022
	Fixed cash outflows	Variable cash outflows	Total
Contracts containing fixed lease payments	1	0	1
Contracts containing only variable lease payments	0	866	866
Total	**1**	**866**	**867**

(HUF million)			31.12.2021
	Fixed cash outflows	Variable cash outflows	Total
Contracts containing fixed lease payments	4	0	4
Contracts containing only variable lease payments	0	951	951
Total	**4**	**951**	**955**

A 1% growth in the consumer price index would increase the amount of variable lease payments by 1%.

Table 33.1.5. - Disclosures related to the statement of profit or loss and the statement of cash flows

(HUF million)	2022	2021
Interest on lease liabilities	-186	-160
Variable lease payments not included in the measurement of lease liabilities	-225	-219
Income from sub-leasing right-of-use assets	213	182
Expenses relating to short-term leases	-1	0
Total cash outflow for leases	-867	-955

The Company presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and lease liabilities in 'Other financial liabilities' in its statement of financial position.

After the commencement date, the Company recognises in profit or loss, unless the costs are included in the carrying amount of another asset, the interest on the lease liability in 'Income expenses'. Variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs are recognised in 'Operating costs'. The Company recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Company acting as a lessor

Since 2019 the Company has sub-leased offices leased by it, partly to subsidiaries under operating lease contracts, partly to external third parties under finance lease contracts. Effective from 1 November 2020, office leases to third parties are contracted exclusively through Fundamenta Értéklánc Kft.

Table 33.1.6. - Lease income as lessor

(HUF million)	2022	2021
Finance lease		
Profit/Loss connected to recognition of finance lease	49	0
Finance income on the net investment in the lease	51	16
Income related to variable lease payments not included in the measurement of the net investment in the lease	2	0
Operating lease		
Lease income	213	182

Table 33.1.7. - Lessor operating leases

(HUF million)	2022	2021
Less than one year	213	182
One to two years	213	182
Two to three years	0	182
Total undiscounted lease payments	**426**	**546**

Table 33.1.8. - Lessor finance leases

(HUF million)	2022	2021
Less than one year	91	63
One to two years	89	63
Two to three years	89	63
Three to four years	89	63
Four to five years	89	63
More than five years	91	129
Total undiscounted lease payments receivable	**538**	**444**
Unearned finance income	**57**	**45**
Net investment in the lease	**483**	**399**

33.2. Related party disclosures

Balances of business transactions with related companies

In the financial statements the Company defines related parties as follows:

A person or a close member of that person's family (they are considered other related parties) is related to the Company if that person has control or joint control, or has significant influence over the Company, or is a member of the key management personnel of the Company or of a parent of the Company.

An entity is related to the Company if any of the following conditions applies:

The entity and the Company are members of the same group;

- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- The entity is controlled or jointly controlled by a person identified above;
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

Table 33.2.1. - Balances with related parties

				31.12.2022
(HUF million)	**Parent company**	**Subsidiary**	**Key management personnel of the Company or its parent company**	**Other related parties**
Assets				
Receivables from customers	0	0	0	10
Other financial receivables	0	505	0	0
Other assets	0	3	0	0
Liabilities				
Liabilities to customers	0	0	24	19
Other financial liabilities	0	109	0	0
Provisions	0	0	208	0
Other liabilities	0	246	100	0

(HUF million)	Parent company	Subsidiary	Key management personnel of the Company or its parent company	Other related parties 31.12.2021
Assets				
Receivables from customers	0	0	0	11
Other financial receivables	0	489	0	0
Liabilities				
Liabilities to customers	0	0	19	18
Provisions	0	0	206	0
Other liabilities	0	246	67	0

Provisions for expected liabilities include remuneration benefits that are already due based on the conditions for entitlement but have not yet been accrued.

Table 33.2.2. - Related party transactions

(HUF million)	Parent company	Subsidiary	Key management personnel of the Company or its parent company	Other related parties 31.12.2022
Comprehensive income				
Interest income	0	32	0	1
Interest expense	0	0	1	0
Fee and commission expenses	0	-9 236	0	0
Other operating income	0	1 066	0	0
Personnel expenses	0	0	-463	0
Material-type expenses	-7	-102	-39	0

(HUF million)	Parent company	Subsidiary	Key management personnel of the Company or its parent company	Other related parties
				31.12.2021
Comprehensive income				
Interest income	0	31	0	1
Fee and commission expenses	0	-7 619	0	0
Other operating income	0	482	0	0
Personnel expenses	0	0	-422	0
Material-type expenses	-15	-79	-33	0
Dividends				
Dividends received	0	800	0	0

In the above tables, balances and transactions are presented in respect of the Company's products and in relation to remunerations.

Key management personnel are those who – directly or indirectly – have the authorisation and responsibility to plan, direct and control the Company's activity.

The members of the Company's and the parent company's Supervisory Board and Board of Directors are considered key management personnel.

Remuneration of key management personnel
The table below presents remuneration of key management personnel:

Table 33.2.3. - Remuneration of key management personnel

(HUF million)	2022	2021
Short-term employee benefits	387	349
Other long-term benefits	115	106
Total	**502**	**455**

Remuneration of key management personnel includes their wages, in-kind benefits and related taxes. The benefits as per IAS 24.17 b and d are not relevant to the Company.

Table 33.2.4. - Remuneration of the members of the Board of Directors and the Supervisory Board

(HUF million)	2022	2021
Members of the BoD	494	450
Supervisory Board members	8	5
Total	**502**	**455**

33.3. Off-balance sheet items

Legal disputes

Up to the reporting date various claims were reported against the Company and various legal proceedings were in progress which belong to the ordinary course of business based on their nature.

In the Company's opinion, the claims against it and the litigated receivables do not affect materially its financial position, future results of operations or cash flows, although the outcome of claims and litigated receivables cannot be guaranteed. As at 31 December 2022 and 31 December 2021 no provision was recognised due to legal disputes. The HUF 1 million provision made in the reporting year was used. (See Note 20.1).

Loan commitment

The primary goal of these instruments is for the Company to make funds available to its customers as required.

The Company makes loan commitments for the undrawn parts of authorisable loan facilities. With regard to the credit risk of loan commitments the Company is potentially exposed to a risk of loss equal to the entire amount of the undrawn commitment. Nonetheless, the probable amount of the loss is lower than the entire amount of the undrawn commitment facility since most loan commitments are subject to customers meeting certain creditworthiness requirements. (See Note 6.3).

Similar credit risk monitoring and lending rules apply for undrawn loan commitments as for lending. According to the Company management, the market risk connected to undrawn loan commitments is minimal.

Contingent assets

As at 31 December 2022 the Company has HUF 153 million (31 December 2021: HUF 159 million) contingent litigated assets.

33.4. Subsequent events

Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. These can be adjusting events (providing evidence of conditions that existed at the end of the reporting period) and non-adjusting events (events occurring after the end of the reporting period).

When compiling its financial statements the Company took into account all adjusting events after the reporting period.

33.5. IT systems

The following IT systems support the Company's financial/accounting/treasury processes:

- Moonsol account management system,
- CODA general ledger application,
- Application supporting Érték sales processes,
- Clavis securities system,
- funIzsr GIRO management,
- SPECTRA and CIB BT electronic banking administration
- Abacus working hours and payroll system,
- ECM content management system,
- eBankár CRM system/client master,
- WebBankár.

The applications include systems developed by the Company itself and others coded by external partners.

The Company relies on both administrative and technical controls to ensure its IT security. Access to the entire IT system is only permitted via a pre-defined access management process.

For the purposes of enhancing availability, the Company operates test systems and only allows programme developments and modifications to go live in an operational setting in a strictly regulated manner and after appropriate testing.

The Company uses a central data backup system to prevent data loss; the archived backups are stored in physically separate and remote data centres, and recovery tests are employed to ensure the integrity of the saved data.

The Company deploys a solution that supports security processes to prevent data leaks.

Regular external and internal audits also ensure the ongoing compliance of IT systems with legislation.

The Company has Business Continuity Planning (BCP) and Disaster Recovery Plan (DRP) in place for all its business-critical systems and processes, which is regularly tested in coordination with security management.

34. Categories of financial instruments

The Company records its financial instruments in the amortised cost category.

35. Management of financial risk

The Company is exposed to the following main risks derived from financial instruments:

- credit risk
- liquidity risk
- market risk (including currency and interest rate risk).

This Note presents information about the Company's exposure to the above risks, the Company's objectives, policies and processes for measuring and managing risks.

35.1. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. For the Company, it essentially arises in the case of loans and advances to customers and other banks and partners as well as the investment securities held by the Company.

a) Credit risk management

The Company is a credit institution specialised in lending with a conservative lending policy and risk appetite, which manages its risks bearing the principle of prudence in mind. The Company's Board of Directors is committed to controlling its risk exposures to ensure that all of the risks assumed by the Company do not jeopardise the stable operation of the credit institution in either the short or the long run. The Company shapes its risk assumption, risk management and control procedures such that they support its secure operations.

The Company ensures that it elaborates, implements and executes the right standard of risk management procedure by engaging an independent risk management organisation.

The Company's procedure for assuming risks consists of identifying, measuring, managing and strictly monitoring risks. In terms of measurement methods the Company strives to select the best methodology that properly reflects its risk profile, and is the best tool for estimating potential losses from risks. Prior to introducing new products and services and for all material risk types the Company assesses the risks of the product and defines the risk management methods, including the monitoring activity. The risk strategy is consistent with and based on the long-term business plan, and it determines limits for the key risks that define the Company's risk profile.

Credit risks are managed at the Strategic Risk Management Directorate. Strategic Risk Management is responsible for planning and measuring credit risks and risk costs. This task is carried out via the following departments.

- The Risk Controlling team is responsible for assessing and analysing the risks of the Company, and for establishing, enforcing and monitoring the rules on risk management. It plans risk costs and prepares internal and external risk reports.
- Modelling provides the data infrastructure for risk management. It designs, maintains, backtests and develops the debtor rating system, conducts analytical tasks related to the rated loan portfolio, determines ratings and impairment, and develops management proposals.
- The Work-out department is responsible for the ongoing monitoring, collection and related administration of loan arrears. This includes renegotiating arrears cases based on an assessment and evaluation of the debtors' ability to repay, determining individual impairment, and ultimately launching and monitoring the enforcement process. It handles central collateral assessments.
- The Loan Decision group is responsible for reviewing issues that exceed the powers of the Loan Assessment department, or which require an individual procedure for other reasons, and for proposing decisions.
- The Product Risk department supports the development of new-risk products, the performance analysis of existing product portfolios as well as lending processes.

Alongside the Strategic Risk Management Directorate, the Security Management Directorate also plays a key role in shaping risk awareness and operating risk management processes, while Compliance and Internal Audit in the supervision of the operation of processes. The Risk Board convenes every month and checks the work of risk management areas based on the risk management strategy; it makes decisions on submissions regarding risk management issues as well as on ensuring the personnel and material conditions required to implement the Strategy.

The Audit and Risk Management Committee operates as part of the Supervisory Board. It makes proposals to the Supervisory Board in relation to financial reporting and the audit, risk management, internal audit and compliance. It convenes before the meetings of the Supervisory Board. In terms of its meetings and decision-making processes it follows the rules applicable for the Supervisory Board, and a majority vote is required from the Committee members for each decision.

Underwriting

Credit risk management is carried out by several areas within the organisation. Individual underwriting decisions related to the granting of loans are taken by the Loan Decision group of the Strategic Risk Management Directorate in accordance with the rules set forth in the General Underwriting Policy. For loan placements in excess of the amount recorded in the General Underwriting Policy, and in the other cases defined in the Censor Committee Policy, risk management adopts its decisions in cooperation with the Censor Committee.

The ongoing management of credit risks at portfolio level is conducted by the modelling professionals and the Risk Controlling team of the Strategic Risk Management Directorate, and at operative level by the Work Out department. They are responsible for ongoing monitoring, proposals for modifying the loan assessment system and policies, initiating sanctions against customers in arrears where necessary, cancellation recommendations, management of cancelled contracts and outsourcing it to law offices to claim receivables through legal channels. The Work Out department also handles the examinations of cases suspected of fraud, and makes recommendations on introducing procedures to prevent fraud.

The product risk management function was set up within the Strategic Risk Management Directorate, which provides risk support for the development of new loan products as well as measuring the parameters and associated risks of existing products by applying a risk-return concept.

Limit system

The Company uses a limit system to restrict the assumption of credit risks.

The main principle applied when determining credit risk limits is compliance with the provisions of the Home Savings and Loans Act, furthermore, that the limits must always relate to the quality of the economic/financial situation, creditworthiness and solvency of those subject to the limits.

The Company introduced a limit system for business loans from 2011. The upper – statutory – limit of the system is that 90% of the free assets may be used to grant bridging loans (including the immediate bridging loans that used to be distinguished by law). Over and above this, bridging loans may be granted from external funding and/or from equity while complying with prudential provisions applicable to the Group.

In the segments where the expected risk of placed loans is higher, or unknown, the Company uses limits to restrict the volume that may be placed. The limits are defined in connection with the risks that can still be assumed, while changing them depends on the recovery of the portfolio.

Different policies define the terms and conditions for product limits on housing loans as well as bridging and immediate bridging loans. In the case of housing loans the product limit only changes in the event of a modified tariff or the introduction of a new tariff, while for bridging loans the limit applied is in line with Section 15 (4) of the Home Savings and Loans Act, which is modified when the Home Savings and Loans Act is amended.

Reporting

The Risk Controlling team is responsible for constantly monitoring and analysing credit risks.

The head of Strategic Risk Management, or his/her representative, reports on the quality of the portfolio every month at the Risk Board meetings.

One standing item on the agendas of the Audit and Risk Management Committee and Supervisory Board meetings is the report on the size, development and quality of the loan portfolio. Determining the basic general principles of the business policy (including guidelines for lending activity) is a task for the General Meeting.

Monthly and quarterly summaries and analyses are prepared on the quality of the loan portfolio. These are prepared by the members of the Risk Controlling team. The analyses are prepared per type of loan, highlighting certain loan conditions based on the given risk level, and look at the impact of certain parameters on quality. The examined parameters were previously defined on the basis of professional consultations. The results of the analyses are monitored and evaluated on a monthly basis.

In addition to the above, the Supporting Processes Organisation department prepares a monthly Loan Cockpit, which is regularly reviewed and evaluated by the Core Processes Organisation department, the head of the Strategic Risk Management Directorate and the heads of the Product Advisor department and the Product Management and Business Support department, making recommendations to the Board of Directors regarding the implementation of further actions where applicable.

Monitoring

The Risk Board is responsible for the ongoing supervision of the Company's lending activity; the ongoing supervision of the collection and workout activity; the risk supervision of the loan portfolio, for requesting reports on the operating risks arising at the Company, and for accepting any measures. In addition, the Risk Board ensures an optimal flow of information and communication between the organisational units, detects and discusses the problems arising during the Company's operations; it makes decisions to handle the problems or puts forward proposals.

The Risk Board has no decision-making rights regarding loan transactions.

Main duties of the Risk Board:

- design and approve the risk management strategy based on the risk appetite statement accepted by Board of Directors, then submit it for approval to the ARC/Supervisory Board;
- risk management monitoring of the loan portfolio;
- monitoring of the risky loan portfolio required by MNB executive circulars relating to own funds;
- monitoring of operational risks;
- monitoring of interest rate risk in the banking book;
- monitoring of collection and workout activity;
- definition, implementation and monitoring of risk limits for the loan portfolio in line with the risk strategy;
- collaboration regarding the performance of ICAAP-related tasks, particularly with regard to loan portfolio questions, ensuring the necessary input, reports, recommendations and observations;
- providing information to the Board of Directors on a regular basis on decisions adopted by the Risk Board;
- providing information to the Board of Directors on a regular basis relating to the moratorium.

b) Credit quality analysis

The following table provides information on the credit quality of financial assets measured at amortised cost and loan commitments.

The definitions for 12-month expected credit loss, lifetime expected credit loss and credit-impaired financial assets are contained in Note 6.3.

The carrying amounts presented in the tables represent the maximum credit risk exposure of the Company.

Table 35.1.1. - Classification by credit quality category

(HUF million)	12-month expected credit loss	Lifetime expected credit loss Not credit-impaired	Lifetime expected credit loss Credit-impaired	31.12.2022 Total
Receivables from customers at amortised cost				
Bridging loans				
Arrears of 0 day	*101 860*	*9 707*	*0*	***111 567***
Arrears for no more than 1 month	*337*	*310*	*0*	***647***
Arrears for no more than 2 months	*0*	*153*	*0*	***153***
Arrears for no more than 3 months (not default)	*0*	*80*	*0*	***80***
More than 3 months, not significant	*0*	*67*	*0*	***67***
More than 3 months, significant	*0*	*0*	*51*	***51***
Restructured	*0*	*0*	*134*	***134***
Objective evidence	*0*	*0*	*504*	***504***
Associated due to Basel	*0*	*0*	*22*	***22***
Cancelled	*0*	*0*	*33*	***33***
Persistence	*0*	*0*	*54*	***54***
Watch list due to associated contract	*0*	*0*	*193*	***193***
Immediate bridging loans				
Arrears of 0 day	*315 940*	*41 379*	*0*	***357 319***
Arrears for no more than 1 month	*1 761*	*2 057*	*0*	***3 818***
Arrears for no more than 2 months	*0*	*1 040*	*0*	***1 040***
Arrears for no more than 3 months (not default)	*0*	*841*	*0*	***841***
More than 3 months, not significant	*0*	*628*	*0*	***628***
More than 3 months, significant	*0*	*0*	*978*	***978***
Restructured	*0*	*0*	*2 166*	***2 166***
Objective evidence	*0*	*0*	*3 769*	***3 769***
Associated due to Basel	*0*	*0*	*215*	***215***
Cancelled	*0*	*0*	*1 112*	***1 112***
Persistence	*0*	*0*	*1 117*	***1 117***
Watch list due to associated contract	*0*	*0*	*1 043*	***1 043***
Housing loans				
Arrears of 0 day	*51 884*	*4 439*	*0*	***56 323***
Arrears for no more than 1 month	*217*	*197*	*0*	***414***
Arrears for no more than 2 months	*0*	*96*	*0*	***96***
Arrears for no more than 3 months (not default)	*0*	*25*	*0*	***25***
More than 3 months, not significant	*0*	*16*	*0*	***16***
More than 3 months, significant	*0*	*0*	*34*	***34***
Restructured	*0*	*0*	*123*	***123***
Objective evidence	*0*	*0*	*175*	***175***
Associated due to Basel	*0*	*0*	*13*	***13***
Cancelled	*0*	*0*	*87*	***87***
Persistence	*0*	*0*	*66*	***66***
Watch list due to associated contract	*0*	*0*	*79*	***79***
Total gross value	**471 999**	**61 035**	**11 968**	**545 002**

Impairment allowance	*-2 698*	*-1 189*	*-6 507*	***-10 394***
Total net carrying amount	**469 301**	**59 846**	**5 461**	**534 608**

Cash and cash equivalents at amortised cost				
No rating	*2 165*	*0*	*0*	***2 165***
BBB	*34 257*	*0*	*0*	***34 257***
Total gross value	**36 422**	**0**	**0**	**36 422**
Total net carrying amount	**36 422**	**0**	**0**	**36 422**
Securities that are debt instruments, at amortised cost				
BBB	*82 934*	*0*	*0*	***82 934***
Total gross value	**82 934**	**0**	**0**	**82 934**
Impairment allowance	*-76*	*0*	*0*	***-76***
Total net carrying amount	**82 858**	**0**	**0**	**82 858**
Other financial receivables - leases				
Number of days past due: 0-30	*483*	*0*	*0*	***483***
Total gross value	**483**	**0**	**0**	**483**
Total net carrying amount	**483**	**0**	**0**	**483**
Other financial receivables - other				
Number of days past due: 0-30	*0*	*353*	*0*	***353***
Number of days past due: 91-	*0*	*0*	*47*	***47***
Total gross value	**0**	**353**	**47**	**400**
Impairment allowance	*0*	*-10*	*-21*	***-31***
Total net carrying amount	**0**	**343**	**26**	**369**
Loan commitments				
Arrears of 0 day	*4 255*	*0*	*0*	***4 255***
Arrears for no more than 1 month	*95*	*0*	*0*	***95***
Arrears for no more than 2 month	*20*	*0*	*0*	***20***
Arrears for no more than 3 months (not default)	*5*	*0*	*0*	***5***
Total loan commitments	**4 375**	**0**	**0**	**4 375**
Impairment allowance (provision)	**-45**	**0**	**0**	**-45**

(HUF million)	12-month expected credit loss	Lifetime expected credit loss Not credit-impaired	Lifetime expected credit loss Credit-impaired	31.12.2021 Total
Receivables from customers at amortised cost				
Bridging loans				
Arrears of 0 day	*90 567*	*17 871*	*0*	***108 438***
Arrears for no more than 1 month	*212*	*414*	*0*	***626***
Arrears for no more than 2 months	*0*	*182*	*0*	***182***
Arrears for no more than 3 months (not default)	*0*	*46*	*0*	***46***
More than 3 months, not significant	*0*	*60*	*0*	***60***
More than 90 days but not more than 3 months, significant	*0*	*0*	*6*	***6***
More than 3 months, significant	*0*	*0*	*67*	***67***
Restructured	*0*	*0*	*151*	***151***
Objective evidence	*0*	*0*	*743*	***743***
Associated due to Basel	*0*	*0*	*32*	***32***
Cancelled	*0*	*0*	*10*	***10***
Persistence	*0*	*0*	*24*	***24***
Watch list due to associated contract	*0*	*0*	*192*	***192***
Immediate bridging loans				
Arrears of 0 day	*251 779*	*83 415*	*0*	***335 194***
Arrears for no more than 1 month	*1 110*	*2 538*	*0*	***3 648***
Arrears for no more than 2 months	*0*	*1 569*	*0*	***1 569***
Arrears for no more than 3 months (not default)	*0*	*924*	*0*	***924***
More than 3 months, not significant	*0*	*634*	*0*	***634***
More than 90 days but not more than 3 months, significant	*0*	*0*	*75*	***75***
More than 3 months, significant	*0*	*0*	*908*	***908***
Restructured	*0*	*0*	*2 637*	***2 637***
Objective evidence	*0*	*0*	*5 696*	***5 696***
Associated due to Basel	*0*	*0*	*344*	***344***
Cancelled	*0*	*0*	*878*	***878***
Persistence	*0*	*0*	*290*	***290***
Watch list due to associated contract	*0*	*0*	*608*	***608***
Housing loans				
Arrears of 0 day	*43 257*	*10 447*	*0*	***53 704***
Arrears for no more than 1 month	*116*	*290*	*0*	***406***
Arrears for no more than 2 months	*0*	*208*	*0*	***208***
Arrears for no more than 3 months (not default)	*0*	*24*	*0*	***24***
More than 3 months, not significant	*0*	*21*	*0*	***21***
More than 3 months, significant	*0*	*0*	*58*	***58***
Restructured	*0*	*0*	*160*	***160***
Objective evidence	*0*	*0*	*263*	***263***
Associated due to Basel	*0*	*0*	*20*	***20***
Cancelled	*0*	*0*	*33*	***33***

Persistence	*0*	*0*	*23*	***23***
Watch list due to associated contract	*0*	*0*	*59*	***59***
Total gross value	**387 040**	**118 644**	**13 277**	**518 961**
Impairment allowance	*-2 100*	*-1 393*	*-5 235*	***-8 728***
Total net carrying amount	**384 940**	**117 251**	**8 042**	**510 233**

Cash and cash equivalents at amortised cost				
No rating	2 005	0	0	**2 005**
BBB	*73 489*	*0*	*0*	***73 489***
Total gross value	**75 494**	**0**	**0**	**75 494**
Total net carrying amount	**75 494**	**0**	**0**	**75 494**
Securities that are debt instruments, at amortised cost				
BBB	*103 381*	*0*	*0*	***103 381***
Total gross value	**103 381**	**0**	**0**	**103 381**
Impairment allowance	*-95*	*0*	*0*	***-95***
Total net carrying amount	**103 286**	**0**	**0**	**103 286**
Other financial receivables - leases				
Number of days past due: 0-30	*399*	*0*	*0*	***399***
Total gross value	**399**	**0**	**0**	**399**
Total net carrying amount	**399**	**0**	**0**	**399**
Other financial receivables				
Number of days past due: 0-30	*0*	*390*	*0*	***390***
Number of days past due: 31-90	*0*	*3*	*0*	***3***
Number of days past due: 91-	*0*	*0*	*51*	***51***
Total gross value	**0**	**393**	**51**	**444**
Impairment allowance	*0*	*-9*	*-19*	***-28***
Net carrying amount	**0**	**384**	**32**	**416**
Loan commitments				
Arrears of 0 day	*9 823*	*0*	*0*	***9 823***
Arrears for no more than 1 month	*203*	*0*	*0*	***203***
Arrears for no more than 2 month	*93*	*0*	*0*	***93***
Arrears for no more than 3 months (not default)	*51*	*0*	*0*	***51***
Arrears for more than 90 days but not more than 3 months, significant	*0*	*0*	*120*	***120***
Watch list due to associated contract	*0*	*0*	*24*	***24***
Total loan commitments	**10 170**	**0**	**144**	**10 314**
Impairment allowance (provision)	**-98**	**0**	**-2**	**-100**

Table 35.1.2. - Provision matrix

(HUF million)			31.12.2022
Number of days past due	**Rating**	**Provision rate**	**Gross amount**
0-30 days	Stage 2	3%	354
31-90 days	Stage 2	5%	0
91-820 days	Stage 3	9%	28
821-1185 days	Stage 3	35%	1
More than 1,185 days	Stage 3	100%	18
Other financial receivables-other			**401**

(HUF million)			31.12.2021
Number of days past due	**Rating**	**Provision rate**	**Gross amount**
0-30 days	Stage 2	3%	390
31-90 days	Stage 2	5%	3
91-820 days	Stage 3	9%	31
821-1185 days	Stage 3	35%	5
More than 1,185 days	Stage 3	100%	15
Other financial receivables-other			**444**

Cash and cash equivalents

The Company's cash and cash equivalents as of 31 December 2022 totalled HUF 36,422 million (31 December 2021: HUF 75,494 million). Cash and cash equivalents comprise amounts deposited at the central bank and at credit institution partners with at least a rating of between AAA and BB based on the ratings from the three most well-known ratings agencies (Fitch, Moody's, S&P).

c) Collateral and other credit enhancements

In relation to certain credit risk exposures the Company accepts collateral and other credit enhancements. The following table presents the basic collateral accepted in relation to various financial assets.

The market value of collateral totalled HUF 1,691,246 million as at 31 December 2022 (31 December 2021: HUF 1,499,515 million).

During collection of accounts receivable, the amount realised from claiming collateral totalled HUF 93 million in 2022 (2021: HUF 32 million). Collateral is claimed by participating in enforcement proceedings to the extent of the receivables of the Company.

Table 35.1.3. - Collateral

(HUF million)	Ratio of exposures subject to collateral requirements (%)		Basic type of collateral
	31.12.2022	31.12.2021	
Receivables from customers - Retail customers			
Immediate bridging loans	99,99%	99,98%	property collateral
Bridging loans	98,50%	98,42%	property collateral
Housing loans	87,87%	87,53%	property collateral
Receivables from customers - Multi-occupancy buildings			
Immediate bridging loans	0,13%	0,18%	property collateral
Housing loans	0,06%	0,11%	property collateral

Retail mortgage lending

The following tables group the credit risk exposure of mortgage loans and advances to retail customers based on the loan-to-value (LTV) ratio. The loan-to-value ratio shows the gross value of the loan (for loan commitments, the amount of the commitment) relative to the value of the collateral. The collateral value of mortgage loans associated with residential properties is based on the collateral value valid at the time of the loan disbursement, which is remeasured in accordance with Basel requirements.

Table 35.1.4. - Loan-to-value ratio (LTV) of mortgage loans)

(HUF million)	31.12.2022	31.12.2021
Less than 50%	164 709	161 564
51-70%	139 148	133 517
71-90%	193 463	185 302
91-100%	3	5
Over 100%	41	46
No LTV	47 382	38 309
Total gross value of loan receivables	**544 746**	**518 743**

Table 35.1.5. - Loan-to-value ratio (LTV) of credit-impaired loans

(HUF million)	31.12.2022	31.12.2021
Less than 50%	1 802	2 324
51-70%	2 506	2 821
Over 70%	5 756	6 158
No LTV	1 904	1 974
Total gross value of credit-impaired loan receivables	**11 968**	**13 277**

Table 35.1.6. - Loan-to-value ratio (LTV) of mortgage loan commitments

(HUF million)	31.12.2022	31.12.2021
Less than 50%	2 557	4 441
51-70%	737	2 478
71-90%	366	2 617
91-100%	0	0
Over 100%	0	0
No LTV	715	778
Total	**4 375**	**10 314**

Other collateral and credit enhancements

In the event the debtor defaults on payment, the purpose of the collateral is for the Company to use it to recover all its receivables from the debtor – costs, transaction and default interest as well as the principal.

Only the following real collateral (and combinations thereof) may be accepted as security for bridging and immediate bridging loans granted by the Company: mortgage right, general mortgage, property insurance securing the collateral property, security deposit, assignment, risk life insurance. Non-real collateral may include the following: surety, lien on income from common charges, lien on income from rents, debt recognition, immediate collection (immediate debt collection).

In line with statutory requirements the Company appraises residential properties every three years, and non-residential properties every year. The prevailing portfolio is revised in stages, at least annually.

As of 31 December 2022 the Company had no financial instruments which had not been impaired on account of collateral. The value of the collateral property does not impact the impairment; it is only the basis of portfolio segmentation whether the given contract is secured or not by collateral property. As at 31 December 2022 95.54% of the portfolio was secured by collateral property, while the same ratio for the credit-impaired portfolio was 97.64%. The backtested PDs and LGDs for the secured portfolio are more favourable than for the unsecured portfolio, thus the impairment rates applied to that are also lower.

d) Amounts arising from expected credit loss

Inputs, assumptions and methods used to estimate impairment

The Company applies 8 product categories for PD classification: housing loans (secured / unsecured), bridging loans (secured / unsecured), immediate bridging loans (secured, unsecured with 1 year's savings, unsecured with zero day's savings), multi-occupancy building/housing co-operative loans. Short (PIT) and long-term (TTC) PDs are estimated with the help of the at least T-5 and T-3 annual cohorts. Forward-looking information is incorporated by modifying the PIT PD.

LGD segments are established based on the product type (housing loan, bridging loan, immediate bridging loan) and the termination status (not terminated, terminated due to non-performance, terminated due to missing verification of housing purpose). Deposits are taken into account as loss-reducing items. The data of previous collateral valuation actions are taken into account when calculating the ultimate LGD figures, as final loss-reduction items.

The EADs are based on amortised cost.

The curing ratios are segmented based on the product age (younger/older than 48 months) and coverage (secured / non secured).

For further details and the related accounting policy please refer to Note 6.3.

Significant increase in credit risk

To determine whether the risk of default of a financial instrument has risen significantly since initial recognition, the Company takes into account all reasonable and supportable information that is available without undue cost or effort. This includes quantitative and qualitative information and analysis based on the Company's historical experience, creditworthiness examinations and forward-looking information.

The objective of the assessment is for the Company to identify, whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; and
- the remaining lifetime probability of default as at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

If a behavioural score deteriorates by at least 2 notches compared to the rating upon initial recognition, this indicates a significant increase in the credit risk of the transaction.

Credit risk rating grades

The Company classifies all exposures into credit risk rating grades based on experience of creditworthiness assessments and based on data predictive of the default risk. The credit risk rating grades are defined based on qualitative and quantitative factors that are indicative of the probability of default.

The Company differentiates between several credit risk rating grades.

Performing rating grades:

1. No arrears
2. Arrears for no more than 1 month
3. Arrears for no more than 2 months
4. Arrears for no more than 3 months
5. More than 3 months, not significant

Non-performing rating grades:

6. Arrears for more than 90 days but not more than 3 months, significant
7. More than 3 months, significant
8. Restructured
9. Objective evidence
10. Associated due to Basel
11. Cancelled
12. Persistence
13. Watch list due to associated contract

The 'No arrears' grade includes contracts where there are no transactions in default. Arrears with both deposits and loans must be taken into account with regard to arrears.

The grade of 'Arrears for no more than 1 month' includes contracts where there is a transaction in default and the number of days in default is greater than zero but no more than 31.

The grade of ’Arrears for no more than 2 months’ includes contracts where there is a transaction in default and the number of days in default is greater than 31 but no more than 62.

The grade of ’Arrears for no more than 3 months’ includes contracts where there is a transaction in default and the number of days in default is greater than 62 but no more than 92 (in the case of 91 and 92 days only the non-significant debts are included).

The ’More than 3 months, not significant’ grade contains the contracts where the number of days in default is greater than 92 but the arrears are not significant.

If the significant defaulted loan obligation for the transaction has persisted for more than 90 days, i.e. the arrears have prevailed for 91 or 92 days and qualify as significant, it falls into the ’Arrears for more than 90 days but not more than 3 months, significant’ grade.

The contracts classified in the ’More than 3 months, significant’ grade have arrears for more than 92 days which are significant.

The ’Restructured’ grade lists the transaction contracts which were subject to distressed restructuring – in the form of a repayment agreement – and are in restructuring phase 1 or 2 at the time of the rating.

The ’Objective evidence’ grade contains contracts where there is objective evidence triggering a default.

At the ’Associated due to Basel’ category it is examined whether contracts have an associated contract on borrower lines backed by property accepted under BASEL (including cases where there is not only property accepted by BASEL behind the contract, or the entire exposure is not covered by BASEL property) and it is labelled “Default”, or if there is an associated contract on borrower lines that is not a retail loan contract and it is labelled “Default”.

The ’Cancelled’ grade contains contracts that have been cancelled.

The ’Persistence’ grade includes contracts which had significant debts of 90+ days or objective evidence triggering a default on at least one occasion during the last three ratings, yet which currently have no criteria triggering a default.

The ’Watch list due to associated contract’ grade includes contracts that fall under Stage 1 or Stage 2 in their own right, but have connections to Stage 3 contracts based on debtor groups.

Upon initial recognition, the Company classifies all exposures into one of the credit risk rating grades based on information available on the debtor. The exposures are constantly reviewed, which can mean that over time an exposure must be classified into a different credit risk rating grade. The reviews generally draw on the following data:

Defining the term structure of probability of default
Credit risk rating grades are the most important inputs for determining the probability of defaults (PD) for exposures. The Company collects performance and default information about its credit risk exposures analysed by product and customer type as well as by credit risk rating grade.

The Company applies statistical models to analyse the data collected as well as to estimate the lifetime expected PD of the exposures and what change is expected in them as time progresses.

This analysis includes the identification and calibration of the relationship between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of other factors (for example restructuring experience) on default risk. Key macro-economic factors for most exposures: GDP growth, expansion of the retail loan market.

The purpose of estimating the PD parameter is to quantify the probability of default of a given transaction at the Company. The aim of the PD segmentation is to group the portfolio transactions into homogeneous risk groups (from a PD parameter perspective) based on legal type (non-natural persons / natural persons), product type (housing loan / immediate bridging loan / bridging loan), coverage (secured / unsecured) and loan conditions (for immediate bridging loans, 0 or 1 year). The Company determined its PD curves with the help of survival functions applied to the historical default rates of segments with the same risks (Weibull distributions).

Significant increase in credit risk (SICR) assessment is carried out as follows:

In accordance with IFRS 9, transactions must be classified into 3 types, so-called “stages”.

- Stage 1: The transaction’s credit risk has not deteriorated significantly since its initial recognition. Calculation of 12-month expected loss is required.
- Stage 2: The transaction’s credit risk has deteriorated significantly since its initial recognition. Calculation of lifetime expected loss is required.
- Stage 3: One or more negative events have occurred that had an adverse impact on the transaction’s future expected cash flows (“credit-impaired”). The Company classifies defaulted transactions into Stage 3.

The change in credit risk is examined at transaction level.

The staging logic at the Company is based on the changes in the behavioural scores of the contracts. If a behavioural score deteriorates by at least 2 notches compared to the rating upon initial recognition, the transaction is transferred to Stage 2.

Due to the payment moratorium, new Stage 2 indicators were introduced (see Note 6.3).

For stage classifications in the other direction (e.g. migration from Stage 2 to Stage 1) there are also special conditions: for curing from Stage 2 to Stage 1 also the three-month persistence is applied in the case of normal indicators (for example, no separate trial period is applied); however, a special trial period must be applied to transactions transferred to Stage 2 because of the moratorium.

If a retail transaction was in the moratorium for more than 9 months, and thus was transferred to Stage 2, it can be released provided it complies with the following: If it was not in default for more than 30 days during the 6-month monitoring period after exiting the moratorium or the expiry of the moratorium, the amount in arrears did not exceed EUR 100, and there are no other Stage 2 indicators or circumstances that would in themselves lead to a restructuring, the contract may be released from Stage 2 during the rating at the end of the 7th month (provided none of the previous conditions are met).

If a corporate transaction (multi-occupancy building or housing co-operative) was in the moratorium for more than 9 months, and thus was transferred to Stage 2, the staging relevant for restructured contracts must be applied.

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 6.2 c).

When the terms of a financial assets are modified by the Company and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contract terms.

The Company renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default.

The Company strives to elaborate payment relief options for its customers who want to pay but whose ability to pay has temporarily suffered a setback, bearing in mind the following guidelines:

- reaching an agreement which the debtor can meet in accordance with the terms and conditions in the agreement,
- the terms of the restructuring agreement are developed with the interests of the Creditor in mind too, alongside the ability of the borrowers to pay,
- restoring the debtor's ability to pay in the short term primarily, and if not then in the long term.

Alongside the above guidelines, the Company pays special attention to restoring retail mortgage loans that have fallen into default, based on MNB Recommendation 1/2016 (III.11).

For loan accounts in arrears and loan contracts earmarked for cancellation the Company examines the circumstances surrounding the debtor's ability to pay, and based on its own business policy it weighs up whether it is possible to apply bridging solutions should the debtor default on payment. When making this decision the receivables from the debtor are reviewed both separately and collectively.

The revised terms generally include extending the maturity and changing the timing of interest payments.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/non-performing. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/non-performing or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month expected credit loss.

Definition of default
A customer shall be considered to be in default if at least one of the following events occurs:

- the significant defaulted loan obligation for the transaction has persisted for more than 90 days, or
- the transaction contract has been cancelled,
- the transaction contract is subject to distressed restructuring – in the form of a repayment agreement – and is in restructuring stage 1 or 2 at the time of the rating,
- there is objective evidence triggering a default for the contract (examples: all participants of the contract died, disappeared, the collateral is destroyed, changed risk conditions),
- persistent default (contracts for which the default criterion was applicable in the last 3 months).

The Company applies the default definition at transaction level.

The amounts in default arising in connection with the loan and the deposit account associated with the loan account (in the case of bridging loans) are recognised as defaulted items on a transaction basis.

When examining the default criterion the Company examines the joint fulfilment of the following two conditions:

- the degree of the default can be considered critical if it has prevailed for more than 90 days at the time of the rating,
- the amount of the default can be considered critical if the amount exceeds both of the following two threshold values:

Absolute threshold	Relative threshold
• HUF value equivalent to EUR 100 calculated using MNB exchange rate*	• 1% of the total contractual liability of the transaction

* The Company applies the EUR 100 threshold uniformly in the case of private individuals and multi-occupational buildings/housing cooperatives.

The time of the default is the due date of the oldest outstanding transaction from those past due by more than 90 days (if the overall default is significant).

If a default is cured, the Company applies a 3-month curing period based on which the transaction is still treated as being in default for a further three months after the default is eliminated. For restructured transactions the Company does not apply the 3-month curing period.

For a transaction in default because of a previous significant late payment in excess of 90 days, it is considered cured if neither the default criterion above nor any other default criterion applies, and the three-month persistence period has lapsed.

For restructured loans the default criterion is monitored by tracking the contracts entering the repayment agreement category. The monitoring of contracts in default on account of restructuring can be split into two parts:

- monitoring of contracts in stage 1: the loans which have a repayment agreement in place at the time of the rating,
- monitoring of contracts in stage 2: the loans currently in their first, 1-year trial period.

Curing is subject to the contracts not being in default during the afore-mentioned stage 2. If this condition is breached, stage 2 commences with a 1-year curing period again after the default has been eliminated. Furthermore, curing is also only possible if, in addition to the default criterion above, no other default criterion applies to the transaction either.

Following a 1-year curing period, the transaction can be declared performing (Stage 3). During the performing stage the transaction must be monitored for another two years (trial period). The “restructured” label can be removed from the transaction after two years if instalments deemed more than non-significant were made during half of the period, and none of the debtor group’s transactions were in default at the end of the trial period.

The default events are identified at the end of the month and the default events are reported by Operative Risk Management.

Non-performing contracts for the Company are those in default in their own right as well as contracts classified in Stage 3 because of the related contract.

The inputs used to evaluate whether a financial instrument is non-performing and their importance may change over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

Forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an n instrument has increased significantly since its initial recognition and its measurement of expected credit loss.

The Company takes forward-looking information into account by adjusting certain impairment parameters. The Company collected the historical trends of various types of macro-economic indicator for modelling purposes, and arranged them in a standard database. The following variables were collected and examined during the modelling:

- GDP: the Company adopted the MNB's forecasts for 2022, 2023 and 2024 disclosed in its December 2022 circular;
- Retail loan expansion: the MNB circular does not contain values for this indicator. At the same time, in its March 2022 Inflation Report the MNB forecasts a range for retail loan expansion for 2022, 2023 and 2024. The Company adopts the two extremes of the forecast range for its own favourable and unfavourable scenarios, while the baseline is determined between them based on an expert decision. The June and September 2022 Inflation Reports did not contain a range, therefore the Company shifted the range forcast in the March report with the difference between the forecasts in the September and the June reports;
- Annual change in the price index of residential properties: MNB did not publish such forecast, therefore the Company calculates with the following changes in prices for the next 12 months, on an expert basis: favourable (10%), baseline (0%), unfavourable (-20%).
- Gross Fixed Capital Formation: the Company adopted the MNB's forecasts for 2022, 2023 and 2024 disclosed in its December 2022 circular;
- Average gross wages in the private sector: the Company adopted the MNB's forecasts for 2022, 2023 and 2024 disclosed in its December 2022 circular;
- Inflation: the Company adopted the MNB's forecasts for 2022, 2023 and 2024 disclosed in its December 2022 circular;
- Unemployment rate: the Company adopted the MNB's forecasts for 2022, 2023 and 2024 disclosed in its December 2022 circular.

Scenario weights: in its executive circular MNB recommends the following weights for the three scenarios: favourable (5-10%), baseline (60-70%), unfavourable (20-30%). The Company has taken advantage of the headroom provided by MNB and it defined asymmetric weights. The weights for PD, LGD and EAD are uniformly the following: favourable (10%), baseline (70%), unfavourable (20%).

	Unfavourable	**Baseline**	Favourable	Unfavourable	**Baseline**	Favourable
2022	2.7	**3.5**	4.3	6.5	**8.3**	10.1
2023	-4.2	**1.0**	5.3	6.4	**8.1**	9.7
2024	4.6	**4.0**	3.6	12.6	**13.4**	14.2
Scenario weights for PD, LGD and EAD:				20%	70%	10%
Change in the price of residential property:				-20%	0%	10%

	Gross Fixed Capital Formation	Average gross wages in the private sector	Unemployment rate	Inflation
Favourable	4.76	14.40	3.35	13.98
Baseline	3.30	14.31	3.49	13.95
Unfavourable	1.59	14.20	3.66	13.91

The Company identified and documented the key credit risk and credit loss factors for each individual portfolio of financial instruments, and estimated the relationships between macro-economic variables and credit risk and credit losses by using analyses of historical data.

When assessing impairment the following information relating to the future was used in the case of PD:

- Annual volume index of GDP
- Annual change in the retail loan portfolio

When assessing impairment the following information relating to the future was used in the case of LGD:

- Annual change in the price index of residential properties

When assessing impairment the following information relating to the future was used in the case of LGD:

- Gross Fixed Capital Formation
- Average gross wages in the private sector
- Inflation
- Unemployment rate

Measurement of expected credit loss

Expected credit losses are probability-weighted estimates of the credit losses arising during the expected life of the financial asset (i.e. the present value of all cash shortfall). A cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the Company expects to be paid in full but later than when contractually due.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to the Company under the contract and he cash flows that the Company expects to receive.

Expected credit losses shall be discounted to the reporting date, using the effective interest rate determined at initial recognition or an approximation thereof. The discounting interest rate can be defined at transaction level for each possible date.

The key inputs into the measurement of expected credit loss are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are usually derived from statistical models developed by the Company and other historical data. These are adjusted to reflect forward-looking information as described above.

The gross exposure at default on a given date is defined according to the repayment schedule. In relation to the calculation of the EAD parameter, please note that the bridging and immediate bridging loans are due to mature at the end of the housing loan phase, thus the EAD parameter also amortises the existing exposure until the end of the housing loan phase. The EAD includes the value of any potential fees as well.

The products of the Company are not credit line products so there are no undrawn lines where the expected ratio of the drawdown would have to be quantified. Consequently, there is no need to model a CCF (Credit Conversion Factor) parameter.

In the case of transactions in default, the value of the EAD equals the gross IFRS exposure.

When measuring expected credit loss on a collective basis, the classification into measurement group is based on the oldest outstanding arrears/portion of arrears.

Applying a policy developed by the parent company, the Company uses external benchmark information to measure the credit loss expected from the securities portfolio. External benchmark information represents a significant input into measurement of expected credit loss in the case of the following portfolios.

Table 35.1.7. - External benchmark information

(HUF million)	Exposure	External benchmark used	
		PD	LGD
Hungarian State, MNB	114 780	0,23%	40,00%

Impacts of the coronavirus and the energy crisis

Fundamenta-Lakáskassza Zrt. contacted its clients at the very beginning of the pandemic, and has been in constant dialogue ever since. Generally speaking, at roughly 70% the Company’s ratio of clients who stated they did not wish to participate in the moratorium and instead wanted to continue fulfilling their payment obligations was much higher in 2020 than the average for the banking sector.

To ensure that the right amount of risk reserve be recorded for the loans of clients in the moratorium, the Company reviewed and modified its impairment model. As a result of the modification, the Stage 3 portfolio hidden because of the moratorium and its impairment effect were modelled based on the macroeconomic forecast proposed by the MNB. This impairment effect was mapped with a management overlay, not directly to the contracts under the moratorium, but at contract level, based on the whole Stage 1 and Stage 2 portfolios. The overlay made this way amounted to HUF 2.3 billion as at 31 December 2020. Fundamenta-Lakáskassza Zrt. prepared for the expected impacts of the COVID situation in 2020 based on this conservative methodology.

Although the moratorium had no significant impact on the staging logic in 2020, this changed in 2021. At the start of the year, the “Executive Circular on the use of macroeconomic information and the factors indicating a significant increase in credit risk under IFRS 9” stated that transactions taking advantage of the payment moratorium for more than 9 months must be classified into Stage 2 (see Note 6.3). This triggered a marked increase in the Stage 2 portfolio.

A new phase of the moratorium began from 1 November 2021 (Moratorium 2+), in which the number of participants dropped markedly (3,484 of the 118,535 customers used this opportunity at the end of December). Customers had to inform the Bank by 31 October 2021 of their participation in Moratorium 2+. They were able to take advantage of the rights under Moratorium 2+ if any of the following applied to the given customer:

- Prolonged reduction in income
- Unemployed
- Participant in a public employment programme
- Retired
- Raising a child

If a customer was in this phase of the moratorium, their contract had to be classified in Stage 2. The Company also classified in Stage 3 the contracts where the customer marked their reason for remaining in the moratorium as a prolonged reduction in income or unemployment (1,137 contracts). Since the hidden Stage 3 portfolio decreased as a result (but did not disappear completely), the related overlay was also reduced (by HUF 750 million).

In the course of 2022, Moratorium2+ was extended, as Moratorium4. Clients had to apply again, but only those who had participated in Moratorium 2+ were eligible. Thus the number of contracts in the moratorium fell once again. Based on its decision, the Company did not change its previous staging logic, so contracts that had been designated as ‘permanently reduced income’ or ‘unemployment’ when remaining in Moratorium2+ were kept in Stage 3. All other contracts in the moratorium were moved to Stage 2 if no other Stage 3 indicators were evident. The agricultural credit moratorium was introduced during 2022, with only a specific group of clients being eligible. Contracts participating in the agricultural credit moratorium (1 contract) were also put into Stage 2.

There has been no real loss data on the moratorium contracts for more than 2 years, and energy prices are also rising rapidly, which will have a direct, negative impact on the loss data. Consequently, the Company decided to continue using an overlay of 80% of the Stage 2 moratorium portfolio as hidden Stage 3 impairment (calculated with a 25% LGD at recognition) (approximately HUF 1.6 billion).

Loss allowance

The following table shows reconciliation from the opening to the closing balance of loss allowance by class of financial instrument.

Table 35.1.8. - Movements in loss allowance (Receivables from customers)

(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss - credit-impaired (Stage 3)	2022 Total
Impairment of receivables from customers				
Balance at 31 December 2021	**2 100**	**1 393**	**5 235**	**8 728**
Transfers	1 431	199	-1 630	**0**
Increase due to origination	493	0	0	**493**
Further amounts recognised	475	902	3 820	**5 197**
Release	-1 571	-1 210	-605	**-3 386**
Decrease due to derecognition	-230	-95	-599	**-924**
Other changes	0	0	286	**286**
Balance at 31 December 2022	**2 698**	**1 189**	**6 507**	**10 394**

(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss - credit-impaired (Stage 3)	2021 Total
Impairment of receivables from customers				
Balance at 31 December 2020	**3 061**	**517**	**3 451**	**7 029**
Transfers	-308	544	-236	**0**
Increase due to origination	615	0	0	**615**
Further amounts recognised	187	1 158	2 775	**4 120**
Release	-1 183	-637	-574	**-2 394**
Decrease due to derecognition	-272	-189	-371	**-832**
Other changes	0	0	190	**190**
Balance at 31 December 2021	**2 100**	**1 393**	**5 235**	**8 728**

Table 35.1.9 - Movements in gross amount (Receivables from customers)

	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	Total
Balance at 31 December 2020	**439 099**	**40 134**	**5 741**	**484 974**
Increase due to origination and purchase	*94 124*	*0*	*0*	***94 124***
Other changes	*-25 425*	*4 007*	*417*	***-21 001***
Decrease due to derecognition	*-24 385*	*-13 341*	*-648*	***-38 374***
Transfer between Stages	*-96 299*	*88 493*	*7 806*	***0***
Write-off/forgiveness	*4*	*2*	*-22*	***-16***
Change due to payment moratorium	*-78*	*-651*	*-17*	***-746***
Balance at 31 December 2021	**387 040**	**118 644**	**13 277**	**518 961**
Increase due to origination and purchase	*93 355*	*0*	*0*	***93 355***
Other changes	*-31 977*	*-3 987*	*451*	***-35 513***
Decrease due to derecognition	*-22 787*	*-7 429*	*-1 450*	***-31 666***
Transfer between Stages	*46 364*	*-46 119*	*-245*	***0***
Write-off/forgiveness	*4*	*0*	*-23*	***-19***
Change due to payment moratorium	*0*	*-74*	*-42*	***-116***
Balance at 31 December 2022	**471 999**	**61 035**	**11 968**	**545 002**

Table 35.1.10. - Movements in impairment (additional financial assets and provisions for line of credit)

				31.12.2022
(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	Total
Impairment of securities that are debt instruments				
Balance at 31 December 2021	**95**	**0**	**0**	**95**
Increase due to origination and purchase	*4*	*0*	*0*	***4***
Decrease due to derecognition	*-23*	*0*	*0*	***-23***
Balance at 31 December 2022	**76**	**0**	**0**	**76**
Impairment of other financial receivables				
Balance at 31 December 2021	**0**	**9**	**19**	**28**
Increase due to origination	*0*	*1*	*0*	***1***
Movement due to change in credit risk (net)	*0*	*0*	*2*	***2***
Other changes	*0*	*1*	*0*	***1***
Decrease due to derecognition	*0*	*-1*	*0*	***-1***
Transfer between Stages	*0*	*0*	*0*	***0***
Balance at 31 December 2022	**0**	**10**	**21**	**31**

Provision for line of credit				
Balance at 31 December 2021	**98**	**0**	**2**	**100**
Increase due to origination	*750*	*0*	*0*	***750***
Movement due to change in credit risk (net)	*8*	*0*	*0*	***8***
Decrease due to derecognition	*-804*	*0*	*-9*	***-813***
Transfer between Stages	*-7*	*0*	*7*	***0***
Balance at 31 December 2022	**45**	**0**	**0**	**45**

(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	31.12.2021 Total
Impairment of securities that are debt instruments				
Balance at 31 December 2020	**127**	**0**	**0**	**127**
Increase due to origination and purchase	*9*	*0*	*0*	***9***
Movement due to change in credit risk (net)	*-1*	*0*	*0*	***-1***
Decrease due to derecognition	*-40*	*0*	*0*	***-40***
Balance at 31 December 2021	**95**	**0**	**0**	**95**
Impairment of other financial receivables				
Balance at 31 December 2020	**0**	**10**	**3**	**13**
Increase due to origination	*0*	*4*	*0*	***4***
Movement due to change in credit risk (net)	*0*	*0*	*14*	***14***
Decrease due to derecognition	*0*	*-3*	*0*	***-3***
Transfer between Stages	*0*	*-2*	*2*	***0***
Balance at 31 December 2021	**0**	**9**	**19**	**28**
Provision for line of credit				
Balance at 31 December 2020	**76**	**0**	**1**	**77**
Increase due to origination	*878*	*0*	*0*	***878***
Movement due to change in credit risk (net)	*0*	*0*	*1*	***1***
Decrease due to derecognition	*-852*	*0*	*-4*	***-856***
Transfer between Stages	*-4*	*0*	*4*	***0***
Balance at 31 December 2021	**98**	**0**	**2**	**100**

Table 35.1.11. - Movements in gross amount (additional financial assets and line of credit)

(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	31.12.2022 Total
Securities that are debt instruments				
Balance at 31 December 2021	**103 381**	**0**	**0**	**103 381**
Increase due to origination and purchase	*4 135*	*0*	*0*	***4 135***
Other changes	*1 192*	*0*	*0*	***1 192***
Decrease due to derecognition	*-25 774*	*0*	*0*	***-25 774***
Balance at 31 December 2022	**82 934**	**0**	**0**	**82 934**
Other financial receivables				
Balance at 31 December 2021	**399**	**393**	**51**	**843**
Increase due to origination and purchase	*313*	*55*	*0*	***368***
Other changes	*51*	*27*	*-3*	***75***
Decrease due to derecognition	*-195*	*-113*	*-10*	***-318***
Lease payments	*-85*	*0*	*0*	***-85***
Transfer between Stages	*0*	*-9*	*9*	***0***
Balance at 31 December 2022	**483**	**353**	**47**	**883**
Line of credit				
Balance at 31 December 2021	**10 170**	**0**	**144**	**10 314**
Increase due to origination	*78 964*	*0*	*0*	***78 964***
Decrease due to derecognition	*-84 152*	*0*	*-751*	***-84 903***
Transfer between Stages	*-607*	*0*	*607*	***0***
Balance at 31 December 2022	**4 375**	**0**	**0**	**4 375**

Table 35.1.11. - Movements in gross amount (additional financial assets and line of credit)

(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	31.12.2021 Total
Securities that are debt instruments				
Balance at 31 December 2020	**140 651**	**0**	**0**	**140 651**
Increase due to origination and purchase	*10 353*	*0*	*0*	***10 353***
Other changes	*-536*	*0*	*0*	***-536***
Decrease due to derecognition	*-47 087*	*0*	*0*	***-47 087***
Balance at 31 December 2021	**103 381**	**0**	**0**	**103 381**
Other financial receivables				
Balance at 31 December 2020	**444**	**353**	**35**	**832**
Increase due to origination and purchase	*0*	*91*	*14*	***105***
Other changes	*16*	*55*	*-11*	***60***
Decrease due to derecognition	*0*	*-78*	*-15*	***-93***
Lease payments	*-61*	*0*	*0*	***-61***
Transfer between Stages	*0*	*-28*	*28*	***0***
Balance at 31 December 2021	**399**	**393**	**51**	**843**
Line of credit				
Balance at 31 December 2020	**8 097**	**0**	**41**	**8 138**
Increase due to origination	*91 253*	*0*	*0*	***91 253***
Other changes	*-25*	*0*	*114*	***89***
Decrease due to derecognition	*-88 776*	*-10*	*-380*	***-89 166***
Transfer between Stages	*-379*	*10*	*369*	***0***
Balance at 31 December 2021	**10 170**	**0**	**144**	**10 314**

Credit-impaired financial assets

See Note 6.3 on accounting policies.

In the Company's internal credit rating system, credit-impaired loans and advances are classified into Stage 3.

As at 31 December 2022 the Company had no financial assets that were written off during the period and that are still subject to enforcement activity (2021: HUF 15 million).

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Table 35.1.12. - Modified financial assets

(HUF million)	31.12.2022	31.12.2021
Financial assets modified during the year		
Amortised cost before modification	16 182	103 881
Net modification loss	-118	-669

Of the above amounts, HUF 15,938 million amortised cost and HUF 116 million net modification loss relate to contract modifications due to the loan moratorium for FY 2022 (2021: HUF 103,734 million amortised cost, HUF 668 million net modification loss).

Table 35.1.13. - Modified financial assets

(HUF million)	31.12.2022 Gross carrying amount	31.12.2021 Gross carrying amount
Loans cured following modification that have again a loss allowance measured at an amount equal to 12-month expected credit loss	49 787	9 007

HUF 49,552 million gross carrying amount was recognised in 2022 in connection with the loan moratorium (2021: HUF 9,003 million).

Restructured loans

In light of economic aspects and the principle of proportionality, the Company applies all methods and means that are generally expected and are supported by the legal environment in order to manage overdue receivables. In the case of the overdue exposures, the primary goal is to help restore the debtors' solvency. An important tool for achieving this goal is to restructure receivables, which can be done prior to rating an exposure as being in default and even in the case of exposures that are already non-performing.

Restructured loans are loans that had to be restructured due to a deterioration in the debtor's financial position, for which the concessions made by the Company ensured contractual terms and conditions for the debtor which are more favourable than those provided at initial recognition, and which the Company would not otherwise have provided. The Company recognises these loans under restructured loans until maturity, early repayment or until write-off.

Due to the customer's financial problems or the deterioration in its solvency, the original contract generating the receivable is modified at the request of the customer or the Company, and the original contractual conditions, in particular but not only the conditions relevant for the payment liability, became more favourable for the customer.

Changes to the original contractual conditions:

- modification regarding lower interest rate and/or instalment payment, forgiving;
- rescheduling, extension of term;
- release of collateral;
- all other contract modifications which have been defined by the Company in the relevant policy.

Cancellation of contracts

If the last warning prior to cancellation was unsuccessful and the debtor (or any other obligor) either did not respond or was not willing to cooperate, the loan contract becomes cancellable.

Possible reasons for cancellation:

- Non-payment;
- Other breaches of contract (Non-verification of housing purpose, collateral withdrawal, mortgage not registered);
- Enforcement initiated on collateral property;
- Joint cancellation of contracts associated based on customer group
- Provision of false data during loan assessment (including entitlement to government grant) discovered after the granting of the loan;

If a debtor still does not cooperate and does not settle their debt, then legal proceedings to recover the receivable are launched, during which the collateral for the transaction is claimed as well. If the receivable is not recovered in full during the procedure, or partly becomes irrecoverable, the remainder is written off.

e) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loan receivables, loan commitments and securities is shown below:

Table 35.1.14. - Concentrations of credit risk

(HUF million)	Gross value of loan receivables	
	31.12.2022	31.12.2021
Gross value	**544 746**	**518 743**
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	***15 866***	***12 449***
Mortgaged	16	18
Unsecured loans	15 850	12 431
Retail	***528 880***	***506 294***
Mortgaged	520 544	497 991
Unsecured loans	8 336	8 303
Total	**544 746**	**518 743**
Concentration by geographic location		
Bács-Kiskun	28 553	27 314
Baranya	12 122	11 587
Békés	11 546	11 542
Borsod-Abaúj-Zemplén	27 171	27 389
Budapest	103 083	97 544
Csongrád-Csanád	26 434	25 836
Fejér	30 840	29 287
Győr-Moson-Sopron	36 266	32 868
Hajdú-Bihar	27 096	26 051
Heves	12 204	12 161
Jász-Nagykun-Szolnok	18 522	17 511
Komárom-Esztergom	30 839	27 818
Nógrád	5 626	5 548

Pest	92 599	86 035
Somogy	8 173	8 055
Szabolcs-Szatmár-Bereg	21 438	21 624
Tolna	10 729	10 850
Vas	8 778	8 227
Veszprém	23 688	22 817
Zala	9 039	8 679
Total	**544 746**	**518 743**

(HUF million)	Loan commitments	
	31.12.2022	31.12.2021
Amount committed / Amount guaranteed	**4 375**	**10 314**
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	***259***	***563***
Unsecured loans	259	563
Retail	***4 116***	***9 751***
Mortgaged	3 660	9 537
Unsecured loans	456	214
Total	**4 375**	**10 314**
Concentration by geographic location		
Bács-Kiskun	203	554
Baranya	127	328
Békés	92	215
Borsod-Abaúj-Zemplén	248	436
Budapest	881	1 972
Csongrád-Csanád	177	487
Fejér	154	512
Győr-Moson-Sopron	212	740
Hajdú-Bihar	212	599
Heves	135	212
Jász-Nagykun-Szolnok	166	344
Komárom-Esztergom	224	618
Nógrád	2	98
Pest	856	1 681
Somogy	28	169
Szabolcs-Szatmár-Bereg	183	248
Tolna	80	232
Vas	68	258
Veszprém	208	385
Zala	119	226
Total	**4 375**	**10 314**

Carrying amount as at 31 December 2022 of securities that are debt instruments totalled HUF 82,858 million (31 December 2021: HUF 103,286 million), which relates in full to the public sector, as in the previous year.

35.2. Liquidity risk

Liquidity risk is the current or expected risk affecting profitability and the capital situation that an institution will not be able to fulfil its due liabilities without significant losses.

a) Management of liquidity risk

The toolbox and rules for managing liquidity risk are included in the Company's liquidity policy. The internal regulations are based on the following basic pillars:

- The harmony between the business strategy and the liquidity strategy is ensured as the liquidity plan prepared for an appropriate period forms an integral part of the business plans.
- The liquidity management organisation is clearly regulated. In line with the appropriate recommendation of the central bank, the board members of the Company supervise liquidity management processes in a committee (ALCO) as well as through regular reporting and the controls built into business processes.
- The time horizons, inputs and outputs of liquidity planning are regulated.
- We have processes developed to review the fulfilment of liquidity plans and the evaluation of plans/actual data.
- We have a model for forecasting cash flows related to the customer portfolio. We pay attention to measuring/back-testing the model's parameters and regularly review the planning parameters in a way that is embedded in our planning process.
- The organisational units impacting on liquidity and the affected IT systems are identified, the related information flow is regulated.

For liquidity management we have the right indicators, including the regulatory liquidity ratios (LCR-Liquidity Coverage Ratio, NSFR – Net Stable Funding Ratio) and other liquidity risk reports, as well as all the internal ratios which are related to the course of business due to regulatory requirements or any other special reasons (required liquidity level pertaining to remuneration policy, liquidity available within 30 days, liquidity buffers).

The Company has an internal policy for the management of emergency liquidity situations.

According to its valid business strategy, the Company is a specialised risk-averse credit institution. Ensuring continuous liquidity is an especially important element of the strategy targeting prudent credit institution operations in all aspects. For all this it is crucial that the Company particularly bears in mind the impact on liquidity of strategic decisions related to the core business activity.

In practice, this can be realised if modelling expected changes to liquidity always forms an integral part of the business plans built around the individual strategic ideas. Modelling is performed jointly by Controlling and the Strategic Asset and Liability Management Directorate (SALM) of the Company.

The Company's operative Board members supervise the liquidity management processes, evaluate liquidity risks at both strategic and tactical level (involving the Treasury department into this latter), under normal and stressed circumstances and in light of both financing and market risks, relying on the reports prepared by the responsible professional units (particularly SALM and Controlling). This activity is performed in most detail by the Asset-Liability Committee (hereinafter referred to as: the "ALCO").

Apart from the report prepared for the ALCO meetings, the Board of Directors receives reports with even a greater frequency about the processes affecting liquidity (a weekly report received from Treasury) which supports the responsible control function.

Liquidity risk exposure

The main indicators applied for the management of liquidity risk include the nominal magnitude of liquidity accessible within 30 days and the liquidity ratio stressed on the side of customer payments, defined as follows:

Liquidity accessible within 30 days

Using the data in the liquidity plan broken down by month, the experiential distribution data and the factual information derived from the books, we prepare a liquidity plan every day that is available for 30 days. The sum of the free liquidity available by the end of the 30th day based on the planned course of business and the liquidity buffers must definitely reach the minimum level defined by the ALCO. Current value of the limit: HUF 15 billion.

Table 35.2.1. - Liquidity risk exposure - Liquidity accessible within 30 days

(HUF million)	31.12.2022	31.12.2021
At 1 January	168 122	198 267
At 31 December	96 336	168 122
Average in the period	127 104	188 652
Maximum in the period	169 641	204 741
Minimum in the period	89 493	168 122

Liquidity ratio stressed on the side of customer payments

(Principal and interest amount of money market deposits maturing within 30 days + collateral value of securities that can be accepted as collateral + principal and interest amount due within 30 days of securities that are excluded from securities accepted as collateral only because of the short remaining term) / Payments expected within 30 days

Minimum required value: 150%

As of the reporting date and during the period, the indicators applied to manage liquidity risk were as follows:

Table 35.2.2. - Liquidity risk exposure - Stressed liquidity ratio

(%)	31.12.2022	31.12.2021
At 1 January	555,55%	858,32%
At 31 December	151,85%	555,55%
Average in the period	310,99%	748,48%
Maximum in the period	555,55%	1049,13%
Minimum in the period	142,21%	509,51%

b) Maturity analysis for financial assets and financial liabilities

In 2021 the law related to the calculation of the amount of available stable funding relative to the amount of required stable funding (NSFR) was amended. The 2021 data were already generated in accordance with the new regulation, which resulted in a restructuring between individual categories of liabilities to customers in the tables presenting the maturity analysis of financial assets and liabilities.

The following table sets out the remaining contractual cash flows of the Company's financial liabilities and financial assets:

Table 35.2.3. - Maturity analysis

(HUF million)	Carrying amount	Gross nominal inflow (+)/ outflow (-)					31.12.2022
		Total	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	More than 5 years
Type of financial liability							
Non-derivative financial liabilities							
Liabilities to credit institutions	514	-785	-5	-10	-46	-724	0
Liabilities to customers	590 529	**-660 349**	-11 717	-180 226	-249 046	-101 649	-117 711
Other financial liabilities	5 802	**-6 391**	-115	-728	-714	-3 781	-1 053
of which: Lease liabilities	5 193	**-5 783**	-79	-158	-712	-3 781	-1 053
Unrecognised loan commitments	4 375	**-4 375**	-4 375	0	0	0	0
Total	**601 220**	**-671 900**	**-16 212**	**-180 964**	**-249 806**	**-106 154**	**-118 764**
Type of financial asset							
Non-derivative financial assets							
Cash and cash equivalents	36 422	**36 459**	36 459	0	0	0	0
Securities	82 858	**93 694**	0	0	2 908	69 397	21 389
Receivables from customers	534 608	**612 672**	6 262	17 169	58 506	256 439	274 296
Other financial receivables	852	**940**	27	27	110	363	413
of which: Lease receivables	481	**539**	8	16	67	357	91
Total	**654 740**	**743 765**	**42 748**	**17 196**	**61 524**	**326 199**	**296 098**

(HUF million)	Carrying amount	Gross nominal inflow (+)/ outflow (-)					31.12.2021
		Total	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	More than 5 years
Type of financial liability							
Non-derivative financial liabilities							
Liabilities to customers	630 953	**-684 671**	-13 261	-97 975	-395 763	-85 945	-91 727
Other financial liabilities	6 038	**-6 572**	-168	-491	-649	-3 447	-1 817
of which: Lease liabilities	5 523	**-6 057**	-1	-144	-648	-3 447	-1 817
Unrecognised loan commitments	10 314	**-10 314**	-10 314	0	0	0	0
Total	**647 305**	**-701 557**	**-23 743**	**-98 466**	**-396 412**	**-89 392**	**-93 544**
Type of financial asset							
Non-derivative financial assets							
Cash and cash equivalents	75 494	**75 540**	75 540	0	0	0	0
Securities	103 286	**116 989**	0	0	11 967	71 580	33 442
Receivables from customers	510 233	**559 335**	5 763	15 370	56 013	232 275	249 914
Other financial receivables	815	**888**	97	11	97	258	425
of which: Lease receivables	399	**444**	5	11	47	253	128
Total	**689 828**	**752 752**	**81 400**	**15 381**	**68 077**	**304 113**	**283 781**

The values included in the tables above in the case of non-derivative financial liabilities and financial assets are the undiscounted cash flows, which include estimated interest payments, while in the case of off-balance sheet loan facilities, the values were assigned to the earliest possible contractual maturity.

Because of the option of termination by customers, the cash outflow of deposits without a bridging loan is included in the '1-3 months' category.

As part of the management of liquidity risk arising from financial liabilities, the Company holds liquid assets (cash and cash equivalents, debt instruments issued by sovereigns) which can be readily sold to meet liquidity requirements.

The following table shows the part of the carrying amount of non-derivative financial assets and liabilities which will be recovered or settled more than 12 months after the reporting date.

Table 35.2.4. - Instruments recovered/settled after more than 12 months

(HUF million)	31.12.2022	31.12.2021
Financial assets		
Securities	82 858	95 016
Receivables from customers	472 112	450 631
Other financial receivables	736	650
Financial liabilities		
Liabilities to credit institutions	513	0
Liabilities to customers	129 641	129 018
Other financial liabilities	4 418	4 868

c) Liquidity reserves

The following table sets out the components of the Company's liquidity reserves.

Table 35.2.5. - Liquidity reserves

(HUF million)	31.12.2022		31.12.2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Balances at central banks	31 915	31 915	72 106	72 106
Cash and balances at other banks	4 507	4 507	3 388	3 388
Unencumbered debt securities issued by the state	82 842	66 977	103 286	99 846
Total liquidity reserves	**119 264**	**103 399**	**178 780**	**175 340**

d) Assets offered as collateral and available to support future funding

In the reporting period the Company had refinancing transactions. In the transactions it transferred financial assets in a way that the transactions did not meet the derecognition criteria. The tools for obtaining future funding can be divided into two main groups:

• Assets eligible as collateral at the central bank for credit operations: For the Company at the end of 2022 these assets were government bonds issued by the Hungarian State, but during the year it also had a fixed deposit with the MNB with a longer maturity, which was also potentially available for short-term liquidity. For the same group of assets the Company can also hold mortgage bonds on its balance sheet, but at the end of the year they amounted to zero.

- Mortgage loans eligible for mortgage-based refinancing – with the corresponding real estate as collateral – for which a separate lien is registered for the Company: Based on the framework agreement signed on 1 April 2022, this group of assets is eligible for long-term borrowing. For this very reason, the asset group is analysed based on the rules laid down in the Mortgage Act and the related framework agreement. Subject to ALCO approval, for those – and only those – transactions and related collateral where the Company is satisfied as to their eligibility as collateral, it uses appropriate flags in its account management system to be able to track their use as such in principle. Based on the information available as of the reporting date, the value of the eligible transactions well exceeds the amount of the Company's refinancing facility that satisfies its business needs.

As of the reporting date, the Company had the following encumbrances regarding its securities:

Table 35.2.6 - Financial assets pledged as collateral

(HUF million)			31.12.2022
	Blocked	Blocked, encumbered	Blocked, not encumbered
Nominal value	50	20	30
Net carrying amount	42	16	25

In relation to mortgage refinancing with an outstanding principal amount of HUF 500 million as of 31 December 2022, twenty mortgage loan transactions with an outstanding principal amount of HUF 554 million along with the related collateral real estate were recorded as collateralised.

35.3. Market risk

Market risk is the risk that the change in market prices such as interest rates, equity prices, foreign exchange rates and credit spreads (not related to changes in the obligor's/issuer's credit standing) will affect the Company's profit or loss and the value of the financial instruments included in its financial statements. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Company's solvency while optimising the return on risk.

Management of market risks

The Company does not have any trading book items.

The Company aims to apply a prudent investment policy. In line with the legal requirements, it primarily invests its assets in government securities and mortgage bonds. These are recognised in the banking book and managed according to the business model recorded in the accounting policies. The re-pricing interest risk affects the Company to a limited extent since it sells its deposits and loans with an interest rate fixed for the term, so the risk related to changes in the interest rate directly affects the securities investments. The base risk, yield curve risk and option risk do not materialise because of the special regulated nature of the Company and due to its product portfolio.

Foreign currency risk can arise in connection with FX trade liabilities. These liabilities can generally be planned well in advance. The Company's practice is that in the case of a favourable exchange rate, it buys the necessary foreign currency in advance and fixes it until maturity.

Exposure to market risks

The Company’s banking book items may be exposed to interest rate risk and foreign currency risk.

The following table presents the carrying amount of the Company’s banking book items by interest rate type:

Table 35.3.1. - Exposure to interest rate risk

(HUF million)			31.12.2022			31.12.2021
	Fixed rate	Floating rate	Non-interest-bearing	Fixed rate	Floating rate	Non-interest-bearing
Cash and cash equivalents	36 422	0	0	75 494	0	0
Receivables from customers	534 608	0	0	510 233	0	0
Securities	82 858	0	0	103 286	0	0
Other financial receivables	483	0	369	399	0	416
Total financial assets	**654 371**	**0**	**369**	**689 412**	**0**	**416**
Liabilities to credit institutions	514	0	0	0	0	0
Liabilities to customers	590 529	0	0	630 953	0	0
Other financial liabilities	5 193	0	609	5 523	0	515
Total financial liabilities	**596 236**	**0**	**609**	**636 476**	**0**	**515**

It is clear from the table above that the Company’s exposure to interest rate risk is not significant.

The following table shows the carrying amount of the Company's banking book items by currency:

Table 35.3.2. - Exposure to currency risk

(HUF million)				31.12.2022				31.12.2021
	EUR	HUF	USD	Total	EUR	HUF	USD	Total
Financial assets subject to foreign currency risk								
Cash and cash equivalents	4 136	31 939	347	**36 422**	3 198	72 256	40	**75 494**
Receivables from customers	0	534 608	0	**534 608**	0	510 233	0	**510 233**
Securities	0	82 858	0	**82 858**	0	103 286	0	**103 286**
Other financial receivables	794	58	0	**852**	687	128	0	**815**
Total	***4 930***	***649 463***	***347***	***654 740***	***3 885***	***685 903***	**40**	***689 828***
Financial liabilities subject to foreign currency risk								
Liabilities to credit institutions	0	514	0	**514**	0	0	0	**0**
Liabilities to customers	0	590 529	0	**590 529**	0	630 953	0	**630 953**
Other financial liabilities	4 370	1 432	0	**5 802**	4 739	1 299	0	**6 038**
Total	***4 370***	***592 475***	***0***	***596 845***	***4 739***	***632 252***	**0**	***636 991***
Net exposure to foreign currency risk	**560**	**56 988**	**347**	**57 895**	**-854**	**53 651**	**40**	**52 837**

The FX item under other financial liabilities primarily comprises liabilities related to leases.

In the period covered by these financial statements the following significant exchange rates prevailed (expressed in HUF):

Table 35.3.3. - Exchange rates

Currency	Average rate		Spot exchange rate at the reporting date	
	2022	2021	31.12.2022	31.12.2021
1 EUR =	391,33	358,52	400,25	369,00
1 USD =	373,12	303,29	375,68	325,71

Table 35.3.4 - Sensitivity analysis (currency risk)

Currency			31.12.2022
	Change (%)	Effect on Shareholder's equity (HUF million)	Effect on profit (HUF million)
EUR	5%	28	28

The Company's exposure to foreign currency risk was not significant in FY 2022.

35.4. Operational risk

Operational risk is the risk of a loss that affects the Company's profit or loss and regulatory capital due to inadequate internal processes and systems, external events, the inadequate performance of tasks by individuals, or due to violating or failing to comply with legal regulations, contracts or procedures set forth in internal policies.

The definition includes reputation risks, as well as risks connected to information and communication technology systems, and legal risks, but excludes strategic risks, risks that are only market risks and credit risk events. The Company manages operational risks according to the standardised approach. This activity is directed by the Risk Controlling team.

Primary methods for operational risk management: continuous collection of loss data, monitoring of key risk indicators, loss analysis, making action recommendations to prevent losses and mitigate losses occurred, regular and one-off reporting service.

Strategic goals of the operational risk management:

- improving the risk culture and risk sensitivity of the managers and staff,
- identifying the risks of the transaction arrangement processes and taking steps to avert them,
- preparing for minimising a potential loss,
- establishing the amount of damage derived from operations as precisely as possible and predicting this for the future.

The organisational structure of the Company ensures the continuous and regulated cooperation in the long run of all organisational units participating in managing and controlling operational risks. All of the Company's organisational units, departments and groups have operational risks, thus these can affect all staff and every individual employee can contribute to avoiding operational risks.

All employees of the Company have a duty to contribute (particularly through the quick and thorough reporting of loss events) to the identification, measurement and management of operational risks.

Together with the Risk Controlling team, the managers must assign suitably qualified staff members responsible for operational risks (such staff known by the Hungarian abbreviation "MKF") at their individual organisational units. With questions regarding operational risks and risk management, the employees of the given organisational unit can contact to the MKF directly. This way the MKF perform the tasks related to local operational risk controlling too.

Senior staff (directors, team managers) are responsible for managing operational risks within their organisational unit based on the provisions generally applicable for the team.

The Risk Controlling team is the Company's central body for managing and controlling operational risks. Its main tasks and responsibilities are as follows:

- It prepares the reports on operational risks and sends them to the recipients by the given deadlines.
- It acts as the central contact point and professional advisor for the Company's organisational units in issues affecting operational risks.
- If governance limits and restrictions are breached, it initiates measures (in consultation with the Risk Board).
- It commands the necessary initiative, methodological and system competence and is responsible for the controlling of operational risks accordingly.
- In accordance with the central and local division of tasks, it is responsible for the controlling process of operational risks.
- It is responsible for the aggregate recording, documentation and rating of operational risks.
- It is responsible for carrying out educational tasks related to operational risks, as well as for providing professional direction to MKFs.
- It is responsible for the management of Oprisk Manager rights, and in connection with this, for keeping up-to-date records.
- In collaboration with the HR department, it is responsible for ensuring that the appendix supplementing the job description of the newly appointed MKFs is signed.

The Company's Board of Directors defines the basic conditions for the management of operational risks. At the highest level it is the Board of Directors that is responsible for the basic and appropriate management of operational risks affecting the group, it has the following tasks and responsibilities:

- Acceptance of operational risk policies and the methods and procedures proposed for the management and controlling of operational risks.
- If necessary, approval of the measures proposed to counter the obvious operational risks.
- Ensuring the conditions necessary to comply with the policies and review them regularly, including the design of a suitable organisation and the compilation of a cost budget necessary to implement it.

The above tasks and responsibilities are fulfilled by the Board of Directors based on the reports (including any extraordinary reports) on operational risks made available by Risk Controlling team on a regular basis. As part of the regular reports, the Board of Directors receives information on the development and status of the management processes applied for operational risks.

As for the identification, rating and measuring of operational risks, a risk classification is needed that differentiates between the individual operational risks based on various aspects, and also separates them. For this the Company applies the exposure classes defined in the CRR and the Basel directives, as well as MNB guidelines.

According to the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter referred to as: the “CRR”), credit institutions shall ensure sufficient capital to cover the risks derived from their operation. They can choose from several approaches to calculate the capital to be provided based on the complexity and riskiness of the given institution’s operation and other aspects. Such “other” aspects include, for example, whether the requirements have be to met as an institution that is independent from a regulatory point of view or as part of a group of institutions subject to consolidated supervision.

The Company, as a subsidiary of Bausparkasse Schwäbisch Hall AG, which itself is the subsidiary of DZ Bank AG, is subject to consolidated supervision.

Based on a group-level decision of DZ Bank, all group members manage their operational risks according to the standardised approach, therefore from 1 January 2008, the Company shall manage these risks according to the standardised approach.

36. Capital management

The main goal of the Company’s capital management is to ensure prudent operations, fully comply with the regulatory capital adequacy requirements in order to pursue the given activity smoothly whilst maximising shareholder value and optimising the funding structure.

The Company’s capital management covers the evaluation and management of own funds and capital-type financing available for covering risks, and all material risks to be covered by capital. The Company’s capital management is based on the continuous monitoring of the capital situation in the short run, and on the business and strategic planning process in the long run, during which the Company’s expected capital position is measured and forecast.

Essentially, the Company ensures an adequate capital level for the planned underwriting and to align with the regulatory requirements by developing and maintaining its profitability. If the Company’s planned underwriting activity exceeds the capital coverage provided by own funds and the previously added Tier 2 items, the Company ensures prudent operations via one-off measures.

In its plans, the Company assumes a moderate dividend policy alongside stable profitability, owing to which the significant increase in equity facilitates compliance with the statutory capital requirements as well as with those calculated based on the internal capital calculation.

The Company classes itself as a “small institution” based on the criteria listed in the MNB’s guideline:

- As a specialised credit institution, “its activity is not complex and focuses on a well-defined group of products”.
- It does not apply any advanced methods as approved by the Supervisory Authority to establish the capital requirement for credit (standard), operational (standardised) or market risk. (Although the Company has kept a trading book since 2009 due to an amendment in legal regulations, according to the unchanged investment policy it holds its securities investments to maturity and does not carry out business transactions.)
- “It primarily provides its services in the territory of Hungary and does not perform any significant cross-border services” (it only provides services in Hungary).

The Company applies the “building block method” to calculate the capital requirement of the individual risk elements, i.e. it defines the required capital based on the experiential and factual data available and the models that set up based on this data, or if necessary based on estimates. Then it calculates the internal capital requirement by aggregating them.

Capital adequacy

The Company fully complied with external capital requirements during both 2022 and 2021.

The regulatory capital of the Company comprises only core capital (TIER 1).

According to Basel III requirements, the Company's regulatory capital breaks down as follows:

Table 36.1. - Capital management table

(HUF million)	31.12.2022	31.12.2021
Tier 1 - Core capital /CET1/		
Share capital	2 001	2 001
Capital reserve	2 100	2 100
Retained earnings	54 456	50 399
Other reserve	7 120	6 669
Deductions:	-8 680	-8 082
of which: Intangible assets	-8 679	-8 082
of which: Insufficient coverage for non-performing exposures	-1	0
Total regulatory capital	**56 997**	**53 087**

37. Fair value measurement

The Company has no financial instruments measured at fair value.

37.1. Fair value models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market prices (unadjusted) for identical assets and liabilities on active markets.
- Level 2: inputs other than quoted prices included within Level 1, that are observable either directly (as prices) or indirectly (derived from prices) for the given asset or liability. This category includes instruments valued using: quoted market prices on active markets for similar instruments; quoted market prices for identical or similar instruments on markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the value of the instrument. This category includes instruments that are valued based on quoted market prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company's objective is to maximise the use of observable (Levels 1 and 2) and minimise the use of unobservable (Level 3) inputs when measuring the fair value of the individual assets and liabilities.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

37.2. Valuation framework

In order to measure fair value reliably, from its financial instruments measured at amortised cost, the Company applies the discounted cash flow method to its receivables from clients, liabilities to banks and its customer deposits. Cash and cash equivalents include items that are immediately accessible, so their fair value equals the carrying amount.

The input information of the measurement techniques applied to measure the fair value of receivables from and liabilities to customers includes the following assumptions:

- the discount rates used for the discounting equal the sum of the risk-free interest rate and risk premium in the given foreign currency, valid for the given period,
- the fair value of sight deposits cannot be lower than their carrying amount.

In the case of asset and liability groups not measured at fair value in the statement of financial position, the Company applies an income approach when measuring fair values, transforming future cash flows into one current value.

Fair value of securities

The fair value of securities is measured based on the closing bid price quoted on the active market, applicable on the reporting date. For lack of this, the Group makes an estimate using directly or indirectly observable input data in order to measure fair values.

The Company uses the following information for fair value measurements:

- Stock exchange price,
- Government securities market quotes published by the ÁKK (Government Debt Management Agency),
- Current market yield premium in excess of the risk-free yield (government security with a similar term),
- Reference yields.

Fair value is measured as follows:

- Discounted Treasury bills: the exchange rate pertaining to the Government Debt Management Agency's (ÁKK) best purchase yield, calculated as of the reporting date.
- Treasury bills with a term shorter than 3 months: the exchange rate pertaining to the best purchase yield of the Treasury bill with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.
- Government bonds: ÁKK's best buying rate as of the reporting date.
- Government bonds with a term shorter than 3 months: the exchange rate pertaining to the purchase yield of the government bond with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.
- Discount MNB bonds: the exchange rate pertaining to the best purchase yield of the Treasury bill with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.

In the case of other bond assets not mentioned above it has to be examined whether there is an objective, transparent price source (stock market, OTC quotation operating in a regulated form). If yes, these price sources can be applied when measuring fair value, otherwise the Company applies the discounted cash flow method.

Fair value of bank deposits and interbank lending, trade receivables and other financial assets from non-derivative transactions

Bank deposits and interbank lending, trade receivables and other financial receivables typically have short-term maturity, thus the fair value of these financial assets measured for disclosure purposes equals the carrying amount.

Fair value of receivables from customers

The Company applies the discounted cash flow method when measuring the fair value of customer loans.

The Company uses the following techniques to measure fair value for fixed rate loans granted to customers:

- Bridging loans: For the portfolio of bridging loans, the expected cash flows on the existing contractual portfolio are calculated, which include future cash flows arising in connection with interest payments due in the bridging loan phase and the principal repayment in one amount at the end of the term, assuming that the cash flows will be received by the end of the bridging loan phase as set forth in the contract. The future cash flow arrived at is discounted back using the home savings market interest rate.
- Housing loans: housing loans are repaid on an annuity basis so there are both interest rate payments and principal repayments. For the portfolio of housing loans, the expected cash flows on the existing contractual portfolio are calculated, which include future cash flows arising in connection with interest payments and principal repayments due in the housing loan phase, assuming that the clash flows will be received by the end of the housing loan phase as set forth in the contract. The future cash flow arrived at is discounted back using the home savings market interest rate.

Fair value of liabilities to customers

The Company applies the discounted cash flow method when measuring the fair value of liabilities to customers.

Expected cash flows are determined for the deposit portfolio on a monthly basis, taking customer bonuses payable because of customer campaigns also into account. Future cash flows determined this way include contractual cash flows assuming the following:

- the customer will make payments as set forth in the contract over the term specified in the tariff;
- the Company does not reckon on payments to and from the deposit that deviate from the customer behaviour expected according to the contract;
- the amount of customer bonuses is considered in the determination of the deposit cash flow with a probability that equals the probability based on backtesting of the customer being expected to become entitled to receive customer bonus at the end of the savings period specified in the tariff.

The Company uses home savings market interest rates as the discount factor to calculate discounted cash flows. This discount factor is the weighted average of:

- transaction interest rate of new home savings contracts as per the tariff,
- the interest rate annualised using the amount of bonus due under the customer campaign and the account-opening fee and the account-management fee.

Fair value of trade liabilities, other financial liabilities from non-derivative transactions

Trade liabilities and other financial liabilities typically have short-term maturity, thus the fair value of these financial liabilities measured for disclosure purposes equals the carrying amount.

37.3. Financial instruments not measured at fair value

The following table summarises the fair values of financial instruments not measured at fair value according to the level of the fair value hierarchy into which they would have been put based on the inputs underlying the measurement:

Table 37.3.1. - Financial instruments not measured at fair value

(HUF million)	Level 1	Level 2	Level 3	Total fair values	31.12.2022 Total carrying amount
Assets					
Cash and cash equivalents	4 576	31 846	0	**36 422**	36 422
Securities	66 992	0	0	**66 992**	82 858
Receivables from customers	0	0	444 451	**444 451**	534 608
Other financial receivables	0	852	0	**852**	852
Liabilities					
Liabilities to credit institutions	0	508	0	**508**	514
Liabilities to customers	0	0	552 285	**552 285**	590 529
Other financial liabilities	0	5 802	0	**5 802**	5 802
(HUF million)	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**31.12.2021 Total carrying amount**
Assets					
Cash and cash equivalents	3 487	72 007	0	**75 494**	75 494
Securities	99 846	0	0	**99 846**	103 286
Receivables from customers	0	0	516 664	**516 664**	510 233
Other financial receivables	0	815	0	**815**	815
Liabilities					
Liabilities to customers	0	0	651 278	**651 278**	630 953
Other financial liabilities	0	6 038	0	**6 038**	6 038

38. Disclosures required by the provisions of the Act on Accounting

Disclosures relating to mandatory audit

The Company’s financial statements must be audited.

Information on the auditor: PricewaterhouseCoopers Könyvvizsgáló Kft. (1055 Budapest, Bajcsy-Zsilinszky út 78.)

Natural person auditor: Enikő Könczöl (Registration number: 007367). Fees charged by the audit firm in the reporting year:

- Audit: HUF 36.7 million + VAT
- Other assurance services: HUF 1.5 million + VAT

The auditor has no loan liabilities to the Company.

Person responsible for bookkeeping services

Person responsible for managing and directing bookkeeping-related tasks:

Gergely Péter Kállay (Registration no.: 202008; field of expertise: business, IFRS).

Registered office of the Company

Registered office of the Company: 1123 Budapest, Alkotás utca 55-61.

Equity correlation table

The following equity correlation table, which complies with the requirements of Section 114/B of the Act on Accounting, shows the reconciliation of equity components as per Section 114/B of the Act on Accounting and the components of equity as per the financial statements (EU IFRSs). The reconciliation comprises the allocation of the EU IFRS equity components to the equity components under the Act on Accounting, as well as the derivation of the differences between the equities defined in two ways.

Table 38.1. - Equity correlation table

	Components of equity as per the Act on Accounting - 31.12.2022							
(HUF million)	**Share capital as per EU IFRSs**	**Subscribed, but unpaid capital (-)**	**Capital reserve**	**Retained earnings**	**Profit after tax**	**Valuation reserve**	**Allocated reserve**	**Total**
Share capital	2 001	0	0	0	0	0	0	**2 001**
Capital reserve	0	0	2 100	0	0	0	0	**2 100**
Retained earnings	0	0	0	49 948	0	0	0	**49 948**
Settlement reserve	0	0	0	6 959	0	0	0	**6 959**
General reserve	0	0	0	0	0	0	7 120	**7 120**
Reporting-year profit after tax	0	0	0	0	4 508	0	0	**4 508**
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**56 907**	**4 508**	**0**	**7 120**	**72 636**
Equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**56 907**	**4 508**	**0**	**7 120**	**72 636**

(HUF million)	Components of equity as per the Act on Accounting - 31.12.2021							
	Share capital as per EU IFRSs	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit after tax	Valuation reserve	Allocated reserve	Total
Share capital	2 001	0	0	0	0	0	0	**2 001**
Capital reserve	0	0	2 100	0	0	0	0	**2 100**
Retained earnings	0	0	0	45 006	0	0	0	**45 006**
Settlement reserve	0	0	0	6 959	0	0	0	**6 959**
General reserve	0	0	0	0	0	0	6 669	**6 669**
Reporting-year profit after tax	0	0	0	0	5 393	0	0	**5 393**
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**51 965**	**5 393**	**0**	**6 669**	**68 128**
Equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**51 965**	**5 393**	**0**	**6 669**	**68 128**

The amount of share capital as per EU IFRSs shown for 31 December 2022 and 31 December 2021 in the table above equals the amount of capital registered by the court of registration.

The following table presents free retained earnings available for dividend payment:

Table 38.2. - Calculation of source available for dividend payment

(HUF million)	31.12.2022	31.12.2021
Retained earnings	49 948	45 006
Reporting-year profit after tax	4 508	5 393
Source available for dividend payment	**54 456**	**50 399**

39. Impacts of the coronavirus (COVID-19) and the Russian-Ukrainian armed conflict on the 2022 annual financial statements

For loan contracts entered into by private individuals and businesses and disbursed by 18 March 2020 the MNB put in place a payment moratorium (suspending payments of principal and interest), initially until 31 December 2020 and then it was extended several times, finally until 31 December 2022. The moratorium was not a forgiving of liabilities, but a deferral; the principal still bore interest over the period of the moratorium, though the interest was not capitalised.

The coronavirus had a significant impact on the Company's 2021 results. The situation began to normalise in 2022 as the number of cases fell and society re-opened. The Company started the year with positive expectations, but in February the Russian-Ukrainian armed conflict started, causing unexpected turbulence worldwide: inflation in Hungary rose sharply, energy prices soared, winding-up proceedings began at the Hungarian subsidiary of Sberbank Europe AG, and the Hungarian Government introduced extra-profit taxes to compensate for the budget deficit.

At a sector level, the National Deposit Insurance Fund (OBA) ordered HUF 73,550 million in unscheduled payments from credit institutions because of the payouts to customers of Sberbank Hungary Zrt. "under voluntary liquidation"; 60% of this was repaid in December 2022. After the partial reimbursement, the expense recognised by the Company for the reporting year totalled HUF 966 million. In 2022, the Hungarian Government imposed a 10% extra-profit tax on the financial sector, resulting in a tax payment of HUF 2,449 million.

The Company introduced the following measures to compensate for the increasing costs (gas, electricity, products and services) and unforeseen extraordinary costs:

- new working routine, with the Company switching to 60% 'working from home' in general,
- the subletting of office space vacated as a result of this switch,
- measures to reduce and optimise electricity and gas consumption,
- holding more foreign currency than before to mitigate exchange rate risk.

The chapter of the Business Report entitled "*External factors shaping activity of the Company"* details the impact of other external factors (GDP, inflation, yields, etc.) on the Company's activity.

The pandemic situation, the Russian-Ukrainian armed conflict, the recession, the payment moratorium and the related measures exerted a significant impact on profits at the Company.

Principle of going concern

Based on what is outlined below it is clear that the principle of going concern is not at risk based on current knowledge at the Company; it is not severely affected by the negative impacts of the pandemic and the Russian-Ukrainian armed conflict, and so these financial statements were prepared based on the going concern principle.

Liquidity situation

In the reporting year the Company's liquidity position remained stable in spite of the evolving economic turbulences that affect households, thus the customers of the Company as well. The behaviour of customers was in line with that projected in the Company's portfolio model, except for partial and full early repayments. To maintain the stability of short-term liquidity management, The Company still has a GMRA (Global Master Repurchase Agreement) with three banks. The repo agreements enable the Company to use HUF 5 billion short-term refinancing per partner. As regards term, in accordance with legal regulations in effect, repo transactions with a term of no more than 6 months can be concluded. Should the facilities referred to above be insufficient, the Company has access to the secured loan instruments of Magyar Nemzeti Bank up to the collateral value of its securities portfolio. In view of the Russian-Ukrainian armed conflict and the winding up of Sberbank Magyarország Zrt. "u.v.l.", the Company regularly reported to the Magyar Nemzeti Bank as the supervisory authority on its liquidity management limits, but no issues emerged.

As regards external borrowing – part of the business strategy – significant progress was made with finalising and signing the related framework agreement, and concluding the first mortgage refinancing transaction in early September 2022. The funds available under the established business relationship are of a size appropriate to the Company's business, enabling drawdowns for both business and risk management purposes.

Loan portfolio

The effect of the coronavirus and the energy crisis on the loan portfolio is described in Note 35. 1/d under the title 'Impacts of the coronavirus and the energy crisis'.

Capital position

The Company has a very stable capital position.

On the strength of the audited figures, the year-end Tier 1 regulatory capital totals HUF 57 billion.

Impact on profit or loss

Since the announced moratorium is not deemed a significant contract amendment (not resulting in derecognition) for the loans in question, and the interest income is financially settled at a later date, the Company suffers a "loss", the net present value of future cash flows decreases given the discounting with the original effective interest rate.

The lump-sum impact on profit or loss was determined and booked for each contract affected, and given their significance they were highlighted on a separate line item in the statement of comprehensive income (Loss from contract amendments due to payment moratorium). The overall impact for 2022 in respect of loans pulled the reporting-year profit down by HUF 0.1 billion (2021: HUF 0.8 billion).

Budapest, 27 February 2023

Bernadett Tátrai	**Rainer Kaschel**
Chairwoman of the Board, Chief Executive Officer	Member of the Board

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1. EXTERNAL FACTORS INFLUENCING THE ACTIVITY OF LAKÁS-TAKARÉKPÉNZTÁR

1.1. General macroeconomic conditions

Growth

The performance of the economy in 2022 was mixed. In the first half of the year, the significant increase in the minimum wage, the income tax refunds, the payment of the 13th month pension and other one-off transfers resulted in a significant boost to the Hungarian economy by means of household consumption. Industrial production growth exceeded expectations, while construction also started the year strongly. Retail sales topped record highs and tourism also picked up notably in the second quarter, but the war that broke out early in the year and its continuation started to have an impact in June. Initially, the economy was negatively affected by the soaring energy prices, and through exports by the deteriorating economic outlook in the main consumer markets, while the drought-hit agricultural sector nose-dived. In the second half of the year, rising and accelerating inflation had an adverse impact on one of the engines of economic growth, household consumption, with retail sales dropping back. As a consequence of the tighter monetary policy in response to historically high inflation, a massive fall in lending was noted. Temporary special taxes imposed on certain sectors also contributed to the economic downturn, and may have been part of the reason for the increase in prices. Fiscal policy was no longer able to support growth due to budget spending and the long-term lack of EU funding, as reflected in the slowdown in construction output. Economic growth of more than 7% in the first half of the year helped the economy expand by more than 4% in 2022, despite stalling in the second half of the year. The negative trend may continue in 2023, but the weakness in the first half of next year could make way for growth in the second six months. A rapid recovery of the economy definitely requires a lowering of inflation expectations so the central bank can meaningfully cut the base rate, and the obstacles to drawing EU funds must be removed completely. During this period, industrial production and related exports could be the driving force rather than household and community consumption. According to its latest forecast, beset with uncertainty, the Magyar Nemzeti Bank expects GDP growth of between 0.5% and 1.5% in 2023.

Labour market

The number of people employed in the national economy remained high throughout 2022, exceeding 4.7 million. The main contributor to employment on the tight labour market was the private sector, especially services and construction. Unemployment, which had been around 4% at the beginning of the year, later stabilised at around 3.5%. The labour market generally responds to the slowdown in economic performance with a lag; rising costs for companies due to high raw material and energy prices and a fall in demand could lead to a temporary increase in redundancies in late 2022, and more strongly in early 2023. However, having already experienced the recruitment difficulties associated with the “re-opening” following the pandemic, companies are unlikely to be in a hurry to downsize. The wage increases at the beginning of the year were driven by a significant rise in the minimum wage, then the historically tight labour market contributed to stronger wage dynamics. Furthermore, soaring inflation “prompted” further mid-year wage adjustments for employees in a good bargaining position. Average wages in 2022 rose by more than the annual average rate of inflation thanks to wage growth of over 20% in the public sector (around 15% in the private sector). In 2023 a lower wage growth and higher inflation can even lead to a decline in the real value of average wages.

Inflation

2022 was a year of inflation peaks. The higher rate of price rises seen at the beginning of the year was exacerbated by the very high government spending mentioned earlier. Month after month, inflation rates hit decade-old highs during the year, and monthly repricings were several times higher than those seen in recent years. The statistical office reported a huge increase in food prices in autumn of over 40%, which may be attributable to domestic factors in addition to global trends. These include the efficiency and productivity problems of the Hungarian food industry, the substantial weakening of the forint and its increased volatility, the loss-compensating effect of price freezes, and the special sectoral taxes. Average annual inflation may have approached 15% in 2022, while the latest central bank forecast for 2023 suggests an average rate of 15-19.5%. The earliest the consumer price index might return to the central bank's tolerance band is 2024.

Equilibrium

The 2022 Budget Act included a budget deficit target of 5.9% of GDP, which was initially reduced to 4.9% and then pushed back to 6.1%, the latter in the context of stockpiling gas reserves. At the beginning of the year, the spending related to the afore-mentioned household transfers was the dominant factor, followed by adjustments before the middle of the year to maintain the deficit target. The government expected HUF 800 billion in additional revenue from the new special taxes ("extra-profit tax") in 2022 introduced based on the old model, while a total of HUF 1,150 billion in public investment was postponed in 2022 and 2023. Budget expenditure rose in the second half of the year, with energy price-related costs, pensions and interest payments significantly higher than previously planned, in response to which the government imposed a freeze on payments in the public sector. The budget benefited from falling energy prices in the last quarter of the year and high tax revenues throughout 2022, derived from rapid nominal growth in wages and consumption as well as from the special taxes. With these processes and measures, the budget deficit was in all likelihood kept at 6.1% of GDP in 2022.

Even with such a high deficit, public debt declined by more than expected due to strong nominal growth, improving to 73.5% of GDP from 76.8% in 2021.

Looking ahead, the government will need to keep a tight fiscal stance to meet the deficit target for 2023, which was increased (at the end of 2022) from 3.5% to 3.9%. The deficit must therefore be reduced at a time when economic growth is faltering, meaning that fiscal policy will be pro-cyclical.

The current account deficit – watched closely by investors – was very high in 2022, and bigger by an order of magnitude than the 4.2% of GDP figure in 2021. The main reason for this is the large energy deficit (other current account items showed a positive balance in the second half of the year). A deficit figure of around 7% of GDP in 2022 is currently expected to be the peak, with the current account deficit falling rapidly from 2023 onwards, but not even in 2025 are we expected to see a surplus.

Interest rates, currency rates

In response to rising inflationary pressures, the Magyar Nemzeti Bank continued its cycle of interest rate hikes in 2022. The base rate of 2.90% at the beginning of the year rose until September, ending the year at 13.00%. It was a priority for the central bank to keep short-term rates in line with the short rates deemed optimal by the Monetary Council in all submarkets – especially the swap market – and in all periods. However, an unexpected end to the rate hike cycle was announced following the last rate hike at the end of September, despite the fact that further hikes were still priced in by the financial markets. This led to an accelerating and significant weakening of the forint, despite the MNB planning to continue tightening monetary conditions by narrowing liquidity. The minimum reserve was increased from 1% to at least 5%, zero-coupon bond auctions were introduced at the end of each quarter, and a variable rate long-term deposit instrument was rolled out, continuing the tightening of monetary conditions (while maintaining the base rate at 13%). However, these measures proved insufficient, and in response to the turbulent market environment, further measures were put in place in mid-October. One of the most significant ones was the daily announcement of a one-day (o/n) quick tender for deposits at a fixed interest rate of 18%. This measure also brought a temporary change in the central bank's interest rate regime, the overnight tender rate became the benchmark at 18%, essentially meaning an extraordinary 500-basis-point rate hike. According to the MNB, this interest rate (overnight deposit instrument) should remain in place until risk perception trends improve, i.e. this likely to remain with us in the first half of 2023.

Interbank interest rates tracked the regular increases in the policy rate throughout the year, while liquidity in the banking system remained high throughout 2022, with trading on the o/n interbank market situated at the bottom of the central bank's interest rate band. The yields seen at zero-coupon treasury bill auctions were consistently below the policy rate until the change in the central bank's interest rate regime; the introduction of the o/n quick deposit tender pushed auction yields above 14%. The o/n BUBOR of less than 3% seen at the beginning of the year was in line with the benchmark rate of 18%, while longer maturities ended the year at between 15 and 17%, compared to 4-5% in January. Government bond market yields also saw large movements (significant rises and volatility) during the year. The volatility of international investor sentiment and concerns about the domestic fiscal and inflation situation coupled with the central bank's response to them were the main factors determining the levels. The flatter and "normal" yield curve seen at the beginning of the year (2-3% short and 4.5% 10-year yield) became inverted and increasingly steep during 2022. Short-term yields followed the rate hikes from a distance, closing the year at 12-14% after a rise of around 1,000 basis points. The 3–5-year maturity category also saw a significant rise in yields of around 600 bps, while the long-term maturities saw an increase of over 400 bps, with the benchmark 10-year yield ending the year at 9.00%.

2022 was not a good year for the forint. It started the year at 360 against the euro, but devalued in practically every quarter, hitting new historical lows. The outbreak of the war at the beginning of the year triggered the forint's slide, while fiscal and monetary policy put further pressure on the performance of the domestic currency. The external trade balance worsening as energy prices spiralled out of control was crucial for the forint, while the uncertainty over access to EU funding also pushed the rates higher. The forint broke away from the regional currencies and bottomed out against the euro at 432 in October, before returning towards 400 by the end of the year (losing 12% in value over the year as a whole) on the back of high policy rates, a more active central bank presence in the FX market and favourable news on the EU agreement.

1.2. Housing policy measures by the government

2021 was marked by the prolonged repercussions of the coronavirus pandemic and the discontinuation of the measures introduced by the government and the central bank to avert them, as well as the severe economic effects of the Russian-Ukrainian war that broke out in February 2022. Significant fluctuations in the forint - FX rates and in energy prices were also observed, as well as a substantial rise in forint interest rates. In May 2022 after the parliamentary elections, a new Fidesz-KDNP majority parliament and government were formed with a stable parliamentary majority.

Our operations were still affected by the implementation of the broad moratorium on loan repayments, which exerted a considerable effect on the achievement of our business objectives.

In 2022, too, the government still paid close attention to its family support policy including providing help specifically for young people and families with children in setting up their homes. The increases in interest rates caused by the war gave opportunity for sustaining the generous family housing supports.

In 2022 the housing supports introduced earlier were essentially still in force: the preferential VAT rate of 5%, along with the ability to reclaim it by those eligible for Family Housing Support (CSOK) for newly constructed homes and the duty exemption connected to CSOK, the multigenerational family housing support that depends on the number of children and the 50% support in renovation projects for families with children, and the subsidised interest home renovation loans that provide own funds as well. The decision to continue the supports was made at the end of 2022: the Childbirth Incentive Loan and the CSOK remained elements of the family support system of the government.

2022 was a very strong year for retail and housing loans. Disbursement of retail loans grew significantly in the first half of 2022 as compared to 2021. With approximately 50%, housing loans represented the largest share, followed by the "Childbirth Incentive Loan", the importance of which increased and which dominated the loan market, and because of its favourable conditions the share of regular housing loans shrank, then by personal and other loans. However, since May 2022 the monthly figures of housing loans have decreased continuously also due to the increasing interest rates, thus the overall 2022 figure is not likely to exceed the 2021 amount.

The interest and APR levels for housing loans started to rise in spite of the measures of MNB to support liquidity. Thanks to the ground gained by "Consumer-friendly housing loans", in 2022 loans with a rate fixed for the whole term accounted for about 25% of the new disbursements, while loans with a rate fixed for at least 10 years accounted for another 25%, ensuring stability and predictability for both the banking system and customers. Fundamenta-Lakáskassza Zrt. continues to provide loans with set conditions throughout the loan term.

In 2022 the number of issued building permits for houses decreased relative to 2021. The decrease in the number of real estate market transactions between private individuals was already significant in the second half of 2022. There were differences in the development of housing prices: turnover in urban agglomerations and around the country was more intensive, in Budapest, larger towns and agglomerations prices continued to rise considerably in the major part of the year, but at the end of 2022 the tendency changed here as well. In this respect, there are significant differences between regions around the country and the settlements within the individual regions.

1.3. Legal environment influencing the activity of home savings and loan associations

In 2022, the Company's business continued to be significantly impacted by the government measures taken in response to the pandemic, and operations were influenced by several government decrees aimed at providing against the consequences of the war in the neighbouring country.

The regulations relating to the payment moratorium were extremely important for the Company. Government Decree 536/2021 (IX.15) amending Government Decree 637/2020 (XII.22) on the introduction of special rules on the moratorium on loan repayments in the state of emergency extended the moratorium for certain social groups until 30 June 2022. However, this date was pushed back by Government Decree 216/2022 (VI.17). On this basis, the moratorium is to last until 31 December 2022, and contracts expiring during the moratorium will be extended until 31 December 2022. Debtors had until 31 July 2022 to make a decision on staying in the moratorium.

The moratorium on payments was extended by Government Decree 292/2022 (VIII.8) to cover the obligations by agricultural companies and entrepreneurs defined by the Government Decree to pay principal amounts, interest and fees of loan and credit contracts from 1 September 2022 to 31 December 2023. The government decree also provides for a prohibition on terminating contracts until 31 December 2023 in the event of non-payment by eligible debtors. The provisions of the decree apply to loans already disbursed under contracts existing on 31 August 2022. Debtors wishing to benefit from the moratorium were able to submit their applications to the Company by 15 September 2022.

The Company was liable for the extra-profit tax under Government Decree 197/2022 (VI.4). According to the decree, the assessment basis for the special tax is the net sales revenue as defined in Act C of 1990 on Local Taxes (hereinafter: Local Taxes Act) based on the annual accounts for the tax year preceding the given tax year, with the proviso that net sales revenue does not include the carrying amount of assets returned during the term or at the end of the term and then sold, or revenue from the supply of goods or services not generated in the ordinary course of business. The special tax rate in 2022 is 10% of net sales revenue.

The Company was also affected by the amendment to Act LXXXV of 1996 on the amendment of Act XCIII of 1990 on Stamp Duties and on the administrative service fee for certified copies of title deeds. Under these provisions, uncertified copies of title deeds will cease to exist, and only certified copies will continue to be valid. The change affects our fees, announcements and documents, which will be communicated to our clients in the appropriate manner.

The laws governing the operation of home savings and loans associations directly did not change.

Other legislative changes affecting the Company brought on by the state of emergency:

-Government Decree 197/2022. (VI. 4.) on extra-profit taxes

-Government Decree 454/2022. (XI. 9.) on the different application due to the state of emergency of certain substantive law provisions relating to default interest

Other legal changes:
- Act I of 2012 on the Labour Code
- Act XCIII of 1993 on Occupational Safety
- Act V of 2013 on the Hungarian Civil Code
- Government Decree 44/2019. (III. 12.) on the Childbirth Incentive Loan

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises Government Decree 337/2017 (XI.14) on reducing the housing mortgage debts of families with three or more children.

2. STRATEGY AND GOALS OF FUNDAMENTA-LAKÁSKASSZA ZRT.

2.1. Strategy of Fundamenta-Lakáskassza Zrt. (2021-2023)

In our strategy in force, alongside the goal of establishing a home financing and housing ecosystem, the following four paths were identified. Our objectives are still valid; the strategic goals were adjusted in light of the COVID-19 pandemic and were approved in May 2021, while our long-term business plans were approved in May 2022 by the General Meeting.

- **Growth**: we see further potential for growth in saving for housing purposes and in lending for housing purposes, so this remains an important goal for us. However, this is based on strengthening of the collection of deposits.
- **Customer focus**: we are convinced that we can establish long-term customer relationships by understanding our customers' needs and serving them better, for the implementation of which we set substantial goals for us.
- **Efficiency**: with market competition intensifying, we as service providers will be successful if we understand customers' needs and can satisfy them more quickly, simply and less expensively. Our digitalisation efforts are also aimed to achieve these objectives.
- **Risk awareness**: as a major player on the credit market we have to know and understand the risks associated with our operations; appropriate management of them is our joint responsibility.

Our objectives also include further growth in the volume of deposit contracts with a view to securing profitable operations on a sustainable basis, as well as maintaining our share on the loan market. Other key priorities include our steadily improving processing and sales efficiency, expanding our range of products through introducing new products, providing a high standard of customer service, retaining existing customers and maintaining excellent quality of the deposit and loan portfolios.

Beside the mediation of government securities performed through the subsidiary Pénzügyi Kft. and introducing new housing savings accounts, the Company started the development of the "Housing Ecosystem" in 2019, which means we are able to support our customers in more and more areas of housing by entering new market segments. In 2020 the Company entered the real estate brokerage market through its subsidiary Fundamenta Értéklánc Kft. As a part of this, in 2021 we successfully launched our mass real estate brokerage services.

As in 2021, in 2022 as well the significant rise in importance of working from home was a material change, which was facilitated by our swift transition to digital working methods and the marked improvement in our capabilities in this context. In the second half of 2022 this situation changed as working in the office became more general.

2.2. Future goals

Fundamenta-Lakáskassza Zrt. is still committed to supporting its customers in reaching their housing objectives.

Based on the still predictable customer behaviour we are able to map out well years in advance the volume and expected timing of deposit payments and loan disbursements. Giving our customers a high standard of service and retaining their trust remains an important objective for us.

In 2023 we will be affected by the development of the market environment: the higher inflation and market interest, the deteriorating ability to pay of our customers on one side and the expected heightening of needs for modernising on the other, thus the main challenge for the Company will be developing further the range of new deposit and loan products, analysing the behaviour of existing and new customers, and exploring new business opportunities to be able to operate on a sustainable basis in the coming years as well.

To ensure sustainable growth in the long run we still have a key strategic goal of fine-tuning, developing and motivating our sales channels.

The digitalisation affecting operating and customer procedures, which was partly brought forward, forced due to the COVID-19 pandemic, launched projects, new IT applications, the cost centre system introduced earlier and central purchasing offer significant help in meeting the constantly growing customer and partner demands and in improving operating efficiency, which is formulated as a strategic objective.

We carry out constant fine-tuning to raise our risk awareness: the goal is to preserve the outstanding quality of the Company's housing loan portfolio and keep our operational risks low.

Fundamenta-Lakáskassza Zrt. banks on having a significant customer portfolio and stable financial results in the coming years. This is based on the sales performance of the sales channels, improving operational efficiency, the high commitment of staff, the stable and favourable conditions of the products and the further growth expected in customer demand for products saving for the future.

3. SALES ACTIVITY

The Company's sales organisation working with Fundamenta-Lakáskassza Kft. as a tied agency continued to operate effectively, thanks to which about 95.9% of the new contracts were concluded by the Personal Banker network. The ratio of contracts concluded by Partner Sales amounted to 3.3%, while the share of the performance of Contact Center was 0.8%.

In the Partner Sales division the best performing partners were brokers, Takarék Group, UniCredit Bank and Generali Insurance.

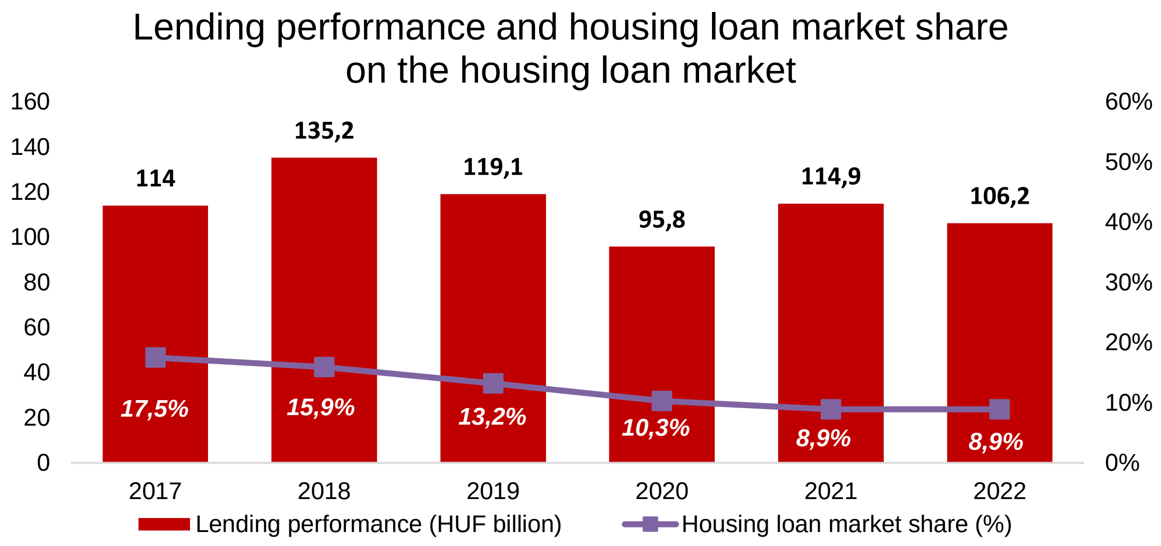
Within new business, both the volume and share of increased contracts grew in 2022 relative to the previous year. In terms of contractual amount, the share of increased contracts rose to 13.3% as compared to 10.3% in the previous year. The increase resulted from the customer campaign launched in the last quarter to secure the extension of expiring contracts. In the case of new contracts concluded in 2022 the average contractual amount was 1.54% down on the previous year.

In 2022 among the new contracts the ratio of the shorter options, the 4-7-year products, accounted for approximately 42.7%; at the same time, almost 39.1% of customers chose products with a term of at least 10 years, often to provide for their children.

As in previous years, we still offered the products of three deposit tariff groups: the Home Planning Savings Account, the “Growth” (Gyarapodó) and Children’s Savings Account. With the Children’s Home Savings Account, the contracting party can promote the future housing dreams of the minor beneficiary including an annual bonus of 30%.

2022 was a weaker year for the housing loan market than 2021. By the end of the respective year the Hungarian housing loan market had decreased to approximately HUF 1,195 billion with a significant fall in the second half of the year.

In 2022 the Company concluded new loan agreements in an amount of HUF 106.2 billion, which resulted in a market share of around 8.9% on the housing loan market.The household lending performance is supplemented with around HUF 4.0 billion in loans to multi-occupational buildings and housing cooperatives.



In terms of purpose of use, in 2022 more than 90% of the loans disbursed was used by the customers to purchase or renovate a home.

4. FINANCIAL INFORMATION

4.1. Deposit and loan portfolio

The customer deposit portfolio together with the government grant and accrued interest (excluding transaction costs and fees) totalled HUF 598 billion on the reporting date.

The vast majority of the deposits (95%) are still household deposits. Multi-occupational buildings and housing cooperatives account for 5%, roughly the same as the previous year.

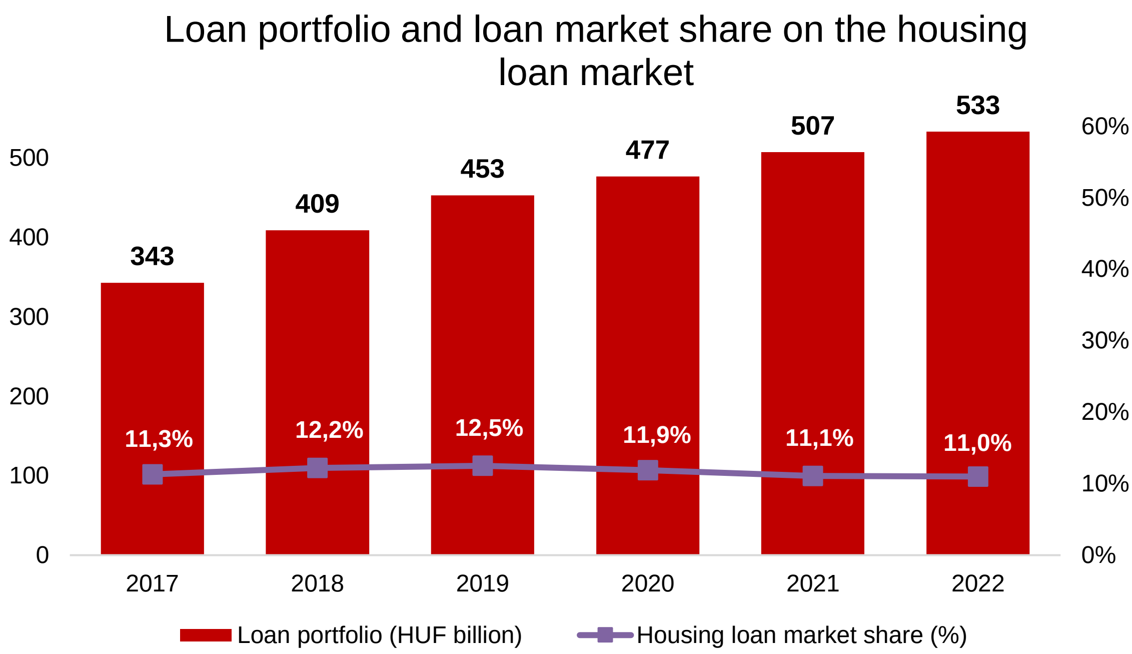
Due to the high overall lending activity, the gross outstanding principal grew from the previous year's HUF 507.2 billion to HUF 533 billion, which represents more than 5.1% increase.

Megnevezés	2017	2018	2019	2020	2021	2022
Tőkekövetelés (millió forint)	343 084	408 806	453 062	476 730	507 190	533 000
Hitelszerződések száma (db)	112 652	121 751	125 124	120 398	117 138	115 190

Description	2017	2018	2019	2020	2021	2022
Outstanding principal (HUF million)	343,084	408,806	453,062	476,730	507,190	533,000
Number of loan contracts	112,652	121,751	125,124	120,398	117,138	115,190

The period-end gross outstanding loan portfolio rising to HUF 533 billion includes normal housing loans (roughly 10.7%), and bridging loans (89.3%), which is essentially a minimal change in composition compared to the previous periods. The normal housing loan portfolio is still dominated by lower-interest (3.9%) contracts. The interest conditions of the bridging loans are determined using our pricing model and adapting flexibly to market changes.

In terms of the entire housing loan portfolio, the market share of Fundamenta-Lakáskassza Zrt. is similar to the previous year, and at the end of 2022 the credit institution held almost 11% of the entire Hungarian housing loan portfolio.



**The 2022 market share figure contains data up to November*

The quality of the portfolio remains excellent, and the vast majority of the transactions in the portfolio, 96%, are secured with mortgages.

4.2. Investment activity

Our interest-bearing portfolio under assets (calculated net of interest and fee receivables as well as transaction charges) dropped in 2022 from HUF 686 billion to HUF 652.3 billion. Our loan portfolio calculated net of interest receivables, fee receivables and transaction charge grew by about HUF 25.8 billion, which represents 5.1% increase. The period-end loan portfolio approximating HUF 533 billion includes normal housing loans (roughly 10.7%), and bridging loans (89.3%), which is essentially the same composition as in the previous periods. The interest conditions of the bridging loans are determined using our pricing model and adapting flexibly to market changes, naturally taking other conditions affecting pricing also into account, while interest on housing loans is determined by the conditions under the relevant tariff.

The joint portfolio of bank deposits and interest-bearing securities decreased during the reporting year from HUF 178.6 billion to HUF 119.3 billion. The changes in the portfolio are fully in line with our business plans. Within this portfolio the stock of interest-bearing securities decreased by around HUF 20.4 billion, while the cash portfolio included the bank deposit portfolio fell more significantly, by HUF 39.1 billion. The majority, almost 88% of the cash portfolio consisted of deposits placed with the central bank, and we placed 12% with resident credit institutions primarily in foreign currencies. The shift in the breakdown of the deposit and securities portfolio towards deposits was primarily due to the fact that during the year our liquid assets gradually decreased as expected, and at the same time the deposit portfolio changed only slightly, in line with the balance sheet value of our lease agreements and the expected payments in foreign exchange.

The duration of fixed-rate monetary and capital market portfolios changed from 2.09 to 2.16 within one year. We decreased significantly the value of the indicator by the end of 2021; in the reporting year we did not consider justified to increase risks in the continually increasing interest environment, furthermore, the retention of the maturity structure was also justified by our core business processes.

Our framework agreement regarding external borrowing entered into force on 1 April 2021, under which we drew HUF 500 million mortgage refinancing loan at the beginning of September. The corresponding items in the asset side of the balance sheet include bridging loans in accordance with legal regulations.

Neither during the reporting year nor at the end of the year did we have a forward bond position.

Our investment strategy focuses not only on strict liquidity management, but also, again, on long-term balanced profitability; we try to ensure this by consistent asset/liability management. Tools for our activity are as follows:

- Long-term (8-year) strategic plan
- Monthly liquidity plan derived from the strategic plan
- Medium-term (1-2 year) liquidity plan, with analyses of planned/actual figures
- Macroeconomic analyses updated monthly
- Regular credit market analyses
- Portfolio model updated monthly, monitoring of special parameters regarding customer portfolios (e.g. borrowing ratio, willingness to save, etc.).

These tools help us make responsible decisions supporting our long-term objectives, highlight the risks affecting our activity and manage them appropriately. The ALCO is the main body managing assets and liabilities.

4.3. Financial position and profitability

The total assets of Fundamenta-Lakáskassza Zrt. on the reporting date amounted to HUF 673,580 million, which represents decrease of around 5% compared to the previous year. Most of this fall stems from the 6.4% decrease in liabilities to customers in line with plans.

The Company's share capital totals HUF 2,001 million, which is supplemented with a capital reserve of HUF 2,100 million and retained earnings of HUF 49,948 million. Provisions in the reporting year totalled HUF 1,390 million (0.2 percent of total assets). The largest item under provisions (HUF 542 million) is the provision recorded for retention commission expenses. In line with the IFRS standard, the settlement provision (HUF 6,959 million net) is recognised as an equity component. Its amount did not change in 2022.

The Company closed 2022 with a profit before tax of HUF 5,300 million and profit after tax of HUF 4,508 million, both down on 2021. The Company does not plan to pay dividend from its 2022 profit.

The profit before tax is less than the planned result. Below we present the main reasons for the deviations from the planned figures.

- Return on investments

The gross investment portfolio this year was in line with the plans. Although due to the continuous rise in interest rates the yield on the investment portfolio exceeded the planned figures, this was fully counterbalanced by the extra-profit tax.

- Net commission income/expense

Given that the home savings sales performance exceeded the planned figures, commission expenses owed to deposits were higher than planned and were 15% up on the prior-year level. Commission expense on mediated loans decreased relative to the previous year due to the lower volume and the change in composition.

- Fee income

The Company collected account-management fee income in 2022 amounting to HUF 1,045 million. The HUF 4,284 million account-opening fee recorded for the new contracts sold and the increased contracts was accounted for using the effective interest method under interest expense over the term of the contracts, and so did not influence the 2022 profit directly.

- Costs

Personnel expenses grew by 11%, while material-type expenses by 7% compared to the previous year. The increase in personnel expenses in part resulted from the fact that due to restructuring most of the employees previously employed by the subsidiaries were taken over by the parent company. Within material-type expenses building maintenance costs grew by 71%, mainly due to the increase in energy costs. The 16% rise in the costs of office stationery was also above average; the reasons behind include the growth in volumes and the increasing inflation.

- Impairment allowance for loans

In 2022 HUF 1,309 million impairment allowance was recognised, which is slightly down on the previous year, but because of uncertainties we continued to apply a prudent policy; at the same time the quality of the loan portfolio is still considered excellent based on the behaviour of customers.

- Other operating expenses

Other operating expenses exceeded the planned figures due to significant one-off items; overall, this caused the decrease in profit compared to the previous year. This item includes the HUF 2,449 million extra-profit tax introduced during the year. The expenses of the NDIF fee also rose significantly, furthermore, there was even an extraordinary fee payment liability. Although HUF 1,443 million of this amount was recovered in December, the remaining HUF 966 million was still an unplanned item reducing our profit.

5. RISK MANAGEMENT

Through its majority owner Bausparkasse Schwäbisch Hall AG, Fundamenta-Lakáskassza Zrt. is part of the DZ Banking Group, so from a risk management perspective it also observes regulatory and supervisory requirements from Germany, via its parent company, in addition to complying with Hungarian regulations.

Fundamenta-Lakáskassza Zrt. is still a specialised credit institution with a conservative lending policy and risk appetite.

The credit institution's Board of Directors is committed to controlling its risk exposures to ensure that all of the risks assumed by the Company do not jeopardise the stable operation of the credit institution in either the short or the long run. Fundamenta-Lakáskassza Zrt. shapes its risk assumption, risk management and control procedures in such a way that they support its secure operations. The Company ensures that it elaborates, implements and executes the right standard of risk management procedures by engaging an independent risk management organisation.

Fundamenta-Lakáskassza Zrt. measures and classifies its portfolio based on IFRS 9; the annual development of the methodology ensures the conditions for prudent operations in the long term.

The risk management body manages the following risks on a regular basis:

Credit risk

Fundamenta-Lakáskassza Zrt. is a specialised credit institution, which considers housing loans extended to private individuals, multi-occupational buildings and housing cooperatives in connection with home savings deposits to be credit-risk products. One of the Strategic Risk Management Directorate's key tasks is supporting the Company's long-term profit generation capacity; accordingly, the measures are adopted in line with the risk underwriting strategy.

Interest rate risk in the banking book (IRRBB)

Regular calculations are carried out to review the impact on the changes of net interest income and economic capital exerted by interest trend scenarios compiled in accordance with the MNB's methodology handbooks. Our investment policy along with our lending activity ensured interest income evolved as planned – the Company's long-term operation is ensured.

Operational risk

Operational risks are primarily managed by perfecting internal policies and procedures, giving the colleagues involved proper training, and further developing the integrated control mechanisms. Feedback, i.e. checking the efficiency of the action taken to eliminate risks, is extremely important with regard to operational risk management.

In 2022 operational risk loss was below the planned figure.

Liquidity risk

Based on the principle of prudence, uncertain income is included in the plans at the latest date, while uncertain expenses are included at the earliest date based on customer behaviour. The Company employs an annual revolving liquidity plan. Following the legislative amendments affecting the 2018 home savings system, close attention is paid to analysing liquidity planning as well as stress scenarios.

Collective risk

Following the amendment to the Home Savings and Loan Association Act, managing collective risk is a crucial part of the basic principles applied during strategic planning. Based on the scenario analyses, stable operations and a stable capital position are ensured for the coming period even in a stress scenario. Regular analyses are prepared alongside the continuous monitoring of market circumstances.

6. EMPLOYMENT AND TRAINING POLICY

The active headcount at Fundamenta-Lakáskassza Zrt. was 577 by the end of the financial year, of which 58 were employed part-time.

The employment policy of Fundamenta-Lakáskassza Zrt. in 2022 was still defined by the general presence and fine tuning of hybrid working, alongside business priorities and implementing the corporate strategy, with the alignment of corporate goals and employees' expectations in mind.

In the framework of training and organisational development programmes the number of learning materials available online was further expanded, at the same time face-to-face training was also re-introduced. In 2022 a particular focus was placed on developing digital skills, customer focus and operational efficiency. Under the comprehensive Deliberate Lean Leadership program, process reviews and improvements have been started using the new toolkit, in addition to the development of leadership skills. The performance management system applied in order to support efficiency, a focus on performance as well as prudent operations enables to assess necessary competencies as well besides business results. In 2022, the digital preparedness of staff can also be assessed in the framework of the competency system.

When selecting, integrating, training and encouraging our staff – even under the changed operating conditions – the Company pays close attention to ensuring that the existing or targeted professional skills support the committed implementation of the four strategic pillars – customer experience, risk awareness, growth and efficiency.

Besides all this, the Company concentrates on maintaining and improving the satisfaction and welfare of its colleagues. The introduction of flexible working opportunities provided by teleworking still received positive feedback from employees. As a result of the changing labour market and economic impacts we modified fringe benefits several times. In the framework of our Fundamentális program we place strong emphasis on mental wellbeing alongside with physical healthcare.

We created the Employee Experience Program, which contains the benefits and opportunities that can be used by employees. In 2022 Fundamenta won the Family Friendly Working Place award.

The changing operating conditions are having an impact on employee experiences and the company culture. We took part in the engagement survey in 2022 as well with a very high participation rate of 92%. As a result of targeted action plans launched based on the 2021 results, we were able to achieve significant improvement based on feedback from employees.

Fundamenta-Lakáskassza Zrt., as a specialised credit institution within the scope of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act), is obliged to have a remuneration policy defined in an internal policy that is commensurate with its financial and auxiliary financial service activity, as well as with the nature, size, complexity and risks of its business model.

The fundamental goal of the Remuneration Policy is to create an incentive scheme for staff that favours the achievement of long-term goals over short-term interests; one that reflects the Company’s ability and willingness to underwrite risks, that does not encourage excessive risk-taking, but motivates the organisation to work successfully in the long run, and provides an opportunity to make subsequent corrections based on risks. The Remuneration Policy is consistent with the institution’s risk profile and it has to facilitate effective risk management. It also has to reflect the actual performance of workers and their individual added value to the Company’s performance.

In terms of basic remuneration, the Company offers fair and competitive salaries that reflect the qualifications and professional experience of the staff, the complexity of the job and the level of responsibility. The Company reviews remuneration practices once a year.

The Company’s variable salary system (bonuses and commissions) acts as an incentive, enabling us to recognise the outstanding performance of staff.

In 2022 fluctuation decreased; however, attracting and retaining talented employees, sought-after digital personnel is still a challenge. To ensure a flow of new employees, intensive relationships were established with several higher education institutions, and our trainee and mentor programmes provide support to many new colleagues in starting work.

We believe that an employee focus is just as important as a customer focus. During the first three months new colleagues undergo intense training on the Company's products, the market and the workings of its organisation. Project work is part of the corporate culture, which offers many staff members a chance to make progress in their career, regardless of their place in the organisational hierarchy.

7. ENVIRONMENTAL CONSCIOUSNESS

In Hungary households are the major energy consumers as end-users; the dominant part of the energy consumed is used for heating. We are proud that most of the home financing secured by our clients with the help of our products contributes to reducing population energy use and thus environmental pollution via their renovation, new home purchasing and building goals.

The objective of the Digital Transformation strategy adopted in 2021 is for the entire Group to help reduce our carbon footprint.

In its operations our Company pays special attention to its sustainability goals and principles, and compliance with related measures is a key goal. One way to achieve this is to reduce the adverse effect of our operations on the environment.

The Company’s primary focus when choosing the new office building was being able to work in an environmentally-conscious manner. To reduce our energy use, energy-saving LED light sources were installed everywhere, motion sensor lights are used in many rooms of the building, and at the end of a working day any lights left on are turned off. Selective waste collection is ensured at the client point and in the headquarters, and with the installation of drinking water machines colleagues are encouraged to avoid using plastic bottles.

In the framework of the Green Recommendation issued by MNB in 2021 we carried out our self-assessment and as a result we defined further actions.

8. CORPORATE SOCIAL RESPONSIBILITY

The main goal of the Fundamenta “Gondoskodás” Foundation established in January 2013 – besides its key role in social responsibility – is to support disadvantaged families often raising sick children, as well as the institutions helping and welcoming them.

Through the Foundation our employees can link up with our CSR activities, support those in need via voluntary programmes, and participate in collecting donations and organising charity campaigns. With our voluntary programmes we support communities that are unable to repair or renovate the facilities serving as the basis of their existence. Thus in recent years our volunteers have transformed nurseries, social care homes, nursing homes and homes for people living with disabilities into cleaner, more comfortable and safer facilities. Our tenders entitled “A Dream is Born” (*Álom születik*) enable us to help socially deprived families, who often raise sick children. Our various fundraising campaigns in 2022 meant we could help additional families. We have been a public-benefit foundation since 2016, so we are entitled to the 1% of personal income tax allocated by private individuals.

Fundamenta believes improving the financial literacy and financial know-how of the next generation is crucially important, which is why we decided not for the first time to support the “Legyél Te is Pénzügyi Junior klasszis!” student competition in 2022, too. Several thousands of students registered for the spring and autumn rounds of the competition, who tested themselves in front of the professional jury over 3 rounds.

To celebrate the 25th corporate anniversary, Fundamenta planted out 2500 trees in Hungary with the help of its employees, thus conveying the message that environmental consciousness and sustainability are evidently parts of long-term self-provision.

9. PLACES OF BUSINESS

Since 1 April 2019 the registered office of Fundamenta-Lakáskassza Zrt. has been Alkotás utca 55-61. Apart from Fundamenta-Lakáskassza Zrt., this modern, environmentally conscious office building also accommodates the subsidiaries. In addition, the Company has two permanent establishments in Budapest:

List of permanent establishments:

- 1108 Budapest, Kozma utca 2.
- 1037 Budapest, Lajos utca 80.

List of branch offices:

- 2040 Budaörs, Gyár utca 2.
- 3526 Miskolc, Arany János tér 1. D. lépcsőház. 3. emelet
- 4400 Nyíregyháza, Dózsa György utca 27. 2. emelet
- 6000 Kecskemét, Kisfaludy utca 8. 1. em. 107.
- 8000 Székesfehérvár, Mátyás király körút 5. 2. emelet
- 9024 Győr, Kálvária utca 1-3. IV. em.

- 4025 Debrecen, Erzsébet utca 48-50. fszt.
- 7621 Pécs, Rákóczi út 62-64. 1. em.
- 6720 Szeged, Kelemen László utca 11. fszt.
- 5000 Szolnok, Nagy Imre körút 8. A. ép.
- 9700 Szombathely, Szófia u. 20.

10. SUBSEQUENT EVENTS

There were no business events after the reporting date that would influence the true and fair view presented about the Company.

11. NON-FINANCIAL INFORMATION

11.1. Business model of Fundamenta-Lakáskassza Zrt.

Fundamenta-Lakáskassza Zrt. is a home savings association, a specialised credit institution. Its activity is governed by the specific relevant rules of Act CXIII of 1996 on Home Savings and Loan Associations as well as related government decrees, and generally speaking general laws relating to credit institutions.

Our core business activities:

- collection of housing deposits (mainly deposits from customers eligible for government grant);
- disbursement of loans for housing purposes (bridging and housing loans);
- investment on the capital market of the deposits not used for lending.

Our business cycle presumes permanent, long-term customer relations: after up to 16 years of deposit payments, the total contractual relationship can be even 29 years with a repayment period of up to 13 years depending on the product. This sets the Company apart on the market from the institutions offering shorter financial relationships.

Fundamenta-Lakáskassza Zrt. is a significant player in the field of collection of housing deposits and lending for housing purposes:

- following the termination of new business acquisition activities of the competitors, our Company is the only entity that concludes new home savings contracts,
- on the market for home savings deposit contracts it accounts for more than 50% of the portfolio of contracts,
- in the field of collection of retail deposits we are one of the TOP 8 market participants,
- in overall retail lending for housing purposes we command a roughly 10-12% share in new loan disbursements, which positions us within the TOP 3-5 market participants, and
- it holds around 10% of retail lending for housing purposes.

Fundamenta-Lakáskassza Zrt. is not a member of a Hungarian financial group, so we follow an independent home savings and loan model, in which we examine every market cooperation and opportunity to reach our goals.

The owners of Fundamenta-Lakáskassza Zrt. are professional investors: German and Austrian home savings and loan associations along with Hungarian banks and insurance companies. Our owners know and understand the long-term workings of the home savings and loan model, their main goal is to ensure sustainable, stable operations and a high-level of customer service.

Fundamenta-Lakáskassza Zrt. enjoys high brand recognition and customer satisfaction. Building a housing ecosystem, our goal is to offer competitive products and a high service quality in all market segments for housing and saving for the future that are available for home savings and loan associations.

11.2. Description of policies relating to environmental matters, social and employment aspects, respect for human rights as well as anti-corruption and bribery information for Fundamenta-Lakáskassza Zrt. and the results achieved

Environmental protection

The Company is committed to corporate social governance with an eye on the environment. It was in the spirit of this commitment that the Board of Directors of the Company adopted the corporate guidelines on environmental awareness and sustainable development. The purpose of our sustainability concept is to develop an operating framework that focuses not just on economic and financial objectives but also on protecting the environment, conserving environmental resources and using them sparingly, as well as on climate change mitigation. Fundamenta-Lakáskassza Zrt. takes part in all new initiatives launched by authorities in Hungary relating to credit institutions, including the “Green Program” of the Magyar Nemzeti Bank.

Rapid business technological development has a major impact on the banking sector too because the spread of digitalisation creates new customer demands but also makes it possible to develop new and innovative operating processes for banks. One of the key elements of the corporate strategy announced by the Company is the development of digital processes; aside from digitalising internal operating processes this includes switching customer relations to quick digital platforms that are easy to access.

Fundamenta-Lakáskassza Zrt. is committed to reducing its carbon footprint, for example, to reducing paper use, so we set the long-term strategic goal of extending digitalisation both in customer service and in internal processes. We now only record some of our customers’ documents digitally instead of photocopying them, and we seek to expand electronic communication. Through our WebBankár and VideóBankár systems, there is an ever-growing range of administrative tasks available in electronic or paper-free forms for our customers.

With our loan options offered for the installation of solar panel systems we support our clients’ endeavours in covering the energy costs of their home through sustainable and environmentally-friendly solutions.

Respecting human rights

The Company developed its Human rights policy, in which it states that respect for human rights is essential to sustaining Fundamenta-Lakáskassza Zrt. and the communities in which the Company operates. The Company is committed to ensuring people are treated with dignity and respect.

The Company’s Human rights policy observes the basic principles of international human rights elaborated in the Universal Declaration of Human Rights. Fundamenta is committed to ensuring and maintaining equal opportunity. We accept no discrimination of any kind, with regard to race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status set forth by relevant laws.

With our customer service offices and our website, we enabled our customers living with disabilities to reach our services more comfortably than before.

In our relationships with employees we broadened the opportunities for individual development, the information forums held several times a year, and the regular feedback via the performance appraisal system.

Combating corruption and bribery

Fundamenta-Lakáskassza Zrt., Fundamenta-Lakáskassza Kft. and Fundamenta Értéklánc Kft. are fully committed to respecting the provisions of Hungarian and international laws to prevent corruption and bribery, observing a principle of ZERO TOLERANCE for all illegal conduct, and to this end take strict and efficient action.

Our policy comprises the following elements:

- Regulating contact with officials, complete ban on facilitating payments;
- Rules on outsourced activity;
- Provisions, rules and prohibitions on gifts and hospitality;
- Rules on donations, sponsoring and charity roles;
- Compliance-based due diligence for contracted partners, suppliers, experts and intermediaries;
- Code of Ethics and Conduct for staff;
- Code of Ethics and Conduct for those working in the network;
- Channel for reporting abuse, protection of whistle-blowers;
- Mandatory training for all staff;
- Regular reviews of policy, internal procedures and Code of Conduct.

During our activities we work in line with the relevant requirements of the owners and with due consideration of the anti-corruption policy.

11.3. Risks associated with the business relations, products and services of Fundamenta-Lakáskassza Zrt., management methods, with particular regard to the issues listed in point 10.2

The Company is a credit institution specialised in lending with a conservative lending policy and risk appetite, which manages its risks bearing the principle of prudence in mind. The Company's executive bodies are committed to controlling its risk exposures to ensure that all of the risks assumed by the Company do not jeopardise the stable operation of the credit institution in either the short or the long run. It shapes its risk assumption, risk management and control procedures in such a way that they support its secure operations.

The risk strategy is consistent with and based on the long-term business plan, and it determines limits for the key risks that define the Company's risk profile.

To this end, the Company monitors, assesses and regularly reviews its risks, and if necessary, manages them. The monitored risks thus include credit risk, operational risk, market risk, lending stress risk, interest rate risk in the banking book, collective risk, liquidity risk, country and foreign exchange risk, settlement risk, strategy risks (including, beside collective risk, business model risk and the risk of deviating from business plans), business management risk, concentration risk and reputational risk, as well as audit and management risk.

All of the issues in point 2 are related to operational risks.

Identifying operational risks early and carrying out a detailed analysis help protect the Company against events impairing its good reputation, improve the quality of services, boost the external perception and rating of the Company, increase the risk awareness of staff, and most importantly, make it possible to avoid major future losses derived from operational risks.

Operational risks are primarily managed by perfecting internal policies and procedures, giving the colleagues involved proper training, and further developing the integrated control mechanisms. Feedback, i.e. checking the efficiency of the action taken to eliminate risks, is extremely important with regard to operational risk management.

The Strategic Risk Management Directorate is responsible for systemising and supervising all of the material operational risks. In this process, the goal is not to avoid risks but to manage them proactively, i.e. a controlled and deliberate approach to opportunities and risks.

In the spirit of risk awareness, and alongside the Strategic Risk Management Directorate, the Compliance Directorate and the Security Management Directorate take part in identifying, managing and regulating the risks mentioned in point 2.

Being a retail credit institution, the primary reputational risk factors for the Company are managing customer relations, the reliability of intermediaries and the information they provide, as well as the quality of these relationships.

Customer complaints are managed based on years of practice and regulations, in compliance with applicable laws and supervisory authority expectations, with full consideration of consumer protection provisions. We apply Recommendation 14/2012 (XII.13) of the Supervisory authority for work-out companies on required consumer protection principles. We changed our processes where necessary, and these were incorporated into the relevant policies too.

11.4. Non-financial performance indicators material for business activities

- Contracts managed as of 31 December 2022: 616,000 deposit and loan contracts, with a contractual amount of almost HUF 3,319 billion.
- Savings quality (actual savings/expected savings, based on 2022 average): 74.0%.
- Total customer savings in 2022: HUF 107 billion.

Budapest, 27 February 2023

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Bernadett Tátrai	**Rainer Kaschel**
Chairwoman of the Board,	Member of the Board
Chief Executive Officer	