

KDB Bank Europe LTD

Separate Financial statements

prepared in accordance with International Financial Reporting Standards

as adopted by the EU

for the year ended 31 December 2023

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KDB Bank Európa Zrt **31 December 2023**
all amounts in million HUF (except when otherwise indicated)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31.12.2023	31.12.2022
Cash and current accounts with central banks and other sight deposits	7	111,529	9,761
Financial assets measured at fair value through profit or loss	8	289	1,114
Financial assets measured at fair value through other comprehensive income	9	31,309	40,034
Securities measured at amortised cost	10	35,488	29,797
Loans measured at amortised cost	11	187,335	209,221
Placements to central banks and other banks measured at amortised cost	12	331	57,323
Investments in subsidiaries	13	90	90
Tangible assets	14	1,798	2,068
Intangible assets	15	1,096	1,439
- from this Impairment of fixed assets		-1,140	-809
Current tax assets	37	0	37
Deferred tax assets	37	131	167
Other assets	16	427	692
Total assets		369,823	351,743
Financial liabilities measured at fair value through profit or loss	8	5	1,293
Deposits from customers measured at amortised cost	17	147,202	191,102
Deposits from banks measured at amortised cost	18	181,738	126,071
Provisions	19	254	119
Current tax liabilities	37	435	129
Deferred tax liabilities	37	92	37
Other liabilities	20	2,135	2,621
Total liabilities		331,861	321,372
Share capital	21	28,938	28,938
Accumulated other comprehensive income		926	-1,166
Retained earnings		1,049	2,619
Other reserves	22	456	456
Profit/loss of the business year		6,593	-476
Equity		37,962	30,371
Total liabilities and Equity		369,823	351,743

Budapest, 28. May 2024

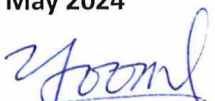

Yoo Myung Hwan
Executive Vice President



Kurunczi József
Senior Vice President

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	31.12.2023	31.12.2022
Interest income (calculated based on effective interest rate method)	24	27,750	14,782
Interest similar to interest income	24	662	579
Interest expense	24	-12,288	-4,447
Dividend income	25	1	3
Commission and fee income	26	1,180	1,299
Commission and fee expense	26	-251	-269
Profit/loss from the derecognition of financial assets measured at fair value through other comprehensive income	27	-121	-484
Profit/loss from the derecognition of financial assets measured at amortised cost	28	43	836
Trading share market valuation gain or loss	29	-2,982	-2,387
Profit/loss from financial assets measured at fair value through profit or loss	41	7	-100
Exchange rate difference (gain or loss), net	30	532	1,107
Other operating income	31	283	499
Other operating expense	32	-835	-996
- from this impairment loss		-332	-316
General administrative expense	33	-5,478	-4,608
- from this: personal expense		-2,963	-2,331
Depreciation and amortization	34	-518	-450
Recognition/reversal of provision	35	40	17
Recognition/reversal of impairment	36	-696	-5,540
Profit/loss before tax		7,329	-159
Income tax expense	37	-736	-317
Profit for the business year after tax		6,593	-476
Items of other comprehensive income that may not be reclassified to profit or loss		86	144
Valuation reserve - fair value change (equity instruments measured at fair value through other comprehensive income)		94	158
Related income tax	37	-8	-14
Items of other comprehensive that may be reclassified to profit or loss		912	321
Valuation reserve net - fair value change (debt instruments measured at fair value through other comprehensive income)		1,002	353
Related income tax	37	-90	-32
Other comprehensive income		998	465
Total comprehensive income		7,591	-11

Budapest, 28. May 2024


Yoo Myung Hwan
 Executive Vice President


Kurunczi József
 Senior Vice President

KDB Bank Európa Zrt **31 December 2023**
all amounts in million HUF (except when otherwise indicated)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumulated other comprehensive income	Retained earnings	Capital reserves	Other reserves	Profit/loss of the business year	Total
01 January 2022	28,938	-1,630	1,609	00	456	1,009	30,382
Current year's profit						-476	-476
Other comprehensive income		465					465
Total comprehensive income		465				-476	-11
Transactions with shareholders – dividend payment							
<i>Other equity movements</i>							
Transferring previous year's profit/loss							
Transfer from retained earnings to general reserve			1,009			-1,009	0
Share capital increase							
31 December 2022.	28,938	-1,166	2,619	0	456	-476	30,371
Current year's profit						6,593	6,593
Other comprehensive income		997					997
Total comprehensive income		997				6,593	7,591
Transactions with shareholders – dividend payment		1,094	-1,094	42	-42		0
<i>Other equity movements</i>							
Transferring previous year's profit/loss							
Transfer from retained earnings to general reserve			-476			476	0
Share capital increase							
31 December 2023.	28,938	925	1,049	42	414	6,593	37,962

KDB Bank Európa Zrt **31 December 2023**
all amounts in million HUF (except when otherwise indicated)

SEPARATE CASH-FLOW STATEMENT

	31.12.2023.	31 12.2022
<i>Cash-flow from operating activities</i>		
Profit before income taxes	7,329	-159
<i>Adjustments:</i>		
Income tax payable in the current year	-729	-317
Depreciation and amortization	880	805
Net impairment for debt instruments measured at fair value through other comprehensive income	-5	9
Net impairment for loans measured at amortised cost	669	5,529
Net impairment for securities measured at amortised cost	7	2
Net interest income	-16,124	-10,914
Result of derecognition of financial assets measured at amortised cost	-43	-836
Dividend income from equity instruments measured at fair value through other comprehensive income	0	-1
Increase(+) / decrease (-) of provision	135	27
	-7,881	-5,854
<i>Changes</i>		
Decrease (+) / increase (-) of financial assets held for trading	-705	641
Decrease (+) / increase (-) of other assets	267	-8
Decrease (+) / increase (-) of loans measured at amortised cost	74,291	-40,986
Increase (+) / decrease (-) of deposits from banks measured at amortised cost	30,162	1,053
Increase (+) / decrease (-) of deposits from customers measured at amortised cost	-43,661	21,602
Increase (+) / decrease (-) of provisions	0	
Increase (+) / decrease (-) of other liabilities	-304	31
	52,171	-23,520
Income from sale of loans measured at amortised cost	0	0
Interest income received	28,046	14,584
Interest expense paid	-10,578	-4,221
Paid income taxes	328	145
<i>Cash-flow from operating activities</i>	69,968	-13,012
<i>Cash-flow from investments activities</i>		
Purchase of securities measured at fair value through other comprehensive income	-46,153	-27,360
Sale of securities measured at fair value through other comprehensive income	55,783	7,555
Purchase of securities measured at amortised cost	-6,008	-15,942
Sale of securities measured at amortised cost	383	19,200
Increase of tangible assets and intangible assets	-145	-143
Decrease of tangible assets and intangible assets	0	0
<i>Cash-flow from investments activities</i>	3,861	-16,689

KDB Bank Európa Zrt **31 December 2023**
all amounts in million HUF (except when otherwise indicated)

Cash-flow from financial activities

Increase (+) / decrease (-) of subordinated loan	7,676	12,008
Increase of deposits to central bank and other banks measured at amortised cost	75,930	27,976
Decrease of deposits to central bank and other banks measured at amortised cost	-60,050	-16,116
Lease payments	-304	-245
<i>Cash-flow from financial activities</i>	23,251	23,622

Increase (+) / decrease (-) of net cash and cash equivalents	97,080	-6,080
Opening balance of cash and cash equivalents	9,761	8,145
Effect of revaluation	4,688	7,696
Closing balance of cash and cash equivalents	111,529	9,761

I. Accounting policies

Note (1) Shareholder's structure and activities

1.1 Information about the shareholders and the shares of the Bank

The Bank was registered with the name "Investrade Nemzetközi Befektetési és Kereskedelmi Rt." on 1 February 1990 by the Capital Court under the registration number of Cg. 01 10-041313 based on the agreement with MHB Rt. The Bank was established for indefinite time. The Bank recorded the name of "MHB DEAWOO Bank Rt." in 1991 and obtained permission for commercial bank operation and for foreign currency transactions.

In December 1994 a decision was made by the Korean shareholder to buy the shares, which were owned by the MHB.

From 25 January 1995 (arrival at Court of Registration on 13 February 1995) Daewoo Bank Rt. has been operating as a sole corporation.

In the possession of the approval of PSZÁF (State Supervisor of Financial Organizations) dated at 13 December 2002, the Korea Development Bank has purchased the Bank from the former owner (Daewoo Securities Co., Ltd. (Seoul), address: 34-3, Youido-dong Yomgdugpo-Gu, Seoul, Korea, 150-973). The name of the Bank has been changed to KDB Bank (Magyarország) Ltd., which was registered by the Court of Registration on 10 March 2003. After admission to closed limited company form. The name of the Bank has been changed to KDB Bank Europe Ltd., which was registered by the Court of Registration on 22 May 2013.

Currently the 100% owner of the Bank is The Korea Development Bank, address: 16-3 Youido-Dong Yonddeungpo-Gu, Seoul, and 150-973 Korea. The Korea Development Bank is owned 100% by the Korean State. The Bank is consolidated by the parent company as subsidiary. The consolidated financial statements are available at the parent company, and on the following website: <https://www.kdbbank.eu/financial-figures-annual-reports>

Note (1) Shareholder's structure and activities (continued)

KDB Bank is not obliged to prepare consolidated financial statements as:

- it is a wholly-owned subsidiary, and
- its ultimate parent produces financial statements that are available for public use and comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this IFRS.

1.2 The most important business activities of the Bank

The Bank provides the wide range of universal banking services to its customers offering a large scale of corporate and retail financial products. Customers' specific needs, flexibility and high standards of customer service are crucial for the Bank's services.

- The main goal is to provide professional financial services to micro-, small- and medium-size and large companies operating in Hungary offering competitive and favourable financial products.
- The Bank is the central European unit of the global KDB network. In line with our role, we are also striving for a greater presence in other countries in the region through our financing activities.
- The Bank considers the financial support of South Korean-owned companies operating in the region as a top priority.

1.3 Bookkeeping

In 2022 the person in charge for management of accounting related tasks and the Financial Statement Report made by Erdősi Erika Mária (Reg.num:176132)

The following members of the Management are authorized to sign the Financial Statement:

Yoo Myung 1025 Budapest, Szeréna út 2.D.ép. 1.em.5.ajtó
Hwan

Kurunczi József 1151 Budapest, Csomád street 57.

1.4 Audit

The Bank's financial statements must be certified by auditing.

Audit company: Deloitte Auditing and Consulting Ltd, 1068 Budapest Dózsa György street 84/C.

Auditor: Molnár Attila, 1161 Budapest, Nyitra utca 31. 2/1 registration number: 007379

Audit fee:

2023. HU 43.500.000 HUF+VAT .

2023. SK 38.000 EUR.

Note (1) Shareholder's structure and activities (continued)

1.5 Branch network

KDB Bank Central Branch

1054 Budapest, Bajcsy-Zsilinszky street 42-46.

Tel. / Phone: (1) 374-9700

Fax: (1) 328-5454

Kőbánya Branch

H-1101 Budapest, Kőbányai street 49.

Tel./ Phone: (1) 323-3558

Fax: (1) 328-5428

Szlovák Branch

SK – 81106 Bratislava, Obchodná 2

Tel./ Phone: 421 2 3211 6880

Fax: 421 2 3211 6899

The web site of the Bank: <http://www.kdbbank.eu>

1.6 Functional and presentation currency

Financial statements are presented in Hungarian Forint ("HUF"), which is the Bank's functional currency.

Data presented in HUF has been rounded to the nearest million, data presented in other currency has been rounded to 1 unit, except when otherwise indicated.

Note (2) Compliance with accounting standards

The statement of financial position is prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and their respective interpretations. International Financial Reporting Standards have been issued by the International Accounting Standards Board (IASB) or its predecessor and the relevant interpretations are issued by the IFRS Interpretations Committee or its predecessor.

The Bank fulfils the obligation to prepare its annual financial statements in accordance with Act C of 2000 on Accounting ("Accounting Act") by compiling these separate financial statements in accordance with Section 9 / A of the Accounting Act. The Bank prepared its separate IFRS financial statements for the first time as of 31 December 2018 and maintains its books in accordance with IFRS as of 1 January 2018.

In procedural and administrative nature matters not covered by IFRSs, the Bank shall apply the Act on Accounting, Act on Credit Institutions and Financial Enterprises (CCXXXVII of 2013) (hereinafter referred to as "Banking Act"), Government Decree on the special features of the annual reporting and accounting obligations of credit institutions and financial undertakings (250/2000 (XII.24)), Decree of National Bank of Hungary (hereinafter referred to as "NBH") on prudential requirements for non-performing exposures and restructured claims (39/2016 (X.11.)), and Decree of NBH on the customer and partner ratings, as well as the prudential requirements for the valuation of collaterals (40/2016. (X.11.)).

The financial statements have been prepared on a going concern basis.

These financial statements have been approved by the Board of Directors on 28. May 2024.

Note (3) Basic principles of the valuation

In the course of the preparation of financial statements, assets and liabilities have been measured at historical cost, except for:

- financial assets held for trading purpose;
- financial assets subsequently measured on fair value through other comprehensive income;
- financial liabilities held for trading purpose.

The Bank measures the above items at fair value.

Note (4) Significant accounting assumptions and estimate

The presentation of financial statements requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements

Note (4) Significant accounting assumptions and estimate (continued)

Modifications of accounting estimates are recognized in the period of modification, or - if they affect future periods - in the future periods affected by the modification.

The Bank applies estimates during the determination of fair value. For determining the fair value of an asset or liability the Bank uses observable market data where possible, in their absence, performs estimates to determine fair values using directly or indirectly observable input data (changes in market conditions, economic environment or other circumstances, which indicate the change in the financial position and solvency of the partner or the issuer).

Items that are affected by significant accounting estimates, in addition to determining fair value, are:

- provisions (Note 19.),
- impairment of financial assets (Note 36.),
- deferred tax (Note 37.).

Note (5) Significant accounting policies

Except for the notes below and the notes describing the effects of the transition to IFRSs, the Bank has consistently applied the accounting policies presented in the additional notes for each period presented in the financial statements immediately except.

IFRS 16 Leases

The Bank has applied IFRS 16 Leases from 1 January 2019. The Bank has reviewed its leases in which the Bank is the lessee, and has identified those deals which have to be considered as leases in accordance with IFRS 16. In connection with this, the Bank recognized a right-of-use asset and a lease liability in the statement of financial position.

A detailed description of leases is provided in Section 5.18.

5.1 Foreign currency transactions

The functional and reporting currency of the Bank is the Hungarian Forint. Foreign exchange transactions are converted at the official foreign exchange rate set by the National Bank of Hungary on the day of the transaction.

Monetary assets and liabilities denominated in foreign currencies are revalued at the official NBH exchange rate on the date of acquisition, and then are revalued daily at the official daily exchange rate of the NBH.

Exchange rate gains or losses on monetary items are the difference between the amortized cost in the functional currency at the beginning of the period, adjusted by the effective interest rate and periodic payments, and the amortized cost in foreign currency translated at the official exchange rate published by the NBH at the end of the period.

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

Foreign exchange differences arising from the translation of foreign currency items are recognized in profit or loss, except for differences arising from the translation of equity instruments, which are recognized in other comprehensive income.

Note (5) Significant accounting policies (continued)

5.2 Initial recognition and evaluation of financial instruments

The Bank recognizes an asset and a liability when the Bank becomes a party to the contractual provisions of a financial instrument under the contract.

5.2.1 Date of recognition

The Bank settles the purchase and sale of financial assets on the ordinary way on the day of settlement, when the transaction is actually performed. Ordinary purchase or sale is the purchase or sale of a financial asset based on a contract, which terms prescribe the delivery of the asset within the time limits usually set by the regulations or customs in force on the relevant market.

All other financial instruments are initially recognized when the Bank becomes a party to the contract that created the financial instrument. This date in case of loans to financial institutions and customers is the date of disbursement, in case of deposits received from customers or financial institutions, and in case of loans received is the date when the loan is disbursed to the Bank or the deposit is received.

5.2.2 Initial recognition

At the initial recognition the Bank measures its financial instruments on fair value, which is the fair value of the paid amount in case of financial assets, and the fair value of the received amount in case of financial liabilities.

If the Bank considers that the fair value at initial recognition differs from the transaction price and the measurement of fair value is not supported by valuation techniques that only use data from observable markets, then the initial value of the financial instrument is changed by the difference between its fair value and the transaction price and, in this case, the difference between the initial fair value and the transaction price is recognized in profit or loss as profit or loss.

If the Bank identifies that the fair value differs from the transaction price at initial recognition, but the measurement method to determine the fair value uses not only observable market data inputs, then the instrument is recognized at fair value (increased or decreased by transaction costs, except for financial instruments measured at fair value through profit or loss) modified to defer the difference between the fair value at the time of initial recognition and the transaction price. After initial recognition, the Bank discloses the deferred difference as profit or loss only to the extent, which comes from such a change in a factor (including time) what market participants would consider when they are pricing the asset or liability.

For purchased or originated credit-impaired (POCI) financial assets the Bank applies the credit-adjusted effective interest rate to the amortized cost determination of a financial asset from initial recognition. The credit-adjusted effective interest rate is the rate at which estimated future cash payments or cash receipts during the expected life of the financial asset can be discounted to the amortized cost of the purchased or originated credit-impaired financial asset.

The Bank recognizes the related transaction costs according to the valuation model applied for the given financial asset. Transaction costs are part of the initial recognition value in case of all financial assets and liabilities, with the exception of financial asset or liability measured on fair value through profit or loss.

Note (5) Significant accounting policies (continued)

Transaction costs are costs that would not have been incurred, if the Bank had not acquired, issued or disposed the financial instrument.

Transaction costs include fees and commissions paid to agents, consultants, brokers and traders, fees levied by regulatory authorities and stock exchanges, taxes and duties related to the transfer of the asset. Transaction costs do not include the lending premium or discount, financing costs or internal administrative or maintenance costs.

5.2.3 Classification of financial assets and liabilities

The Bank classifies its financial assets in the following categories:

- financial assets subsequently measured at amortized cost;
- financial assets subsequently measured on fair value through other comprehensive income (FVOCI);
- financial assets subsequently measured on fair value through profit or loss (FVTPL).

A debt instrument type financial asset can only be measured at amortized cost if both of the following conditions are met:

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

A financial asset measured on fair value through other comprehensive income, if the asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the asset under favourable market conditions.

A financial asset measured on fair value through through profit or loss, if the asset is held in a business model whose objective is to realizing gain from changes of market conditions

5.2.4 Business model

The Bank's business model is determined by the fact, how it manages certain portfolios of its financial assets whose objective is to generate cash flows: the aim of the business model may be the collection of contractual cash flows, sale of financial instruments, or both, or other purposes. The Bank evaluated this based on the facts and circumstances valid at the time of the first application of IFRS 9 (January 1, 2018).

Note (5) Significant accounting policies (continued)

The Bank applies the following business models:

Trading purpose Business Model (Trading)	Hold to Collect and for Sale Business Model (HTCAS)	Held to Collect Business Model (HTC)
Objective: realizing gain from changes of market conditions (trading)	Objective: collecting contractual cash flows, selling under favourable market conditions	Objective: acquisition of contractual cash flows (principal, interest) exclusively Selling is not the goal of the model, but it is allowed, if it is not material and/or frequent
Measurement at fair value Recognizing fair value changes through profit or loss	Measurement at fair value Recognizing interest income, impairment, FX gain and loss through profit or loss Recognizing other gains and losses in other comprehensive income (OCI) Upon derecognition accumulated gain/loss is reclassified into profit or loss	Measurement at amortised cost Recognizing interest income, impairment, FX gain and loss through profit or loss Upon derecognition accumulated gain/loss is recognized through profit or loss

In the course of the business model testing the Bank considers every relevant information, among others the frequency, size (substantiality) and scheduling of sales from the given portfolio in the previous periods, the way in which the cash flows are realized in the past, the reasons of the selling and the expectations for the future sales activity, furthermore.

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The selling of asset is allowed in the HTC business model also, if the following conditions are met:

- due to the credit quality deterioration in accordance with Investment Policy;
- selling close to the maturity of the asset, when 30 days or less is the difference between the date of the sale and the maturity of the contract;
- non-frequent (even it is substantial),
- non-material either individually or in aggregate (even it is frequent).

The Bank considers the sales activity material, if the volume of sales reaches the 10% of the book value of the given assets portfolio within HTC portfolio.

The Bank considers the sales activity as frequent, if the frequency of sales exceeds 1 piece per month from the given assets portfolio within HTC portfolio.

Note (5) Significant accounting policies (continued)

5.2.5 Cash-flow test (SPPI)

At the initial recognition SPPI (Solely Payment of Principal and Interest) test shall be applied for the evaluation of contractual cash flows of financial assets. The purpose of the test is to judge whether the contractual conditions result principal and interest payments solely.

Those contractual cash flows which consist of solely payment of principal and interest are consistent with the basic lending agreements. The following essential principles shall be considered when performing the SPPI test:

- the principal amount is the fair value of the financial asset at the initial recognition - the amount of principal may change during the lifetime of the financial asset (e.g. due to repayments);
- the interest contains the time value of the money, the credit risk, the other risks (e.g. liquidity risk), the expenses (e.g. administrative expenses) and the profit margin;
- the time value component of the money is the consideration for the passage of time, which does not contain coverage for other risks or costs of keeping financial asset;
- in some cases, the time value component of money is "not perfect", e.g. the frequency of the repricing of a variable interest rate and the interest period are different (e.g. if the interest is repriced monthly, but the repricing takes place at the current one-year interest rate); in such cases, it is necessary to analyse (qualitatively and / or quantitatively) the effect of the time value component being "not perfect" comparing to when it would be perfect (in the above case, the interest is priced monthly, at the current monthly interest rate). If the effect is not significant, the modified time value component does not violate the SPPI criteria;
- when a financial instrument contains contractual terms that may change the amount or timing of the contractual cash flows, it is necessary to examine whether the cash flows expected to arise due to these conditions over the lifetime of the financial asset are met the SPPI criteria;
- if a financial asset can be prepaid and the prepaid amount includes substantially outstanding principal, the outstanding interest after the principle and reasonable compensation for prepayment, the prepayment does not violate the SPPI criteria;
- if the maturity of a financial instrument can be extended according to the contract and the drawdown of the extension option leads to cash flows that do not violate the SPPI criteria (which may include reasonable compensation for extension of the contract), the extension option does not violate the SPPI criteria;
- those contractual cash flow characteristics which do not have significant effect, or "non-genuine cash flow characteristics" do not affect the classification do not affect the classification; the cash flow characteristic is not real, if it is linked to a such event, which is extremely rare or very unlikely.

Note (5) Significant accounting policies (continued)

5.2.6 Securities, central bank and interbank deposits, loans measured at amortized cost

Loans valued at amortized cost are financial assets that have a fixed payment and a fixed maturity and are not listed on an active market. Their valuation is determined by their business model and the result of the SPPI test.

The Bank's loan portfolio consists of the following assets:

- corporate loans,
- syndicated loans,
- SME loans (domestic),
- retail mortgage loans,
- car financing deals.

After the initial recognition these financial assets are measured at fair value increased by transaction costs directly attributable to the issue or acquisition of the financial instrument.

Subsequent valuation is carried out at amortized cost based on the business model and the SPPI tests.

The amortized cost of a financial asset is the amount at which the financial asset was initially recognized, reduced by principal repayments, reduced or increased by the amounts recognized in the effective interest method (see paragraph 5.12), less impairment recognized for expected credit losses (see paragraph 5.2.14).

If the Bank changes its estimate of the cash flows of a financial asset or liability - except for amendments of contracts (see paragraph 5.2.14) and changes in the estimate of expected credit losses for financial assets - the Bank adjusts the gross carrying amount of the financial asset or the amortized cost of the financial liability to reflect the change in cash flow estimates. The adjusted gross carrying amount or amortized cost is the difference between the original gross carrying amount or amortized cost and the present value of current estimated cash flows. The discount rate for determining present value is the original effective interest rate, or for financial instruments with variable interest rates the actual effective interest rate, or for POCL assets the credit loss adjusted effective interest rate. A change in the gross carrying amount or amortized cost resulting from a change in the estimate of cash flows is recognized per transaction in profit or loss as Other operating expense or Other operating Income.

5.2.7 Financial assets measured at fair value through other comprehensive income

At the initial recognition the Bank evaluates the financial assets subsequently measured on fair value through other comprehensive income as described in the general valuation rules, adding transaction costs directly attributable to the issue or acquisition of the financial asset.

After initial recognition, the Bank measures these financial assets at fair value.

Debt instruments

In case of debt instruments, the Bank assesses its financial assets at fair value through other comprehensive income if both of the following conditions are met:

Note (5) Significant accounting policies (continued)

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

Among debt instruments, the Bank evaluates the Hungarian government bonds on fair value through other comprehensive income.

In case of debt instruments, the Bank recognizes the gain or loss from fair value changes - with the exception of related interest income, impairment gain or loss and exchange gain or loss - in the other comprehensive income till the disposal or reclassification of the financial asset. Cumulative gain or loss recognized as other comprehensive income shall be presented in the Shareholders' Equity (Accumulated other comprehensive income), which will be reclassified from the Shareholders' Equity to profit or loss at the disposal of the financial asset.

In the subsequent valuation of debt instruments the related interest income (based on the effective interest rate method), impairment gain or loss and exchange gain or loss shall be recognized in the income statement.

Equity instruments

In case of equity instruments, the Bank evaluates its financial assets on fair value through other comprehensive income, if at their initial recognition, the Bank irretrievably decides to disclose the subsequent changes in the fair value of non-trading purpose equity instruments - which are included in the standard scope of IFRS9 - in the other comprehensive income. This decision shall be made separately for each instrument. The use of the fair value option is based only on direct decision of management of the Bank.

In the case of Korean corporate shares, the Bank has decided to present the subsequent changes in the fair value of non-trading purpose equity instruments in the other comprehensive income.

In case of equity instruments measured on fair value through other comprehensive income the generated profit or loss – with the exception of dividend income, which is recognized in the income statement - shall be recognized in the other comprehensive income.

The cumulative gains or losses in other comprehensive income are recognized in the Shareholders' Equity (Accumulated other comprehensive income). At the time of the derecognition the fair value of the equity instruments accumulated in the Accumulated other comprehensive income is not transferred to profit or loss, but the accumulated fair value change is transferred to the Retained Earnings within the equity.

In case of equity instruments measured on fair value through other comprehensive income the impairment accounting rules shall not be applied.

Note (5) Significant accounting policies (continued)

5.2.8 Financial assets subsequently measured on fair value through profit or loss

The Bank evaluates all financial assets on fair value through profit or loss, which are not measured at amortized cost or measured at fair value through other comprehensive income, which are the followings:

- financial assets held for trading,
- financial assets held in the HTC or HTCAS business model, but the SPPI test criteria is not met,
- derivative deals, where hedge accounting is not applied.

At initial recognition, the Bank may make irrevocable decisions and may designate non-derivative financial assets at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. In the current year and the comparative period this is not relevant to the Bank.

At initial recognition the Bank evaluates its financial assets measured on fair value through profit or loss as described in the general valuation rules. In case of financial assets measured on fair value through profit or loss the transactional costs are recognized in the profit or loss.

After initial recognition, the Bank measures these financial assets at fair value.

In case of assets measured on fair value through profit or loss the fair value changes, related interest income and dividend income are recognized in the income statement.

5.2.9 Derivative financial instruments

Derivative financial instruments are carried at fair value (the Bank calculates fair value on a daily basis). The Bank assesses its derivative financial instruments at fair value through profit or loss and presents it in the statement of financial position as financial assets held for trading or as financial liabilities held for trading, depending on whether the fair value of those instruments is positive or negative at the reporting date.

The Bank does not apply currently hedge accounting for its derivative financial instruments.

5.2.10 Deposits interbank borrowings measured at amortised cost

All interbank and customer deposits, as well as interbank borrowings are initially recognized at fair value as described in the general valuation rules. After the initial valuation, all interest-bearing deposits are measured at amortized cost using the effective interest rate method, in which the Bank takes into account the related transaction costs, fees and commissions.

Note (5) Significant accounting policies (continued)

5.2.11 Change of contractual terms of financial instruments

Significant (causing derecognition) contract modification

Significant changes of the contractual terms of an existing financial asset or financial liability should be recognized as an expiration of the original financial asset or financial liability and the recognition of a new financial asset or financial liability.

The amendment is considered significant, if under the new terms the discounted present value of cash flows discounted at the original effective interest rate differs by minimum 10 % from the discounted present value of the remaining cash flows of the original financial instrument.

The Bank also considers the contractual amendments of financial instruments to be significant therefore derecognises the original financial asset or recognises the amended financial asset to the books as a new financial asset, if the above cash flow deviation is below 10% but the following contractual terms have changed:

- currency change;
- interest rate change from floating to fix or vice versa;
- change of the counterparty.

If the amendment is significant, the Bank shall settle the amendment of the contractual terms as a termination of the original financial asset or financial liability, the costs or fees incurred are recognized as related gains or losses, unless the costs and charges incurred are demonstrably incurred solely for the purpose of the new financial instrument.

Non-significant (not causing derecognition) contract modification

If the amendment of the contract of financial assets or liabilities is not significant as described above, the amendment does not result the derecognition of the original financial asset or liability.

In the case of non-significant contractual changes, the Bank recalculates the gross carrying amount of the financial asset or the amortized cost of the financial liability to reflect the effect of the amendment.

The recalculated gross book value or amortized cost is the present value of the cash flows after the amendment, where the discount rate is the original effective interest rate, or for financial instruments with variable interest rates the actual effective interest rate, or for POCI assets the credit loss adjusted effective interest rate. The Bank recognizes the difference between the new and before the amendment gross book value or the amortized cost as a gain or loss as a result of the amendment.

In the case of non-significant contractual changes, the Bank adjusts the carrying amount of the financial instrument with the costs or fees incurred or received and amortizes it over its remaining term.

Note (5) Significant accounting policies (continued)

5.2.12 Derecognition of financial instruments

Derecognition of financial assets

The Bank derecognizes the financial assets, when its rights to contractual cash flows cease or expire, or if the contractual rights attached to the asset are transferred in a transaction in which the Bank transfers substantially all the benefits and risks associated with the ownership of the financial instrument, or it does not transfer or retain substantially these benefits and risks, but does not hold control over the financial instrument.

The Bank also considers its rights to contractual cash flows to be terminated in the case of significant contractual changes of financial assets (see paragraph 5.2.11), and therefore the financial asset is derecognised.

At the disposal of financial asset measured on fair value through other comprehensive income (with the exception of equity instruments measured on fair value through other comprehensive income) the cumulative gain or loss previously recognized in other comprehensive income should be reclassified from equity to profit or loss.

At the disposal of financial asset measured at amortized cost the difference between the carrying amount and the purchase price received is recognized in profit or loss. („Profit or loss from financial assets subsequently measured by amortized cost”)

Derecognition of financial liabilities

The Bank derecognizes the financial liabilities, when its contractual obligations cease or expire.

At the derecognition of the financial liability the difference between the carrying amount and the consideration paid is recognized in profit or loss.

The Bank also considers its rights to contractual cash flows to be terminated in the case of significant contractual changes of financial liabilities (see paragraph 5.2.11), and therefore the financial liability is derecognised.

5.2.13 Reclassification of financial assets

Reclassification of financial assets may take place when the Bank changes its business model for managing financial assets, as a result of significant external or internal operational changes.

In line with changing the Bank's business model, the Bank reclassifies its financial assets, which reclassification shall be applied from the first day of the reporting period (from the balance sheet date) following the date of the business model change.

Note (5) Significant accounting policies (continued)

In the event of reclassification of financial assets, the Bank does not re-establish the previously recognized gains and losses (related interest income, impairment gain or loss and exchange gain or loss).

If the Bank reclassifies a financial asset from the measured at amortized cost category to the measured on fair value through profit or loss category, the fair value of the financial asset shall be determined at the time of reclassification. The gain or loss resulting from the difference between the historical amortized cost of a financial asset and its fair value is recognized in the profit or loss.

If the Bank reclassifies a financial asset from the measured at amortized cost category to the measured on fair value through other comprehensive income category, the fair value of the financial asset shall be determined at the time of reclassification. The gain or loss resulting from the difference between the amortized cost of a financial asset and its fair value is recognized in the other comprehensive income. The effective interest rate and the valuation of the expected credit loss are not changing as a result of the reclassification.

If the Bank reclassifies a financial asset from the measured on fair value through other comprehensive income category to the measured at amortized cost category, the financial asset shall be reclassified on the fair value valid at the time of the reclassification. It removes cumulative gain or loss previously recognized in other comprehensive income from equity, and thereby modifies the fair value of the financial asset at reclassification date. The effective interest rate and the valuation of the expected credit loss are not changing as a result of the reclassification. As a result of this, the valuation of financial asset at the time of reclassification is such as if it had always been valued at amortized cost.

If the Bank reclassifies a financial asset from the measured on fair value through other comprehensive income category to the measured on fair value through profit or loss category, the financial asset still will be valued at fair value. It reclassifies the cumulative gain or loss previously recognized in other comprehensive income from equity to profit or loss as valuation adjustment at the reclassification date.

If the Bank reclassifies a financial asset from the measured on fair value through profit or loss category to the measured on fair value through other comprehensive income category, the fair value on reclassification day will be the new gross value. The Bank calculates the effective interest rate based on this gross value. The Bank will recognize the fair value changes after the reclassification date in other comprehensive income.

5.2.14 Impairment of financial assets

The Bank recognizes impairment for the expected credit loss of financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income except for equities designated to FVOCI option and recognizes provision for the expected credit loss of loan commitments and issued guarantee contracts that are subject to impairment requirements under IFRS 9.

Note (5) Significant accounting policies (continued)

Variables used in the calculation of impairment:

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

The Bank evaluates quarterly whether the credit risk of a financial asset has increased significantly since its initial recognition. During the assessment, the Bank examines the change in the risk of default during the lifetime of the financial asset (compares the default risk of the financial asset at the reporting date and its default risk at initial recognition) taking into account the information referring the significant increase in credit risk since initial recognition.

If the credit risk of a financial asset has not increased significantly from the initial recognition to the valuation date, the Bank shall assess the amount of loss of the given from the financial asset at the same amount as the 12-month expected credit loss (Stage 1).

At each reporting date the Bank assesses the recognized loss of the financial asset at the same amount as the lifetime expected credit loss, if the credit risk on the given financial asset assessed either individually or jointly has increased significantly since the initial recognition (Stage 2).

If in the previous reporting period the Bank assessed the recognized loss of the financial asset at the same amount as the lifetime expected credit loss, but decides that on the current reporting date the credit risk of the given financial instrument has not increased significantly since its initial recognition, on the current reporting date the Bank presents the recognized loss at the same amount as the 12-month expected credit loss (reclassifies from Stage 2 to Stage 1).

A financial asset is impaired (Stage 3), if the occurrence of one or more events adversely affects the estimated future cash flows of the financial asset. In the following case, the Bank considers a financial asset as impaired:

- the occurrence of one or more events will adversely affect the future cash flows of the financial instrument.

The Bank considers that the credit risk has increased significantly, if:

- underperforming deals: compared to the date of initial recognition, the number of days that the deal is past due has increased, or an event has occurred which indicates significant increase of credit risk;
- performing deals: the past due days is up to 30 days, and there is no information which would indicate to the significant increase of credit risk.

The Bank uses not only days past due information to assess whether credit risk has increased significantly since initial recognition, but also other available information about the debtor, in particular the circumstances indicating a significant increase in credit risk and the so-called objective evidence.

Increased credit risk deals (SICR) are, especially in following cases:

- 30+ significant delay,
- great-amount prompt collection orders against the accounts of the client managed by the Bank (the size of the prompt collection is to-be-decided in comparison with business activity of the client),

Note (5) Significant accounting policies (continued)

Purchased or generated financial assets (POCI assets) are impaired at initial recognition.

The Bank considers the given financial assets as a POCI asset, if the counterparty is in default status at the initial recognition of the financial instrument. When calculating the credit-adjusted effective interest rate for POCI assets at initial recognition, the Bank considers the initial estimated credit loss in the estimated cash flows.

The expected credit loss on financial assets is the present value of the difference between the contractual cash flows receivable by the Bank under the contract and the cash flows expected by the Bank.

The Bank estimates the expected credit losses of a given financial instrument in such a way, that it reflects an unbiased and probability-weighted amount, which is determined by evaluating various possible outcomes, as well as the time value of money, and reasonable and justifiable information which is available without disproportionately high cost or effort on past events, current circumstances and forecasts for future economic conditions.

The Bank applies two different methodologies for the calculation of the expected credit loss amount, the so-called "individual" methodology and the so-called "collective" methodology.

The Bank determines ECL amount applying the individual methodology and considering the expected recovery amount and the amount of the future debt payment obligation in case of those deals (exposures) that are

- objective evidence of loss allowance has been identified, or
- defaulted.

Rules of categorizing loans/claims into 'defaulted' subcategory

CMT classifies the loans/claims as 'defaulted', if:

- a) the loan/claim that is overdue more than 90 days and the overdue amount is *significant*,
- b) the debtor died, without the successors admitting the loan/claim as their own debt in an official document prepared in the same form as the original document of the claim/loan, and the Bank has been duly informed about the death of the debtor,
- c) there is any evidence strongly supporting that the debtor may not be able to repay the debt voluntary or the sale of the collaterals either by the debtor or by the Bank will be necessary for repayment of the total outstanding, without respect to the fact that there is no overdue or the overdue is not significant or the loan/claim became overdue only for a short time,
- d) the loan/claim is defaulted upon stipulations of Article No 178. of CRR,
- e) the Bank initiated liquidation/execution against the debtor or started a similar process against the debtor due to any of loans/claims that is payable by the debtor either to the Bank or the parent company of the Bank,
- f) the debtor requested for its own liquidation or any kind of protection (bankruptcy) in order that it can avoid/postpone make payment toward the Bank or the parent company of the Bank.
- g) other UTP (unlikely to pay) indicators:
 - negative declaration or dispute by the customer concerning the fulfilment of its payment obligations,
 - persistent sectoral crisis coupled with the situation of the customer,
 - fraud event,
 - a natural disaster or war which makes the client's operation impossible,
 - termination,

- forced restructuring,
- technical default,
- “default” information of facilities connected to co-debtors and guarantors linked to the debtor,
- “default” information concerning to the client or its mother company in consultation with the Bank’s mother company (group “default”)

In the Bank’s practice, default transactions are the same as non-performing transactions regulated by CRR and NBH regulations. In 2023, the Bank changed it’s actual default definition and applies the “new definition of default”.

The Bank calculates ECL applying the collective methodology in case of those deals (exposures) that are

- neither objective evidence of loss allowance has been identified,
- nor they are defaulted.

The methodology for calculating collective impairment is that the Bank calculates the amount of impairment / provision for statistically probable future losses using the PD, LGD, EAD values determined for transactions classified in the same portfolio groups as follows:

For Stage 1 transactions (exposures) a 12-month expected loss (12MEL) is calculated applying the following formula: $12MEL = PD\% * (covered\ LGD\% * covered\ EAD + non-covered\ LGD\% * non-covered\ EAD)$. In this case the Bank makes a forward-looking calculation of future losses for a 12 months period only.

In the case of Stage 2 transactions the Bank calculates the lifetime expected loss (LEL) for the entire life of the transaction (exposure) applying the following formula:

$$p \sum_{t=n} PD\%,x (secured\ LGD\%,x secured\ EAD_t + unsecured\ LGD\%,x unsecured\ EAD_t) (1+EIR)^t$$

In this case the Bank makes a forward-looking calculation of future losses for the entire life of the transaction considering that the exposure associated with the transaction has been identified as underperforming due to the increased credit risk compared to the initial recognition.

If an on-balance sheet item is linked to the off-balance sheet exposure, then - according to the applied methodology - the off-balance sheet exposure is adjusted to the percentage and classification of the on-balance sheet exposure, and the provision is calculated by the Bank as follows: Provision = Amount of unutilised commitment line x CCF parameter x Provision %, where Provision % is equal to % of impairment calculated on the related balance sheet item.

If an on-balance sheet item is not linked to the off-balance sheet exposure (e.g. utilised commitment line) the Bank calculates the provision as follows: Provision = SUM(Periodic EAD amount x Provision%), where Provision is the calculated or estimated % of the average loss previously incurred on all off-balance sheet exposures, but not less than 0.03%.

The parameters used in calculating expected credit losses are estimated by the Bank in a customer rating-based model for corporate loans/claims and off-balance commitments through statistical analysis of historical data, and in the case of retail and other non-corporate loans/claims and off-balance commitments, they are estimated in an overdue-based model through statistical analysis of

Note (5) Significant accounting policies (continued)

historical data. The parameters used for collective methodology based impairment calculation is determined by statistical methodology and models, which are best suited to the methodology used in the approval processes of the assets.

The Bank shall categorize the following loans/claims into defaulted subcategory:

- the loans/claims overdue for more than 90 days, if the defaulted repayment amount is significant;
- that loan/claim that the Bank can identify as a problematic case upon analysis of the financial situation of the debtor or upon the declaration of the debtor or upon any other information, because it can reasonably expected that the debtor will not be able to repay the whole sum of the loan/claim irrespectively whether the loan/claim has any payment default or not and whether the amount of the defaulted repayment amount is significant or not and how long it is defaulted;
- that loan/claim that is defaulted upon the stipulations of Article No. 178. of CRR;
- that loan/claim that is impaired by the assumption of Bank, except for those that are impaired under the collective methodology,
- that loan/claim of which restructuring was agreed by the Bank only by necessity and with such conditions that results in waiving repayment of significant amount principal, interests, penalty interests, fees, costs or the repayment of any of these items is prolonged significantly;
- that loan/claim that is to be repaid by such a debtor against whom the Bank initiated liquidation or execution process or any similar action in order that the Bank can recover any of its own claim or any of the claim of its parent company,
- that loan/claim that is to be repaid by such a debtor who requested for its own liquidation or requested for such kind of a legal protection (e.g. bankruptcy) that can/may result in avoiding or prolonging to make any repayment either to the Bank or to the parent company of the Bank,
- that restructured, modified contract (loan/claim) that was categorised into non-performing category before the modification or the original contract should have been categorized as such, if there had been no modification,
- that restructured loan/claim, and/or modified loan/facility contract, that has been recategorised as a performing one, however, it was restructured during the 2-years probation time once again or has become overdue for more than 30 days again;
- that are not covered with any impairment, thus the calculated impairment amount is zero, however, the expected credit loss was calculated upon individual methodology and the loan/claim would be categorized into default subcategory upon other reason(s).

After 1 January 2018, the Bank will set aside a provision for expected credit losses on the undrawn portion of the credit facilities. In doing so, the following will be taken into account:

- findings of the customer monitoring (negative debtor information, where the default of the credit facility has not yet occurred, but there is even a minor risk of deterioration of the debtor's financial position or other conditions, which are not in relation with payment discipline);
- findings of the deal monitoring (where the deal (exposure drawn from the credit line) is performing, but default, delays have been occurred already, non-including the non-significant or technical delinquencies);
- findings of the collateral monitoring (the ratio of the income (cash flow) came from the selling of collateral to the collateral value).

Note (5) Significant accounting policies (continued)

5.3 Cash and current accounts from central banks

Classification of cash and current accounts from central banks:

- HUF and FX current accounts and short-term placement (deposit) at NBH,
- HUF and FX current accounts at another financial institution,
- cheques, bank notes and coins hold by cashiers,
- cash transaction related balances on dummy accounts.

Cash and equivalents denominated in foreign currency are revaluated on the official NBH exchange rate valid on the date of the initial recognition, and they are revaluated daily on the daily official NBH exchange rate.

5.4 Fair value

The purpose of the fair valuation is to estimate the price, at which a regular transaction for the sale of the asset or the transfer of the liability would take place between market participants at the time of measurement under existing market conditions.

The Bank determines fair value for valuation purposes (in case of financial assets and liabilities measured at fair value through profit or loss, and financial assets measured at fair value through other comprehensive income) and for disclosure purposes (in case of financial assets and liabilities that have not been measured at fair value and for which their carrying amount cannot be regarded as a reasonable approximation of their fair value at the reporting date).

The valuation of financial assets without active market prices is based on valuation models. The Bank regularly reviews the models and each model contains the latest available market data. While the models are based only on available data, in the course of their application some estimates and assumptions (e.g.: correlations, volatilities) are used. Changes in estimates may affect the fair value of the given financial asset.

IFRS 13 Valuation at fair value is intended to increase consistency and comparability in determining fair value, and the related disclosures through the "fair value hierarchy".

The hierarchy classifies the input data used for the evaluation at three levels:

- prices quoted on an active market (unregulated) for identical asset or liability (Level 1.),
- prices quoted other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2.),
- inputs for the asset or liability that are not based on observable market data (Level 3.).

In determining the fair value of financial assets and liabilities, the Bank applies primarily the market prices used in the active market. In most of the cases, the market price is not publicly available and the Bank uses the various valuation techniques to determine the fair value of the financial instrument.

The determination of fair value for different type of securities is the following:

- Hungarian government bonds: on net purchase price published by State Treasury (ÁKK), however if the residual maturity is within 3 months, the Bank assesses the net purchase price discounted by the 3-month government bond reference yield published by ÁKK;

Note (5) Significant accounting policies (continued)

Replacements and improvements which prolong the useful life or significantly improve the condition of the asset are capitalized, maintenance and repairs are charged to the profit or loss for the period as incurred.

At the reporting date the Bank reviews the remaining useful life, residual value of its real estates, machineries and equipment and intangible assets. If the predictable useful life of an asset is different than the currently applied, the net book value and already recognized depreciation shall be recalculated.

At the reporting date the Bank reviews the carrying amount of its real estates, machineries and equipment and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If there is an indication that the carrying amount of these assets exceeds its recoverable amount, the Bank makes estimates for the recoverable amount of the asset.

The recoverable amount is the higher between the asset's fair value less costs to sell and its value in use. When determining the amount of impairment, the Bank considers external and internal information. If the carrying amount of the asset is higher than its recoverable amount, an impairment loss is recognized if it is lower, the net carrying amount of the asset should be increased by reversing the impairment loss. After the reversed impairment loss, the carrying amount of the asset does not exceed the original carrying amount, less depreciation.

Tangible and intangible assets are derecognized when they are disposed, or no longer economic benefits are expected to generate from their use or disposal. Gains and losses on the derecognition of the assets are determined through netting the revenues from disposal (if any) and the carrying amount of the asset, and they are recognized in profit or loss in the year of derecognition.

5.7 Repurchased assets

Among repossessed assets are shown those real estates and vehicles, which have been repossessed in return of receivables due to the cancellation of the loan contract usually. The Bank always keeps these assets in order to sell them in a short time. These assets of the Bank are included in the financial statements as other assets.

These assets are derecognized when they are disposed or withdrawn from use, when they are not expected to bring future benefits to the Bank.

In case of real estates taken over against receivables the Bank usually buys the collateral from the debtors at auction, and settles the purchase price with the debtor. The initial recognition value is the purchase price indicated in the auction report.

In case of cars taken over against receivables the initial recognition value is the market price. The Bank determines the market value of assets based on professional expert's evaluation and book it as inventory against other liabilities on the day when the Bank's ownership is recorded into the Central Registration system of BM and into the vehicle licence (in case of loan contract).

Note (5) Significant accounting policies (continued)

The revaluation of assets on inventory is performed based on professional expert's evaluation in case of real estates and based on EUROTAX catalogue price in case of cars.

If the quality of the inventory is degraded, devaluation shall be settled as other expense.

If the quality of the inventory is improved, the booked devaluation shall be reversed.

- The release of devaluation booked in the current business year shall be settled as decrease (reversal) of other expense.
- The release of devaluation booked in the previous business year shall be settled as other income.

The Bank decreases the loan receivables with the selling price of the asset. If the selling price is less than the receivable, the Bank claims the remaining amount from the client, if it is more the surplus is paid to the client.

When the real estate on inventory is sold, the Bank issues a tax-free invoice for the sale based on the sales contract / agreement, so the gross sale price will be the sales revenue and the book value will be recorded under other expenses against inventory.

At the time of selling the cars, the assets are booked out from the inventory in parallel with the decrease of other liabilities.

In case of car financing loan contract, if the selling price contains VAT, and the client do not want or cannot issue invoice, the selling price equals to the net selling price, otherwise equals to the gross selling price.

5.8 Other assets

The initial recognition value of other assets is equal to the cost of acquisition, which includes the amount of purchase and other costs. The balance of other assets includes balances that are not separately recognized in the statement of financial position.

5.9 Equity and reserves

The following table shows the reconciliation of the components of total equity according to Act C of 2000 on Accounting 114 / B. § and the equity components of the financial statements prepared in accordance with the IFRSs as adopted by the EU. On one hand, the reconciliation consists of the allocation of the equity components of the EU IFRS to the equity components determined by the Act C of 2000 on Accounting, on other hand it consists of explanation of the difference between the equity determined in the two ways.

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all amounts in million HUF (except when otherwise indicated)

Note (5) Significant accounting policies (continued)

	Equity components according to Act C of 2000 on accounting						Total
	Issued capital	Capital reserve	Retained earnings	Profit after tax	Revaluation reserve	Tied-up reserve	
31.12.2023							
Issued capital	28,938						28,938
Retained earnings			1,049				1,049
Profit/loss for the business year				6,593			6,593
Other reserve		42				414	456
Cumulative other comprehensive income					926		926
Own equity according to EU IFRS allocated to own equity components according to Act C of 2000 on accounting	28,938	42	1,049	6,593	926	414	37,962
Issued, but not paid in capital (-)							0
Amount of received additional payments shown as liability (+)						0	0
Amount of received additional payments shown as asset (-)			0				0
Amount of deferred income attributable to cash and taken over assets to be transferred to capital reserve under law (+)		0					0
Claim against owners considered as equity instruments due to capital increase (-)		0					0
Amount of unused tied-up reserve less by the linked deferred tax		0				0	0
Items to be settled in profit or loss in accordance with the Accounting Act, but recognized directly in equity under IFRS (e.g. subsidies, received / given cash)		0					0
Own equity according to 114/B § of Act C of 2000 on accounting	28,938	42	1,049	6,593	926	414	37,962

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all amounts in million HUF (except when otherwise indicated)

Note (5) Significant accounting policies (continued)

	Equity components according to Act C of 2000 on accounting						Total
	Issued capital	Capital reserve	Retained earnings	Profit after tax	Revaluation reserve	Tied-up reserve	
31.12.2022							
Issued capital	28,938						28,938
Retained earnings			2,619				2,619
Profit/loss for the business year				-476			-476
Other reserve		42				414	456
Cumulative other comprehensive income					-1,166		-1,166
Own equity according to EU IFRSs allocated to own equity components according to Act C of 2000 on accounting.	28,938	42	2,619	-476	-1,166	414	30,371
Issued, but not paid in capital (-)							0
Amount of received additional payments shown as liability (+)						0	0
Amount of received additional payments shown as asset (-)			0				0
Amount of deferred income attributable to cash and taken over assets to be transferred to capital reserve under law (+)		0					0
Claim against owners considered as equity instruments due to capital increase (-)		0					0
Amount of unused tied-up reserve less by the linked deferred tax		0				0	0
Items to be settled in profit or loss in accordance with the Accounting Act, but recognized directly in equity under IFRSs (e.g. subsidies, received / given cash)		0					0
Own equity according to 114/B § of Act C of 2000 on accounting	28,938	42	2,619	-476	-1,166	414	30,371

Note (5) Significant accounting policies (continued)

Share capital

The share capital is the nominal value of the issued equity instruments; any amount that the shareholders or other owners subscribe in compliance with the relevant legislation.

Reconciliation of registered capital and registered capital according to EU IFRS	31.12.2021	31.12.2022
Registered capital	28,938	28,938
Instruments recognized as a liability		0
Subscribed capital according to EU IFRS	28,938	28,938

Retained earnings

Retained earnings contain:

- Reserves arising from previous periods' profit or loss
 - profit / loss from previous years;
 - any movements arising from transfers between retained earnings and other equity components.
- Effects of retrospective applications due to changes in accounting policies, unless the transitional provisions of a standard or interpretation require the effects of retrospective application to be corrected by other equity component.
- Amount of retrospective restatement due to error correcting, unless a standard or interpretation requires retrospective restatement of another equity component.
- Gains and losses that are recognized directly in retained earnings.

Dividend payment is determined by the General Assembly and is directly settled against retained earnings on the date of the dividend payment decision.

Cumulative other comprehensive income

Cumulative other comprehensive income includes unrealized gains and losses arising from the fair valuation of financial instruments, i.e. changes in the fair value of financial assets measured at fair value through other comprehensive income after tax effects.

Other reserve

General reserve

According to the section 83 of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter referred to as "Hpt") a general reserve shall be accumulated which is ten percent of the profit after tax. The general reserve created and used in accordance with Hungarian legislation in the financial statements directly affects the retained earnings (technically a reclassification between retained earnings and other reserve), so there is no impact on the profit of the year.

General reserve was recorded before and after 01.01.2018, therefore its balance is shown in the balance of other equity reserves in each reporting period.

Note (5) Significant accounting policies (continued)

Capital reserve

Any amount that the Bank pays to redeem its own shares will directly reduce its equity (the nominal value).

decreases the share capital, the difference between the consideration paid and the nominal value is settled against the capital reserve).

Other equity items that are not included in equity shall be included here also, for example cash or non-monetary assets received from the owner in their ownership without compensation.

5.10 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions made by the Bank are the followings:

- Provisions made for the organisational changes:
 - occasionally,
 - responsible: Human Resources Team.
- Provisions for expected credit losses:
 - for guarantees, non-utilised credit lines,
 - quarterly in the framework of the asset quality classification,
 - responsible: Credit Monitoring Team
- Other provisions:
 - mainly for the legal procedures (litigation cases), where the Bank is in defendant position, based on status report prepared by Legal Team,
 - quarterly basis,
 - responsible: Financial Control Division.

A contingent liability is a possible liability that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank, or an existing obligation that arises from past events, but is not recognized, because it is unlikely that the settlement of the obligation will require the outflow of resources embodying economic benefits, or the amount of the obligation cannot be measured with sufficient reliability.

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

In case of transactions, where drawdown is connected to the credit-line, the ratio of the provision for the undrawn portion of the credit lines equals to impairment rate (%) of the related drawdown part.

If drawdown has not happened yet from the credit line, the provision rate shall be made on portfolio basis.

Other provisions include provisions for litigation cases mainly. The Bank shall make provision for litigation cases in which it is in defendant position.

Note (5) Significant accounting policies (continued)

The Bank shall classify the litigation cases and the related contingent liabilities based on chance to win the case. The Legal Team shall record the litigation cases and classify them on quarterly basis, according to how much (in %) is the chance to win the case.

The viewpoints applied for the determination of the chance to win the case and the required level of the provision shall be the followings:

- subject of the litigation case (compensation for damages, annulling contract, real estate registration modification, execution case, labour case, etc.);
- value of the subject of the litigation case;
- cost of the litigation case;
- the judgement/impression on the other defendant of the litigation case;
- the expected result of the litigation case based on the evidences, available data, experienced judicial practice and other information;
- chance to have an out of court agreement or finishing the court procedure;
- the expected duration of the litigation case,
- status of the litigation case (1st or 2nd instance, Supreme Court).

5.11 Interest income and interest expense settlement applying effective interest rate method

In the case of financial assets and financial liabilities measured at amortized cost and debt instruments measured at fair value through other comprehensive income Interest income and expense are recognized in profit or loss for the period to which they relate using the effective interest calculation method.

The effective interest rate is the interest rate that exactly discounts the estimated future cash outflows or cash inflows during the expected lifetime of the financial instrument - or, if appropriate, a shorter period – to the gross carrying amount of the financial asset or to the amortised cost value of the financial liability. The effective interest rate at the recognition of the financial asset or financial liability shall be applied to the accounting for interest income and expense.

When calculating the effective interest rate the Bank considers the transaction costs related to the financial instruments, as well as the received or paid fees, the received or paid commissions, premiums and discounts as an integral part of the effective interest rate.

In determining the effective interest rate, the Bank does not consider the expected credit losses, except for POCI financial assets where the Bank calculates credit-adjusted effective interest rate, which takes into account the expected credit losses also.

Note (5) Significant accounting policies (continued)

The Bank recalculates the effective interest rate, if the financial asset or liability has a floating interest rate, and therefore the interest is repriced periodically.

The interest connected to interest bearing assets and liabilities are accrued daily.

The amortization between the initial acquisition cost of the interest-bearing instruments and their value at the maturity determined by the effective interest rate method is settled as interest income and interest expense.

The Bank recognizes the interest income on financial assets measured at fair value through profit or loss as other interest income.

Based on the "Stage" category the Bank calculates the interest income as follows. (See definition of stages above in chapter 5.2.14.)

Staging	Stage 1.	Stage 2.	Stage 3.	Stage 3. POCI
Classification	Good performer	Underperformer	Credit-impaired	Credit-impaired
Recognition of impairment	12 months expected credit loss	Life time expected credit loss	Life time expected credit loss	Change of life time expected credit loss
Basis of recognition of interest income	Gross carrying amount	Gross carrying amount	Net carrying amount	Net carrying amount

In case of non-credit impaired (Stage 1. and Stage 2.) loans the effective interest rate is applied for the gross carrying amount, in case of credit impaired (Stage 3.) loans it is applied for the net carrying amount, in case of POCI assets credit-adjusted effective interest rate is applied.

5.12 Settlement of commission and fee income and commission and fee expense

All financial services related income or expense from banking operations is recognized as fee and commission income or expense with over-time and at-a-point in time recognition method, which is not subject to interest and similar income or expense, because they do not form an integral part of the effective interest rate of financial instruments. These fee and commission income are recognized when the related service is provided by the Bank, and fees and commissions are charged when the service is rendered. If the loan is not expected to be drawn down in the case of a loan commitment, the fee for the related loan commitment is accounted for on a time proportion basis over the period of the commitment.

The fees charged for account management services provided to retail and corporate clients are typically the followings:

- account keeping fee,
- account statement fee,
- account transaction fees (GIRO and SEPA money transfer fees, direct debit fees, standing order fees),
- SMS fee,
- other non-regular administration fees for specific services.

Note (5) Significant accounting policies (continued)

Fees for continuous account management services are fixed amounts and charged on a monthly basis. These applied fees are different according to the account package or customer segment (retail, corporate, VIP, etc).

Transactional fees (money transfer fees) are charged at the same time when the transactions are executed. Transactional fees are calculated as a certain % of the transaction amount.

SMS fees are fixed amounts and charged on monthly basis.

Other non-regular administration fees are charged when the services are used by the client. These fees are usually fixed fees.

The fees charged for bankcard services provided to retail and corporate clients are typically the followings:

- card issuance fee,
- annual bankcard fee,
- transaction based fees (cash withdrawal fee, cash pay in fee, merchant fee).

The Bank did not disclose the value of any open performance obligations as its contracts with customers generally have a fixed term that is less than one year, an open term with a cancellation period that is less than one year, or allow the Bank to recognize revenue at the amount it has the right to invoice.

Card issuance fee is charged once as a fixed fee, it differs according to card type.

Annual bankcard fee is charged once a year as a fixed fee, it differs according to card type.

Transaction based fees are charged as a certain % of the transaction amount applying a fixed minimum amount. Transaction-based fees are charged when the transaction takes places.

5.13 Profit or loss from financial assets subsequently measured through other comprehensive income

Profit or loss from financial assets subsequently measured through other comprehensive income contains the cumulative gain or loss previously recognized in other comprehensive income at the time of the derecognition of the asset (with the exception of equity instruments)

5.14 Profit or loss from financial assets subsequently measured at amortized cost

Profit or loss from financial assets subsequently measured by amortized cost contains the difference between the carrying amount and the purchase price received at the time of the derecognition of the asset.

Note (5) Significant accounting policies (continued)

5.15 Profit or loss from financial assets and liabilities held for trading purpose

Profit or loss from financial assets and liabilities held for trading purpose contains the gain or loss from revaluation or derecognition of financial instruments held for trading purpose.

The Bank recognizes interest income on financial assets held for trading as Other Interest Income and interest expense on financial liabilities held for trading as interest expense.

5.16 Taxation

The current income tax receivables and tax liabilities for the current year and the previous year are equal to the amount that the Bank is expected to recover or pay to the tax authority. Current taxes are determined based on the tax rules and tax rates applicable at the reporting date of the financial statements.

The income tax expense comprises from current and deferred tax. Income tax expense is recognized *in profit or loss, except for items recognized in other comprehensive income and directly in equity* that are shown in other comprehensive income or equity.

The Bank considers the local tax and innovation contribution tax as an income tax.

The resulting receivables and liabilities are recognized in the statement of financial position among other assets and other liabilities.

The Bank also considers the local business tax and innovation contribution as profit tax from January 1, 2019. In this regard, the Bank has changed its accounting policy, the reason for which is primarily the recommendation of the Hungarian National Bank on the subject. The Bank already included its data in the comparative period's statement of financial position in accordance with the changed accounting policy.

The current tax is the amount which is expected to be paid based on the current year taxable profit applying the tax rates in force at the balance sheet date.

Deferred tax

Deferred tax is recognized as temporary differences between the accounting carrying value of assets and liabilities and the value calculated for taxation purposes. The deferred tax is calculated by those tax rates, which are expected to apply for temporary differences, when they are reversed under the laws that came into force by the balance sheet date or that came into effect substantially.

In case of the Bank, typically the following items cause a temporary difference in deferred taxation:

- effective interest rate correction of loans;
- depreciation of real estates, machineries and equipment,
- settlement of unutilised holidays;
- the tax effect of financial assets measured through other comprehensive income.

Note (5) Significant accounting policies (continued)

The Bank recognizes deferred tax asset in its financial statement, if the Bank achieves future taxable profit on the basis of plans prepared by the Planning Division and approved by the Shareholder, against which the temporary difference can be used. Deferred tax assets are reviewed for each balance sheet date and are reduced to the extent that the related tax benefit is no longer probable.

The Bank shall be able to offset its deferred tax assets and deferred tax liabilities only if:

- it has a legally enforceable right to set off its actual tax receivables against its actual tax liabilities; furthermore
- deferred tax assets and deferred tax liabilities are related to income taxes that were imposed by the same tax authority or:
 - for the same taxpayer; or
 - for different taxable persons who either intend to settle their actual tax receivables and tax liabilities on a net basis, or at the same time intend to settle claims and settle liabilities for any future period in which a significant amount of deferred tax asset or deferred tax liability is expected or settled.

Bank tax

In 2023, the bank tax was calculated based on the financial statements for the year ended 31 December 2021, while in 2022 it was calculated based on the financial statements for the year ended 31 December 2020.

The applicable tax rate is 0.15% up to HUF 50 billion and 0.21% over 50 billion forints in the case of credit institutions.

As the bank tax does not comply with the definition of income tax under IFRS, it is presented as an operating expense in the statement of comprehensive income.

Financial transaction duty

The financial transaction duty is recognized as an operating expense in the statement of comprehensive income.

5.17 Employee benefits

Employee benefit is a consideration paid to employee for their services, which may be short-term employment benefit, post-employment benefit, and other long-term employee benefits and severance pay.

Short-term employee benefits are recognized as an expense in the period in which the employee renders the service. These include, in particular, wages, social security contributions, premium, paid leave and other fringe benefits and their tax implications.

The Bank does not provide long-term or post-employment employee benefits.

Note (5) Significant accounting policies (continued)

5.18 IFRS 16 – Leases

As of 1 January 2019, the Bank applies IFRS 16 Leases.

IFRS 16 replaces current leasing regulations: IAS 17 Leases, IFRIC 4 (Determining whether an arrangement contains a lease), SIC-15 Operational Leases – Incentives, SIC-27 (Valuation of transactions involving the legal form of the lease). In addition, IFRS 16 sets out broader disclosure requirements than IAS 17.

IFRS 16 introduces a single model for lessee accounting, under which the lessee recognizes the right to use the underlying asset and the liability for leasing related payments. The lessee shall disclose separately the interest expense on the lease obligation and the depreciation of the right-of-use asset. In addition, the lessee is required to reassess the lease obligation, if certain events occur (such as changes in the lease term, changes in future lease payments due to changes in indexes or interest rates that determine the lease payments). The lessee generally recognizes the amount of revaluation of the lease liabilities as an adjustment to the right-of-use asset.

The standard sets out exceptions for short-term leases and for leases where the underlying asset has low value.

The lessor's accounting under IFRS 16 remains substantially unchanged from IAS 17.

The Bank as a lessee

The Bank does not present the right-of-use asset separately in its statement of financial position, it is included among tangible assets in accordance with the original classification of the underlying asset. In the statement of financial position, the Bank does not present the lease liability on a separate line, it presents it on the line other liabilities.

In the cash flow, statement lease payments are shown in the line of change in cash from financing activities.

For the assets the Bank calculates the depreciation taking into account the useful life of the underlying asset. The recognized depreciation is shown in the statement of comprehensive income under depreciation.

The distribution of all costs accounted for as a result of operating leases (lease fee cost, depreciation and interest under IFRS 16) during the term of the lease has also changed.

In all asset classes the Bank elected not to separate the non-lease component from the lease components, and account for the lease and the associated non-lease components as a single lease component.

In accordance with the exemptions allowed by the standard, the Bank has decided not to apply the requirements of the standard to short-term leases and to leases of low-value assets.

Note (5) Significant accounting policies (continued)

The Bank initially applies IFRS 16 on 1 January 2019 and has chosen the modified retrospective method for the transition, and presents the cumulative effect of the first application of the standard as an adjustment to the opening balance of accumulated profit on 1 January 2019.

In connection with the transition to IFRS 16, the Bank has made the following decisions:

- As of 1 January 2019 the Bank does not reassess - as measured by IAS 17 - whether, under IFRS 16, a specific contract is a lease or contains lease.
- In case of leases previously classified as operating leases under IAS 17:
 - On 1 January 2019 the Bank will recognize a lease liability at the present value of remaining lease payments. The Bank calculates the present value using the incremental borrowing rate effective on 1 January 2019.

	Weighted average incremental lease interest rate from 1 January 2019
Real estate	4.58%
Vehicle	6.86%
Office supplies	2.47%

- On 1 January 2019 the Bank will recognize right-of-use asset. The carrying amount of the right-of-use asset equals to the carrying amount of the lease liability at the date of initial recognition, adjusted with the value of prepaid or accrued lease payments recognized in the statement of financial position as at 31 December 2018 for that lease.
- At the transition the Bank relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review. As such a provision is not recognized by the Bank on 31 December 2018, it will not adjust the carrying amount of its right-of-use assets on 1 January 2019.
- In case of short-term leases, the Bank applies the practical expedient allowed by the standard, and considers those previously recognized operating leases as short term leases which have remaining maturity less than 1 year on 1 January 2019. As at 1 January 2019 and 31 December 2018, the Bank did not have any contractual obligations that would include leases with a term of less than one year.
- In the accounting policy the Bank has determined that it considers low-value asset leases those transactions where the value of the right-of-use asset does not reach HUF 1 million at the lease commencement.
- The Bank does not take into account initial direct costs when valuing the usage right recognized on 1 January 2019.
- For the term of the lease liability recognized on 1 January 2019, the Bank takes into account the actual term of the contractual obligations, does not consider an extension option.

Note (6) New IFRS standards

6.1 Standards and interpretations already issued and endorsed by the EU but not yet effective

Amendments to the Conceptual Framework

The revised Conceptual Framework includes amended definitions of assets and liabilities as well as new guidance on measurement, derecognition, presentation and disclosure. The Conceptual Framework was not amended to the extent originally planned at the time when the project started in 2014. Instead, International Accounting Standards Board (IASB) focused on topics not yet covered or showing obvious shortcomings to deal with. The revised Conceptual Framework is not subject to an approval process. (effective date: 1 January 2020)

The Bank plans to apply standards that have been issued but not yet effective until the preparation of its financial statements when the standards become effective.

6.2 Standards, modifications and interpretations not yet endorsed by the EU and not yet effective

The following standards, standard modifications and interpretations have not been endorsed by the EU till the approval of these financial statements, and it is expected not to have significant impact on the Bank's financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBORs (interbank offer rates) with Alternative Reference Rates (ARR). The Bank's financial instruments are not significantly exposed to interbank reference rates (IBOR) that would be replaced or reformed as a result of this market-wide initiative. The amendments predominantly relate to certain reliefs from the hedge accounting rules and are mandatory for each hedging relationship affected by the reference rate reform. In addition, specific disclosures are required as to what extent hedging relationships of an entity are affected by the amendments.

The following amendments are to be applied for reporting periods beginning on or after 1 January 2020:

- IFRS 17: Insurance Contracts
- IFRS 14: Regulatory Accruals
- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 10 and IAS 28: Disposals of Assets or Contributions between an Investor and an Associate or Joint Venture.
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Amendments to Errors

II. Supplementary notes to the statement of financial position

Note (7) Cash and current accounts with central banks and other sight deposits

Below table contains cash including banknotes and coins of various currencies found at the Bank, account receivables from central banks and other sight deposits, HUF account at the central bank, and nostro accounts with nostro banks in various currencies.

	31.12.2023	31.12.2022
Cash	781	491
Current account at Hungarian National Bank	110,392	9,032
Nostro accounts balances	356	238
Total	111,529	9,761

The Bank is obliged to establish and place a reserve with the National Bank of Hungary pursuant to the provisions of Decree 10/2005 (VI. 11.) NBH. The amount of the mandatory reserve is included in the current account balance kept at NBH. The amount of the required reserve is shown in the table below:

	31.12.2023	31.12.2022
Mandatory reserve at NBH	13,960	9,272

Note (8) Financial assets and liabilities held for trading

	Financial assets held for trading		Financial liabilities held for trading	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Non-derivative deals	0	0	0	
Derivative deals	96	927	5	1293
Total	96	927	5	1,293

The Bank discloses only the fair value of derivative financial instruments among financial assets and liabilities measured at fair value and trading shares through profit or loss.

The below table contains the financial assets held for trading by products:

	31.12.2023	31.12.2022
Interest rate swap (IRS)	91	911
Two-currencies interest rate swap	0	0
Currency Swap	5	16
Total	96	927

	31.12.2023	31.12.2022
Share - trading	18	19
Trading shares valuation	175	168
Total	193	187
	289	1,114

Note (8) Financial assets and liabilities held for trading (continued)

The below table contains the financial liabilities held for trading by products:

	31.12.2023	31.12.2022
Currency Swap	1	1,259
Two-currencies interest rate swap	0	0
Interest Rate Swap (IRS)	4	34
Total	5	1,293

The Bank had only financial assets held for trading purposes which did not serve as collateral during the relevant period.

SUPPLEMENTARY NOTES

Note (9) Financial assets measured at fair value through other comprehensive income

	31.12.2023	31.12.2022
Investment shares	12	12
Shares FVOCI	915	169
Equity instruments	927	181
Government bonds	30,382	33,532
Treasury-bills	0	6,321
Debt securities	30,382	39,853
Total financial assets measured at fair value through other comprehensive income	31,309	40,034

Detailed breakdown of investment shares

	31.12.2023			31.12.2022		
	Face value	Book value	Ownership	Face value	Book value	Ownership
Hitelgarancia Ltd.	10	10	0.20%	10	10	0.20%
Máriavölgy Ltd.	0,003	2	0.01%	0.003	2	0.01%
Total equity instruments	10	12		10	12	

In case of equity instruments that are not held for trading purposes, the Bank made an irrevocable decision at initial recognition to measure them against other comprehensive income at fair value. The Bank did not realise dividend from these investments either in 2023 or in 2022.

Note (9) Financial assets measured at fair value through other comprehensive income (continued)

A detailed description of shares measured at fair value through other comprehensive income owned by the Bank is presented in the tables below.

The Bank measures its shares presented in the above table at fair value through other comprehensive income in accordance with IFRS 9.

In 2022 the Bank did derecognise asset (VISA A) that was measured at fair value through other comprehensive income.

In 2023 the Bank received dividend income of HUF 1,4 million, in 2022 HUF 3 million in connection with Visa and Daewoo shares, and there was no dividend income from other investments.

	31.12 2023			
	Currency	Face value (in CCY)	Fair value (in CCY)	Fair value (in MHUF)
Daewoo Songdo	KRW	292,311	0	0
Daewoo Industrial DEV. 1 P.	KRW	3,876	3,876	0
Daewoo Industrial DEV.	KRW	3,876	3,876	0
V Telecom Investment General Partner	EUR	244	0	0
V Telecom Investment S C A Equityco	EUR	244	0	0
ORP FR EQUITY	EUR	2,151,254	2,391,854	915
Total				915

	31 12.2022			
	Currency	Face value (in CCY)	Fair value (in CCY)	Fair value (in MHUF)
Daewoo Songdo	KRW	292,311	0	0
Daewoo Industrial DEV. 1 P.	KRW	42,562,356	8,255,880	2
Daewoo Industrial DEV.	KRW	19,380,000	8,255,880	2
V Telecom Investment General Partner	EUR	244	0	0
V Telecom Investment S. C. A Equityco	EUR	244	0	0
VISA A	USD	4,147	436,926	164
Total				168

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Note (9) Financial assets measured at fair value through other comprehensive income (continued)

Government bonds owned by the Bank is presented in the tables below.

31.12.2023				
	Face value	Book value	Fair value+ Premium Discont	Impairment
2029/B	29,800	28,955	30,382	11
Total	29,800	28,955	30,382	11

31.12.2022				
	Face value	Book value	Fair value	Impairment
2029/B	29,800	28,995	29,771	11
2023/C	4,000	4,026	3,761	2
Total	33,800	33,021	33,532	13

Treasury-bills owned by the Bank is presented in the tables below.

31.12.2023					
	Sequence number	Face value	Book value	Fair value	Impairment
	D200226	0	0	0	0
	D200429	0	0	0	0
	D201021	0	0	0	0
	Total	0	0	0	0

31.12.2022					
	Sequence number	Face value	Book value	Fair value	Impairment
	D230215	1,500	1,452	1,476	1
	D230301	3000	2960	2,993	2
	D230726	2,000	1,845	1,852	1
	Total	6,500	6,257	6,321	4

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Note (10) Securities measured at amortised cost

The Bank measures corporate bonds purchased on the OTC market at amortized cost. The composition of the stock is illustrated in the following tables:

31.12.2023.						
Currency	Face value (in CCY)	Accrued interest (in CCY)	Gross carrying amount (in MHUF)	Impairment (in MHUF)	Amortised cost (in MHUF)	
HANWHA E&C CORP	USD	10,000,000	134,258	3,511	0.4	3,510.6
PAN OCEN	USD	5,000,000	2,272	1,733	0.1	1,732.9
PMX 11JUN2021	USD	6,000,000	23,847	2,087	1.0	2,086.0
HANWHA SOLUTIONS	USD	5,000,000	32,730	1,744	1.4	1,742.6
KAMCO FRN TRANCH A						
KOREAN ASSET	USD	9,068,110	131,934	3,187	1.1	3,185.9
KAMCO TRANCHE B	USD	8,719,068	49,261	3,038	1.2	3,036.8
VOLTA FRN 2024	USD	5,000,000	2,875	1,733	0.3	1,732.7
DAEHIM FLOAT	USD	8,000,000	112,175	2,810	0.1	2,809.9
HANTRA FLOAT 06/	USD	5,000,000	5,720	1,734	0.0	1,734.0
LOTTEH FLOAT 08/	USD	10,000,000	40,063	3,478	0.4	3,477.6
HALENG FLOAT	USD	6,000,000	5,608	2,081	0.3	2,080.7
KOINCP FLOAT	USD	6,000,000	5,074	2,080	0.3	2,079.7
JISHUL FLOAT	USD	5,000,000	4,103	1,734	0.1	1,733.9
LOTCON FLOAT 08/	USD	6,000,000	63,007	2,100	6.0	2,094.0
HANSPP FLOAT 11/	USD	7,000,000	73,556	2,451	0.1	2,450.9
Összesen		101,787,178	686,484	35,501	12.7	35,488

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Note (10) Securities measured at amortised cost (continued)

	31.12.2022					
	Currency	Face value (in CCY)	Accrued interest (in CCY)	Gross carrying amount (in MHUF)	Impairment (in MHUF)	Amortised cost (in MHUF)
DAEHIM FLOAT						
HYUNDAIDOOSANINFRAC	USD	8,000,000	67,480	3,031	0.1	3,028.9
HALENG FLOAT						
06/27/2025	USD	6,000,000	6,527	2,257	0.3	2,256.7
HANTRA FLOAT06/27/25						
HANJINTRANS	USD	5,000,000	4,320	1,880	0.1	1,879.9
HANWHA ENGINEERING & CONSTRUCTION	USD	10,000,000	92,937	3,792	0.4	3,791.6
HANWHA SOLUTIONS						
COPR. 23NOV2024	USD	5,000,000	31,846	1,890	1.0	1,889.0
KAMCO FLOAT 10/05/26	USD	9,634,055	129,285	3,668	0.8	3,667.2
KAMCO TRANCHE B						
KOREAN AS.MAN.CO	USD	9,259,534	33,076	3,491	0.8	3,490.2
LOTTEH FLOAT 08/29/25	USD	10,000,000	45,041	3,774	0.4	3,773.6
PAN OCEAN FRN						
28JUN2024	USD	5,000,000	2,144	1,879	0.0	1,879.0
PMX INDUSTRIES FRN						
11JUN2024	USD	6,000,000	23,774	2,263	0.9	2,262.1
VOLTA ENERGY						
SOLUTIONS FRN	USD	5,000,000	2,023	1,879	0.3	1,878.7
Total		78,893,589	438,453	29,804	5	29,797

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Note (10) Securities measured at amortised cost (continued)

Expected credit loss of securities measured at amortised cost

	31.12.2023				31.12.2022			
	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total
Balance as of 1 January	6 00	0 00	0 00	6 00	4	0	0	4
Change from credit risk change (net)	6 70	0 00	0 00	6 70	2	0	0	2
Impairment change of modified, but not derecognized assets (net)	0 00	0 00	0 00	0 00	0	0	0	0
FX rate change and other changes	0 00	0 00	0 00	0 00	0	0	0	0
Balance as of 31 December	12.70	0.00	0.00	12.70	6	0	0	6

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Note (11) Loans measured at amortised cost

Breakdown of customer loans by sector and purpose:

	31.12.2023.		
	Gross value	Expected credit loss	Book value
Retail customers:	4,631	2,026	2,605
Mortgage loans	4,518	1,919	2,599
Car financing	97	91	6
Personnel loans	7	7	0
Overdraft	9	9	0
Non-financial companies:	174,064	3,374	171,690
Investment loans	471	91	380
Working capital loan	154,566	3,006	151,560
Other loan	20,027	277	19,750
Other financial companies	3,441	2,013	1,428
Investment loans	1,444	16	1,428
Working capital loan	0	0	0
Other loan	1,997	1,997	0
Credit institutions	7,078	67	7,011
Investment loans	7,078	67	7,011
Working capital loan	0	0	0
Other loan	0	0	0
Non-profit institutions	0	0	0
Investment loans	0	0	0
Working capital loan	0	0	0
Other loan	0	0	0
Government	4,604	3	4,601
Investment loans	0	0	0
Working capital loan	0	0	0
Other loan	4,604	3	4,601
Total	194,818	7,483	187,335

In determining the expected credit loss in the table, the Bank took into account the requirements of IFRS 9 standard. The book value includes the amortized cost calculated using the effective interest rate.

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Note (11) Loans measured at amortised cost (continued)

	31.12.2022		
	Gross value	Expected credit loss	Book value
Retail customers:	5,420	2,301	3,119
Mortgage loans	5,076	1,957	3,119
Car financing	328	328	0
Personnel loans	7	7	0
Overdraft	8	8	0
Non-financial companies:	198,092	5,456	192,635
Investment loans	481	83	398
Working capital loan	182,380	5,105	177,275
Other loan	15,230	268	14,962
Other financial companies	1,443	10	1,433
Investment loans	1,443	10	1,433
Working capital loan	0	0	0
Other loan	0	0	0
Credit institutions	13,918	2,153	11,765
Investment loans	13,918	2,153	11,765
Working capital loan	0	0	0
Other loan	0	0	0
Non-profit institutions	270	1	269
Investment loans	0	0	0
Working capital loan	0	0	0
Other loan	270	1	269
Government	0	0	0
Investment loans	0	0	0
Working capital loan	0	0	0
Other loan	0	0	0
Total	219,142	9,921	209,221

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Note (11) Loans measured at amortised cost (continued)

Sectoral concentration of loans (book value)

	31.12.2023	31.12.2022
Corporate sector	139,560	192,580
Administrative and support service activities	-	0
Mining, quarrying	-	1,876
Other service	-	3
Building industry	-	0
Manufacturing	81,388	63,603
Human health and social work activities	-	928
Information, communication	5,343	5,998
Real estate	1,174	1,866
Trade, vehicle repair	6,701	16,267
Agriculture, forestry, fishing	1,517	1,592
Education	933	1,984
Financial, insurance	13,779	50,259
Professional, scientific, technical activities	3,813	13,432
Hospitality	3,933	4,446
Transportation, warehousing	6,259	11,222
Electricity, gas, steam supply	13,383	17,741
Water supply	1,337	1,400
Other	0	-37
Retail sector	2,657	3,174
Secured by mortgages	2,600	3,119
Uncovered loans	57	55
Credit institution	40,517	11,765
Government	4,601	0
Other sector	0	1,702
Total	187,335	209,221

Note (11) Loans measured at amortised cost (continued)

Geographical concentration of loans (book value)

	31 12.2023	31.12 2022
Corporate sector	139,560	192,580
Hungary	32,519	41,149
European Union	100,469	98,641
Other foreign countries	6,572	52,790
Retail sector	2,657	3,174
Hungary	2,608	3,087
European Union	24	27
Other foreign countries	25	60
Other financial companies	0	1,433
Hungary	0	1,433
Non-profit institutions	0	269
Hungary	0	269
Government	4,601	0
Hungary	4,601	0
Credit institution	40,517	11,765
Hungary	8,499	11,765
European Union	0	0
Other foreign countries	32,018	0
Total	187,335	209,221

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Note (12) Central bank and other bank deposits measured at amortised cost

	31.12 2023	31.12.2022
Long-term deposits	331	498
Hungarian National Bank	0	0
Other banks	331	498
Short-term deposits	0	56,825
Hungarian National Bank	0	51,763
Other banks	0	5,062
Total Impairment for placements	331	57,323

Note (13) Investments in subsidiaries

The Bank shows among equity investments its ownership in KDB Szerviz Ltd., which value was HUF 90 million as of 31 December 2023. The Bank measures its shares at cost less impairment. The Bank did not recognize any impairment of its shares in the current year.

Details of KDB Service:

Headquarter: 1054 Budapest, Bajcsy-Zsilinszky street 42-46.

Equity: HUF 90 million

Owner: KDB Bank Europe Ltd. 100%.

Field of activity: Real estate leasing, intermediated services, property management

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Note (14) (15) Tangible and intangible assets

Gross value	Intellectual products Property rights	Construction in progress	Real estate and related property rights	Machinery and equipment	Construction in progress	Total
At 1 January 2022	2,223	1,271	1,400	1,224	0	6,118
Increase	224	201	0	0	20	445
Increase IFRS 16	0	0	1,349	79	0	1,428
Decrease	0	-224	-290	-122	-11	-647
At 31 December 2022	2,447	1,248	2,459	1,181	9	7,344
Decrease corr. 2022 close	-1					-1
Increase	223	145	7	394	229	998
Increase IFRS 16	0	0	296	56	0	352
Decrease	-238	-213	-222	-660	-238	-1,571
At 31 December 2023	2,431	1,180	2,540	971	0	7,122
DEPRECIATION AND AMORTIZATION						
At 1 January 2022	1,331	0	745	680	0	2,756
Depreciation and amortization charge	144	0	470	211	0	825
Depreciation and amortization charge - IFRS 16	0	0	0	0	0	0
Disposal and write-offs	-28	0	-405	-120	0	-553
At 31 December 2022	1,447	0	810	771	0	3,028
Depreciation and amortization charge	301	0	328	404	0	1,033
Depreciation and amortization charge - IFRS 16	0	0	0	0	0	0
Disposal and write-offs	-373	0	-84	-516	0	-973
At 31 December 2023	1,375	0	1,054	659	0	3,088
IMPAIRMENT OF FIXED ASSETS 2022.12.31.		-809				-809
ASSETS 2023.12.31.		-1,140				-1,140
Net book amount						
At 31 December 2022	1,000	439	1,649	410	9	3,507
At 31 December 2023	1,056	40	1,486	312	0	2,894

Note (14) Tangible assets (continued)

Neither in 2023 nor in 2022 the Bank did not recognize any impairment losses on tangible assets and did not realise any income from the reversal of previous periods impairment losses.

The Bank calculated the useful life of the assets according to IFRS standards and calculated the amount of depreciation with 10% residual value.

Real estate and property rights include the value of rebuilding and construction works made in the Bank's branches operating in rented properties.

At the end of the year, the investments account includes the Moonsol software development, AZUR module development, Electra system development items and a handcart worth a total of HUF 132.4 million.

Note (15) Intangible assets

The Bank applies the procedure described for tangible assets in determining the depreciation of intangible assets.

In 2022 317 million HUF, in 2023 332 million HUF impairment losses on intangible assets and did not realise any income from the reversal of previous periods impairment losses.

The Bank started the core banking system renewal project in 2018. Since then, the Bank performed several tasks with external consultants and system integrator, however the project has been suspended in 2020, but restarted it in 2022.

The Bank prepared a new plan for core banking system renewal and decided to perform the project in 3 phases in 2021.

It reviewed the investment costs paid for the project and IT operations in the period 2018-2021 based on the deliverables and expected systems to be implemented.

The amount as a result of the respective utilization review for payments, HUF 316,447,700 was written off in 2022, 331,680,598 HUF was written off in 2023 the remaining amount can be utilized for phase 2 and phase 3, or already has been activated.

In 2022, the Bank started a large-scale transformation and development of its computer systems.

The Bank did not have contractual commitment to acquire intangible assets at the end of 2022 and 2023.

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Note (16) Other assets

	31 12.2023	31 12 2022
Inventories (repossessed assets)	47	100
Trade receivables	0	7
Prepaid expenses, accrued incomes	365	563
Tax receivables	-4	0
Client settlement accounts	1	13
Other	18	9
Total	427	692

Inventories (withdrawn assets) include the value of cars and real estate that the Bank intends to sell. Tax receivables include the amount of innovation contribution, local business tax and other types of tax receivables.

Note (17) Deposits measured at amortised cost

	31 12 2023	31 12 2022
Hungarian National Bank	0	0
Other central banks	0	0
Other banks	1	14,470
Deposits from financial institutions	1	14,470
Retail clients.	21,134	27,045
Non-financial companies	92,161	121,813
Other-financial companies	11,925	13,932
Government	19,543	6,904
Non-profit institutions:	2,438	6,938
Customer deposits	147,201	176,632
Total	147,202	191,102

Note (18) Borrowings measured at amortised cost

	31 12 2023	31 12 2022
Hungarian National Bank	14	4,001
Parent company	10,393	0
Other banks	152,121	110,059
Subordinated liability	19,210	12,011
Total	181,738	126,071

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Note (18) Borrowings measured at amortised cost (continued)

Subordinated loan related information:

Subordinated loan is defined in Regulation 575/2013. For this purpose, a given financial instrument is classified as subordinated loan capital if – among others - it meets the following basic conditions:

- original maturity is at least 5 years,
- before the expiry date it can only be repaid with the permission of the NBH;
- it is ranked behind the claims of other creditors in the loss aim ranking.

Issue date	Maturity	Currency	Face value (in CCY) ¹	31.12.2023	31 12.2022
2023.07.28	2030.07.28	EUR	20,000,000	7,656	0
2022.09.27	2029.09.27	EUR	30.000	11,483	12.011

	2022	Cash flows	Non-cash changes		2023
			Acquisition/ term increase	Foreign exchange movement	
Long-term borrowings	105,748	-26	21,150	-11,896	114,976
Short-term borrowings	7,257	40,745	0	-450	47,552
Lease liabilities	1,625	-290	1	0	1,336
Assets held to hedge long-term borrowings	645	-645	0	0	0
Total liabilities from financing activities	115,275	39,784	21,151	-12,346	163,864

Note (19) Provisions

The Bank has made provision for court procedures (litigation cases) and for unused credit facilities provided by the Bank in 2023. The Bank has made provision for the payment of employees' accumulated holidays from previous periods and for SK branch close. The purpose of the provision making is to serve as collateral for the expected payments of the Bank arising from its contractual obligations. The table below shows the breakdown and changes of provisions:

	Provision for unused credit facilities	Provision for litigation cases	Provision for employee benefits	Provision for SK branch close	Total
Opening balance 01.01.2022	10	81	0	0	91
Increase	9	0	44	0	53
Decrease	-18	-7	0	0	-25
Closing balance 31.12.2022	1	74	44	0	119
Increase	1	10	213	6	230
Decrease	-1	-50	-44	0	-95
Closing balance 31.12.2023	1	34	213	6	254

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The Bank classifies its provisions made for credit facilities entirely into the 12-month expected credit loss (Stage 1) category.

Note (20)	Other liabilities	31.12.2023	31 12.2022
	Accrued expenses, deferred income	172	152
	Suppliers	144	310
	Employee wages and taxes	129	78
	Tax liabilities	35	36
	Liabilities against customers	319	420
	IFRS 16 lease liabilities	1,336	1,625
	Total	2,135	2,621

Note (21) **Share capital**

There was not change in the value of the share capital between 1 January 2023 and 31 December 2023.

Share related information as of 31 December 2023:

	Nominal amount	Number of shares	Share capital (thHUF)	Foreign ownership
Korea Development Bank (Seoul)	10.000	2 893.820	28 938.200	100%

Type of shares: 2,893,820 dematerialised common shares.

Note (22) **Other reserves**

The table below shows the breakdown of other reserves

	31 12.2023	31.12 2022
Revaluation reserve	0	0
General reserve	414	414
Capital reserve	42	42
Total	456	456

General reserve has been recorded according to the section 83 of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, and it is equal to 10 percent of the profit after tax. The general reserve may be released by the Bank if a loss occurs in the current year, but the amount of the release may not exceed the amount included in the general reserve.

In the capital reserve, the amount related to the 1996 capital increase is shown in the amount of HUF 42 million.

Reserves recorded in other reserves cannot be paid out as dividends.

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Note (23) Contingent and future liabilities

IFRS9	31.12.2023	31.12.2022
Derivatives	5,001	55,450
Off balance receivables	5,001	55,450
Derivatives	4,997	56,821
Credit lines	650	7,514
Overdrafts	1401	2,627
Export letter of credits	0	0
Off balance liabilities	7,048	66,962
Interest rate swap	0	0
IAS 37	31.12.2023	31.12.2022
Litigation case	0	0
Off balance receivables	0	0
Litigation case	105	115
Guarantees	1,781	1,868
Off balance liabilities	1,886	1,983

Derivative transactions include the amount of the transaction's face value and the accrued interest.

Litigation cases includes the value of ongoing court procedures initiated by or against the Bank.

Amounts shown under credit lines and overdrafts are the Bank's payment obligations for loan disbursements. In case of given guarantees the table above shows the guaranteed amount.

The table below shows the values of off-balance sheet items classified by impairment category:

	2023				2022			
	12 months expected credit loss (stage1)	Life time expected credit loss (not impaired)(Stage 2)	Life time expected credit loss (impaired)(Stage 3)	Total	12 months expected credit loss (stage1)	Life time expected credit loss (not impaired)(Stage 2)	Life time expected credit loss (impaired)(Stage 3)	Total
Credit lines	5,001	0	0	5,001	55,450	0	0	55,450
Guarantees	0	0	0	0	0	0	0	0
Overdrafts	4,997	0	0	4,997	56,821	0	0	56,821
Export letter of credits	650	0	0	650	7,514	0	0	7,514
Off balance liabilities	10,648	0	0	10,648	119,785	0	0	119,785

See Section 5.2 14 for the definitions of stage 1, stage 2 and stage 3 in the table above.

III. Supplementary notes to the statement of comprehensive income

Note (24) Interest income and expense

Interest income:

	2023	2022
Interbank	7,235	3,529
Retail	546	700
Hungarian National Bank	8,677	5,159
Corporate	11,292	5,394
Interest income (calculated based on effective interest rate method)	27,750	14,782
Derivatives	662	579
Interest similar to interest income	662	579
Total	28,412	15,361

Interest expense:

	2023	2022
Interbank	6,613	1,934
Other Leasing	62	20
Retail	396	123
Hungarian National Bank	0	0
Corporate	5,217	2,370
Total	12,288	4,447

Note (25) Dividend income

In 2022 the Bank received dividends in the amount of HUF 3 million each year after the shares of VISA A, VISA C INC, and Daewoo in 2023 the amount of HUF 1,4 million.

The Bank had no other dividend income.

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Note (26) Fee and commission income and expense

Income from fees and commission:

	2023	2022
Fees and commissions related to lending	418	569
Deposit and account maintenance fees and commissions	539	582
Fees and commissions related to the issued bank cards	69	66
Fees and commissions related to security trading	3	0
Net insurance fee income	16	6
Other	135	76
Fees and commissions from contracts with customers	762	730
Total Income from fees and commissions	1,180	1,299

Contract Balances

	2023	2022
Receivables which are included in 'other assets'	6	1
Loss allowance	0	0
Liabilities which are included in 'other liabilities'	0,6	0,5

The increase in fee income was mainly due to the increase in fees related to customer relationships.

All financial services related income or expense from banking operations is recognized as fee and commission income or expense, which is not subject to interest and similar income or expense.

Fees and commission expense:

	2023	2022
Fees and commissions related to lending	8	14
Deposit and account maintenance fees and commissions	113	105
Fees and commissions related to the issued bank cards	122	142
Fees and commissions related to security trading	8	8
Net insurance fee income	0	0
Other	0	0
Fees and commissions from contracts with customers	243	255
Total Expenditure from fees and commissions	251	269

The decrease in fee expenses is due to the increase in account management and cash management fees, as well as various commissions.

Note (27) Profit/loss from the derecognition of financial assets measured at fair value through other comprehensive income

The Bank records on this line the profit or loss realised from sale of government bonds. Losses from government bond sales in 2022 HUF 484 million HUF and 2023 was 121 million HUF.

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Note (28) Profit/loss from the derecognition of financial assets measured at amortised cost

	2023	2022
Income on sale of receivables	5	101
Expense on sale of receivables	0	-125
Book value of written off receivables	-2,827	-7,413
Interest income from derecognized assets	0	0
Impairment release from derecognized assets	2,865	8,273
Total	43	836

The significant change in profit from the derecognition of financial assets measured at amortized cost caused by the sale of a corporate foreign currency loan. In previous years, the Bank has recognized significant impairment for this transaction.

Note (29) Trading share market valuation gain or loss

The Bank records on this line the result of the fair value difference on derivatives. The interest related to derivatives is shown as interest similar to interest income or other interest expense aggregated by transaction, according to their sign.

	2023	2022
Basis swap	0	0
Currency swap	-2,418	-2,224
Forward	0	0
Interest rate swap	-548	-69
Spot	-16	-94
Total	-2,982	-2,387

Note (30) Exchange rate difference

	2023	2022
Realised exchange rate difference	1,215	1,038
Non-realised exchange rate difference	-457	780
Exchange rate gain	758	1,818
Realised exchange rate difference	-82	-210
Non-realised exchange rate difference	-144	-501
Exchange rate loss	-226	-711
Exchange rate difference, net	532	1,107

In 2022 1,107 MHUFnegative result on exchange rate difference and 2023 the Bank also reported a 532 MHUF positive result on exchange rate difference.

Note (31) Other operating income

	2023	2022
Returns of written off receivables	0	0
Incomes from sold inventories (repossessed assets)	65	0
Incomes from intermediated services	0	4
Adjustment for previous year's result	5	3
E-banking other incomes	11	10
Legal incomes	14	18
Other incomes	188	464
Total	283	499

Other incomes are higher than the revenues generated in the previous year due to the decreased value of refunds of court fees paid in previous years.

Note (32) Other operating expense

	2023	2022
Fine, penalty	56	6
Expenditure from derecognition of tangible assets	30	39
Impairment of fixed assets loss	332	316
Purchase value of repossessed assets	53	4
Adjustment for previous year's result	0	24
Legal expenses	13	69
Taxes, fees	285	478
Other expenses	66	60
Total	835	996

Impairment of intangible assets loss due to unrealized investments amounted to 332 million HUF in 2023, 316 million HUF in 2022.

The table below shows the details of taxes and fees payable to different supervisory bodies:

	2023	2022
Company car tax	0	0
HNB fee	91	109
Banking Association membership fee	12	10
OBA fee	71	133
BEVA fee	2	2
Bank tax (Slovakia)	0	0
Resolution fund	109	222
Total	285	476

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Note (33) General expenses
General expenses in 2022 and 2021

	2023	2022
Wages	2,422	2,003
Personal payments	225	106
Taxes	316	222
Personal expenses	2,963	2,331
Material cost	52	38
Maintenance costs	6	9
Prints	2	2
Shipping charges	4	1
Post, telecommunication fee	63	49
Newspaper, professional book	2	2
Daily allowance	10	5
Office rent	6	-13
Other rental fee	69	71
Services	178	168
Computer services fee	414	358
Advertising fee	12	8
Services in rented property	205	106
Auditing fee	80	43
Cleaning service	41	38
Trainings	6	7
Bankcard production cost	1	4
Insurance fees	5	5
Other administrative cost	1,156	901
Legal costs	33	20
Financial transaction duty	294	319
Membership fee, Costs of authority service	8	6
Other fees	335	345
Bank Tax	1,024	1,031
Total	5,478	4,608

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Note (33) General expenses (continued)

Wages in 2022 and 2023:

2023	Top management	Executives	Middle managers	Subordinates	Total
Wage Hungarian	51	225	302	931	1,509
Premium Hungarian	0	0	0	0	0
Hungarian overtime		4	9	28	41
Wages foreign	689	41	0	140	870
Premium foreign	0	0	0	2	2
Total	740	270	311	1,101	2,422

2022	Top management	Executives	Middle managers	Subordinates	Total
Wage Hungarian	39	222	297	700	1,258
Premium Hungarian	0	0	1	1	2
Hungarian overtime	0	1	10	21	32
Wages foreign	705	0	0	6	711
Premium foreign	0	0	0	0	0
Total	744	223	308	728	2,003

The statistical staff number of the Bank was 137 persons in 2022 and 135 persons in 2023.

An entity shall disclose key management personnel compensation *in total and for each of the following categories*:

	2023	2022
(a) short-term employee benefits;	1,126	1,050
(b) post-employment benefits;	0	0
(c) other long-term benefits;	0	0
(d) termination benefits; and	0	0
(e) share-based payment.	0	0

Note (34) Depreciation

	31 12 2023	31.12 2022
Depreciation of tangible assets	393	335
Amortisation of intangible assets	125	115
Total	518	450

The increase in depreciation due to IFRS 16 in 2023 is HUF 68 million.

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Note (35) Provision recognition and release

	31.12.2023	31.12 2022
For credit loss of unused credit lines	0	0
For litigation cases	11	15
Provision recognition	11	15
For credit loss of unused credit lines	1	10
For litigation cases	50	22
Provision release	51	32
Total provision	40	17

In 2023 the positiv result of provisioning was due to the release of provisions made for litigation cases in previous years. Provisions decreased at the end of the year 2023.

Note (36) Impairment recognition and release

	2023	2022
Bonds	251	213
Discount treasury bills	15	4
Interbank placements	373	535
Loans	1,445	4,099
Other receivables	0	0
Overlay receivables	948	2,096
Moratorium	0	-57
Impairment recognition	3,032	6,890
Bonds	246	206
Discount treasury bill	18	1
Interbank placements	350	529
Loans	799	614
Other receivables	0	0
Overlay receivables	923	0
Impairment release	2,336	1,350
Impairment generation and release, net	-696	-5,540

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Note (36) Impairment recognition and release (continued)

Loss on value	Open 1/1/2023	12/31/2022 - 12/31/2023 FX change	Recognition	Release	Write- offs	Close 12/31/2023
Financial assets measured at fair value through other comprehensive income						
Bonds	17	0	160	-165	0	12
Securities measured at amortised cost						
Loans	9,921	-282	2,393	-1,722	-2,827	7,483
Other receivables	0	0	0	0	0	0
Interbank placements	43	0	307	-350	0	0
1 day deposit NBH	0	0	66	0	0	66
Bonds	6	0	106	-99		13
Total	9,987	-282	3,032	-2,280	-2,883	7,574

Note (37) Income tax

The Bank considers as income tax the corporate income tax, local business tax and innovation contribution, which is determined according to the Hungarian taxation rules based on its economic activity in Hungary and according to the Slovakian taxation rules in case of its foreign branch operating in Slovakia.

Since the corporate tax rate in Hungary was 9% in 2023, the Bank used this rate to calculate the deferred tax:

	2023	2022
Current corporate tax	350	50
Deferred tax	7	0
Local business tax	327	230
Innovation contribution	52	37
Total tax expense for the year	736	317

In view of the recommendation of the National Bank of Hungary, the Bank considers the local business tax and the innovation contribution as income tax, therefore data for the previous period is represented in the table above.

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Note (37) Income tax (continued)

Composition of the corporate tax:

	2023	2022
Profit before tax	7,405	-338
Pre-tax profit increasing items	1,046	927
Pre-tax profit decreasing items	-588	-467
Adjusted tax base	7,863	122
Recoverable loss from the previous year	3,799	60
Tax base	4,064	62
Current corporate tax	366	50
Profit tax accounted for in equity	15	0
Corporate tax expenditure in profit	351	50

In 2023, the actual amount of corporate tax differs from that calculated on the basis of the tax base, since the Bank is Tao. TV. He established his corporate tax on the basis of the income (profit) minimum according to § 6 (5).

	2023		2022	
	%	%	%	%
Profit before tax	7,405		-338	
Theoretical tax expense	667	9.01	-30	9.00
Tax base increasing items	94	1.27	82	-24.39
Tax base decreasing items	-53	-0.72	-42	12.43
Recoverable loss from the previous year	-342	-4.62	-5	1.48
Tax base due to the application of the income (profit) minimum	0	0	45	-13.31
Total	366	4.94	50	-14.79

Current tax receivables

	2023	2022
Corporate tax receivables	0	0

The Bank had no actual tax liability in 2022 and 2023.

Composition of the accrued loss:

	Accrued loss
Closing balance 31.12.2022	3,799
Loss used in 2023	3,799
Closing balance 31.12.2023	0

Note (37) Income tax (continued)

The Bank may take into account the amount of the deferred loss when calculating the corporate tax base no later than 31 December 2025.

Composition of the deferred tax asset:

	Opening 01.01.2022	Increase	Decrease	Closing 31.12.2022	Increase	Decrease	Closing 31.12.2023
Wage costs and contributions for unused holidays	4	4	-4	4	1	0	5
Provision generation	19	0	0	19	1	-17	3
Loans	28	0	0	28	0	-28	0
Fair value measurement of securities- may be reclassified to PL	0	39	-32	7	0	-7	0
Fair value measurement of securities - may not be reclassified to PL	123	0	-14	109	15	-1	123
Total deferred tax assets	174	43	-50	167	17	-53	131

Based on its plans for the future, the Bank will conclude the following years with a positive result, and therefore the Bank shows a deferred tax asset in its statements. The Bank's financial plans contain minimal positive results, so the considerable portion of the loss accumulated by the Bank in the previous year is minimal also, therefore the Bank does not include this item in the deferred tax asset line.

Composition of the deferred tax liability:

	Opening 01.01.2022	Increase	Decrease	Closing 31.12.2022	Increase	Decrease	Closing 31.12.2023
Loans	4	0	0	4	0	-4	0
Difference in depreciation and amortization	33	0	0	33	0	-33	0
Fair value measurement of securities- may be reclassified to PL	-39	0	39	0	83	0	83
Fair value measurement of securities - may not be reclassified to PL	0	0	0	0	8	0	8
Total deferred tax liabilities	-2	0	39	37	91	-37	91

Note (38) Paid dividend

Dividend payments were not made to the owner neither in 2022 nor in 2023.

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Note (39) Leasing

Low-value asset leases

	01.01.2023 assets value	Payment rental fee in 2023
Office supplies	10	7

Changes in the right-of-use assets recognised in accordance with IFRS 16 in 2023 are as follows:

	Real estate and related property rights	Machinery and equipment	Total
Gross carrying amount			
Opening balance			
01.01.2022	981	161	1,142
Additions	1,314	18	1,322
Decrease	-113	-56	-169
Closing balance			
31.12.2022	2,182	123	2,305
Additions	282	18	300
Decrease	-192	-48	-234
Closing balance			
31.12.2022	2,272	99	2,371
Depreciation			
Opening balance			
01.01.2022	541	82	623
Increase	176	44	220
Decrease	-30	-41	-71
Closing balance			
31.12.2022	687	84	772
Additions	299	102	401
Decrease	-59	-102	-161
Closing balance			
31.12.2023	927	84	1,012
Net carrying amount			
01.01.2023	1,495	38	1,533
31.12.2023	1,345	14	1,359

Note (39) Leasing (continued)

Change of lease liabilities in accordance with IFRS 16 in 2023:

	Real estate and related property rights	Machinery and equipment	Total
Opening balance 01.01.2022	507	76	583
Increase new lease	1,862	63	1,925
Decrease / repayment of lease obligation	-861	-23	-884
exchange rate difference	1	0	1
Closing balance 31.12.2022	1,509	116	1,625
Increase new of lease obligation	477	64	541
Decrease / repayment of lease obligation	-811	-19	-830
exchange rate difference	0	0	0
Closing balance 31.12.2023	1,175	161	1,336

Maturity analysis of the lease liabilities as of 31 December 2023

	Within 1 month	1-3 months	Between 3 months and 1 year	1-5 years	Beyond 5 years	Total
Real estate and related property rights	0	0	13		1,314	1,327
Machinery and equipment	0	6	3		0	9
Total lease liability	0	6	16	0	1,314	1,336

Maturity analysis of the lease liabilities as of 31 December 2022

	Within 1 month	1-3 months	Between 3 months and 1 year	1-5 years	Beyond 5 years	Total
Real estate and related property rights	0	0	0	244	1,266	1,510
Machinery and equipment	0	1	64	50	0	115
Total lease liability	0	1	64	294	1,266	1,625

Note (39) Leasing (continued)

Interest expense recognized in the statement of comprehensive income in accordance with IFRS 16 in 2023:

	Real estate and related property rights	Machinery and equipment	Total
Accrued interest expense	60	2	62

Amounts recognised in profit and loss	31.12.2023	31.12.2022
Depreciation expense on right-of-use assests	296	772
Interest expense on lease liabilities	62	20
Expense relating to short-term leases	0	0
Expense relating lease of low value	0	18
Expense relating to variable lease payments not included in the measurement of the lease liability	0	0
Income from sub-leasing right-of-use assets	0	0

The Bank as a lessor

The Bank does not have any lease transactions as a lessor.

IV. Other notes

Note (40) Transactions between related parties

Related parties:

- Parent company of the Bank: Korea Development Bank
- Subsidiary of the Bank: KDB Szerviz Ltd.

The Bank's major transaction with the parent company derives from borrowings, and settlement of derivative transactions.

The Bank recorded with its subsidiary a liability due to account management.

The balances of related party transactions are shown in the table below:

	Balances with parent company		Balances with subsidiary	
	2023.12.31	2022 12.31	2023.12.31	2022.12.31
Deposits measured at amortised cost	0	0	120	124
Borrowings measured at amortised cost	10,393	0	0	0
- from this subordinated loan	19,139	12,008	0	0
Interest incomes based on effective interest rate method	0	0	0	0
Interest expenses	627	63	0	0

The Bank's related party transactions are carried out under conditions equivalent to transactions between independent parties. The Bank keeps a separate registration about related party transactions.

Executive officers

Members of the Board of Directors as of 31 December 2023:

- Kwon Yong Il
- Choi Chi Young
- Márton Péter József
- dr Zéman Zoltán
- Bae, Seong Ho
- Lee, Sang Yup
- Lee, Sung Ho

Members of the Supervisory Board as of 31 December 2023:

- Kim Sun Woo
- Kim, Nohyun
- dr. Komáromi Péter István

Note (40) Transactions between related parties (continued)

In 2023 the Bank had 7 members in Board, 2 member received honorarium from the Board. For the 2 members a honorarium of HUF 10 million was paid. In 2022 the Bank had 8 members in the Board, 2 member received honorarium from the Board. For the 2 member a honorarium of HUF 10,8 million was paid.

As of 31 December 2023 executive officers did not have any loans and advance liabilities against the Bank.

The Bank did not have any liabilities from pension payments against officers, members of Board of Directors and Supervisory Board.

Note (41) Fair value of financial assets and liabilities

The valuation of financial assets without active market prices is based on valuation models. The Bank regularly reviews the models and each model contains the latest available market data. The Bank uses an estimated yield curve to calculate the present value, which is calculated using the market rate of standard maturities and linear interpolation.

Classification of the fair value of financial instruments measured at fair value among the hierarchy levels:

31.12.2023	Level 1.	Level 2.	Level 3.	Total
Financial assets				
Financial assets held for trading	0	96	193	289
Financial assets measured at fair value through other comprehensive income	0	31,309	0	31,309
Financial liabilities				
Financial liabilities held for trading	0	5	0	5

31 12.2022	Level 1.	Level 2.	Level 3	Total
Financial assets				
Financial assets held for trading	0	927	187	1,114
Financial assets measured at fair value through other comprehensive income	0	40,034	0	40,034
Financial liabilities				
Financial liabilities held for trading	0	1,293	0	1,293

Note (41) Fair value of financial assets and liabilities (continued)

Classification of the fair value of financial instruments not measured at fair value among the hierarchy levels:

31.12.2023	Level 1	Level 2.	Level 3.	Fair value total	Book value
Financial assets					
Cash and current accounts with central banks and other sight deposits	111,529	0	0	111,529	111,529
Securities measured at amortised cost	0	35,488	0	35,488	35,488
Loans measured at amortised cost	0	0	187,335	187,335	187,335
Placements to central banks and other banks measured at amortised cost	0	0	331	331	331
Financial liabilities					
Deposits from customers measured at amortised cost	0	0	147,202	147,202	147,202
Deposits from banks measured at amortised cost	0	0	181,738	181,738	181,738
<hr/>					
31.12.2022	Level 1.	Level 2.	Level 3.	Fair value total	Book value
Financial assets					
Cash and current accounts with central banks and other sight deposits	9,761	0	0	9,761	9,761
Securities measured at amortised cost	0	29,797	0	29,797	29,797
Loans measured at amortised cost	0	0	209,221	209,221	209,221
Placements to central banks and other banks measured at amortised cost	0	0	57,323	57,323	57,323
Financial liabilities					
Deposits from customers measured at amortised cost	0	0	191,102	191,102	191,102
Deposits from banks measured at amortised cost	0	0	126,071	126,071	126,071

The Bank considers the carrying amount as fair value as a good approximation in case of financial instruments not measured at fair value.

Cash and current accounts with central banks and other sight deposits have floating interest rates and mostly short-term maturity, and they are immediately available to the Bank, so their book value is close to fair value.

Securities, loans and interbank deposits usually have floating interest rates, which rates can be considered as market interest rates, therefore the value shown on these lines is close to the fair value.

Note (41) Fair value of financial assets and liabilities (continued)

Valuation technics applied for Level 3 securities

Sensitivity analysis is performed on securities with significant unobservable inputs to make valuations to get fair value of the instrument. The calculation is based on data of reliable reference source or a scenario based on relevant market analysis. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimation
VISA C share	Market approach combined with expert judgement	Haircut applied for illiquidity and litigation	+/-12%

For fair value measurement of Level 3 securities the changes of assumptions may have the following effects:

	Fair value	Fair value	Fair value
	31.12.2022.	Favourable scenario	Unfavourable scenario
VISA C share	168	188	148

	Fair value	Fair value	Fair value
	31.12.2023.	Favourable scenario	Unfavourable scenario
VISA C share	193	216	170

Note (41) Profit/loss from financial assets measured at fair value through profit or loss

	<u>2023.12.31</u>	<u>2022.12.31</u>
VISA C részvény	7	-100

Note (42) Research and development

The Bank did not have any research and development activities and did not book any expenditure for research and development in 2022 and 2023.

Note (43) Significant Business and Financial situation

Modified financial instruments subject to a moratorium for the year ended 31 December 2023 in HUF

(Ft)	2023	2022
Gross book value before adjustment	6,221,871,308	7,797,729,484
Impairment before adjustment	569,229,930	695,318,734
Net amortized cost before adjustment	5,652,641,378	7,102,410,750
Amendment due to moratorium	-1,383,425	13,477,410
Net amortized cost after adjustment	5,654,024,803	7,088,933,340

Note (43) (continued)

Economic environment

In 2023 the global economy continues to recover slowly from the blows of the pandemic, Russia-Ukrainian war, and the cost-of-living crisis. Despite the disruption in energy and food markets caused by the war, and the unprecedented tightening of global monetary conditions to combat decades-high inflation, the global economy has slowed, but not stalled. Yet growth remains slow and uneven, with growing global divergences.

Although world GDP growth was slowed for the end of the year, near-term indicators still point to solid growth underpinned by the resilient performance of the services sector. As such, 2023 world GDP growth forecast has been upgraded from 2.0% in April to 2.4% in anticipation of a stronger end to the year than previously anticipated.

Global equities declined for the end of the year. Market sentiment was dented by concerns about the health of China's economy, increasing energy prices, and rising government bond yields amid the prospect of an extended period of high interest rates. Global central banks varied their approaches to monetary policy in response to differing rates of inflation and economic growth across countries and regions. The US Federal Reserve (Fed) held interest rates stable in September amid moderating inflation but signalled a tighter policy path over the next two years amid a strong labour market and a better outlook for US economic growth. In a potential step toward phasing out Japan's ultra-easy monetary policy, the Bank of Japan (BOJ) allowed greater flexibility for government bond yields to fluctuate but ultimately held rates stable amid extremely high uncertainties surrounding economies and financial markets domestically and abroad. China's economy showed signs of stabilizing in the wake of the government's recent policy adjustments, as macroeconomic indicators for manufacturing, services, retail sales, credit growth, and inflation improved. However, the beleaguered property sector remained the key impediment to a sustained recovery. Crude oil prices rallied to a 10-month high after Saudi Arabia and Russia extended production cuts to the end of the year.

Note (43) (continued)

Hungary's economy shrunk for four consecutive quarters, with real GDP falling by 2.4% y-o-y in 2023 Q2. High inflation, tighter fiscal and monetary policies and sluggish external demand contributed to the downturn. Quarterly GDP growth is estimated to have turned positive in 2023 Q4, thanks to the bounce-back in agricultural production from the severe droughts of 2022, and an uptick in industrial and construction activity.

Real GDP is expected to be shrunken by 0.7% in 2023, but to gradually recover as inflation recedes, allowing the easing of the currently very tight monetary conditions. Real GDP growth is forecast to pick up to 2.4% in 2024, and further to 3.6% in 2025. Consumption is set to be supported by recovering real income growth and the easing of precautionary saving. Construction investment is projected to remain constrained by fiscal consolidation and high interest rates, but large FDI projects in manufacturing are expected to boost machinery investment. As these capacities enter production, they are set to gradually bolster Hungary's export performance.

Employment remained resilient in 2023, as companies were reluctant to shed workers in an environment of persistent labour shortages. The unemployment rate stood at a modest 4.4% at the end of 2023, and it is projected to remain broadly flat in the next years. The tight labour market is set to sustain high nominal wage growth, further boosted by an expected double-digit minimum wage hike in 2024.

The inflation has decreased substantially to 5.5% in 2023 Q4. However, high wage growth is expected to keep service inflation persistently high. Although the aggregate profitability of the corporate sector appears high, smaller companies are assessed to be more financially stretched, thus they are more likely to pass wage increases on to consumers. The average annual inflation rate is forecast to decrease from 17.6% in 2023 to 5.2% in 2024 and 4.1% in 2025.

The forint strengthened against the major currencies by the end of 2023 compared to the level at the end of 2022. The Central Bank reduced the base interest rate several times during the year, which thus decreased from the level of 13.00% to 10.75%.

Based on the current assessment of the Bank's management, the Russian-Ukrainian conflict has no significant direct negative impact on the Bank's financial position, capital position, liquidity and profitability, and has not caused a significant direct business disadvantage for the Bank. The increase in Hungarian Forint interest rates did not cause any losses, as fixed-rate assets are hedged with interest rate swaps, and the volatility in Hungarian Forint exchange rate had no effect on profitability, as there were no significant open foreign currency positions. The management is constantly monitoring the development of the Russian - Ukrainian conflict and taking the necessary steps to mitigate the risks.

On October 7, 2023, Palestinian armed resistance organizations operating in the Gaza, led by Hamas, launched an unexpected, large-scale raid against Israeli targets. As part of this, the Palestinians fired thousands of rockets at Israel, Palestinian fighters broke through the technical border built by Israel around the Gaza, attacked barracks and bases, invaded Jewish ranches and took many prisoners.

In late October 2023, after several weeks of bombardment and artillery preparation, Israeli ground forces entered Gaza. The declared goal of the Israeli attack was to destroy Hamas and occupy the Gaza Strip. In the wake of the Israeli incursion, long-lasting fighting began, which is still ongoing (May 2024), during which the Israeli forces destroyed most of the civil infrastructure in Gaza, and the operations of the Israeli forces resulted in disproportionately high collateral losses, i.e. an extremely large number of Palestinian civilian casualties, and they are still going.

Note (43) (continued)

The main participants of the oil market are currently - half a year after the outbreak of the war - still not directly involved in the conflict, so the impact of the Palestinian-Arab war has not been reflected in domestic oil and fuel prices, inflation, or the forint exchange rate.

The Bank does not have exposures to customers linked to the war-torn area, so it does not expect any credit losses that would result directly from the conflict.

Impact of Middle East war on lending:

On 31.12.2023, the Bank's business books did not include any exposure from loans or credit-type commitments with business or non-business organizations operating in the territory of countries participating in the Middle East conflict that erupted and widened as a result of the terrorist act of 7 October 2023 or it existed against natural persons residing in countries as a way of life. On 31.12.2023, there were 3 loan exposures in the Bank's business books, which were the so-called It was against economic organizations belonging to the Middle East in a narrower sense, operating in the territory of a country not participating in the Middle East conflict, and there were 5 other loan exposures, which were the so-called It stood against economic organizations operating in the countries belonging to the Middle East in a broader sense. The economies of the mentioned countries are stable, their socio-economic processes have not been significantly adversely affected by the conflict in the Middle East, and the credit exposures, with the exception of 1 transaction, have been to business organizations operating in the financial sector - of which credit exposures, 1 was without any problems until the adoption of the annual report and financial report was closed and repaid - therefore, according to the Bank's opinion, a significant increase in credit risk is not expected due to reasons directly related to the Middle East conflict.

According to the Bank's assessment, the conflict in the Middle East may have an indirect, long-term, modest effect on credit risks, primarily due to the rise in energy prices due to the possible further increase in the price of oil, as well as the new inflationary environment caused by the general world market price rise caused by the decrease in the efficiency and cost of sea transport. due to negative effects. The Bank constantly monitors, monitors and manages these risks, until the date of acceptance of the annual report and financial report, no information came to its attention that it would not have evaluated in the Bank's business books on 31.12.2023, or on the basis of which a credit loss can be expected or assumed later.

According to the Bank's expectations, the industries resistant to energy price increases and the possible inflationary environment during 2024 are agriculture, banking and insurance, information and telecommunications; real estate utilization and operation; retail and wholesale; other activities.

According to the Bank's expectations, the negative effects resulting from the increase in energy prices and the possible inflationary environment will affect the hotel and catering industry to a small extent during 2024; machine production; textile industry, tobacco and soft drink production; dairy industry, utility services, waste management; crude oil and gas production and processing.

According to the Bank's expectations, the negative effects resulting from the rise in energy prices and the possible inflationary environment will affect air and water transport and plastic processing more strongly in the course of 2024, but without significantly increasing credit risks.

Note (43) (continued)

The extraordinary payment obligation set out by the Board of Directors of OBA Member institution of the National Deposit Insurance Fund

The NBH has withdrawn the operation licenses of Sberbank Hungary Ltd. and initiated the liquidation of the credit institution by its Resolution No. H-JÉ-I-74/2022, issued on 2 March 2022.

The OBA's compensation obligation has become effective at the publication of the Resolution pursuant to Act. CCXXXVII. 2013. 217. § (1) on credit institutions and financial enterprises.

In order to fulfill its obligation, the OBA applied and received a 3-months maturity bridging loan from the NBH, allowed by the limits of applicable legislation. In order to be able to repay this loan, the OBA Board of Directors decided at a Board Meeting held on 6 April 2022 on imposing an extraordinary payment obligation to its member institutions, pursuant to Hpt. 234. § (8), in total amount of HUF 73,550,033,333, with due date of 25 May 2022.

Based on the above, the amount of KDB Bank Europe Ltd.'s extraordinary payment obligation in 2022 is HUF 176,382,131, payable to OBA's account 19017004-00220246 at NBH, with payment deadline of 25 May 2022. HUF 105,644,993 with a payment deadline of 12.23.2022 and HUF 70,737,138 with a payment deadline of 03.28.2023 were repaid by the OBA.

Environmental protection

The Bank does not carry out banking, non-banking business or other non-profit activities directly related to environmental protection. During its operation, however, it strives to protect the environment and examine the application possibilities of energy-saving solutions. It also strives to create an environmentally conscious workplace atmosphere.

The Bank's efforts to promote environmental protection affect several areas.

In order to improve environmental awareness, the Bank has developed training material, which has been shared with the Bank's management and employees.

Primarily, the regulations concerning lending activity have been reviewed and supplemented. Due to changes affecting ESG, the Lending Regulation and several sub-regulations have been supplemented. In order to strengthen sustainable financing, the need to analyse environmental risks during the preparation of loan proposals, as well as the expectation of the depth of the analysis have been regulated. Financing limits related to environmental protection and ESG-based regulation of customer evaluations were also introduced.

Although the Bank's own pollutant emissions are initially low due to the limited number of locations and the size of the vehicle fleet, it nevertheless sought to improve it. As part of the lighting and energy supply upgrades, the central office and branches were upgraded with uninterruptible power supplies, the central office building's central air handling system was replaced, and a number of building engineering investments to increase energy efficiency were carried out in the office buildings used by the Bank. The buildings have energy-efficient heating and a modern LED lighting system. Part of the Bank's car fleet is hybrid-powered, and in order to minimize environmental damage, diesel-powered vehicles were replaced with modern benzine-powered vehicles during the fleet replacement. The Bank

Note (43) (continued)

also strives to reduce the use of paper, as a result of which the annual paper consumption has decreased.

Closely related to environmental protection, the Bank places emphasis on creating sustainability, the detailed framework is being developed with the professional support of the parent company.

Significant events after the reporting period

There were no significant events after the reporting period.

V. Supplementary notes to risk management

Note (44) Risk management policy

The Bank uses a wide range of financial instruments. A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Derivatives are also financial instruments; their value is derived from the value of the underlying asset, index or reference interest rate. The main categories of derivative transactions are futures, options and swaps.

The risks arising from financial instruments are the followings:

- credit risk
- liquidity risk
- market risk
- operational risk

a.) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Bank's loans and advances to customers, the provision of guarantees, the issuance of documentary credits, loans and advances to other banks and the purchase of investment securities. The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk) for risk management reporting purposes.

The Bank mitigates the risk of clients, client's groups and credit, concentration, country etc. risk of deals applying risk limits. The decision-maker considers these limits in deal decisions.

The Bank applies the following rules to manage credit risk:

- Credit-granting shall be based on reliable and well-defined criteria.
- The process for approving, amending, renewing, and re-financing credits shall be clearly regulated.
- The ongoing administration and monitoring of various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits for making adequate value adjustments and provisions, shall be operated through effective systems.
- The diversification of credit portfolios shall be adequate given the credit institution's target markets and overall credit strategy.
- Prior to the deal decision the existence, the fair value and enforceability of the necessary collaterals shall be checked.

Note (44) Risk management policy (continued)

The calculation of the expected credit loss (ECL) is based on „three stage model” methodology:

- Exposures where was no significant increase of credit risk since initial recognition are categorized into the 1st stage, where expected credit loss expected during the next 12 months shall be recorded.
- Into the 2nd stage those underperforming (significant increase in credit risk) exposures are categorized, where expected credit loss expected during the lifetime shall be recorded.
- The 3rd stage contains exposures which are classified individually (default), and where expected credit loss expected during the lifetime shall be recorded.

The calculation of the provision of the off-balance exposures takes place after the calculation of the impairment amount of the on-balance exposures, because the classification and the provisioning of the off-balance exposures shall match with the impairment percentage and classification of the on-balance exposures. The Bank investigates during the process whether there is any on-balance item related to the off-balance exposure (utilized credit line) and applies the staging and the impairment percentage of the on-balance exposure (utilized credit line) for the off-balance exposure, if there is a related on-balance exposure.

The maximum exposure to credit risk is presented on a gross basis, which does not include collateral or other credit enhancement options.

Maximum exposure to credit risk	Gross book value without impairment	
	31 12 2023	31.12.2022
Cash and cash equivalents	111,529	61,541
Financial assets held for trading	285	1,114
Financial assets measured at fair value through other comprehensive income	30,382	39,870
Financial assets measured at amortised cost	229,690	253,760
Credit lines and financial guarantees	2,911	11,278
Total	374,797	367,563

The table below shows the exposure of the Bank to its customer portfolio (net book value) (loans, debt securities, credit lines, guarantees) broken down by geographical segments.

	31 12 2023	31 12 2022
Hungary	79,947	84,384
European Union	101,142	105,183
Other abroad	75,027	92,522
Total	256,116	282,089

Note (44) Risk management policy (continued)

Assets acquired by taking possession of the collateral

	31.12.2023	31.12.2022
Real estate	72	99
Car	1	1
Total	73	100

Main collateral type accepted for credit risk mitigation

Collateral type (million HUF)	At full value	To the extent of the claim	At full value	To the extent of the claim
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Mortgage	69,941	11,804	47,566	10,871
from this: residential	17,682	3,259	17,701	4,150
commercial real est.	51,345	8,389	28,845	6,487
other real estate	903	149	867	213
personal estate	11	7	153	21
Guarantees and Sureties	6124	4604	0	0
Bail	1,900	631	15,946	13,051
from this: cash collateral	0	0	14,046	12,009
security collateral	1,900	631	1,900	1,042
Assignment	0	0	0	0
Other	80,077	20,768	87,304	24,835
from this: machine, equipm	66,995	7,715	71,344	9,709
standby guarantee	13,082	13,053	15,960	15,126
Total	158,042	37,807	150,816	48,757

In the table the value in the column "To the extent of the claim" (net book value of the exposure) is defined so that if the amount of the legal claim is greater than the value of the collateral, the collateral value is included, if the value of the legal claim is less than the value of the collateral, then the legal claim is included, furthermore the value in the column " At full value " represents the market value of the collateral.

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The collateral value (total collateral value) held by the Bank related to non-performing loan portfolio is as follows

	31 December 2023			
	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Retail consumer loans	1,327	-1,111	216	208
Mortgage loans	2,342	-1,809	534	519
Municipal loans	0	0	0	0
Corporate loans	646	-189	457	263
Total	4,315	-3,109	1,207	990

	31 December 2022			
	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Retail consumer loans	1,553	-1,302	252	245
Mortgage loans	2,286	-1,719	568	559
Municipal loans	0	0	0	0
Corporate loans	955	-286	669	139
Total	4,794	-3,306	1,488	943

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Note (44) Risk management policy (continued)

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages

31.12.2023												
	Gross carrying amount / Notional amount					Expected credit loss / Provision						
Carrying amount/Exposure	Stage 1	Stage2	Stage 3	Total		Stage 1	Stage2	Stage 3	Total			
Cash, amounts due from banks and balances with the National Bank of Hungary	111,529	111,529	-	-	111,529	-	-	-	-			
Placements with other banks, net of allowance for placement losses	1,634	1,634	-	-	1,634	-	-	-	-			
Loans at amortised cost	187,335	182,114	6,405	6,299	194,818	-	1,941	-	262	5,281	-	7,484
<i>From this</i>												-
<i>Repo receivables</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Retail consumer loans</i>	1,429	1,029	258	1,327	2,614	-	20	-	54	1,111	-	1,185
<i>Mortgage loans</i>	2,600	1,834	342	2,342	4,518	-	32	-	78	1,809	-	1,919
<i>Municipal loans</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Corporate loans</i>	144,349	139,541	6,063	1,824	147,428	-	1,461	-	251	1,367	-	3,079
FVOCI securities	30,373	30,382	-	-	30,382	-	11	-	-	-	-	11
Securities at amortised cost	35,468	35,488	-	-	35,468	-	13	-	-	-	-	13
Other financial assets	3,451	3,451	-	-	3,451	-	-	-	-	-	-	-
Total as at 31 December 2023	369,790	364,598	6,405	6,299	377,282	-	1,959	-	262	5,281	-	7,508
Loan commitments	1,592	1,592	-	-	1,592	-	-	-	-	-	-	-
Financial guarantees	1,319	1,319	-	-	1,319	-	-	-	-	-	-	-
Factoring loan commitments	-	-	-	-	-	-	-	-	-	-	-	-
Bill of credit	-	-	-	-	-	-	-	-	-	-	-	-
Loan commitments and financial guarantees total	2,911	2,911	-	-	2,911	-	-	-	-	-	-	-

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Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages

31.12.2022									
Carrying amount/Exposure	Gross carrying amount/Notional amount					Loss allowance			
	Stage 1	Stage2	Stage 3	Total	Stage 1	Stage2	Stage 3	Total	
Cash, amounts due from banks and balances with the National Bank of Hungary	61,541	61,541	0	0	61,541	0	0	0	0
Placements with other banks, net of allowance for placement losses	6,926	6,926	0	0	6,926	0	0	0	0
Loans at amortised cost	209,221	196,445	12,469	10,227	219,142	- 1,520	- 313	- 8,088	- 9,921
<i>From this</i>									
<i>Repo receivables</i>	0	0	0	0	0	0	0	0	0
<i>Retail consumer loans</i>	1,600	1,068	431	1,553	3,052	- 27	- 124	- 1,302	- 1,453
<i>Mortgage loans</i>	3,122	2,130	660	2,286	5,076	- 46	- 192	- 1,715	- 1,953
<i>Municipal loans</i>	0	0	0	0	0	0	0	0	0
<i>Corporate loans</i>	145,054	132,807	11,809	5,645	150,261	- 987	- 120	- 4,099	- 5,206
FVOCI securities	39,853	39,870	0	0	39,870	-17	0	0	-17
Securities at amortised cost	29,797	29,782	0	0	29,782	- 5	0	0	- 5
Other financial assets	3,086	3,086	0	0	3,086	0	0	0	0
Total as at 31 December 2022	350,424	337,650	12,469	10,227	360,347	- 1,542	- 313	- 8,088	- 9,943
Loan commitments	10,143	10,143	5	0	10,143	0	0	0	0
Financial guarantees	1,134	1,135	0	0	1,135	0	0	0	0
Factoring loan commitments	0	0	0	0	0	0	0	0	0
Bill of credit	0	0	0	0	0	0	0	0	0
Loan commitments and financial guarantees total	11,278	11,278	5	0	11,278	0	0	0	0

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Net book value by sectors	Loans		Debt securities		Loan commitments and issued financial guarantees	
	31.12 2023	31 12 2022	31 12 2023	31 12.2022	31.12 2023	31.12 2022
Corporate sector	139,560	145,057	36,403	41,863	2,808	11,277
Mining, quarrying	-	1,876	-	-	-	-
Building industry	-	-	115	2,964	-	-
Manufacturing	81,388	63,590	10,875	19,217	0	8,864
Human health and social work						
Information, communication	5,343	5,998	-	-	-	-
Real estate	1,174	1,866	-	-	15	-
Trade, vehicle repair	6,701	16,273	3,513	5,635	-	2,401
Agriculture, forestry, fishing	1,517	1,595	-	-	-	-
Education						
Financial, insurance	13,779	10,205	-	-	-	-
Professional, scientific, technical activities	3,813	5,965	-	-	-	-
Hospitality	3,933	4,431	-	-	-	-
Transportation, warehousing	6,259	11,215	3,485	2,913	650	11
Electricity, gas, steam supply	13,383	17,732	-	-	-	-
Water supply	1,337	1,400	-	-	-	-
Other	933	2,911	18,415	11,134	2,143	1

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Note (44) Risk management policy (continued)

Nominal and fair value of derivative deals*

Derivative deals	31.12.2023.		31.12.2023.		31.12.2022.		31.12.2022.	
	Nominal value	Fair value	Of which: related counterparties		Nominal value	Fair value	Of which: related counterparties	
			Nominal value	Fair value			Nominal value	Fair value
Derivative assets, total	3,365	92	1,694	87	53,899	892	9,834	14
Foreign Exchange Swap (FX Swap)	1,671	5	0	0	44,789	14	6,724	14
FORWARD Interest Rate Swap (IRS)	0	0	0	0	0	0	0	0
Cross-Currency Interest Swap (CCIRS)	0	0	0	0	0	0	0	0
Derivative liabilities, total	3,361	0	1,694	0	54,207	1,259	9,828	0
Foreign Exchange Swap (FX Swap)	1,667	0	0	0	45,097	1,259	6,718	0
FORWARD Interest Rate Swap (IRS)	0	0	0	0	0	0	0	0
Cross-Currency Interest Swap (CCIRS)	0	0	0	0	0	0	0	0

*OTC

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Note (44) Risk management policy (continued)

Expected credit loss

	31 12 2023				31 12 2022			
	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total
Balance as of 1 January	1,525	313	8,078	9,916	866	823	9,435	11,124
Impairment increase due to origination and purchase	555	0	5	560	280	2	1,346	1,628
Impairment change of modified, but not derecognized assets (net)	-65	-44	273	164	109	-517	2,508	2,100
Impairment decrease due to the write-offs	0	0	-2,865	-2,865	0	0	-5,331	-5,331
Impairment decrease due to the derecognition	0	0	0	0	0	0	0	0
FX rate change and other changes	-74	-7	-211	-292	51	5	345	400
Balance as of 31 December	1,941	262	5,280	7,483	1,306	313	8,303	9,921

Note (44) Risk management policy (continued)

Expected credit loss on loans - retail customers

	31.12.2023			31 12 2022				
	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total
Balance as of 1 January	47	192	2,075	2,314	8	319	2,894	3,221
Impairment increase due to origination and purchase	2	0	4	6	18	1	13	33
Impairment change of modified, but not derecognized assets (net)	-16	-115	94	-37	20	-129	-833	-941
Impairment decrease due to the write-offs	0	0	-257	-257	0	0	0	0
Impairment decrease due to the derecognition	0	0	0	0	0	0	0	0
FX rate change and other changes	0	0	0	0	0	0	2	2
Balance as of 31 December	33	77	1,916	2,026	46	191	2,076	2,315

Note (44) Risk management policy (continued)

Expected credit loss on loans - corporate

	31.12.2023				31.12.2022			
	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total	12 months expected credit loss (Stage 1)	Life time expected credit loss (not impaired) (Stage 2)	Life time expected credit loss (impaired) (Stage 3)	Total
Balance as of 1 January	1,452	120	4,099	5,671	836	503	6,543	7,882
Impairment increase due to origination and purchase	472	0	1	473	261	1	1,333	1,594
Impairment change of modified, but not derecognized assets (net)	47	71	2,084	2,202	86	-389	1,214	911
Impairment decrease due to the write-offs	0	0	-2,608	-2,608	0	0	-5,331	-5,331
Impairment decrease due to the derecognition	0	0	0	0	0	0	0	0
FX rate change and other changes	-73	-7	-211	-291	50	5	343	397
Balance as of 31 December	1,898	184	3,365	5,447	1,233	120	4,102	5,453

b.) Liquidity risk

The Bank must maintain adequate liquidity. The Bank's liquidity position determined by deposit volatility, expected future loan demand, capacity of regulation of money requirement, availability of funding and its ability to control its funding needs.

The Bank classifies the liquidity risks into the following categories, and applies the risk management methods accordingly:

- maturity liquidity risk (mismatch in the maturity of assets and liabilities);
- disbursement liquidity risk (huge volume of unexpected disbursements before contractual maturity);
- structural liquidity risk (difficulties in the availability of funding, increasing funding price);
- market liquidity risk (the position can not be closed in time on market price, it should be kept open for longer time).

The Bank manages the liquidity risk considering the safety and profitability together with the requirements of the external, market environment. If the Bank is continuing extremely aggressive business policy, the risk shall increase. Whereas the Bank emphasizes safety too intensively, the profitability shall be threatened.

The Bank manages liquidity risk by each currency and on aggregated level as well.

The coverage of the liquidity risk management is not constrained to cover on-balance accounts only. The off-balance accounts, which would affect the liquidity risk, shall be included into the funding or position management activities as well.

The main tool for liquidity risk management is the maturity GAP report, which classifies the assets and liabilities into maturity profiles. Maturity GAP report is prepared at least on a monthly basis for the major currencies (HUF, USD, EUR, CHF) and aggregated level in HUF.

The tables below show the cash flows (capital) from financial assets and financial liabilities based on the remaining contractual maturity. Non-derivative financial liabilities and financial assets are discounted cash flows that include estimated interest payments.

Issued financial guarantee contracts and off-balance-sheet credit lines were included in the tables at the earliest possible contractual maturity. In case of issued financial guarantee contracts the maximum amount of the guarantee has been assigned to the earliest period of possible call for the guarantee.

The maturity GAP table includes cash flows according to IFRS:

- “Assets and liabilities classification according to their remaining maturity as of 31.12.2022”
- “Assets and liabilities classification according to their remaining maturity as of 31.12.2023”

Exposure to liquidity risk

	2022	2023
On 31 December	162%	197%
Average of the period	255%	269%
Maximum of the period	330%	489%
Minimum of the period	162%	155%

The Bank determines the 3-month liquidity ratio by analysing the maturity mismatch between assets and liabilities.

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Note (44) Risk management policy (continued)

Assets and liabilities classification according to their remaining maturity as of 31.12.2022:

	31.12.2022							
	Book value	Gross nominal cash inflow/ (outflow)	Within 1 month	Between 1-3 months	Between 3 months - 1 year	Between 1-5 years	Within 5 years	Without maturity
Financial liabilities								
Non-derivative financial liabilities								
Financial liabilities measured at amortised cost	317,206	316,620	61,740	14,329	22,141	114,760	17,011	86,638
Issued financial guarantee contracts		1,134	6	0	0	1,128	0	0
Unused credit lines		10,143	0	734	2	9,407	0	0
Derivative financial liabilities (measured at fair value through profit or loss)								
Cash outflow		7,208	7,075	19	53	61	0	0
Cash inflow		7,272	7,082	96	94	0	0	0
Financial assets								
Non-derivative financial assets								
Cash and current accounts with central banks and other sight deposits	9,761	9,761	0	0	0	0	0	9,761
Financial assets measured at fair value through profit or loss								
Financial assets measured at amortised cost	298,390	308,930	66,644	18,005	45,489	171,680	7,112	0
Financial assets measured at fair value through other comprehensive income	40,034	39,857	2,996	3,329	3,762	0	29,770	0
Derivative financial assets (measured at fair value through profit or loss)								
Cash outflow		37,275	37,275					
Cash inflow		38,656	38,656					
	317,206	316,620	61,740	14,329	22,141	114,760	17,011	86,638

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Assets and liabilities classification according to their remaining maturity as of 31.12.2023:

	31.12.2023							
	Book value	Gross nominal cash inflow/ (outflow)	Within 1 month	Between 1-3 months	Between 3 months - 1 year	Between 1-5 years	Within 5 years	Without maturity
Financial liabilities								
Non-derivative financial liabilities								
Financial liabilities measured at amortised cost	330,276	330,276	79,623	55,622	33,985	74,943	20,284	65,819
Issued financial guarantee contracts		1,781	0	462	108	1,211	0	0
Unused credit lines		1,593	0	0	272	1,321	0	0
Derivative financial liabilities (measured at fair value through profit or loss)								
Cash outflow		1,586	1,528	11	24	23	0	0
Cash inflow		1,532	1,532	0	0	0	0	0
Financial assets								
Non-derivative financial assets								
Cash and current accounts with central banks and other sight deposits	111,529	111,529	0	0	0	0	0	111,529
Financial assets measured at fair value through profit or loss								
Financial assets measured at amortised cost	223,171	230,706	2,616	11,694	58,292	151,836	6,268	0
Financial assets measured at fair value through other comprehensive income	30,382	30,382	0	0	0	0	30,382	
Derivative financial assets (measured at fair value through profit or loss)								
Cash outflow		1,148	1,148					
Cash inflow		1,149	1,149					

Note (44) Risk management policy (continued)

Non-derivative financial assets and liabilities

	31.12.2023	31.12.2022
Cash and current accounts with central banks and other sight deposits	111,529	61,541
Financial assets measured at amortised cost	223,154	211,270
Financial assets measured at fair value through other comprehensive income	31,309	40,034
Financial assets total	365,992	251,295
Financial liabilities measured at amortised cost	328,940	317,173
Financial liabilities total	328,940	317,173

The table above shows non-derivative financial assets and liabilities that are settled after 12 months from the reporting date. The data is shown on book value.

c.) Market Risk

Due to the movement of market prices, such as share price, interest rate and foreign exchange rate, the market value of the assets held in the portfolio may decrease.

The Bank's market risk undertaking is not significant in relation to other risks. Market risks arise from the open position of interest rate, foreign exchange and equity products, all of which are exposed to both general and specific market movements.

d.) Interest rate risk

Interest rate risk is arising from the adverse movements of market interest rate, which can have effect on net interest income and net assets of the Bank. The interest risk may come from Banking Book positions or Trading Book positions. The source of interest rate risk is basically coming from the following factors:

- repricing risk: deviation between interest rate changes and cash-flow changes over time;
- yield curve risk: change of relations between interest rates specific to different maturities for the same products or markets;
- basis risk: change of relations between interest rates and yield curves specific to individual markets and products;
- embedded option risk: inherent (embedded) interest-related options in banking products.

The Bank has developed the structure of its interest bearing assets and liabilities in such a way that primarily short-term assets are in accordance with short-term liabilities, and long-term assets with long-term liabilities.

The classification of assets and liabilities according to their re-pricing periods includes cash flows (in accordance with IFRS), which contain the repayment schedule for loans, the probability of withdrawal of deposits and the probability of withdrawal of guarantees and credit facilities, and their re-pricing bands accordingly.

Note (44) Risk management policy (continued)

The Bank applies interest rate GAP calculation method to manage interest rate risk. The difference (GAP) of repricing intervals between assets and liabilities indicates the effect of interest rate movements on the net interest income.

Assets and liabilities with floating interest rates are presented in accordance with the next repricing period, assets and liabilities with fixed interest rates are presented according to their maturity in the below tables:

- „Interest rate risk management as of 31.12.2022” and
- „Interest rate risk management as of 31.12.2023”.

A fundamental global reform of key benchmark interest rates is underway to replace or reform IBOR with alternative, near-risk-free yields. There are no significant exposures of the Bank's financial instruments exposed to the interbank offer rates (IBOR) that would be exchanged or reformed as a result of this market-level initiative. The Bank expects that the IBOR reform will not have a significant operational, risk management and accounting impact on its business.

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Note (44) Risk management policy (continued)

Interest rate risk management as of 31.12.2022

	31.12.2022																
	Within 1 month		Between 1-3 months		Between 3-6 months		Between 6-12 months		Between 1-5 years		over 5 years		Total repricing		Non-repricing		Total repricing and non- repricing
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF
ASSETS																	
Cash and current accounts with central banks and other sight deposits	9,124	146	0	0	0	0	0	0	0	0	0	0	222	269	9,124	146	9,761
fix interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
floating interest rate	9,124	146	0	0	0	0	0	0	0	0	0	0	0	0	9,124	146	9,270
non interest rate sensitive			0	0	0	0	0	0	0	0	0	0	222	269	0	0	491
Financial assets measured at fair value through other comprehensive income	0	0	33,803	0	0	0	5,615	0	0	0	0	0	250	21	39,418	0	39,689
fix interest rate	0	0	33,803		0	0	5,615	0	0	0	0	0	0	0	39,418	0	39,418
floating interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	250	21	0	0	271
Financial assets measured at amortised cost	57,329	48,995	19,108	137,925	0	32,713	0	6,004	0	0	0	0	1,862	509	76,437	225,637	304,445
fix interest rate	51,780	89	5,000	88	0		0	0	0	0	0	0	0	0	56,780	177	56,957
floating interest rate	5,549	48,906	14,108	137,837	0	32,713	0	6,004	0	0	0	0	0	0	19,657	225,460	245,117
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	1,862	509	0	0	2,371
Derivative financial assets	262	44,087	0	9,448	0	0	0	0	0	0	0	0	0	0	262	53,535	53,797
fix interest rate	262	12,547	0	0	0	0	0	0	0	0	0	0	0	0	262	12,547	12,809
floating interest rate	0	31,540	0	9,448	0	0	0	0	0	0	0	0	0	0	0	40,988	40,988
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	66,715	93,228	52,911	147,373	0	32,713	5,615	6,004	0	0	0	0	2,334	799	125,241	279,318	407,692

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	Within 1 month		Between 1-3 months		Between 3-6 months		Between 6-12 months		Between 1-5 years		over 5 years		Total repricing		Non-repricing		Total repricing and non- repricing	
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	
LIABILITIES																		
Financial liabilities measured at amortised cost (borrowing, deposit)	42,148	112,215	13,985	110,475	364	23,415	373	1,214	900	0	0	0	0	0	57,770	247,319	305,089	
fix interest rate	13,635	50,065	13,985	12,957	364	19,412	373	1,214	900	0	0	0	0	0	29,257	83,648	112,905	
floating interest rate	28,513	62,150		97,518	0	4,003	0	0	0	0	0	0	0	0	28,513	163,671	192,184	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Derivative financial liabilities	38,390	7,340	0	1,001	0	0	6,000	0	0	0	0	0	0	0	44,390	8,341	52,731	
fix interest rate	38,390	7,340	0	1,001	0	0	6,000	0	0	0	0	0	0	0	44,390	8,341	52,731	
floating interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Subordinated loan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
fix interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
floating interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	80,538	119,555	13,985	111,476	364	23,415	6,373	1,214	900	0	0	0	0	0	102,160	255,660	357,820	
Net position	-13,823	-26,327	38,926	35,897	-364	9,298	-758	4,790	-900	0	0	0	2,334	799	23,081	23,658	49,872	

KDB Bank Európa Zrt **31 December 2023**
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Interest rate risk management as of 31.12.2023

31 12 2023

	Within 1 month		Between 1-3 months		Between 3-6 months		Between 6-12 months		Between 1-5 years		over 5 years		Total repricing		Non-repricing		Total repricing and non-repricing	
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	
ASSETS																		
Cash and current accounts with central banks and other sight deposits	21,679	178	0	0	0	0	0	0	0	0	0	0	286	495	21,679	178	22,638	
fix interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
floating interest rate	21,679	178	0	0	0	0	0	0	0	0	0	0	0	0	21,679	178	21,857	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	286	495	0	0	781	
Financial assets measured at fair value through other comprehensive income	0	0	29,015	0	0	0	0	0	0	0	0	0	293	841	29,015	0	30,149	
fix interest rate	0	0	29,015	0	0	0	0	0	0	0	0	0	0	0	29,015	0	29,015	
floating interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	293	841	0	0	1,134	
Financial assets measured at amortised cost	28,536	129,088	6,400	101,962	0	44,306	0	4,185	0	0	0	0	1,937	434	34,936	279,541	316,848	
fix interest rate	22,742	65,691	0	78	0	0	0	0	0	0	0	0	0	0	22,742	65,769	88,511	
floating interest rate	5,794	63,397	6,400	101,884	0	44,306	0	4,185	0	0	0	0	0	0	12,194	213,772	225,966	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	1,937	434	0	0	2,371	
Derivative financial assets	242	1,287	0	2,017	0	0	0	0	0	0	0	0	0	0	242	3,304	3,546	
fix interest rate	242	1,287	0	0	0	0	0	0	0	0	0	0	0	0	242	1,287	1,529	
floating interest rate	0	0	0	2,017	0	0	0	0	0	0	0	0	0	0	0	2,017	2,017	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	50,457	130,553	35,415	103,979	0	44,306	0	4,185	0	0	0	0	2,516	1,770	85,872	283,023	373,181	

KDB Bank Európa Zrt **31 December 2023**
all amounts in million HUF (except when otherwise indicated)

Interest rate risk management as of 31.12.2023 (continued)

31 12 2023

	Within 1 month		Between 1-3 months		Between 3-6 months		Between 6-12 months		Between 1-5 years		over 5 years		Total repricing		Non-repricing		Total repricing and non-repricing	
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	
LIABILITIES																		
Financial liabilities measured at amortised cost (borrowing, deposit)	27,626	119,242	21,488	109,896	721	27,352	534	2,196	0	0	0	0	0	0	50,369	258,686	309,055	
fix interest rate	8,690	69,825	21,488	1,688	721	4,385	534	2,196	0	0	0	0	0	0	31,433	78,094	109,527	
floating interest rate	18,936	49,417	0	108,208	0	22,967	0	0	0	0	0	0	0	0	18,936	180,592	199,528	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Derivative financial liabilities	1,287	380	0	0	0	0	0	0	0	2,017	0	0	0	0	1,287	2,397	3,684	
fix interest rate	1,287	380	0	0	0	0	0	0	0	0	0	0	0	0	1,287	380	1,667	
floating interest rate	0	0	0	0	0	0	0	0	0	2,017	0	0	0	0	0	2,017	2,017	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Subordinated loan	0	0	0	19,139	0	0	0	0	0	0	0	0	0	0	0	19,139	19,139	
fix interest rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
floating interest rate	0	0	0	19,139	0	0	0	0	0	0	0	0	0	0	0	19,139	19,139	
non interest rate sensitive	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total	28,913	119,622	21,488	129,035	721	27,352	534	2,196	0	2,017	0	0	0	0	51,656	280,222	331,878	
Net position	21,544	10,931	13,927	-25,056	-721	16,954	-534	1,989	0	-2,017	0	0	2,516	1,770	34,216	2,801	41,303	

(All amounts in million of HUF, unless otherwise indicated)

Note (44) Risk management policy (continued)**Interest rate sensitivity analysis for floating rate financial instruments:**

	31.12 2022		31 12.2023	
	Change (basis point))	Effect on profit	Change (basis point))	Effect on profit
Financial instruments with floating interest rate (HUF)	200	1,216	200	677
Financial instruments with floating interest rate (EUR)	200	-1,003	200	-492
Financial instruments with floating interest rate (USD)	200	166	200	594
Financial instruments with floating interest rate (CHF)	200	-3	200	-5
Total		376		774

The Bank has analysed the effect of 200 basis point market interest rate movement on net interest income.

The below table shows the foreign currency (FX) position of the Bank in the main currencies. The other than main currencies are shown in the "other" column in HUF. The Bank also uses the VaR model to measure the Bank's foreign exchange risk.

Over the supervisory limits the Bank controls the FX positions by own limits also.

(All amounts in million of HUF, unless otherwise indicated)

Note (44) Risk management policy (continued)**The below tables show the exposure to FX risk by currencies***

	31.12.2023				
	CHF	EUR	USD	Other	Total
Financial assets exposed to foreign exchange risk					
Cash and current accounts with central banks and other sight deposits	38	26,590	39,686	194	66,508
Financial assets measured at fair value through profit or loss	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	18	-	18
Financial assets measured at amortised cost	34	127,792	84,739	-	212,565
Off balance sheet items Investments in subsidiaries	-	463	650	-	1,113
Total	72	154,845	125,093	194	280,204
Financial liabilities exposed to foreign exchange risk					
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	186	155,685	123,405	280	279,556
Off balance sheet items	0	0	-1,633	0	0
Total	186	155,685	123,405	280	279,556
Net exposure to FX risk	-114	-840	1,688	-86	648

*On-balance and off-balance portfolio (capital, interest and ECL), without HUF

(All amounts in million of HUF, unless otherwise indicated)

Note (44) Risk management policy (continued)**The below tables show the exposure to FX risk by currencies (continued)***

	31 12 2022				Total
	CHF	EUR	USD	Other	
Financial assets exposed to foreign exchange risk					
Cash and current accounts with central banks and other sight deposits	25	721	168	98	1,012
Financial assets measured at fair value through profit or loss	0	0	0	0	0
Financial assets measured at fair value through other comprehensive income	0	0	21	0	21
Financial assets measured at amortised cost	43	120,257	101,230	0	221,530
Off balance sheet items	0	1,960	7,514	0	9,474
Investments in subsidiaries	0	0	0	0	0
Total	68	122,938	108,933	98	232,037
Financial liabilities exposed to foreign exchange risk					
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	260	165,422	94,301	326	260,309
Off balance sheet items	0	0	47,526	0	47,526
Total	260	165,422	141,827	326	307,835
Net exposure to FX risk	-192	-42,484	-32,894	-228	-75,798

*On-balance and off-balance portfolio (capital, interest and ECL), without HUF

(All amounts in million of HUF, unless otherwise indicated)

Note (44) Risk management policy (continued)**Market sensitivity analysis**

The Bank uses the Value-at-Risk (VaR) method to estimate the market risk of open positions and the maximum expected loss based on several assumptions about changes in market conditions. VaR indicates the maximum expected loss calculated from the distribution of value of the portfolio under certain confidence level (99%) and holding period (10 days).

Accordingly, the Bank uses VAR for the foreign exchange risk of its total banking portfolio and the securities held for trading (the Bank did not have any trading security exposure in these periods).

The currency risk of trading portfolio includes net open position of on-balance and off-balance sheet items.

Exposure to market risk – Trading portfolio	31.12.2022	Average	Maximum	Minimum
VaR position	51,13	14,28	51,13	6,01
Exposure to market risk – Trading portfolio	31.12 2023	Átlag	Maximum	Minimum
VaR position	5,81	5,92	7,38	5,12

The Bank uses the VaR model to measure the foreign currency risk level.

VI. Supplementary notes to capital**Note (45) Capital management, capital adequacy**

The primary purpose of capital management is to ensure that the Bank operates prudently and the compliance with regulatory capital adequacy.

For the Bank, capital management is primarily based on the continuous monitoring of the capital position in the short term and in the long run strategic and business planning, which includes monitoring and forecasting the capital position.

Capital adequacy

The new capital adequacy directive (CRDIV / CRR) has set global capital requirements (Basel III agreement) under the EU legal framework. The new directives became effective from 1 January 2014. In the meantime, credit institutions have been subject to tighter prudential rules, in particular to ensure adequate capital reserves and liquidity levels. Thanks to these rules credit institutions become even more stable, their appropriate risk management capabilities associated with their activities and the coverage of potential losses during operation are improving. From 1 January 2018 the Bank's capital adequacy control is based on financial statements prepared in accordance with International Financial Reporting Standards.

		31 12 2022*	31.12.2023*
I.	WARRANTEE CAPITAL	40,402	54,489
I.1.	CORE CAPITAL (TIER 1)	28,394	35,350
I 1 1	COMMON EQUITY TIER1 (CET1)	28,394	35,350
I.1.1.1.	Share capital	28,938	28,980
I 1.1.1.1.	Payment in excess of nominal value	0	42
I 1.2.	Retained earnings	2,143	7,642
I.1.2.1	Previous years' retained earnings	2,619	1,049
I.1.2.2	<i>Profit/loss can be considered</i>	-476	6,593
I.1.3.	Other comprehensive income	-1,163	-276
I 1 4	Other reserve	42	0
I 1 5	General reserve	414	414
I 1.6.	Adjustments to CET1 due to prudential filters	-41	-32
I 1.7.	Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-2	0
I.1.8.	(-) Valuation adjustment due to prudent valuation requirements	-39	-32
I.1.9.	(-) Intangible assets	-1,439	-1,096
I 1 10	(-) Insufficient coverage of defaulted exposures	-500	-282
I.1.2.	ADDITIONAL EQUITY TIER1 (AT1)	0	0
I.2.	SUPPLEMENTARY CAPITAL	0	0
I 2 1.	Subordinated loan**	0	12,008

*IFRS

(All amounts in million of HUF, unless otherwise indicated)

Note (45) Capital management, capital adequacy (continued)

	31.12.2022.*		31 12 20223 *	
	RWA	Tőke	RWA	Tőke
Credit risk capital requirement	191,968	15,357	209,403	16,752
Market risk capital requirement	0	0	0	0
	597	48	103	8
Operational risk capital requirement	13,360	1,069	20,563	1,645
Total capital requirement	205,925	16,474	230,069	18,405
Warranty capital can be considered to cover risk	40,402		54,489	
	TMM (%)**TMM (%)**		TMM (%)**	
CET1 capital adequacy ratio (%)	13.79		15.36	
T1 capital adequacy ratio(%)	13.79		15.36	
Capital adequacy ratio (%)	19.62		23.68	

*IFRS **Capital adequacy ratio

The Bank applies the CRR standard method for determining credit risk capital requirements.

Internal capital adequacy

The Bank has developed the internal capital adequacy assessment process in accordance with the requirements of Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP) and their supervisory review process, and Business Model Analysis (BMA) issued by NBH.

In addition to the minimum capital requirements for credit, market and operational risk as defined in Pillar I, the Bank determines further capital requirements under Pillar II. based on its own internal procedure.

Beyond the definition of the capital requirement, ensuring the adequacy of internal procedures, like internal limits, control procedures, risk management, consistency and efficiency of internal control is a prerequisite for prudential operation.

Operational risk

The Bank applies the Basic Indicator Approach (BIA) to determine the capital requirement for operational risk