

# MBH Mortgage Bank Co. Plc.

2023

Investor presentation

24<sup>th</sup> of April 2024



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This presentation is to support the understanding of the underlying financial performance of MBH Mortgage Bank. It serves as an accompanying presentation for year of 2023 Report.























# Business and earnings KPIs – summary

- MBH Mortgage Bank had an outstanding year in terms of its financial results and **strengthened its second position in the Hungarian mortgage bank sector in 2023**.
- **Profit before tax** reached HUF 7.39 billion in 2023: it increased by HUF 5.2 billion (+242.2% y/y) compared to 2022. **Total comprehensive income came at HUF 8.2 billion without banking tax and extra profit tax. Total assets** increased by 11.4% (+HUF 92.6 bn y/y) and amounted to HUF 906.6 billion at the end of 2023.
- **Net interest income** reached HUF 8.5 billion, **increasing by 30.0%** (HUF 2.0 billion) **compared to 2022** thanks to the favourable market environment.
- **Operating expenses** decreased by 2.6% (HUF 74 million y/y) in 2023, despite the unfavorable inflation path.
- **The Bank's return on equity (ROAE) was 8.9%, whilst the cost to income ratio (CIR) was 29.6%.**
- The **stock of refinancing loans increased by 3.7%** (by HUF 13.6 billion), to HUF 381.3 billion compared to the previous year.
- Based on MBH Group's strategy, the function of mortgage lending to new customers had been transferred to other commercial banks of the Group in 2018, thus the remaining stock of customer loans continued amortizing in 2023 from HUF 26.3 billion at the end of 2022 to HUF 21.3 billion (-19.1% y/y).
- In 2023, MBH Mortgage Bank Co. Plc. issued mortgage bonds with a total nominal value of nearly HUF 75 billion in eight public auctions. From the total mortgage bonds issued in 2023, HUF 20.5 billion, or more than 27.4% of the total annual issuance, were green mortgage bonds in 2023.
- The Bank's issued mortgage bonds have been rated by S&P Global Rating (Madrid) since 28 March 2019. MBH Mortgage Bank Plc's mortgage bond issuance programme and the BBB rating of its series of mortgage bonds issued in HUF and foreign currencies was confirmed by S&P on 25 April 2023 - a rating one category higher than the rating of domestic sovereign debt - and was accompanied by a positive outlook of stable, which has not changed since then.

## Key figures

<b>Profit before tax</b>  <b>7.39 Mrd Ft</b>  242.2% ; 48.8%	<b>Total assets</b>  <b>906.6 Mrd Ft</b>  11.4% ; 21.2%	<b>Equity</b>  <b>78.2 Mrd Ft</b>  10.1% ; 5.2%
<b>Operating income, net</b>  <b>9.2 Mrd Ft</b>  50.5% ; 20.8%	<b>GAE</b>  <b>-2.7 Mrd Ft</b>  -2.6% ; -50.4%	<b>Provision and impairment</b>  <b>1.3 Mrd Ft</b>  - ; -55.7%
<b>ROAE</b>  <b>8.9%</b>  6.3%-pt ; 3.0%-pt	<b>ROAA</b>  <b>0.8%</b>  0.5%-pt ; 0.21%-pt	<b>CIR</b>  <b>29.6%</b>  -16.1%-pt ; -25.8%-pt

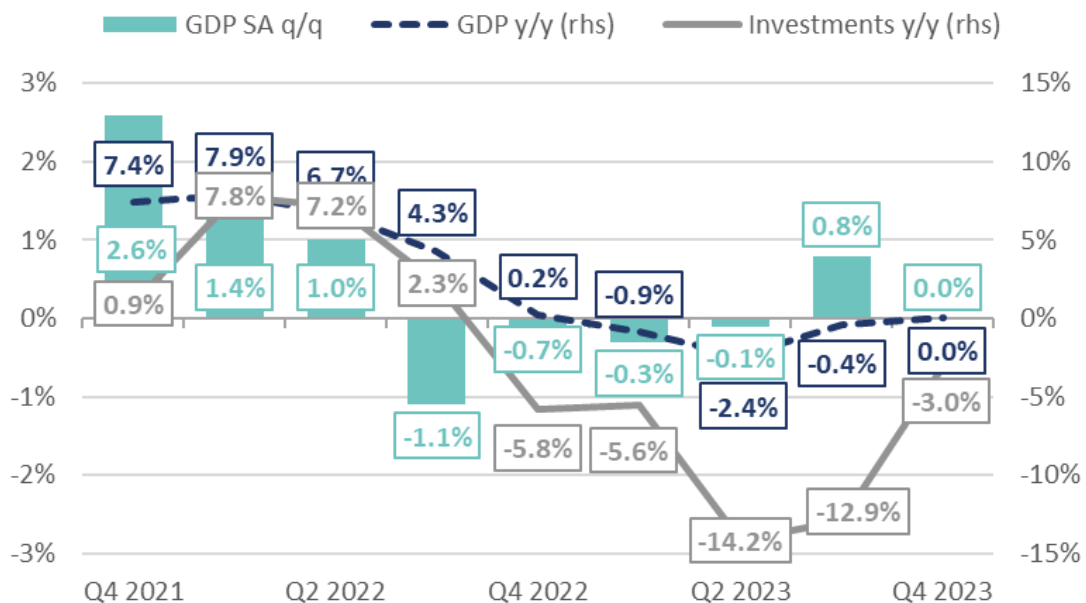
KPI	
↑	value
↓	y/y
↑	H2/H1



# Business environment

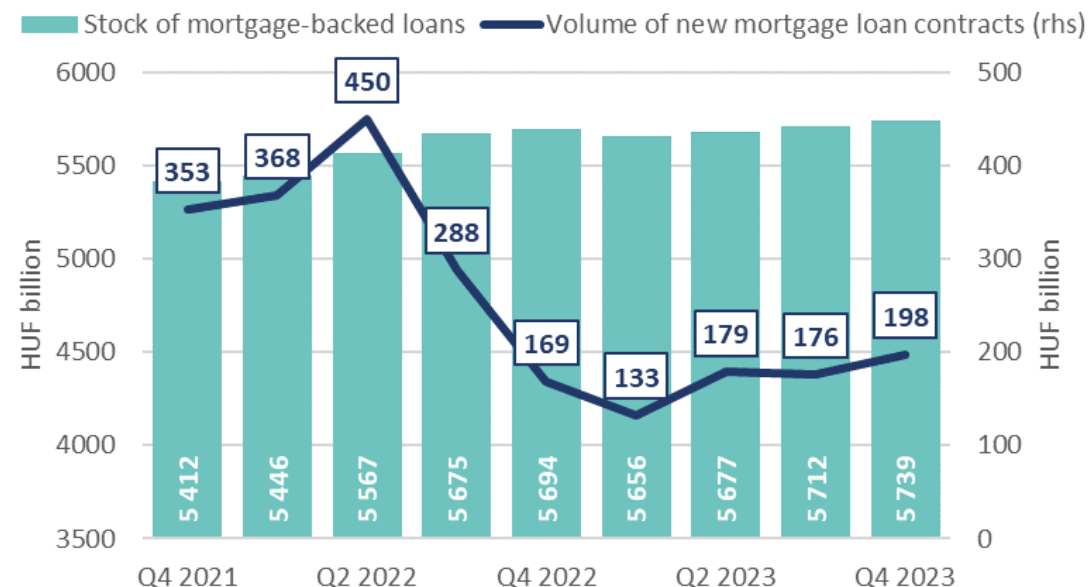


## Economic growth, fixed investments (source of data: KSH)



**ECONOMY STAGNATED IN Q4 2023:** Following solid growth in Q3, the economy only stagnated in Q4 2023 based on seasonally adjusted data, while on annual average it contracted by 0.9% compared to 2022. There were mostly unfavourable external developments behind the unexpected outcome: Hungary’s most important trading partner, Germany, recorded a 0.3% q/q decline in GDP, which – through falling demand for Hungary’s export products – markedly decelerated the growth dynamics of the Hungarian economy. At the same time, the sharp rise in forward-looking real interest rates – as a consequence of rapid disinflation – also contributed to a weaker growth, especially as investment activity remained subdued. Since these factors will also be dominant for an extended period in 2024, this year’s GDP growth rate is expected to remain below 3%.

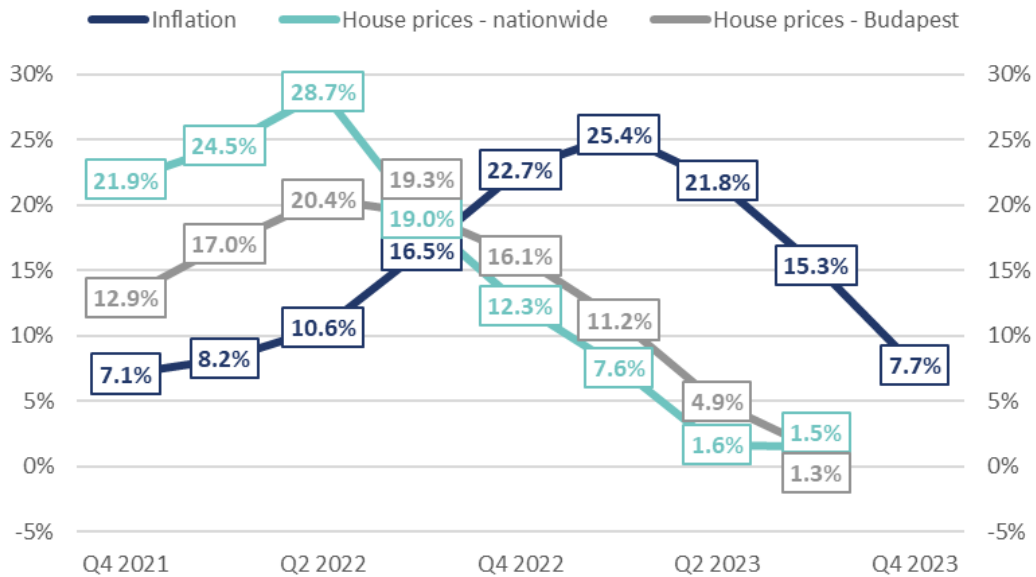
## Mortgage lending (source of data: MNB)



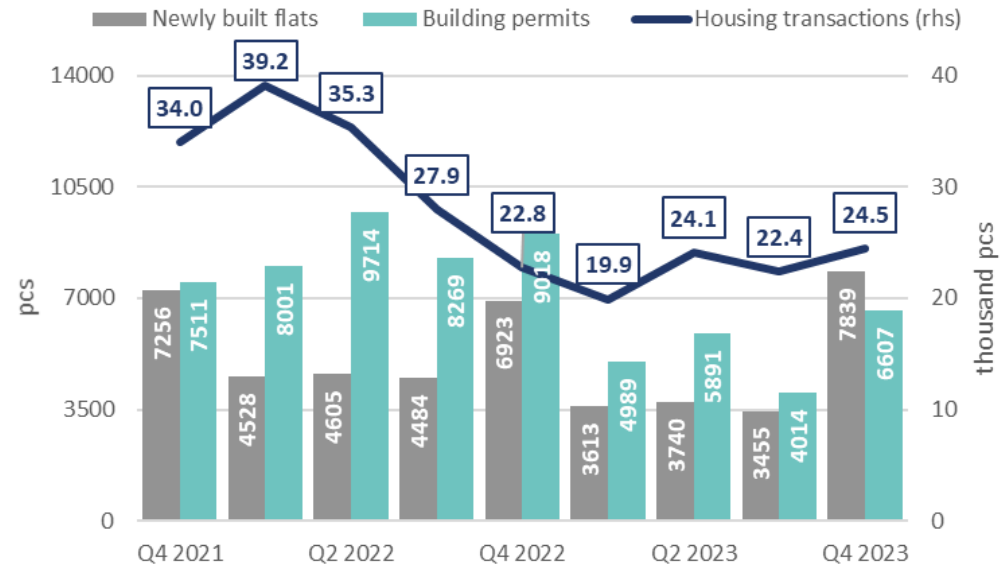
**SLOW RISE IN MORTGAGE LENDING:** credit institutions made new mortgage loan contracts in a volume of nearly HUF 200bn in Q4, thus a tentative growth remained in place. Among others, the improvement was partly contributable to lower mortgage rates supported by the interest rate caps applied by credit institutions. Still, new contract volume of HUF 686 bn in 2023 came 46% lower compared to the previous year. The outstanding stock, however, could remain on an upward path (+0.8% compared to end-2022), as the drop of actual disbursements came around 30%, while the rate of amortization (early repayments significantly declined). A continued decline in interest rates as well as the introduction of the CSOK Plus program is expected to boost the lending activity from 2024.

# Inflation tapers out, signs of tentative growth in the housing market

**Inflation, house prices (source of data: KSH, MNB)**



**Housing market indicators (source of data: KSH, DH)**



**INFLATION CLOSE TO TARGET:** The annual rate of inflation moderated to below 8%, while from January it sank even below 4%, i.e. it entered the tolerance band around the central bank’s target unexpectedly fast. Yet, fuel prices dynamics may result in a temporary break in disinflation, and core inflation – which captures the underlying inflationary processes – still stuck at around 6%. There has been no marked push in perceived demand in the housing market in Q4, but following a decline in Q3 2023, housing prices – at least in nominal terms - finally stabilized. Alongside the continued decline in interest rates, as well as the introduction of the CSOK Plus program, demand for residential real estate may strengthen already in early-2024, which should be reflected in higher prices at the same time. This is further supported by the fact that lower yields of other financial assets could support real estate purchases with investment purposes.

**HOUSING MARKET IS FAR FROM ITS HEYDAY:** While the number of newly built flats took an upward jump in Q4 2023, this is related to the number of building permits issued earlier rather than recent developments in the number of building permits. 24.5 thousand real estate transactions were finalized in Q4, in 2023 as a whole, so the number of transactions hardly exceeded 90 thousand, showing further 27.4% decline from last year’s 125 thousand. Although credit conditions in the mortgage segment are set to improve, we expect elevated activity in the housing market in 2024, catch-up with previous years’ transaction number could take a longer time. This year we predict only 100-110 thousand transactions, while the number of newly built flats remains close to 20 thousand as in the past two years due to the still existing supply bottlenecks.

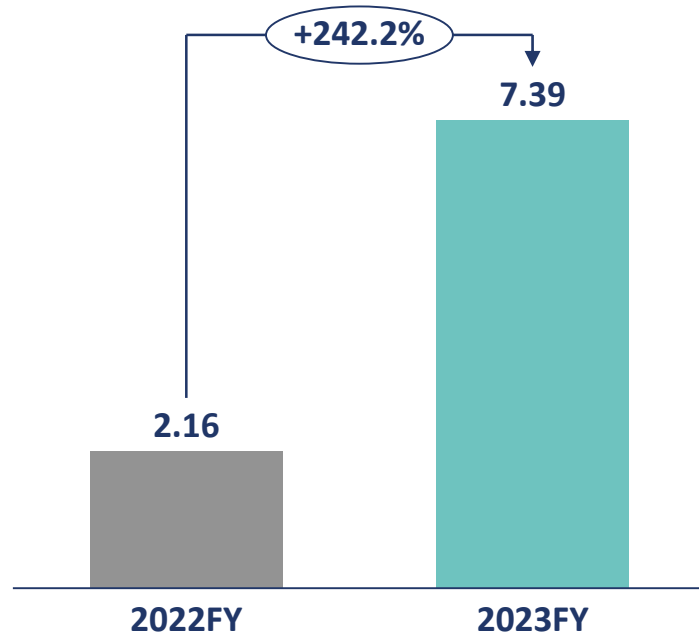


# Profit and Loss developments, Balance sheet

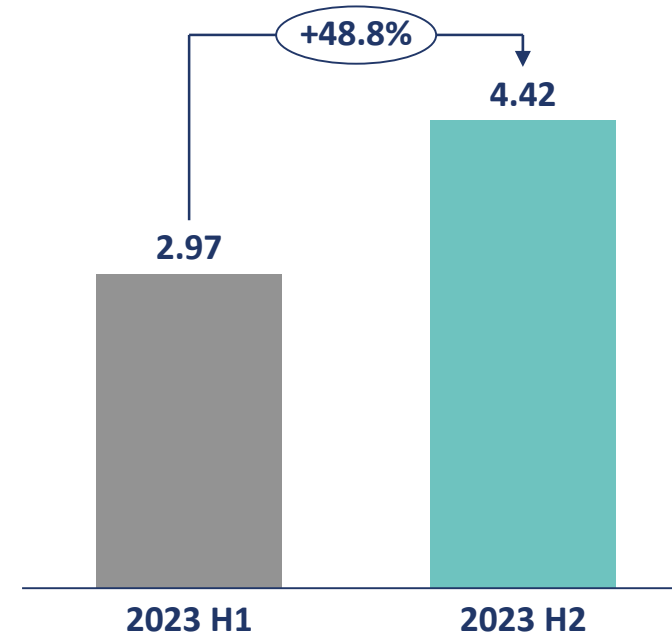


# HUF 7.4 billion pre-tax profit in 2023, despite the special tax on the extra profit

**Y/Y development of profit before tax**  
(HUF billion)



**H/H development of profit before tax**  
(HUF billion)



- MBH Mortgage Bank's profit before tax came at a favourable HUF 7.39 billion despite the paid special tax on the extra profit (HUF +5.2 bn, +242.2% y/y), while on a half year basis it showed an increase of HUF 1.5 billion (+48.8% H/H). The growth of the profit was driven by high interest income, the result on IRS transactions and the release of impairment losses.

## Pre-tax profit of HUF 7.4 billion, mainly due to net interest income

Separate Statement of Profit or Loss (in HUF million)	2022.		2023.		2023FY/ 2022FY
	FY	H1	H2	FY	
Operating income, net	6,142	4,186	5,056	9,242	50.5%
Net interest income	6,555	3,310	5,213	8,523	30.0%
Net fee and commission income*	9	-99	-48	-147	-
Results from financial instruments, net	-307	1,076	-110	966	-
Dividend income	0	0	0	0	-
Other operating income	75	31	5	36	-52.0%
Other operating expense	-190	-132	-4	-136	-28.4%
Provision and impairment	-554	933	413	1,346	-
General and administrative expenses	-2,808	-1,828	-906	-2,734	-2.6%
Modification (Loss), net	-622	-323	-146	-469	-24.6%
<b>Profit before tax</b>	<b>2,158</b>	<b>2,968</b>	<b>4,417</b>	<b>7,385</b>	<b>242.2%</b>
Income tax benefit	-347	-240	-482	-722	108.1%
<b>Profit for the year</b>	<b>1,811</b>	<b>2,728</b>	<b>3,935</b>	<b>6,663</b>	<b>267.9%</b>
<b>Separate Statement of Other Comprehensive Income</b>					
Profit for the year	1,811	2,728	3,935	6,663	267.9%
Other comprehensive loss	290	556	-51	505	74.1%
Total comprehensive income for the year	2,101	3,284	3,884	7,168	241.2%
Total comprehensive income for the year without banking tax and extraprofit tax	3,118	4,285	3,866	8,151	161.4%

The profit before tax of the Mortgage Bank reached HUF 7.4 billion in 2023 despite the special tax on the extra profit charge (+242.2% y/y):

- Improvement was gained mainly due to the **30.0% y/y increase in net interest income, HUF 1.3 bn y/y growth in the net results from financial instruments** (due to the unrealised fair value changes on subsidised loans and results of derivatives) and **impairments released** (HUF +1.9 bn y/y).
- Increase in net interest income** is resulted by the higher interest income from refinancing, supported by both the rising yield environment and the expanding refinancing portfolio (+5.3% y/y).
- Extra profit tax remained a dominant element in operating costs. Thanks to strict cost control, costs showed decrease Y/Y. **Operating expenses** reached HUF 2.7 billion in 2023.
- Income tax expense for 2023 amounted to HUF 722 million. Bank calculated the carryforward loss according to the law.
- Total comprehensive income without the effect of banking tax and extra profit tax was HUF 8.2 billion in 2023.**

Separate Statement of Financial Position (in HUF million)	31.12. 2022.	30.06. 2023.	31.12. 2023.	31.12.2023/ 30.06.2023.	31.12.2023/ 31.12.2022.
Cash and cash equivalents	342	191	19,305	-	-
Financial assets measured at fair value through profit or loss	11,854	9,709	7,875	-18.9%	-33.6%
Loans and advances to customers man-datorily at fair value through profit or loss	6,593	6,240	6,310	1.1%	-4.3%
Derivative financial assets	5,261	3,469	1,565	-54.9%	-70.3%
Hedging derivative assets	975	301	640	112.6%	-34.4%
Financial assets measured at fair value through other comprehensive income (Securities)	18,172	21,417	9,999	-53.3%	-45.0%
Financial assets measured at amortised cost	781,737	715,505	867,975	21.3%	11.0%
Loans and advances to banks	437,013	375,856	523,272	39.2%	19.7%
Loans and advances to customers	24,733	22,832	20,540	-10.0%	-17.0%
Securities	319,726	316,646	323,975	2.3%	1.3%
Other financial assets	265	171	188	9.9%	-29.1%
Other assets	868	791	793	0.3%	-8.6%
<b>Total assets</b>	<b>813,948</b>	<b>747,914</b>	<b>906,587</b>	<b>21.2%</b>	<b>11.4%</b>
Liabilities	742,911	673,593	828,382	23.0%	11.5%
Financial liabilities measured at fair value through profit or loss	5,146	3,430	1,372	-60.0%	-73.3%
Derivative financial liabilities	5,146	3,430	1,372	-60.0%	-73.3%
Financial liabilities designated at fair value through profit or loss	0	0	0	-	-
Financial liabilities measured at amortised cost	734,183	663,608	820,600	23.7%	11.8%
Amounts due to other banks	377,771	295,266	445,316	50.8%	17.9%
Issued debt securities	355,799	367,678	374,647	1.9%	5.3%
Other financial liabilities	613	664	637	-4.1%	4.0%
Hedging derivative liabilities	2,639	5,047	5,214	3.3%	97.6%
Provisions	17	18	16	-11.1%	-5.9%
Income tax liabilities	105	11	264	-	151.4%
Other liabilities	821	1,479	916	-38.1%	11.6%
Equity	71,037	74,321	78,205	5.2%	10.1%
<b>Total liabilities and equity</b>	<b>813,948</b>	<b>747,914</b>	<b>906,587</b>	<b>21.2%</b>	<b>11.4%</b>

The total assets of MBH Mortgage Bank reached HUF 907 billion at the end of 2023 (+11.4% y/y):

- Short-term funding needs of the Mortgage Bank were provided by the Bank Group in the form of interbank deposits. Accordingly, the stock of securities increased on annual basis.
- In 2023, MBH Mortgage Bank issued mortgage bonds with a total nominal value of nearly HUF 75 billion in eight public auctions (+6.4% y/y)
- Of the total HUF 75 billion of mortgage bonds issued in 2023, HUF 20.5 billion, or more than 27.4% of the total annual issuance in 2023 were green mortgage bonds.
- Out of the total mortgage bond issuance, the share of fixed rate mortgage bonds (HUF 50.3 billion) amounted to 67.3% and the share of variable rate mortgage bonds (HUF 24.35 billion) to 32.7%.

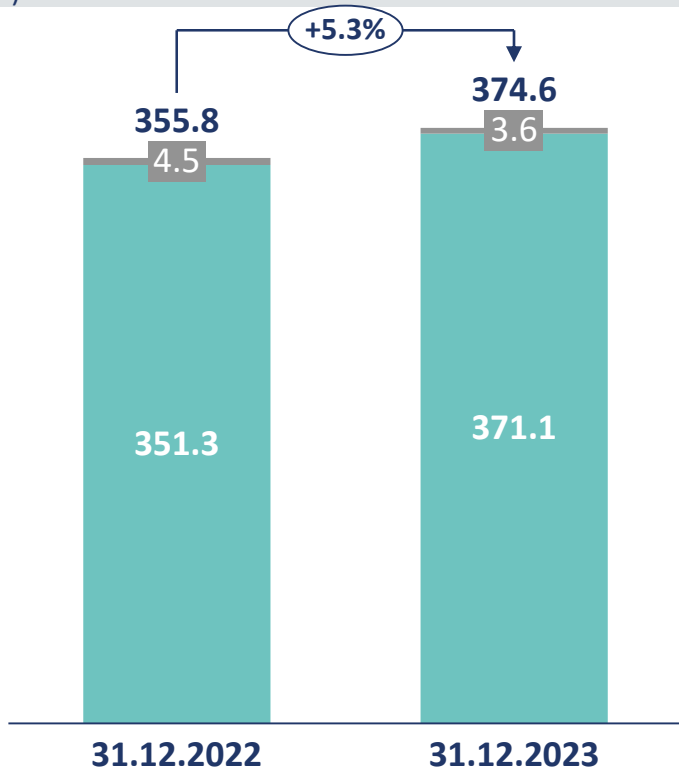




## Refinanced portfolio, Own originated loans

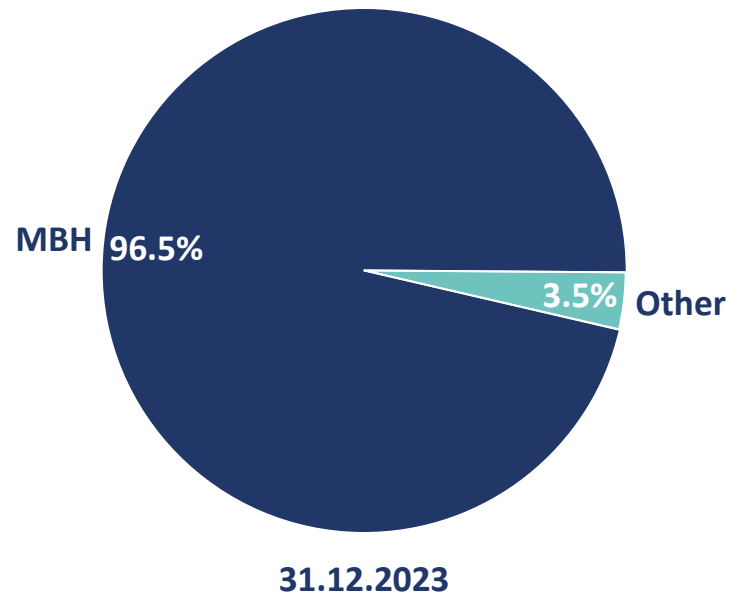
# Refinanced portfolio continued to rise year-on-year in 2023

**Development of the refinanced portfolio**  
(HUF billion)



Refinanced portfolio in EUR  
 Refinanced portfolio in HUF

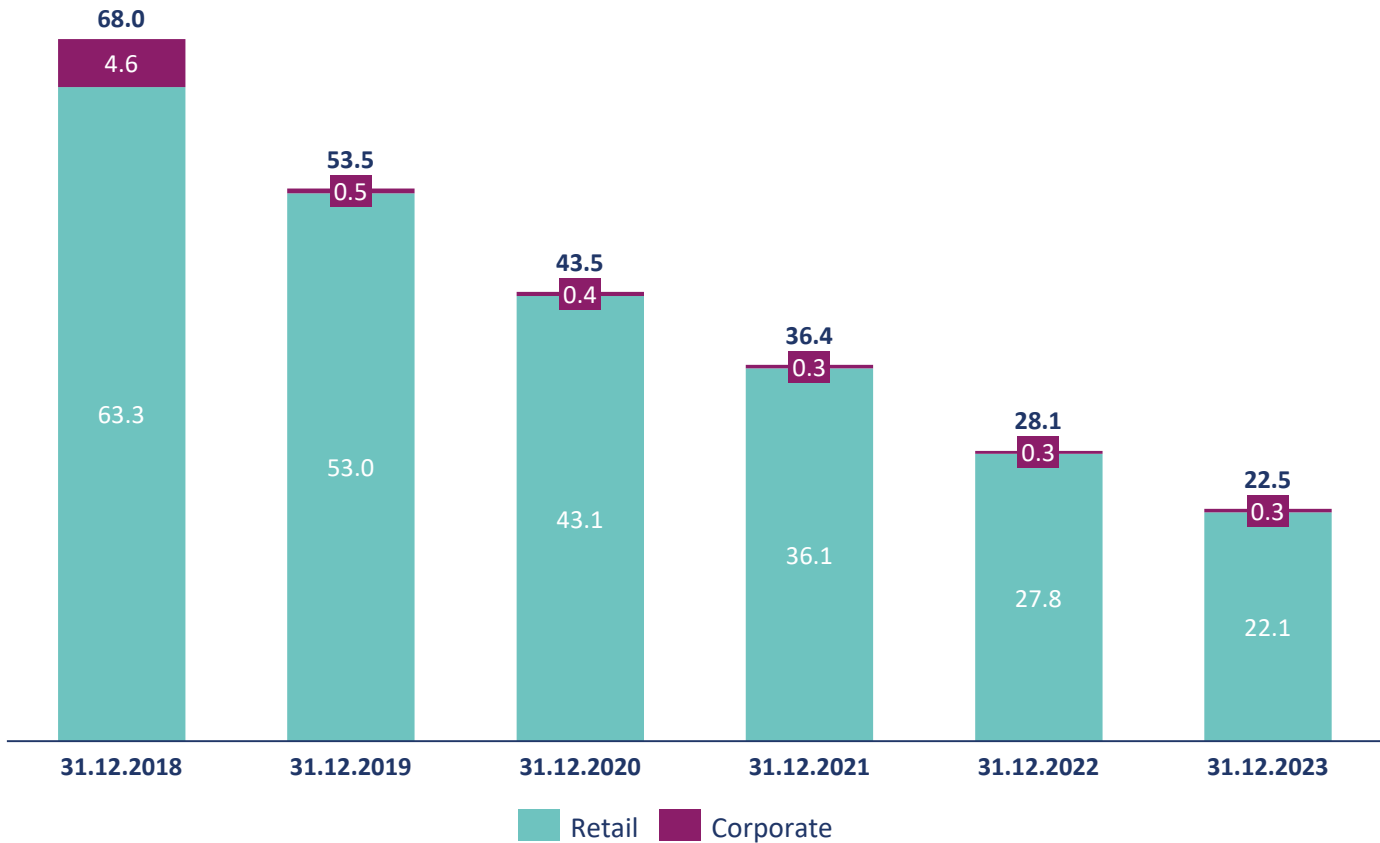
**Development of HUF refinanced portfolio by counterparty**



- 5.3% y/y increase in the refinancing portfolio. The portfolio was mostly denominated in HUF.
- MBH Bank's share of the HUF denominated portfolio was 96.5%.

# Steady decline in the own originated gross loan portfolio - in line with strategic decision

**Breakdown of own originated gross loans\***  
(HUF billion)



- The Bank discontinued granting own originated loans in 2018, hence the stock of the remaining loans has been amortizing at an accelerating rate. The rate of decrease in 2023 amounted to 19.96% (HUF -5.6 billion)
- The composition of the existing portfolio:
  - subsidized loans: 42%
  - HUF denominated loans: 99%
  - 86% of the portfolio in cover pool

\* Excludes loans and advances to customers mandatorily at fair value through profit or loss





# Mortgage bond issuance

## Rating

- S&P mortgage bond rating: S&P Global Ratings (Frankfurt) announced on April 25, 2023 that it affirmed its 'BBB' credit ratings on MBH Mortgage Bank's Hungarian mortgage covered bond program and related issuances, while it removed the ratings from CreditWatch positive. At the same time the outlook on the mortgage bond rating was set to positive.

## „European Premium Covered Bond,, Logo

- MNB authorized the Issuer to use the “European Premium Covered Bond” Logo for MBH Mortgage Bank's mortgage bonds to be issued in the future on 12 September 2022.

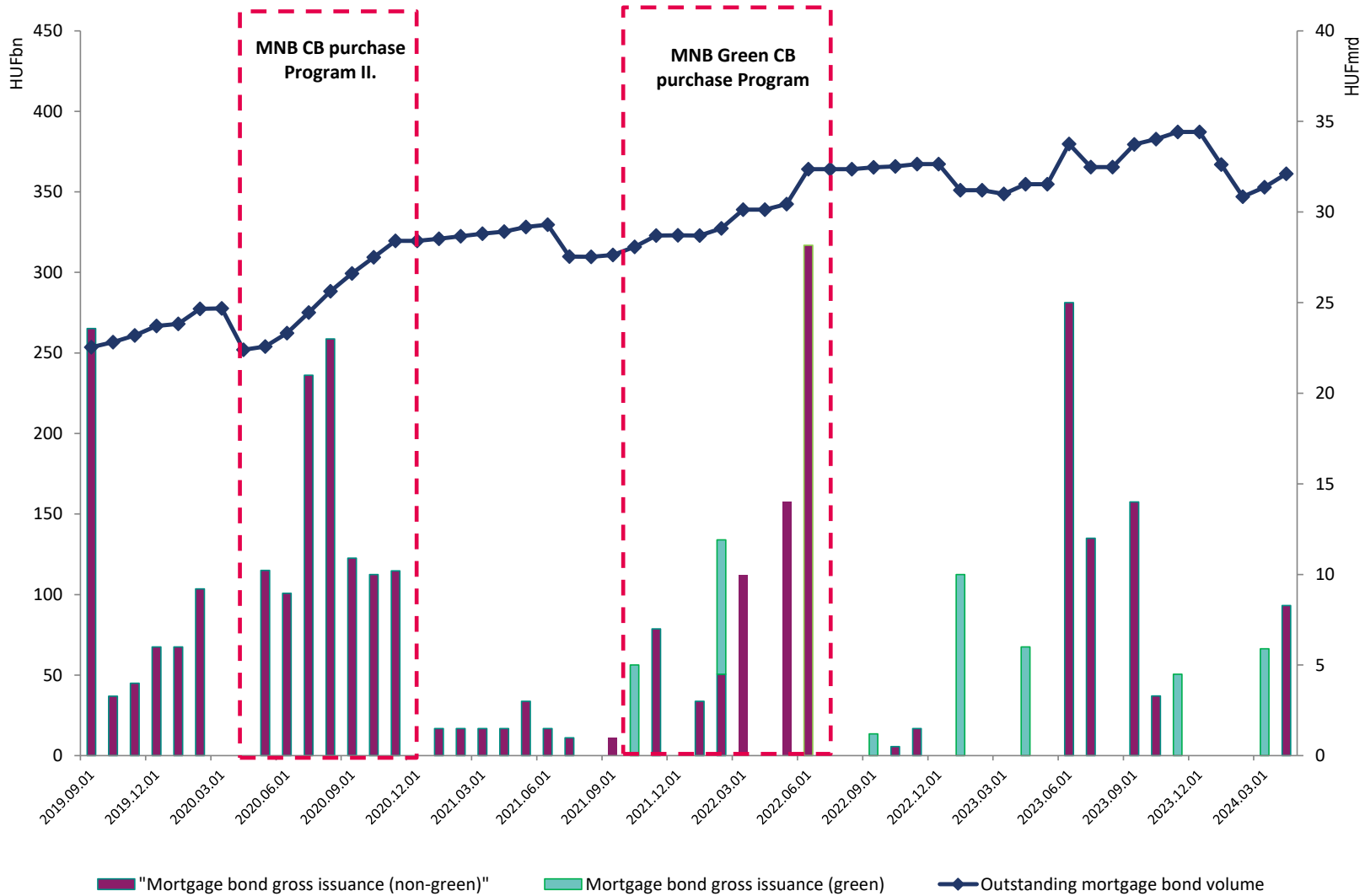
## European Energy Efficient Mortgage Label EEML

- By joining the EEML (February 21, 2022) MBH Mortgage Bank undertakes to refinance its partners' residential and project mortgage loans with the consideration of energy efficiency, while it also guarantees compliance with data provision and transparency requirements. The European Energy Efficient Label (EEML) is awarded based on objective criteria by an independent advisory board alongside the European Mortgage Association.

Authorization for using the European Premium Covered Bond logo: <https://www.mbhmortgagebank.hu/sw/static/file/85942.pdf>  
EEML data: <https://www.mbhmortgagebank.hu/sw/static/file/85942.pdf>



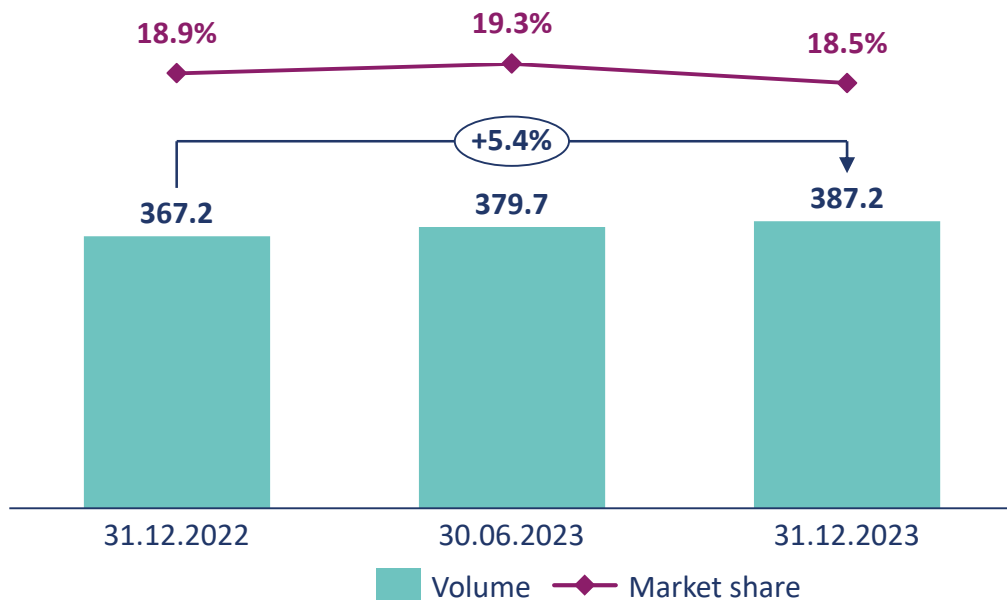
## Mortgage bond issuance and outstanding amount (HUF billion)





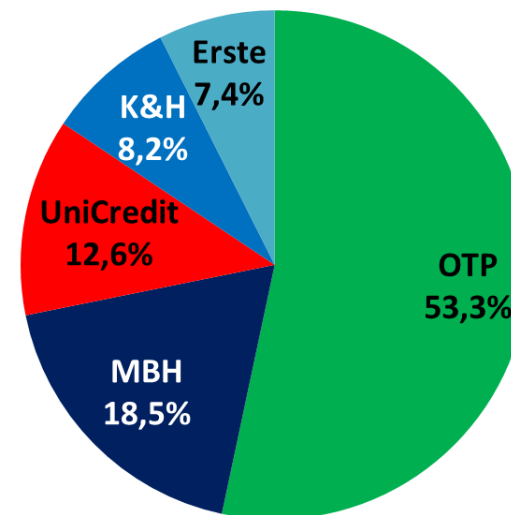
# Stable second position among domestic mortgage bond issuers

**The Bank's market share in the mortgage bond market**  
(based on face value, HUF billion)



- Outstanding amount of mortgage bonds issued by MBH Mortgage Bank amounted to HUF 387.2 billion at the end of 2023, which translates into a HUF 20.0 billion (5.4%) increase versus end-2022.
- As the market volume increased by 4.7% during Q4, the Bank's market share in the segment decreased to 18.5% at the end of 2023.

**Mortgage banks' share in the volume of outstanding mortgage bonds\*** (based on face value), 31.12.2023

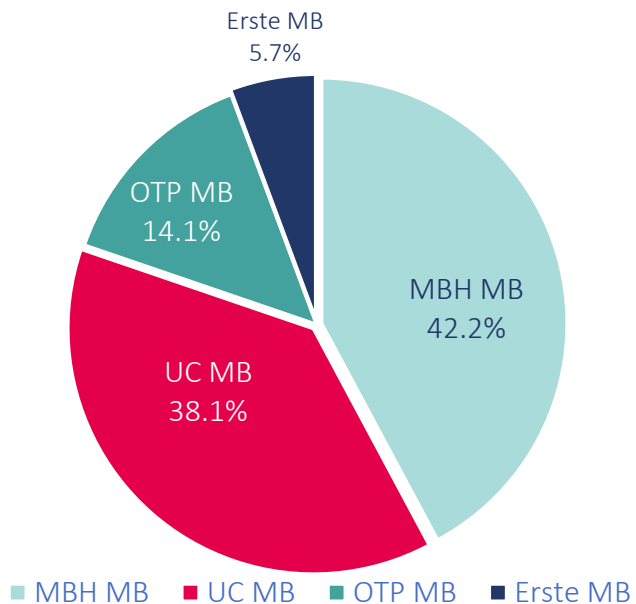


- With its 18.5% market share **MBH Mortgage Bank comfortably retains its second position** in the mortgage bond segment.

\*Source: Quarterly coverage and transparency reports of mortgage banks (OTP Mortgage Bank on a residual basis) 18

## Dominant issuer in the domestic mortgage bond market in 2023

Share of issuers of new mortgage bond issues in 2023, domestic market



## BSE Award: ,Mortgage bond issuer of the year in 2023'



MBH Mortgage Bank has been awarded ten times for its outstanding capital market performance:

Best of BSE ,Mortgage bond issuer of the year in 2023' based on its 42% share in domestic mortgage bond issuance in 2023

## Innovative solutions in the mortgage lending

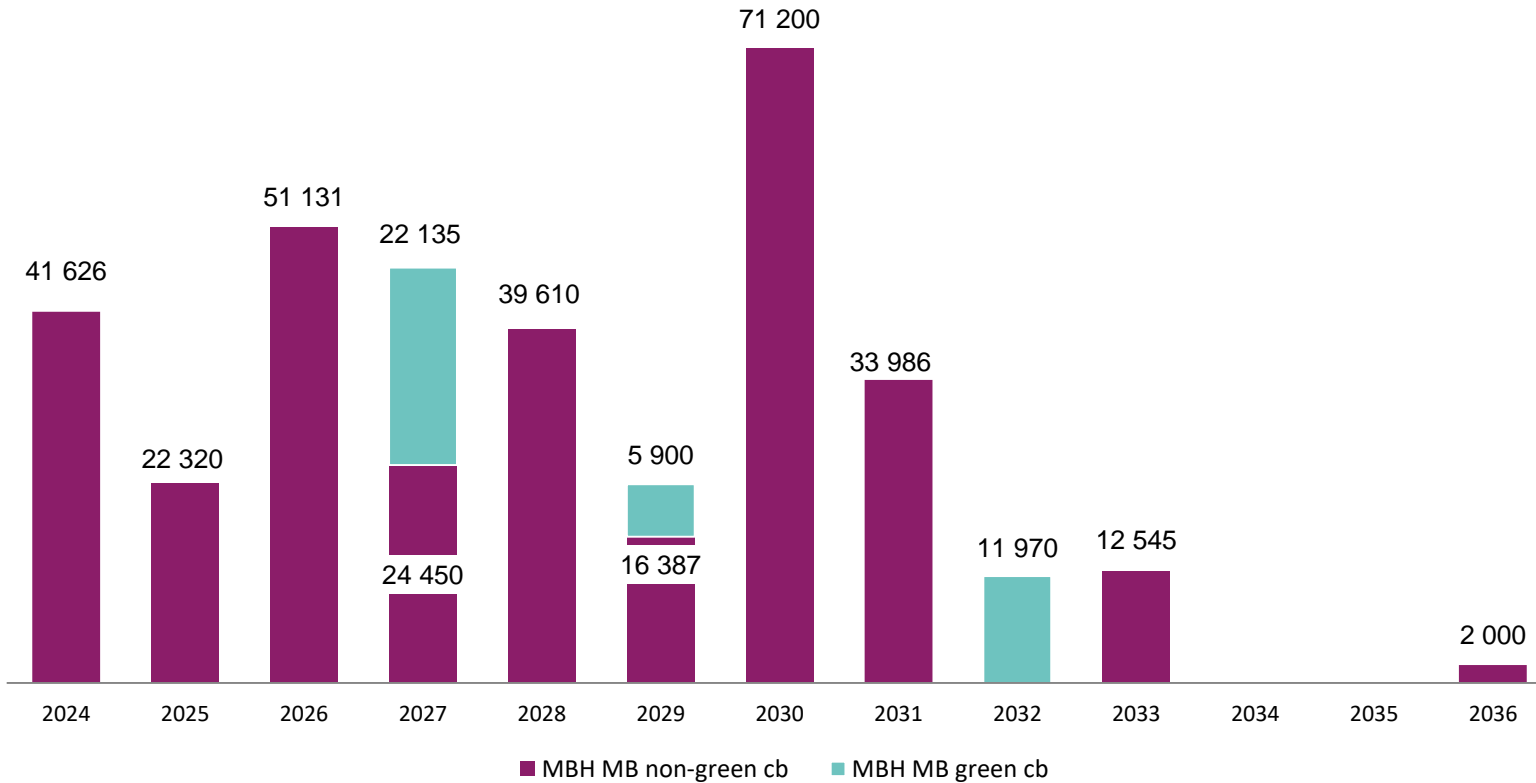


AVM (automatized valuation model) for properties was implemented in MBH Group in 2023.

Business aims for the future:

- AVM accessibility for the whole branch network
- AVM method to be extended for new properties and family houses
- Development of energy database

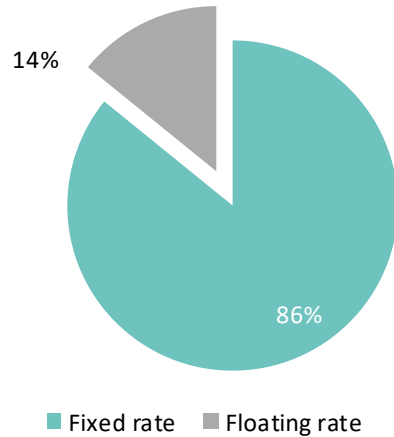
## Maturity structure of MBH MB mortgage bonds (April 11, 2024) (HUF million)



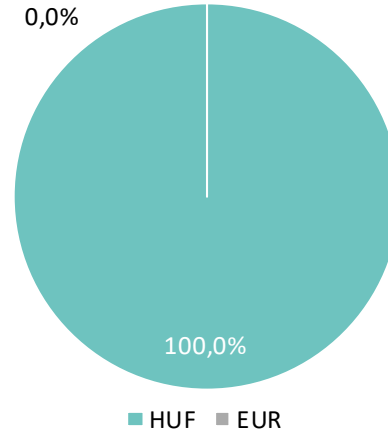
- Total issued mortgage bond volume reached HUF 387.2 bn by end-2023, while the new issue amount was HUF 74.8 bn as a result of eight public auctions.
- The new green covered bond issue size reached HUF 20.5 bn at three public auction is 2023.
- The renewal facility of the MNB is actively used by MBH Mortgage Bond.

# Share of green mortgage bonds increased in total issued volume in 2023

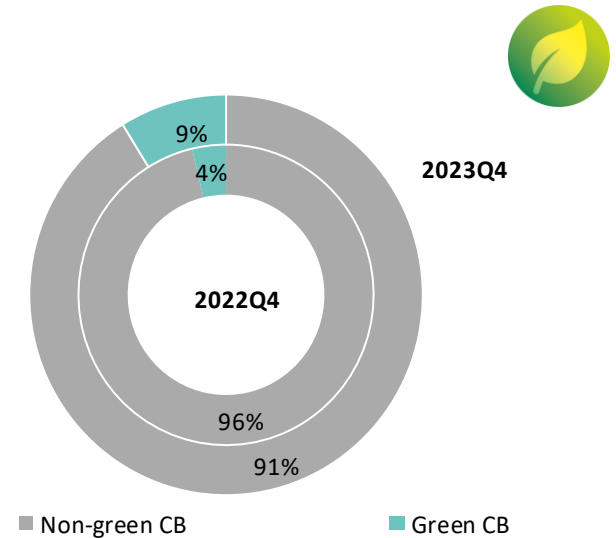
Interest rate composition of outstanding mortgage bonds (YE 2023)



FX composition of outstanding mortgage bonds (YE 2023)

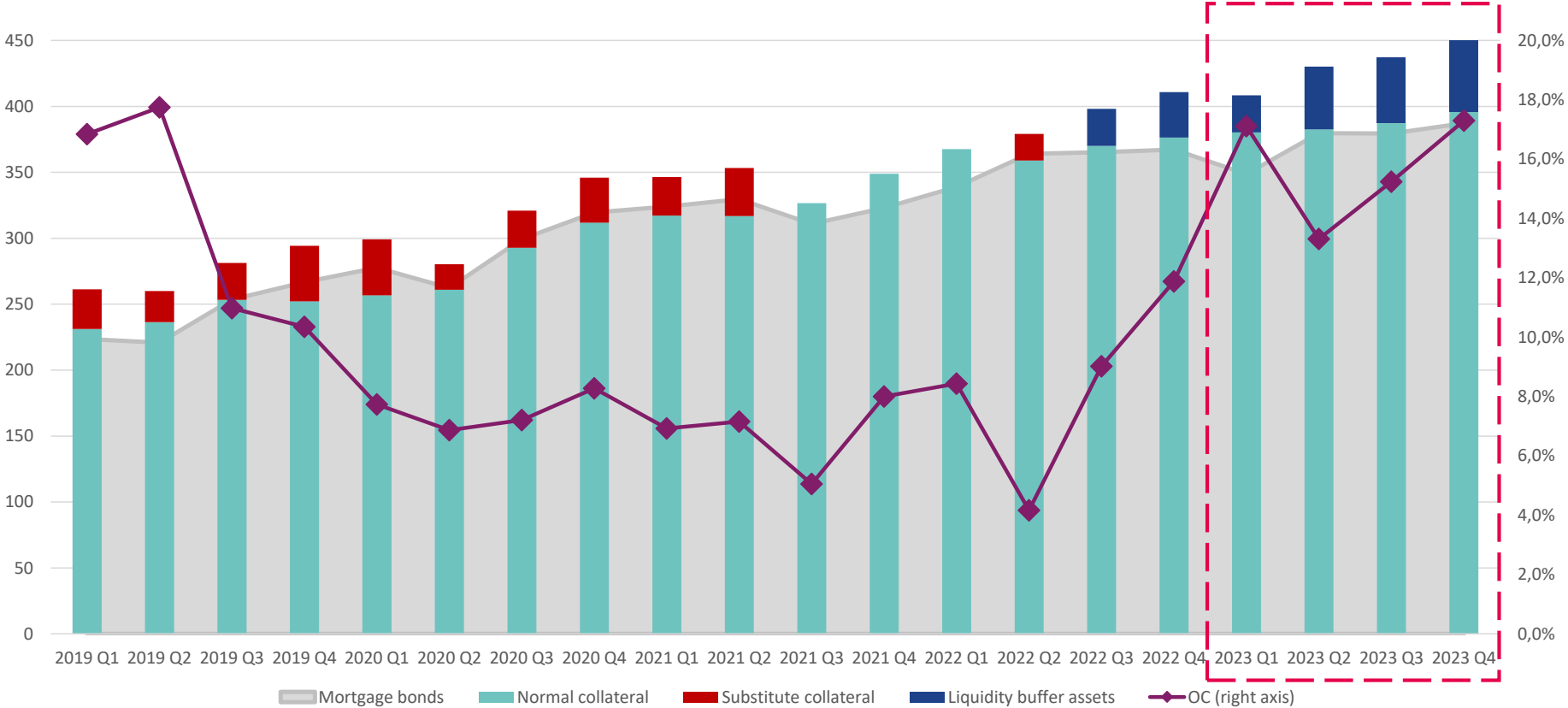


Share of Green Mortgage Bonds in total mortgage bond volume (YE 2023)





**Cover pool composition and OC**  
(in HUF billion)

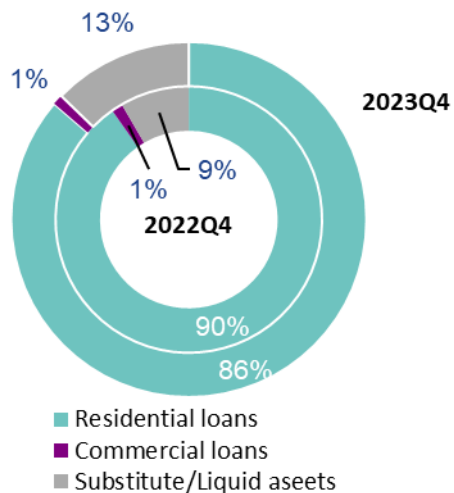


**Strict regulatory requirements for the structure of cover pool assets and over-collateralisation**

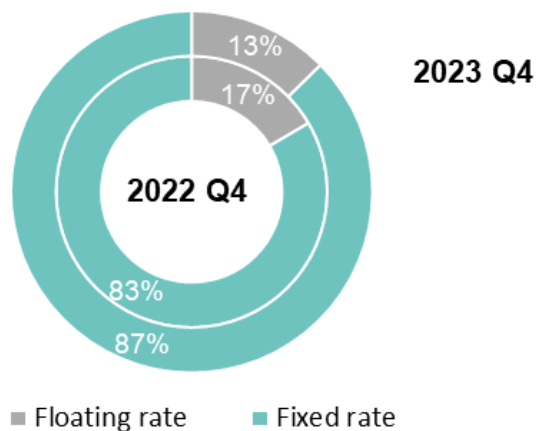
- **Minimum 2% of over-collateralisation**
- **180-day liquidity buffer** (liquid assets covering the 180 day max. net cumulated outflow of liquidity related to the covered bond program).

# Cover pool assets: homogenous portfolio structure, low average LTV

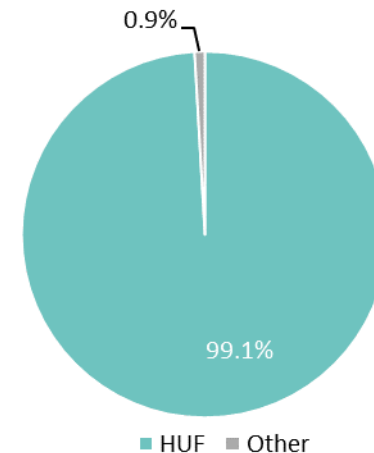
## Asset types of cover pool



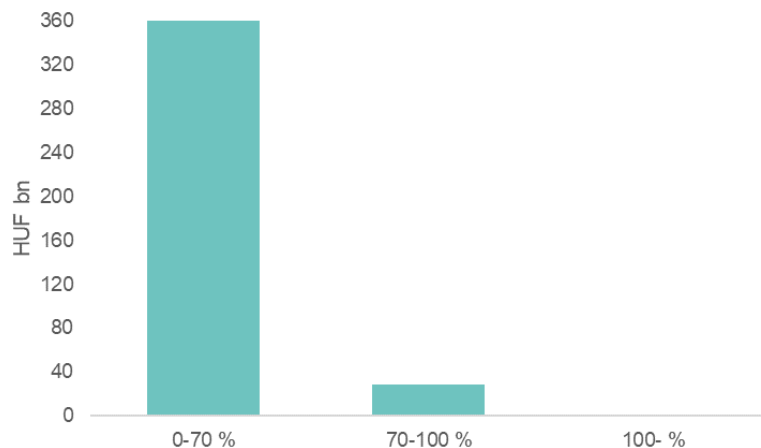
## Interest rate composition of cover pool



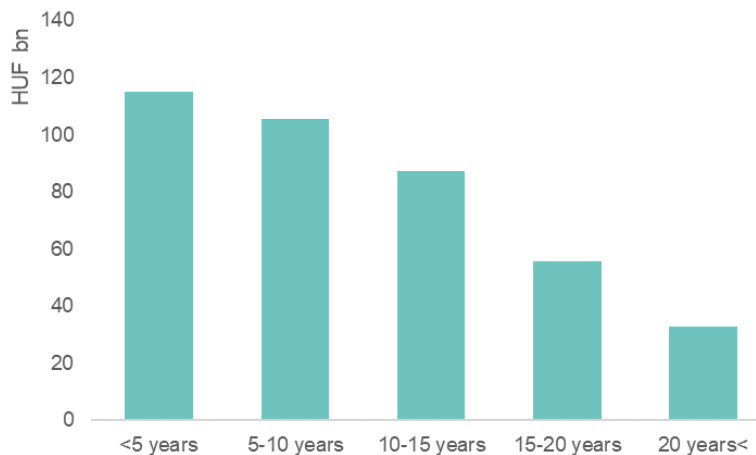
## FX composition of cover pool (31.12.2023)



## LTV composition of loans in the cover pool (31.12.2023)



## Remaining maturity structure of cover pool loans (31.12.2023)





# Green mortgage bond, ESG





## Annual Review and Impact Report

In Q4 2023 MBH MB reviewed the existence of the funded Eligible Green Mortgage Loans and the allocation of Green Covered Bonds proceeds to the portfolio of Eligible Assets. Based on the revised Eligible Green Mortgage Loan Portfolio, MBH MB prepared the annual [Impact Report](#), in which MBH MB informed investors about the environmental impact of the Eligible Green Mortgage Loan portfolio financed with Green Covered bonds.

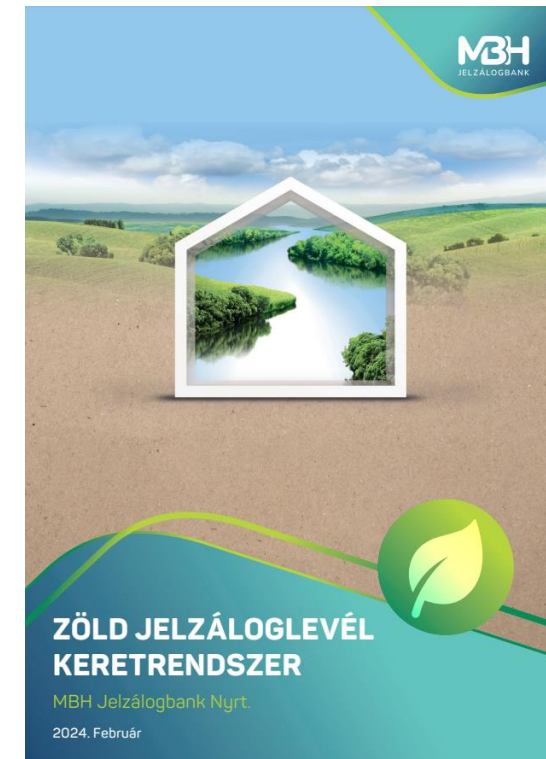
Low Carbon Buildings	Year of Issuance	Annual site energy savings	Annual CO2 emissions avoidance
Unit	[yyyy]	[MWh/year]	[tCO2/year]
MBH Mortgage Bank Co. Plc.	2023	71.730	18.148

## Green Covered Bond Framework Review

In Q4 2023 MBH MB revised its Green Covered Bond Framework along the following changes:

- Developments in MBH MB’s corporate governance and transparency in terms of sustainability
- Review of green eligibility criteria in line with the amendments to the local regulation regarding the energy efficiency requirements of properties built after November 1 of 2023

In February 2024, MBH MB published the new version of the Green Covered Bond Framework and the related Second Party Opinion.







Green mortgage bonds

- **Green transparency reports:** From the first quarter of 2022, MBH MB publishes different reports in relation to outstanding mortgage bonds and cover assets for the same reporting day on quarterly basis (MNB mortgage bond transparency report, Green mortgage bond allocation report, Energy Efficient Mortgage Label’s transparency report).

- **Reports related to MBH MB’s environment impacts:**

Transparency Report

Green Mortgage Bond Framework  
Allocation and Impact Reports

European Energy Efficiency Label  
Report

- In H2 2023 MBH MB successfully continued its green mortgage bond issuance activity. It resulted the **outstanding volume of MBH MB green mortgage bonds increasing by HUF 4.5bn to 34.1bn by end-December 2023**. In the second half of 2023, MBH MB issue HUF 4.5 billion of TZJ27NF1.

## Key indicators in relation of Green Mortgage Bond Frameworks As of December 31, 2023

<i>Outstanding amount of green mortgage bonds</i>	<i>Eligible green mortgage loans</i>	<i>Share of eligible green mortgage loans in the total cover pool</i>	<i>Share of unallocated eligible green mortgage loans</i>
<b>HUF 34 105 480 000</b>	<b>HUF 87 514 564 952</b>	<b>22.1 %</b>	<b>61.0 %</b>

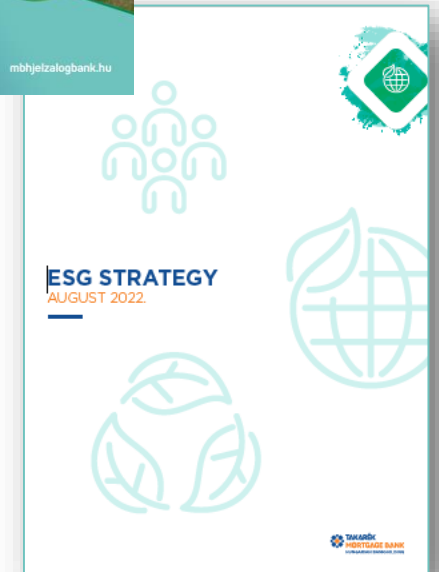


## Sustainability report for 2022

- Stakeholder and materiality assessment for 2022.
- Development of sustainability reporting according to the GRI standard:
  - total carbon footprint (Scope 1, 2, 3) calculation in 2022
- **Publication of Standalone ESG strategy and Sustainability report (2022) in August 2023**

## ESG strategy – stronger ESG consciousness

- Quarterly monitoring of KPIs defined in ESG strategy and Sustainability report and development of the methodology.
- Integration of sustainability factors into corporate governance
- Implementation of ESG responsibilities in the organization and operation rules
- ESG education and workshops for MBH MB employees and Board of Directors
- Partner satisfaction survey and ESG education satisfaction survey
- Preparation for sustainability reporting in 2023 in accordance with the MBH MB ESG development schedule





# Abbreviations

Bank, MBH MB  
Mortgage Bank

MBH Mortgage Bank

NBH, HNB National Bank of Hungary

ESG Environment, Social, Governance

GBP Green Bond Principles

EEML Energy Efficient Mortgage Label

BÉT Budapest Stock Exchange

ROE, ROAE Return on average equity

ROA, ROAA Return on average assets

CIR Cost-to-income ratio

KPI Key Performance Indicator

KRI Key Risk Indicator

GAE General Administrative Expenses

bp basis point





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## Investor relations

Bozzai Rita  
Capital Markets  
Email: [bozzai.rita@takarek.hu](mailto:bozzai.rita@takarek.hu)  
Phone: +36 20 429 4002

Tóth Illés  
Deputy CEO  
Email: [toth.illes@takarek.hu](mailto:toth.illes@takarek.hu)  
Phone: +36 30 417 4356