



Fundamenta-Lakáskassza Zrt.

Consolidated Financial Statements

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

31 December 2023

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

(HUF million)	Note	31.12.2023	31.12.2022
Cash and cash equivalents	9.	51 779	37 381
Securities	10.	73 961	82 858
Receivables from customers	11.	516 227	533 479
Other financial receivables	12.	942	1 280
Property, plant and equipment	13.	7 337	7 604
Intangible assets	14.	9 684	8 903
Current income tax assets	30.	104	1 398
Deferred tax assets	30.	9	205
Other assets	15.	1 616	1 849
TOTAL ASSETS		661 659	674 957
Liabilities to credit institutions	16.	15 460	514
Liabilities to customers	17.	559 492	598 501
Other financial liabilities	18.	6 235	6 513
Provisions	19.	1 238	1 125
Current income tax liabilities	30.	262	111
Deferred tax liabilities	30.	0	4
Other liabilities	20.	2 939	2 051
TOTAL LIABILITIES		585 626	608 819
Share capital	21.	2 001	2 001
Capital reserve	21.	2 100	2 100
Retained earnings	21.	45 199	42 334
Repurchased treasury shares	21.	-919	0
Statutory reserves	21.	16 838	14 079
Settlement reserve	21.	8 748	6 959
General reserve	21.	8 090	7 120
Revaluation reserve	21.	0	0
Profit for the year	21.	10 814	5 624
TOTAL SHAREHOLDERS' EQUITY		76 033	66 138
Equity attributable to owners of the parent company		76 033	66 138
Equity attributable to non-controlling interests		0	0
TOTAL EQUITY AND LIABILITIES		661 659	674 957

Budapest, 27 February 2024

Bernadett Tátrai
 Chairwoman of the Board,
 Chief Executive Officer

László Morafcsik
 Member of the Board,
 Deputy-CEO

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

(HUF million)	Note	2023	2022
Interest income	22.	37 057	34 032
Interest expense	22.	-7 669	-6 534
NET INTEREST INCOME	22.	29 388	27 498
Fee and commission income	23.	3 631	3 532
Fee and commission expense	23.	-1 470	-1 579
NET FEE AND COMMISSION INCOME	23.	2 161	1 953
Exchange gain/loss on foreign exchange items	24.	9	77
Net gain arising from derecognition of financial assets and liabilities measured at amortised cost	25.	-726	-1 273
Profit/Loss from contract amendments due to payment moratorium	33.	0	-123
Change in impairment of financial assets and changes in credit provisions	26.	1 565	-1 324
Other operating income	27.	1 249	408
Other operating expenses	28.	-4 269	-5 813
Operating costs	29.	-16 687	-14 797
PROFIT BEFORE TAX		12 690	6 606
Income taxes	30.	-1 876	-982
NET PROFIT		10 814	5 624
OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME		10 814	5 624

Net profit

Net profit attributable to owners of the Company	10 814	5 624
Net profit attributable to non-controlling interests	0	0

Total comprehensive income

Total comprehensive income attributable to owners of the Company	10 814	5 624
Total comprehensive income attributable to non-controlling interests	0	0

Budapest, 27 February 2024

Bernadett Tátrai
Chairwoman of the Board,
Chief Executive Officer

László Morafcsik
Member of the Board,
Deputy-CEO

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

(HUF million)	Note	2023	2022
NET PROFIT		10 814	5 624
Adjustments related to operating activities for			
Depreciation and amortisation	29.	2 909	2 808
Interest income	22.	-37 057	-34 032
Interest expense	22.	7 669	6 534
Impairment of securities and reversal thereof, net	26.	-8	-19
Impairment of receivables from customers and reversal thereof, net	26.	-1 566	1 367
Impairment of other financial receivables and reversal thereof, net	26.	23	31
Impairment of property, plant, equipment and intangible assets and reversal thereof, net	13.,14.	1	0
Effect of unrealized movements in exchange rates on cash held	9.	153	-372
Net gain on sale of financial assets (securities)	25.	726	1 273
Profit from sale of property, plant and equipment, intangible assets	27.	-39	-20
Non-cash items related to leases	31.	-805	-1
Loss on derecognition of property, plant and equipment, intangible assets	13.,14.	4	1
Recognition and release of provisions	19.	113	-27
Income tax expense	30.	1 876	982
Operating cash flows before changes in assets and liabilities from operating activities		-26 001	-21 475
Securities	10.,25.	47	1 755
Receivables from customers	11.	18 502	-25 524
Other financial receivables	12.	315	-151
Other assets	15.	233	621
Liabilities to credit institutions	16.	47	0
Liabilities to customers	17.	-39 635	-42 659
Other financial liabilities without leases	18.	790	470
Other liabilities	20.	1 019	611
Total changes in assets and liabilities from operating activities		-18 682	-64 877
Interest received	22.	28 505	30 628
Interest paid	22.	-5 602	-5 444
Income taxes paid	30.	-370	-1 699
Net cash from/used in operating activities		-11 336	-57 243

Investment cash flow	Note	2023	2022
Acquisition of securities	10.,25.	-11 234	-4 236
Proceeds from sale and maturity of securities	10.,25.	19 604	22 846
Acquisition of property, plant and equipment	13.	-769	-969
Proceeds from sale of property, plant and equipment, intangible assets	27.	123	100
Acquisition of intangible assets	14.	-1 936	-1 718
Interest received	22.	8 629	1 922
Net cash from/used in investing activities		14 417	17 945

Financing cash flow	Note	2023	2022
Interest paid	22.	-1 441	-218
Repurchase of treasury shares	21.	-919	0
Borrowings	16.	15 000	515
Repayment of borrowings	16.	-101	-1
Repayment of lease liabilities	31.2.	-1 068	-892
Net cash from/used in financing activities		11 471	-596
Net increase/decrease in cash and cash equivalents	9.	14 551	-39 894
Balance at 31 December of the previous year		37 381	76 903
Effect of movements in exchange rates on cash and cash equivalents held		-153	372
Cash and cash equivalents at 31 December	9.	51 779	37 381

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023 (NOTES 1., 6.18, AND 21)

(HUF million)	Share capital	Capital reserve	Retained earnings	Statutory reserves		Repurchased treasury shares	Profit for the year	Equity attributable to owners of the parent company	Equity attributable to non-controlling interests	Total
				Settlement reserve	General reserve					
Balance at 1 January 2022	2 001	2 100	36 575	6 959	6 669	0	6 210	60 514	0	60 514
<i>Net profit</i>	0	0	0	0	0	0	5 624	5 624	0	5 624
Total comprehensive income	0	0	0	0	0	0	5 624	5 624	0	5 624
<i>Transfer of previous year's profit to retained earnings</i>	0	0	6 210	0	0	0	-6 210	0	0	0
General reserve	0	0	-451	0	451	0	0	0	0	0
Total other changes in equity	0	0	-451	0	451	0	0	0	0	0
Balance at 31 December 2022	2 001	2 100	42 334	6 959	7 120	0	5 624	66 138	0	66 138
<i>Net profit</i>	0	0	0	0	0	0	10 814	10 814	0	10 814
Total comprehensive income	0	0	0	0	0	0	10 814	10 814	0	10 814
<i>Transfer of previous year's profit to retained earnings</i>	0	0	5 624	0	0	0	-5 624	0	0	0
<i>Repurchased treasury shares</i>	0	0	0	0	0	-919	0	-919	0	-919
Settlement reserve	0	0	-1 789	1 789	0	0	0	0	0	0
General reserve	0	0	-970	0	970	0	0	0	0	0
Total other changes in equity	0	0	-2 759	1 789	970	0	0	0	0	0
Balance at 31 December 2023	2 001	2 100	45 199	8 748	8 090	-919	10 814	76 033	0	76 033

Notes to the CONSOLIDATED 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” or “parent company”) was established by deed of foundation dated 5 December 1996. The National Money and Capital Market Supervisory Authority (the legal predecessor to the National Bank of Hungary and previously 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.

These consolidated financial statements contain the financial statements of the Company and its subsidiaries (collectively: the “Group”).

The Group is consolidated 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 2023:

Shareholders	Nominal value (HUF)	Registered ordinary share Quantity (no)	Value (THUF)	Ownership share (%)
<i>Bausparkasse Schwäbisch Hall AG</i> (DE-74523 Schwäbisch Hall, Crailsheimer Str. 52)	10,000	102,551	1,025,510	51.25
<i>Bausparkasse Wüstenrot AG (BWAG)</i> (A-5020 Salzburg, Alpenstraße 70)	10,000	27,278	272,780	13.63
<i>Wüstenrot & Württembergische AG</i> (DE-70176 Stuttgart, Gutenbergstraße 30)	10,000	22,942	229,420	11.47
<i>Generali Biztosító Zrt.</i> (HU-1066 Budapest, Teréz krt. 42-44.)	10,000	29,770	297,700	14.88
<i>UniCredit Bank Hungary Zrt.</i> (HU-1054 Budapest, Szabadság tér 5-6.)	10,000	14,777	147,770	7.38
<i>Fundamenta-Lakáskassza Kft.</i> (1123 Budapest, Alkotás utca 55-61.)	10,000	2,782	27,820	1.39
TOTAL	-	200,100	2,001,000	100.00

In the reporting year Fundamenta-Lakáskassza Kft. purchased the shares held by Sberbank Magyarország Zrt. u.v.l., thus as at the reporting date Fundamenta-Lakáskassza Kft. holds 1.39% ownership share in Fundamenta-Lakáskassza Zrt.

By means of a share purchase agreement dated 10 November 2023, MBH Bank Nyrt. acquired all the shares held by Bausparkasse Schwäbisch Hall AG, Bausparkasse Wüstenrot AG and Wüstenrot & Württembergische AG, and now holds 76.35% of the shares. The minority shareholders waived their pre-emption rights. MBH Bank Nyrt. has initiated the necessary authorisation procedures. With official document No. ÖB/2-6/2024, the Hungarian Competition Authority confirmed that based on the merger

notification there are no circumstances giving rise to an investigation pursuant to Section 67 (4) of the Act. The authorisation procedure of the Magyar Nemzeti Bank is in progress. The transaction is expected to close in the first quarter of 2024.

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 operating licences of Fundamenta-Lakáskassza Kft. were approved by the regulator, its activity 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 operating licences of Fundamenta Értéklánc Kft. were approved by the regulator, its activity includes real estate agency.

Fundamenta-Lakáskassza Zrt. was registered in the company register by the Metropolitan Court as the Court of Registration on 24 April 1997 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. The group is represented by Fundamenta-Lakáskassza Zrt. The members of the VAT group have the following IDs: Group ID number: 17781121-5-44, Group EU VAT number: HU17781121.

Fundamenta-Lakáskassza Zrt. and Fundamenta-Lakáskassza Kft. have been using the option of corporate tax group since 1 January 2019. Fundamenta Értéklánc Kft. joined the group as of 1 January 2020; the group is represented by Fundamenta-Lakáskassza Zrt. Group ID number of the members of the corporate tax group: 17100157-6-44.

Internal Board members are authorised to sign the consolidated financial statements.

Members of the Board of Directors of Fundamenta-Lakáskassza Zrt. 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 consolidated 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 Group meets its obligation under Act C of 2000 on Accounting (“Act on Accounting”) to prepare consolidated annual financial statements with these consolidated financial statements, in accordance with Section 10 (3) of the Act on Accounting.

These consolidated financial statements were approved for issue by the Board of Directors on 26 February 2024.

3. Functional and presentation currency

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

Unless otherwise indicated, financial data presented in Hungarian forints in the consolidated 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 consolidated 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.

The 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 consolidated 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 Group's ability to continue as a going concern. Therefore the consolidated 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 consolidated 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 Group 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 Group 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 Group 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 6.3 b).

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

For its customers with home savings contracts in the saving phase, the Group 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 Group may grant a housing loan based on the loan agreement.

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

The Group treats the bridging loan and the subsequent housing loan as different financial instruments. The bridging loans end and are 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 loans 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 Group applies different effective interest rates for the bridging loans 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 19.

Lease liabilities and right-of-use assets

On initial recognition the Group recognises lease liabilities 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 Group’s incremental borrowing rate. For more details please refer to Note 6.12.

In relation to right-of-use assets, the above is relevant when determining the cost.

After the commencement date, the Group measures the lease liability at amortised cost using the effective interest method.

Finance lease receivables

The Group 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 Group

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.

Finance lease receivables are measured by the Group 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 the provision matrix used to measure lease liabilities.

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 6.4.

The IFRS 9 model is used 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:

$$ECL = \text{Exposure} * LGD * (1 - CR).$$

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:

$$ECL = LEL = PD(1) * LGD(1) * EADD(1) + \dots + PD(n) * LGD(n) * EADD(n)$$

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

$$ECL = 12M EL = PD(1) * LGD(1) * EADD(1) + \dots + PD(12) * LGD(12) * EADD(12)$$

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 33.1/d (Forward-looking information). Furthermore, IFRS 9 allows to apply management overlay, if justified; for more details please refer to Note 33.1/d.

Determination of the effective interest rate - customer bonus

From time to time the Group 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 Group 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 Group 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 Group.

5. Measurement principles

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

6. Material accounting policies

6.1. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries, i.e. those entities where the Group holds more than half of the voting rights, or controls the entity's financial and operating policies in any other way, are consolidated.

Whether the Group has control over an other entity is assessed based on the currently exercisable and the convertible potential voting rights as well as the effect thereof.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Decrease in ownership interest in a subsidiary that does not result in the parent losing control of the subsidiary is considered a transactions with owners, therefore no gain or loss may be accounted for on the sale.

Decrease in ownership interest in a subsidiary that results in the parent losing control of the subsidiary results in the remeasurement of the fair value of the interest retained. The difference between the fair value and the carrying amount is the gain or loss on derecognition of the interest and shall be accounted for in profit or loss (other income).

There is no entity within the Group that would not be under its control in spite of holding more than half of the voting rights. There is no significant entity within the Group that is controlled by it while holding less than half of the voting rights.

Transactions eliminated on consolidation

When preparing the consolidated financial statements, the Group measures all of the assets and liabilities of the subsidiary using the same standard measurement procedure as for the parent company.

Intra-group balances and transactions, and any unrealised gains or losses on the transactions are eliminated in preparing the consolidated financial statements.

6.2. Transactions in foreign currency

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

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

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

a) Recognition and measurement

The Group applies settlement date accounting for regular-way purchases or sales of financial instruments and on initial recognition measures them at fair value.

b) Classification

Financial assets that are debt instruments are measured by the Group at amortised cost.

Business model applied to manage financial assets

In the case of its financial assets the Group 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

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

Reclassifications

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

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

Classification of financial liabilities

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

c) Derecognition

Derecognition of financial assets

The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 is recognised in profit or loss as interest income / interest expense, or as a separate line item, if justified.

e) Fair value measurement

As at the end of the reporting period, the Group 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 35.3.

When determining the fair value of financial instruments, the Group 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 Group applies different valuation techniques to measure the fair value of financial instruments.

6.4. Impairment of financial assets, write-offs

General rules on impairment of financial assets

The Group 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 Group assesses whether the credit risk on the financial asset has risen significantly since the initial recognition. During the assessment the Group examines the change in the default risk over the expected life of the financial asset.

If forward-looking, reasonable and supportable information is available without undue cost or effort, the Group 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 Group 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 Group 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 33.1. If a financial asset is considered to be in default, the Group 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 Group 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 Group 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 Group 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 Group applies the practical expedient for contracts that are one year or less). Such include during the Group's operation deposit-related fee receivables as well as other financial receivables, for which the Group 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 33.1 "Credit risk".)

ii. Low credit-risk financial assets

The Group 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 Group 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.

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 classified into the purchased or originated credit-impaired financial assets (hereinafter referred to as “POCI assets”) category 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 Group 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 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 Group 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 Group’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 Group 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 Group 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 Group 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 Group from its customers; these receivables are not exactly loan-type claims, but receivables in relation to which, given their economic substance, the Group is not exposed to a credit risk. The Group 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 Group 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 Group 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 Group considers the date of initial recognition to be the date when the Group becomes a party to the irrevocable commitment.

In the case of loan commitments, the Group 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 Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group'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 Group 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 Group 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 Group 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 Group 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 Group applies the rules detailed in Note 6.3 c).

6.5. Cash and cash equivalents

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

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

6.6. 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 Group 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 Group 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.

6.7. 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 Group 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 Group 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.

6.8. Other financial receivables

Other financial receivables comprise sales agent commission reversals, trade receivables, deposits paid for the office rent and other receivables.

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

6.9. Property, plant and equipment

The Group 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 Group measures property, plant and equipment at cost.

b) Measurement after recognition

The Group 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 Group does not recognise the costs of day-to-day operation. These costs are recognised in profit or loss when incurred.

d) Depreciation/ Amortisation

The Group 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 leased out	5 years
Motor vehicles	4-6 years
Works of art	-
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 or 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 Group accounts for the gain or loss arising from the derecognition of an item of property, plant and equipment on a net basis 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.

Internally generated intangible assets

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

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

The Group recognises research costs as cost when they arise. The costs of an intangible asset arising from development or from the development phase of an internal project are capitalised according to set criteria.

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 Group 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 Group 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 the start of operation. Subsequent expenditure shall be recognised in profit or loss.

d) Amortisation

The Group 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 or by other reasons.

Useful lives are reviewed once a year. The Group 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 Group determines the gain or loss arising from the derecognition of an intangible asset on a net basis and it 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 Group 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.

The Group 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 Group assesses whether the contract is, or contains, a lease.

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

b) The Group acting as a lessee

As a lessee, the Group has property, warehouse and motor vehicle lease transactions.

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

After the commencement date the Group 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.

Initially the Group 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 Group's incremental borrowing rate.

The Group selects and uses the interest rate in the appropriate currency, for the appropriate term or fixed for an appropriate term, relating to the appropriate date or period, or the closest date or period to that, from the statistics published by Magyar Nemzeti Bank on a monthly basis on average interest rate in the contract on loans disbursed to non-financial companies, to determine the incremental borrowing rate.

The Group 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 Group 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 Group recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group 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 Group acting as a lessor

The Group sub-leases offices leased by it and leases out cars owned by the Group to sales agents.

When the Group 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 Group 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).

Finance lease

At the commencement date, the Group 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.

Operating leases

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

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

Operating leases are presented in Note 31.2.

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

6.15. Provisions

The Group 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 Group 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, when material.

For more details on the provisions recorded by the Group see Note 19.

6.16. Contingent liabilities

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

A loan commitment is an irrevocable commitment of the Group.

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 Group 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 Group recognises provisions for loan commitments; for further details see Note 6.4.

6.17. Contingent assets

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

Share 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 Group 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 Group can be the following: settlement reserve and general reserve.

Settlement reserve

With a view to protecting those with home savings contracts, the Group 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, or on 30 June if certain conditions are fulfilled, 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 Group 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 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 is calculated at the end of the reporting year based on the change in portfolio compared to the previous period, whereby the reserve can be recognised as early as 30 June if justified. Each year, the Group calculates the amount of the settlement reserve expected at the year-end based on the actual data as at 31 May, and forecast data for the remaining months of the year. If based on the calculation it can be established that recording the reserve will be irrevocably necessary at the end of the year, the Asset-Liability Committee can decide to recognise the reserve at half year at the estimated amount. The settlement reserve may not exceed 10% of the deposit portfolio of the Group as of 31 December of the reporting year.

The Group 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. Interest income and interest expense

The net interest income item in the consolidated statement of comprehensive income includes interest income and interest expenses determined using the effective interest method. The Group currently only has assets measured at amortised cost.

When using the effective interest method the Group 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 Group 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 Group 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 Group applies the effective interest rate to the gross carrying amount, while for credit-impaired loans (classified in Stage 3) to the net carrying amount.

The accounting policy applied by the Group for amounts recognised in interest income/interest expenses upon modification of financial assets and liabilities is described in Note 6.3 d).

6.20. 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 Group under interest income or interest expense.

Under fee and commission income and fee and commission expenses the Group 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.

In addition to the above, Fundamenta-Lakáskassza Kft. is entitled to invoice commission to the partners on the financial and insurance products of partners mediated by the sales agents engaged by it under an engagement contract, on a monthly basis, after the month-end close. Furthermore, the sales agents are also entitled to invoice commission on these transactions.

These items also include commission income and commission expenses of Fundamenta Értéklánc Kft. related to real estate brokerage and SOLAR investment contracts.

6.21. 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.

6.22. 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 and the result of the derecognition of the Member loan disbursed during the year.

6.23. General principles on revenue recognition based on IFRS 15

Following the identification of customer contracts, the Group reassesses their recognition only if there is an indication of a significant change in facts and circumstances. Revenue is recognised and the transaction price is determined in accordance with the provisions of IFRS 15.

6.24. 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. 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 Group under personnel expenses (other operating costs).

The Group currently does not provide post-employment benefits.

Other long-term employee benefits provided by the Group include bonuses that the Group 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.

6.25. Income tax

The Group 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.

6.26. Other comprehensive income

The Group 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.

6.27. Liabilities to credit institutions

The Group records liabilities to credit institutions at amortised cost.

7. Adoption of New or Revised Standards and Interpretations

The Group 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 2023:

IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).

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

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 amendments to IFRS 17 are not relevant to the Company.

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.

As a result of the amendments, the sections in the annual financial statements relating to accounting policies have been changed.

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 adoption of the amendments did not have a material impact on the Group'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 amendments do not affect the Group's financial statements.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

The amendments do not affect the Group's financial statements.

8. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Group has not early adopted.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

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

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These 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 Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023). In response to concerns of the users of

financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

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

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

Notes to the financial statement items

9. Cash and cash equivalents

Table 9.1. - Cash and cash equivalents

(HUF million)	31.12.2023	31.12.2022
HUF current accounts held at MNB	47 568	69
Deposit accounts held at MNB and due within 3 months	0	31 846
HUF and FX current deposit accounts held at other credit institutions	3 390	4 694
Credit institution deposits with a maturity period less than 3 months	821	772
Total cash and cash equivalents	51 779	37 381

The year-on-year change in cash and cash equivalents reveals an increase in line with the liquidity plans. During 2023, the Group borrowed HUF 15 billion and repaid HUF 100 million in refinancing loans, keeping the proceeds from matured and sold securities at the MNB. The credit rating classification of cash and cash equivalents is included in Note 33.

10. Securities

Table 10.1. - Securities

(HUF million)	31.12.2023	31.12.2022
Investment securities measured at amortised cost	74 029	82 934
Impairment allowance (-)	-68	-76
Total securities	73 961	82 858

The Group purchased short-term securities in the first half of the reporting year, and then sold securities before maturity as permitted by the accounting policies. Most of the proceeds from the matured and sold securities were kept at the MNB. At the end of the year, the Group purchased government bonds with a maximum maturity of 5 years. The securities portfolio at the end of 2022 and 2023 only included Hungarian government bonds.

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

(HUF million)	31.12.2023
2024/B MÁK	8 894
2024/C MÁK	10 348
2025/B MÁK	11 924
2025/C MÁK	2 975
2026/D MÁK	2 310
2026/F MÁK	44
2027/A MÁK	10 706
2028/A MÁK	10 825
2028/B MÁK	6 167
2030/A MÁK	909
2031/A MÁK	8 859
Total debt instruments	73 961

Table 10.3. - Securities measured at amortised cost - previous 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

11. Receivables from customers

Table 11.1. - Overview of receivables from customers

(HUF million)	31.12.2023	31.12.2022
Receivables from customers measured at amortised cost	525 326	543 863
Impairment allowance (-)	-9 099	-10 384
Total receivables from customers	516 227	533 479

In line with market trends, placement of loans decreased in 2023.

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

(HUF million)	31.12.2023		
	Gross value	Expected credit loss	Carrying amount
Bridging loans	103 462	-501	102 961
Immediate bridging loans	356 062	-8 103	347 959
Housing loans	65 507	-495	65 012
Other receivables from customers	295	0	295
Total	525 326	-9 099	516 227

(HUF million)	31.12.2022		
	Gross value	Expected credit loss	Carrying amount
Bridging loans	113 017	-763	112 254
Immediate bridging loans	373 173	-9 040	364 133
Housing loans	57 417	-581	56 836
Other receivables from customers	256	0	256
Total	543 863	-10 384	533 479

12. Other financial receivables

Table 12.1. - Other financial receivables

(HUF million)	31.12.2023	31.12.2022
Lease receivables	404	499
Trade receivables	93	59
Accruals related to commissions	95	335
Other receivables and accruals and deferrals from sales agents	25	17
Security deposit	318	332
Other receivable-type items	73	89
Impairment allowance (-)	-66	-51
Total other financial receivables	942	1 280

Note 31.2. contains more detailed information on leases as a lessor. The security deposit line item includes the security deposit paid in connection with the lease of the office building.

13. Property, plant and equipment

Table 13.1. - Changes in property, plant and equipment

(HUF million)	Leasehold improvements	Office equipment	Motor vehicles	Assets under construction	Total
Gross value					
Balance at 1 January 2022	1 794	4 082	1 458	3	7 337
Capitalisation	36	295	608	-939	0
Acquisitions	0	0	0	864	864
Disposals	-42	-67	-133	0	-242
Other reclassifications	0	0	0	105	105
Balance at 1 January 2023	1 788	4 310	1 933	33	8 064
Capitalisation	1	460	332	-793	0
Acquisitions	0	0	0	769	769
Disposals	0	-195	-195	0	-390
Balance at 31 December 2023	1 789	4 575	2 070	9	8 443
Depreciation and impairment					
Balance at 1 January 2022	-640	-2 483	-460	0	-3 583
Depreciation for the year	-193	-543	-172	0	-908
Disposals	13	59	63	0	135
Balance at 1 January 2023	-820	-2 967	-569	0	-4 356
Depreciation for the year	-197	-567	-126	0	-890
Impairment recognised in profit or loss	0	-3	0	0	-3
Eredményrel szemben elszámolt értékvesztés visszaírása	0	2	0	0	2
Disposals	0	194	112	0	306
Balance at 31 December 2023	-1 017	-3 341	-583	0	-4 941
Net value					
Balance at 31 December 2022	968	1 343	1 364	33	3 708
Balance at 31 December 2023	772	1 234	1 487	9	3 502

Reporting-year changes in right-of-use assets related to leases are presented separately in Note 31.2.

Contractual commitments of the Group connected to future acquisitions amounted to HUF 21 million as at 31 December 2023 (31 December 2022: HUF 141 million).

14. Intangible assets

Table 14.1. - Changes in 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 2022	2 784	2 084	9 221	737	14 826
Capitalisation	1 085	117	813	-2 015	0
Acquisitions	0	0	0	1 823	1 823
Disposals	-2	0	0	0	-2
Other reclassifications	0	0	0	-105	-105
Balance at 1 January 2023	3 867	2 201	10 034	440	16 542
Capitalisation	912	19	690	-1 621	0
Acquisitions	0	0	0	1 936	1 936
Disposals	-10	-137	0	0	-147
Other reclassifications	476	-476	0	0	0
Balance at 31 December 2023	5 245	1 607	10 724	755	18 331
Amortisation and impairment					
Balance at 1 January 2022	-993	-1 530	-4 014	0	-6 537
Amortisation for the year	-335	-168	-601	0	-1 104
Disposals	2	0	0	0	2
Balance at 1 January 2023	-1 326	-1 698	-4 615	0	-7 639
Amortisation for the year	-352	-122	-678	0	-1 152
Disposals	6	138	0	0	144
Other changes	-257	257	0	0	0
Balance at 31 December 2023	-1 929	-1 425	-5 293	0	-8 647
Net value					
Balance at 1 January 2022	1 791	554	5 207	737	8 289
Balance at 31 December 2022	2 541	503	5 419	440	8 903
Balance at 31 December 2023	3 316	182	5 431	755	9 684

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 Group. Intangible assets include devices used by the Group 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 2023 no research and development expenses were booked (2022: HUF 2 million).

Contractual commitments of the Group related to future acquisitions of intangible assets amounted to HUF 1,069 million as at 31 December 2023 (31 December 2022: HUF 933 million).

15. Other assets

Table 15.1. - Other assets

(HUF million)	31.12.2023	31.12.2022
Inventories	67	77
Accruals and deferrals	850	851
Advances	23	33
Other items similar to tax	537	735
Additional other assets	139	153
Total other assets	1 616	1 849

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.

16. Liabilities to credit institutions

In compliance with legal regulations, the refinancing credit line agreement concluded in 2022 is used to finance bridging loans.

Table 16.1 - Liabilities to credit institutions (type of instrument)

(HUF million)	31.12.2023	31.12.2022
Loan related to the Green Home Program	13	14
Refinancing loan	15 400	500
Refinancing loan accrued interest	47	0
Total liabilities to credit institutions	15 460	514

During the reporting year, the Group borrowed HUF 15 billion in refinancing loans and repaid HUF 100 million of the loan drawn in 2022.

Table 16.2 - Changes in liabilities to credit institutions

(HUF million)	
Balance at 1 January 2022	0
Borrowings	515
Repayment of borrowings	-1
Balance at 31 December 2022	514
Borrowings	15 000
Repayment of borrowings	-101
Accrued interest	47
Balance at 31 December 2023	15 460

17. Liabilities to customers

Table 17.1. - Liabilities to customers (product type)

(HUF million)	31.12.2023	31.12.2022
Retail customers:		
Payments by customers and interest thereon	441 212	463 605
Government grant and interest thereon	85 377	101 535
Other liabilities to customers	526	762
Multi-occupancy buildings, cooperatives:		
Payments by customers and interest thereon	27 977	27 339
Government grant and interest thereon	4 379	5 234
Other liabilities to customers	21	26
Total liabilities to customers	559 492	598 501

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 Group 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 Group 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 Group 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 Group 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.

18. Other financial liabilities

Table 18.1. - Other financial liabilities

(HUF million)	31.12.2023	31.12.2022
Lease liabilities	5 212	5 604
Liabilities and accruals from commissions to sales agents	290	216
Trade liabilities	230	52
Deposits	51	55
Other	452	586
Total other financial liabilities	6 235	6 513

Information on leases is included in Note 31.2.

19. Provisions

Table 19.1 - Balance of provisions

(HUF million)	31.12.2023	31.12.2022
Provision for retention commissions	244	292
Provision for quality commission bonus	166	187
Provision recognised based on remuneration policy	254	208
Provision for other liabilities	318	296
Provision for Autóbank programme	68	16
Provision for the Bonus Bank	157	81
Provision for line of credit	31	45
Total balance of provisions	1 238	1 125

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

Table 19.2 - Changes in provisions

(HUF million)	Provision for litigations	Provision for retention commissions	Provision for quality commission bonus	Provision recognised based on remuneration policy	Provision for other liabilities	Provision for Autóbank programme	Provision for the Bonus Bank	Provision for line of credit	Total
Balance at 1 January 2022	0	367	129	205	316	4	31	100	1 152
Provisions recognised during the period	1	65	74	37	61	12	50	758	1 058
Provisions used during the period	-1	-140	-16	-34	-81	0	0	-813	-1 085
Balance at 31 December 2022	0	292	187	208	296	16	81	45	1 125
Provisions recognised during the period	0	29	13	110	93	52	76	350	723
Provisions used during the period	0	-77	-34	-64	-71	0	0	-364	-610
Balance at 31 December 2023	0	244	166	254	318	68	157	31	1 238
Non-current portion	0	110	11	254	83	0	157	0	615
Current portion	0	134	155	0	235	68	0	31	623

19.1. Provisions for pending litigation

When evaluating during litigation whether a past event resulted in a present obligation, the Group 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 Group uses the provision; otherwise it releases the provision. Provisions are used and released at the level of individual cases.

19.2. 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 Group 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.

19.3. Provision for quality commission bonus

The quality commission bonus relates to the savings contracts brokered by the sales agents of 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 Group 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. If this ratio falls short of 30%, then the contract commission previously paid and the bonus commission are reversed, and the provision to be recorded is reduced by the expected amount of this reversal of bonus commission.

If the given savings contract is terminated within 12 months of the contract conclusion date, then the contract commission previously paid and – where applicable – the bonus commission are reversed by the Group, and the provision to be recorded is reduced by expected amount of this reversal of bonus commission.

The expected cash flow, the expected savings start dates and payments, and the expected contract cancellations are forecast by the Group based on prior experience.

19.4. Provision for Autóbank programme

The Autóbank programme is a scheme encouraging sales agents to save and invest. The Group expects sales agents to achieve a monthly sales performance and savings undertaken by the agent, which amount is deposited to an investment account held with an investment firm. In addition to such savings, the Group pays bonus commissions at the end of the term undertaken or prescribed in the programme. The amount accumulated this way must be used by the sales agent to buy a new car in accordance with the terms and conditions.

Since the provisions for the Autóbank programme are typically used up in the year following the reporting year, the Group does not consider the effect of discounting material, and consequently, it does not discount when measuring provisions.

The provisions for the Autóbank programme are accounted for quarterly based on the change compared to the previous period.

19.5. Provision for the Bonus Bank

The Bonus Bank programme is an incentive and loyalty scheme for the PB management and senior Personal Bankers based on indicators. In addition to sales performance, the amount of the bonus payable from the Bonus Bank also depends on the company's indicators. The weighted average of these partial indicators is the value of the Bonus Bank index, which is used to adjust the bonus budget to calculate the commission base.

The commission base is paid in the course of five years in five equal instalments. The Group allocates payment probability to such forecast payments to calculate the basis for the provisioning. For the estimates to be as accurate as possible, the Group uses the returns of 7-year government bonds to discount the amount of such forecast payments.

The provisions for the Bonus Bank programme are recognised quarterly based on the change compared to the previous period. The Group accrues the commissions retained for the Bonus Bank in the interim months on a monthly basis until the reporting date of the financial statements.

19.6. Provision for Életpálya scheme

The Életpálya scheme is a loyalty programme and a scheme to encourage sales agents to save. The Group expects sales agents to achieve set savings every month, based on which it withholds a certain amount from the given sales agent's commission. In addition to such savings, the Group pays bonus commissions at the end of the term undertaken or prescribed in the programme.

Since the provisions for the Életpálya scheme are typically used in the 5th year following the given year, the Group takes the discounting effect into account.

The provisions for the Életpálya scheme are accounted for quarterly based on the change compared to the previous period.

19.7. Provision recognised based on remuneration policy

Based on the Group'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 Group, 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.

19.8. 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.
- The Group recognises provisions for the prize trips of the sales competitions among sales agents on a monthly basis, depending on the expected costs of known trips. Provisions are recognised based on the average costs of the competition-related trips – on the strength of

estimates or contracts concluded with third parties –, the contributions relating to such costs and on all the material costs incurred during the trip. Since the provisions for competition-related trips are generally used in the year following the reporting year, the Group does not discount them.

19.9. Provision for line of credit

Further information is included in Note 6.4.

20. Other liabilities

Table 20.1. - Other liabilities

(HUF million)	31.12.2023	31.12.2022
Accruals and deferrals	1 172	665
Returned government grant	194	279
Other liabilities related to employees	1 233	854
Payment liabilities to tax authorities	337	250
Additional other liabilities	3	3
Total other liabilities	2 939	2 051

The increase in other liabilities was caused by accrued items, and the accrual of bonuses payable for better than planned corporate performance indicators.

21. Equity

21.1. Share capital

The Group's official, issued, called and fully paid share capital comprises 200,100 (31 December 2022: 200,100) shares, each with a nominal value of HUF 10,000 (31 December 2022: HUF 10,000). Issued shares are completely equal in the event of a liquidation.

21.2. Capital reserve

Capital reserve amounted to HUF 2,100 million as at 31 December 2023 (31 December 2022: HUF 2,100 million).

21.3. Retained earnings

In the reporting year the Group's retained earnings changed due to the recognition of general reserve (HUF 970 million), the amount of change in the settlement reserve (HUF 1,789 million) and the transfer of profit for the previous period (HUF 5,624 million).

Subsequent to the reporting date the Group's management did not propose to pay dividend.

21.4. Repurchased treasury shares

In the reporting year the Group purchased the shares held by Sberbank Magyarország Zrt. u.v.l. through Fundamenta-Lakáskassza Kft., thus as at the reporting date Fundamenta-Lakáskassza Kft. holds 1.39% ownership share in Fundamenta-Lakáskassza Zrt. From a consolidation point of view this share purchase is considered repurchase of treasury shares. The cost of the repurchased treasury shares amounts to HUF 919 million, which decreased consolidated equity.

21.5. Statutory reserves

Settlement reserve

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

HUF 1,101 million settlement reserve was recognised in the reporting year (2022: HUF 0 million).

The current tax effect of first-time adoption of IFRSs relating to the settlement reserve was included in retained earnings in the previous years. In 2023 this was transferred to the settlement reserve. This had no impact on the amount of equity.

General reserve

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

In the reporting year the Group made HUF 970 million general reserve from retained earnings (2022: HUF 451 million). The reserve was not used during the year.

22. Net interest income

22.1. Interest income

Table 22.1.1. - Interest income

(HUF million)	2023	2022
Interest income from cash and cash equivalents	5 769	3 895
Interest income from securities	3 099	3 114
<i>Interest income from government bonds</i>	2 773	3 114
<i>Interest income from discounted Treasury bills</i>	326	0
Interest income from receivables from customers	28 172	27 006
<i>Interest income from immediate bridging loans</i>	19 507	18 959
<i>Interest income from bridging loans</i>	5 610	5 205
<i>Interest income from housing loans</i>	3 055	2 842
Interest income from lease transactions	17	17
Total interest income	37 057	34 032

The interest income presented in the above table was accounted for using the effective interest method, while interest income related to leases was accounted for based on the provisions of IFRS 16. The Group recognises 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 under interest income; this reduced interest income by HUF 36 million (2022: HUF 125 million).

Partial and full early repayments were lower than expected during the year, and fewer loans were disbursed than planned, resulting in an increase in the value of liquid assets available for disbursement. Due to the high interest rates, the Group was able to generate a higher result than in the previous year via fixed-term deposits of liquid assets.

22.2. Interest expense

Table 22.2.1. - Interest expense

(HUF million)	2023	2022
Interest expense on liabilities to customers	-6 006	-6 285
Interest expense paid on amounts paid by customers	-5 150	-5 233
Interest expense attributable to government grant	-856	-1 052
Interest expenses on refinancing loans and repo transactions	-1 441	-35
Interest expense on leases	-221	-200
Other interest expense	-1	-14
Total interest expense	-7 669	-6 534

The interest income presented in the above table was accounted for using the effective interest method, while interest income related to leases was accounted for based on the provisions of IFRS 16. Interest expenses include the gain or loss from the modification of financial liabilities as well as from change in the estimate relating to the expected cash flows of the liabilities; this reduced interest expenses by HUF 473 million (2022: HUF 236 million).

Interest expenses increased due to the interest paid on the HUF 15 billion refinancing loan drawn in the reporting year.

23. Net fee and commission income

23.1. Fee and commission income

Table 23.1.1. - Fee and commission income

(HUF million)	2023	2022
Fee and commission income from home savings transactions	2 016	2 197
Fee income from loans	317	375
Fee income from deposits	1 699	1 822
Other fee and commission income	1 615	1 335
Total fee and commission income	3 631	3 532

Major items within fee income from loans include partial and full early repayments and the fees of loan-related correspondence. The two main items within the fee income from deposits comprise fee income from opening accounts and fee income from account management.

23.2. Fee and commission expense

Table 23.2.1. - Fee and commission expense

(HUF million)	2023	2022
Commission expense on loans	-140	-152
Commission expense on deposits	-282	-538
Other fee and commission expenses	-621	-460
Commission expense on securities transactions	-9	-10
Commission expense on mediation of government securities	-111	-74
Commission expense on payment transactions	-307	-345
Total fee and commission expense	-1 470	-1 579

Sales commissions paid to sales agents is the main item within commission expense on deposits. The main items within other fee and commission expenses are real estate brokerage and referral commissions.

24. Exchange gain/loss on foreign exchange items

Table 24.1. - Exchange gain/loss on foreign exchange items

(HUF million)	2023	2022
Foreign exchange differences	9	77
Total exchange gain/loss on foreign exchange items	9	77

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

Table 25.1. - Net profit arising from derecognition of financial assets and liabilities measured at amortised cost

(HUF million)	2023	2022
Net profit/loss arising from derecognition of securities measured at amortised cost	-726	-1 273
<i>Realised profit arising from derecognition of securities</i>	143	67
<i>Realised loss arising from derecognition of securities</i>	-869	-1 340
Net profit arising from derecognition of financial assets and liabilities measured at amortised cost	-726	-1 273

Securities are classified by the Group 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. In compliance with the accounting policies, only securities with a remaining term less than 1 year were sold where the criterion that a significant part (more than 90%) of the nominal cash flows should be recovered was also met. 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.

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

Table 26.1. - Change in impairment of financial assets and changes in credit provisions

(HUF million)	2023	2022
Impairment of receivables from customers and reversal thereof	1 566	-1 367
Impairment of securities and reversal thereof	8	19
Impairment of other financial receivables and reversal thereof	-23	-31
Changes in provision for loan commitments	14	55
Total changes in impairment of financial assets and in credit provisions	1 565	-1 324

Table 26.2. - Impairment of receivables from customers and reversal thereof

(HUF million)	2023	2022
Increase due to origination	-227	-491
Further amounts recognised	-5 370	-5 190
Release	6 486	3 387
Decrease due to derecognition	664	924
Write-off/forgiveness	13	3
Total impairment of receivables from customers and reversal thereof	1 566	-1 367

Following the end of the moratorium, the performing contracts previously in Stage 3 that met the required criteria were transferred to Stage 2, meaning that part of the related impairment was reversed.

27. Other operating income

Table 27.1. - Other operating income

(HUF million)	2023	2022
Income accounted for upon free receipts	3	0
Income from damages	54	42
Income from training activities	21	41
Income from fees paid for the use of tablets, cars, offices	99	91
Tax refunds	3	0
Gain on sale of property, plant and equipment	39	20
Gain on sale of inventories	3	14
Gain related to leases	6	93
Miscellaneous income	1 021	107
Total other operating income	1 249	408

Miscellaneous income grew significantly due to the repayment in 2023 of the extraordinary NDIF fee paid in 2022 to make payments to the customers of Sberbank Magyarország Zrt. u.v.l., amounting to HUF 966 million.

28. Other operating expenses

Table 28.1. - Other operating expenses

(HUF million)	2023	2022
NDIF annual fee, fee to the Resolution Fund	-995	-1 872
Special tax for financial institutions	-1 387	-1 358
Extra-profit tax	-1 726	-2 449
Other expenses due to tax	-83	-69
Impairment booked on intangible assets, plant, equipment, vehicles and other assets	-7	0
Miscellaneous expenses	-71	-65
Total other operating expenses	-4 269	-5 813

The decrease in the NDIF fee compared to the previous year is due to the fact that there was no extraordinary NDIF fee payment during the year under review and the annual review reduced the amount of the annual fee payable to the NDIF. The decrease in the extra profit tax was due to a change in legislation.

29. Operating costs

Table 29.1. - Operating costs

(HUF million)	2023	2022
Personnel expenses	-8 034	-6 338
Material-type expenses	-5 744	-5 651
Depreciation/ Amortisation	-2 909	-2 808
Total operating costs	-16 687	-14 797

Table 29.2. - Personnel expenses

(HUF million)	2023	2022
Wage costs	-6 325	-5 045
Taxes and contributions	-1 056	-823
Other	-653	-470
Total personnel expenses	-8 034	-6 338

Wage costs rose because of the general wage increase and the accrual of bonuses payable for better than planned corporate performance indicators. Year-end average headcount as at 31 December 2023 was 682 (31 December 2022: 671). In 2023 social contribution tax amounted to HUF 935 million (2022: HUF 692 million).

Table 29.3. - Material-type expenses

(HUF million)	2023	2022
Office stationery	-1 534	-1 590
Building maintenance costs	-206	-254
Contributions and fees	-136	-134
Expenses of hired personnel	-27	-26
Advisory services	-417	-366
IT costs	-2 149	-1 892
Rentals	-341	-330
PR/marketing costs	-476	-568
Authorities	-198	-160
Other costs	-260	-331
Total material-type expenses	-5 744	-5 651

Table 29.4. - Depreciation/ Amortisation

(HUF million)	2023	2022
Property, plant and equipment	-890	-908
Intangible assets	-1 152	-1 104
Right-of-use assets	-867	-796
Total depreciation/ amortisation	-2 909	-2 808

30. Income taxes

The Group 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 Group 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 Group is not aware of any circumstances which may result in significant liabilities on these grounds.

30.1. Income tax booked for the current period

Table 30.1.1. - Income tax booked for the current period

(HUF million)	2023	2022
Current income tax		
Income tax on profit/loss for the year	-1 783	-844
Total current income tax (expense +)/ income (-)	-1 783	-844
Deferred tax expense		
Origination and reversal of temporary differences	-93	-138
Total deferred tax expense (+) / income (-)	-93	-138
Total income tax	-1 876	-982

30.2. Income tax recognised in the statutory reserve

The Group recognises the current and deferred tax on the settlement reserve in the statutory reserve. The Group considers this deferred tax asset non-current.

30.3. 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 30.3.1. - Reconciliation of effective tax rate

(HUF million)	2023		2022	
	%	Amount	%	Amount
Profit before tax		12 690		6 606
Tax calculated using the Company's domestic tax rate	-9,00%	-1 142	-9,00%	-595
Other income taxes	-6,36%	-807	-5,95%	-393
Effect of other income taxes on the corporation tax	0,57%	73	0,54%	35
Tax effect related to other member of the tax group	0,00%	0	0,24%	16
Adjustments for prior years	0,00%	0	-0,29%	-19
Other	0,00%	0	-0,40%	-26
Total income tax	-14,79%	-1 876	-14,85%	-982

30.4. Movement in deferred tax balances

Table 30.4.1. - Movement in deferred tax balances

(HUF million)	Net balance at 1 January 2023	Recognised in profit or loss	Recognised in other comprehensive income	Amount recognised in the settlement reserve income	Net balance at 31.12.2023		
					Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	3	-21	0	0	-18	-18	0
Loan transaction cost	108	-14	0	0	94	94	0
Deposit transaction cost	716	-85	0	0	631	631	0
Allowance for expected credit losses	2	2	0	0	4	4	0
Settlement reserve	-688	0	0	-99	-787	-787	0
Other provisions	98	11	0	0	109	109	0
Other	-38	14	0	0	-24	-24	0
Tax assets (+) / Tax liabilities (-)	201	-93	0	-99	9	9	0

(HUF million)	Net balance at 1 January 2022	Recognised in profit or loss	Recognised in other comprehensive income	Amount recognised in the settlement reserve	Net balance at 31.12.2022		
					Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	16	-13	0	0	3	20	-17
Loan transaction cost	114	-6	0	0	108	108	0
Deposit transaction cost	840	-124	0	0	716	716	0
Allowance for expected credit losses	2	0	0	0	2	1	1
Settlement reserve	-688	0	0	0	-688	-688	0
Other provisions	105	-7	0	0	98	86	12
Other	-50	12	0	0	-38	-38	0
Tax assets (+) / Tax liabilities (-)	339	-138	0	0	201	205	-4

30.5. Changes in the balance of current income tax assets and liabilities

Table 30.5.1. - Changes in the balance of current income tax assets

(HUF million)	Opening balance at 1 January 2023	Recognised in profit or loss	Amount recognised in the settlement reserve	Payments	Transfers	Closing balance at 31.12.2023
Corporation tax	868	-23	0	0	-772	73
Innovation contribution	0	-8	0	0	8	0
Local business tax	530	-55	0	16	-460	31
Current income tax assets (+)	1 398	-86	0	16	-1 224	104

(HUF million)	Opening balance at 1 January 2022	Recognised in profit or loss	Amount recognised in the settlement reserve	Payments	Transfers	Closing balance at 31.12.2022
Corporation tax	939	-451	0	382	-2	868
Local business tax	81	0	0	694	-245	530
Current income tax assets (+)	1 020	-451	0	1 076	-247	1 398

Table 30.5.2. - Changes in the balance of current income tax liabilities

(HUF million)	Opening balance at 1 January 2023	Recognised in profit or loss	Amount recognised in the settlement reserve	Payments	Transfers	Closing balance at 31.12.2023
Corporation tax	0	-954	99	109	643	-103
Innovation contribution	-106	-97	0	87	-10	-126
Local business tax	-5	-646	0	158	460	-33
Current income tax liabilities (-)	-111	-1 697	99	354	1 093	-262

(HUF million)	Opening balance at 1 January 2022	Recognised in profit or loss	Amount recognised in the settlement reserve	Payments	Transfers	Closing balance at 31.12.2022
Innovation contribution	-127	-97	0	118	0	-106
Local business tax	-315	-296	0	1	605	-5
Current income tax liabilities (-)	-442	-393	0	119	605	-111

31. Other disclosures

31.1. Group structure

Fundamenta-Lakáskassza Pénzügyi Közvetítő Korlátolt Felelősségű Társaság

The parent company is the sole owner (31 December 2022: 100%) of Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft. The carrying amount of the interest as of 31 December 2023 was HUF 459 million (31 December 2022: HUF 459 million), no impairment was recognised.

Equity and reserves of the subsidiary:

Table 31.1.1. - Equity and reserves of Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft.

(HUF million)	31.12.2023	31.12.2022
Registered capital	150	150
Capital reserve	306	306
Retained earnings	2 081	2 062
Profit for the year	147	19
Other comprehensive income for the year	13	0
Total equity components of the subsidiary	2 697	2 537

Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Korlátolt Felelősségű Társaság

The parent company established Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Kft. in 2019; it is the sole owner of the subsidiary. The deed of foundation of the subsidiary is dated 18 March 2019. The carrying amount of the interest as of 31 December 2023 was HUF 900 million (31 December 2022: HUF 900 million), no impairment was recognised.

Equity and reserves of the subsidiary:

Table 31.1.2. - Equity and reserves of Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Kft.

(HUF million)	31.12.2023	31.12.2022
Registered capital	50	50
Capital reserve	850	850
Retained earnings	-639	-462
Profit/Loss for the year	3	-177
Total equity components of the subsidiary	264	261

31.2. Leases

The Group acting as a lessee

As a lessee, the Group has property and warehouse lease transactions. The motor vehicle lease contracts expired by the end of the reporting period. The property leased by the Group in Budapest is used as its registered office and customer service office. The contracts contain no restrictions, purchase options or escalation clauses. The majority of the lease contracts contain extension options, which are mostly exercisable only by the Group.

The accounting policy on leases is included in Note 6.12.

Table 31.2.1. - Carrying amount of property, plant and equipment and right-of-use assets

(HUF million)	2023	2022
Property, plant and equipment owned	3 502	3 707
Right-of-use assets	3 835	3 897
Total	7 337	7 604

Table 31.2.2. - Changes in right-of-use assets

(HUF million)	Property	Vehicles	Total
Balance at 1 January 2022	4 638	26	4 664
Additions	505	3	508
Other decrease	-473	-6	-479
Depreciation charge for the year	-773	-23	-796
Balance at 31 December 2022	3 897	0	3 897
Additions	922	0	922
Other decrease	-117	0	-117
Depreciation charge for the year	-867	0	-867
Balance at 31 December 2023	3 835	0	3 835

Other disposals in 2022 mainly include derecognition of right-of-use assets of rented areas that were sub-leased under finance lease. In 2023 rentals increased significantly relative to the previous year, which is reflected in the Additions line item.

Table 31.2.3. - Changes in lease liabilities

(HUF million)	Property	Vehicles	Total
Balance at 1 January 2022	5 985	32	6 017
Additions	530	1	531
Lease payments	-1 064	-29	-1 093
Effect of modification	-445	-5	-450
Effect of changes in foreign exchange rates	398	0	398
Accounting for interest expense	200	1	201
Balance at 31 December 2022	5 604	0	5 604
Additions	1 020	0	1 020
Lease payments	-1 289	0	-1 289
Effect of modification	-123	0	-123
Effect of changes in foreign exchange rates	-221	0	-221
Accounting for interest expense	221	0	221
Balance at 31 December 2023	5 212	0	5 212

See Table 33.2.3 for the maturity analysis of lease liabilities.

Table 31.2.4. - Fixed and variable lease payments

(HUF million)			31.12.2023
	Fixed cash outflows	Variable cash outflows	Total
Contracts containing fixed lease payments	139	0	139
Contracts containing only variable lease payments	0	1 150	1 150
Total	139	1 150	1 289

(HUF million)			31.12.2022
	Fixed cash outflows	Variable cash outflows	Total
Contracts containing fixed lease payments	132	0	132
Contracts containing only variable lease payments	0	960	960
Total	132	960	1 092

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

Table 31.2.5. - Disclosures related to the statement of profit or loss and the statement of cash flows

(HUF million)	2023	2022
Interest on lease liabilities	-221	-200
Variable lease payments not included in the measurement of lease liabilities	-311	-270
Income from sub-leasing right-of-use assets	77	80
Expenses relating to short-term leases	-2	-46
Total cash outflow for leases	-1 289	-1 092

The Group presents right-of-use assets in 'Property, plant and equipment' and lease liabilities in 'Other financial liabilities' in its statement of financial position.

After the commencement date, the Group recognises in profit or loss, unless the costs are included in the carrying amount of another asset, the interest on the lease liability in 'Interest expense'. 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 Group recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Group acting as a lessor

The Group sub-leases a part of the offices and parking places leased by it to external third parties under finance lease contracts. As at the end of the previous year no more leased cars were leased out to sales agents.

Table 31.2.6. - Lease income as a lessor

(millió Ft)	2023	2022
Finance lease		
Profit related to recognition of finance lease	0	58
Finance income on the net investment in the lease	0	51
Income related to variable lease payments not included in the measurement of the net investment in the lease	12	2
Operating lease		
Lease income	79	84

Table 31.2.7. - Lessor operating leases

(HUF million)	31.12.2023	31.12.2022
Less than one year	87	86
One to two years	89	83
Two to three years	92	93
Three to four years	7	95
Four to five years	0	92
Total undiscounted lease payments	275	449

Table 31.2.8. - Lessor finance leases

(HUF million)	31.12.2023	31.12.2022
Less than one year	89	94
One to two years	89	93
Two to three years	89	93
Three to four years	89	93
Four to five years	87	93
More than five years	0	91
Total undiscounted lease payments receivable	443	557
Unearned finance income	39	58
Net investment in the lease	404	499

Right-of-use assets sub-leased under operating leases are presented in the statement of financial position in 'Property, plant and equipment' in line with their nature.

31.3. Related party disclosures

Balances of business transactions with related parties

In the financial statements the Group 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 Group if that person has control or joint control, or has significant influence over the Group, or is a member of the key management personnel of the Group or of a parent of the Group.

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

- The entity and the Group 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 Group or to the parent of the Group.

Table 31.3.1. - Balances with related parties

			31.12.2023
(HUF million)	Parent company	Key management personnel of the Company or its parent company	Other related parties
Assets			
Receivables from customers	0	0	8
Liabilities			
Liabilities to customers	0	29	19
Provisions	0	254	0
Other liabilities	0	103	0

			31.12.2022
(HUF million)	Parent company	Key management personnel of the Company or its parent company	Other related parties
Assets			
Receivables from customers	0	0	10
Liabilities			
Liabilities to customers	0	24	19
Provisions	0	208	0
Other liabilities	0	100	0

Table 31.3.2. - Related party transactions

			2023
(HUF million)	Parent company	Key management personnel of the Company or its parent company	Other related parties
Comprehensive income			
Interest expense	0	-1	0
Personnel expenses	0	-475	0
Material-type expenses	-7	-39	0

(HUF million)	2022		
	Parent company	Key management personnel of the Company or its parent company	Other related parties
Comprehensive income			
Interest income	0	0	1
Personnel expenses	0	-463	0
Material-type expenses	-7	-39	0

In the above tables, balances and transactions are presented in respect of the Group'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 Group'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 31.3.3. - Remuneration of key management personnel

(HUF million)	2023	2022
Short-term employee benefits	380	387
Other long-term benefits	133	115
Total	513	502

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 Group.

Table 31.3.4. - Remuneration of the members of the Board of Directors and the Supervisory Board

(HUF million)	2023	2022
Members of the BoD	506	494
Supervisory Board members	7	8
Total	513	502

31.4. Off-balance sheet items

Legal disputes

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

In the Group'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 2023 and 31 December 2022 no provision was recognised due to legal disputes. The HUF 1 million provision made in 2022 was used in the same year.

Loan commitment

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

The Group makes loan commitments for the undrawn parts of authorisable loan facilities. With regard to the credit risk of loan commitments the Group 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 6.4).

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

Contingent assets

As at 31 December 2023 the Group has HUF 170 million (31 December 2022: HUF 153 million) contingent litigated assets.

31.5. 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 Group took into account all adjusting events after the reporting period.

31.6. IT systems

The following IT systems support the Group'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 Business Online 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 Group itself and others coded by external partners.

The Group 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 Group 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 Group 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 Group 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 Group 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.

32. Categories of financial instruments

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

33. Management of financial risk

The Group 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 Group's exposure to the above risks, the Group's objectives, policies and processes for measuring and managing risks.

33.1. 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 Group, 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 Group.

a) Credit risk management

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

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

The Group's procedure for assuming risks consists of identifying, measuring, managing and strictly monitoring risks. In terms of measurement methods the Group 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 Group 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 Group'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 Group, 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 Loan Decision group 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 Group 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 Group 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 Group 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 Organisation Directorate prepares a monthly Loan Cockpit, which is regularly reviewed and evaluated by the Organisation Directorate, 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 Group'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 Group, 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 Group'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:

- approving risk appetite and limits before the risk management strategy is approved by the Board of Directors; the risk management strategy is then submitted 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;

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 6.4.

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

Table 33.1.1. - Classification by credit quality category

				31.12.2023
(HUF million)	12-month expected credit loss	Lifetime expected credit loss Not credit- impaired	Lifetime expected credit loss Credit-impaired	Total
Receivables from customers at amortised cost				
<i>Bridging loans</i>				
<i>Arrears of 0 day</i>	95 302	7 122	0	102 424
<i>Arrears for no more than 1 month</i>	360	185	0	545
<i>Arrears for no more than 2 months</i>	0	109	0	109
<i>Arrears for no more than 3 months (not default)</i>	0	37	0	37
<i>More than 3 months, not significant</i>	0	8	0	8
<i>More than 3 months, significant</i>	0	0	98	98
<i>Restructured</i>	0	0	87	87
<i>Objective evidence</i>	0	0	47	47
<i>Associated due to Basel</i>	0	0	11	11
<i>Cancelled</i>	0	0	20	20
<i>Persistence</i>	0	0	166	166
<i>Watch list due to associated contract</i>	0	0	205	205

Immediate bridging loans

Arrears of 0 day	311 827	28 592	0	340 419
Arrears for no more than 1 month	2 146	1 751	0	3 897
Arrears for no more than 2 months	0	941	0	941
Arrears for no more than 3 months (not default)	0	670	0	670
More than 3 months, not significant	0	7	0	7
More than 3 months, significant	0	0	1 696	1 696
Restructured	0	0	2 645	2 645
Objective evidence	0	0	381	381
Associated due to Basel	0	0	304	304
Cancelled	0	0	1 445	1 445
Persistence	0	0	2 601	2 601
Watch list due to associated contract	0	0	1 056	1 056
Housing loans				
Arrears of 0 day	60 842	3 650	0	64 492
Arrears for no more than 1 month	326	139	0	465
Arrears for no more than 2 months	0	102	0	102
Arrears for no more than 3 months (not default)	0	37	0	37
More than 3 months, significant	0	0	29	29
Restructured	0	0	116	116
Objective evidence	0	0	8	8
Associated due to Basel	0	0	14	14
Cancelled	0	0	85	85
Persistence	0	0	88	88
Watch list due to associated contract	0	0	71	71
Total gross value	470 803	43 350	11 173	525 326
Impairment allowance	-2 820	-664	-5 615	-9 099
Total net carrying amount	467 983	42 686	5 558	516 227

Cash and cash equivalents at amortised cost

Investment grade	2 089	0	0	2 089
BBB	49 690	0	0	49 690
Total gross value	51 779	0	0	51 779
Total net carrying amount	51 779	0	0	51 779

Securities that are debt instruments, at amortised cost

BBB	74 029	0	0	74 029
Total gross value	74 029	0	0	74 029
Impairment allowance	-68	0	0	-68
Total net carrying amount	73 961	0	0	73 961

Other financial receivables - lease receivables

Number of days past due: 0-30	404	0	0	404
Number of days in default: 31-90	0	0	0	0
Number of days in default: 91-	0	0	0	0
Total gross value	404	0	0	404
Impairment allowance	-12	0	0	-12

Net carrying amount	392	0	0	392
Other financial receivables - other				
<i>Number of days past due: 0-30</i>	<i>0</i>	<i>440</i>	<i>0</i>	<i>440</i>
<i>Number of days past due: 31-90</i>	<i>0</i>	<i>44</i>	<i>0</i>	<i>44</i>
<i>Number of days past due: 91-</i>	<i>0</i>	<i>0</i>	<i>120</i>	<i>120</i>
Total gross value	0	484	120	604
<i>Impairment allowance</i>	<i>0</i>	<i>-22</i>	<i>-32</i>	<i>-54</i>
Net carrying amount	0	462	88	550
Loan commitments				
<i>Arrears of 0 day</i>	<i>5 049</i>	<i>0</i>	<i>0</i>	<i>5 049</i>
<i>Arrears for no more than 1 month</i>	<i>92</i>	<i>0</i>	<i>0</i>	<i>92</i>
<i>Arrears for no more than 2 month</i>	<i>73</i>	<i>0</i>	<i>0</i>	<i>73</i>
Total loan commitments	5 214	0	0	5 214
Impairment allowance (provision)	-31	0	0	-31

(HUF million)	12-month expected credit loss	Lifetime expected credit loss Not credit- impaired	Lifetime expected credit loss Credit-impaired	Total
Receivables from customers at amortised cost				
Bridging loans				
<i>Arrears of 0 day</i>	101 656	9 684	0	111 340
<i>Arrears for no more than 1 month</i>	336	309	0	645
<i>Arrears for no more than 2 months</i>	0	153	0	153
<i>Arrears for no more than 3 months (not default)</i>	0	79	0	79
<i>More than 3 months, not significant</i>	0	66	0	66
<i>More than 3 months, significant</i>	0	0	51	51
<i>Restructured</i>	0	0	134	134
<i>Objective evidence</i>	0	0	502	502
<i>Associated due to Basel</i>	0	0	22	22
<i>Cancelled</i>	0	0	33	33
<i>Persistence</i>	0	0	54	54
<i>Watch list due to associated contract</i>	0	0	192	192
Immediate bridging loans				
<i>Arrears of 0 day</i>	315 203	41 264	0	356 467
<i>Arrears for no more than 1 month</i>	1 757	2 053	0	3 810
<i>Arrears for no more than 2 months</i>	0	1 037	0	1 037
<i>Arrears for no more than 3 months (not default)</i>	0	839	0	839
<i>More than 3 months, not significant</i>	0	626	0	626
<i>More than 3 months, significant</i>	0	0	975	975
<i>Restructured</i>	0	0	2 182	2 182
<i>Objective evidence</i>	0	0	3 756	3 756
<i>Associated due to Basel</i>	0	0	215	215
<i>Cancelled</i>	0	0	1 112	1 112
<i>Persistence</i>	0	0	1 114	1 114
<i>Watch list due to associated contract</i>	0	0	1 041	1 041
Housing loans				
<i>Arrears of 0 day</i>	51 853	4 437	0	56 290
<i>Arrears for no more than 1 month</i>	217	197	0	414
<i>Arrears for no more than 2 months</i>	0	96	0	96
<i>Arrears for no more than 3 months (not default)</i>	0	25	0	25
<i>More than 3 months, not significant</i>	0	16	0	16
<i>More than 3 months, significant</i>	0	0	34	34
<i>Restructured</i>	0	0	123	123
<i>Objective evidence</i>	0	0	175	175
<i>Associated due to Basel</i>	0	0	13	13
<i>Cancelled</i>	0	0	87	87
<i>Persistence</i>	0	0	66	66
<i>Watch list due to associated contract</i>	0	0	79	79

Total gross value	471 022	60 881	11 960	543 863
<i>Impairment allowance</i>	-2 692	-1 186	-6 506	-10 384
Total net carrying amount	468 330	59 695	5 454	533 479
Cash and cash equivalents at amortised cost				
No rating	2 170	0	0	2 170
<i>BBB</i>	35 211	0	0	35 211
Total gross value	37 381	0	0	37 381
Total net carrying amount	37 381	0	0	37 381
Securities that are debt instruments, at amortised cost				
<i>BBB</i>	82 934	0	0	82 934
Total gross value	82 934	0	0	82 934
<i>Impairment allowance</i>	-76	0	0	-76
Total net carrying amount	82 858	0	0	82 858
Other financial receivables - lease receivables				
<i>Number of days past due: 0-30</i>	499	0	0	499
<i>Number of days in default: 31-90</i>	0	0	0	0
<i>Number of days in default: 91-</i>	0	0	0	0
Total gross value	499	0	0	499
<i>Impairment allowance</i>	-15	0	0	-15
Net carrying amount	484	0	0	484
Other financial receivables				
<i>Number of days past due: 0-30</i>	0	732	0	732
<i>Number of days past due: 31-90</i>	0	42	0	42
<i>Number of days past due: 91-</i>	0	0	58	58
Total gross value	0	774	58	832
<i>Impairment allowance</i>	0	-14	-22	-36
Net carrying amount	0	760	36	796
Loan commitments				
<i>Arrears of 0 day</i>	4 255	0	0	4 255
<i>Arrears for no more than 1 month</i>	95	0	0	95
<i>Arrears for no more than 2 month</i>	20	0	0	20
<i>Arrears for no more than 3 months (not default)</i>	5	0	0	5
Total loan commitments	4 375	0	0	4 375
Impairment allowance (provision)	-45	0	0	-45

Table 33.1.2. - Provision matrix

(HUF million)				31.12.2023
Number of days past due	Rating	Provision rate	Gross value	
0-30 days	Stage 2	5%	440	
31-90 days	Stage 2	7%	44	
91-820 days	Stage 3	11%	87	
821-1,185 days	Stage 3	35%	16	
More than 1,186 days	Stage 3	100%	17	
Other financial receivables-other				604

(HUF million)			31.12.2022
Number of days past due	Rating	Provision rate	Gross value
0-30 days	Stage 2	3%	732
31-90 days	Stage 2	5%	42
91-820 days	Stage 3	9%	39
821-1,185 days	Stage 3	35%	1
More than 1,186 days	Stage 3	100%	18
Other financial receivables-other			832

c) Collateral and other credit enhancements

In relation to certain credit risk exposures the Group 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 1,815,879 million as at 31 December 2023 (31 December 2022: HUF 1,691,246 million).

During collection of accounts receivable, the amount realised from claiming collateral totalled HUF 33 million in 2023 (2022: HUF 93 million). Collateral is claimed by participating in enforcement proceedings to the extent of the receivables of the Group.

Table 33.1.3. - Collateral

(HUF million)	Ratio of exposures subject to collateral requirements (%)		Basic type of collateral
	31.12.2023	31.12.2022	
Receivables from customers - Retail customers			
Immediate bridging loans	99,99%	99,99%	property collateral
Bridging loans	99,34%	98,50%	property collateral
Housing loans	89,71%	87,89%	property collateral
Receivables from customers - Multi-occupancy buildings			
Immediate bridging loans	0,12%	0,13%	-
Housing loans	0,03%	0,06%	-

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

(HUF million)	31.12.2023	31.12.2022
Less than 50%	165 161	164 378
51-70%	133 084	138 853
71-90%	184 930	193 054
91-100%	0	3
Over 100%	39	40
No LTV	41 817	47 280
Total gross value of loan receivables	525 031	543 608

Table 33.1.5. - Loan-to-value ratio (LTV) of credit-impaired loans

(HUF million)	31.12.2023	31.12.2022
Less than 50%	1 826	1 800
51-70%	2 337	2 504
Over 70%	5 535	5 757
No LTV	1 475	1 899
Total gross value of credit-impaired loan receivables	11 173	11 960

Table 33.1.6. - Loan-to-value ratio (LTV) of mortgage loan commitments

(HUF million)	31.12.2023	31.12.2022
Less than 50%	2 965	2 557
51-70%	942	737
71-90%	944	366
No LTV	363	715
Total	5 214	4 375

Other collateral and credit enhancements

In the event the debtor defaults on payment, the purpose of the collateral is for the Group 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 Group: mortgage right, separate lien, general mortgage, security deposit. Non-real collateral may include the following: property insurance securing the collateral property, assignment, risk life insurance, 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 Group 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 2023 the Group 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 2023 95.40% of the portfolio was secured by collateral property, while the same ratio for the credit-impaired portfolio was 95.76%. 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 Group 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 6.4.

Significant increase in credit risk

To determine whether the risk of default of a financial instrument has risen significantly since initial recognition, the Group 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 Group's historical experience, creditworthiness examinations and forward-looking information.

The objective of the assessment is for the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group. 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 Group determined its

PD curves with the help of survival functions applied to the historical default rates of segments with the same risks (Weibull distributions).

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 6.3 d).

When the terms of a financial assets are modified by the Group 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 Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default.

The Group 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 Group pays special attention to restoring retail mortgage loans that have fallen into default and to consumer protection principles, based on MNB Recommendation 5/2022 (IV.22).

For loan accounts in arrears and loan contracts earmarked for cancellation the Group 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.

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 Group 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 Group 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
<ul style="list-style-type: none"> • HUF value equivalent to EUR 100 calculated using MNB exchange rate* 	<ul style="list-style-type: none"> • 1% of the total contractual liability of the transaction

*The Group 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 Group 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 Group 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 every day by the account-management system, and checked by the Strategic Risk Management Directorate. The analysis is based on the daily tracking lists, which contain the daily default contracts, as well as on the databases and reports that contain the default indicators.

Non-performing contracts for the Group 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 Group for regulatory capital purposes.

Forward-looking information

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

The Group takes forward-looking information into account by adjusting certain impairment parameters. The Group 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 Group adopted the MNB's forecasts for 2023, 2024 and 2025 disclosed in its May 2023 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 Group 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;
- Annual change in the price index of residential properties: MNB did not publish such forecast, therefore the Group calculates with the following changes in prices for the next 12 months, on an expert basis: favourable (0%), baseline (-5%), unfavourable (-20%);
- Gross Fixed Capital Formation: the Group adopted the MNB's forecasts for 2023, 2024 and 2025 disclosed in its May 2023 circular;
- Average gross wages in the private sector: the Group adopted the MNB's forecasts for 2023, 2024 and 2025 disclosed in its May 2023 circular;
- Inflation: the Group adopted the MNB's forecasts for 2023, 2024 and 2025 disclosed in its May 2023 circular;
- Unemployment rate: the Group adopted the MNB's forecasts for 2023, 2024 and 2025 disclosed in its May 2023 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 Group 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 (5%), baseline (65%), unfavourable (30%).

	GDP			Retail loan expansion		
	Unfavourable	Baseline	Favourable	Unfavourable	Baseline	Favourable
2023	-3.61	0.78	4.42	6.5	8.3	10.1
2024	2.47	4.03	5.14	6.4	8.1	9.7
2025	5.21	3.54	2.19	12.6	13.4	14.2
Scenario weights for PD, LGD and EAD:				30%	65%	5%
Change in the price of residential property:				-20%	-5%	0%

	Gross Fixed Capital Formation			Average gross wages in the private sector		
	Unfavourable	Baseline	Favourable	Unfavourable	Baseline	Favourable
2023	-13.37	-4.4	3.69	12.06	14.05	15.67
2024	-0.82	4.2	8.14	6.96	9.6	11.74
2025	7.19	4	1.52	7.76	7.5	7.29

	Unemployment rate			Inflation		
	Unfavourable	Baseline	Favourable	Unfavourable	Baseline	Favourable
2023	4.7	3.65	2.79	16.96	17.24	17.47
2024	4.71	3.35	2.25	3.71	3.95	4.15
2025	4.32	3.3	2.48	2.95	3	3.03

The Group 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

The products of the Group 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 Group 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 33.1.7. - External benchmark information

(HUF million)	Exposure	External benchmark used	
		PD	LGD
Hungarian State, MNB	121 530	0,23%	40,00%

Impacts of the coronavirus and the energy crisis

The moratorium ended at the start of 2023. To ensure that the right amount of risk reserve be recorded for the loans of clients that had remained in the moratorium, the Company reviewed and modified its impairment model in 2023. Given that future risks (new macro weights, persistence) were included in the impairment model, to avoid any doubling of effects the Group did not apply any overlay. The new macro model currently does not include an inflation variable, since it was developed in a period of continuously declining inflation. That said, inflation continued to rise in 2023, and real net earnings tended to fall in the recent period. The correlation has a negative impact on solvency and the marketability of real estate collateral with a lag of 1, 2 and 3 years. Given that this factor cannot be addressed in the model, PMA modifiers were temporarily introduced to the PD and LGD models until the re-modelling or inflation fall on a sustainable basis. The Group increased the first three annual values of the PD curve by 45%, 30% and 15%, respectively, which resulted in HUF 824 million impairment growth. The 10% PMA LGD factor was also introduced, which has a HUF 395 million impact on impairment. The Group considers contracts that did not exit the moratorium by 31 December 2022 (end-date of the payment moratorium) but have performed well since to be riskier than those which performed throughout the moratorium. These contracts were reclassified to Stage 2.

We also assessed the potential impact of climate change (ESG) on the loan portfolio, lending process and collateral value of Fundamenta. A multiplier for flooding and wildfire risks was defined for each year up to 2050, to quantify the impact of the event on the collateral value. The impact of the ESG multiplier on impairment is allocated to the portfolio through the LGD, totalling HUF 321 million.

Loss allowance

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

Table 33.1.8. - Movements in loss allowance (Receivables from customers)

(HUF million)	2023				2022			
	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss - credit-impaired (Stage 3)	Total	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss - credit-impaired (Stage 3)	Total
Impairment of receivables from customers								
Balance at 31 December of the previous year	2 692	1 186	6 506	10 384	2 095	1 389	5 244	8 728
Reclassifications	1 521	3 252	-4 773	0	1 429	200	-1 629	0
Increase due to origination	227	0	0	227	491	0	0	491
Further amounts recognised	240	673	4 457	5 370	475	900	3 816	5 191
Release	-1 661	-4 370	-448	-6 479	-1 569	-1 208	-594	-3 371
Decrease due to derecognition	-199	-77	-394	-670	-229	-95	-616	-940
Other changes	0	0	267	267	0	0	285	285
Balance at 31 December	2 820	664	5 615	9 099	2 692	1 186	6 506	10 384

Table 33.1.9. - Movements in gross value (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 (Stage 3)	Total
Balance at 31 December 2021	386 200	118 293	13 268	517 761
<i>Increase due to origination and purchase</i>	93 052	0	0	93 052
<i>Other changes</i>	-31 708	-3 944	456	-35 196
<i>Decrease due to derecognition</i>	-22 754	-7 410	-1 451	-31 615
<i>Transfer between Stages</i>	46 228	-45 982	-246	0
<i>Write-off/forgiveness</i>	3	1	-23	-19
<i>Change due to payment moratorium</i>	1	-77	-44	-120
Balance at 31 December 2022	471 022	60 881	11 960	543 863
<i>Increase due to origination and purchase</i>	39 917	0	0	39 917
<i>Other changes</i>	-34 870	-4 009	-261	-39 140
<i>Decrease due to derecognition</i>	-14 948	-3 713	-648	-19 309
<i>Transfer between Stages</i>	9 678	-9 810	132	0
<i>Write-off/forgiveness</i>	4	1	-10	-5
Balance at 31 December 2023	470 803	43 350	11 173	525 326

Table 33.1.10. - Movements in impairment (all other financial assets)

(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 2022	76	0	0	76
<i>Increase due to origination and purchase</i>	10	0	0	10
<i>Movement due to change in credit risk (net)</i>	1	0	0	1
<i>Decrease due to derecognition</i>	-19	0	0	-19
Balance at 31 December 2023	68	0	0	68
Impairment of other financial receivables				
Balance at 31 December 2022	15	14	22	51
<i>Increase due to origination</i>	0	15	0	15
<i>Movement due to change in credit risk (net)</i>	0	13	11	24
<i>Other changes</i>	-1	-1	0	-2
<i>Decrease due to derecognition</i>	-2	-16	-4	-22
<i>Transfer between Stages</i>	0	-3	3	0
Balance at 31 December 2023	12	22	32	66
Provision for line of credit				
Balance at 31 December 2022	45	0	0	45
<i>Increase due to origination</i>	350	0	0	350
<i>Movement due to change in credit risk (net)</i>	-6	0	0	-6
<i>Decrease due to derecognition</i>	-357	0	-1	-358
<i>Transfer between Stages</i>	-1	0	1	0
Balance at 31 December 2023	31	0	0	31

(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
<i>Increase due to origination and purchase</i>	4	0	0	4
<i>Decrease due to derecognition</i>	-23	0	0	-23
Balance at 31 December 2022	76	0	0	76
Impairment of other financial receivables				
Balance at 31 December 2021	12	11	20	43
<i>Increase due to origination</i>	10	12	0	22
<i>Movement due to change in credit risk (net)</i>	0	1	3	4
<i>Other changes</i>	1	2	0	3
<i>Decrease due to derecognition</i>	-8	-12	-1	-21
Balance at 31 December 2022	15	14	22	51
Provision for line of credit				
Balance at 31 December 2021	98	0	2	100
<i>Increase due to origination</i>	750	0	0	750
<i>Movement due to change in credit risk (net)</i>	8	0	0	8
<i>Decrease due to derecognition</i>	-804	0	-9	-813
<i>Transfer between Stages</i>	-7	0	7	0
Balance at 31 December 2022	45	0	0	45

Table 33.1.11. - Movements in gross value (additional financial assets and lines 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)	Total
Securities that are debt instruments				
Balance at 31 December 2022	82 934	0	0	82 934
<i>Increase due to origination and purchase</i>	11 028	0	0	11 028
<i>Other changes</i>	239	0	0	239
<i>Decrease due to derecognition</i>	-20 172	0	0	-20 172
<i>Transfer between Stages</i>	0	0	0	0
Balance at 31 December 2023	74 029	0	0	74 029

Other financial receivables				
Balance at 31 December 2022	499	774	58	1 331
<i>Increase due to origination and purchase</i>	0	501	0	501
<i>Other changes</i>	-5	1	-225	-229
<i>Decrease due to derecognition</i>	0	-484	-15	-499
<i>Lease payments</i>	-90	0	0	-90
<i>Transfer between Stages</i>	0	-302	302	0
<i>Write-off/forgiveness</i>	0	-6	0	-6
Balance at 31 December 2023	404	484	120	1 008
Loan commitments				
Balance at 31 December 2022	4 375	0	0	4 375
<i>Increase due to origination and purchase</i>	37 021	0	0	37 021
<i>Decrease due to derecognition</i>	-36 087	-29	-66	-36 182
<i>Transfer between Stages</i>	-95	29	66	0
Balance at 31 December 2023	5 214	0	0	5 214

(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
Securities that are debt instruments				
Balance at 31 December 2021	103 381	0	0	103 381
<i>Increase due to origination and purchase</i>	4 135	0	0	4 135
<i>Other changes</i>	1 192	0	0	1 192
<i>Decrease due to derecognition</i>	-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	410	731	60	1 201
<i>Increase due to origination and purchase</i>	322	451	0	773
<i>Other changes</i>	52	18	-17	53
<i>Decrease due to derecognition</i>	-195	-371	-16	-582
<i>Lease payments</i>	-90	0	0	-90
<i>Transfer between Stages</i>	0	-31	31	0
<i>Write-off/forgiveness</i>	0	-24	0	-24
Balance at 31 December 2022	499	774	58	1 331
Loan commitments				
Balance at 31 December 2021	10 170	0	144	10 314
<i>Increase due to origination and purchase</i>	78 964	0	0	78 964
<i>Decrease due to derecognition</i>	-84 152	0	-751	-84 903
<i>Transfer between Stages</i>	-607	0	607	0
Balance at 31 December 2022	4 375	0	0	4 375

Credit-impaired financial assets

See Note 6.4 on accounting policies.

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

As at 31 December 2023 the Group had no financial assets that were written off during the period and that are still subject to enforcement activity (2022: HUF 0 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 33.1.12. - Modified financial assets

(HUF million)	31.12.2023	31.12.2022
<i>Financial assets modified during the year</i>		
Amortised cost before modification	483	16 122
Net modification loss	-5	-123

For FY 2022, HUF 15,879 million amortised cost and HUF 121 million net modification loss of the above amounts relate to contract modifications due to the loan moratorium. As of 31 December 2022 the payment moratorium ended, thus no related modification loss arose in the reporting year.

Table 33.1.13. - Modified financial assets

(HUF million)	31.12.2023	31.12.2022
	Gross carrying amount	Gross carrying amount
Loans cured following modification that have again a loss allowance measured at an amount equal to 12-month expected credit loss	16 475	49 649

HUF 16,299 million gross carrying amount was recognised in 2023 in connection with the loan moratorium (31 December 2022: HUF 49,415 million).

Restructured loans

In light of economic aspects and the principle of proportionality, the Group 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 Group ensured contractual terms and conditions for the debtor which are more favourable than those provided at initial recognition, and which the Group would not otherwise have provided. The Group 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 Group, 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 Group 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 Group 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 33.1.14. - Concentrations of credit risk

(HUF million)	Gross value of loan receivables	
	31.12.2023	31.12.2022
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	16 914	15 824
Mortgaged	16	16
Unsecured loans	16 898	15 808
Retail	508 117	527 784
Mortgaged	500 987	519 470
Unsecured loans	7 130	8 314
Total	525 031	543 608
Concentration by geographic location		
Bács-Kiskun	26 923	28 492
Baranya	11 421	12 094
Békés	10 749	11 521
Borsod-Abaúj-Zemplén	25 577	27 118
Budapest	99 111	102 866
Csongrád-Csanád	25 297	26 381
Fejér	30 030	30 775
Győr-Moson-Sopron	35 761	36 191
Hajdú-Bihar	26 061	27 044
Heves	11 667	12 179
Jász-Nagykun-Szolnok	17 632	18 479
Komárom-Esztergom	30 299	30 768
Nógrád	5 257	5 614
Pest	91 441	92 404
Somogy	7 751	8 155
Szabolcs-Szatmár-Bereg	20 030	21 401
Tolna	10 187	10 708
Vas	8 427	8 760
Veszprém	22 950	23 638
Zala	8 460	9 019
Total	525 031	543 607

(HUF million)	Loan commitments	
	31.12.2023	31.12.2022
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	266	259
Unsecured loans	266	259
Retail	4 948	4 116
Mortgaged	4 850	3 660
Unsecured loans	98	456
Total	5 214	4 375
Concentration by geographic location		
Bács-Kiskun	278	203
Baranya	124	127
Békés	120	92
Borsod-Abaúj-Zemplén	150	248
Budapest	1 061	881
Csongrád-Csanád	249	177
Fejér	285	154
Győr-Moson-Sopron	471	212
Hajdú-Bihar	274	212
Heves	71	135
Jász-Nagykun-Szolnok	180	166
Komárom-Esztergom	358	224
Nógrád	53	2
Pest	716	856
Somogy	39	28
Szabolcs-Szatmár-Bereg	201	183
Tolna	81	80
Vas	178	68
Veszprém	241	208
Zala	84	119
Total	5 214	4 375

Carrying amount as at 31 December 2023 of securities that are debt instruments totalled HUF 73,961 million (31 December 2022: HUF 82,858 million), which relates in full to the public sector, as in the previous year.

33.2. 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 Group'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 Group 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 Group has an internal policy for the management of emergency liquidity situations.

According to its valid business strategy, Fundamenta-Lakáskassza Zrt. 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 Group 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 Group.

The Group's operative Board members supervise the liquidity management processes, evaluate liquidity risks at both strategic and tactical level (involving the Treasury Directorate 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 the Treasury Directorate) which supports the responsible control function.

b) Liquidity risk exposure

The main indicators applied for the management of liquidity risk are not defined at consolidated level. At company level the main indicators 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 33.2.1. - Liquidity risk exposure - Liquidity accessible within 30 days

(HUF million)	31.12.2023	31.12.2022
At 1 January	96 336	168 122
At 31 December	67 628	96 336
Average in the period	94 436	127 104
Maximum in the period	108 267	169 641
Minimum in the period	59 649	89 493

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 33.2.2. - Liquidity ratio stressed on the side of customer payments

(%)	31.12.2023	31.12.2022
At 1 January	491,78%	555,55%
At 31 December	468,43%	151,85%
Average in the period	495,71%	310,99%
Maximum in the period	746,79%	555,55%
Minimum in the period	277,70%	142,21%

The core activity of Fundamenta-Lakáskassza Kft. is mediating the financial products of the parent company. Commissions to sales agents are paid only if the parent company has met its commission liability to the subsidiary. This ensures at the subsidiary the coverage for the payment of commissions.

c) Maturity analysis for financial assets and financial liabilities

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

Table 33.2.3. - Maturity analysis

(HUF million)	Carrying amount	Gross nominal inflow (+) / outflow (-)						31.12.2023
		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	15 460	-22 070	-133	-257	-1 180	-20 500	0	
Liabilities to customers	559 492	-650 689	-8 944	-149 237	-215 231	-131 529	-145 748	
Other financial liabilities	6 235	-6 746	-1 062	-222	-927	-4 411	-124	
<i>of which: Lease liabilities</i>	5 212	-5 723	-105	-208	-926	-4 360	-124	
Unrecognised loan commitments	5 214	-5 214	-5 214	0	0	0	0	
Total	586 401	-684 719	-15 353	-149 716	-217 338	-156 440	-145 872	
Type of financial asset								
Non-derivative financial assets								
Cash and cash equivalents	51 779	51 779	51 779	0	0	0	0	
Securities	73 961	83 403	0	288	21 749	50 397	10 969	
Receivables from customers	516 227	645 061	6 271	16 672	59 714	270 824	291 580	
Other financial receivables	942	1 047	247	22	101	359	318	
<i>of which: Lease receivables</i>	404	443	8	15	66	354	0	
Total	642 909	781 290	58 297	16 982	81 564	321 580	302 867	

31.12.2022

(HUF million)	Carrying amount	Gross nominal inflow (+) / outflow (-)					
		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	598 501	-660 349	-11 717	-180 226	-249 046	-101 649	-117 711
Other financial liabilities	6 513	-7 120	-378	-762	-862	-4 065	-1 053
<i>of which: Lease liabilities</i>	5 604	-6 210	-96	-192	-860	-4 009	-1 053
Financial guarantee contracts issued		0	0	0	0	0	0
Unrecognised loan commitments	4 375	-4 375	-4 375	0	0	0	0
Total	609 903	-672 629	-16 475	-180 998	-249 954	-106 438	-118 764
Type of financial asset							
Non-derivative financial assets							
Cash and cash equivalents	37 381	37 416	37 416	0	0	0	0
Securities	82 858	93 694	0	0	2 908	69 397	21 389
Receivables from customers	533 479	612 672	6 262	17 169	58 506	256 439	274 296
Other financial receivables	1 280	1 389	448	28	112	376	425
<i>of which: Lease receivables</i>	499	557	8	17	69	370	93
Total	654 998	745 171	44 126	17 197	61 526	326 212	296 110

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 Group 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 33.2.4. - Instruments recovered/settled after more than 12 months

(HUF million)	31.12.2023	31.12.2022
Financial assets		
Securities	54 719	82 858
Receivables from customers	452 633	471 256
Other financial receivables	652	759
Financial liabilities		
Liabilities to credit institutions	15 413	513
Liabilities to customers	166 310	134 293
Other financial liabilities	4 207	4 695

d) Liquidity reserves

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

Table 33.2.5. - Liquidity reserves

(HUF million)	31.12.2023		31.12.2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Balances at central banks	47 568	47 568	31 915	31 915
Cash and balances at other banks	4 211	4 211	5 466	5 466
Unencumbered debt securities issued by the state	73 948	70 223	82 842	66 977
Total liquidity reserves	125 727	122 002	120 223	104 358

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

In the reporting period the Group 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 2023 these assets were government bonds issued by the Hungarian State. For the same group of assets the Group 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 Lakás-takarékpénztár 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 refinancing facility available for Lakás-takarékpénztár, which satisfies its business needs.

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

Table 33.2.6. - Financial assets pledged as collateral

(millió Ft)	31.12.2023		
	Blocked	Blocked, encumbered	Blocked, not encumbered
Nominal value	50	15	35
Net carrying amount	44	13	31

In relation to mortgage refinancing with an outstanding principal amount of HUF 15,400 million as of 31 December 2023, 992 mortgage loan transactions with an outstanding principal amount of HUF 16,110 million along with the related collateral real estate were recorded as collateralised.

33.3. 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 Groups profit or loss and the value of the financial instruments included in its financial statements. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Management of market risks

The Group does not have any trading book items.

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

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

Table 33.3.1. - Exposure to interest rate risk

(HUF million)	31.12.2023			31.12.2022		
	Fixed rate	Floating rate	Non-interest-bearing	Fixed rate	Floating rate	Non-interest-bearing
Cash and cash equivalents	51 779	0	0	37 381	0	0
Receivables from customers	516 227	0	0	533 479	0	0
Securities	73 961	0	0	82 858	0	0
Other financial receivables	392	0	550	484	0	796
Total financial assets	642 359	0	550	654 202	0	796
	Liabilities to credit institutions	15 460	0	514	0	0
Liabilities to customers	559 492	0	0	598 501	0	0
Other financial liabilities	5 212	0	1 023	5 603	0	910
Total financial liabilities	580 164	0	1 023	604 618	0	910

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

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

Table 33.3.2. - Exposure to currency risk

(HUF million)	31.12.2023				31.12.2022			
	EUR	HUF	USD	Total	EUR	HUF	USD	Total
Financial assets subject to foreign currency risk								
Cash and cash equivalents	3 153	48 509	117	51 779	4 190	32 844	347	37 381
Receivables from customers	0	516 227	0	516 227	0	533 479	0	533 479
Securities	0	73 961	0	73 961	0	82 858	0	82 858
Other financial receivables	717	225	0	942	831	449	0	1 280
Total	3 870	638 922	117	642 909	5 021	649 630	347	654 998
Financial liabilities subject to foreign currency risk								
Liabilities to credit institutions	0	15 460	0	15 460	0	514	0	514
Liabilities to customers	0	559 492	0	559 492	0	598 501	0	598 501
Other financial liabilities	4 080	2 155	0	6 235	4 622	1 891	0	6 513
Total	4 080	577 107	0	581 187	4 622	600 906	0	605 528
Net exposure to foreign currency risk	-210	61 815	117	61 722	399	48 724	347	49 470

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 33.3.3. - Exchange rates

Currency	Average rate		Spot exchange rate at the reporting date	
	2023	2022	31.12.2023	31.12.2022
1 EUR =	381,95	391,33	382,78	400,25
1 USD =	353,25	373,12	346,44	375,68

Table 33.3.4 - Sensitivity analysis (currency risk)

Currency	Change (%)	Effect on Shareholder's equity (HUF million)	31.12.2023
			Effect on profit (HUF million)
EUR	5%	-11	-11

The Group's exposure to foreign currency risk was not significant in FY 2023.

33.4. Operational risk

Operational risk is the risk of a loss that affects the Group'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 Group 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 Group ensures the continuous and regulated cooperation in the long run of all organisational units participating in managing and controlling operational risks. All of the Group'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 Group 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 Group'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 Group'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 Group 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 to be 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 Group, 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 Group shall manage these risks according to the standardised approach.

34. Capital management

The main goal of the Group’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 Group’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 Group’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 Group’s expected capital position is measured and forecast.

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

In its plans, the Group 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 Group classifies 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 Group 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 Group 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 Group fully complied with external capital requirements during both 2023 and 2022.

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

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

Table 34.1 - Capital management table

(HUF million)	31.12.2023	31.12.2022
Tier 1 - Core capital /CET1/		
Share capital	2 001	2 001
Capital reserve	2 100	2 100
(-) Indirect interests in own CET1 equity instruments	-57	0
Retained earnings	55 150	47 958
Other reserve	8 090	7 120
Deductions:	-9 684	-8 904
<i>of which: Intangible assets</i>	-9 684	-8 903
<i>of which: Insufficient collateral of non-performing exposures</i>	0	-1
Total regulatory capital	57 600	50 275

35. Fair value measurement

The Group has no financial instruments measured at fair value.

35.1. Fair value models

The Group 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: 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 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 Group'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.

35.2. Valuation framework

In order to measure fair value reliably, from its financial instruments measured at amortised cost, the Group 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:

- for receivables from customers, 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,
- for liabilities to customers, the discount rates used for the discounting are the home savings market interest rates for the given year,
- 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 Group 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 Group 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 Group 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 Group applies the discounted cash flow method when measuring the fair value of customer loans.

The Group 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 market interest rate prevailing at the end of the year.
- 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 cash 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 market interest rate prevailing at the end of the year.

Fair value of liabilities to customers

The Group 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 Group 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 Group 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,
- amount of bonus due under the customer campaign.

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.

35.3. 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 35.3.1. - Financial instruments not measured at fair value

(HUF million)	Level 1	Level 2	Level 3	Total fair values	31.12.2023 Total carrying amount
Assets					
Cash and cash equivalents	0	51 779	0	51 779	51 779
Securities	70 236	0	0	70 236	73 961
Receivables from customers	0	0	484 967	484 967	516 227
Other financial receivables	0	0	942	942	942
Liabilities					
Liabilities to credit institutions	0	17 227	0	17 227	15 460
Liabilities to customers	0	0	502 414	502 414	559 492
Other financial liabilities	0	0	6 235	6 235	6 235
(HUF million)	Level 1	Level 2	Level 3	Total fair values	31.12.2022 Total carrying amount
Assets					
Cash and cash equivalents	0	37 381	0	37 381	37 381
Securities	66 992	0	0	66 992	82 858
Receivables from customers	0	0	444 451	444 451	533 479
Other financial receivables	0	0	1 280	1 280	1 280
Liabilities					
Liabilities to credit institutions	0	508	0	508	514
Liabilities to customers	0	0	552 285	552 285	598 501
Other financial liabilities	0	0	6 513	6 513	6 513

36. Disclosures required by the provisions of the Act on Accounting

Disclosures relating to mandatory audit

The Group's consolidated financial statements must be audited.

Information on the auditor: PricewaterhouseCoopers Könyvvizsgáló Kft. (1055 Budapest, Bajcsy-Zsilinszky út 78.) Natural person auditor: Enikő Kőnczöl (Chamber registration number: 007367).

Fees charged by the audit firm in the reporting year:

- Audit: HUF 39.1 million + VAT
- Other assurance services: HUF 1.5 million + VAT

The auditor has no loan liabilities to the Group.

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 Group

Registered office of the Group: 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 components of the EU IFRS consolidated equity to the components of the consolidated equity under the Act on Accounting, as well as the derivation of the differences between the consolidated equities defined in two ways.

Table 36.1. - Equity correlation table

(HUF million)	Components of equity as per the Act on Accounting - 31.12.2023								
	Share capital as per EU IFRSs	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit after tax	Valuation reserve	Allocated reserve	Repurchased treasury shares	Total
Share capital	2 001	0	0	0	0	0	0	0	2 001
Capital reserve	0	0	2 100	0	0	0	0	0	2 100
Retained earnings	0	0	0	45 199	0	0	0	0	45 199
Repurchased treasury shares	0	0	0	0	0	0	0	-919	-919
Settlement reserve	0	0	0	8 748	0	0	0	0	8 748
General reserve	0	0	0	0	0	0	8 090	0	8 090
Reporting-year profit after tax	0	0	0	0	10 814	0	0	0	10 814
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	2 001	0	2 100	53 947	10 814	0	8 090	-919	76 033
Equity as per the Act on Accounting	2 001	0	2 100	53 947	10 814	0	8 090	-919	76 033

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	Repurchased treasury shares	Total
Share capital	2 001	0	0	0	0	0	0	0	2 001
Capital reserve	0	0	2 100	0	0	0	0	0	2 100
Retained earnings	0	0	0	42 334	0	0	0	0	42 334
Settlement reserve	0	0	0	6 959	0	0	0	0	6 959
General reserve	0	0	0	0	0	0	7 120	0	7 120
Reporting-year profit after tax	0	0	0	0	5 624	0	0	0	5 624
Revaluation reserve	0	0	0	0	0	0	0	0	0
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	2 001	0	2 100	49 293	5 624	0	7 120	0	66 138
Equity as per the Act on Accounting	2 001	0	2 100	49 293	5 624	0	7 120	0	66 138

The amount of share capital as per EU IFRSs shown for 31 December 2022 and 31 December 2023 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 36.2. - Calculation of funds available for dividend payment

(HUF million)	31.12.2023	31.12.2022
Retained earnings	45 199	42 334
Profit for the year	10 814	5 624
Funds available for dividend payment	56 013	47 958

Budapest, 27 February 2024

Bernadett Tátrai

Chairwoman of the Board,
Chief Executive Officer

László Morafcsik

Member of the Board,
Deputy-CEO

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1. EXTERNAL FACTORS INFLUENCING THE ACTIVITY OF LAKÁS-TAKARÉKPÉNZTÁR

1.1. General macroeconomic conditions

Growth

The Hungarian economy had a weak year in 2023, with GDP contracting by around 0.5%. Economic output started to decline as early as the third quarter of 2022, and the recession only ended in the second quarter of 2023; it was replaced by moderate growth. Almost without exception, every sector of the economy exhibited a decline in output over the year, with only the unprecedented expansion in agriculture – thanks to favourable weather – compensating for these declines to some extent. Net exports also made a positive contribution to this growth since imports fell because of the drop in domestic demand, while export volumes stagnated. Meanwhile, the economy's performance was held back by the decline in household purchasing power due to inflation, and by investments owing to the fiscal situation and the high interest rates. Despite encouraging early signs, industrial production dragged growth down mainly because of the persistently weaker demand in the main consumer markets. Construction output fell sharply parallel to the drop in investment volumes and for the same reasons.

Given that there might already have been meaningful growth in the fourth quarter of 2023, the carry-over effect will be positive in 2024. In addition to this, as consumer confidence slowly but surely recovers, consumption may also take a positive turn in the coming quarters. With interest rates declining, lending and investment activity may also start to recover. The delay in the global economic recovery could hamper efforts to exploit the export potential of the significant expansions in domestic capacity, and so trends in industrial production are also uncertain. Construction is expected to stagnate, while the performance of agriculture will be mostly weather-dependent.

Labour market

The number of people employed in the national economy remained high throughout 2023, totalling 4.75 million on average. Despite the ailing national economy, employment in the competitive sector expanded in the reporting year, mainly thanks to the upturn on the primary labour market and an increase in foreign employment, while unemployment rose slightly to more than 4% on average over the year. The labour market is typically delayed in responding to a slowdown in economic performance, as evidenced by the fact that only in the last quarter did the number of redundancies increase noticeably. At the same time, although the numbers are coming down, there is still a particularly high labour shortage, meaning that those who are made redundant quickly find a job.

In 2023, the significant increase in the lowest guaranteed wage continued. The tight labour market and the high inflation combined to force further mid-year wage adjustments for employees in good bargaining positions, resulting in an average wage increase of around 14% over the year. Yet not even these high wage dynamics could leave employees fully satisfied, as the significantly higher inflation rate caused average wages to fall in real terms.

Inflation

Average annual inflation amounted to 17.6% in 2023. The monthly figures rose above 25% in the first quarter, before falling below 10% by the end of the year, and annual inflation sat at 5.5% in December. The monthly figures were consistently the highest in Europe, with regional competitors only coming within reach towards the end of the year. The accelerating disinflation from the second half of the year was mainly driven by a decline in the price indices for food and industrial goods. The tight monetary policy, the consolidation of commodity prices, subdued consumption and the slowdown in global economic activity all eased the price pressures. The rapid decline in inflation was also supported by baseline effects, with both market service prices and household energy prices offering positive surprises at the end of the year.

The strong disinflation will continue through the first quarter of 2024 before slowing down thereafter, with the CPI expected to return to the central bank's inflation target range on a prolonged basis in 2025. The central

bank forecasts that annual average inflation will hover between 4.0% and 5.5% in 2024, and between 2.5% and 3.5% in both 2025 and 2026.

Equilibrium

The 2023 Budget Act included a budget deficit target of 3.9% of GDP, which was initially raised by the government in October to 5.2%, and then further to 5.9% by the end of the year. The cash-flow budget deficit came in at HUF 4,593 billion, which is lower than the 2022 figure. The slippage in the budget is due to several simultaneous factors, the most significant being the major shortfall in value-added tax receipts, despite the high inflation, and the surge in government interest expenditure.

The public debt-to-GDP ratio certainly fell from the 73.9% figure at the end of 2022 to the end of 2023. The improvement occurred despite a marked rise in the amount of public debt, as this was significantly exceeded by nominal GDP growth. At the same time, the dynamic growth in nominal GDP was driven increasingly by higher prices.

The annual current account balance, a key focal point for investors, might have crept into a slight surplus from its large deficit position in 2022 thanks to a massive turnaround, with an improvement of at least 8 percentage points of GDP driven by an improving external trade balance. The sustained improvement in the external position is partly due to lower energy prices and the adjustment of energy consumption, and partly to shrinking imports on account of lower domestic demand.

Interest rates, exchange rate

In May 2023, the Magyar Nemzeti Bank started its process of “normalising interest rates”, i.e. it started to bring the “effective” interest rate on overnight deposit quick tenders (18%) closer to the 13% central bank base rate. As the base rate and the overnight deposit rate converged at the end of September, monetary policy entered a new phase. From 1 October 2023, the MNB pays interest on the balance of the reserve account in excess of the minimum reserve (surplus reserve) at the central bank base rate, thereby making this instrument the benchmark instrument. The overnight deposit quick tender was abolished from October, and since then both the central bank’s zero-coupon bond and the long-term variable-rate deposits align with the base rate. At its October meeting, the central bank’s monetary council decided to cut interest rates by 75bp, and continuing this trend it lowered the policy rate to 10.75% by the end of the year. Current market expectations suggest that the base rate could fall to around 5-6% by the end of 2024.

Interbank interest rates matched the overall reduction in the policy rate of 725bp in 2023. The o/n BUBOR replicated the movement of the benchmark rate exactly, while the 3-month rate edged slightly ahead to end the year at below 10%. Yields across the entire government bond market curve declined significantly over the year compared to the figures at 2022 year-end. The fall in intra-year yields can be explained by central bank interest rate cuts, and by certain institutional investors shifting towards zero-coupon treasury bills (coupled with a parallel shortage in supply). We also noted a considerable decline in yields overall, with high volatility, for longer-term instruments. The trend-like and significant downturn really took hold towards the end of the year. During the year, the periodic deterioration in international sentiment, interest rate hikes by major central banks and concerns about Hungarian fiscal developments pushed yields upwards, while from the third quarter in particular, the improvement in the international and domestic inflation environment coupled with more positive news on EU funding led to a significant drop in bond market yields. Yields became very tight by the end of the year, with investors trading at levels between 5.80% and 6.10% equally on 3-20-year maturities.

The external trade balance, the improving external position, became an important pillar for the Hungarian currency. The “interest rate normalisation” process, however, is gradually reducing the very high interest rate differential that favours the forint, which, accordingly, reduces the relative appeal of the Hungarian currency. The EUR/HUF fluctuated in a range of 370-390 during 2023, ending the year above the 380 mark, which constituted a 4% appreciation of the forint over the year. In the period ahead, the central bank will presumably

seek to keep the forint exchange rate relatively stable in order to achieve its inflation target, as the rippling effect of exchange rate changes into consumer prices has strengthened significantly since the pandemic.

1.2. Housing policy measures by the government

2023 was affected by elevated inflation, interest rates and the severe economic impacts of the Russian-Ukrainian war that broke out in February 2022. This triggered significant fluctuations in the forint/FX exchange rates, and in energy prices, as well as a substantial rise in forint interest rates. Following the parliamentary elections in May 2022, the new National Assembly with a solid Fidesz-KDNP majority and the government continued the previous housing policy with determined measures.

The Company's operations were strongly impacted by the lifting of the previously extensive moratorium on loan repayments, which had a significant impact on the achievement of business targets.

In 2023 the government still paid close attention to its family support policies, including providing help specifically for young people and families with children in setting up homes. However, the interest rate hikes brought on by the war called into question the ability to maintain the previously generous home subsidies for families.

The housing subsidies previously introduced were essentially still in place in 2023: the reduced VAT rate of 5%, the fact it could be reclaimed by CSOK (Family Housing Allowance Scheme) beneficiaries building new homes, the CSOK-driven exemption from duty payments, the multi-generational CSOK depending on the number of children and the 50% renovation subsidy for families with children, as well as the home renovation loan with subsidised interest, which could also be used for down payments. Housing subsidies in 2023 are estimated at more than HUF 491 billion, well above the HUF 382 billion in the 2022 budget. In late 2023 / early 2024, a decision was made to restructure the subsidies, which was reflected in a wait-and-see game at the end of 2023.

Retail and home loans suffered a marked decline in 2023. Retail loan disbursements fell significantly in 2023 compared to 2022.

The volume of loans increased by the end of 2023, with credit institutions signing housing loan contracts worth HUF 66.9 billion in November 2023, a 35% jump compared to the previous year. This is the first month "in the black" on a year-on-year basis in the last eighteen months. The most significant rise was in housing loans with interest rates fixed beyond 10 years, but essentially all loan types examined experienced an increase.

The upturn is also underpinned by an increase in the number of transactions in the real estate market. The average loan cost ratio for newly granted housing loans decreased by 60 basis points overall in November compared to the previous month. A further pronounced drop is expected in the statistics in the coming months.

Fundamenta's market share in terms of total housing loans remained stable compared to the previous month, settling at 10.3% in November.

We estimate that the volume of new housing loan disbursements in 2023 as a whole (only one month is missing from our analysis) could be around HUF 600 billion, which is 50% of the previous year's figure. November was particularly strong, and we expect a similar monthly market performances in the coming period as housing loan interest rates decline substantially. On this basis, our first estimate in the current environment is new housing loan disbursements of around HUF 750-850 billion in 2024 (+25-40% y/y growth).

In 2023 the number of issued building permits for houses decreased relative to 2022. The number of real estate market transactions between private individuals also decreased significantly. 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

The Company's business in 2023 was also significantly impacted by government action taken to respond to and manage the consequences in Hungary of the armed conflict and humanitarian disaster over the border.

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 applied 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. In the 2023 tax year, the special tax is based on the parts of the tax base defined by law. Government Decree 206/2023 (V.31) defined items that reduce and increase the tax base, which affected the special tax payable by our Company.

Act CXIII of 1996 on Home Savings and Loan Associations, which directly affects the operation of the Company, was supplemented as follows: if the saver or beneficiary is a minor, a person with partially or fully restricted capacity under guardianship, and the amount of the deposit, the subsidy and the credited interest exceeds the amount specified in the Civil Code, the declaration of the legal representative with legal capacity to dispose of this amount is valid subject to the approval of the guardianship authority.

Another noteworthy change involves the provisions of the Act on Credit Institutions and Financial Enterprises (Act CCXXXVII of 2013), which regulate the rules on downtime and banking holidays along with the associated notification obligation.

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
- Government Decree 337/2017 (XI.14) on reducing the housing mortgage debts of families with three or more children
- MNB Decree 32/2014 (IX.10) on the regulation of income-based repayments and loan-to-value ratios.

2. STRATEGY AND GOALS OF THE FUNDAMENTA GROUP

2.1. Strategy of the Fundamenta Group (2021-2023)

In Fundamenta's strategy in force, alongside the goal of establishing a home financing and housing ecosystem, the following four paths were identified.

- **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 more cost-effectively. 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.

The objectives of the Company 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 brokerage 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. This activity became commercially profitable in 2023.

The Company made significant progress in 2023 in digitalising its operations and customer service, which can be measured by various indicators.

Working from home became normal in 2023, which was facilitated in the previous years by our swift transition to digital working methods and the marked improvement in our capabilities in this context.

2.2. Future goals

The Fundamenta Group 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 2024 the Company will be affected by the development of the market environment: the further decrease of inflation and as a result, decreasing market interest, the fall in real income 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.

The Fundamenta Group 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.

In November 2023, MBH Bank Nyrt. (“MBH Bank”) signed a share purchase agreement with the German Bausparkasse Schwäbisch Hall AG, the Austrian Bausparkasse Wüstenrot AG and the German Wüstenrot & Württembergische AG for the acquisition of a 76.35% stake in the Fundamenta Group (“Fundamenta”). The transaction is expected to be completed in the first half of 2024, subject to the necessary permits being obtained. Once the transaction is completed, Fundamenta will continue to operate as a consolidated subsidiary of MBH Bank, but as a separate entity with its own brand name and management. At the same time, Fundamenta’s clients will benefit from the security of a stable, well-capitalised bank and, in the long term, from its nationwide branch network and extensive product portfolio, giving them access to a range of new investment, insurance and loan products on favourable terms.

Once the transaction is completed, Fundamenta Group is expected to tailor its business strategy to the new situation.

3. SALES ACTIVITY

The Company's sales organisation working with Fundamenta-Lakáskassa Kft. as a tied agency continued to operate effectively, thanks to which in terms of contractual amount about 95.69% of the new contracts were concluded by the Personal Banker network. The ratio of contracts concluded by Partner Sales amounted to 3.52%, while the share of the performance of Contact Center was 0.79%.

In the Partner Sales division the best performing partners were brokers, MBH Group, UniCredit Bank and Generali Biztosító.

Within new business, both the volume and share of increased contracts fell in 2023 relative to the previous year. In terms of contractual amount, the share of increased contracts dropped to 10.28% as compared to 13.33% in the previous year. The decrease resulted from the lower number of expiring contracts. In the case of new contracts concluded in 2023 the average contractual amount was 21.29% up on the previous year.

In 2023 among the new contracts the ratio of the shorter options, the 4-7-year products, accounted for approximately 32%; at the same time, almost 49.2% 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%.

2023 was a weaker year for the housing loan market than 2022. By the end of the respective year the Hungarian housing loan market had contracted to approximately HUF 595 billion.

In terms of purpose of use, in 2023 more than 90% of the loans disbursed was used by the customers to purchase or renovate a home.

Cross-selling activity

There were no changes in the structure of mediated products in comparison with the previous year. The volume of intermediary activity for government securities launched in 2019 grew by 64% as compared to the previous year, and as a result, the mediated total aggregate portfolio at the end of 2023 was higher by 83%. In line with our strategy, in 2023 we again focused on the mediation of own deposit products, furthermore, market conditions relating to mediation of third-party products were unfavourable. Therefore, the volume of “Childbirth Incentive Loan” mediated to partner banks dropped by 42% and the volume of mediated housing mortgage loans rose by 6% as compared to the previous year. There was a decrease in the volume of mediated other banking products (personal loans and current accounts).

The Personal Banker network continued its referral services launched in 2019 for Fundamenta Értéklánc Kft. established to mediate real estate.

Real estate brokerage

In 2023, the share of properties sold by Fundamenta Real Estate rose significantly (66% on a per unit basis and 83% in volume terms), despite the real estate market in general facing many challenges during the year.

As a result of our recruitment activity – the primary source of which is Fundamenta’s Personal Banker network – the number of contracted real estate agents rose markedly to over 400. The active headcount remains below that, but it is still substantially higher than last year, rising to more than 180 by the end of the year. The significant difference is explained by the ongoing recruitment, training and deployment of new colleagues. Based on the information available to us, we are one of the top 5 players in the market in terms of active employees.

Although the increase was substantial, the results still fell short of the targets set. However, the financial results still improved considerably, with both our sales revenue and profit rising strongly.

Our outlooks for the coming years are positive, and we are strengthened and expect the market to pick up in the coming years.

Intermediation of solar panel installations

Solar panel brokerage, which was introduced as a start-up product alongside real estate brokerage, has virtually stopped at Fundamenta due to changes in the market environment. Although the Solar Panel Plus (NPP) tender scheme announced at the end of 2023 did stimulate the market, it is only expected to yield substantial results from 2024.

We endeavoured to introduce a new product to fill the gap left by the solar panel activity, so we launched our heat pump brokerage business on our existing partner framework as a pilot project for now, and brought our residential energy consulting product to the market testing phase.

The Fundamenta Discount Programme was the success story of 2023, offering Fundamenta customers significant discounts on home ownership products and services.

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 559 billion on the reporting date.

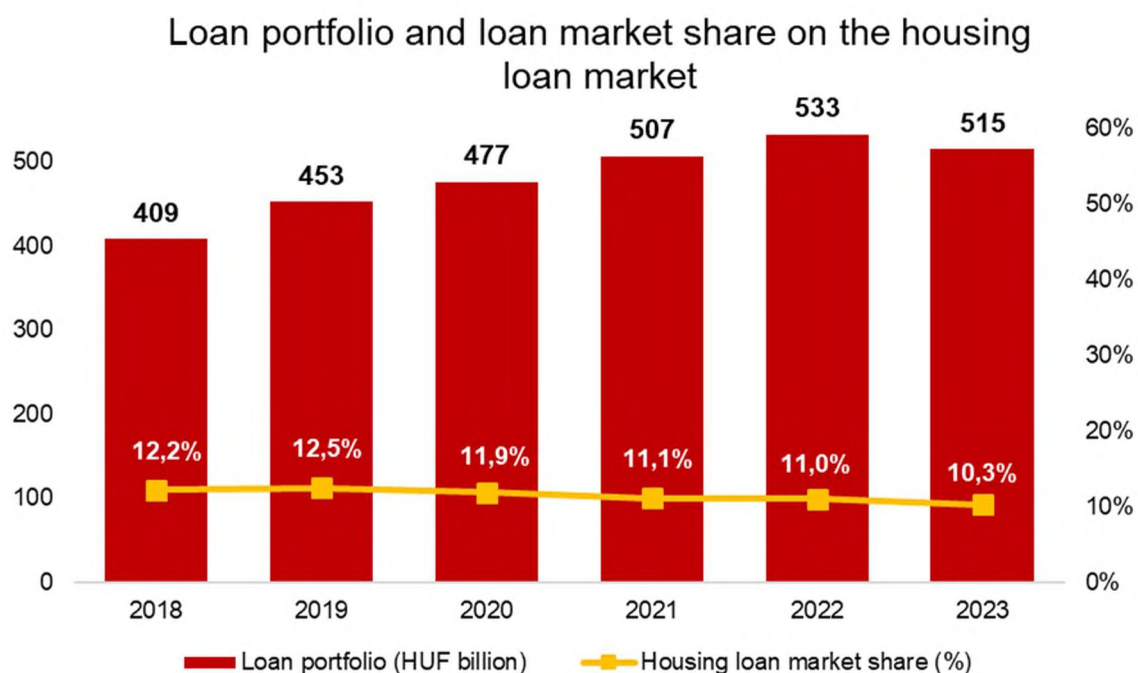
The vast majority of the deposits (95%) are still household deposits. Multi-occupational buildings and housing cooperatives account for 5%, roughly the same as the previous year.

The gross outstanding principal fell from the previous year’s HUF 533 billion to HUF 515 billion, which represents more than 3.3% decrease.

Description	2018	2019	2020	2021	2022	2023
Outstanding principal (HUF million)	408 806	453 062	476 730	507 190	533 000	515 209
Number of loan contracts (pcs)	121 751	125 124	120 398	117 138	115 190	111 783

Normal housing loans accounted for 12.6% and bridging loans for 87.4% of the gross outstanding loan principal, 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 the Fundamenta Group in 2023 is similar to the previous year, and at the end of 2023 the credit institution held almost 10.3% of the entire Hungarian housing loan portfolio.



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

Fundamenta's interest-bearing portfolio under assets dropped in 2023 from HUF 653.32 billion to HUF 640.9 billion. The loan portfolio fell by about HUF 17.8 billion, which represents 3.3% decrease relative to the previous year. The period-end loan portfolio exceeding HUF 515 billion includes normal housing loans (roughly 12.6%), and bridging loans (87.4%), which essentially means a substantial shift towards housing loans as compared to the previous periods, taking into account that the portfolio of housing loans rose by 14.3%, while that of bridging loans fell by 5.4%. 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. Interest on housing loans is determined by the conditions under the relevant tariff.

The joint portfolio of bank deposits and interest-bearing securities increased during the reporting year from HUF 120.2 billion to HUF 125.7 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 8.9 billion, while the bank deposit portfolio increased significantly, by HUF 14.4 billion. The majority, 85% of the bank deposit portfolio consisted of deposits placed with the central bank, and we placed 15% with resident credit institutions primarily in foreign currencies. The change in the composition of the deposit and securities portfolio – in favour of central bank deposits – is mainly attributable to developments on the Hungarian money and capital markets, including interest rates, and to differences in the pricing of the available asset classes.

The duration of fixed-rate monetary and capital market portfolios dropped from 2.2 to 1.6 within one year. We significantly reduced the value of the indicator by the end of 2021, and did not see any reason during the reporting year to take more risk, given our medium-term liquidity plan and its correlations with market expectations.

Our framework agreement regarding external borrowing entered into force on 1 April 2021, under which we drew HUF 15 billion mortgage refinancing loan in March 2023. The corresponding items in the asset side of the balance sheet include bridging loans in accordance with legal regulations. Overall, external borrowing as at the end of the year amounted to HUF 15.4 billion.

Neither during the reporting year nor at the end of the year did we have a forward bond position.

Fundamenta's 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 the Company's 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 the Fundamenta Group on the reporting date amounted to HUF 661,659 million, which represents decrease of around 2% compared to the previous year. Most of this fall stems from the 6.5% 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 45,199 million. Provisions in the reporting year totalled HUF 1,238 million (0.2 percent of total assets). The largest item under provisions (HUF 244 million) is the provision recorded for retention commission expenses. In line with IFRS, the settlement provision (HUF 8,748 million net) is recognised as an equity component.

The Company closed 2023 with a profit before tax of HUF 12,690 million and profit after tax of HUF 10,814 million, both considerably up on 2022. The Company does not plan to pay dividend from its 2023 profit.

The profit before tax surpassed significantly the planned result. Below we present the main reasons for the deviations from the planned figures.

- Return on investments

The gross investment portfolio evolved better than planned in 2023. The yield on the investment portfolio was significantly higher than planned due to the rising yields and a different investment portfolio than originally budgeted for.

- Net commission income/expense

Fee income came in below budget on an annual basis due to lower than planned payments. Commission expenses not recognised as transaction costs using the effective interest rate method and related to cash flows were also lower than planned. Net commission income from financial products mediated to partners through the Personal Banker network amounted to HUF 411.6 million, which is significantly (by HUF 207.1 million) up on the previous year. Net commission income from property sales performed by Értéklánc Kft. also grew considerably, by HUF 60 million relative to the previous year.

- Fee income

The Company collected account-management fee income in 2023 amounting to HUF 940 million. The HUF 4,412 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 2023 profit directly.

- Costs

Personnel expenses grew by 27%, while material-type expenses by 2% compared to the previous year.

- Impairment allowance for loans

In 2023 the majority of impairment allowances recorded in previous years for receivables from customers arising from the moratorium was reversed, and as a result, impairment was much more favourable in the reporting year as compared to both plans and the previous year. The quality of the loan portfolio is still considered excellent based on the behaviour of customers.

- Other operating expenses

Bank tax (HUF 1,387 billion) and extra-profit tax (HUF 1,726 billion) were booked in January under other expenses. The reimbursement booked in March of the extraordinary NDIF fee paid last year is recognised as other income. (HUF 966 million).

5. RISK MANAGEMENT

Through its majority owner Bausparkasse Schwäbisch Hall AG, the Fundamenta Group 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.

The Fundamenta Group 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. The Fundamenta Group 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.

The Fundamenta Group 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

The Fundamenta Group 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 2023 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 home savings and loan association 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 in 2018, 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 headcount in active status of the Fundamenta Group was 582 by the end of the financial year, of which 56 were employed part-time.

The employment policy of the Fundamenta Group in 2023 was shaped by efforts to improve operating efficiency, nurture the employee experience and develop digital skills, alongside implementing business priorities and the corporate strategy.

The number of online learning materials continued to expand under the training and organisational development programmes, but we also returned to face-to-face training. In 2023, key focus was placed on developing digital skills, customer focus and operational efficiency, as well as raising awareness about and promoting ESG guidelines. Under the comprehensive Deliberate Lean Leadership program, process reviews and improvements continued 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, including digital preparedness of staff, besides business results.

When selecting, integrating, training and encouraging our staff 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. Our Employee Experience Programme provides a complex framework to recognise and support work-life balance, professional ambitions and loyalty. Fundamenta was awarded the title of Outstanding Family-Friendly Workplace in 2023.

The changing operating conditions are having an impact on employee experiences and the company culture. We took part in the engagement survey in 2023 as well with a very high participation rate of 95%. As a result of targeted action plans launched based on the 2022 results, we aimed at achieving further significant improvement in relation to results.

The Fundamenta Group, 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 2023 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. In our talent programme we provided support to our existing employees with their career path.

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. Renovating residential buildings is a key goal of our business financing activities. This financing is mainly carried out through the PB network operated by Fundamenta Kft. The proportion of energy-efficiency measures is increasing within renovations year by year, making this "scope 3" the most important dimension of sustainability in our operations.

The objective of the Digital Transformation strategy adopted in 2021 is for the entire Group to help reduce our carbon footprint. To this end, we are improving the digital management of our customers (WebBankár) and strengthening the digital business processes of the PB network.

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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.

In 2023, with the support of KPMG, we took significant steps to assess our situation (Quick scan), identify existing sustainability data gaps (Data gap analysis), create our own Taxonomy Manual and analyse the risk dimension of environmental change.

In 2024 we will continue the work we have started in the interests of compliance.

8. CORPORATE SOCIAL RESPONSIBILITY

Fundamenta is committed to being at the forefront of social issues over and above our business objectives. It also pays particular attention to improving the living conditions of families in need, by supporting disadvantaged families with children living in extreme poverty, and the institutions that take them in. In its 10 years of operation, the Fundamenta Care Foundation has supported more than 240 families and 30 institutions. During our Christmas donation campaigns, with the help of our staff and the Personal Banker network, we were able to deliver more than 10,000 donation boxes to families in need, especially children.

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 2023 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. The Foundation also organises an annual blood drive, where with the involvement of hundreds of volunteers it has helped nearly 150 people across the country.

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 2023, too. This year, Fundamenta offered a special prize to the three teachers with the most teams in the student finance competition “Legyél Te is Pénzügyi Junior Klasszis!!”, since they are crucial to the students’ development. Fundamenta has been a committed supporter of the competition since its inception.

In addition to a customer-centric approach, employee satisfaction is a priority in the operations of Fundamenta. By creating the Employee Experience Programme, Fundamenta offers the opportunity for a family-centred corporate culture, with a special focus on supporting the employment of parents with young children. As a result, in addition to the Family-Friendly Workplace award, in 2023 the Company was also awarded the Outstanding Family-Friendly Workplace award.

9. PLACES OF BUSINESS

Since 1 April 2019 the registered office of the Fundamenta Group 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 the Fundamenta Group

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.

The Fundamenta Group 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.

The Fundamenta Group 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 the Fundamenta Group are professional investors: German and Austrian home savings and loan associations along with a Hungarian bank and an insurance company. 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.

The Fundamenta Group 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.

Operating model of Fundamenta Értéklánc Kft.:

Based on its operating model, Értéklánc Kft. carries out the coordination tasks necessary to operate the products it mediates with the minimum required headcount. The majority of the general administration tasks for Értéklánc Kft. are carried out by the Zrt. The number of employees at the end of 2023 was 4.

When offering and selling products, Értéklánc Kft. relies on the channels of Fundamenta-Lakáskassza Kft., another subsidiary of the Zrt., in particular, but not limited to, the financial intermediaries of the Fundamenta Personal Banker network. The Kft. engages authorised subcontractors to provide real estate brokerage services with a total contracted headcount exceeding 400 at the end of 2023, and an active headcount (with current real estate adverts) exceeding 130.

Értéklánc Kft. has its registered office at the same address as the parent company's place of business in the Hillside Office Building (H-1123 Budapest, Alkotás utca 55-61). Since the real estate agents engaged by the Company largely work outside of Budapest, and they use the office services of the parent company's other subsidiary for their administration, we marked a total of 12 offices as places of business or branches.

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 the Fundamenta Group 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. The Fundamenta Group takes part in all new initiatives launched by authorities in Hungary relating to credit institutions.

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.

The Fundamenta Group 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 the Fundamenta Group, management methods, with particular regard to the issues listed in point 11.2

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

- Savings quality (actual savings/expected savings, based on 2023 average): 72.0%.
- In 2023 48% of client correspondence was sent electronically.
- The average ratio of number of complains per month to the number of total contracts was 0.07%.

Budapest, 27 February 2024

Bernadett Tátrai

Chairwoman of the Board,
Chief Executive Officer

László Morafcsik

Member of the Board
Deputy-CEO