

# MBH Mortgage Bank Co. Plc.

2023 H1

Investor presentation

31th August 2023



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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 H1 2023 Report.



# Business and earnings KPIs – summary

- MBH Mortgage Bank had a successful half year and **strengthened its second position in the Hungarian mortgage bank sector.**
- **Profit before tax** was HUF 2.97 billion in H1 2023. It increased by HUF 2.0 billion (+203.5% y/y) compared to H1 2022, however. **Total comprehensive income reached was HUF 4.3 billion without banking tax and extra profit tax. Total assets** decreased by HUF 10.1 billion (-1.3% y/y) and amounted to HUF 747.9 billion at the end of June 2023.
- **Net interest income** reached HUF 3.3 billion, as **an increase of 12.4%** (HUF 0.4 billion) **compared to H1 2022.**
- **Operating expenses** increased by 3.1% (HUF 55 million) in H1 2023, mainly due to inflation.
- **The Bank's return on equity (ROAE) was 7.6%, whilst the cost to income ratio (CIR) was 43.7%.**
- The **stock of refinancing loans increased by 5.2%** (by HUF 18.3 billion), to HUF 367.2 billion compared to the previous year.
- Based on the Group's strategy, active new customer lending function had been transferred to other commercial banks of the Group in 2018, thus the remaining stock of customer loans were amortized in H1 2023 as scheduled from HUF 37.9 billion at the end of H1 2022 to HUF 30.0 billion (-20.9% y/y).
- MBH MB **issued a total of HUF 41.0 billion nominal amount of mortgage bonds** at 4 public auctions in H1 2023, of which HUF 16.0 bn represented green mortgage bonds, from the remaining HUF 25.0 bn issue volume fixed and floating rates mortgage bond represented in the ratio of nearly 50%-50%. The fix rate mortgage bond transactions complied with the conditions of the central bank's mortgage bond rollover facility.
- S&P covered bond rating: On 25th of April 2023, 'BBB' rating (one notch above the domestic sovereign debt rating) of MBH Mortgage Bank's mortgage issuance program and the series of mortgage bonds issued in HUF and foreign currencies was confirmed by S&P, while the outlook was improved from stable to positive at the same time. The rating and the outlook have been unchanged since the above last move.

## Key figures

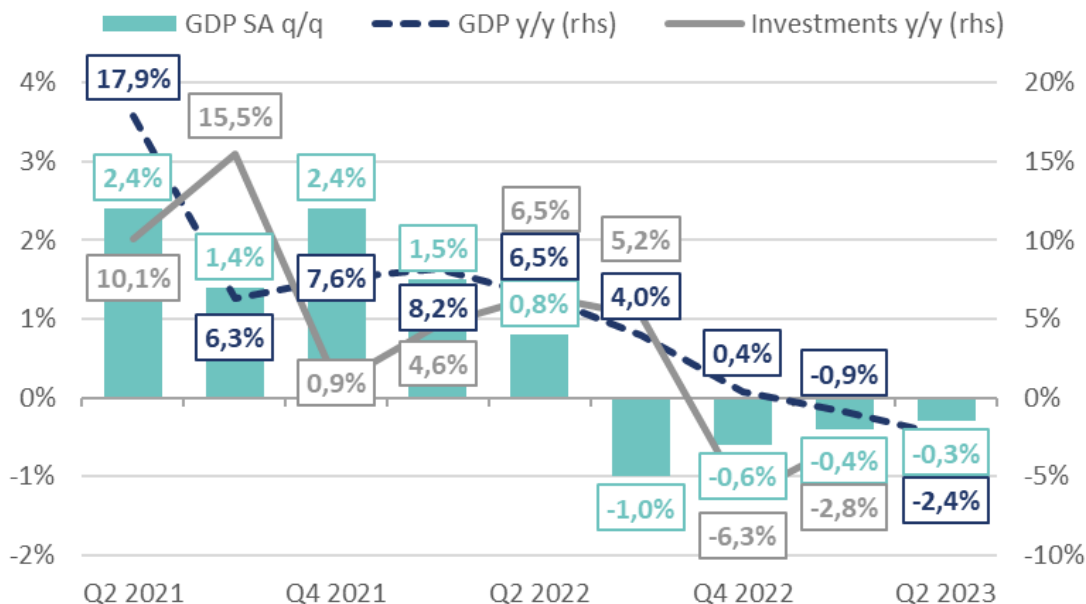
<b>Profit before tax</b>  <b>2.97 mrd Ft</b>  203.5% ; 151.5%	<b>Total assets</b>  <b>747.9 mrd Ft</b>  -1.3% ; -8.1%	<b>Equity</b>  <b>74.3 mrd Ft</b>  6.1% ; 4.6%
<b>Operating income, net</b>  <b>4.2 mrd Ft</b>  31.4% ; 41.6%	<b>GAE</b>  <b>-1.8 mrd Ft</b>  3.1% ; 76.6%	<b>Provision and impairment</b>  <b>0.9 mrd Ft</b>  - ; -
<b>ROAE</b>  <b>7.6%</b>  5.0%-pt ; 4.9%-pt	<b>ROAA</b>  <b>0.7%</b>  0.5%-pt ; 0.47%-pt	<b>CIR</b>  <b>43.7%</b>  -12.0%-pt ; 8.7%-pt

KPI	
value	
y/y	h1/h2



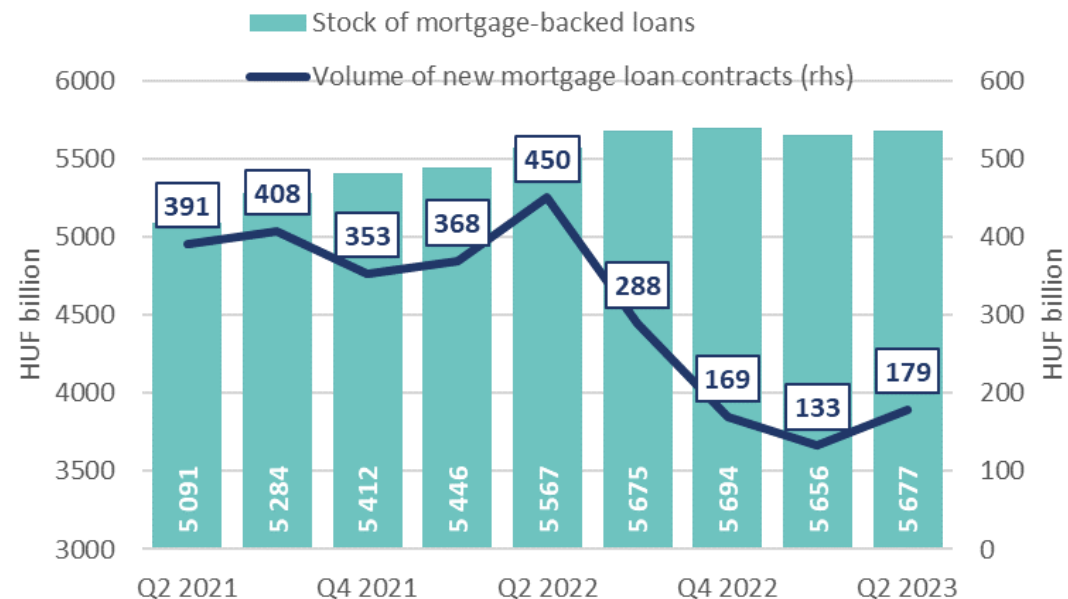
# Business environment

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



**ECONOMY STAYS IN RECESSION:** Based on seasonally adjusted time series GDP remained in a decline for the fourth consecutive quarter, and thus the economy is still in recession, with the rate of annual decline amounting to 2.4%. The fact that recession also spread to the second quarter of 2023 was a negative surprise, which necessitates a review of previous growth expectations. Due to weaker than anticipated factors and considering the most recent outlook stagnation is projected in average annual GDP for 2023 as opposed to the previous forecast of 1% growth.

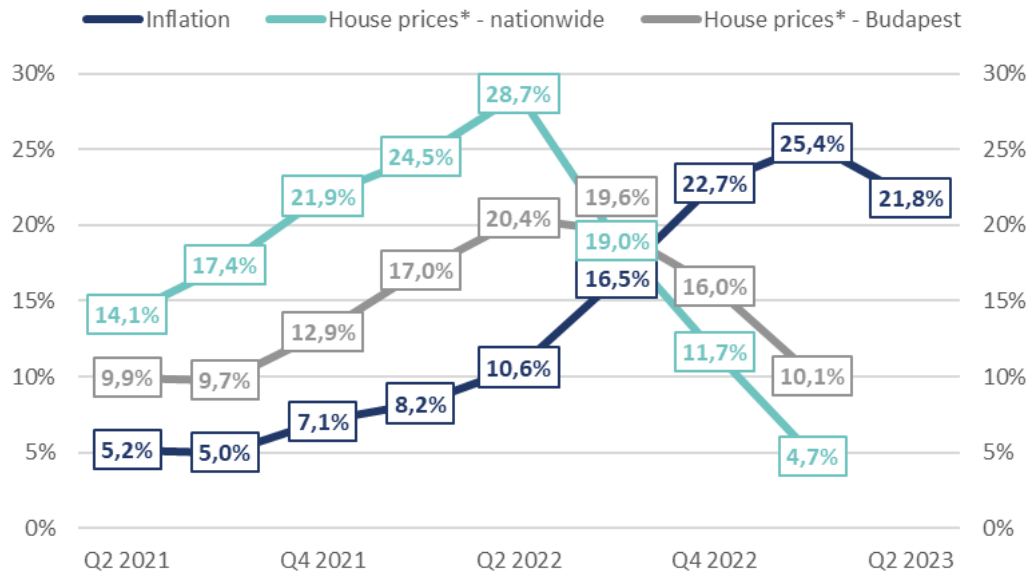
## Mortgage lending (source of data: MNB)



**LENDING DYNAMICS UP:** from Q1's bottom the volume of new mortgage loan contracts slightly increased in Q2. Yet, the altogether HUF 179bn new loan deal falls 60% short of the HUF 450bn volume recorded a year before. Although a gradual recovery is underway, the full-year volume is still expected to be 50% less than it was in 2022. At the same time, a decline in the outstanding stock was observed only in Q1: a reduction in the ratio of early payments combined with higher disbursements from earlier contracted loans that are disbursed in stages drove back the stock to an upward, though compared to the past years less steep, trajectory.

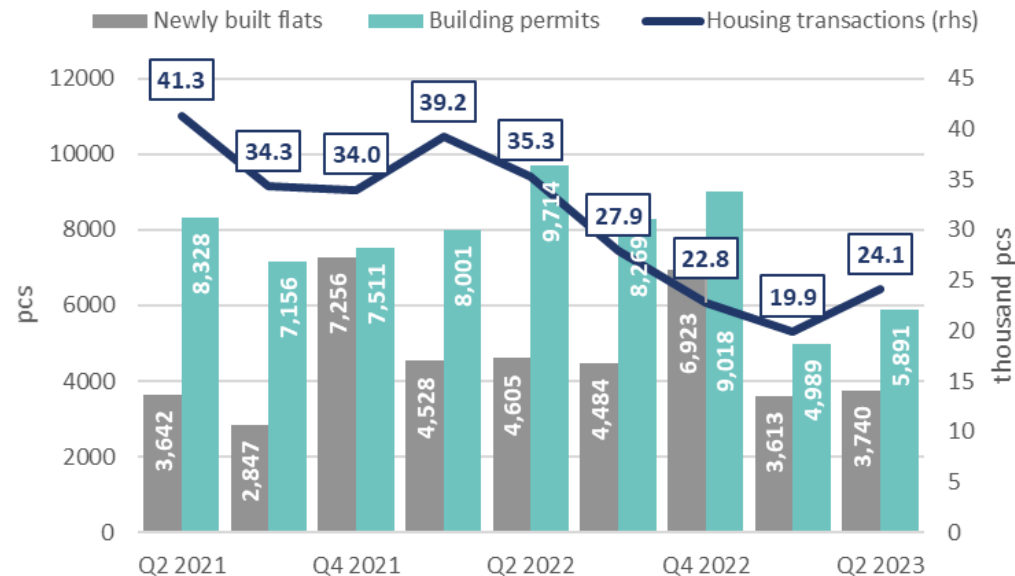
# Inflation has slowed down, housing market remains weak

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



**INFLATION TURNS DOWNWARDS:** The annual rate of inflation started to decline following an above-25% peak in Q1, hence disinflation finally took off, but even in June the 12-month rate of CPI-growth was above 20%, a sharper decline is due only later in Q3. Driven by depressed demand a downward correction in house prices continued: although on a quarterly basis nominal prices marginally increased in Q2, on a yearly basis the growth in nationwide house prices slowed below 5%, whereas in Budapest it just remained above 10%. In the upcoming quarters - alongside smaller regional differences - stagnation is going to characterize house prices, which may even result in negative annual rates, at least in the case of the nationwide average.

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



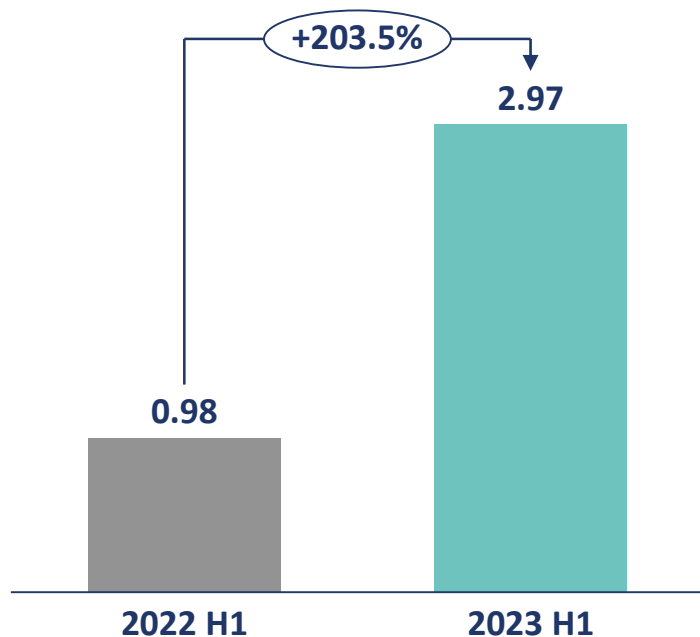
**PROPERTY MARKET TO REMAIN WEAK IN THE SHORT RUN:** Deterioration of households' real wages, weaker demand and the significant increase of interest rates (showing only a very modest drop for now) as well as the lower availability of state subsidies, all contributed to the decline in the number of built properties on annual basis. The strong deterioration of the number of building permits also imply a continued weakening in the property building activity. The property market could end up with a transaction number of 90-110 thousands in 2023 against 130 thousands of transactions-already reflecting a declining trend-in 2022. Although demand from purchases brought forward due to cancelation of family subsidies could improve in H2 2023, but substantial recovery of the property market is foreseen in parallel with the normalization of interest rates only from 2025.



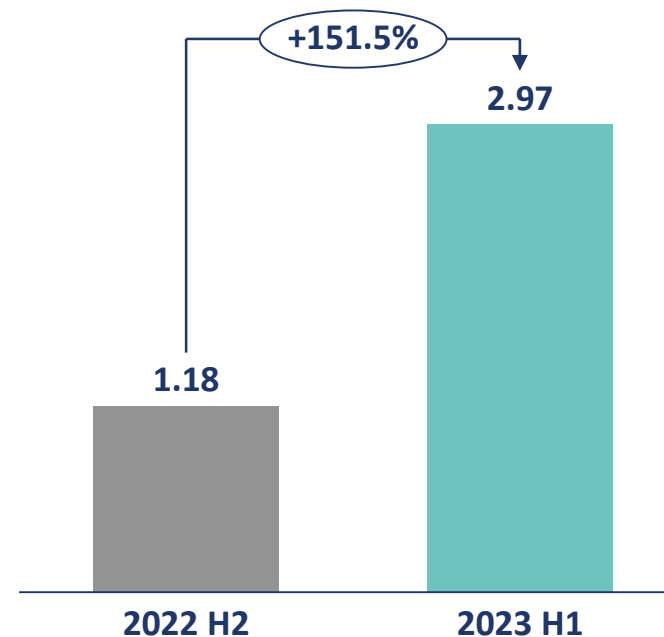
# Profit and Loss developments, Balance sheet



**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 in H1 2023 was significant HUF 2.97 billion despite the special tax on the extra profit (HUF +2.0 bn, +203.5% y/y), half year on half year basis it was an increase of HUF 1.8 billion (+151.5% H/H).

## Pre-tax profit of HUF 2.97 billion, mainly due to net interest income

Separate Statement of Profit or Loss (in HUF million)	2021.		2022.		2023.		2023H1/ 2022H1	2023H1/ 2022H2
	FY	H1	H2	FY	H1	H1		
<b>Operating income, net</b>	<b>5,439</b>	<b>3,186</b>	<b>2,956</b>	<b>6,142</b>	<b>4,186</b>		<b>31.4%</b>	<b>41.6%</b>
Net interest income	4,248	2,945	3,610	6,555	3,310		12.4%	-8.3%
Net fee and commission income*	-31	4	5	9	-99		-	-
Results from financial instruments, net	787	377	-684	-307	1,076		185.5%	-257.3%
Dividend income	0	0	0	0	0		-	-
Other operating income	439	42	33	75	31		-26.2%	-6.1%
Other operating expense	-4	-182	-8	-190	-132		-27.5%	-
<b>Provision and impairment</b>	<b>-221</b>	<b>-148</b>	<b>-406</b>	<b>-554</b>	<b>933</b>		-	-
<b>General and administrative expenses</b>	<b>-2,419</b>	<b>-1,773</b>	<b>-1,035</b>	<b>-2,808</b>	<b>-1,828</b>		<b>3.1%</b>	<b>76.6%</b>
Modification (Loss), net	-62	-287	-335	-622	-323		12.5%	-3.6%
<b>Profit before tax</b>	<b>2,737</b>	<b>978</b>	<b>1,180</b>	<b>2,158</b>	<b>2,968</b>		<b>203.5%</b>	<b>151.5%</b>
Income tax benefit	8	-101	-246	-347	-240		137.6%	-2.4%
<b>Profit for the year</b>	<b>2,745</b>	<b>877</b>	<b>934</b>	<b>1,811</b>	<b>2,728</b>		<b>211.1%</b>	<b>192.1%</b>
<b>Separate Statement of Other Comprehensive Income</b>								
<b>Profit for the year</b>	<b>2,745</b>	<b>877</b>	<b>934</b>	<b>1,811</b>	<b>2,728</b>		<b>211.1%</b>	<b>192.1%</b>
Other comprehensive loss	-493	215	75	290	556		158.6%	-
<b>Total comprehensive income for the year</b>	<b>2,252</b>	<b>1,092</b>	<b>1,009</b>	<b>2,101</b>	<b>3,284</b>		<b>200.7%</b>	<b>225.5%</b>
<b>Total comprehensive income for the year without banking tax and extraprofit tax</b>	<b>2,252</b>	<b>2,093</b>	<b>1,025</b>	<b>3,118</b>	<b>4,285</b>		<b>104.7%</b>	<b>-</b>

The profit before tax of the Mortgage Bank reached HUF 2.97 billion in H1 2023 despite the special tax on the extra profit charge (+203.5% y/y):

- Improvement was gained mainly due to the **12.4% y/y increase in net interest income, HUF 0.7 bn y/y growth at net results from financial instruments** (due to the unrealised fair value changes on subsidised loans and results of derivatives) and impairments were released (HUF +1.1 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 (+5.2% y/y). The interest income from the government securities portfolio also played an important role in the growth.
- Due to the extra profit tax (HUF 576 million) and inflation **operating expenses** increased by 3.1% y/y to HUF 1.8 billion in H1 2023.
- Income tax expense for H1 2023 amounted to HUF 240 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 4.3 billion in H1 2023.**

\*In H1 2022, a reclassification has been made between commissions and results from financial instruments for comparability.

## 1.3% y/y decrease in total assets in H1 2023

Separate Statement of Financial Position (in HUF million)	31.12. 2021.	30.06. 2022.	31.12. 2022.	30.06. 2023.	30.06.2023/ 30.06.2022.	30.06.2023/ 31.12.2022.
Cash and cash equivalents	229	169	342	191	13.0%	-44.2%
Financial assets measured at fair value through profit or loss	12,146	12,535	11,854	9,709	-22.5%	-18.1%
Hedging derivative assets	0	257	975	301	17.1%	-69.1%
Financial assets measured at fair value through other comprehensive income (Securities)	26,242	1,234	18,172	21,417	-	17.9%
<b>Financial assets measured at amortised cost</b>	<b>625,177</b>	<b>742,832</b>	<b>781,737</b>	<b>715,505</b>	<b>-3.7%</b>	<b>-8.5%</b>
Loans and advances to banks	342,707	405,401	437,013	375,856	-7.3%	-14.0%
Loans and advances to customers	31,573	24,386	24,733	22,832	-6.4%	-7.7%
Securities	250,521	312,589	319,726	316,646	1.3%	-1.0%
Other financial assets	376	456	265	171	-62.5%	-35.5%
<b>Other assets</b>	<b>1,221</b>	<b>990</b>	<b>868</b>	<b>791</b>	<b>-20.1%</b>	<b>-8.9%</b>
<b>Total assets</b>	<b>665,015</b>	<b>758,017</b>	<b>813,948</b>	<b>747,914</b>	<b>-1.3%</b>	<b>-8.1%</b>
<b>Liabilities</b>	<b>596,079</b>	<b>687,988</b>	<b>742,911</b>	<b>673,593</b>	<b>-2.1%</b>	<b>-9.3%</b>
Financial liabilities measured at fair value through profit or loss	2,309	4,237	5,146	3,430	-19.0%	-33.3%
Derivative financial liabilities	2,309	4,237	5,146	3,430	-19.0%	-33.3%
Financial liabilities designated at fair value through profit or loss	6,121	0	0	0	-	-
<b>Financial liabilities measured at amortised cost</b>	<b>585,534</b>	<b>680,029</b>	<b>734,183</b>	<b>663,608</b>	<b>-2.4%</b>	<b>-9.6%</b>
Amounts due to other banks	263,131	325,607	377,771	295,266	-9.3%	-21.8%
Issued debt securities	321,714	353,687	355,799	367,678	4.0%	3.3%
Other financial liabilities	689	735	613	664	-9.7%	8.4%
<b>Hedging derivative liabilities</b>	<b>1,112</b>	<b>2,116</b>	<b>2,639</b>	<b>5,047</b>	<b>138.5%</b>	<b>91.2%</b>
Provisions	28	27	17	18	-33.3%	5.9%
Income tax liabilities	147	1	105	11	-	-89.5%
Other liabilities	828	1,578	821	1,479	-6.3%	80.1%
<b>Equity</b>	<b>68,936</b>	<b>70,029</b>	<b>71,037</b>	<b>74,321</b>	<b>6.1%</b>	<b>4.6%</b>
<b>Total liabilities and equity</b>	<b>665,015</b>	<b>758,017</b>	<b>813,948</b>	<b>747,914</b>	<b>-1.3%</b>	<b>-8.1%</b>

The total assets of MBH Mortgage Bank reached HUF 748 billion at the end of H1 2023 (-1.3% y/y):

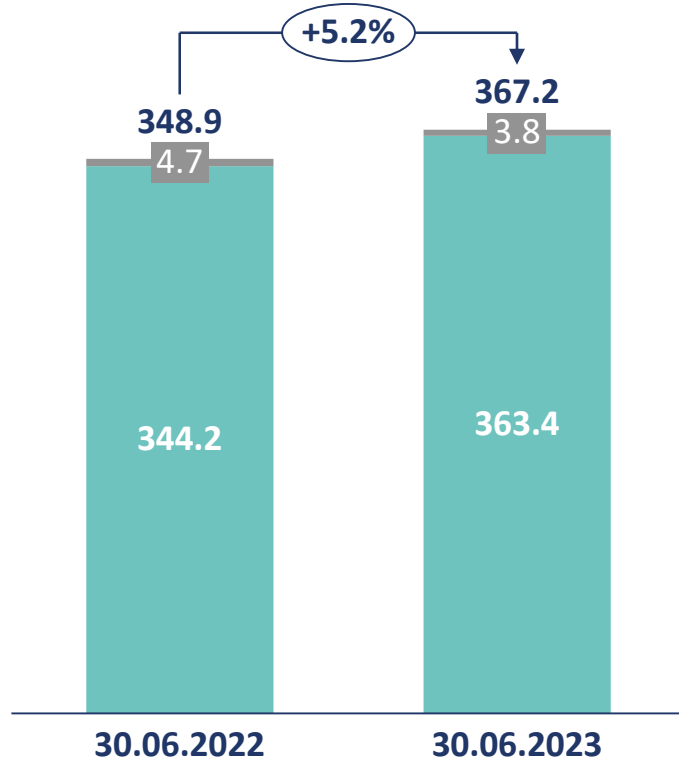
- Short-term maturity liability needs of the Bank were provided by the Bank Group in the form of interbank deposits. Accordingly, the stock of securities increased on annual basis.
- TMB issued a total of **HUF 41.0 billion** nominal amount of mortgage bonds at 4 public auctions in H1 2023, of which HUF 16.0 bn represented green mortgage bonds, from the remaining HUF 25.0 bn issue volume fixed and floating rates mortgage bond were represented in the ratio of nearly 50%-50%. The fix rate mortgage bond transactions complied with the conditions of the central bank's mortgage bond rollover facility.



# Refinanced portfolio, Own originated loans

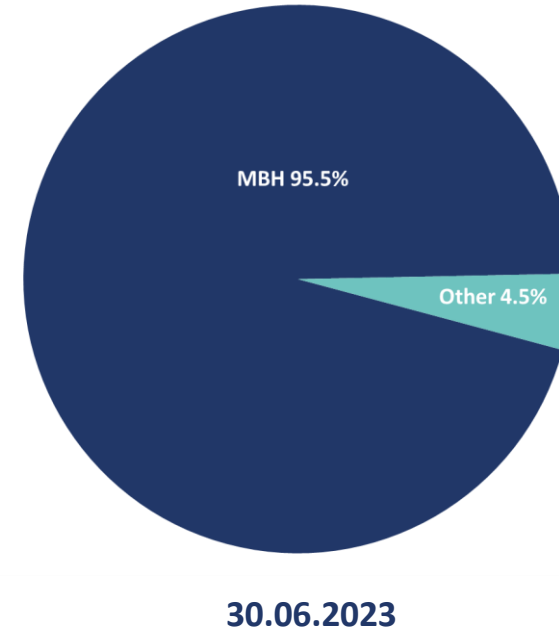
# Refinanced portfolio continued to rise year-on-year

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



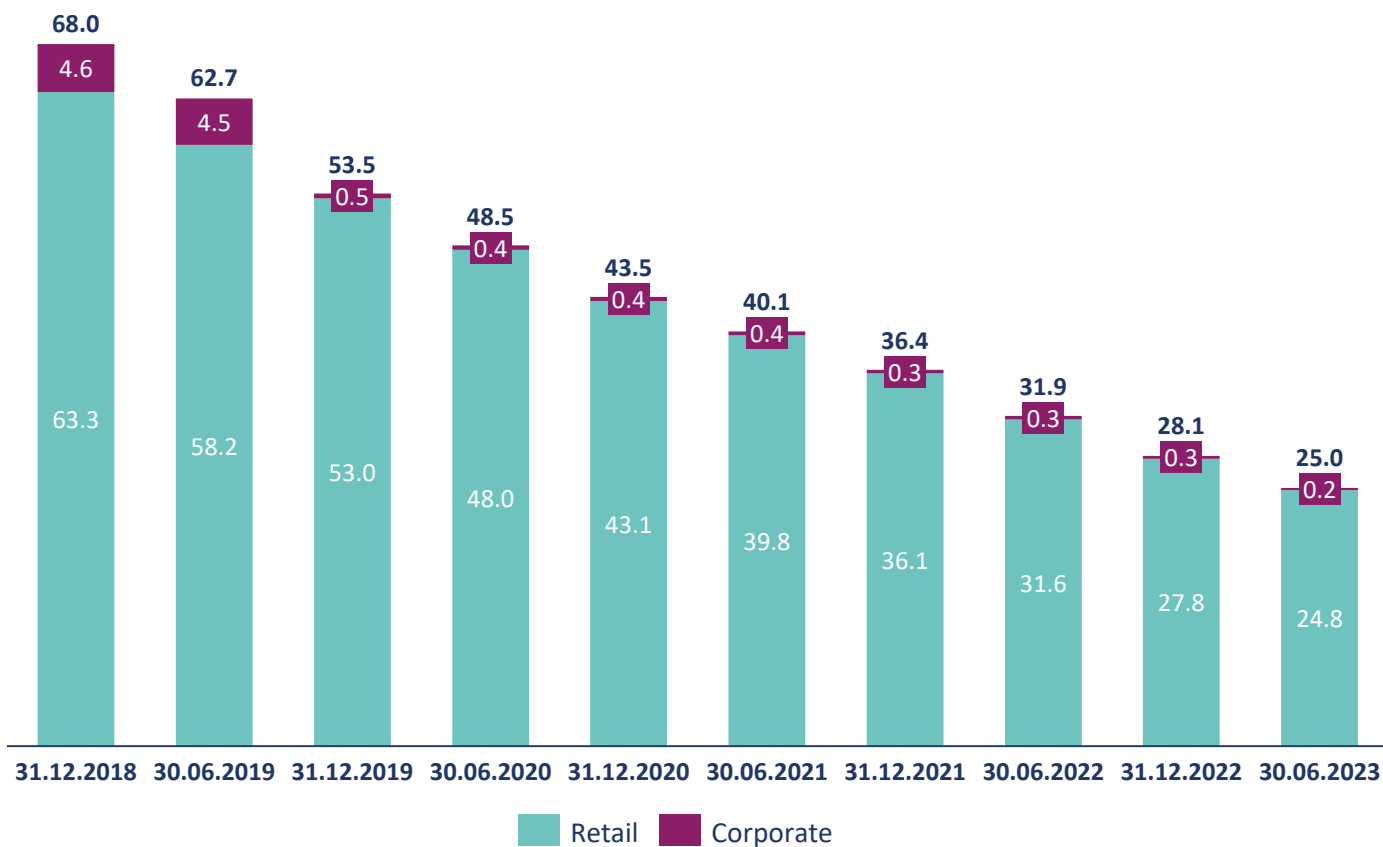
Refinanced portfolio in EUR  
 Refinanced portfolio in HUF

**Development of HUF refinanced portfolio by counterparty**



- 5.2% y/y increase in the refinancing portfolio. The portfolio was mostly denominated in HUF.
- MBH Bank's share of the HUF denominated portfolio was 95.5%.

## Currency 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 H1 2023 amounted to 13.6% (HUF -3.9 billion)
- The composition of the existing portfolio:
  - subsidized loans: 44 %
  - HUF denominated loans: 99 %
  - 87% 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 taking into consideration the energy efficiency and it guarantees, that the Issuer complies with the 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)



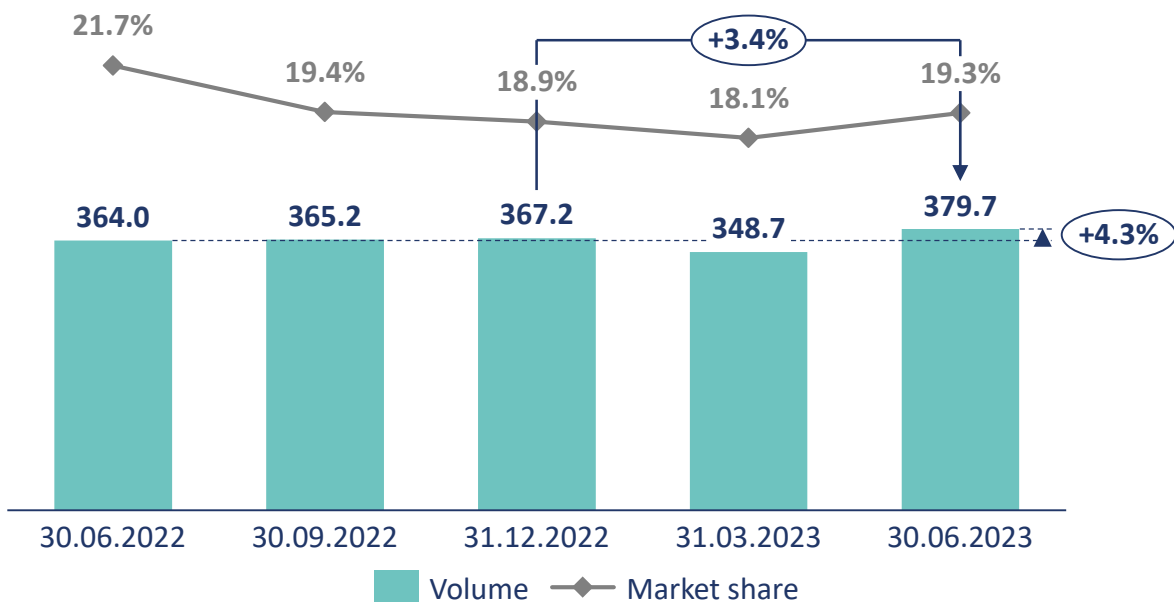
- The total volume of mortgage bonds issued in the first 6 months of 2023 was HUF 41 billion (first 7 months: HUF 53 billion) – 5 transactions



Out of which green mortgage bonds: HUF 16 billion in 2 transactions in H1 2023

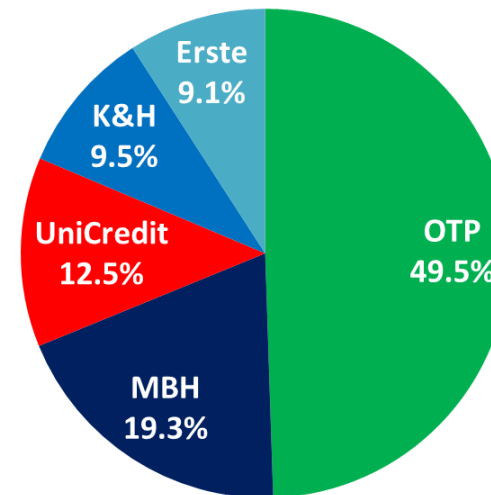
- The outstanding volume of green mortgage bonds increased significantly in H1 2023. The newly issued green volume accounted for 39% of all mortgage bonds sold on the market during the half year, and 7.8% of the entire outstanding volume of the MBH MB (as of 30 June 2023).
- The MNB's Mortgage Bond Rollover Programme is still accessible for the Hungarian Mortgage Banks, therefore MBH MB seeks maximum utilization of this facility.

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



- The face value of mortgage bonds issued by MBH Mortgage Bank amounted to HUF 379.7 billion at the end of H1 2023, which translates into a HUF 12.4 billion (3.4%) increase versus end-2022.
- Since market volume was up by 3.4% in H1 of the year, the Bank's market share increased to 19.3%.

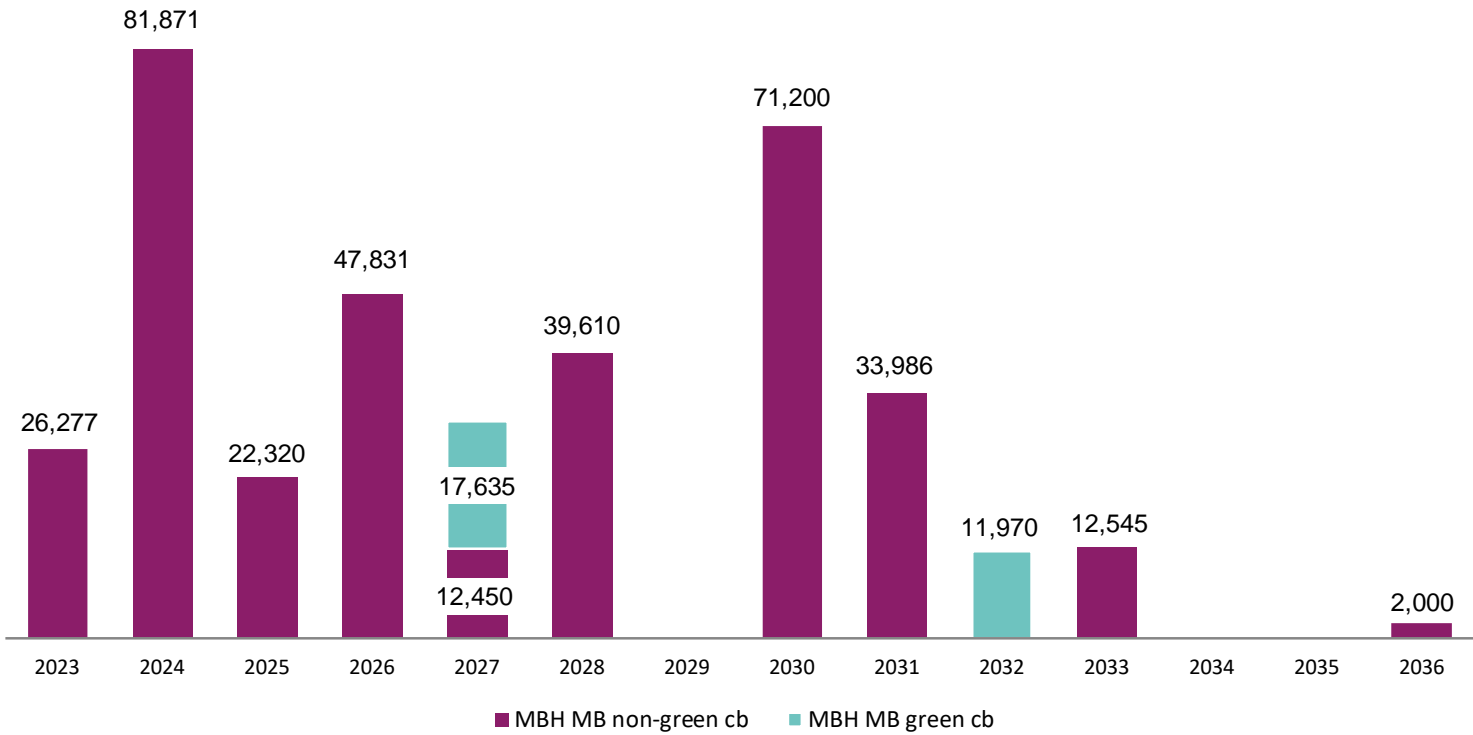
## Mortgage banks' share in the volume of outstanding mortgage bonds\* (based on face value), 30.06.2023



- With its more than 19.3% market share **MBH Mortgage Bank comfortably retains its second position** in the mortgage bond segment.

\*Source: Quarterly reports on coverage by mortgage banks as published on BSE's website

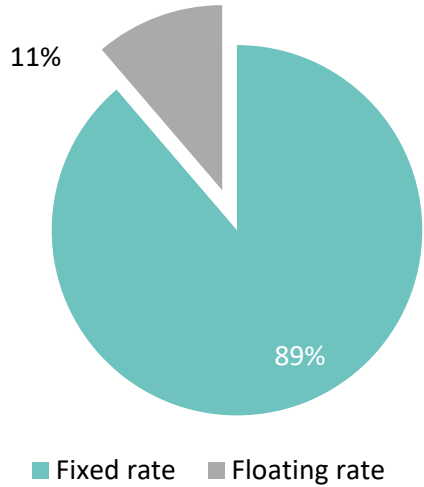
**Maturity structure of MBH MB mortgage bonds, 30 June, 2023**  
(in HUF million)



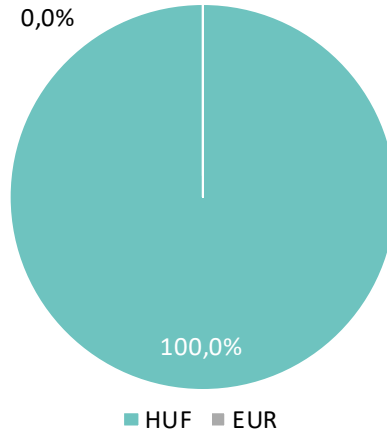
- Active mortgage bond issuer – monthly/bimonthly covered bond auctions
- MBH MB, as a mortgage bond issuer entity, plays an important role supporting MBH Group prudential management by the fulfilment of mortgage funding adequacy ratio (MFAR) requirement.
- MBH MB is to concentrate on the issuance of mortgage bonds
  - 5-year and 10-year tenor,
  - Green and non-green types,
  - Fix and floating interest rates

# Fixed coupon and HUF denominated mortgage bonds dominate

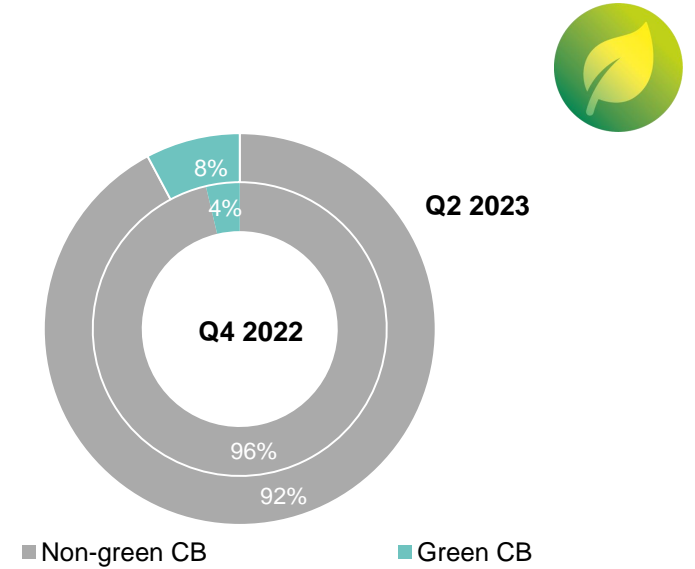
Interest rate composition of outstanding mortgage bonds (H1 2023)



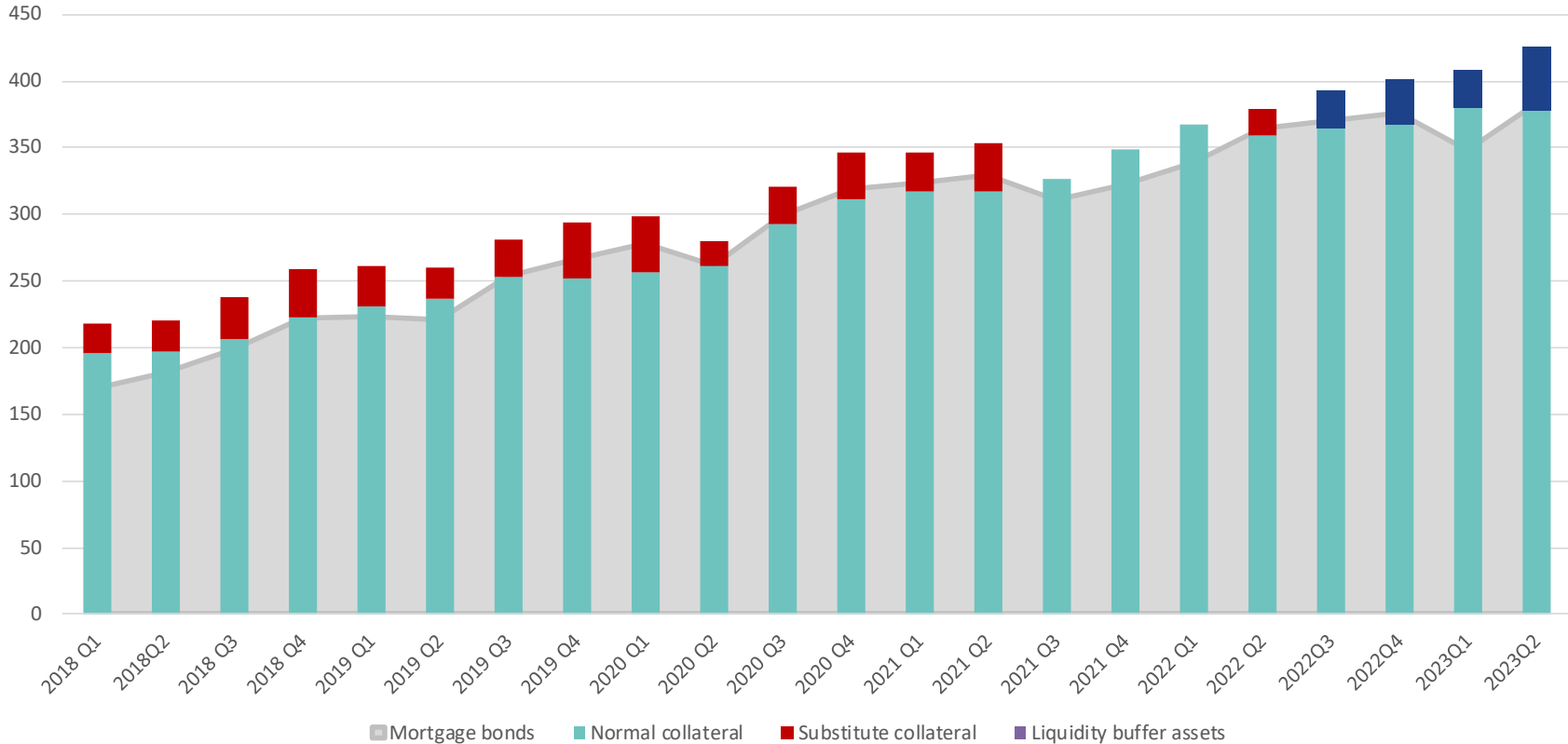
FX composition of outstanding mortgage bonds (H1 2023)



Share of Green Mortgage Bonds in total MBH MB mortgage bond volume (H1 2023)



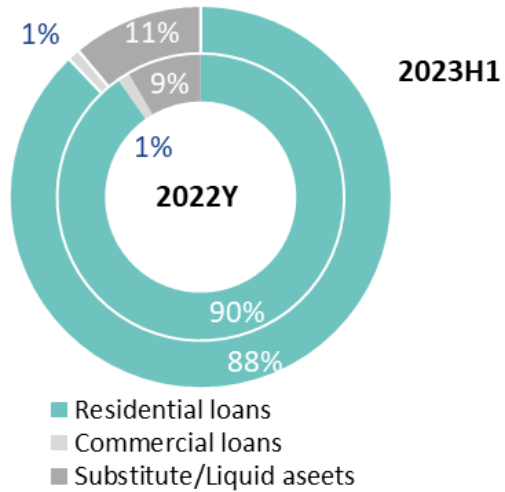
## Cover pool composition (in HUF billion)



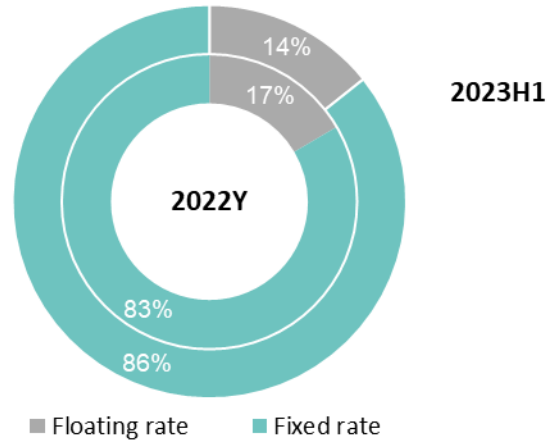
- **Amendment of domestic mortgage bank act implemented EU covered bond directive on July 8, 2022**, that required mortgage banks to maintain
  - a 180-day **liquidity buffer** (liquid assets covering the 180 day max. net cumulated outflow of liquidity related to the covered bond programme).
  - an **over-collateralisation** of **minimum 2%** in accordance with mortgage bank act.
- MBH MB maintained a stable OC level over 10% in H1 2023 since the amendment of the mortgage bank act.

# Structure of the cover pool

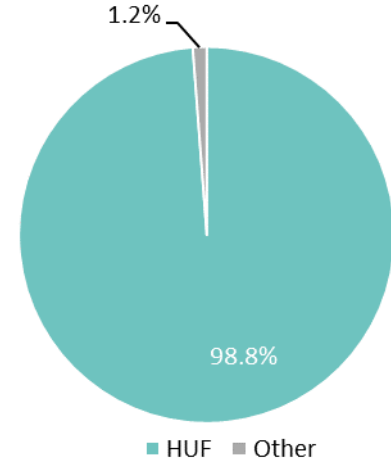
## Asset types of cover pool



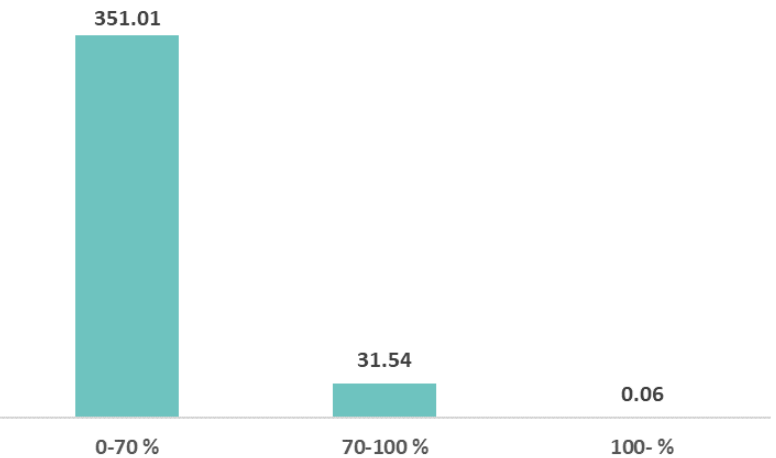
## Interest rate composition of cover pool



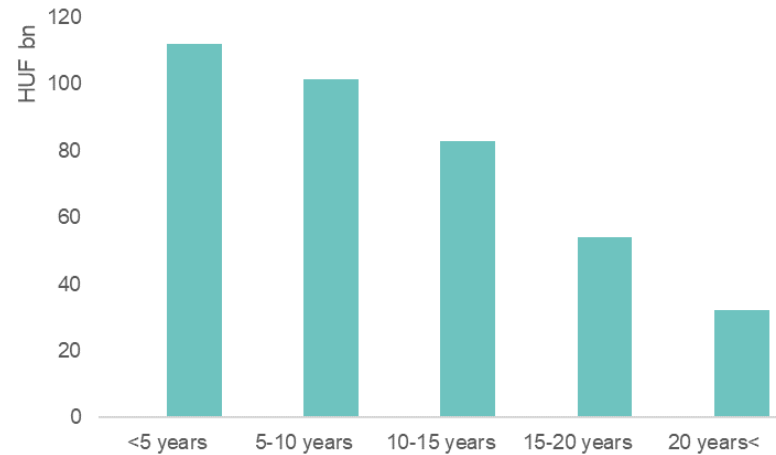
## FX composition of cover pool (31.12.2022)



## LTV composition of loans in the cover pool (30.06.2023, in HUF billion)



## Remaining maturity structure of cover pool loans (30.06.2023, in HUF billion)



## Homogenous cover asset pool, stable risk profile

- Strict collateral management and property valuation rules resulted 80% of the mortgage loans in the cover pool falling into the conservative 0-70% range. **Weighted average LTV stood at 41.8% at the end of H1 2023.**



# Green mortgage bond, ESG





Green mortgage bonds

- **Green transparency reports** : 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), first time as of Q1 2022.

- Reports related to MBH MB’s environment impacts:

Transparency Report

Green Mortgage Bond Framework  
Allocation and Impact Reports

European Energy Efficiency Label  
Report

- In H1 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 16bn to 29.6bn by end-June 2023. In the first half of 2023, MBH MB issue HUF 6.0 billion of TZJ27NF1 and HUF 10.0 billion of TZJ32NF1.

## Key indicators in relation of Green Mortgage Bond Frameworks As of June 30, 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>
HUF 29 605 490 000	HUF 90 627 141 079	23.7 %	67.3 %



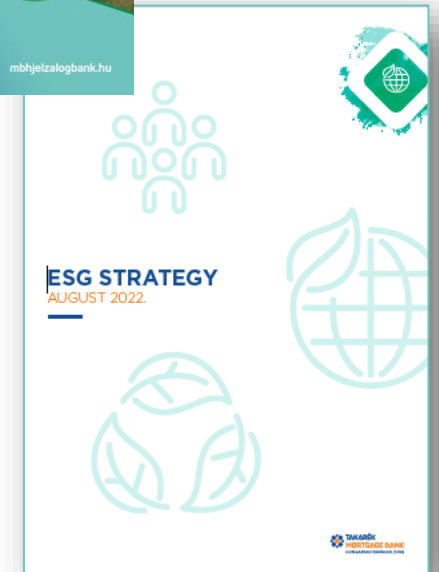


## Sustainability report for 2022

- 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
- 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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