



DESPITE A NUMBER OF CHALLENGES IN THE PAST PERIOD, THE DOMESTIC BANKING SYSTEM REMAINS STABLE AND HIGHLY RESILIENT TO SHOCKS

1. SHOCK RESILIENCE

2.4%

Portfolio quality is sound, with the NPL ratio falling by one half to 2.4 per cent in the household segment.

>8 000
billion HUF

Liquidity in the banking system continued to increase from an already high level, with banks' liquidity surplus above the regulatory requirements exceeding HUF 8,000 billion at the end of 2023.

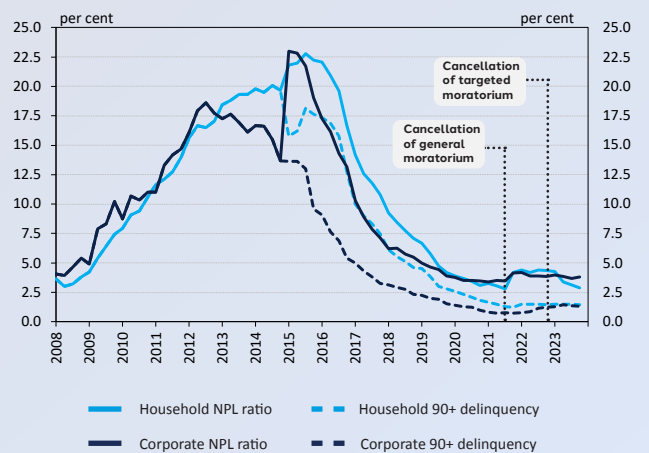
2 000
billion HUF

The **capital adequacy of the banking system** strengthened over the course of 2023, and the free capital of the credit institution sector amounted to nearly HUF 2,000 billion at end-2023.

>20%

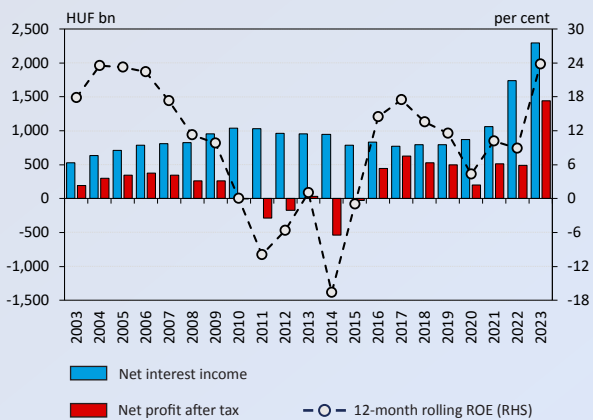
The **banking system's reserves** are sufficient to withstand the effects of a severe stress scenario, and the sectoral capital adequacy ratio would remain above 20 per cent even in a stress scenario.

Non-performing loan ratio and 90+ days delinquency ratio in the corporate and household segments¹



Note: The definition of non-performing loans changed in 2015. From then onwards, in addition to loans over 90 days past due, loans less than 90 days past due where non-payment is likely are also classified as nonperforming. Calculated by customers until 2010 and by contracts from 2010.

Annual development of the banking system's profit after tax, net interest income and ROE²



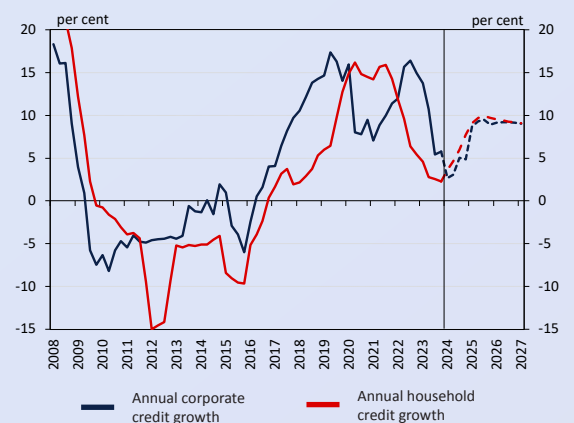
2. PROFITABILITY

- ▶ In addition to the high interest rate environment during the period, the outstanding profitability in 2023 was impacted by one-off items, while downside risks have been identified looking ahead.
- ▶ The normalisation of monetary conditions, a possible increase in the credit risk of certain loan portfolios and measures affecting lending rates also point to a decline in profitability.
- ▶ Cost-efficiency gains and a pick-up in market-based lending may be the main sources of profitability in the coming period.

3. TRENDS IN LENDING

- ▶ Household lending has started to recover, the volume of housing loans more than doubled.
- ▶ Corporate lending has yet to recover, a turnaround in the case of investment loans is not yet visible.
- ▶ In the corporate and housing loan segments, credit institutions reported unchanged credit conditions in 2024 Q1 as well as looking ahead.
- ▶ Lending activity of the sector is in line with the cyclical position of the economy.

Annual credit growth³



Note: Transaction-based annual growth rate based on data from the financial intermediary system. From 2024 Q1 MNB forecast.

4. RISKS

APR ceiling

The riskiness of transactions is reflected to a lesser extent in housing loan interest rates.

Over the longer term, it may lead to the exclusion of low-income customers or inadequate bank profitability.



Prenatal baby support loans

25 per cent of couples which entered into a contract in 2019 did not have a child by mid-2023.



Increase in interest rates from future cancellation of the household interest rate cap

This may lead to a substantial increase in repayment instalments for a small group of customers, i.e. 26,000 borrowers.



Project loan portfolio secured by commercial real estate

The value of the underlying collateral increased in three quarters of the portfolio in 2023, while the increase in expected returns indicates a decrease in capital value.

