DECLARATION

Here we provide you the consolidated annual report of MFB Hungarian Development Bank Private Limited Company (hereinafter: "Bank" or "MFB Zrt.") and its subsidiaries (hereinafter: "the Group") for the year 2020, which were approved by the exerciser of the ownership rights of the Bank on 28 April 2021.

MFB Zrt. fulfils its obligation to prepare consolidated annual financial statements pursuant to Article 10 paragraph (2) of Act C of 2000 on Accounting by preparing consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) published in the form of a regulation in the Official Journal of the European Union.

On behalf of MFB Zrt., we hereby declare that the consolidated annual financial statements for the year 2020, prepared in accordance with IFRS as adopted by the EU contain true data and statements, and do not fail to disclose any fact that may be of relevance for assessing the financial position of the Group. The consolidated financial statements for the year 2020 prepared in accordance with the applicable accounting standards and to our best knowledge, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the consolidated management report gives a fair view of the position, development and performance of the Group, together with a description of the principal risks and uncertainties that they face.

Budapest, 29 April 2021

dr. Levente Sipos - Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

MFB Hungarian Development Bank
Private Limited Company
2.

MFB HUNGARIAN DEVELOPMENT BANK
PRIVATE LIMITED
COMPANY AND ITS SUBSIDIARIES

Consolidated Financial Statements and Independent Auditor's Report

in accordance with International Financial Reporting Standards
as adopted by the EU

31 December 2020

Table of contents

Independent Auditor's Report 3
Consolidated Financial Statements
Consolidated Statement of Financial Position 10
Consolidated Income Statements 12
Consolidated Statement of Other Comprehensive Income 13
Consolidated Statement of Changes in Shareholder's equity 14
Consolidated Statement of Cash Flows 15
Notes to the Consolidated Financial Statements:
1. Principal activities of the group 17
2. Basis of preparation 21
3. Significant accounting policies 24
a) Basis of consolidation 24
b) Foreign currency transactions 24
c) Financial assets and liabilities 25
i. Recognition 25
ii. Derecognition 27
iii. Measurement 29
iv. Classification 29
v. Amortized cost measurement 30
vi. Impairment of financial assets 30
vii. Collateral valuation 34
viii. Write-offs 35
ix. Forborne and modified loans 35
d) Leasing 36
e) Impairment of non-financial assets 37
f) Cash and cash equivalents 38
g) Loans and advances to banks and to customers 38
h) Securities 39
i) Encumbered assets 39
j) Repurchase and reverse repurchase agreements 39
k) Investments 40
l) Derivative financial instruments 40
m) Hedge accounting 41
n) Property, plant and equipment and Intangible assets 41
o) Investment property 42
p) Bonds issued 42
q) Provisions 43
r) Offsetting 43
s) Commitments and contingencies 43
t) Interest income and expense 43
u) Fee and commission income and expense 44
v) Dividend income 44
w) Current and other taxes 45
x) Statement of cash flows 46
y) Events after the reporting period 46
z) Restatement of previously presented balances 46
aa) New standards and interpretations 47
4. Cash, cash balances at the central Banks and other demand deposit 49
5. Non-trading financial assets mandatorily at fair value through profit or loss 49
5.1 Debt securities 49
5.2 Loans 50

6. Financial assets at fair value through other comprehensive income 51
7. Financial assets at amortized cost 52
7.1 Loans 53
7.1.1 Information on the rules of the payment moratorium introduced in the context of COVID-19 55
7.2 Debt securities 58
7.3 Deposits at central and other banks 59
7.4 Other financial assets 60
8. Investments in associates 60
9. Derivatives 66
9.1 Gains or (-) losses on financial assets and liabilities held for trading, net 67
10. Hedge accounting 69
11. Property, plant and equipment 71
11.1 Investment Properties 73
12. Intangible assets 74
13. Other assets 75
14. Receivables on the State due to currency-hedging agreement 76
15. Financial liabilities measured at amortized cost 77
15.1. Debt securities issued 78
16. Provisions 79
17. Other liabilities 80
18. Share capital and share premium 80
19. Other reserves 80
20. Non controlling interest 81
21. Contingent liabilities, Commitments 83
22. Net interest income 83
23. Dividend income 84
24. Net fee and commission income / expenses 84
25. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net 85
26. Gains or (-) losses on derecognition OF non financial assets, net 85
27. Other operating income/expenses 85
28. General and administrative expenses 86
29. Provisions or (-) reversal of provisions 87
30. Impairment (-) or reversal of impairment of financial instruments 89
31. Impairment or (-) reversal of impairment of investments in exempted associates 96
32. Impairment (-) or reversal of impairment of non-financial instruments 96
33. Taxation 97
34. Related parties 99
35. Segment reporting 101
36. Financial risk management 106
A. Credit risk 109
B. Liquidity risk 134
C. Market risks 138
D. Operational risk 142
E. Capital management 144
F. Fair value 145
37. Offsettings 153
38. Maturity table 155
39. Discountinued operation 156
40. Exercising Owner’s rights 157
41. Events after the reporting period 160

KPMG Hungária Kft.
Váci út 31.
H-1134 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
Email: info@kpmg.hu
Internet: kpmg.hu

Independent Auditors' Report

To the founder of MFB Magyar Fejlesztési Bank Zártkörűen Működő Részvénytársaság

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 2020 consolidated financial statements of MFB Magyar Fejlesztési Bank Zártkörűen Működő Részvénytársaság. and its subsidiaries (collectively, hereinafter referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, which shows total assets of MHUF 1,939,078, the consolidated statement of profit or loss , which shows profit for the year of MHUF 2,536, and the consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter referred to as "EU IFRSs") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group for the purposes of our audit of the consolidated financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these Rules, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

This is an English translation of the Independent Auditors' Report on the 2020 consolidated financial statements of the MFB Magyar Fejlesztési Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete consolidated financial statements it refers to.

© 2020 KPMG Hungary Ltd., a Hungarian limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Hungary.
Company registration: Budapest, Nyilvános Törvényszék Cégbírósága, no. 01-09-063183

We draw attention to Note 3) z) to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2019 has been restated. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of loans and advances to customers with special consideration of potential estimation uncertainties in connection with Covid-19 (net carrying amount: HUF 1,062,815 million, accumulated impairment loss: HUF 45,173 million)

Refer to Note 7.1 and 36. A) to the consolidated financial statements.

The key audit matter	*How the matter was addressed in our audit*
Impairment allowances represent Group's best estimate of the expected credit losses ("ECLs") within loans and advances to customers at amortized cost at the reporting date. We focused on this area during our audit as the measurement of impairment allowances requires the Group to make complex and subjective judgements over the amounts of any such impairment. Impairment on individually significant loans are based on the Group's judgment in estimating the present value of expected future cash flows and the probability of the estimated outcomes, which are inherently uncertain. The present value of expected future cash flows is affected by, amongst others, the estimate of the expected proceeds from the sale of the related collateral and estimated period for collateral disposal. Collective impairment is determined by the Group by a rating-based approach at customer level. Based on the assigned rating, estimates of the probability of default and the potential loss given default are the significant elements to determine the collective loss allowance. The Group uses complex models to estimate probability of default and loss given default and the development of multiple scenarios used in the estimate as well as assumptions, methods and selection of data	Our audit procedures included amongst others the following: • We obtained an understanding of and evaluated the Group's process for estimating ECL, and assessed the design and implementation, and operating effectiveness of related controls, in particular the controls associated with the completeness, appropriateness and accuracy of the estimation of ECL. In particular, we evaluated the appropriateness of the model governance procedures applied by the Group. • With the assistance from our own IT specialists we evaluated the general IT controls and application level IT controls over the ECL calculation. • We performed a specific loan assessment for a sample of individually significant customer loans by reference to the underlying loan documentation, which among others included the correspondence with the borrower, the loss allowance estimates prepared by the Group's credit risk officers, the available financial information, independent appraisals made on the collaterals, related internal committee minutes, and consideration of the resolution period estimated for the credit impaired loans. In addition, we examined past

require from the Group significant degree of judgment.

COVID-19 measures taken by the Hungarian Government and the consequential changes in the regulatory framework regarding default and forbearance increased the complexity of the application of IFRS 9. The risk that clients that became unable to repay their loans remain undetected has increased and so has the risk that the amount of estimated credit losses may be understated.

Due to the loan repayment moratorium introduced by the Hungarian Government, day past due may not be an appropriate indicator to measure the changes in credit risk, therefore, the Group introduced and applied alternative staging indicators based on qualitative factors.

The ECL estimate incorporates forward-looking information through various forecasted macroeconomic variables and their estimated impact on the economy and ultimately on the ECL estimate. The determination of macroeconomic variables and the weighting of macroeconomic scenarios contain a high degree of estimation uncertainty given the current volatile macroeconomic environment. There is a risk that ECL estimate applied does not properly incorporate the unprecedented changes in the economic environment.

Detailed disclosures are required to be presented in the notes to the consolidated financial statements related to the changes of credit risk due to COVID-19 and the related responses of the Group. The evaluation of the relevance and appropriateness of these disclosures is a complex exercise and it is challenging from audit point of view.

Due to the significance of loans and advances to customers as well as the significant degree of complexity and judgment required from the Group in determining expected credit losses this matter required our increased attention in the audit and therefore has been considered as a key audit matter.

due information (if relevant due to moratoria) and industry benchmarks.

- With the assistance of our own financial risk management specialists, we evaluated the impairment models and the underlying estimation parameters, and recalculated the expected credit losses for the loans assessed collectively for impairment.
- We assessed the completeness, accuracy and relevance of data used for estimates relating to valuation of loans to customers.
- We evaluated the macroeconomic forecasts whether they are within the range of general market benchmark and with the forecast published by National Bank of Hungary. We performed benchmark analysis to assess the appropriateness of the input data used for the macro model.
- We evaluated the completeness, accuracy and adequacy of disclosures related to impairment of loans.

Other Matter relating to comparative information

The consolidated financial statements of the Group as at and for the year ended 31 December 2019, excluding the adjustments described in Note 3. z) to the consolidated financial statements were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 6 April 2020.

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2020, we audited the adjustments described in Note 3. z) that were applied to restate the comparative information presented as at and for the year ended 31 December 2019. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended 31 December 2019, other than with respect to the adjustments described in Note 3. z) to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective consolidated financial statements taken as a whole. However, in our opinion, the adjustments described in Note 3. z) are appropriate and have been properly applied.

Other Information

The other information comprises the 2020 consolidated business report and the management report of the Group which we obtained prior to the date of this auditors' report; and the 2020 annual report of the Bank which is expected to be made available to us after the date of this auditors' report. Management is responsible for the other information, including the preparation of the consolidated business report in accordance with the Act on Accounting and other applicable legal requirements, if any.

Our opinion on the consolidated financial statements expressed in the Opinion section of our report does not cover the other information. We do not express any form of assurance conclusion on the management report and will not express any form of assurance conclusion on the annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and the management report identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Act on Accounting, we are also responsible for assessing whether the consolidated business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements, including the assessment of whether the consolidated business report has been prepared in accordance with Section 95/B (2) e) of the Act on Accounting and expressing an opinion on this and whether the consolidated business report is consistent with the consolidated financial statements.

With respect to the consolidated business report, based on the Act on Accounting, we are also responsible for checking that the information referred to in Section 95/B (2) a)-d), g) and h), Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In our opinion the 2020 consolidated business report of the Group is consistent, in all material respects, with the 2020 consolidated financial statements of the Group and the applicable provisions of the Act on Accounting.

There are no other legal requirements that are applicable to the consolidated business report of the Group, therefore, we do not express an opinion in this respects.

We confirm that the information referred to in Section 95/B (2) a)-d), g) and h), Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatement in the consolidated business report, and if so, the nature of such misstatement. We have nothing to report in this regard.

Moreover, if, based on the work we have performed, we conclude that there is a material misstatement of the management report, we are required to report that fact. We have nothing to report in this regard either.

In connection with our audit of the consolidated financial statements, our responsibility is also to read the annual report identified above when it becomes available and, in doing so, consider whether the annual report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with EU IFRSs and for the preparation of the financial statements in accordance with provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of the Act on Accounting and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions

that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by founder on 29 April 2020 to audit the consolidated financial statements of the Group for the financial year ended 31 December 2020. Our total uninterrupted period of engagement is 1 year, covering the financial year ending 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Group dated 24 March 2021;

- we have not provided to the Group the prohibited non-audit services (NASs) as set out by Article 5(1) of EU Regulation (EU) No 537/2014 and in terms of the member state derogations by the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors in force in Hungary. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is the signatory of this report.

Budapest, 6 April 2021

KPMG Hungária Kft.

Registration number: 000202

István Henye
Partner, Professional Accountant
Registration number: 005674

ASSETS	Notes	2020	2019
Cash, cash balances at central banks and other demand deposits	**4**	**77 323**	**11 755**
Financial assets held for trading	**9**	**443**	**41 772**
Derivatives		443	41 772
Non-trading financial assets mandatorily at fair value through profit or loss	**5**	**46 733**	**56 130**
Debt securities		3 651	0
Loans		43 082	56 130
Loans to customers		*8 068*	*10 595*
Loans to banks		*35 014*	*45 535*
Financial assets at fair value through other comprehensive income	**6**	**48 321**	**51 788**
Of which assets encumbered		*8 316*	*0*
Equity instruments		9 275	11 879
Debt securities		39 046	39 909
Financial assets at amortized cost	**7**	**1 491 816**	**1 066 276**
Of which assets encumbered		*197 439*	*97 704*
Debt securities		120 705	61 862
Loans		1 100 934	967 969
Loans to customers		*1 062 815*	*900 247*
Loans to banks		*38 119*	*67 722*
Other financial assets		1 999	1 077
Deposits at central and other banks		268 178	35 368
Derivatives – Hedge accounting	**9**	**1 608**	**1 073**
Investments in associates	**8**	**50 967**	**44 080**
Property, plant and equipment	**11**	**6 020**	**5 127**
Investment property	**11.1**	**33 638**	**10 697**
Intangible assets	**12**	**4 943**	**4 551**
Tax assets		**305**	**155**
Current tax assets		210	78
Deferred tax assets		95	77
Other assets	**13**	**19 952**	**11 056**
Receivables from the state due to currency-hedging agreement	**14**	**157 009**	**131 864**
TOTAL ASSETS		**1 939 078**	**1 436 324**

LIABILITIES	Notes	2020	2019
Financial liabilities held for trading	9	**911**	**253**
Derivatives		911	253
Financial liabilities measured at amortized cost	15	**1 503 185**	**1 158 464**
Customer deposits		235 882	57 115
Loan from banks		527 012	362 993
Debt securities issued	15.1	735 659	693 269
Other financial liabilities		4 632	45 087
Derivatives – Hedge accounting	9	**0**	**890**
Provisions	16	**1 914**	**3 926**
Tax liabilities	31	**3 325**	**2 485**
Current tax liabilities		119	564
Deferred tax liabilities		3 206	1 921
Other liabilities	17	**18 022**	**12 599**
TOTAL LIABILITIES		**1 527 357**	**1 178 617**
Share capital	18	265 900	114 500
Share premium	18	81 870	81 870
Valuation reserve		91	(30)
Retained earnings		61 331	56 263
Other reserves	19	0	2 087
Equity attributable to the owner		**409 192**	**254 690**
Non-controlling interest	20	**2 529**	**3 017**
TOTAL EQUITY		**411 721**	**257 707**
TOTAL EQUITY AND LIABILITIES		**1 939 078**	**1 436 324**

Budapest, 6 April 2021

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

MFB Hungarian Development Bank
Private Limited Company
2.

	Notes	2020	2019 Restated
Interest income calculated using the effective interest method		36 845	26 466
Other similar income		14 747	16 491
Interest expenses		(29 206)	(26 382)
Net interest income	**22**	**22 386**	**16 575**
Dividend income	23	7	4
Fee and commission income		1 525	1 743
Fee and commission expenses		(242)	(263)
Net Fee and commission income or expenses	**24**	**1 283**	**1 480**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25	(268)	467
Gains or (-) losses on financial assets and liabilities held for trading, net	9.1	(38 246)	5 023
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(717)	(266)
Gains or (-) losses from hedge accounting, net	10	771	52
Exchange differences [gain or (-) loss], net		38 900	(5 397)
Gains or (-) losses on derecognition of non-financial assets, net	26	325	(98)
Other operating revenue and income	27	7 223	5 113
Total operating income		**31 664**	**22 953**
Salaries and employee benefits		(12 600)	(11 722)
Other administrative expenses		(5 254)	(4 758)
Administrative expenses	**28**	**(17 854)**	**(16 480)**
Depreciation		(2 008)	(1 367)
Other operating expenses	27	(4 119)	(3 217)
Contract modification loss, net	7.1.1	(2 118)	(77)
Impairment (-) or reversal of impairment of financial instruments	30	2 146	5 690
Impairment (-) or reversal of impairment of investments in exempted associates	31	(1 294)	(708)
Impairment (-) or reversal of impairment of non-financial instruments	32	(67)	386
Profit or (-) loss from associates		(1 381)	(414)
Profit before tax from continuing operation		**4 969**	**6 766**
Tax expense related to profit or loss of continuing operation	33	(2 433)	(1 895)
Profit after tax from continuing operation		**2 536**	**4 871**
Loss from discontinued operation (net of tax)	39	0	(7 029)
Profit/(loss) for the year		**2 536**	(2 158)
Profit/(loss) attributable to non-controlling interest	***20***	***(68)***	***3 697***
Profit/(loss) attributable to the owner		**2 604**	**(5 855)**

	Notes	2020	2019 Adjusted
Profit/(loss) for the year		**2 536**	**(2 158)**
Other comprehensive income		**121**	**(205)**
Items that will not be reclassified to profit or loss		335	(297)
Change in far value of equity instruments at fair value through other comprehensive income		369	(366)
Tax impact of items that will not be reclassified to profit and loss		(34)	69
Items that may be reclassified to profit or loss		**(214)**	**92**
Debt instruments at fair value through other comprehensive income		(242)	119
Fair value change	6	(242)	119
Profit recognized in the income statements		0	0
Tax impact of items that will be reclassified to profit and loss		28	(27)
Total comprehensive income for the year		**2 657**	**(2 363)**
Comprehensive income, (-) expense attributable to non-controlling interest		**(68)**	**3 697**
Comprehensive income, (-) expense attributable to the owner		**2 725**	**(6 060)**

Budapest, 6 April 2021

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

MFB Hungarian Development Bank Private Limited Company

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Statement of Changes in Shareholder's Equity
(amounts presented in million HUF)

	Notes	Share Capital	Share premium	Other Reserves	Retained earnings	Valuation reserve	Non-controlling interest	Total
		18	19	19		6	20	
Balance at 1 January 2019		**114 500**	**81 870**	**8 605**	**55 600**	**175**	**29 039**	**289 789**
Loss for the year					(5 855)		3 697	(2 158)
Other comprehensive income						(205)		(205)
Total comprehensive income					**(5 855)**	**(205)**	**3 697**	**(2 363)**
General risk provision reallocation	19			(6 557)	6 557			0
General reserve allocation				39	(39)			0
Loss in control of subsidiaries	39						(32 736)	(32 736)
Changes in ownership	20						3 017	3 017
Balance at 31 December 2019		**114 500**	**81 870**	**2 087**	**56 263**	**(30)**	**3 017**	**257 707**
Profit for the year					2 604		(68)	2 536
Other comprehensive income						121		121
Total comprehensive income					**2 604**	**121**	**(68)**	**2 657**
General reserve used	19			(2 087)	2 087			0
Capital increase	18	151 400						151 400
Loss in control of subsidiaries							2	2
Changes in ownership					377		(422)	(45)
Balance at 31 December 2020		**265 900**	**81 870**	**0**	**61 331**	**91**	**2 529**	**411 721**

Budapest, 6 April 2021

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

MFB Hungarian Development Bank Private Limited Company

The accompanying notes to financial statements on pages 17 to 160 form an integral part of these consolidated financial statements

	Notes	2020	2019
Operating cash flow			
Profit before tax from continuing operation		4 969	6 766
Loss before tax from discontinued operation		0	(5 909)
Adjustments to profit before tax			
Depreciation and amortization		2 008	1 367
Fair valuation impact		38 192	(4 809)
Impact of equity method applied for associates		1 381	414
Net profit/loss on sale of non-financial instruments		(325)	98
Net interest income	22	(22 386)	(16 575)
Dividend income	23	(7)	(4)
Change in provisions		(2 053)	1 187
Change in impairment		(175)	(6 663)
Loss on discontinued operation	39	0	14 573
Other non-cash items from discontinued operation		0	3 887
Operating cash flow		***21 604***	***(5 668)***
Decrease/(increase)) in operating assets			
Non-trading financial assets mandatorily at fair value through profit or loss		13 089	58 157
Financial assets at fair value through other comprehensive income		(551)	(5 222)
Financial assets at amortized cost, except debt securities		(351 128)	(312 025)
Other assets		(15 072)	(1 901)
Receivables from the State due to currency-hedging agreement		(22 884)	(13 396)
Increase/(decrease) in operating liabilities			
Financial liabilities measured at amortized cost, except issued bonds		304 027	58 629
Other liabilities		24 518	15 017
Actual cash flow movements			
Interest received		46 217	47 818
Dividend received	23	7	4
Interest paid		(34 602)	(27 667)
Income tax paid		(1 306)	(1 341)
Net cash provided by/ (used in) operating activities		**(16 081)**	**(187 595)**

	Notes	2020	2019 Adjusted
Profit/(loss) for the year		**2 536**	**(2 158)**
Other comprehensive income		**121**	**(205)**
Items that will not be reclassified to profit or loss		335	(297)
Change in far value of equity instruments at fair value through other comprehensive income		369	(366)
Tax impact of items that will not be reclassified to profit and loss		(34)	69
Items that may be reclassified to profit or loss		**(214)**	**92**
Debt instruments at fair value through other comprehensive income		(242)	119
Fair value change	6	(242)	119
Profit recognized in the income statements		0	0
Tax impact of items that will be reclassified to profit and loss		28	(27)
Total comprehensive income for the year		**2 657**	**(2 363)**
Comprehensive income, (-) expense attributable to non-controlling interest		**(68)**	**3 697**
Comprehensive income, (-) expense attributable to the owner		**2 725**	**(6 060)**

Budapest, 6 April 2021

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

MFB Hungarian Development Bank Private Limited Company

1. PRINCIPAL ACTIVITIES OF THE GROUP

MFB Hungarian Development Bank Private Limited Company (the "Bank" or "HDB") is registered as a single, stock company under Hungarian law and is licensed to conduct specialized banking activities. The Bank and its subsidiaries represents the MFB Group (hereinafter referred to "the Group").

The legal status, the role, and the activities of the Bank are regulated by Act XX of 2001 on Hungarian Development Bank Ltd., Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, and the Articles of Association.

MFB Zrt. is responsible for providing the necessary development resources to achieve the economic development objectives set out in the Government's medium- and long-term economic strategy, partly independently and partly in cooperation with other domestic and international organizations in the following activities:

a) the sourcing and mediation of medium and long term domestic and foreign funding and subsidies to achieve economic development aims;
b) loan and capital financing of investments in connection with – from a national economic aspect – preferential cases, and other state or local government developments and investments, and other developments and investments in connection or for the enlargements of these;
c) financing loans and capital for companies resident in Hungary – primarily small and medium enterprises sector –, holding funds established by law, agricultural businesses and farmers,
d) the financial execution of state and local government developments and investments related to EU membership, and the Bank participates in tasks related to the drawing of European Community funds (including mediation of subsidies and sourcing and mediation of resources from international economic or financial institutions);
e) attend in tasks related to state, communal and international development disbursements (especially management of mediation and use of development disbursements and subsidies, attend in relating contributory tasks, settlement and valuation of used disbursements);
f) the mediation of EU funds and in connection with this, loan and equity financing, providing guarantee and surety;
g) the exercising of owners' rights in the name of the Hungarian State, and in case of State owned companies– participate in the realization of significant developments, investments, expansion, increasing of effectiveness and improvement of competitiveness and other roles defined in the HDB Law (see Note 40)

to ensure sufficient development funding to achieve the economic development aims determined by the Government's medium and long term economic strategy.

The Bank's registered office is located at Nádor street 31, 1051 Budapest, Hungary. The Bank operates in Hungary. The Bank's website address is www.mfb.hu

The Bank is 100% owned by the Hungarian State. From 22 May 2018, the ownership rights are exercised by the Minister without portfolio responsible for managing National Assets.

The Bank is obliged to have its consolidated financial statements audited. The details of the auditor are as follows:
István Henye registered auditor
Registration number: 005674
KPMG Hungary Ltd.
31. Váci Street, Budapest, 1134
Firm registration number: 000202

The person in charge to direct and manage the related accounting services
Krisztina Sulyok director
Chartered accountant registration number:006660

Those entitled to sign the consolidated financial statements
dr. Levente Sipos-Tompa Chairman and Chief Executive Officer
(15/A Táltos Street Budapest, 1123)
and
Kornél Kisgergely Director General
(15 Aranyfácán Street, Budapest, 1221)

A. Members of the Group (subsidiaries)

Name of the subsidiary	Activity	Owner	Voting power	
			2020	**2019**
MFB-Ingatlanfejlesztő Zrt.	Real estate portfolio management	MFB	100%	100%
MKK Magyar Követeléskezelő Zrt.	Workout/Factoring	MFB	100%	100%
MFB Növekedési Tőkealap ("NTA")	Venture capital fund	MFB	100%	100%
MFB KKV Tőkealap	Venture capital fund	MFB	100%	100%
MFB Beruházási és Tranzakciós Magántőkealap	Venture capital fund	MFB	100%	
MFB Invest Befektetési és Vagyonkezelő Zrt.	Investment portfolio management	MFB	95.7952%	92.8133%
Hiventures Kockázati tőkealap-kezelő Zrt.	Venture capital fund management	Invest	95.7952%	92.8133%
FOCUS VENTURES Tőkealap-kezelő Zrt. (former Logos-Ventures Zrt.)	Private equity fund management	Invest	95.7952%	92.8133%
Divat&Design Tőkealap	Venture capital fund	Invest	95.7952%	92.8133%
Debrecen Városi Tőkealap	Venture capital fund	Invest	95.7952%	92.8133%
Székesfehérvár Városi Tőkealap	Venture capital fund	Invest	95.7952%	92.8133%
Veszprém Városi Tőkealap	Venture capital fund	Invest	95.7952%	
Kaposvár Városi Tőkealap	Venture capital fund	Invest	95.7952%	
Decreases in controlling interest				
MFB Invest Tőkealapkezelő Zrt.	Private equity fund management	Invest		92.8133%

All of the above companies are incorporated in Hungary.

MFB-Ingatlanfejlesztő Zrt. (MFB-Property Development Private Company Limited by Shares)

The company's main activity is the real estate management and utilization of the real estate portfolio transferred from other MFB Group members. Its activity includes the record-keeping of real estates and the monitoring of their legal, technical and real estate market status, utilization or sales. In case of tenants or other potential utilization intention that fit into the Group's strategy it carries out such value added developments at its own risk and expense that makes the real estates in all other respects suitable for functions according to the end-user's needs i.e. where necessary performs targeted property development activities or purchases of market property with significant potential for return in order to increase the profit generation ability.

MKK Magyar Követeléskezelő Zrt. (MKK Hungarian Claim Work-out Private Limited Company)

Financial enterprise responsible for purchasing of receivables, collection management, factoring activity. The company also acts as the Group's work out department, but mainly buys claims from other market players.

MFB Növekedési Tőkealap (MFB Growth Fund**)**

The purpose of the Fund is to finance such micro and small and medium enterprise (or in some cases large corporates) that are at the very beginning of their development phase. According to the usual venture capital terminology, these are the incubation-sized enterprises in the seed and occasionally growth phases. In particular, it intends to build a portfolio of companies that develop and sell innovative products and services. The fund is managed by Hiventures Zrt.

MFB KKV Tőkealap (MFB SME Fund)

The purpose of the Fund is to finance small and medium-sized enterprises with high growth potential and to strengthen domestic and international M&A activity. To this end, the following sub-markets can be considered as target groups:

(I) the generation change,
(II) enablement potential to reach capacities for foreign expansion
(III) market consolidation; and
(IV) turnaround.

The fund is managed by Hiventures Zrt.

MFB Invest Befektetési és Vagyonkezelő Zrt. (MFB Investment and Asset Management Private Limited Company)

Private Equity firm responsible for financing of medium-sized and larger companies' development-type projects. It performs investments directly with acquiring shareholdings in enterprises and indirectly with investing to Funds. MFB's ownership increased in 2020 due to its sole share capital increase in MFB Invest.

Hiventures Kockázati Tőkealap-kezelő Zrt. (Hiventures Venture Capital Fund Management Company Limited by Shares)

Fund management company that primarily focuses on Venture Capital investments. Due to recent business development it provides equity financing to SMEs and to larger enterprises. It is responsible for the management of funds directly and indirectly financed by MFB and also responsible for the management of EU-financed funds.

FOCUS VENTURES Tőkealap-kezelő Zrt. (FOCUS VENTURES Venture Capital Fund Management Company Limited by Shares)

Fund management company that primarily focuses on private equity investments. It is responsible for the management of urban development funds.

Divat&Design Tőkealap (Fashion & Design Fund)
The purpose of the Fund is to finance innovative, high growth, incubation, seed and growth/startup companies in the fashion and design sector. The fund is managed by Hiventures Zrt.

Debrecen Városi Tőkealap (Debrecen Urban Fund)
The purpose of the Fund is to finance projects primarily in Debrecen and Hajdú-Bihar County, thus providing growth opportunities for businesses in the region. The fund is managed by FOCUS VENTURES.

Székesfehérvár Városi Tőkealap (Székesfehérvár Urban Fund)
The purpose of the Fund is to finance projects in Székesfehérvár and its region, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

B. Mergers, acquisitions and sales

New companies

MFB Beruházási és Tranzakciós Magántőkealap (MFB Investment and Transaction Fund)
The purpose of the Fund is to finance SMEs and larger enterprises, with special focus on the below topics:

- Restructuring
- Buyout
- Economy development

The fund is managed by Hiventures Zrt. In order to optimise financial resource available to enterprises, the termination of the Fund has been initiated in January 2021.

Veszprém Városi Tőkealap (Veszprém Urban Fund)
The purpose of the Fund is to finance projects in Veszprém and its region, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

Kaposvár Városi Tőkealap (Kaposvár Urban Fund)
The purpose of the Fund is to finance projects in Kaposvár and its region, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

Sales, derecognitions

MFB –Invest Tőkealapkezelő Zrt. (MFB Invest Venture Capital Fund Management Company Limited by Shares)
The company has been established in order to manage thematic funds. It was sold during 2020, its planned activities have been allocated among other MFB group entities.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC) as adopted by the EU and in accordance with the provisions of act C of 2000 on accounting in force in Hungary for companies preparing their annual accounts under IFRS and in accordance with the provisions of act C of 2000 on accounting in force in Hungary for companies preparing their annual accounts under IFRS.

Consolidated financial statements were approved by the Board of Directors on 6 April 2021. The Annual Financial Statements were approved by the Board of Directors also on 6 April 2021.

The Bank's consolidated and separate financial statements will be published on the same day. The accounting principles applied in the Bank's separate financial statements do not differ from those used in the consolidated financial statements.

Basis of measurement

These consolidated financial statements have been prepared on historical cost or amortized cost basis except for those, which are measured at fair value. The Group measures the following assets and liabilities at their fair value:

- derivative financial instruments,
- financial assets or liabilities measured at fair value through profit or loss, and
- financial assets at fair value through other comprehensive income

Functional currency

Items included in the consolidated financial statements are measured using Hungarian Forint, the currency of the primary economic environment in which the entities of the Group operate ('the functional currency'). These consolidated financial statements are presented in Hungarian Forints rounded to the nearest million ("HUF million").

Foreign exchange rates used in these consolidated financial statements were the following:

	31 December 2020 (HUF)	**31 December 2019 (HUF)**
EUR	365.13	330.52
USD	297.36	294.74
JPY	2.8864	2.7137
GBP	406.16	387.82
PLN	79.29	77.59
CHF	337.41	304.39
CZK	13.87	13.01

Reporting period

These consolidated financial statements are prepared for the reporting period between 1 January 2020 and 31 December 2020. The end of the reporting period is the reporting date.

Use of estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of income, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the financial statements with substantial management judgement and/or estimates are summarized below with respect to judgements/estimates involved.

Impairment
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, in which changes can result in different levels of allowances. The Group's expected credit loss calculations (ECL) are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns probability of defaults to the individual ratings
- The Group's criteria for assessing if there has been a significant increase in credit risk and thus allowances for financial assets should be measured on a lifetime expected credit loss basis and the qualitative assessment
- Development of ECL models, including different ones: formulas, relationships between macroeconomic scenarios and economic inputs, collateral values; Impact on the probability of defaults, expected exposures at defaults and loss given defaults

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Further details see in note 3. b) iii) and note 36.

The cash flow estimations of the purchased credit impaired receivables are calculated in a model using 24-40 week periods depending on the type of receivables. During the applied recovery process, the receivables run out over 2-10 years on average, the return is concentrated for this period. The amount and timeliness of cash inflows is affected by the current market conditions, regulations in effect, the work of the courts, liquidators and the liquidation and final settlement procedures. The recovery rate is higher at the first period after the purchase (12-36 months) because the transactions of well-performing debtors run out sooner. This is followed by a period with lower recovery rate because of the inherent features of the recovery and the liquidation and final settlement procedures. The management regularly monitors and, if needed, adjusts the cash flow estimations and at the reporting date there is a complete review and update the estimation for the expected future cash flows. During the review all available past information and future expectations, which can affect the recovery of the purchased receivables, are taken into consideration.

Fair value
The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 36.

Legal risk
The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings arising in the ordinary course of the Group's business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and other contingencies see Note 16.

Exempted associates
On materiality basis and the usefulness of the information, the Bank exempts some associated companies from being consolidated by using equity method and presents them as not consolidated associates on their cost less accumulated impairment. The primary reason for the exemption is that these entities are immaterial therefore does not have impact on the financials. These associates are included in these financials with a 100% impairment. Companies in venture capital funds are also exempted from consolidation, as these firms do not have significant capital and their activities are not significant for the whole of the consolidated accounts of the Group. For these exempted companies, the numbers representing the extent of their activities are presented (see Note 8).

Covid-19 effects

The Pandemic Covid-19 has affected many areas of the economy, in response to which each country has made its own packages and rules to help and restart the economy. The Group assessed the impact on its own activities and on the activities of its clients and took them into account where it considered it necessary. The Bank's management has made an assessment of the Group ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. The measures taken due to Covid-19 and any effects were presented in the appropriate locations of the report, so see notes 7.1.1, 13 and 36 for details.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

Subsidiaries

Subsidiaries are enterprises controlled by the Group. Control exists when the Group has power over the investee, has exposure, or rights, to variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until that control effectively ceases.

Associates

Associates are those enterprises in which the Group has significant influence. Investments in associates are accounted for under the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of the investee's net assets. The Group's profit of loss includes its share of the investee's profit or loss and the Group's other comprehensive income includes its share of the investee's other comprehensive income.

Transactions eliminated during consolidation

Intercompany assets, liabilities, income, expenses and costs, and any intercompany gains and losses are eliminated in preparing the consolidated financial statements.

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates of the National Bank of Hungary (NBH) prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except cash flow hedges and net investment hedges which are recognized in other comprehensive income and accumulated in reserves in equity. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to HUF at the foreign exchange rates quoted by the National Bank of Hungary at that date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined.

c) Financial assets and liabilities

Financial assets and liabilities, with the exception of derivative financial instruments are initially recognized on the settlement date, i.e., the date that the Bank transfers the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative instruments are recognized on trade date when the Group becomes a party of the contractual provisions of the instruments.

i. Recognition

The Group only measures its "financial assets at amortized cost" if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (hereinafter referred to "SPPI") on the principal amount outstanding. The details of these conditions are outlined below.

The Group classifies the following instruments in the FVOCI financial instruments category:

- equity instruments that have been marked in this way at initial recognition;
- debt instruments for which, as a result of the business model test, it has been established that the business model is intended to collect contractual cash flows related to the debt instrument and at the same time to sell financial instruments, and as a result of the SPPI test, the contractual terms of the financial instrument at specified times result in cash flows that are only payments of principal and interest on outstanding principal amounts.

Business model assessment
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- 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 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 expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Group has included its full loan portfolio into the "held to collect" business model, since its primary objective is to collect capital and interest cash flows. Those securities which are held in order to maintain the long-term liquidity or which has been deposited (pledged) behind credit programs, were classified in the "held to collect" business model, while the securities which used for shorter liquidity purposes were classified into "held to collect and sale" business model. The Group does not have any securities in the “held for sale” category, given its operational specialities, thus this business model category is irrelevant.

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

SPPI test
As a second step of its classification process the Group assesses the contractual terms of its financial assets to identify whether they meet the criteria of the SPPI test. The Group must take into account the contractual terms of the financial instruments in order to be able to determine whether the contractual cash flows consist solely of capital and interest payments. This implies an assessment of whether the financial instrument is linked to such a contractual condition based on which the amount of the contractual cash flows or the timing of those may ultimately not pass the SPPI test. The SPPI test is carried out at instrument level (one by one) and, where applicable, at the level of the homogenous products (combined). The most important elements of the interest included in the loan agreement are the time value of money, the costs incurred by the Group and the credit risk. To perform the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending agreement - do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at Fair Value through Profit and Loss (hereafter referred to as “FVTPL”).

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value. Except for financial assets and financial liabilities measured at fair value through profit and loss (FVTPL), transaction costs are added to (in case of financial assets) , or subtracted from (in case of financial liabilities), this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the day one profit or loss, as described below.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

ii. Derecognition

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Group has transferred the financial asset if, and only if, either:

- the Group has transferred its contractual rights to receive cash flows from the financial asset or
- it retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- the Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset,
- the Group cannot sell or pledge the original asset other than as security to the eventual recipients,
- the Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either (i) the Group has transferred substantially all the risks and rewards of the asset or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Group's continuing involvement, in which case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The difference between the carrying value of the original financial liability and the consideration paid (including the newly recognized financial liability) is recognized in profit or loss.

Modifications subject to derecognition of financial assets and liabilities
Debt instruments exchanged to another one under substantially modified terms and conditions is treated as a derecognition of the existing financial asset or liability and a re-recognition of a new financial instrument. Similarly, a substantial modification of the terms of an existing financial asset or financial liability or part thereof (whether or not it has been caused by the counterparty's financial difficulties) is treated as derecognition of the original financial asset or liability and a new financial instrument is recognized. The new financial liability based on the modified terms is recognised at

fair value. The new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset,
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The basic terms of a financial instrument changes significantly when the main risk factors behind the original instrument are modified. In particular, the Group considers, but not limited to, the following factors when assessing whether the modification is subject to a derecognition and a re-recognition:

- the extent of the difference between the modified and the original cash flows, where a change is more than 10%
- change of borrower with a new risk profile (only in case of financial assets)
- change in SPPI result due to the effect of modified contractual terms
- change in currency

When comparing the modified and original cash flows, the Group examines the extent of the difference between the discounted present value of the changed cash flows - including paid fees in case of liabilities and in casse of assets deducting, the fees paid and including the fees received - under the new conditions and the discounted present value of the remaining original contractual cash flows by using the original effective interest rate in both cases.

Fees received include, in case of assets, amounts paid by the borrower to the Group or on its behalf, and in case of liabilities, amounts paid by the lender to or on behalf of the Group. The fees paid include, in the case of assets, amounts paid by the Group to or on behalf of the borrower, and in case of liabilities, amounts paid by the borrower to the Group or on its behalf, whether or not they are described as a fee, as part of the exchange or modification. Fees do not include any payments made by the borrower or lender to its own advisers or agents, or other transaction costs incurred by the borrower or lender.

Modifications not subject to derecognition of financial assets and liabilities
When the Group renegotiates or amends the contractual cash flows of a financial instrument and the renegotiation or modification does not result in the derecognition of the financial instruments, the Group recalculates the financial instruments gross amortized cost and the difference is recognized in the profit or loss on the line "Contract modification loss, net". The new gross amortized cost is recalculated by the Group as the present value of renegotiated or modified contractual cash flows, using the original effective interest rate of the financial instruments (in case of purchased or originated credit impaired assets the credit-adjusted effective interest rate is used).

Any modification fee applied is amortized over the remaining life of the financial instruments which is achieved by the recalculation of EIR at modification to reflect the modification fee received. The impact of any additional fees incurred at modification but not directly related to it (e.g. prepayment fees) are recognized directly on "Fee and commission income" when incurred.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss line „Contract modification loss, net”. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iii. Measurement

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms (SPPI test) and measured as follows.

Profit or loss on **a financial instrument mandatorily measured at fair value through profit or loss** shall be recognized in income statements in such a way that the Group recognizes interest income on those assets as „Other similar income", while changes in fair value is recognized as „gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net" line within income statements.

A gain or loss on **debt instruments at fair value through other comprehensive income** shall be recognized in other comprehensive income, through the statement of changes in equity, except for impairment losses, interest income amortized based on effective interest and foreign exchange gains and losses which are recognized in profit or loss, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. All valuation movements for **equity instruments at fair value through other comprehensive income** are recognized directly in equity (Other Comprehensive Income) and on derecognition, the cumulative amount is only transferred to retained earnings but is not transferred to profit or loss, except the dividend received which is always recorded in the profit and loss. The difference between the fair value at the date of derecognition and the selling price is recognized in profit or loss.

For financial assets and financial liabilities carried at **amortized cost**, a gain or loss is recognized in profit or loss when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

iv. Classification

Financial assets or liabilities held for trading are derivatives which are not part of a designated hedge relationship.

Cash, cash balances at central banks and other demand deposits are cash and bank accounts held with the National Bank of Hungary or with other credit institutions, as well as overnight deposits.

Financial assets measured at amortized cost include debt instruments that are included in such business model whose objective is to hold financial assets in order to collect contractual cash flows („held to collect business model") and have passed the SPPI test. In this category, the Group classifies its refinancing and direct loans that have passed the SPPI test. Also this category includes those purchased debt securities that the Group has classified as held to collect.

Non-trading financial assets that are mandatorily measured at fair value through profit or loss includes debt instruments that are included in the held to collect business model but failed the SPPI test. In this category, the Group presents its refinancing and direct loans that failed the SPPI test. It also includes those venture capital investments that do not meet the definition of equity instruments under IAS 32.

Financial assets measured at fair value through other comprehensive income include debt instruments that the Group has classified into a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset („held to collect and sale business model") and have passed the SPPI test. In this category, the Group shows the portion of its securities that it has classified as a held to collect and sale business model. Equity instruments for which the Group has chosen the fair value through other comprehensive income option at initial recognition are presented in this category. These are other investments that do not qualify as associates.

Derivatives - hedge accounting includes derivative transactions designated by the Bank into hedge relationship.

Among the **financial liabilities measured at amortised cost**, the Group presents customer deposits (collaterals behind loans), loans taken, short-term interbank deposits, issued debt securities and other financial liabilities.

v. Amortized cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and in case of financial assets minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses.

The Group recognizes POCI (Purchased or Originated Credit Impaired) financial assets in its books at their initial fair value, which, unless otherwise stated, is equal to the purchase price of the asset or. In calculating the credit-adjusted effective interest rate on POCI assets at initial recognition, the Group takes into account the initial estimated credit loss in the estimated cash flows (i.e. life expected credit losses are deducted from estimated contractual cash flows).

vi. Impairment of financial assets

The Group is applying a forward-looking expected credit loss (hereinafter ECL) approach for its impairment calculation. From 1 January 2019, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL (but including debt securities at fair value through other comprehensive income), together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL impairment/provision is the expected credit loss for 12 months (hereinafter 12mECL) if there has been no significant increase in credit risk since the initial recognition of the asset (liability) or it is considered to be low credit risk at the time of valuation. If there has been a significant increase in credit risk since initial recognition or since the previous valuation, the ECL impairment/provision is the loss calculated over the expected life of the asset.

The 12mECL is the portion of lifetime expected credit loss that represent the ECLs that result from default events on a financial instrument possibly within 12 months after the reporting date.

ECL impairment is calculated for both 12mECL and lifetime expected credit losses on a group basis or, in exceptional cases, on an individual basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. To carry out the evaluation, the Group compares the non-performance risk of the financial instrument at the reporting date and as of the initial recognition, taking into consideration information that is reasonable and justifiable - without undue cost or effort – and indicates significant increase in credit risk since initial recognition. The Group assumes that the credit risk of a financial instrument has not increased significantly since the initial recognition if the financial instrument is considered low credit risk at the reporting date.

If the credit risk of a financial instrument has not increased significantly at the reporting date since initial recognition, the Group calculates the impairment of the financial instrument based on the 12-month expected credit loss (Stage 1). At each reporting date, the Group calculates the impairment of the financial instrument based on the lifetime expected credit loss if the credit risk of the financial instrument, whether assessed on an individual or collective basis, has increased significantly since initial recognition, taking into account all reasonable and justifiable information, including forward-looking ones (Stage 2 or Stage 3).

Regardless of the above, the Group always calculates the impairment based on the lifetime expected credit losses for receivables where the IFRS 15 Revenues from contracts with customer standard is applicable and the receivables do not include significant financing components. These include other financial assets where the Group uses this simplified approach.

Based on the above process, the Group classifies its loans into stages, as described below.

Stage 1 (performing credit risk category)
Performing asset category, if there is no significant increase in credit risk compared to the initial recognition, or the asset is considered by the Bank to have a low credit risk at the time of valuation. In this stage 1 category, the Group calculates the expected credit loss based on the 12-month PD (Probability of Default) for all such deals where there was no significant increase in credit risk since initial recognition. This way, the 12-month expected credit loss indicates a lifetime cash flow deficit that occurs as a result of default within a maximum of 12 months after the reporting date, weighted by the probability of default.

Deals are reclassified from this stage only when the credit risk increases significantly since origination and the deal is not considered as low risk. The stage categorization is therefore determined by the Group at deal level rather than by a borrower level.

Stage 2 (increased credit risk category)
Significant increase in credit risk (deals where the Group has become aware of negative information about the exposure but does not yet have objective evidence of impairment). The Group considers a significant increase in credit risk if it becomes aware of negative information about the exposure, but there is no objective and material evidence of impairment yet. Such negative information may include, but is not limited to, the Customer's delay in meeting a significant credit obligation[1] to the Bank or any of its Subsidiaries, a significant deterioration in the Customer's rating, or becoming insolvent. Information received by the Group that relates to the probable future default of the customer is also considered negative information. The Group continuously monitors and records the defined criteria for the increase in credit risk. Lifetime credit loss is determined by the Group using specified risk vectors, lifetime PD (Probability of Default), constant loss given default (hereinafter „LGD") and changing exposure at default (hereinafter „EAD"). When calculating EAD, account shall be taken of the expected change in the exposure of the transaction until maturity.

Stage 3 (impaired credit risk category)
Default (non-performing), credit-impaired category. The third stage includes defaulted transactions for which there is either objective evidence of impairment or a probable future default of the debtor. To classify into this category, the Group monitors various default events (e.g. delays exceeding the threshold for significant credit default, termination, liquidation proceedings, bankruptcy proceedings, compulsory winding-up proceedings, commencement of winding-up proceedings, forced restructuring, etc.) The Bank also classifies significant receivables purchased at a discount of more than 20% (POCI) in the category of impaired credit risk. All these marked events are stored in the banking system and ensure traceability of what events led to the classification.

[1] A credit default delay is considered significant if:

a) in the case of non-retail exposure:

- the amount of the customer's liabilities to the Bank or any of its Subsidiaries overdue for more than 90 days (principal, interest or fee payment) exceeds HUF 150 000,
- the amount of liabilities overdue for more than 90 days exceeds 1% of the amount of the Bank's or any of its Subsidiaries' gross balance sheet receivables from the customer (excluding equity exposures).

b) in the case of retail exposure:

- the amount of the customer's liabilities to the Bank or any of its Subsidiaries overdue for more than 90 days (principal, interest or fee payment) exceeds HUF 30 000,
- the amount of liabilities overdue for more than 90 days exceeds 1% of the amount of the Bank's or any of its Subsidiaries' gross balance sheet receivables from the customer (excluding equity exposures).

POCI
Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses. The Group only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the scenarios, discounted by the credit adjusted EIR. For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Individual and collective impairment
The Group applies an individual impairment calculation for exposures classified in Stage 3 exceeding HUF 100 million and for transactions exceeding HUF 1 billion that have been placed under Intensive Management. Exposures in Stage 3 that do not reach HUF 100 million are normally subject to collective valuation.

In Stage 1 and Stage 2 categories, transactions are primarily measured on a collective valuation basis, but the Group may choose individual valuation as well if transaction exceeds the material threshold value set by the Group, which also relies on quantitative and qualitative factors.

The Group also uses both collective and individual valuation for its debt securities and loans. In all cases, the impairment is recognized against the „Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss".

The carrying amount of the financial assets is reduced by using an impairment account, and the loss is recognized in the income statement. If, in subsequent years, due to certain events, the estimated amount of impairment increases or decreases, the accumulated impairment loss previously recognized is increased or decreased using the impairment allowance account. If a previously written off amount subsequently recovers, the amount is also recorded within „Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss"

The calculation of ECLs
The Group calculates ECLs based on a minimum of three probability-weighted scenarios in the case of individual valuation to measure the expected cash shortfalls, discounted with the original EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will recover and the value of collateral or the amount that might be received for selling the asset.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest and principals from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Purchased receivables
The Group recognizes the amount of the expected recovery –that is based on historical collection statistics - on the purchased receivables above the purchase price by using the effective interest method. The Group reestimates the expected recovery on purchased receivables for each reporting date. The effects resulting from the change in estimates are reflected in the results of the current period. Decrease is achieved by using the impairment account, while in case of increase first the previously created impairment is reversed then the gross book value of the asset is adjusted.

Where a significant negative/positive change in the future cash flow estimation is occurring, the carrying amount of the purchased receivables is increased/decreased with the difference between carrying amount of the financial asset and the present value of the future cash flows, discounted at the effective interest rate at the reporting date. Decrease is achieved by using the impairment account, while in case of increase first the previously created impairment is reversed then the gross book value of the asset is adjusted.

Loan commitments and letters of credit
When estimating lifetime expected credit loss for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the scenarios. The expected cash shortfalls are discounted at the original EIR on the loan.

For loan commitments and letters of credit, the ECL is recognized within “Impairment (-) or reversal of impairment of financial instruments” line in the income statements and “Provisions” line within statements of financial position.

Financial guarantee contracts
The Group’s liability under each guarantee is measured at the higher of initially recognized amount less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of the scenarios. The ECL related to financial guarantee contracts are recognized within “Impairment (-) or reversal of impairment of financial instruments”.

vii. Collateral valuation

To mitigate its credit risks on financial assets, the Group requires collaterals, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group’s statement of financial position. However, the fair value of collateral affects the calculation of ECLs. Collaterals are generally assessed at inception and are revalued on a regular basis. However, some collateral, for example, cash or securities relating to margining requirements, are valued daily. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-

financial collateral, such as real estate, is valued based on data provided by third parties such as independent appraisers, or based on housing price indices.

Collateral repossessed

During the normal course of business, the Group sometimes repossess real estate collaterals. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

viii. Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

ix. Forborne and modified loans

The Group classifies a loan in a restructured category if it makes a concession or makes a contractual change because of the borrower's current or anticipated financial difficulties that it would not have made if the borrower were financially sound. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Division. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms, given that no derecognition and re-recognition took place and no transaction cost was related to it.

The Group considers forced restructuring as a factor indicating the occurrence of a default event if it is likely to result in a significant reduction in the financial liability due to the waiver or deferral of the principal, the interests or the fees. A waiver or deferral is considered to be significant if the decrease in the present value of the financial liability exceeds 1%.

The Group continuously monitors its restructured loans to ensure that future payments are made. Decisions on termination are made on a case-by-case basis by the Group. In case the transaction status in the monitoring system changes to the Restructuring category, the loan is presented in Stage 3. All of its impaired (Stage 3) exposures are considered as non-performing exposures by the Group.

If an asset has been rated as non-performing due to restructuring, it may be considered performing again if all of the following conditions are met:

- at least 365 days have passed since the date of the restructuring and since the end of the grace period provided for in the restructuring agreement and
- there is no delay (principal, interest, commission, fee) after the restructuring and no concerns arise that would call into question the repayment of the full amount of the claim and
- repayment of the claim that was past due (if there was a delay) or that was written off during the restructuring (if there was no delay) through repayments under the restructuring conditions

The restructured status of a claim may be terminated if the following conditions are met:

- the claim is performing;
- a probationary period of at least two years has passed since the restructured claim was recognized as performing;
- regular repayments of principal or interest have been made in excess of an insignificant amount for at least half of the probationary period;
- at the end of the probationary period there is no delay of more than 30 days in respect of any obligation of the obligor.

d) Leasing

Accounting for leases by the Group as a lessee

The Group leases office premises and parking lots. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognized at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low-value assets by recognizing the lease payments as an operating expense on a straight line basis. Short-term leases are leases where the lease term on the starting date is not more than 12 months. The threshold for low-value assets is set by the Group at HUF 1.500.000

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Group as a lessor
When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term.

e) Impairment of non-financial assets

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount (within the scope of IAS 36). The Group considers external and internal information in assessing the amount of impairment. An impairment loss is recognized immediately in profit or loss.

In accordance with International Accounting Standards, the Group periodically reviews the impairment of its long-term investments in its books. The objective of the model used is to estimate the recoverable amount from the use of shareholdings on the basis of discounted cash flow ("DCF") from five years long business plans of the subsidiaries adopted by the owner.

The main output of the model is an indication of the impairment of the investment held, that is, the cash-generating unit (“CGU”) based on the inputs provided. Further analysis is needed to make the final management decision on impairment, taking into account the specific situation of CGU and other considerations.

Based on factual data, the model calculates from the business plan the amount of free cash flow to serve as the basis for DCF valuation until the end of the explicit business plan. Based on the business characteristics of each CGU, the model determines the recoverable amount from using either the firm-level free cash flow ("FCFF") method or the owner's free cash flow ("FCFE") method. The discount rate applied depends on the discount factor and the number of years.

- The approach used for general purpose companies is the FCFF method. Accordingly, the value of CGU's equity interest equals the present value of the firm-level free cash flows calculated directly from the business plan less the market value of interest-bearing liabilities. The discount rate used in present value calculations is the weighted average cost of capital ("WACC").
- For special purpose investments (receivables management, guarantee issuance / suretyship undertaking) the model uses the FCFE method. This determines the value of the ownership interest by discounting the owner's free cash flows.

Both the FCFF and FCFE methods assume that the owner will continuously realize the cash flows available from the CGU.

When assessing investments on a plan-fact basis, the primary consideration is the likelihood and magnitude of expected loss that can reasonably be expected from the investment's business and the changes in the legal and market environment. The objective of the valuation is to ensure that the carrying amount of the investment interest reflects the fair value of the investment (if necessary, taking into account an adjustment for impairment). The rating is based primarily on the valuation of the companies, the balance sheet data, the indicators calculated from it and the evaluation of business risks.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined without impairment loss recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories within the scope of IAS 2 are measured at the lower of cost and net realizable value. The Group makes estimates for the realizable amount on a quarterly basis. Impairments are recognized or reversed according to these estimates in profit or loss.

f) Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank or other financial institutions and overnight deposits. This line includes, placements with other banks payable on demand, including nostro and other accounts in HUF and foreign exchange with domestic banks, foreign central banks and institutions registered abroad as bank. These items are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

g) Loans and advances to banks and to customers

The Group's lending activities can be grouped by method (indirectly through commercial banks in the form of refinancing loans and direct lending) and by type (program and non-program loans).

The balance of loans and advances to banks includes refinancing program loans granted through commercial banks.

Loans and advances to customers contain receivables from legal entities, licensed traditional small-scale producers and employees. Agricultural loans with mainly fixed interest rate are also recognized as loans and advances to customers.

The balance of Deposits at central and other banks contains the interbank placements used in the course of liquidity management.

Loans and advances to banks and to customers are carried either at amortized cost or fair valued through profit and loss in the statement of financial position dependent whether the SPPI test is passed or failed.

h) Securities

Securities contain government bonds and other debt securities, interest bearing or discount treasury bills, mortgage bonds, debt securities including fixed-income securities that are listed on stock exchange, or traded on a regulated market (controlled by regulation or by stock exchange), and other debt securities regardless their name, including debt securities took over in return for receivables to minimize loss.

Venture capital investments that cannot be classified as equity instruments under IAS 32 in which the Bank has no significant influence are also presented here. Since these instruments do not meet the SPPI test, the Group presents them within debt instrument, mandatorily fair valued through profit and loss.

Securities that were classified into "held to collect and sell" business category are measured at fair value through other comprehensive income. The basis of measurement is the average of best bid and ask prices published on the website of Government Debt Management Agency Ltd. on the reporting date.

Securities classified as held to collect are measured at amortized cost, calculated by using the effective interest rate method.

The Group applies impairment calculation for all of its debt securities (except those fair valued through profit and loss) and the expected credit loss is recognized in profit and loss.

i) Encumbered assets

The encumbrance of the Bank's eligible assets is mainly for ensuring the collateral for Funding for growth ("FGS") program. The encumbered assets can be government securities, mortgage bonds and loans. The Bank does not present as encumbered assets those securities which are to ensure the continuity of liquidity management - including the ensurance of continuous transfers (Giro) and the possibility of a secured loan (repo) transaction with the Hungarian National Bank - as the Bank may also release the blocking of these securities.

j) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

Repo transactions are classified into the „Held to collect" business model and are measured at amortized cost using the effective interest rate method.

k) Investments

Equity investments classified as **controlling interest** (subsidiaries) comprise those investments where the Bank is exposed to, or has rights to, variable returns from the involvement with the investee and has the ability to affect those returns through its power over the investee. These investments are fully consolidated in these consolidated financial statements.

Equity investments classified as **significant influence** (associates) comprise those investments where the Bank through its direct ownership interest has the power to participate in the financial and operating policies of the investee, but not to control those activities. These associates are consolidated by using the equity method.

Other equity investments comprise other share holdings, which do not meet the above criteria. Other equity investments are accounted for in accordance with IFRS 9 at fair value through other comprehensive income unless they do not meet the equity instrument conditions set in IAS 32, in which case they are classified as debt instruments mandatorily fair valued through profit and loss.

The investment portfolio includes investments that the Group intends to hold long term. The HDB Law determines the companies in which the Group can obtain controlling interest. The Group does not hold equity investments for trading purposes.

l) Derivative financial instruments

The Group uses derivative financial instruments, interest rate swaps, foreign exchange swaps and forward exchange contracts to manage its exposure to foreign exchange and interest rate risks arising from business activities. The recognition of interest income/expenses relating to derivative transactions are recognized in profit and loss as interest income and expense. Fair value changes are immediately recognized in the statement of comprehensive income on the "Gains or (-) losses on financial assets and liabilities held for trading, net" line.

The Group does not undertake exposures for trading purposes, the Treasury department enters into transactions with the purpose of risk hedging, liquidity management and limit management. The purpose of market instruments is solely the hedging of risks deriving from the portfolio, the Group does not enter into transactions with speculative purposes.

To reduce the interest rate risk, the Group exchanges the financial instruments with fixed interest rate to floating interest rate in the course of an **interest rate swap.** The interest rate swap deals are accounted for as fair value hedges. The realized fair value changes on the hedging instruments are presented as "Derivatives – Hedge accounting" (see Note 10).

Foreign exchange swap deals are the exchanges of different foreign exchanges on a predetermined exchange rate. Foreign exchange swap deals are concluded with liquidity and risk management purposes and are presented as Derivative assets or liabilities (see Note 9).

Cross currency interest rate swap deals (CCIRS) are interest rate swaps and foreign exchange swap deals made in a single transaction. The **CCIRS deals** are classified as at fair value through profit or loss upon initial recognition as a Derivative asset or liability.

m) Hedge accounting

The Group uses derivative instruments to manage exposures to interest rate risk and partially foreign currency risk. The Group only enters into economic hedging transactions only and, if this hedging relationship is properly documented, the hedge accounting is applied for them. The Group applies IFRS 9 rules for its hedge accounting. Based on IFRS9 rules at inception of a hedge relationship the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method to be used to assess the effectiveness of the hedging relationship.

Fair value hedge
Fair value hedges are concluded to reduce market risk. For qualifying and designated fair value hedges, the change in fair value of hedging instruments is recognized in the income statement on the line "Gains or (-) losses from hedge accounting, net". The change in the fair value of the hedged item attributable to the hedged risk is also recognized in the same income statement line and the carrying amount of the hedged item is adjusted in the statement of the financial position. If the hedging instrument expires, is sold, terminated or exercised, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item shall be amortized to the income statement in the net interest income until maturity of the underlying financial instrument (hedged item).

Cash flow hedge
Currently the Group is not involved in any cash flow hedge relationship.

n) Property, plant and equipment and Intangible assets

Property, plant and equipment contains investments and capitalized, materialized assets that serves directly or indirectly the financial activities, that serves the business activities permanently for more than one year.

Items of Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment taking into consideration the residual value of the assets. Freehold lands, asset under construction are not depreciated.

Intangible assets contain rights, and intellectual properties (software and other intellectual properties). The Group does not have any intangible assets with indefinite useful life. Intangible assets are carried at historical cost less accumulated amortization and accumulated impairment.

The estimated useful lives of each type of property, plant and equipment and intangible assets are the following:

	Estimated useful life (years)
Property, plant and equipment	
Real estate	3 - 50
Developments on leased property	5 – 17
Machinery	2 – 7
Other equipment	5 – 7
Mobiles	2
Vehicles	4
Computer equipment	2 – 6
Right of use asset (real estate)	3 - 10
Right of use asset (parking places)	10
Right of use asset (vehicles)	4 - 5
Intangible asset	
Concessions and similar rights	6
Property rights connected to real estates	2 – 100
Software	1 – 8
Other intangible assets	3 – 6

o) Investment property

Investment property is property (land and building or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of a partial own use, the property is an investment property only if the owner-occupied portion is insignificant.
Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Rental income is recognized in the income statement as other operating income. Depreciation is accounted for by using the straight line method over the estimated useful life of the asset. The useful life of the asset is identical to those of buildings reported under property and equipment.

p) Bonds issued

Bonds issued contain the obligations arising from HUF, EUR and USD issued bonds.

Issued bonds are measured at amortized cost. That part of the issued EUR bonds of which interest rate risk is hedged using interest rate swaps are measured at amortized cost with fair value adjustment.

q) Provisions

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

Provisions are reviewed quarterly and adjusted to reflect the best estimate of the expenditure required to settle the present obligation. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. A provision should be used only for expenditures for which the provision was originally recognized.

r) Offsetting

Financial assets and financial liabilities are offsetted in the statement of financial position when and only when the Group has a legally enforceable right to set off the amounts and intends to settle them either on a net basis or at the same time intend to realise the assets and settle liabilities at the same time. The Group has various netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include: repo and reverse repo transactions, securities borrowing and lending arrangements, and over-the-counter and exchange traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to set-off liabilities against available assets received in the ordinary course of business and/or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

s) Commitments and contingencies

Commitments and contingencies are a probable obligation that derives from a past event, and its existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not entirely controlled by the Group, or a present obligation that derives from a past event, but is not recognized because it is not likely that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be reliably estimated.

t) Interest income and expense

In accordance with IFRS 9 interest income and expense are recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 are also recorded by using the EIR method.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the income statement.

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets recover and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

The Group also holds investments in assets with negative interest rates. The Group discloses interest paid on these assets as an interest expense.

The Group has decided to include interest received and paid arising from financial instruments classified as FVTPL (including trading instruments) and from derivative instruments designated as hedge among "interest income" and "interest expense", i.e. the so-called "clean price" (net price) presentation method is applied.

Interest income and expense include:

- interest income or expense for financial assets and liabilities at amortized cost accounted by using effective interest method (including interest received or paid to banks or customers, interest received on purchase securities, interest paid on issued securities and negative interest of financial assets and liabilities),
- interest income on financial assets at fair value through other comprehensive income accounted by using the effective interest method (including coupon interest received on securities and their discount/premium amortization),
- contractual interest income received on financial assets mandatorily fair valued through profit and loss that are presented among Other similar income,
- contractual interest income received on cash balances at central banks and other demand deposits are presented among Other similar income,
- interest income from derivative transactions, also presented among Other similar income, while interest expense from derivative transactions are presented among Interest expense.

u) Fee and commission income and expense

Fee and commission income and expense include amounts from financial activities of the Bank that are not included in interest income and expense, nor are they considered as incremental costs at the initial recognition, for example transaction fees, postal fees, guarantee fees, loan examination fees and other financial service fees. The lending related fee and commission income and expense of those loans which failed on the SPPI test is also presented on these lines.

v) Dividend income

Dividend income is recognized when the amount of dividend has been determined and approved.

w) Current and other taxes

Current tax assets and liabilities for the current year and prior years are measured at the amounts expected to be recovered from or to be paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted as of the balance sheet date. Current tax comprises income tax, such as corporate income tax, local business tax and innovation contributions.

The amount of **corporate tax** payable is based on the tax obligations determined in accordance with Hungarian laws and it is adjusted by the deferred tax. Corporate tax and deferred tax are recognized in the income statements, except to the extent that deferred tax relates to items recognized directly in equity, in which case it is recognized in the statement of other cpomprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date. The base of the income tax is the profit before tax adjusted by the tax base modifying items. The corporate tax was unified at a flat rate of 9% both in 2020 and in 2019.

The **local tax and the innovation contribution** established on the basis of the Hungarian tax legislation in force are calculated for the same basis, their applicable rates are different being 2% for the former and 0.3% for the latter. Since their basis is based on net revenue, these were also classified among income taxes.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group recognizes deferred tax asset if it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. An exception is where the deferred tax asset is a result of the initial recognition of an asset or liability in such a transaction that is not a business combination and does not affect either accounting profit or taxable profit (negative tax base) at the time of the transaction. Whether future taxable profits available are primarily determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets and liabilities are netted against each other at each consolidated entity level if the company has a legal enforceable right to set off current tax receivable and liabilities and deferred tax receivable and liabilities relate to income taxes levied by the same taxation authority., but are not netted among Group entities.

The **special bank tax of financial institutions is** presented among other expenses. The tax is in effect since 2010. The base of the special tax is the adjusted balance sheet total of the second preceding year (meaning 2018 for year 2020 and 2017 for year 2019), the rate was 0.15% under HUF 50 billion, and 0.20% above HUF 50 billion both in 2020 and 2019. The Group recognizes the special bank tax of financial institutions when it becomes legally enforceable (i.e., when the obligating event arises) which is on 1 January each year.

In order to implement the Economic Protection Action Plan, a **special credit institution tax on the epidemiological situation** for replenishing the Epidemiological Fund was introduced for banks. The basis for this special tax equals to the base for the special bank tax of financial institution that exceed the HUF 50 billion and the applicable rate is 0.19%. Under the special tax act the next 5 years of bank special tax liability will be deducted with this amount in five equal annual instalments therefore was not recognized in the current year profit and loss (see note 13).

x) Statement of cash flows

Statement of cash flows provide useful information to the users of financial statements regarding a basis to assess the ability of the Group to generate cash and cash equivalents and the needs of the Group to utilize those cash flows.

For the purposes of reporting cash flows, cash and cash equivalents include cash, balances and placements and the overnight deposits with the National Bank of Hungary or other financial institutions.

y) Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. These events are adjusting and non-adjusting events.

All adjusting events after reporting date have been taken into account in the preparation of the consolidated financial statements of the Group. The material non-adjusting events after the reporting date are presented in Note 41.

z) Restatement of previously presented balances

The Group reclassified certain items presented in 2019 for comparative reporting purposes. Under the previous presentation "Provisions (-) or reversal of provisions" line within Profit and loss statements included provisions that were created under IFRS9 for guarantees and undrawn loan commitments and also for the one created under IAS 37 for legal cases. The line „Other operating revenue and income" includs other provisions that in prior period were presented in line "Provision (-) or reversal of provision". Therefore all impairments and provisions created under IFRS 9 are presented together in the line renamed to "Impairment (-) or reversal of impairment of financial instruments". The prior year data were restated as presented below.

	2019 Restated	2019 Original	Impact
Other operating revenue and income	5 113	5 005	108
Provisions (-) or reversal of provisions	0	(1 187)	1 187
Impairment (-) or reversal of impairment of financial instruments	5 690	6 985	(1 295)

Further reclassification resulted from the fact that in the prior year prensentation the "Loss from discountinued operation" line included the minority interest profit for the first eight months till the selling of the segment that was now presented transparently on the face of the income statement as well not just in Note 39.

	2019 Adjusted	2019 Original	Impact
Loss from discontinued operation (net of tax)	(7 029)	(10 726)	(3 697)
Profit or (-) loss for the year	**(2 158)**	**(5 855)**	**(3 697)**
Profit attributable to non-controlling interest	***3 697***	***0***	***3 697***
Profit attributable to the owner	**(5 855)**	**(5 855)**	**0**
Profit or (-) loss for the year	**(2 158)**	**(5 855)**	**(3 697)**
Total comprehensive income for the year	**(2 363)**	**(6 060)**	**3 697**
Comprehensive income, (-) expense attributable to non-controlling interest	***3 697***	***0***	***3 697***
Comprehensive income, (-) expense attributable to the owner	**(6 060)**	**(6 060)**	**0**

aa) New standards and interpretations

Standards and Interpretations effective in the current period

A number of new standards are effective from 1 January 2020 that do not have a material effect on the Group's financial statements.

- *Amendments to IFRS 3 Business Combinations: Definition of business (issued on 22 October 2018*
- *Amendments to IFRS 9, IAS 39 and IFRS17: Interest rate benchmark reform (issued on 26 September 2019)*
- *Amendments to IAS 1 and IAS 8: Definition of material (issued on 31 October 2018)*
- *Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)*

The following amended standards became effective from 1 June 2020, but did not have any material impact on the Group:

- *Amendment to IFRS 16 Leases Covid-19-related rent concessions.*

Standards issued by IASB and adopted by EU but their application date is after 31 December 2020

Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021)

The amendments address concerns arising from implementing the new IFRS 9 – Financial Instruments, before implementing the forthcoming new Insurance Contracts Standard. These concerns include temporary volatility in reported results.

The amendments introduce two approaches: an overlay approach and a deferral approach (temporary exception for applying IFRS9). The amended Standard will:

- give all companies that issue insurance contracts the option to recognize in other

comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new IFRS17 insurance contracts standard is issued; and

- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard – IAS 39 – Financial Instruments: Recognition and Measurement.

The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 20202 and all effective for annual periods beginning on or after 1 January 2021)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

Given that the Group mostly has EURIBOR based transactions and only very few LIBOR based, this will have no material impact.

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

Standards and Interpretations issued by IASB but not yet adopted by the EU:

i. *IFRS 17 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2023),*

ii. *Amendments to IAS 1 Presentation of financial statements: Classification of liabilities as current or non-current and classification of liabilities as current or non-current - deferral of effective date (effective for annual periods beginning on or after 1 January 2023),*

iii. *Amendments to IFRS 3 Business combinations IAS 16 Property, plant and equipment; IAS 37 Provisions, contingent liabilities and contingent assets; Annual improvements 2018-2020 (all effective for annual periods beginning on or after 1 January 2022)*

iv. *Amendments to IAS 1 Presentation of financial statements and IFRS practice statement 2: disclosure of accounting policies (all effective for annual periods beginning on or after 1 January 2023)*

v. *Amendments to IAS 8 Accounting policies, changes in accounting estimates and errors: definition of accounting estimates (effective for annual periods beginning on or after 1 January 2023)*

The implementation of these amendments, new standards and interpretations has no material impact on the consolidated financial statements of the Group.

4. CASH, CASH BALANCES AT THE CENTRAL BANKS AND OTHER DEMAND DEPOSIT

	2020	2019
Cash	6	8
Cash balances with National Bank of Hungary (NBH)	43 774	1 070
Overnight deposits	*42 452*	*0*
Statutory reserve	*1 322*	*1 070*
Other demand deposits	33 588	10 680
Gross balances	**77 368**	**11 758**
Impairment	(45)	(3)
Total	**77 323**	**11 755**

The Bank is obliged to keep a minimum reserve at the central bank, which equals 1% of the short term (within a year category) deposits of its domestic and foreign customers and the currency deposits of foreign customers. According to the statutory reserve regulation of the National Bank of Hungary, the applicable rate was 0.6% in 2020 (2019: 0.9%.) The monthly average balance of the statutory reserve in December 2020 was HUF 672.33 million (December 2019: HUF 1 082.15 million).

5. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

5.1 DEBT SECURITIES

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities				
Venture capital note	0	0	3 651	3 651
Total	**0**	**0**	**3 651**	**3 651**

At year end 2020 HUF 3 057 million (2019: HUF 2 923 million) from the above balance representing Central European Fund of Funds is attributable to subscribed but not yet paid capital increase that is payable as required by the investment plans. The fund manager shall make the selection of fund managers or equity funds by the end of 2021, after which the funds will typically make their investments during the first period of operation. The unpaid capital increase will be paid in accordance with the drawdowns of fund managers to finance the investments made. In 2020, the equity fund was reclassified from "*Financial assets fair valued through other comprehensive income –Equity instruments"* to here as they cannot be classified as equity instruments under IFRS9. The amount previously recognized in the valuation reserve was not significant and was realized in the current year profit and loss.

5.2 LOANS

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks				
Municipality loan program	25 945	14	0	25 959
Business development loan program	8 133	4	0	8 137
Agricultural development loan program	649	6	0	655
Retail loan program	263	0	0	263
	34 990	**24**	**0**	**35 014**
Loans and advances to customers				
General governments	621	0	0	621
Other financial corporations	2 843	735	0	3 578
Non-financial corporations	10	3 207	441	3 658
Households	32	165	14	211
	3 506	**4 107**	**455**	**8 068**
Total	**38 496**	**4 131**	**455**	**43 082**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks				
Municipality loan program	27 858	0	0	27 858
Business development loan program	16 377	0	0	16 377
Agricultural development loan program	862	0	0	862
Retail loan program	438	0	0	438
	45 535	**0**	**0**	**45 535**
Loans and advances to customers				
General governments	700	0	0	700
Other financial corporations	3 806	0	0	3 806
Non-financial corporations	2 693	2 436	708	5 837
Households	41	201	10	252
	7 240	**2 637**	**718**	**10 595**
Total	**52 775**	**2 637**	**718**	**56 130**

Non trading financial assets mandatorily at fair value through profit or loss includes those financial instruments that were classified as held to collect business model but failed the SPPI test as the interest rate is based on EURIBOR while the loans are denominated in Hungarian forint. Also the loans with equity features were classified here.

Loans and advances to banks are exclusively the refinancing loans to commercial banks that are the sources of the customer loans at those commercial banks.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
Equity instruments		
Listed on stock exchange	0	0
Not listed on stock exchange	9 275	11 879
	9 275	**11 879**
Debt securities		
Hungarian government bonds	38 565	39 909
Treasury bills	481	0
	39 046	**39 909**
from this encumbered assets	*8 316*	*0*
Total	**48 321**	**51 788**

	2020			
Debt securities	**Amortized cost**	**Impairment**	**Fair value adjustment**	**Fair value**
Hungarian government bonds	38 161		404	38 565
Treasury bills	480		1	481
	38 641		**405**	**39 046**
Equity instruments				
European Investment Fund			152	544
Other			0	79
Kall Ingredients Kft.			606	6 390
OTP OJSC (Investberbank)			0	522
Venture capital investments			(1 053)	1 740
			(295)	**9 275**
Fair value adjustment recognized in valuation reserve			110	
Valuation reserve after deferred tax adjustment			**91**	

	2019			
Debt securities	**Amortized cost**	**Impairment**	**Fair value adjustment**	**Fair value**
Hungarian government bonds	39 262	0	647	39 909
Treasury bills	0	0	0	0
	39 262	**0**	**647**	**39 909**
Equity instruments				
Central European Funds of Fund			88	3 305
European Investment Fund			100	492
Other			0	80
Kall Ingredients Kft.			0	5 784
OTP OJSC (Investberbank)			0	522
Venture capital investments			(853)	1 696
			(665)	**11 879**
Fair value adjustment recognized in valuation reserve			(18)	
Valuation reserve after deferred tax adjustment			***(30)***	

All debt securities are classified as stage 1 both as at 31 December 2020 and 2019.

Equity instruments for which the Group has chosen the fair value through other comprehensive income option at IFRS 9 transition are presented in this category. Other investments that do not qualify as associates are presented here, as the Bank does not have trading intent with them therefore fair valuation through profit and loss was not applied.

At year end 2020 HUF 3 507 million (2019: HUF 2 923 million) from the above balance for the Central European Fund of Funds is attributable to subscribed but not yet paid capital increase that is payable as required by the investment plans. The fund manager shall make the selection of fund managers or equity

funds by the end of 2021, after which the funds will typically make their investments during the first period of operation. The unpaid capital increase will be paid in accordance with the drawdowns of fund managers to finance the investments made. In 2020, the equity fund was reclassified to "*Non-trading financial assets mandatorily at fair value through profit and loss – Debt securities*" from here as they cannot be classified as equity instruments under IFRS9. The amount previously recognized in the valuation reserve was not significant and was realized in the current year profit and loss.

The Venture capital investment line includes investments by the Growth Capital Fund (Növekedési Tőkealap). These entities have a few years of business history, or even those that do not have a business history, which does not allow the acquisition of funds from the credit market or traditional capital markets. In addition to the start-up companies, the development-phase companies are also part of this investment portfolio. The projected average maturity is 5-7 years, and the ownership share acquired is between 9-50%.

7. FINANCIAL ASSETS AT AMORTIZED COST

	2020	**2019**
Debt securities		
Hungarian government bonds	54 900	48 725
Corporate bonds	57 993	5 182
Mortgage bonds	7 812	7 955
	120 705	**61 862**
from this encumbered assets	*37 145*	*20 887*
Customer loans		
General governments	212 257	210 803
Other financial corporations	261 465	213 721
Other non-financial corporations	444 330	337 819
Households	144 763	137 904
	1 062 815	**900 247**
from this encumbered assets	*159 310*	*76 399*
Loans to banks		
Refinancing loans	1 604	2 130
Other loans	36 515	65 592
	38 119	**67 722**
Deposits at central and other banks		
Central bank deposits	222 009	0
Other bank deposits	46 169	35 368
	268 178	**35 368**
Other financial assets		
Trade receivables	1 015	659
Margin accounts	984	418
	1 999	**1 077**
from this encumbered assets	*984*	*418*
Total	**1 491 816**	**1 066 276**
from this encumbered assets	*197 439*	*97 704*

The encumbered assets among "Debt securities" and "Loans and receivables" include assets offered as collateral for the National Bank of Hungary and these assets were collaterialzed under the Hungarian National Bank Funding for Growths (FGS) program and represent the current net book value of the customer loans disbursed under this scheme. The new FGS scheme, which was launched in 2020, was also collaterialized by the loans disbursed, supplemented with individual corporate loans that was also possible to be collaterialized for this purpose, which the Bank took advantage of. The current net book value of these disbursed loans is presented as encumbered assets within „Customers loans" line. For the other two previous FGS programs, government bonds were offered as collateral. The year end net book value of these government bonds is shown as encumbered asset under „Debt securities" line. From the line "Other financial assets" the margin accounts are shown as encumbered assets. The remaining encumbered assets represent the pledge on the subsidiaries assets being the collateral for their external loans.

7.1 LOANS

	2020				
GROSS OUTSTANDING	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Customer loans					
General governments	212 355	0	0	0	212 355
Other financial corporations	208 369	54 760	0	142	263 271
Other non-financial corporations	260 874	183 741	33 497	7 697	485 809
Households	69 657	4 851	23	72 022	146 553
	751 255	**243 352**	**33 520**	**79 861**	**1 107 988**
Loans to banks					
Refinancing loans	1 604	0	0	0	1 604
Other loans	36 519	0	0	0	36 519
	38 123	**0**	**0**	**0**	**38 123**
IMPAIRMENT					
Customer loans					
General governments	(98)	0	0	0	(98)
Other financial corporations	(701)	(1 060)	0	(45)	(1 806)
Other non-financial corporations	(476)	(16 115)	(22 932)	(1 956)	(41 479)
Households	(18)	(3)	(13)	(1 756)	(1 790)
	(1 293)	**(17 178)**	**(22 945)**	**(3 757)**	**(45 173)**
Loans to banks					
Refinancing loans	(1)	0	0	0	(1)
Other loans	(3)	0	0	0	(3)
	(4)	**0**	**0**	**0**	**(4)**
NET CARRYING AMOUNT					
Customer loans					
General governments	212 257	0	0	0	212 257
Other financial corporations	207 668	53 700	0	97	261 465
Other non-financial corporations	260 398	167 626	10 565	5 741	444 330
Households	69 639	4 848	10	70 266	144 763
	749 962	**226 174**	**10 575**	**76 104**	**1 062 815**
Loans to banks					
Refinancing loans	1 603	0	0	0	1 603
Other loans	36 516	0	0	0	36 516
	38 119	**0**	**0**	**0**	**38 119**
TOTAL NET CARRYING AMOUNT	**788 081**	**226 174**	**10 575**	**76 104**	**1 100 934**

	2019				
GROSS OUTSTANDING	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Customer loans					
General governments	211 907	0	0	0	211 907
Other financial corporations	208 330	5 719	0	307	214 356
Other non-financial corporations	294 725	31 447	32 187	7 456	365 815
Households	75 241	1 499	9	61 713	138 462
	790 203	**38 665**	**32 196**	**69 476**	**930 540**
Loans to banks					
Refinancing loans	2 132	0	0	0	2 132
Other loans	65 611	0	0	0	65 611
	67 743	**0**	**0**	**0**	**67 743**
IMPAIRMENT					
Customer loans					
General governments	(1 104)	0	0	0	(1 104)
Other financial corporations	(389)	(164)	0	(82)	(635)
Other non-financial corporations	(1 651)	(3 990)	(20 696)	(1 659)	(27 996)
Households	(11)	(3)	(4)	(540)	(558)
	(3 155)	**(4 157)**	**(20 700)**	**(2 281)**	**(30 293)**
Loans to banks					
Refinancing loans	(2)	0	0	0	(2)
Other loans	(19)	0	0	0	(19)
	(21)	**0**	**0**	**0**	**(21)**
NET CARRYING AMOUNT					
Customer loans					
General governments	210 803	0	0	0	210 803
Other financial corporations	207 941	5 555	0	225	213 721
Other non-financial corporations	293 074	27 457	11 491	5 797	337 819
Households	75 230	1 496	5	61 173	137 904
	787 048	**34 508**	**11 496**	**67 195**	**900 247**
Loans to banks					
Refinancing loans	2 130	0	0	0	2 130
Other loans	65 592	0	0	0	65 592
	67 722	**0**	**0**	**0**	**67 722**
TOTAL NET CARRYING AMOUNT	**854 770**	**34 508**	**11 496**	**67 195**	**967 969**

Information about modifications of loans that have not resulted in derecognition is as follows:

	2020	**2019**
Amortized cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	149 772	6 910
from this resulted from the moratorium settlement	*148 418*	*0*
Gains less losses recognized in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(1 558)	(77)
from this resulted from the moratorium settlement	*(1 556)*	*0*
Gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year	6 859	0

The Group does not have any such outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity neither as at 31 December 2020 nor at 31 December 2019.

7.1.1 INFORMATION ON THE RULES OF THE PAYMENT MORATORIUM INTRODUCED IN THE CONTEXT OF COVID-19

I. Period of the payment moratorium from the 19th of March 2020 to the 31st of December 2020 (Moratorium 1)

In order to avert the consequences of the COVID-19 pandemic, causing mass illness endangering life and property, and to protect the health and lives of Hungarian citizens, the Government has declared a state of emergency throughout Hungary by Government Decree 40/2020. (III.11.).

According to the legislation, namely Government Decree 47/2020. (III.18.) on immediate measures necessary to mitigate the impact of the coronavirus pandemic on the national economy, Government Decree 62/2020. (III. 24.) on payment moratorium (altogether called as emergency government decrees) and Act LVIII of 2020 on Transitional Rules and Epidemiological Preparedness Related to the Elimination of the State of Emergency- from the 19th of March 2020 to the 31st of December 2020, the Bank granted the debtors a capital moratorium, an interest moratorium and a fee moratorium (Moratorium 1/ Moratorium) with respect to the debtor's obligation to pay capital, interest and/or fees arising from a loan under a loan/credit agreement that has been already contracted, disbursed and not yet terminated at midnight on the 18th of March 2020.

Main rules of Moratorium 1:

The moratorium on payments may be applied to loans already disbursed by the debtor under its contract by midnight on the 18th of March 2020. The Bank may extend the availability of the moratorium to loans not disbursed or only partially disbursed by midnight on the 18th of March 2020 and to other payment obligations arising therefrom.

The moratorium on payments extends to retail and corporate debtors, excluding the Hungarian state, local governments, and, with the exception of financial enterprises, entities as defined in paragraph 39[2] of Act CXXXIX of 2013 on the National Bank of Hungary. However, the Bank extended the payment moratorium to its credit institution partners due to refinanced loans and loans channelled through intermediaries included in its 51/2020 (IV. 1) Board decision.

According to the resolution of the Managing Authorities, the Bank also applies the legal moratorium to payment obligations arising from transactions provided by the Bank covered from EU funds. The Bank, as fund-implementing organization, performs these activities and conducts analytics for the disposal of the Managing Authority, thus these items are processed by the Bank, as well, albeit these transactions are excluded from this report.

The Bank also applied the moratorium on receivables that were already due at midnight on the 18th of March 2020 - in the case of loans in connection with the Growth Loan Program, on the 16th of March 2020- if the contract had not been terminated and could not have been terminated either. Claims arising from a contract terminated for reasons other than late payment, including instalment payment agreements concluded between the Bank and the customer, are not covered by the moratorium. These receivables are subjects to being enforced directly by the Bank. Moratorium on payment is automatically due to the eligible debtor. The debtor subject to a payment moratorium may, at any time, by implied conduct, decide that it will fulfil its payment obligations in accordance with the original terms of the contract in its entirety or partially only.

---

[2] Enterprises supervised by the National Bank of Hungary, are, in particular, credit institutions, mortgage credit institutions, housing savings funds, insurance companies and private pension funds.

In case the debtor has availed itself of the payment moratorium, the principal debt may not be increased by the amount of interest or fees not paid during the moratorium, nor during the moratorium, nor after the expiry of the moratorium. Interest or fees accumulated and not duly paid during the moratorium, combined with the instalments due during the remaining term, shall be paid in equal annual instalments during its term after the termination of the moratorium. Upon the aforementioned termination of the moratorium, the term itself shall be extended in order that the sum of the instalments due and the interest or fees payable in instalments arising under the moratorium does not exceed the amount of the instalments under the original contract.

Due to the moratorium, credit agreements, loan agreements, guarantee agreements and ancillary collateral agreements are getting automatically amended by the force of law, i.e. they do not have to be formally amended and/or notarized for their validity and enforceability.

Moratorium 1 got terminated on the 31st of December 2020. In January 2021 the Bank sent information notice to customers who have participated in the payment moratorium about the possible changes in the term and grace period due to the unpaid interest, fee and principal debt accumulated during the term of the moratorium.

II. Period of the payment moratorium from the 1st of January 2021 to the 30th of June 2021 (Moratorium 2)

According to the decision of the Government, it is considered justified to maintain the protection provided by Moratorium 1. With this in mind, from the 1st of January 2021 to the 30th of June 2021, the Bank will grant a moratorium on capital, interest and fee (hereinafter referred to as Moratorium 2) arising from a loan under a loan/credit agreement that has been already contracted and disbursed at midnight on the 18th of March 2020 based on the Act CVII of 2020 on transitional measures to stabilize the situation of certain priority social groups and enterprises in financial difficulties, as well as Government Decree 637/2020 (XII. 22.) on the introduction of special emergency rules for loan repayment moratorium, supplementing it.

Main rules of Moratorium 2

Bearing that in mind that Moratorium 1 has gotten terminated, Moratorium 2 is automatically due to eligible debtors, i.e. the Bank provides them with a moratorium on payment without an explicit request, and in connection with Moratorium 2 the sole change compared to Moratorium 1 is that a debtor who is otherwise entitled to use Moratorium 2, nevertheless has not availed itself of the payment deferral during Moratorium 1, shall declare its intention of taking advantage of the moratorium explicitly.

Otherwise, Moratorium 2 is being regulated led by the very same rules as set out in point I for Moratorium 1. The Bank also extended the payment moratorium 2 to its credit institution partners due to refinanced loans included in its 25/2021 (II. 10) Board decision.

III. Impact of the moratoria for the loans presented in these financial statements

The table below includes information on loans and advances **valued at amortized cost** and subject to legislative moratoria and those subject to the Bank extension when it was used actually by the customers. The modification loss column contains the loss calculated for both the moratorium 1 and the moratorium 2. The calculation was based on the same loan subportfolio, since, on the basis of regulation and extensions the Bank applied, the same borrower groups can apply for both moratoriums.

	2020					
GROSS OUTSTANDING	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Contract modification loss**
Customer loans						
General government*	196 579	0	0	0	196 579	
Other financial corporations	49 986	54 649	0	0	104 635	
Other non-financial corporations	18 992	83 891	16 313	0	119 196	
Households	20 631	1 750	14	566	22 961	
	286 188	**140 290**	**16 327**	**566**	**443 371**	
Loans to banks						
Refinancing loans	1 326	0	0	0	1 326	
Other loans	0	0	0	0	0	
	1 326	**0**	**0**	**0**	**1 326**	
IMPAIRMENT						
Customer loans						
General government	(1)	0	0	0	(1)	
Other financial corporations	(95)	(1 058)	0	0	(1 153)	
Other non-financial corporations	(13)	(9 933)	(12 126)	0	(22 072)	
Households	(1)	(3)	(6)	(23)	(33)	
	(110)	**(10 994)**	**(12 132)**	**(23)**	**(23 259)**	
Loans to banks						
Refinancing loans	(1)	0	0	0	(1)	
Other loans	0	0	0	0	0	
	(1)	**0**	**0**	**0**	**(1)**	
NET CARRYING AMOUNT						
Customer loans						
General government	**196 578**	**0**	**0**	**0**	**196 578**	**(73)**
Other financial corporations	**49 891**	**53 591**	**0**	**0**	**103 482**	**(742)**
Other non-financial corporations	**18 979**	**73 958**	**4 187**	**0**	**97 124**	**(1 166)**
Households	**20 630**	**1 747**	**8**	**543**	**22 928**	**(135)**
	286 078	**129 296**	**4 195**	**543**	**420 112**	**(2 116)**
Loans to banks						
Refinancing loans	**1 325**	**0**	**0**	**0**	**1 325**	**0**
Other loans	**0**	**0**	**0**	**0**	**0**	**0**
	1 325	**0**	**0**	**0**	**1 325**	**0**
TOTAL NET CARRYING AMOUNT	**287 403**	**129 296**	**4 195**	**543**	**421 437**	**(2 116)**
Other modification losses						**(2)**
CONTRACT MODIFICATION LOSS TOTAL						**(2 118)**

**: "General government" line includes those state owned companies which used the moratorium.*

The table below includes information on loans and advances **valued at fair value through profit or loss** and subject to legislative moratoria and those subject to the Bank extension when it was used actually by the customers.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks				
Municipality loan program	0	0	0	**0**
Business development loan program	6 806	4	0	**6 810**
Agricultural development loan program	428	6	0	**434**
Retail loan program	76	0	0	**76**
	7 310	**10**	**0**	**7 320**
Loans and advances to customers				
General governments	0	0	0	**0**
Other financial corporations	2 274	735	0	**3 009**
Non-financial corporations	0	441	439	**880**
Households	24	125	0	**149**
	2 298	**1 301**	**439**	**4 038**
Total	**9 608**	**1 311**	**439**	**11 358**

7.2 DEBT SECURITIES

	2020			
Debt securities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Hungarian government bonds	54 900	0	0	54 900
Corporate bonds	57 693	496	0	58 189
Mortgage bonds	7 815	0	0	7 815
	120 408	**496**	**0**	**120 904**
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(49)	(147)	0	(196)
Mortgage bonds	(3)	0	0	(3)
	(52)	**(147)**	**0**	**(199)**
NET CARRYING AMOUNT				
Hungarian government bonds	54 900	0	0	54 900
Corporate bonds	57 644	349	0	57 993
Mortgage bonds	7 812	0	0	7 812
	120 356	**349**	**0**	**120 705**

	2019			
Debt securities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Hungarian government bonds	48 725	0	0	48 725
Corporate bonds	5 185	0	0	5 185
Mortgage bonds	7 958	0	0	7 958
	61 868	**0**	**0**	**61 868**
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(3)	0	0	(3)
Mortgage bonds	(3)	0	0	(3)
	(6)	**0**	**0**	**(6)**
NET CARRYING AMOUNT				
Hungarian government bonds	48 725	0	0	48 725
Corporate bonds	5 182	0	0	5 182
Mortgage bonds	7 955	0	0	7 955
	61 862	**0**	**0**	**61 862**

Reconciliation of assets arising from investing activities

	2019	Proceeds from maturity or sale	Discount/ Premium	Acquisition cost	2020
Hungarian government bonds	48 725	0	(1 423)	7 598	**54 900**
Corporate bonds	5 185	(7 531)	(70)	60 605	**58 189**
Mortgage bonds	7 958	0	(143)	0	**7 815**
Total	**61 868**	**(7 531)**	**(1 636)**	**68 203**	**120 904**

	2018	Proceeds from maturity or sale	Discount/ Premium	Acquisition cost	2019
Hungarian government bonds	33 482	0	(1 332)	16 575	**48 725**
Corporate bonds	5 318	0	(133)	0	**5 185**
Mortgage bonds	30 146	(20 330)	(1 858)	0	**7 958**
Total	**68 946**	**(20 330)**	**(3 323)**	**16 575**	**61 868**

HUF 5 030 million from the total amounts presented in column "*Proceeds from maturity or sale*" relates to maturity (2019: 20 330 million).

7.3 DEPOSITS AT CENTRAL AND OTHER BANKS

	2020			
Deposits at central and other banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Central bank deposits	222 009	0	0	222 009
Other bank deposits	46 192	0	0	46 192
	268 201	**0**	**0**	**268 201**
IMPAIRMENT				
Central bank deposits	0	0	0	0
Other bank deposits	(23)	0	0	(23)
	(23)	**0**	**0**	**(23)**
NET CARRYING AMOUNT				
Central bank deposits	222 009	0	0	222 009
Other bank deposits	46 169	0	0	46 169
	268 178	**0**	**0**	**268 178**

	2019			
Deposits at central and other banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Central bank deposits	0	0	0	0
Other bank deposits	35 374	0	0	35 374
	35 374	**0**	**0**	**35 374**
IMPAIRMENT				
Central bank deposits	0	0	0	0
Other bank deposits	(6)	0	0	(6)
	(6)	**0**	**0**	**(6)**
NET CARRYING AMOUNT				
Central bank deposits	0	0	0	0
Other bank deposits	35 368	0	0	35 368
	35 368	**0**	**0**	**35 368**

7.4 OTHER FINANCIAL ASSETS

	2020			
Other financial assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Trade receivables	0	1 048	0	1 048
Margin accounts	984	0	0	984
	984	**1 048**	**0**	**2 032**
IMPAIRMENT				
Trade receivables	0	(33)	0	(33)
Margin accounts	0	0	0	0
	0	**(33)**	**0**	**(33)**
NET CARRYING AMOUNT				
Trade receivables	0	1 015	0	1 015
Margin accounts	984	0	0	984
	984	**1 015**	**0**	**1 999**

	2019			
Other financial assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Trade receivables	0	691	0	691
Margin accounts	418	0	0	418
	418	**691**	**0**	**1 109**
IMPAIRMENT				
Trade receivables	0	(32)	0	(32)
Margin accounts	0	0	0	0
	0	**(32)**	**0**	**(32)**
NET CARRYING AMOUNT				
Trade receivables	0	659	0	659
Margin accounts	418	0	0	418
	418	**659**	**0**	**1 077**

8. INVESTMENTS IN ASSOCIATES

	2020		
	gross value	**impairment**	**net value**
Associates	45 852		45 852
Exempted associates	11 956	(6 841)	5 115
Total	**57 808**	**(6 841)**	**50 967**

	2019		
	gross value	**impairment**	**net value**
Associates	39 839		39 839
Exempted associates	9 935	(5 694)	4 241
Total	**49 774**	**(5 694)**	**44 080**

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	2020	**2019**
Carrying amount at 1 January	**44 080**	**114 749**
Fair value of net assets of associate acquired	6 285	11 819
Share of profit of associates	(997)	(372)
Share of capital increase of associates	2 712	8 946
Share of other equity movements of associates	(47)	0
Dividends from associates	0	0
FX impact of associates	887	22
Impairment of investments in associates	(1 295)	(766)
Decrease in associates	(658)	(90 318)
Carrying amount at 31 December	**50 967**	**44 080**

The Group's interest in its associates as at 31 December 2020 and 2019 were as follows.

		2020			2019
Name of the company	**Activities**	**Own equity**	**Subscribed capital ****	**Voting power**	**Voting power**
Enter Tomorrow Kockázati Tőkealap	Venture capital fund	5 123	6 286	46.94%	45.48%
BBCA Szolnok Biokémiai Zrt.	Venture capital fund	17 272	17 410	46.87%	45.41%
Garantiqa Hitelgarancia Zrt	Organic chemical producer	55 561	9 652	38.04%	46.84%
Impact Ventures I. Magántőkealap	Guarantee provider	1 286	1 513	37.84%	36.66%
Impact Ventures II. Magántőkealap	Venture capital fund	172	250	28.38%	27.50%
Debreceni Iparfejlesztési Alap*	Venture capital fund	4 215	5 250	63.86%	61.88%
Chi Fu Hungarian Economic Opportunity Fund	Venture capital/private equity fund	12 926	14 605	47.90%	46.41%
Water Impact Alap*	Venture capital/private equity fund	610	785	94.84%	
Nyíregyházi Iparfejlesztési Alap*	Venture capital/private equity fund	537	550	87.08%	
Valor Zöld Alap	Venture capital/private equity fund	972	1 000	46.94%	
WX-INNOCARGO Kft.	Venture capital/private equity fund	3 187	3 207	29.87%	
Activegraf Inc.	Computer programing	258	1 453	20.11%	

**: The voting power column here represents the ownership percentage as the fund is managed by a fund manager where the majority ownership is not with the Group, therefore the equity method was used for this company consolidation*

*** Subscribed capital represents the paid in capital in case of Venture capital funds.*

Summarised financial information of each material associate is as follows at 31 December 2020:

	Garantiqa	**Venture capital funds**	**Other individually immaterial associates**	**Total associates**
Current assets	8 265	16 047	13 164	37 476
Non-current assets	69 285	10 395	24 578	104 258
Total Assets	**77 550**	**26 442**	**37 742**	**141 734**
Current liabilities	21 989	602	452	23 043
Non-current liabilities	0	0	16 573	16 573
Total Liabilities	**21 989**	**602**	**17 025**	**39 616**
Own Equity	**55 561**	**25 840**	**20 717**	**102 118**
Revenue	14 380	1	27	14 408
Profit or loss from continuing operations	2 311	(2 570)	(326)	(585)
Profit or loss from discontinued operations	0	0	0	0
Other comprehensive income	0			
Total comprehensive income	2 311			

Summarised financial information of each material associate is as follows at 31 December 2019:

	Garantiqa	Venture capital funds	Other individually immaterial associates	Total associates
Current assets	5 038	15 500	11 159	31 697
Non-current assets	55 583	4 317	18 114	78 014
Total Assets	**60 621**	**19 817**	**29 273**	**109 711**
Current liabilities	17 371	137	2 388	19 896
Non-current liabilities	0	0	8 666	8 666
Total Liabilities	**17 371**	**137**	**11 054**	**28 562**
Own Equity	**43 250**	**19 680**	**18 219**	**81 149**
Revenue	11 946	0	1 291	13 237
Profit or loss from continuing operations	1 114	(818)	(1 574)	(1 278)
Profit or loss from discontinued operations	0	0	0	0
Other comprehensive income	0			
Total comprehensive income	1 114			

Associates exempted from consolidation, therefore are treated at cost less impairment are presented below in descending order of the voting power, indicating the current subscribed capital as at 31 December 2020.

	2020			2019
	Owner	**Subscribed capital**	**Voting power**	**Voting power**
Exempted associates – under liquidation procedure				
Csepeli Lakásfejlesztő Zrt. "f.a."	NTA	1 000	49.00%	49.00%
Középületépítő Zrt. "f.a."	MFB	1 802	47.89%	47.89%
Meditcom EMER Kft. "f.a."	NTA	500	37.50%	37.50%
Liatech Gyártó, Kereskedelmi és Szolgáltató Kft. "f.a."	Invest	203	32.56%	31.55%
Clean-Water Kft. "f.a."	Invest	153	31.31%	30.33%
ClipWareHouse Zrt. ”f.a.”	NTA	6	25.01%	25.01%
Sybrillo Kft. ”v.a.”	NTA	5	25.01%	25.01%
Other exempted associates				
Blogter.com Kft	NTA	58	48.28%	48.28%
Monsun Kft.	NTA	3	48.07%	48.07%
Start Garancia Zrt.	Invest	50	46.94%	45.48%
SCOLVO Zrt.	NTA	10	46.80%	49.00%
Concrate Style Kft.	Szfhvár VTA	5	38.32%	
TrustAir Aviation Kft.	Invest	194	38.32%	27.84%
Helpy Kft.	NTA	6	34.66%	34.66%
Vág-Tech Projekt Kft.	KKV TA	5	34.04%	
Harmony Holding Kft.	KKV TA	5	34.00%	
SVG-Hungary Gépgyár Zrt.	Invest	11	33.71%	32.66%
Cargo-Viszed Kft.	NTA	3	32.42%	32.42%
Koin Europe Kft.	NTA	5	32.00%	24.99%
Let Me Inn Kft.	NTA	5	30.00%	30.00%
SDSYS Zrt.	NTA	175	28.54%	37.88%
Duelbox Interaktív Rendezvénytechnika Kft.	NTA	5	28.53%	35.00%
iWelcome2 Tourinform Kft.	NTA	5	28.50%	28.50%
RiskCover Hungary Zrt.	NTA	50	28.00%	28.00%
Móra-BookR Kids Gyermek és Ifjúsági Digitális Kiadó Kft.	NTA	102	27.44%	30.00%
Neticle Labs Kft.	NTA	64	27.38%	27.38%
Hajtós Pincér Kft.	NTA	3	27.20%	9.00%
redinner Kft.	NTA	3	27.20%	9.00%
CX-Ray Kft.	NTA	17	27.00%	27.00%
Flying Birds Entertainment Kft.	NTA	13	27.00%	27.00%
StyleHub Eccomerce Kft	NTA	5	26.12%	20.00%
Chatler.ai Informatikai és Szolgáltató Kft.	NTA	4	25.00%	25.00%

	2020			2019
	Owner	**Subscribed capital**	**Voting power**	**Voting power**
Automizy Marketing-technológiai Zrt.	NTA	7	25.00%	25.00%
FilmFinity Filmgyártó és Forgalmazó Zrt.	NTA	7	24.97%	24.97%
Gazda Kistermelői Lap és Könyvkiadó Kft.	Invest	102	23.46%	22.73%
AP Plast Holding Kft.	KKV TA	44	23.08%	
szereldmagad.hu Kft.	NTA	18	22.64%	
Pure Sound Media Szolgáltató Kft.	NTA	5	22.50%	22.50%
Rollet Kft.	NTA	14	22.31%	22.31%
Multipass Solutions Zrt.	NTA	23	22.21%	22.21%
Liber8Tech Hungary Kft.	NTA	6	22.12%	22.12%
ORIANA International Tanácsadó, Fejlesztő és Szolgáltató Zrt.	NTA	6	22.00%	22.00%
Flight Refund Kft.	NTA	16	21.17%	22.00%
Nowtechnologies Zrt.	NTA	9	21.12%	21.12%
DreamJo.bs Zrt.	NTA	7	21.05%	14.00%
ChemPass Kft.	NTA	6	20.00%	20.00%
Kwindoo Magyarország Kft.	NTA	4	20.00%	20.00%
POST FOR RENT International Zrt.	NTA	6	20.00%	20.00%
4D Interactive Anatomy Zrt.	NTA	6	20.00%	20.00%

All of the above companies are incorporated in Hungary.

The Bank has no commitment or intention to grant financial or other assistance to anyassociates and there is no restriction on the ability of these associates to pay dividends or repay loans.

Decreases in 2020 indicating the Group’s voting power on the year end before derecognition.

		Szavazati arány	
Cég neve	**Tevékenység**	**2020**	**2019**
Spinto Hungária Kft.	Tool design and manufacturing		45.45%
Silex Ipari Automatizálási Zrt.	Electrical equipment manufacturing		46.52%
VirtDB Zrt.	Computer programing		32.33%
Webshippy Kft.	Warehousing, storage		27.01%

9. DERIVATIVES

The Group enters into derivatives for risk management purposes including hedges that either meet the hedge accounting requirements or are hedges that are economic hedges. but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount is a gross amount which is the quantity of the underlying derivative contracts that indicates the volume of transactions outstanding as at the year end and are not indicative of either the market or credit risk.

	2020			
	Assets		Liabilities	
	fair value	notional	fair value	notional
Derivatives in economic hedge relationship				
Interest rate swaps	234	9 128	(734)	20 500
Cross currency interest rate swaps	0	0	0	0
Foreign currency swaps	209	40 622	(177)	23 061
Total derivatives in economic hedge relationship	**443**	**49 750**	**(911)**	**43 561**
Fair value hedge derivatives				
Interest rate swaps	1 608	155 390	0	0
Total hedge derivatives	**1 608**	**155 390**	**0**	**0**

	2019			
	Assets		Liabilities	
	fair value	notional	fair value	notional
Derivatives in economic hedge relationship				
Interest rate swaps	265	9 128	(168)	10 000
Cross currency interest rate swaps	41 485	221 055	0	0
Foreign currency swaps	22	1 499	(85)	15 729
Total derivatives in economic hedge relationship	**41 772**	**231 682**	**(253)**	**25 729**
Fair value hedge derivatives				
Interest rate swaps	1 073	99 156	(890)	10 500
Total hedge derivatives	**1 073**	**99 156**	**(890)**	**10 500**

The Bank concludes derivative deals for asset-liability management purposes to hedge the maturity and interest rate mismatches inherent in its portfolios. Whenever possible. these derivative positions are effectively hedged with an existing asset or liabilities (see hedge accounting section). When it is not possible to implement effective hedge accounting in accordance with IFRS 9, the Bank classifies its derivative contracts into the financial assets and liabilities held for trading categories. but does not open derivative positions for trading purposes only, all of its positions are considered as economic hedging positions. Foreign exchange swaps are concluded for instruments in a different currency other than the source of financing, solely for short term maturity and for the purpose of daily liquidity management.

9.1 GAINS OR (-) LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET

The Group has recognized the changes in net fair values of derivatives in economic hedge relationships against Gains or (-) losses on financial assets and liabilities held for trading, net. This excludes the portion of the fair value changes of cross currency swaps that is however recognized against the currency-hedging agreement with the State. Most of the effect in both current and prior years is attributable to changes in the cross FX rates of USD and EUR positions. Gains or losses due to changes in fair values predominantly derive from the effect of changes in FX rates, which refers to the changes in the HUF-translated amounts of swap notional of year-end open positions.

The Group does not hold material open FX positions thanks to the currency-hedging agreement with the State, and to the natural hedge of assets and liabilities. Thus the effect presented as foreign exchange gains or losses represents mostly the valuation, using the National Bank FX rates, of the prompt (spot) legs of open swap positions. The gains or losses that is part of the swap instruments' fair value changes, and which derives from the valuation of the forward position notional, is presented as 'Gains or (-) losses on financial assets and liabilities held for trading, net' in the statement of comprehensive income. This is economically offset by the foreign exchange difference of the prompt (spot) leg of the swap instruments, presented as 'Exchange differences [gain or (-) loss], net'. The effect of translation difference of real asset-liability open positions from other instruments is immaterial.

	2020 Net fair value	2019 Net fair value	Change in net fair value	Recognized against the currency-hedging agreement with the State	Change in interest accruals	Gains on financial assets and liabilities held for trading, net
Interest rate swaps	(500)	97	(597)	0	(7)	(590)
Cross currency interest rate swaps	0	41 485	(41 485)	(2 261)	(1 470)	(37 754)
Foreign currency swaps	32	(63)	95	0	(3)	98
Total	**(468)**	**41 519**	**(41 987)**	**(2 261)**	**(1 480)**	**(38 246)**

According to the accounting policy decision, the Group recognizes the aggregate foreign exchange revaluation differences related to spot (balance sheet) positions, on line item "*Exchange difference gains or (-) loss, net*" while the fair value differences in open forward positions and the profit or loss effects of those positions at maturity are accounted for in the profit or loss on line item "*Gains on financial assets and liabilities held for trading, net*".

The HUF 37 754 million on line item "*Gains on financial assets and liabilities held for trading, net*" that represents the fair value change of the cross currency interest rate swaps resulted from derecognition, includes HUF 37 569 million of foreign exchange revaluation loss associated with maturing cross currency interest rate swap transactions. On the other hand, there is a same amount of profit that the Group accounted for as a result of balance sheet positions closing at the same time on the line item "*Exchange difference gains or (-) loss, net*" in a manner consistent with its accounting policy decision. Maturing cross currency interest rate swaps have converted the Bank's previously issued USD 750 million foreign exchange bond into EUR and these cross currency rate swaps have expired with the maturity of the bond during the year.

	2019 Net fair value	2018 Net fair value	Change in net fair value	Recognized against the currency-hedging agreement with the State	Change in interest accruals	Gains on financial assets and liabilities held for trading, net
Interest rate swaps	97	238	(141)	0	(1)	(140)
Cross currency interest rate swaps	41 485	34 095	7 390	1 962	75	5 353
Foreign currency swaps	(63)	114	(177)	0	13	(190)
Total	**41 519**	**34 447**	**7 072**	**1 962**	**87**	**5 023**

10. HEDGE ACCOUNTING

Fair value hedges

To protect itself against changes in the fair value of financial assets or liabilities due to movements in interest rates, the Bank enters into fair value hedges. The Bank primarily designates the benchmark rate as the hedged risk therefore enters into interest rate swaps whereby the fixed leg represents the economic risk of the hedged item.

The Bank has determined individual hedge relationships and started hedge accounting with its interest rate swap deals to cover the interest rate risk on 3 issued bonds (amounting to EUR 300 million). In addition, the Bank has also identified one large loan for hedge accounting relationship to cover interest rate risk through an interest rate swap. The Bank accounts these hedge relationships as fair value hedges. The ineffectiveness of the hedging relationship is recognized in the income statement on "Gains or (-) losses from hedge accounting net " line and amounted to HUF 771 million (2019: HUF 52 million). The main source of ineffectiveness is the effect of the counterparty and the Bank's own credit risk on the fair value of the interest rate swap. which is not reflected in the fair value of the hedged item.

As of 31 December 2020, a total of two transactions (one bond issued and one government-owned corporate loan) were hedged in a hedging relationship (IRS). None of the related clients are involved in either COVID-19 or the payment moratorium.

In the table below the Bank sets out the accumulated fair value adjustment arising from the continuing hedge relationship.

	2020			
Hedged item	**Assets**		**Liabilities**	
	Carrying value of hedged item	**from this accumulated fair value adjustment**	**Carrying value of hedged item**	**from this accumulated fair value adjustment**
Loan	45 015	(812)		
Debt securities issued			110 206	754
Total	**45 015**	**(812)**	**110 206**	**754**

	2019			
Hedged item	**Assets**		**Liabilities**	
	Carrying value of hedged item	**from this accumulated fair value adjustment**	**Carrying value of hedged item**	**from this accumulated fair value adjustment**
Loan	11 342	870		
Debt securities issued			100 176	1 026
Total	**11 342**	**870**	**100 176**	**1 026**

					Gains or (-) losses from hedge accounting, net				
2020	**2020 Fair value**	**2019 Fair value**	**Change in fair value**	**Change in interest accrual**	**Gains or (-) losses from hedge deal**	**Gains or (-) losses from hedged item**	**Total**	**Fair value used for calculating hedge inefectiveness**	**Ineffectiveness recognised in profit and loss**
Asset side hedge deal	802	(890)	1 692	12	1 680	(1 011)	**669**	814	0
Liability side hedge deal	806	1 073	(267)	9	(276)	378	**102**	756	0
Total hedge interest rate swaps	**1 608**	**183**	**1 425**	**21**	**1 404**	**(633)**	**771**	**1 570**	**0**

					Gains or (-) losses from hedge accounting, net				
2019	**2019 Fair value**	**2018 Fair value**	**Change in fair value**	**Change in interest accrual**	**Gains or (-) losses from hedge deal**	**Gains or (-) losses from hedged item**	**Total**	**Fair value used for calculating hedge inefectiveness**	**Ineffectiveness recognised in profit and loss**
Asset side hedge deal	(890)	(569)	(321)	1	(322)	1 189	**867**	(870)	0
Liability side hedge deal	1 073	911	162	1	161	(976)	**(815)**	1 031	0
Total hedge interest rate swaps	**183**	**342**	**(159)**	**2**	**(161)**	**213**	**52**	**161**	**0**

11. PROPERTY, PLANT AND EQUIPMENT

	2020	2019
Property, plant and equipment	4 655	3 847
Right of use assets	1 365	1 280
Net book value	**6 020**	**5 127**

Property, plant and equipment

	Real estates	Production machinery	Equipment	Total
Gross value				
Opening balance 2020	5 568	0	2 829	8 397
Additions	383	0	987	1 370
Disposals	(1)	0	(511)	(512)
Closing balance 2020	5 950	**0**	3 305	9 255
Depreciation				
Opening balance 2020	(2 423)	0	(2 127)	(4 550)
Charge for the year	(134)	0	(403)	(537)
Impairment	0	0	(1)	(1)
Disposals	1	0	487	488
Closing balance 2020	**(2 556)**	**0**	**(2 044)**	**(4 600)**
Net book value				
31 December 2019	**3 145**	**0**	**702**	**3 847**
31 December 2020	**3 394**	**0**	**1 261**	**4 655**

	Real estates	Production machinery	Equipment	Total
Gross value				
Opening balance 2019	75 880	19 282	3 568	98 730
Additions	93	17	322	432
from this continuing operation	*19*	*0*	*304*	*323*
from this discontinued operation	*74*	*17*	*18*	*109*
Disposals	(70 405)	(19 299)	(1 061)	(90 765)
from this due to sold subsidiary	*(70 344)*	*(19 299)*	*(125)*	*(89 768)*
Closing balance 2019	**5 568**	**0**	**2 829**	**8 397**
Depreciation				
Opening balance 2019	(15 762)	(9 274)	(2 432)	(27 468)
Charge for the year	(1 905)	(937)	(276)	(3 118)
from this continuing operation	*(29)*	*0*	*(260)*	*(289)*
from this discontinued operation	*(1 876)*	*(937)*	*(16)*	*(2 829)*
Disposals	15 244	10 211	581	26 036
from this due to sold subsidiary	*15 244*	*10 211*	*95*	*25 550*
Closing balance 2019	**(2 423)**	**0**	**(2 127)**	**(4 550)**
Net book value				
31 December 2018	**60 118**	**10 008**	**1 136**	**71 262**
31 December 2019	**3 145**	**0**	**702**	**3 847**

Right of use assets

	Real estates	Parking places	Cars, trucks	Total
Gross value				
Opening balance 2020	**1 546**	**73**	**0**	**1 619**
Additions	533	35	42	610
Disposals	0	0	0	0
Closing balance 2020	**2 079**	**108**	**42**	**2 229**
Depreciation				
Opening balance 2020	**(324)**	**(15)**	**0**	**(339)**
Charge for the year	(488)	(26)	(11)	(525)
Disposals	0	0	0	0
Closing balance 2020	**(812)**	**(41)**	**(11)**	**(864)**
Net book value				
31 December 2019	**1 222**	**58**	**0**	**1 280**
31 December 2020	**1 267**	**67**	**31**	**1 365**

	Real estates	Parking places	Cars, trucks	Total
Gross value				
Opening balance 2019 *(IFRS16 impact)*	**1 388**	**72**	**54**	**1 514**
Additions	189	7	8	204
from this continuing operation	*185*	*6*	*0*	*191*
from this discontinued operation	*4*	*1*	*8*	*13*
Disposals	(31)	(6)	(62)	(99)
from this due to sold subsidiary	*(31)*	*(6)*	*(62)*	*(99)*
Closing balance 2019	**1 546**	**73**	**0**	**1 619**
Depreciation				
Opening balance 2019	**0**	**0**	**0**	**0**
Charge for the year	(349)	(19)	(24)	(392)
from this continuing operation	*(324)*	*(15)*	*0*	*(339)*
from this discontinued operation	*(25)*	*(4)*	*(24)*	*(53)*
Disposals	25	4	24	53
from this due to sold subsidiary	*25*	*4*	*24*	*53*
Closing balance 2019	**(324)**	**(15)**	**0**	**(339)**
Net book value				
1 January 2019	**1 388**	**72**	**54**	**1 514**
31 December 2019	**1 222**	**58**	**0**	**1 280**

Expenses relating to short-term leases and to leases of low-value assets that are not shown as right to use assets are included in general and administrative expenses:

	2020	2019
Short-term leases	89	77
Leases of low-value assets	11	3
	100	**80**

11.1 INVESTMENT PROPERTIES

	2020	2019
Cost	35 243	11 380
Reclassification	0	426
Accumulated impairment	0	0
Accumulated depreciation	(1 605)	(1 109)
Net book value	**33 638**	**10 697**
Net opening balance	**10 697**	**7 032**
Reclassification	0	426
Additions	23 098	3 442
Disposal – net	(10)	(64)
Impairment	0	0
Depreciation charge	(147)	(139)
Closing net balance	**33 638**	**10 697**

The fair value of the investment properties presented in the table above is HUF 34 874 million (2019: 12 050 million) and is classified as level 3 in the fair value hierarchy. The fair value of investment properties were determined by external valuers using methods based on income approache or market comparative data approach.

The following table presents the results related to investment properties.

	2020	2019
Impairment on investment properties	**0**	**0**
Additions	0	0
Reversal	0	0
Total impairment	**0**	**0**
Expenses from investment properties		
Acquisition cost	0	0
Maintenance expenses	(260)	(226)
Sale related cost	0	0
Total	**(260)**	**(226)**

12. INTANGIBLE ASSETS

	Property rights	Intellectual properties	Total
Gross value			
Opening balance 2020	**669**	**10 326**	**10 995**
Additions	94	1 160	1 254
Disposals	(5)	(833)	(838)
Closing balance 2020	**758**	**10 653**	**11 411**
Amortization			
Opening balance 2020	**(485)**	**(5 959)**	**(6 444)**
Charge for the year	(100)	(699)	(799)
Impairment	0	(8)	(8)
Disposals	5	778	**783**
Closing balance 2020	**(580)**	**(5 888)**	**(6 468)**
Net book value			
31 December 2019	**184**	**4 367**	**4 551**
31 December 2020	**178**	**4 765**	**4 943**

	Strategic and commercial storage contracts	Property rights	Intellectual properties	Total
Gross value				
Opening balance 2019	**43 321**	**1 096**	**9 389**	**53 806**
Additions	0	93	1 123	**1 216**
from this continuing operation	*0*	*58*	*1 123*	*1 181*
from this discontinued operation	*0*	*35*	*0*	*35*
Disposals	(43 321)	(520)	(186)	(44 027)
from this due to sold subsidiary	*(43 321)*	*(505)*	*(130)*	***(43 956)***
Closing balance 2019	**0**	**669**	**10 326**	**10 995**
Depreciation				
Opening balance 2019	**(6 020)**	**(742)**	**(5 467)**	**(12 229)**
Charge for the year	(800)	(136)	(505)	**(1 441)**
from this continuing operation	*0*	*(107)*	*(493)*	*(600)*
from this discontinued operation	*(800)*	*(29)*	*(12)*	*(841)*
Disposals	6 820	393	13	**7 226**
from this due to sold subsidiary	*6 820*	*378*	*11*	***7 209***
Closing balance 2019	**0**	**(485)**	**(5 959)**	**(6 444)**
Net book value				
31 December 2018	**37 301**	**354**	**3 922**	**41 577**
31 December 2019	**0**	**184**	**4 367**	**4 551**

13. OTHER ASSETS

	2020	2019
Accrued income from reimbursed cost	8 670	7 595
Accrued fund management fee	966	929
Deferred expenses	580	548
Intermediated services	1 268	0
Deferred initial fair value adjustment	5 678	1 052
Repossessed assets	235	592
Other	803	340
Special bank tax due to Covid-19	1 752	0
Total	**19 952**	**11 056**

Cost Reimbursement
In the 2014-2020 programming period. the European Union is encouraging the expansion and more active use of financial instruments. The section 24/B of the government decree 272/2014. (XI. 5.) appointed MFB Zrt. as a fund of funds organization to carry out the professional use of the refundable EU resource amounting to HUF 650 billion.

In the 2014-2020 programming period. the distribution of credit products is achieved through the "MFB Points" mediation system. which allows for a more efficient allocation of resources. Intermediaries ensures physical availability. and their staff carries out a significant part of the credit valuation. disbursement and monitoring activities for which the counterparty receives a specific intermediary remuneration. MFB points are operated by intermediary partners, therefore their costs and assets/liabilities are not included in the Group's records.

MFB Zrt. is entitled to get compensation for the costs incurred in carrying out the activities detailed in the Financing Contract concluded with the Hungarian State. which is paid by the Managing Authority to the Bank in accordance with specific rules and procedures. The remuneration is a set of justified and certified expenditure relating directly or indirectly - primarily for the Bank's organizational and infrastructure costs - to the implementation of the Financing Contract. recorded separately in the Bank accounting register. According to the Financing Agreement the Bank is not entitled to any additional fee or reimbursement from the Managing Authority. The Bank cannot have a profit from the remuneration.

The amount presented in the table includes certified costs already incurred by the Bank and partially reimbursed by the Managing Authority.

Deferred initial fair value adjustment
In 2013 the National Bank of Hungary launched its so called Funding for Growth Scheme (FGS) in order to finance the operation and investments of small- and medium size businesses (SMB) as an economic development activity. Within this program. SME's fulfilling some present conditions were able to receive a preferential loan at a maximum interest rate of 2.5%, which was then refinanced by the National Bank of Hungary at 0% interest rate. The interest rates of these loans were lower than the interest rate of similar loans available in the market (off-market), therefore the initial fair value of loans received and provided were lower than their transaction value. This initial fair value difference was determined by the Bank however it was not accounted for in the profit or loss immediately given the unobservable inputs used in the calculation. but was accrued for the lifetime of the underlying deal. In accordance with the IFRS standards part of the related loan provided was reclassified to other assets, while part of the received loan with the same amount approximately as on the asset side was reclassified to other liabilities. The unobservable input during the determination of the initial fair value difference was the differences customers' credit risk and the Bank's own credit risk.

	2020	2019
Opening balance	**1 052**	**1 875**
Addition from new loans	4 956	23
Decreas du to sales	0	(118)
Annual amortization	(331)	(728)
Closing balance	**5 677**	**1 052**

Repossessed real estates
These repossessed real estates used to be serve as a collateral behind loans provided by the Group. The Group primary aim with these real estates to sell. The provision created for these properties was HUF 147 million at 31 December 2020 (2019: HUF 245 million)

Special bank tax due to Covid-19
In order to implement the Economic Protection Action Plan, a special credit institution tax on the epidemiological situation for replenishing the Epidemiological Fund was introduced amounting to HUF 1.7 billion for the Bank, which was paid in three equal instalments during the year. The profit and loss impact of it under the IFRS rules did not have to be shown in 2020, as under the special tax act the next 5 years of bank special tax liability will be deducted with this amount in five equal annual instalments, therefore this amount will reduce bank special tax expenditure for these years.

14. RECEIVABLES ON THE STATE DUE TO CURRENCY-HEDGING AGREEMENT

The Bank's foreign exchange risk originated from the foreign currency liabilities is hedged by the Foreign Exchange Guarantee Frame Agreement (FX Agreement) signed by the Hungarian Ministry of Finance originally in 2004. and later modified in 2014. This FX Agreement manages foreign exchange risks of the Bank's foreign currency borrowings (EUR) and the State compensates any foreign exchange loss incurred on these borrowings and the Bank is required to pay to the State the amount of realized foreign exchange gains on these transactions. Under the agreement early financial settlement is possible for programs where asset-side final beneficiaries made repayment in excess of 20% of the original program framework actually used.

The FX state guarantee frame for the Bank. declared by the law was HUF 2 000 billion.

	2020	2019
Guarantee frame maximum amount	**2 000 000**	**2 000 000**
Programed amounts within the frame	1 512 679	1 609 679
Free frame	487 321	390 321
Loans provided under this frame	**820 594**	**852 945**

The foreign exchange guarantee agreement originally covered only EUR funds, therefore when the Bank was able to raise USD funds in the bond market in 2013, CCIRS agreements were made to exchange this source for EUR, which is thus settled against the FX hedging agreement. CCIRS future effect represents the potential change in this receivable if the USD/EUR yield curves will change into that direction that was indicated at the CCIRS fair value calculation in the input yield curve parameters. These USD bonds matured on 21 October 2020.

	2020		2019	
	Opening FX rates	**Year end NBH FX rate**	**Opening FX rates**	**Year end NBH FX rate**
Converted amount	637 693	820 594	705 341	852 945
from this amount already repaid by customers on which the balance is fixed	*364 893*	*427 798*	*421 108*	*483 686*
Foreign exchange losses		182 901		147 605
Amount already received from the State *(relating to the not yet closed program)*		(52 299)		(37 663)
from this received during the year		*(17 687)*		*0*
Foreign exchange losses of FX state guarantee		130 602		109 942
Interest foreign exchange losses of FX state guarantee		26 407		24 183
Total foreign exchange losses on the converted amount. before correction		**157 009**		**134 125**
from this amount already repaid by customers on which the balance is fixed		*(89 312)*		*86 761*
Future effect of CCIRS		0		(2 261)
Total foreign exchange losses on the converted amount		**157 009**		**131 864**

The increase in 2020 was due to changes in foreign exchange rates and without this exchange rate hedging mechanism, the Bank's open currency position would be significant. This increase is recognized in the income statement on the „Exchange differences [gain or (-) loss], net" line, thereby neutralizing the effect of the revaluation of foreign currency liabilities. The receivable is against the Hungarian State therefore the credit risk is considered to be marginal.

15. FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

	2020	**2019**
Deposits		
Interbank deposits	27 661	50 100
Customer deposits (collateral behind loans)	208 221	7 015
	235 882	**57 115**
Loans taken		
Refinancing loans	246 802	213 001
Other loans taken	280 210	149 992
	527 012	**362 993**
Debt securities issued		
Listed HUF bonds	283 379	268 354
Listed FX bonds	452 280	424 915
from this listed on foreign stock exchange	*384 275*	*323 613*
	735 659	**693 269**
Other financial liabilities		
Margin accounts	569	42 505
Creditors	2 592	1 259
Finance leases liabilities	1 471	1 323
	4 632	**45 087**
Total	**1 503 185**	**1 158 464**

The Bank does not collect retail deposits. The corporate deposits contain such term deposits that are offered as collateral for the underlying loans. Also the line "deposits" includes inter-bank deposits used for liquidity management.

"Loans taken" includes long-term liabilities in FGS program. This category also includes the external loans of the subsidiaries.

15.1. DEBT SECURITIES ISSUED

Name of bond	ISIN code	Issue	Maturity	Interest rate	2020		2019	
					Nominal value	Carrying value	Nominal value	Carrying value
Foreign currency bonds								
MFB BOND USD 750M	XS0954674312	2013.10.21	2020.10.21	fix 6.25% (6 monthly)	0	0	221 055	223 437
MFB BOND EUR 300M	XS1330975977	2015.12.08	2021.12.08	fix 2.375% (annually)	109 539	110 378	99 156	100 176
MFB BOND EUR 119.5M	HU0000358916	2019.06.29	2020.06.24	fix 0.010% (annually)	0	0	19 831	19 837
		2019.05.19			0	0	19 682	19 688
MFB BOND EUR 95.2M	HU0000359039	2019.07.03	2022.09.28	fix 0.05% (annually)	14 879	15 021	13 469	13 677
		2019.09.11			19 900	20 100	18 013	18 307
MFB BOND EUR 90M	HU0000359328	2019.11.20	2021.09.22	fix 0.010% (annually)	32 862	32 884	29 747	29 793
MFB BOND EUR 750M	XS2010030752	2020.06.24	2025.06.24	fix 1.375% (annually)	273 848	273 897	0	0
Total foreign currency bonds					**451 028**	**452 280**	**420 953**	**424 915**
HUF bonds								
MFB202006	HU0000356514	2015.06.24	2020.06.24	BUBOR3M+0.5% p.a.	0	0	10 000	9 972
		2015.07.15			0	0	40 000	39 862
MFB202101	HU0000356696	2015.10.21	2021.01.20	fix 2.40% (annually)	5 000	5 112	5 000	5 079
		2015.11.11			7 500	7 667	7 500	7 609
		2015.12.16			7 500	7 666	7 500	7 594
MFB202006	HU0000357967	2018.05.30	2020.06.24	fix 3.50% (annually)	0	0	50	52
		2018.10.31			0	0	5 030	5 185
MFB202210	HU0000357702	2017.06.14	2022.10.26	fix 1.50% (annually)	4 500	4 481	4 500	4 465
		2017.11.22			12 000	12 075	12 000	12 098
		2019.06.20			20 000	20 181	20 000	20 249
MFB202710	HU0000357892	2017.10.04	2027.10.27	fix 3.00% (annually)	4 180	4 248	4 180	4 253
		2019.10.09			16 890	18 130	16 890	18 286
MFB202110	HU0000358478	2018.09.17	2021.10.27	fix 1.70% (annually)	7 510	7 507	7 510	7 477
		2018.11.28			10 700	10 737	10 700	10 742
		2019.02.06			5 000	5 031	5 000	5 050
MFB202406	HU0000358700	2019.02.06	2024.06.26	fix 2.6% (annually)	15 000	15 337	15 000	15 523
		2019.03.06			13 300	13 571	13 300	13 727
MFB202104	HU0000359096	2019.09.04	2021.04.21	fix 0.03% (annually)	15 000	15 067	15 000	15 047
MFB202311	HU0000359138	2019.09.25	2023.11.24	fix 1.0% (annually)	17 110	17 137	17 110	17 167
MFB202208	HU0000359385	2019.12.11	2022.08.24	fix 0.5% (annually)	49 021	49 035	49 021	48 917
MFB202506	HU0000359674	2020.05.27	2025.06.24	fix 1.7% (annually)	35 000	35 519	0	0
MFB202604	HU0000360037	2020.10.21	2026.04.22	fix 1.9% (annually)	34 706	34 878	0	0
Total HUF bonds					**279 917**	**283 379**	**265 291**	**268 354**
Total bonds:					**730 945**	**735 659**	**686 244**	**693 269**

In 2020 the Bank issued one new fix interest bearing EUR bond totalling EUR 750 million, and two new fix rate HUF bonds at a nominal value of HUF 69.7 billion. Foreign exchange bonds with a nominal value of USD 750 million and a nominal value of EUR 119.5 million expired during the year. There were also two maturity of HUF bonds, one with a nominal value of HUF 50 billion and one with a nominal value of HUF 5 billion.

In 2019 the Bank issued three new fix interest bearing EUR bonds in a total notional amount of EUR 304.8 million. In addition, four new fix interest bearing HUF bonds were also issued with total notional of HUF 109.43 billion. The rest of the movements were due to additional issuance for existing bonds and the impact of the maturing bonds.

Reconciliation of liabilities arising from financing activities

	2019	Proceeds from bond issuance	Discount/ Premium	Repayments at maturity	Exchange rate change	2020
HUF bonds	**268 354**	69 939	166	(55 080)	0	**283 379**
EUR bonds	**201 477**	271 733	1 891	(39 514)	16 692	**452 280**
USD bond	**223 438**	0	(2 858)	(221 055)	476	**0**
Total	**693 269**	**341 672**	**(801)**	**(315 649)**	**17 168**	**735 659**

	2018	Proceeds from bond issuance	Discount/ Premium	Repayments at maturity	Exchange rate change	2019
HUF bonds	**192 140**	154 417	(196)	(78 007)	0	**268 354**
EUR bonds	**178 347**	101 739	180	(82 730)	3 941	**201 477**
USD bond	**212 707**	0	33	0	10 698	**223 438**
Total	**583 194**	**256 156**	**17**	**(160 737)**	**14 639**	**693 269**

16. PROVISIONS

Provisions by title	2020	2019
Financial guarantees	469	2 383
Loan commitments	1 197	1 233
Subtotal for IFRS9 provision method	***1 666***	***3 616***
Legal cases	18	110
Other	230	200
Total (Note 29)	**1 914**	**3 926**

Based on the judgement of the legal department the amount of provision regarding legal cases are expected to be settled in more than twelve months after the reporting period.

Other provisions include provision allocated for the employee jubilee program.

17. OTHER LIABILITIES

	2020	2019
Non-income taxes	1 024	717
Settlement from wages	1 487	1 209
Deferred income	700	481
Accrued costs	445	891
Lending related liabilities	277	71
Liabilities related to factoring activity	186	118
Liabilities to managing authorities	4 249	4 069
Fees due before disbursement but not paid	90	36
Debtors' advance payments	583	708
Venture capital note payment obligation	3 057	2 923
Deferred initial fair value adjustment	5 573	998
Other	351	378
Total	**18 022**	**12 599**

Liabilities to managing authorities include advances on expenditure reimbursement relating to the EU programming period 2007-2013 and 2014-2020 (see Note 13).

Venture capital note payment obligation both as at 31 December 2020 and 2019 related to the subscribed but not yet paid capital increase of Central European Fund of Funds. The amount is payable as required by the investment plans.

The deferred initial fair value adjustment line represents the initial fair value adjustment. which is determined on the basis of the internal models. and is therefore deferred and amortized to the profit and loss in parallel to the amortization of the underlying instruments (loans taken in FGS program, see Note 13).

18. SHARE CAPITAL AND SHARE PREMIUM

During 2020 the Bank received share capital increase of HUF 115 billion as at 11 November 2020 and an additional HUF 36.4 billion as at 29 December 2020. 100% of the shares are owned by the Hungarian State. The total value of the 265 900 (2019: 114 500) ordinary shares with HUF 1 million nominal value each was HUF 265 900 million (2019: 114 500 million).

Share premium represents the difference between the nominal value of the subscribed share and the amount received at subscription. The Bank's share premium as at 31 December 2020 and 2019 was HUF 81 870 million.

19. OTHER RESERVES

General reserve

Other reserve includes general reserve that is in accordance with Section 83 of Act No. CCXXXVII of 2013 equal to ten percent of the net profit after tax. The general reserve as calculated under Hungarian Accounting and Banking Rules is treated as appropriations from retained earnings. The Bank realized loss in 2020, therefore the HUF 2 087 million general reserve was used up to compensate the loss. The general reserve was HUF 2 087 million at 31 December 2019.

General risk provision

The Bank could make general risk provision (as an appropriation of retained earnings) to cover risks arising from unforeseeable and undeterminable possible loan losses until 2013. The general risk provision made in accordance with Hungarian laws in the previous years (as a tax deductible expense) can be utilized only for future loan losses. The utilization affects directly the retained earnings and therefore it has no effect on the profit or loss of the current year. On 1 January 2019 the Bank started to use IFRS rules for its local financial statements purposes, thus the general risk provision based on Hungarian rules was included in the effects of the IFRS transition, therefore, in 2019 it was reclassified from other reserve to retained earnings.

The Bank is not allowed to pay dividend from the statutory reserves.

20. NON CONTROLLING INTEREST

On 30 December 2019 Kisvállalkozás-fejlesztő Pénzügyi Zrt. had merged into MFB Invest Zrt. resulted that the Bank ownership in MFB Invest Zrt and its subsidiaries decreased to 92.81%, and the non-controlling interest (minority owners) of 7.19% appeared in 2019. The non-controlling interest decreased to 4.21% in 2020 due to the capital increase executed in MFB Invest Zrt. The following table summarizes the main Financial position and Income statement lines of MFB Invest Zrt and its subsidiaries.

	2020			
	MFB Invest Zrt.	**MFB Invest's venture capital fund managers**	**MFB Invest's venture capital investment funds**	**Total**
Non-current assets	40 919	206	497	41 622
- from this financial assets	*40 870*	*0*	*497*	*41 367*
Current assets	19 756	3 651	1 950	25 357
- from this cash equivalents	*18 130*	*2 086*	*1 650*	*21 866*
Total Assets	**60 675**	**3 857**	**2 447**	**66 979**
Provisions	4	0	0	4
Non-current liabilities	0	0	0	0
Current liabilities	227	1 905	57	2 189
Total Liabilities	**231**	**1 905**	**57**	**2 193**
Own Equity	**60 444**	**1 952**	**2 390**	**64 786**
Net revenue	563	3 349	-	3 912
Profit after tax	(1 478)	493	(579)	(1 564)
Dividend paid to non-controlling interest	0	0	0	0
Voting power of non-controlling interest	4.205%	4.205%	4.205%	4.205%
Share of non-controlling interest	**2 542**	**18**	**(31)**	**2 529**
Profit attributable to non-controlling interest	**(62)**	**19**	**(25)**	**(68)**

	2019			
	MFB Invest Zrt.	**MFB Invest's venture capital fund managers**	**MFB Invest's venture capital investment funds**	**Total**
Non-current assets	30 122	164	0	30 286
- from this financial assets	*30 086*	*0*	*0*	*30 086*
Current assets	12 239	2 244	1 889	16 372
- from this cash equivalents	*10 816*	*1 258*	*1889*	*13 963*
Total Assets	**42 361**	**2 408**	**1 889**	**46 658**
Provisions	2	0	0	2
Non-current liabilities	0	0	0	0
Current liabilities	171	976	23	1 170
Total Liabilities	**173**	**976**	**23**	**1 172**
Own Equity	**42 188**	**1 432**	**1 866**	**45 486**
Net revenue	67	1 889	0	1 956
Profit after tax	(1 454)	29	(134)	(1 559)
Dividend paid to non-controlling interest	0	0	0	0
Voting power of non-controlling interest	7.19%	7.19%	7.19%	7.19%
Share of non-controlling interest	**3 032**	**(5)**	**(10)**	**3 017**
Profit attributable to non-controlling interest	**0**	**0**	**0**	**0**

The profit attributable to non-controlling interest of MFB Invest Zrt. and its subsidiaries is nil as the decrease of the Group's voting power occurred at the end of 2019.

The Bank had 51% ownership in MMBF Zrt. was sold during 2019, therefore the non-controlling interest (minority owners) has 49% in 2019 until the sale (see Note 39).

The financial performance and cash flow information presented are for the eight months ended 31 August 2019.

	31.08.2019
Revenues	16 723
Expenses	(8 059)
Profit before tax	**8 664**
Tax expense related to profit or loss	(1 120)
Profit after tax	**7 544**
Dividend paid to non-controlling interest	0
Voting power of non-controlling interest	49%
Profit attributable to non-controlling interest	**3 697**

21. CONTINGENT LIABILITIES, COMMITMENTS

To meet the financial needs of customers. the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees and other undrawn commitments to lend. Other non-financial guarantees commit the Bank to make payments on behalf of customers in the event of a specific act. generally related to the import or export of goods. Guarantees carries a similar credit risk to loans. Even though these obligations may not be recognized on the statement of financial position. they do contain credit risk and are therefore part of the overall risk of the Group.

	2020	2019
Loan commitments	224 919	91 346
Guarantees	105 758	119 526
Guarantees and loan commitments total	**330 677**	**210 872**
Legal cases	272	97
Other commitments	1 461	1 322
Total	**332 410**	**212 291**

Other commitments represent potential further capital increase for the Central European Fund of Funds that is not included in the investment plans but its maximum amount was set in the foundation in deed of the fund. As owners' decision is necessary to determine the actual need and amount therefore this amount is not yet an obligation.

22. NET INTEREST INCOME

	2020	2019
Financial assets at fair value through other comprehensive income	587	830
Financial assets at amortized cost	36 041	25 419
Negative interest from financial liabilities	217	217
Interest income calculated using the effective interest method	**36 845**	**26 466**
Financial assets held for trading	12 610	14 509
Non-trading financial assets mandatorily at fair value through profit or loss	984	1 414
Derivatives – Hedge accounting	661	528
Other assets	492	40
Other similar income	**14 747**	**16 491**
Total interest income	**51 592**	**42 957**
Interest expense		
Financial liabilities held for trading	(6 381)	(6 647)
Financial liabilities at amortized cost	(22 370)	(19 347)
Derivatives – Hedge accounting	(369)	(255)
Other liabilities	(27)	(132)
Negative interest from financial assets	(59)	(1)
Total interest expense	**(29 206)**	**(26 382)**
Net interest income	**22 386**	**16 575**

Net interest income by connected assets and liabilities categories:

	2020	2019
Interest income		
Customers	33 829	24 383
National Bank of Hungary	829	15
Other banks	14 652	16 252
Securities	2 282	2 307
Total	**51 592**	**42 957**
Interest expense		
Customers	(57)	(17)
National Bank of Hungary	(360)	(346)
Other banks	(7 766)	(6 505)
Securities	(21 023)	(19 514)
Total	**(29 206)**	**(26 382)**
Net interest income	**22 386**	**16 575**

23. DIVIDEND INCOME

	2020	2019
Other investments	7	4
Total	**7**	**4**

24. NET FEE AND COMMISSION INCOME / EXPENSES

	2020	2019
Fee and commission income		
Fund management fees	995	933
Guarantee fees	392	560
Loan servicing fees	126	149
Fees from receivable management	0	100
Other fees and commission	12	1
Total	**1 525**	**1 743**
Fee and commission expenses		
Agent fees	(190)	(226)
Guarantee fees	(12)	(6)
Bank account commission	(11)	(12)
Other fees and commission	(29)	(19)
Total	**(242)**	**(263)**
Net fee and commission income / (expenses)	**1 283**	**1 480**

25. GAINS OR (-) LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

	2020	2019
Financial assets at amortized cost	**(8)**	**105**
Loans	(346)	105
Debt securities	338	0
Financial assets at fair value through other comprehensive income	**(260)**	**362**
Debt securities	0	0
Equity instruments	(260)	362
Total	**(268)**	**467**

26. GAINS OR (-) LOSSES ON DERECOGNITION OF NON FINANCIAL ASSETS, NET

	2020	2019
Derecognition loss of property, plant and equipment and intangible assetss	5	(3)
Derecognition (loss), gain of exempted associates	336	(92)
Derecognition (loss), gain of other assets	(16)	(3)
Total	**325**	**(98)**

27. OTHER OPERATING INCOME/EXPENSES

	2020	2019 Restated
Other income		
Compensation received from EU	3 957	3 235
Consideration received from State	25	300
Recovery of previous years costs	81	209
Rental and management income from investment properties	1 118	654
Rental income	52	51
Reimbursement of financial contribution	1 000	0
Income from legal cases	57	108
Revenue from consultancy	176	41
Reimbursed expenses	82	25
Other	675	490
Total other operating income	**7 223**	**5 113**
Other expenses		
Donations	(129)	(76)
Expenses related to previous years	(117)	(133)
Taxes – except income tax and special bank tax	(877)	(411)
Special bank tax	(2 224)	(2 150)
Other expenses related to lending and borrowing not part of effective interest	(439)	(206)
Other	(333)	(241)
Total other operating expense	**(4 119)**	**(3 217)**

The Bank received HUF 3 907 million compensations for performing the tasks in connection with 2007-13 and 2014-20 EU programming periods in 2020 (2019: HUF 3 235 million). Further details in Note 13. The Bank is entitled to reimbursement of expenses under a financing contract with the European Investment Bank for the financing of the development and implementation of investment advisory services, amounting to HUF 50 million in 2020.

The Bank received HUF 25 million (2019: HUF 300 million) consideration from the State for the exercising of owner's rights as determined in the XXII chapter of the central budget.

The net revenue of non-financial corporation members of the Group is presented in other income.

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Wages and salaries	(9 426)	(8 449)
Compulsory social security	(1 889)	(1 999)
Other personnel expenses	(1 285)	(1 274)
Personnel expenses	**(12 600)**	**(11 722)**
Marketing	(1 515)	(915)
Office and property maintenance	(726)	(525)
System support and maintenance	(697)	(536)
Expert fees	(615)	(1 086)
Rental expense	(358)	(332)
Post, newspapers and document filing	(251)	(223)
Other material type services	(241)	(173)
Electricity. water. gas supply	(114)	(81)
Education	(88)	(75)
Labour mediation	(84)	(24)
Legal costs	(68)	(223)
Media	(54)	(75)
Membership fees	(54)	(44)
Insurances	(53)	(47)
Bank cost	(53)	(49)
Traveling	(41)	(68)
Other welfare services	(28)	(20)
Other	(214)	(262)
Other general administrative expenses	**(5 254)**	**(4 758)**
Total general and administrative expenses	**(17 854)**	**(16 480)**

The average number of the employees in 2020 was 712 (2017: 715).

Expert fees include HUF 93.97 million gross fees paid to the auditor for the 2020 annual audit and other audit related services (2019: HUF 87.56 million). Audit fees paid to KPMG Hungary Ltd. amounted HUF 72.01 million (2019 HUF 83.29 million to PricewatrehouseCoopers Auditing Ltd. There was no fee paid to the statutory auditor KPMG Hungary Ltd. in 2020 (2019: PricewaterhouseCoopers Auditing Ltd.), for any non-audit services.

KPMG Advisory Ltd. (member of KPMG Group) provided non-audit services to the Group during 2020 amounted to gross HUF 11.33 million (2019: PwC Hungary Ltd. HUF 20.42 million).

29. PROVISIONS OR (-) REVERSAL OF PROVISIONS

	2020			2019		
	Other items	**Guarantees and loan commitments**	**Total**	**Other items**	**Guarantees and loan commitments**	**Total**
1. Opening balance as 1 January	**(310)**	**(3 616)**	**(3 926)**	**(4 598)**	**(2 291)**	**(6 889)**
2. Charge	(72)	(974)	(1 046)	(118)	(3 660)	(3 778)
3. Release	113	2 959	3 072	259	2 365	2 624
4. Utilization	21	0	21	48	0	48
5. Foreign exchange difference	0	(35)	(35)	0	(30)	(30)
6. Disposal due to sold subsidiary	0	0	0	4 099	0	4 099
7. Closing balance at 31 December	**(248)**	**(1 666)**	**(1 914)**	**(310)**	**(3 616)**	**(3 926)**
Net movement *(excluding item 5.)*	62	1 985	2 047	4 288	(1 295)	2 993
Balance in the Profit or loss statement						
Loss on discountinued operation	0	0	0	(4 099)	0	4 099
Other income (legal cases)	(77)	0	(77)	(142)		(142)
Impairment (-) or reversal of impairment of financial instruments	0	(1 985)	(1 985)	0	(1 295)	(1 295)
Amounts charged to wages	9		9	14		14
Amount charged to other expenses	6	0	6	14	0	14
Recognized in property, plant and equipments	0	0	0	(61)	0	(61)

The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2020 by credit risk stages. The movements represent year-on-year changes, therefore the new financial guarantees and loan commitments during the year are presented in that category where they were at 31 December, while the loans which were repaid/sold during the year were presented in their opening category.

	Opening balance as at 1 January 2020	Net release without stage transfer	Charge due to origin	Utilization and expiries	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	FX impact	Closing balance as at 31 December 2020
Guarantees	**(2 383)**	**571**	**(418)**	**1 785**	**(18)**	**0**	**0**	**(6)**	**(469)**
Stage 1	(28)	3	(418)	23	1	0	0	(6)	(425)
Stage 2	(608)	568	0	15	(19)	0	0	0	(44)
Stage 3	(1 747)	0	0	1 747			0	0	0
Loan commitments	**(1 233)**	**661**	**(84)**	**303**	**(832)**	**17**	**0**	**(29)**	**(1 197)**
Stage 1	(584)	(176)	(77)	247	245	0		(1)	(346)
Stage 2	(617)	837	(7)	21	(1 077)	17	0	(25)	(851)
Stage 3	(32)	0	0	35			0	(3)	0
TOTAL	**(3 616)**	**1 232**	**(502)**	**2 088**	**(850)**	**17**	**0**	**(35)**	**(1 666)**

The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2019 by credit risk stages.

	Opening balance as at 1 January 2019	Net charge without stage transfer	Charge due to origin	Utilization and expiries	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	FX impact	Closing balance as at 31 December 2019
Guarantees	**(1 148)**	**36**	**(141)**	**9**	**(82)**	**0**	**(1 057)**	**0**	**(2 383)**
Stage 1	(28)	9	(19)	3	7	0		0	(28)
Stage 2	(1 120)	27	(122)	6	(89)	0	690	0	(608)
Stage 3	0	0	0	0			(1 747)	0	(1 747)
Loan commitments	**(1 143)**	**286**	**(365)**	**5**	**(27)**	**0**	**41**	**(30)**	**(1 233)**
Stage 1	(199)	(47)	(342)	5	6	0		(7)	(584)
Stage 2	(944)	330	(23)	0	(33)	0	73	(20)	(617)
Stage 3	0	3	0	0			(32)	(3)	(32)
TOTAL	**(2 291)**	**322**	**(506)**	**14**	**(109)**	**0**	**(1 016)**	**(30)**	**(3 616)**

30. IMPAIRMENT (-) OR REVERSAL OF IMPAIRMENT OF FINANCIAL INSTRUMENTS

2020	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Total as at 31 December 2020
Customer loans	(1 526)	(5 443)	(6 790)	(5)	154	0	**(13 610)**
Loans to banks	0	18	0	0	0	0	**18**
Debt securities	(379)	186	0	0	0	0	**(193)**
Deposits at Central and other banks	(617)	600	0	0	0	0	**(17)**
Other financial receivables	(1)	0	0	0	0	0	**(1)**
Other demand deposits	(11 038)	10 996	0	0	0	0	**(42)**
Guarantees	(418)	2 356	(18)	0	0	0	**1 920**
Loan commitments	(84)	964	(832)	0	17	0	**65**
Subtotal	**(14 063)**	**9 677**	**(7 640)**	**(5)**	**171**	**0**	**(11 860)**
Loss on written off loans							**0**
Recovery of purchased receivables							**14 006**
Total profit and loss impact							**2 146**

2019	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Total as at 31 December 2019
Customer loans	(2 375)	1 069	(667)	(1 627)	91	4	(3 505)
Loans to banks	(14)	1	0	0	0	0	(13)
Debt securities	0	273	0	0	0	0	273
Deposits at Central and other banks	(6)	48	0	0	0	0	42
Other financial receivables	(17)	13	0	0	0	0	(4)
Other demand deposits	0	11	0	0	0	0	11
Guarantees	(141)	45	(82)	(1 057)	0	0	(1 235)
Loan commitments	(365)	291	(27)	41	0	0	(60)
Subtotal	**(2 918)**	**1 751**	**(776)**	**(2 643)**	**91**	**4**	**(4 491)**
Loss on written off loans							**0**
Recovery of purchased receivables							**10 181**
Total profit and loss impact							**5 690**

Recovery on purchased receivables represents the actual recovery since initial recognition or planned recovery due to the change in the model used to estimate the future recovery.

The table below presents the changes in the impairment for financial assets during 2020 by credit risk stages. The movements represent year-on-year changes, therefore the new loans during the year are presented in that category where they were at 31 December, while the loans which were repaid/sold during the year were presented in their opening category.

LOANS	Opening balance as at 1 January 2020	Charge due to origin	Utili-zation	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin ding	FX impact	Closing balance as at 31 December 2020
Customer loans – Stage 1	**(3 155)**	**(856)**	**0**	**1 640**	**1 113**	**0**	**(11)**			**(24)**	**(1 293)**
General governments	**(1 104)**	0	0	1 013	0	0	0			(7)	**(98)**
Other financial corporations	**(389)**	(566)	0	217	42	0	(5)			0	**(701)**
Other non-financial corporations	**(1 651)**	(276)	0	403	1 071	0	(6)			(17)	**(476)**
Households	**(11)**	(14)	0	7	0	0	0			0	**(18)**
Loans to banks – Stage 1	**(21)**	**0**	**0**	**18**	**0**	**0**	**0**	**0**	**0**	**(1)**	**(4)**
Refinancing loans	**(2)**	0	0	1	0	0	0	0		0	**(1)**
Other loans	**(19)**	0	0	17	0	0	0	0		(1)	**(3)**
Customer loans – Stage 2	**(4 157)**	**(390)**	**26**	**(4 440)**	**(7 903)**	**3**	**165**	**0**	**0**	**(482)**	**(17 178)**
General governments	**0**	0	0	0	0	0	0	0		0	**0**
Other financial corporations	**(164)**	0	0	34	(958)	0	31	0		(3)	**(1 060)**
Other non-financial corporations	**(3 990)**	(390)	26	(4 474)	(6 945)	3	134	0		(479)	**(16 115)**
Households	**(3)**	0	0	0	0	0	0	0		0	**(3)**
Loans to banks – Stage 2	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	**0**	0	0	0	0	0	0	0		0	**0**
Other loans	**0**	0	0	0	0	0	0	0		0	**0**

LOANS	Opening balance as at 1 January 2020	Charge due to origin	Utili-zation	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin ding	FX impact	Closing balance as at 31 December 2020
Customer loans – Stage 3	**(22 981)**	**(280)**	**1 350**	**(2 643)**	**0**	**(8)**	**0**	**0**	**(245)**	**(1 895)**	**(26 702)**
General governments	**0**	0	0	0		0	0	0	0	0	**0**
Other financial corporations	**(82)**	0	0	37		0	0	0	0	0	**(45)**
Other non-financial corporations	**(22 355)**	(154)	1 350	(1 587)		(2)	0	0	(245)	(1 895)	**(24 888)**
Households	**(544)**	(126)	0	(1 093)		(6)	0	0	0	0	**(1 769)**
Loans to banks – Stage 3	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	**0**	0	0	0		0	0	0	0	0	**0**
Other loans	**0**	0	0	0		0	0	0	0	0	**0**
Customer loans - TOTAL	**(30 293)**	**(1 526)**	**1 376**	**(5 443)**	**(6 790)**	**(5)**	**154**	**0**	**(245)**	**(2 401)**	**(45 173)**
General governments	**(1 104)**	0	0	1 013	0	0	0	0	0	(7)	**(98)**
Other financial corporations	**(635)**	(566)	0	288	(916)	0	26	0	0	(3)	**(1 806)**
Other non-financial corporations	**(27 996)**	(820)	1 376	(5 658)	(5 874)	1	128	0	(245)	(2 391)	**(41 479)**
Households	**(558)**	(140)	0	(1 086)	0	(6)	0	0	0	0	**(1 790)**
Loans to banks - TOTAL	**(21)**	**0**	**0**	**18**	**0**	**0**	**0**	**0**	**0**	**(1)**	**(4)**
Refinancing loans	**(2)**	0	0	1	0	0	0	0	0	0	**(1)**
Other loans	**(19)**	0	0	17	0	0	0	0	0	(1)	**(3)**

DEBT SECURITIES	Opening balance as at 1 January 2020	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Stage 1*	**(6)**	**(232)**	**186**	**0**	**0**	**0**		**(52)**
Hungarian government bonds	**0**	0	0	0	0	0		**0**
Corporate bonds	**(3)**	(232)	186	0	0	0		**(49)**
Mortgage bonds	**(3)**	0	0	0	0	0		**(3)**
Stage 2*	**0**	**(147)**	**0**	**0**	**0**	**0**		**(147)**
Hungarian government bonds	0	0	0	0	0	0		**0**
Corporate bonds	0	(147)	0	0	0	0		**(147)**
Mortgage bonds	0	0	0	0	0	0		**0**

**: Only stage 1 and 2 securities were at the Group portfolio in 2020.*

DEPOSITS AT CENTRAL AND OTHER BANKS	Opening balance as at 1 January 2020	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Stage 1*	**(6)**	**(617)**	**600**					**(23)**
Central bank deposits	**0**	0	0					**0**
Other bank deposits	**(6)**	(617)	600					**(23)**

**: Only stage 1 deposits were at the Group portfolio in 2020.*

OTHER FINANCIAL ASSETS	Opening balance as at 1 January 2020	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Stage 2*	**(32)**	**(1)**	**0**					**(33)**
Trade receivables	**(32)**	(1)	0					**(33)**
Margin accounts	**0**	0	0					**0**

**: Only stage 2 receivables were at the Group portfolio in 2020.*

OTHER DEMAND DEPOSITS	Opening balance as at 1 January 2020	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Stage 1*	**(3)**	**(11 038)**	**10 996**					**(45)**
Cash balances with National Bank of Hungary	**(1)**	0	1					**0**
Other demand deposits	**(2)**	(11 038)	10 995					**(45)**

**: Only stage 1 deposits were at the Group portfolio in 2020.*

The table below presents the changes in the impairment for financial assets during 2019 by credit risk stages.

LOANS	Opening balance as at 1 January 2019	Charge due to origin	Utili-zation	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin ding	FX impact	Closing balance as at 31 December 2019
Customer loans – Stage 1	**(1 945)**	**(1 720)**	**0**	**358**	**167**	**6**	**(8)**	**0**	**0**	**(13)**	**(3 155)**
General governments	**(1 069)**	(12)	0	(23)	0	0	0			0	**(1 104)**
Other financial corporations	**(280)**	(240)	0	133	0	0	0			(2)	**(389)**
Other non-financial corporations	**(583)**	(1 467)	0	243	167	6	(6)			(11)	**(1 651)**
Households	**(13)**	(1)	0	5	0	0	(2)			0	**(11)**
Loans to banks – Stage 1	**(8)**	**(14)**	**0**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**(21)**
Refinancing loans	**(3)**	0	0	1	0	0	0			0	**(2)**
Other loans	**(5)**	(14)	0	0	0	0	0			0	**(19)**
Customer loans – Stage 2	**(2 742)**	**(445)**	**0**	**(432)**	**(834)**	**271**	**98**	**(3)**		**(70)**	**(4 157)**
General governments	**0**	0	0	0	0	0	0	0		0	**0**
Other financial corporations	**0**	(164)	0	0	0	0	0	0		0	**(164)**
Other non-financial corporations	**(2 733)**	(281)	0	(431)	(834)	271	88	0		(70)	**(3 990)**
Households	**(9)**	0	0	(1)	0	0	10	(3)		0	**(3)**
Loans to banks – Stage 2	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	**0**	0	0	0	0	0	0	0		0	**0**
Other loans	**0**	0	0	0	0	0	0	0		0	**0**

LOANS	Opening balance as at 1 January 2019	Charge due to origin	Utili-zation	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Unwin ding	FX impact	Closing balance as at 31 December 2019
Customer loans – Stage 3	**(42 966)**	**(210)**	**22 343**	**1 143**	**0**	**(1 904)**	**1**	**7**	**(220)**	**(1 175)**	**(22 981)**
General governments	**(1)**	0	0	1		0	0	0	0	0	**0**
Other financial corporations	**0**	(1)	0	(81)		0	0	0	0	0	**(82)**
Other non-financial corporations	**(42 717)**	(116)	22 284	1 495		(1 904)	0	0	(222)	(1 175)	**(22 355)**
Households	**(248)**	(93)	59	(272)		0	1	7	2	0	**(544)**
Loans to banks – Stage 3	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	**0**	0	0	0		0	0	0	0	0	**0**
Other loans	**0**	0	0	0		0	0	0	0	0	**0**
Customer loans - TOTAL	**(47653)**	**(2 375)**	**22 343**	**1 069**	**(667)**	**(1 627)**	**91**	**4**	**(220)**	**(1 258)**	**(30 293)**
General governments	**(1 070)**	(12)	0	(22)	0	0	0	0	0	0	**(1 104)**
Other financial corporations	**(280)**	(405)	0	52	0	0	0	0	0	(2)	**(635)**
Other non-financial corporations	**(46 033)**	(1 864)	22 284	1 307	(667)	(1 627)	82	0	(222)	(1 256)	**(27 996)**
Households	**(270)**	(94)	59	(268)	0	0	9	4	2	0	**(558)**
Loans to banks - TOTAL	**(8)**	**(14)**	**0**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**(21)**
Refinancing loans	**(3)**	0	0	1	0	0	0	0	0	0	**(2)**
Other loans	**(5)**	(14)	0	0	0	0	0	0	0	0	**(19)**

DEBT SECURITIES	Opening balance as at 1 January 2019	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2019
Stage 1*	**(279)**	**0**	**273**					**(6)**
Hungarian government bonds	**0**	0	0					**0**
Corporate bonds	**(3)**	0	0					**(3)**
Mortgage bonds	**(276)**	0	273					**(3)**

**: Only stage 1 securities were at the Group portfolio in 2019.*

DEPOSITS AT CENTRAL AND OTHER BANKS	Opening balance as at 1 January 2019	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2019
Stage 1*	**(48)**	**(6)**	**48**					**(6)**
Central bank deposits	**0**	0	0					**0**
Other bank deposits	**(48)**	(6)	48					**(6)**

**: Only stage 1 deposits were at the Group portfolio in 2019.*

OTHER FINANCIAL ASSETS	Opening balance as at 1 January 2019	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2019
Stage 2*	**(28)**	**(17)**	**13**					**(32)**
Trade receivables	**(28)**	(17)	13					**(32)**
Margin accounts	**0**	0	0					**0**

**: Only stage 2 receivables were at the Group portfolio in 2019.*

OTHER DEMAND DEPOSITS	Opening balance as at 1 January 2019	Charge due to origin	Net charge without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2019
Stage 1*	**(14)**	**0**	**11**					**(3)**
Cash balances with National Bank of Hungary	**(2)**	0	1					**(1)**
Other demand deposits	**(12)**	0	10					**(2)**

**: Only stage 1 deposits were at the Group portfolio in 2019.*

31. IMPAIRMENT OR (-) REVERSAL OF IMPAIRMENT OF INVESTMENTS IN EXEMPTED ASSOCIATES

	2020	2019
1. Opening balance as at 1 January	**(5 694)**	**(10 354)**
2. Charge	(2 121)	(840)
3. Release and utilization	1 040	5 703
3.a. Release	*827*	*132*
3.b. Utilization	*213*	*5 571*
4. Foreign exchange difference	0	0
5. Reclassification	(66)	(203)
6. Closing balance as at 31 December	**(6 841)**	**(5 694)**
Net movement	(1 147)	4 660
Balance in the Income statements (2+3a)	**(1 294)**	**(708)**

32. IMPAIRMENT (-) OR REVERSAL OF IMPAIRMENT OF NON-FINANCIAL INSTRUMENTS

	2020	2019
Property, plant and equipment (Note 11)	(1)	(1)
Intangibles (Note 12)	(8)	(26)
Other assets	(58)	413
Total	**(67)**	**386**

The impairment movements related to other assets are presented in the below table.

	2020			2019		
	Other receivables	**Repossessed assets**	**Total**	**Other receivables**	**Repossessed assets**	**Total**
1. Opening balance as at 1 January	(114)	(245)	(359)	(107)	(665)	(772)
2. Charge	0	(64)	(64)	(7)	(63)	(70)
3. Release and utilization	0	162	162		483	483
3.a. Release	*0*	*6*	*6*		*483*	*483*
3.b. Utilization	*0*	*156*	*156*		*0*	*0*
4. Closing balance as at 31 December	(114)	(147)	(261)	(114)	(245)	(359)
Net movement	0	98	98	(7)	420	413
Balance in the Income statements	**0**	**(58)**	**(58)**	**(7)**	**420**	**413**

33. TAXATION

Income tax expenses include current taxes and deferred taxes. In both 2020 and 2019 the corporate tax rate was 9%, the local tax rate was 2%, and the innovation contribution rate was 0.3%.

	2020	2019
Current tax	1 172	1 478
from this corporate tax	*219*	*642*
from this local tax and innovation contribution	*953*	*836*
Deferred tax	1 261	417
Total	**2 433**	**1 895**

The following table represents deferred tax asset and liability movements reported either in the income statement or in the other comprehensive income.

	2020				2019				
	Recognized in profit or loss	Recognized in OCI	Deferred tax liability	Deferred tax asset	Recognized in profit or loss	Recognized in OCI	Subsidiary sold	Deferred tax liability	Deferred tax asset
Tax expense	**1 172**				**1 478**				
Deferred tax by titles									
Property, plant and equipment	15		43	0	24		80	28	0
Provisions			0	0	0		374	0	0
Loans from banks			0	0	0		(19)	0	0
General risk reserve			0	0	(590)			0	0
Suspended interest			0	0	(77)			0	0
Financial instruments	1 243	6	3 205	(95)	566	(39)		1 938	(77)
Tax loss carry forward	3		(42)	0	494			(45)	**0**
Total	**1 261**	**6**	**3 206**	**(95)**	**417**	**(39)**	**435**	**1 921**	**(77)**
Total tax expense in the Income statements	**2 433**				**1 895**				

The following table reconciles income taxes as reported in the income statement.

Reconciliation of effective tax rate	**2020**		**2019**	
	Tax rate	**Amount**	**Tax rate**	**Amount**
Profit before income taxes		**4 969**		**6 766**
Corporate tax	**9.00%**	**447**	**9.00%**	**609**
Local tax and innovation contribiution impact	19.18%	953	12.36 %	836
Corporate tax impact of subsidiaries negative result	9.46%	470	4.74%	321
Effect of subsidiary sold		0	5.07 %	343
Tax loss carry forward	19.34%	961	0.61%	41
Subsidiary and euity consolidation impact	(7.31%)	(363)	(1.58%)	(107)
Effect of other tax base modifying items	(0.70%)	(35)	(2.19%)	(148)
Effective tax	**48.96%**	**2 433**	**28.01 %**	**1 895**

No deferred tax liability was recorded on profits generated by the consolidation of subsidiaries and associates, since the Bank can influence the timing of the use of these temporary differences through its control or significant influense and it is probable that the resulting temporary differences will not be revised in the foreseeable future. If a loss has been incurred, no deferred tax asset has been recorded either, as it is not probable that sufficient taxable profits will be available against which the resulting deductible temporary difference may be used. The “other” line of tax reconciliation mostly includes the net effect of these items.

The accumulated amount of tax losses carries forward in 2020 was HUF 82 675 million (2019: HUF 70 571 million). The tax losses originated until 2014 can be carried forward until 31 December 2030. Those which are originated from 2015 can be carried forward in the next 5 years after origination.

The future realization of the tax loss carries forward is uncertain and therefore a deferred tax asset is only recognized in an amount that compensates 50% of the deferred tax liability since according to the Hungarian tax legislation in force the losses that can be utilized on annual basis shall not be more than the 50% of the positive tax base. The amount of the not recognized deferred tax asset on tax loss carry forward as at 31 December 2020 is HUF 7 441 million (2019: HUF 6 351 million).

34. RELATED PARTIES

The Bank is owned by the Hungarian State. The Bank identifies associates as related parties that are part of the MFB Group. The related parties also include members of the Executive board and the Board of Supervisors. as well as companies over which these persons have control or significant influence. Transactions between the Bank and its consolidated companies are eliminated from the consolidated accounts. Related party transactions are carried out under normal market conditions.

The Group using the option provided in IAS 24.25 and does not disclose its transactions with other state owned companies and disclose only the most significant transactions with the Hungarian State. such as state securities. taxes and reimbursements.

The definitions of the headings used in the table below are as follows.

State: The ultimate controlling party. The State column in the below table includes the major items due to or from the various state bodies. The rows of securities include government securities issued by the Central Government Debt Management Agency (ÁKK). Tax payable or refundable to the National Tax and Customs Administration (NAV) is included in the tax receivables/liabilities lines. Other assets/liabilities include reimbursement from the Managing Authorities and advances received. Receivables from the State due to currency-hedging agreement include the claim on the Ministry of Finance. The income statement lines include the effects of the above items such as interest income, tax payments, or reimbursement income.

Associates: Any company where the Bank has significant influence but has no control over financial and operational policies.

	2020		2019	
	Associates	**State**	**Associates**	**State**
ASSETS				
Non-trading financial assets mandatorily at fair value through profit or loss	**671**	**0**	**323**	**0**
Loans to customers	*671*	*0*	*323*	*0*
Financial assets at fair value through other comprehensive income	**0**	**39 046**	**0**	**39 909**
Debt securities	*0*	*39 046*	*0*	*39 909*
Financial assets at amortized cost	**17 044**	**58 372**	**6 359**	**49 225**
Debt securities	*0*	*54 900*		*48 725*
Loans to customers	*17 039*	*2 604*	*6 358*	*0*
Other financial receivables	*5*	*868*	*1*	*500*
Investments in associates	**50 967**		**44 080**	
Tax assets		**210**		**155**
Current tax assets		*210*		***77***
Other assets	**3**	**8 973**	**0**	**7 840**
Receivables from the state due to currency-hedging agreement*		**157 009**		**134 124**

**: from the presented amount HUF 38 373 million (2019: HUF 11 608 million) was presented in the income statements' line "Exchange differences [gain or (-) loss], net*".

	2020		2019	
	Associates	**State**	**Associates**	**State**
LIABILITIES				
Financial liabilities measured at amortized cost	**2 864**	**0**	**3 426**	**0**
Deposits	***2 864***	***0***	***3 426***	***0***
Tax liabilities		**119**		**2 485**
Current tax liabilities		*119*		*564*
Other liabilities	**18**	**5 482**	**2 066**	**4 798**
Guarantees and loan commitments	**20 830**	**0**	**53 568**	**0**
INCOME STATEMENTS				
Interest income	883	1 815	164	1 828
Interest expense	(20)		(6)	
Dividend income	0		0	
Fee and commission income	31		97	
Fee and commission expense	(11)		(6)	
Other operating income	2	4 918	2	3 557
Other operating expense	0	(3 062)	0	(2 570)
Impairment (-) or reversal of impairment of financial instruments *	(1 764)	0	(1 923)	0
Impairment or (-) reversal of impairment of investments in exempted associates	(1 294)	0	(737)	0
Tax expense related to profit or loss		(1 172)		(1 478)

*: *the presented data excludes the collective impairment and provision created in accordance with the provision of IFRS 9*

The key management personnel compensation in 2020 and 2019 was the following:

	2020	**2019**
Members of the Board of Directors	24	23
Members of the Supervisory Board	23	23
CEOs and deputy CEOs	112	148
Total	**159**	**194**

The table above includes the short term benefits paid to the key management personnel. There was no any post employment benefit, long term benefit or termination benefit paid to the key management personnel and there is no share based payment programme operated by the Bank. There was also no loan disbursement to the key management personnel.

35. SEGMENT REPORTING

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Group.

The Group's segment reporting is based on the following operating segments.

Segments	Activity
Banking:	Loans. deposits and other transactions and balances with customers and banks
Investment:	Activities related to securities and investments.
EU fund management:	Activities related to the mediation of EU funds by the Bank.
Debt management:	Activities related to purchase. debt management. factoring
Venture capital funding:	Activities related to venture capital funding
Property utilization:	Activities related to management of properties owned by the Group

The Group does not prepare geographical breakdowns because its primary business is carried out in Hungary and it has no significant foreign operations.

The results of the segments include the revenue and expenditure directly linked to that segment and the relevant part of the revenue and expenditure which may be assigned to a segment. whether from external transactions or from other segments of the Group. Income statement items were broken down based on the principle that if an item is clearly assigned to the segment. the total amount was presented there. and where it cannot be clearly categorized the FTE (Full Time Equivalent) based allocation was followed.

The banking and investment assets are clearly identifiable into the segments based on the Financial position statements lines. Liabilities and equity was separated into allocated and not-allocated parts. Not-allocated part represents the intangibles, property, plant and equipment, receivables from the state due to FX hedge agreement (those part which was already closed. no unpaid loan contract behind it) and the liquidity reserve set by internal policy (5% of the total assets). The remainder was allocated proportionally to each segments

2020	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Total segment income and gain							
Interest income	41 780	0	0	9 351	457	4	51 592
from this interest income calculated using the effective interest method	*27 259*	*0*	*0*	*9 341*	*241*	*4*	*36 845*
from this other similar income	*14 521*	*0*	*0*	*10*	*216*	*0*	*14 747*
Fee and commission income	530	0	0	0	995	0	1 525
from this fund management fee	*0*	*0*	*0*	*0*	*995*	*0*	*995*
from this guarantee fees	*392*	*0*	*0*	*0*	*0*	*0*	*392*
from this loan servicing fees	*126*	*0*	*0*	*0*	*0*	*0*	*126*
from this fee from receivable management	*0*	*0*	*0*	*0*	*0*	*0*	*0*
from this other fees and commission	*12*	*0*	*0*	*0*	*0*	*0*	*12*
Dividend income	0	0	0	0	7	0	7
Gains or (-) losses from hedge accounting, net	493	278	0	0	0	0	771
Exchange differences [profit], net	24 248	13 709	0	4	939	0	38 900
Losses on derecognition of non-financial assets, net	(1)	25	0	7	294	0	325
Other operating income	346	1 193	3 907	62	435	1 280	7 223
Total segment income and gain	**67 396**	**15 205**	**3 907**	**9 424**	**3 127**	**1 284**	**100 343**
Interest expenses	(27 004)	(997)	0	(1 078)	0	(127)	**(29 206)**
Fee and commission expenses	(242)	0	0	0	0	0	**(242)**
from this agent fees	*(190)*	*0*	*0*	*0*	*0*	*0*	***(190)***
from this guarantee fees	*(12)*	*0*	*0*	*0*	*0*	*0*	***(12)***
from this bank account commission	*(11)*	*0*	*0*	*0*	*0*	*0*	***(11)***
from this other fees and commission	*(29)*	*0*	*0*	*0*	*0*	*0*	***(29)***
Losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	234	(242)	0	0	(260)	0	**(268)**
Losses on financial assets and liabilities held for trading, net	(24 433)	(13 813)	0	0	0	0	**(38 246)**
Losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(108)	(61)	0	0	(548)	0	**(717)**
Contract modification loss, net	(2 118)	0	0	0	0	0	**(2 118)**
Other operating expenses	(2 316)	(1 079)	0	(282)	(374)	(68)	**(4 119)**
Administrative expenses	(4 040)	(2 310)	(3 547)	(3 827)	(3 445)	(685)	**(17 854)**
Depreciation	(412)	(233)	(361)	(754)	(94)	(154)	**(2 008)**
Segment profit before impairment and provisions	**6 957**	**(3 530)**	**(1)**	**3 483**	**(1 594)**	**250**	**5 565**

2020	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Impairment (-) or reversal of impairment on financial instruments	(10 161)	0	0	12 538	(230)	(1)	**2 146**
Impairment (-) or reversal of impairment of investments inexempted associates	0	166	0	0	(1 460)	0	**(1 294)**
Impairment of non-financial instruments	(5)	(3)	0	(59)	0	0	**(67)**
Profit or (-) loss from associates	0	879	0	0	(2 260)	0	**(1 381)**
Segment income before tax	**(3 209)**	**(2 488)**	**(1)**	**15 962**	**(5 544)**	**249**	**4 969**
Income tax expense	(289)	(161)	1	(1 828)	(128)	(28)	(2 433)
Profit for the year	**(3 498)**	**(2 649)**	**0**	**14 134**	**(5 672)**	**221**	**2 536**

2020	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Segment revenue							
Interest income	41 780	0	0	9 351	457	4	**51 592**
Fee and commission income	530	0	0	0	995	0	**1 525**
Dividend income	0	0	0	0	7	0	**7**
Other operating income	346	1 193	3 907	62	435	1 280	**7 223**
Total segment revenue	**42 656**	**1 193**	**3 907**	**9 413**	**1 894**	**1 284**	**60 347**
Timing of revenue							
Point in time	876	1 193	3 907	62	1 437	1 280	**8 755**
Over time	41 780	0	0	9 351	457	4	**51 592**

2020	Banking	Investment	Not allocated	Debt management	Venture capital funding	Property management	Total
Segment assets	**1 469 085**	**57 579**	**264 415**	**91 722**	**54 616**	**1 661**	**1 939 078**
Participation of segment from total assets	75.76%	2.97%	13.64%	4.73%	2.82%	0.09%	**100.00%**
Segment liabilities	**1 262 851**	**49 479**	**88 348**	**78 819**	**46 933**	**1 427**	**1 527 857**
Participation of segment from total liabilities	82.66%	3.24%	5.78%	5.16%	3.07%	0.09%	100.00%

2019 Restated	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Total segment income and gain							
Interest income	34 764	0	0	8 070	122	1	**42 957**
from this interest income calculated using the effective interest method	*18 334*	*0*	*0*	*8 070*	*61*	*1*	***26 466***
from this other similar income	*16 430*	*0*	*0*	*0*	*61*	*0*	***16 491***
Fee and commission income	692	0	0	117	934	0	**1 743**
from this fund management fee	*0*	*0*	*0*	*0*	*934*	*0*	***934***
from this guarantee fees	*560*	*0*	*0*	*0*	*0*	*0*	***560***
from this loan servicing fees	*131*	*0*	*0*	*0*	*0*	*0*	***131***
from this fee from receivable management	*0*	*0*	*0*	*117*	*0*	*0*	***117***
from this other fees and commission	*1*	*0*	*0*	*0*	*0*	*0*	***1***
Dividend income	0	4	0	0	0	0	**4**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	105	0	0	0	362	0	**467**
Gains on financial assets and liabilities held for trading, net	3 258	1 765	0	0	0	0	**5 023**
Gains from hedge accounting, net	34	18	0	0	0	0	**52**
Other operating income	445	500	3 235	56	178	699	**5 113**
Total segment income and gain	**39 298**	**2 287**	**3 235**	**8 243**	**1 596**	**700**	**55 359**
Interest expenses	(23 889)	(1 585)	0	(869)	0	(39)	**(26 382)**
Fee and commission expenses	(263)	0	0	0	0	0	**(263)**
from this agent fees	*(226)*	*0*	*0*	*0*	*0*	*0*	***(226)***
from this guarantee fees	*(6)*	*0*	*0*	*0*	*0*	*0*	***(6)***
from this bank account commission	*(12)*	*0*	*0*	*0*	*0*	*0*	***(12)***
from this other fees and commission	*(19)*	*0*	*0*	*0*	*0*	*0*	***(19)***
Losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(46)	(23)	0	0	(197)	0	**(266)**
Exchange differences [loss], net	(3 525)	(1 921)	0	0	49	0	**(5 397)**
Losses on derecognition of non-financial assets, net	(5)	0	0	0	(93)	0	**(98)**
Contract modification loss, net	(77)	0	0	0	0	0	**(77)**
Other operating expenses	(1 873)	(980)	0	(177)	(132)	(55)	**(3 217)**
Administrative expenses	(3 764)	(2 162)	(3 135)	(4 286)	(2 604)	(529)	**(16 480)**
Depreciation	(590)	(188)	(100)	(284)	(62)	(143)	**(1 367)**
Segment profit before impairment and provisions	**5 266**	**(4 572)**	**0**	**2 627**	**(1 443)**	**(66)**	**1 812**

2019 Restated	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Impairment (-) or reversal of impairment on financial instruments	(4 426)	38	0	10 102	(28)	4	**5 690**
Impairment (-) or reversal of impairment of investments in exempted associates	0	28	0	0	(736)	0	**(708)**
Impairment of non-financial instruments	(20)	(23)	0	74	(63)	418	**386**
Profit or (-) loss from associates	0	522	0	0	(936)	0	**(414)**
Segment income before tax	**820**	**(4 007)**	**0**	**12 803**	**(3 206)**	**356**	**6 766**
Income tax expense	(200)	(108)	0	(1 525)	(48)	(14)	**(1 895)**
Profit after tax from continuing operation	620	(4 115)	0	11 278	(3 254)	342	**4 871**

2019 Restated	Banking	Investment	EU fund management	Debt management	Venture capital funding	Property management	Total
Segment revenue							
Interest income	34 764	0	0	8 070	122	1	**42 957**
Fee and commission income	692	0	0	117	934	0	**1 743**
Dividend income	0	4	0	0	0	0	**4**
Other operating income	445	500	3 235	56	178	699	**5 113**
Total segment revenue	35 901	504	3 235	8 243	1 234	700	**49 817**
Timing of revenue							
Point in time	1 137	504	3 235	173	1 112	699	**6 860**
Over time	34 764	0	0	8 070	122	1	**42 957**

2019	Banking	Investment	Not allocated	Debt management	Venture capital funding	Property management	Total
Segment assets	**1 082 454**	**24 080**	**184 797**	**87 490**	**56 149**	**1 355**	**1 436 324**
Participation of segment from total assets	75.36%	1.68%	12.87%	6.09%	3.91%	0.09%	100.00%
Segment liabilities	**1 011 842**	**22 509**	**8 730**	**81 783**	**52 486**	**1 267**	**1 178 617**
Participation of segment from total liabilities	85.85%	1.91%	0.74%	6.94%	4.45%	0.11%	100.00%

36. FINANCIAL RISK MANAGEMENT

The Group's internal governance is consistent with its market weight and prominent business role, as well as its approved business model, and it incorporates the relevant risk principles, organizational structure, decision-making structures (including boards and committees), risk management rules, models and methodologies. The Group operates reporting lines that enable the monitoring of risk performance.

Pursuant to Act XX of 2001 on the Hungarian Development Bank Joint Stock Company, the Bank (hereinafter: MFB Act) strives to balance business and risk management aspects.

The Group is continually developing its comprehensive risk culture that, in line with the Group's risk appetite, ensures compliance with international standards and best practices, as well as applicable domestic regulatory conditions and recommendations, and the identification, measurement and management of risks related to banking operations.

The Group has an approved credit risk policy in line with the Bank's strategic objectives, comprehensive risk management policies and other policies covering different segments of risks (operational risk, market risk, etc.).
In connection with the IBOR reform, the various professional areas of the Bank continuously participate in professional forums and consultations. The Group's exposure is not significant because it has only one USD Libor-based interest-bearing loan transaction. This and the source to fund it are in our books.

Defining risk management principles includes defining risk appetite, risk management strategy and risk management policy, setting risk limits, defining and documenting risk management system processes, procedures, tasks, decision and control powers, development of ICAAP/ILAAP/ORSA framework, identifying risks in a continuous, timely manner, development of procedures and methods for measuring risks, measuring, assessing and monitoring risks, preparing reports on risk management activities, and establishing procedures to be followed in the event of exceeding established risk limits.

Group's risk management framework is based on a coherent, integrated approach:

- Due to its core business, the Group consciously assumes risks (lending, investment transactions) and manages the risks associated with core business.
- A well-structured regulatory hierarchy provides the framework for risk management and control.
- As part of its risk management activities, the Group identifies, measures and manages relevant risks that are critical to its operations, taking into account the overall risk profile.
- Methodological knowledge extends to the volatility of risks in stress situations, i.e. the size of a capital buffer needed to keep risk plan values safe.
- What key risk indicators can be used to monitor each type of risk, and what means (limits, processes, measures) can be used to return the value of the indicators to the expected zone.
- The Group operates a management information system as part of its reporting lines to support efficient risk decision-making while an external reporting service operates for supervisory purposes.

The primary tools for developing a risk and risk management culture are the regular review and updating of risk and risk management policies and internal regulatory documents, the continuous communication of the defined value system and the regular training of employees. This way a prudent, consistent and informed risk culture is embedded in the day-to-day operations of the Group.

The risk principles and strategies are approved by the Board of Directors. The Board of Directors performing the management tasks and the Supervisory Board regularly receive well-defined comprehensive reports prepared by the Risk Management Division on the composition and development of the banking portfolio. On this basis the implementation of the risk strategy can be evaluated.

The risk management governance model defines the responsibilities and duties of different bodies and individuals within each organization, with the aim of ensuring the sound and efficient management of activities and the management of different types of risk.

The decision-making process defines, in a consistent manner, the responsibilities and powers of decision-making, consistent with the complexity of its decision-making areas and its financial impact.

The key decision-making bodies and decision-makers are listed in the Decision-making Agenda, and their powers, organization and procedures are defined in the Articles of Association, the Rules of Procedure of the Board of Directors and the Decision-making Agenda.

Decision - making Bodies

- Owner of property rights,
- Board of Directors
- Executive Board,
- Assets-Liabilities Management Committee,
- Individual Loans Committee,
- Owner Censorship Committee,
- EU Steering Committee,
- Irregularities Management Committee.

Bodies with specific powers defined in the Bank's regulatory document are also considered as Decision-making Bodies (e.g. Crisis Committee).

The permanent members of the risk committees are the appropriate level leaders in the areas concerned, who are thus directly informed of the risk information.

The competences and responsibilities of each committee are governed by the Organizational and Operational Rules and the Rules of Procedure, as applicable.

The determination of decision levels depends on the size of the commitment, the scoring of the obligated client group and the level of coverage.

Risk Management Division

The Risk Management Division is completely separated from the Business Areas organizationally. The Head of the Division is a member of the Executive Board and reports directly to the CEO.

The Risk Management Division is the organizational unit of the Bank that performs the risk control function and is responsible for defining the Bank's risk strategy, policies, methods, enforcing external and internal limits and controls, and overseeing the proper implementation of the above within the Bank and through intermediaries. In line with this, the Division is responsible for the risk oversight of the Strategic Group and the operation of Group-level risk management.

Departments of the Risk Management Division:

- ***Operative Credit Risk Management Directorate***

The activities of the Operative Credit Risk Management Directorate include the identification and reduction of risks and the setting of risk limits in the preparation of credit and investment decisions. It is the responsibility of the Operative Credit Risk Management Directorate to monitor the risk assumptions at the time of contracting and disbursement and after the risk assumption. The Bank monitors the contractual obligations of its customers.

  - *Risk Analysis Department*
    The Risk Analysis Department is responsible for performing risk analysis and risk oversight functions for credit and investment transactions, reviewing client ratings and industry analyses, and verifying compliance with the terms of the contract and disbursement.
  - *Monitoring and EU Data Service Department*
    Monitoring the exposures of clients in the portfolio owned by the Bank, developing and implementing approved action plans for clients with abnormal status.

- ***Strategic Risk Management Directorate***

The Strategic Risk Management Directorate is responsible for the development and regulation of risk identification and measurement methodologies, the transparent presentation and application of risks, and the overall determination of risk losses.

- ***Special Credit Risk Management Directorate***

During its restructuring, pre-recovery and preparatory activities, the Special Credit Risk Management Directorate is responsible for the pre-work out activities within the Bank, i.e. the design and management of risk mitigation and reimbursement processes and the determination of risk losses (impairment, provisions).

- ***Financial Instruments Control Directorate***

The Financial Instruments Control Directorate carries out on-the-spot checks on loans refinanced from its own resources or outsourced to ensure compliance with credit targets.

- ***Quality Assurance Methodology Department***

Development and implementation of mid-term audit strategy and annual audit plan, preparation of internal auditing policies and methodology, and follow-up of audit findings.

- ***Irregularity Management Department***

  It performs tasks related to unauthorized use of resources in the EU programming periods: identification of responsibilities, registration, and reporting. Participates in the investigation of irregularities and unauthorized use of resources.

The most significant risks arising from financial instruments to which the Group is exposed are credit. liquidity. market risk (foreign exchange and interest rate risks) and operational risk. Risk management policies are set by the Board of Directors of the Bank in accordance with the rules and regulations set by the National Bank of Hungary. The application of and compliance to these policies is supervised by the Board. The Bank has established reporting systems for continuous monitoring of these risks.

A. CREDIT RISK

a) Credit risk management

Credit risk is the risk of financial loss to the Group if the client fails to meet its contractual obligations. Credit risk arises principally from the Group's lending and investment activities.

The Bank prepares and applies internal policies approved by the Board of Directors to achieve its strategy. These policies are intended to ensure the established and transparent risk exposure. the control of assessment and decrease of risks. The risk-taking regulations and policies developed for the safe management and prudent operation of the Group are based on international and domestic professional practice, relevant legislation and supervisory recommendations and guidelines.

Customer rating

Customer rating must be completed during the credit underwriting process (preparation of decision) for each client against the Group undertakes risk. Beyond that. the Group rates its clients at least once per year and performs extra reviews when appropriate.

The customer rating procedures applied by the Group are as follows:

- customer qualification of new companies and project companies,
- customer rating of operating companies,
- classification on the basis of consolidated financial statements,
- customer rating in a standardized lending process,
- customer rating of local government,
- simplified customer rating based on objective and subjective criteria (under HUF 50 million. excluding new businesses or project companies),
- country and customer rating (countries, national and international financial institutions. insurance companies)

Customers are categorized according to objective and subjective factors based on a scoring system. The Group uses the so-called slotting method for customer ratings of new companies and project companies, in accordance with the Basel recommendation. High performing companies and companies that are part of the consolidated group are classified by using a PD-based rating model. supplemented by a subjective scoring to get the customer's final rating. A simplified rating is prepared using an expert model for the customer rating of individual entrepreneurs and primary producers in the standardized lending process, and for the rating of customers of exposures below HUF 50 million outside the standardized lending process. The rating of local governments and budgetary institutions is based on the analysis of defined objective indicators and subjective indicators.

The Group applies valuation only on the basis of subjective criteria to newly established clients and those who are not subject to the Accounting Act with regard to the accounting obligation.

The applied ratings are the following:

Rating category	Credit quality
1	outstanding
2	strong
3	good
4	average
5	acceptable
6	weak
7	insolvent or data is missing
8	default

Default includes customers who are more than 90 days overdue in respect of their significant payment obligations to the Bank, and who are in bankruptcy, liquidation, debt settlement or compulsory cancellation proceedings, or against whom the Bank has waived a claim in the previous two years.

The Group defines the default category in accordance with Article 178 of CRR and 13/2019 (VII.2) Recommendation of MNB.

Evaluation of collateral

The main types of collaterals accepted by the Group are as follows:

- surety (surety of State (central budget), surety of guarantee institutions),
- guarantee,
- deposit (cash, security),
- mortgage or pledges on property, plant and equipment,
- pledge on rights, receivables, purchase price claims and equity interests.

The market value of the collateral is adjusted by the coverage ratio. This ratio expresses the probable amount of recovery from the collateral. and this adjusted collateral value is applied in the collateral registry and is considered in the impairment calculation.

The Group performs quarterly monitoring and – if appropriate – the remeasurement of collaterals. When remeasurement occurred the collateral registry is adjusted.

Customer and Customer group limits, sector limits

The customer limit is defined as the amount of the highest risk against one customer that can be undertaken. The maximum limit for a customer or customer group is the Bank's large exposures limit.

The customer and customer group limits depend on the results of the customer rating procedures. the audited amount of shareholders' equity and net income. the amount of interest bearing liabilities and the financial position of the sector.

The Bank classifies the sectors into eight risk groups by their financial position. and determines limits for these groups. The sector group limits are the maximum of risk undertaken against clients classified into a given risk group.

Credit rating

For assets where there has been no significant credit risk increase since the initial recognition or are classified as low credit risk assets. are classified in the performing credit risk category – Stage 1.

Those transactions where significant credit risk increases have occurred since the initial recognition are classified into the increased credit risk category – Stage 2 - as far as the criteria for significant credit risk increase are met.

The Group considers the following cases to be a significant increase in credit risk:

- significant deterioration in customer ratings or falling into category 7, non-performing;
- delays in payments over 30 days and HUF 30 000;
- delays in payments over 90 days below the significant credit obligation threshold, and
- change in other monitoring information.

Information to be considered include the Group's information about the customer. transactions that are observable in the course of the business, but not accessible from a system, however indicate an increase in credit risk.

Impaired credit risk category – Stage 3 - is used for all transaction where there is objective evidence of the default. Transactions above the significant credit obligation threshold that are more than 90 days overdue, transactions with status "restructured" or "workout" in the Bank's "early warning indicator" system and transactions for which coercive measures have been taken against the customer (e.g. liquidation, bankruptcy, etc.) are categorized as Stage 3.

Credit impaired loans (purchased or incurred) are categorized as POCI and will remain in this category untill their maturity or derecognition.

In Stage 1 category the Group quantifies the 12 month expected credit loss, while in Stage 2 and Stage 3 it calculates the lifetime expected credit loss. Credit losses on financial assets equal to the present value of the difference between the contractual cash flows and the cash flows expected by the Group.

The 12-month expected credit losses are part of the lifetime expected credit losses and indicate the lack of those lifetime cash flow that may occur due to the default of the counterparty within 12 months after the reporting date. or if the expected life of the financial instrument is less than 12 months then a shorter period. weighted with the probability of default (PD).

Expected credit losses are the probability-weighted estimates of credit losses incurred during the expected life of the financial instrument (i.e. the present value of all cash flow deficits). The estimation of expected credit losses always reflects the potential for credit loss to occur or does not occur, even if the most likely result is that no credit loss occurs. The individually assessed estimate of expected credit losses shall reflect an unbiased and probability-weighted amount determined by evaluating a minimum of three possible outcomes.

When determining the probability of default, the Group classifies credit institutions with external credit ratings and those credit institutions and financial undertakings that do not have external credit ratings, individual corporate loans, agricultural loans, loans through agents, municipalities and parties into different valuation groups based on partner and customer types. When segmenting the portfolio, the Group takes into consideration the credit risk categories by product type and sector code in order to

determine the value of probability of default (PD), the loss given default (LGD) and the credit conversion factor (CCF), taking into account also the transactions covered by the State guarantee.

For the purposes of determining PD, the Bank treats an exposure as non-performing if one or more of the following conditions are met:

- the debtor has been overdue for more than HUF 300,000 over 90 days for any payment obligation to the Bank or any of its subsidiaries,
- the debtor is in liquidation, bankruptcy, compulsory winding-up proceedings or winding-up proceedings,
- the Bank or any other bank granted a payment concession to the debtor in the light of its financial difficulties that it would not otherwise have made and the debtor was in default at the time of the restructuring
- the Bank terminated the loan agreement due to the debtor's breach of contract,
- the exposure was purchased by the Bank at a significant discount (at least 20%),
- the debtor's payment obligation is unlikely due to:
  - the Bank refused to restructure the transaction,
  - the debtor's income has fallen significantly or is below the level required to fulfil his obligations under the contract,
  - the debtor has liquidity problems,
  - the debtor has committed a serious breach of contract against the Bank or another bank,
  - the debtor has committed fraud in connection with the contract,
  - the debtor's claim was sold at a significant discount.

In determining the credit conversion factor (CCF) used to determine the expected loss on off-balance sheet liabilities (guarantees, guarantee frames, unused credit lines), the Group classifies liabilities into four categories (1. Credit lines/guarantee frames; 2. Non financial not draw downed guarantees; 3. Financial not draw downed guarantees; 4. Draw downed guarantees).

Incorporation of forward-looking information

Forward-looking information for companies subject to collective impairment is included in the impairment through the PD values assigned to them. These risk parameters are obtained by multiplying the values provided by the corporate PD model by the macro-correction factor resulting from the macro model.

Based on historical data, we identified those macroeconomic variables that are relevant to the default rate and thus the PD. These are: the annual changes in GDP, the housing price index and the yield on 5-year Hungarian government securities, delayed by two quarters for GDP and yield on government securities. As required, we defined three scenarios based on the estimated future trajectories of these variables: a baseline trajectory, an optimistic trajectory, and a pessimistic trajectory. The model assigns a correction factor to each scenario, and the three scenarios were given equal weight when determining the macro-correction factor meaning the final result of the model.

The Bank examines the sensitivity of impairment to changes in scenarios during stress testing.

Forborne loans

The Group classifies the debt as restructured if due to the deterioration of the client's or partner's financial problems or creditworthiness the risk taking contract had to be amended by granting a discount in order to avoid non-payment. The reclassification of a restructured claim to a non-restructured claim is subject to the European Banking Authority's Guide on prudential requirements for defaulted exposure and restructuring.

Risk Management Aspects of COVID-19

Pursuant to Government Decree No. 47/2020 (III. 18), the Bank has implemented the 2020 payment moratorium. As part of this (unless otherwise provided by the Client), the automatic determination of payment due dates, calculation of default interest, default event and staging due to the number of days of delay was suspended during the payment moratorium period. The Bank does not consider the use of the payment moratorium to be an independent factor increasing credit risk or a Stage2 indicator. When the moratorium came into force, the Bank changed the rules for classification into the increased credit risk category (Stage2) in such a way that it suspended the monitoring of the number of days overdue (delay of more than 30 days, the amount of which exceeds HUF 30 thousand, and delay of more than 90 days, the amount of which does not exceed the significant credit default threshold) for the period spent in the moratorium, but left all other indicators unchanged. Incorporating the payment moratorium into the staging logic does not result in an increase in group ECL.

The Bank makes all exposures subject to an individual examination that have been affected by the moratorium for less than 9 months or more than 9 months, in aggregate the time spent under Moratorium 1 and Moratorium 2. During the regular monitoring activity, the Bank individually reviews whether the given obligor has difficulties in meeting its payment obligations, whether it is expected to have such difficulties, and whether it can be established that the debtor's financial situation has deteriorated. In the course of the investigation, the Bank shall take into account the provisions of Article 178 (1) (a) of CRR and MNB Recommendation 13/2019 (VII.2).

Following the procedure described above, the monitoring process is suitable for the Bank to individually determine the need for classification as a defaulted exposure (including the “unlikely to pay” conditions) and the need for a restructuring schedule for repayment rescheduling, and to establish the adequate impairment/provision.

The effect of COVID-19 is considered in the group ECL calculation as follows. Forward-looking information is incorporated into the corporate PD values that determine the ECL, through the macro-correction multiplier resulting from the Bank’s macro model. The strongest explanatory variable in the macro model is the GDP. Primarily, the drastic, negative change in the estimated future trajectory of GDP transmits COVID-19 to the model as a factor that increases the default probability. The source of the GDP forecasts, including the baseline, optimistic and pessimistic trajectories, is the MNB's Inflation Report and the Bank's own forecast.

The estimated values of the explanatory variables of the macromodel for the future in each scenario are as follows:

Base trajectory	**2020**	**2021**	**2022**
Annual change in GDP (YoY)	(0,30%)	2,20%	3,50%
Annual change in house price index (YoY)	6,00%	3,30%	3,00%
Annual change in 5-year goverment bond yield	(0,31%)	0,05%	0,05%

Optimistic trajectory	**2020**	**2021**	**2022**
Annual change in GDP (YoY)	2,00%	4,00%	3,50%
Annual change in house price index (YoY)	7,00%	4,30%	4,00%
Annual change in 5-year goverment bond yield	(0,31%)	0,05%	0,05%

Pessimistic trajectory	**2020**	**2021**	**2022**
Annual change in GDP (YoY)	(4,70%)	1,40%	3,50%
Annual change in house price index (YoY)	5,00%	2,30%	2,00%
Annual change in 5-year goverment bond yield	(0,31%)	0,05%	0,05%

The scenarios were considered with equal weighting.

The Bank’s macro model represents the effect of COVID-19 as an external factor affecting the whole economy through its strongest explanatory variable. Some transactions, the probability of default of which is obviously extremely affected by COVID-19, have been transferred to the set of transactions for which ECL is calculated individually.

Due to MFB's role as a development bank, the majority of its loan portfolio consists of large, long-term, loans with special conditions, provided directly to Clients, and their ECL is calculated on an individual basis. In 2020, the Bank reviewed its large loans, which make up the most significant part of its portfolio, and increased the ECL for those transactions for which the expected impact of the pandemic justified it. In order to manage the increased credit risk due to COVID-19, the Bank strengthened and supplemented its reporting function to the Executive Board and the Supervisory Board. The Bank does not apply portfolio level management corrections or overlays.

b) Exposure to credit risk

Gross book value of customer loans and loans to banks at amortized cost broken down into customer rating categories described under the risk management principles are as follows.

		2020				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
General governments	1 - 2	200 299	0	0	0	200 299
	3 - 6	12 056	0	0	0	12 056
	7 - 8	0	0	0	0	0
Total general governments		**212 355**	**0**	**0**	**0**	**212 355**
Other financial corporations	1 – 2	116 546	0	0	0	116 546
	3 - 6	91 823	54 760	0	0	146 583
	7 – 8	0	0	0	142	142
Total other financial corporations		**208 369**	**54 760**	**0**	**142**	**263 271**
Non-financial corporations	1 – 2	114 549	40 835	0	0	155 384
	3 – 6	146 325	141 386	0	0	287 711
	7 – 8	0	1 520	33 497	7 697	42 714
Total non-financial corporations		**260 874**	**183 741**	**33 497**	**7 697**	**485 809**
Households*	1 - 2	151	0	0	0	151
	3 - 6	69 325	157	13	0	69 495
	7 – 8	181	4 694	10	72 022	76 907
Total households		**69 657**	**4 851**	**23**	**72 022**	**146 553**
Total customer loans		**751 255**	**243 352**	**33 520**	**79 861**	**1 107 988**
Impairment		(1 293)	(17 178)	(22 945)	(3 757)	(45 173)
Maximum credit exposure		**749 962**	**226 174**	**10 575**	**76 104**	**1 062 815**

*: In case of family agricultural loans managed by intermediaries the Bank applies simplified staging rules which basically based on days past due and differ from the rules applicable to transactions directly managed by the Bank. Main reasons of this are the nature of this sub-portfolio and the limited information available for the intermediaries.

		2020				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Banks	1 - 2	38 123	0	0	0	38 123
Total loans to banks		**38 123**	**0**	**0**	**0**	**38 123**
Impairment		(4)	0	0	0	(4)
Maximum credit exposure		**38 119**	**0**	**0**	**0**	**38 119**
Deposits at central and other banks	1 - 2	268 201	0	0	0	268 201
Total deposits at central and other banks		**268 201**	**0**	**0**	**0**	**268 201**
Impairment		(23)	0	0	0	(23)
Maximum credit exposure		**268 178**	**0**	**0**	**0**	**268 178**

		2019				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
General governments	1 - 2	1 313	0	0	0	1 313
	3 - 6	210 594	0	0	0	210 594
	7 - 8	0	0	0	0	0
Total general governments		**211 907**	**0**	**0**	**0**	**211 907**
Other financial corporations	1 – 2	107 618	0	0	0	107 618
	3 - 6	100 712	5 719	0	0	106 431
	7 – 8	0	0	0	307	307
Total other financial corporations		**208 330**	**5 719**	**0**	**307**	**214 356**
Non-financial corporations	1 – 2	137 057	2 578	0	0	139 635
	3 – 6	157 668	10 597	5 104	0	173 369
	7 – 8	0	18 272	27 083	7 456	52 811
Total non-financial corporations		**294 725**	**31 447**	**32 187**	**7 456**	**365 815**
Households*	1 - 2	171	0	0	0	171
	3 - 6	74 839	1 419	9	0	76 267
	7 – 8	231	80	0	61 713	62 024
Total households		**75 241**	**1 499**	**9**	**61 713**	**138 462**
Total customer loans		**790 203**	**38 665**	**32 196**	**69 476**	**930 540**
Impairment		(3 155)	(4 157)	(20 700)	(2 281)	(30 293)
Maximum credit exposure		**787 048**	**34 508**	**11 496**	**67 195**	**900 247**

**: In case of family agricultural loans managed by intermediaries the Bank applies simplified staging rules which basically based on days past due and differ from the rules applicable to transactions directly managed by the Bank. Main reasons of this are the nature of this sub-portfolio and the limited information available for the intermediaries.*

		2019				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Banks	1 - 2	67 743	0	0	0	67 743
Total loans to banks		**67 743**	**0**	**0**	**0**	**67 743**
Impairment		(21)	0	0	0	(21)
Maximum credit exposure		**67 722**	**0**	**0**	**0**	**67 722**
Deposits at central and other banks	1 - 2	35 374	0	0	0	35 374
Total deposits at central and other banks		**35 374**	**0**	**0**	**0**	**35 374**
Impairment		(6)	0	0	0	(6)
Maximum credit exposure		**35 368**	**0**	**0**	**0**	**35 368**

Undrawn loan commitments and guarantees broken down into customer rating categories described under the risk management principles are as follows.

		2020				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loan commitments	1 - 2	67 537	15 000	0	0	82 537
	3 - 6	101 256	35 926	0	0	137 182
	7 - 8	5 200	0	0	0	5 200
Total loan commitments		**173 993**	**50 926**	**0**	**0**	**224 919**
Guarantees	1 - 2	43 381	7 001	0	0	50 382
	3 - 6	45 796	9 580	0	0	55 376
	7 – 8	0	0	0	0	0
Total guarantees		**89 177**	**16 581**	**0**	**0**	**105 758**
Guarantees and loan commitments total		**263 170**	**67 507**	**0**	**0**	**330 677**

		2019				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loan commitments	1 - 2	19 753	0	0	0	19 753
	3 - 6	65 551	1 034	0	0	66 585
	7 - 8	1 917	2 840	251	0	5 008
Total loan commitments		**87 221**	**3 874**	**251**	**0**	**91 346**
Guarantees	1 - 2	81 270	12 000	0	0	93 270
	3 - 6	200	3 968	0	0	4 168
	7 – 8	0	19 150	2 938	0	22 088
Total guarantees		**81 470**	**35 118**	**2 938**	**0**	**119 526**
Guarantees and loan commitments total		**168 691**	**38 992**	**3 189**	**0**	**210 872**

The table below represents the gross carrying amount transfers between impairment categories for customer loans valued at amortized cost and for undrawn loan commitments and guarantees. The movements represent year-on-year changes, therefore the new loans during the year are presented in that category where they were at 31 December, while the loans which were repaid/sold during the year were presented in their opening category. See the impairment and provision transfers between impairment categories in note 30.

		Opening balance as at 1 January 2020	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Customer loans		**790 203**	**176 181**	**0**	**(43 078)**	**(180 070)**	**(14)**	**8 033**		**751 255**
General governments	**Stage 1**	**211 907**	0	0	448	0	0	0		**212 355**
Other financial corporations	**Stage 1**	**208 330**	51 013	0	(6 223)	(45 830)	0	1 079		**208 369**
Other non-financial corporations	**Stage 1**	**294 725**	122 099	0	(32 321)	(129 555)	0	5 926		**260 874**
Households	**Stage 1**	**75 241**	3 069	0	(4 982)	(4 685)	(14)	1 028		**69 657**
Loans to banks	**Stage 1**	**67 743**	**0**	**0**	**(29 620)**	**0**	**0**	**0**		**38 123**
Refinancing loans	**Stage 1**	**2 132**	0	0	(528)	0	0	0		**1 604**
Other loans	**Stage 1**	**65 611**	0	0	(29 092)	0	0	0		**36 519**
Customer loans		**38 665**	**5 880**	**0**	**(788)**	**207 652**	**(63)**	**(7 994)**	**0**	**243 352**
General governments	**Stage 2**	**0**	0	0	0	0	0	0	0	**0**
Other financial corporations	**Stage 2**	**5 719**	0	0	(201)	50 304	0	(1 062)	0	**54 760**
Other non-financial corporations	**Stage 2**	**31 447**	5 872	0	(548)	152 930	(63)	(5 897)	0	**183 741**
Households	**Stage 2**	**1 499**	8	0	(39)	4 418	0	(1 035)	0	**4 851**
Loans to banks	**Stage 2**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	**Stage 2**	**0**	0	0	0	0	0	0	0	**0**
Other loans	**Stage 2**	**0**	0	0	0	0	0	0	0	**0**

		Opening balance as at 1 January 2020	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Customer loans	Stage 3	**101 672**	**9 985**	**(1 864)**	**3 518**		**70**	**0**	**0**	**113 381**
General governments		**0**	0	0	0		0	0	0	**0**
Other financial corporations		**307**	0	0	(165)		0	0	0	**142**
Other non-financial corporations		**39 643**	611	(1 864)	2 748		56	0	0	**41 194**
Households		**61 722**	9 374	0	935		14	0	0	**72 045**
Loans to banks		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans		**0**	0	0	0	0	0	0	0	**0**
Other loans		**0**	0	0	0	0	0	0	0	**0**
Customer loans	Total	**930 540**	**192 046**	**(1 864)**	**(40 348)**	**27 582**	**(7)**	**39**	**0**	**1 107 988**
General governments		**211 907**	0	0	448	0	0	0	0	**212 355**
Other financial corporations		**214 356**	51 013	0	(6 589)	4 474	0	17	0	**263 271**
Other non-financial corporations		**365 815**	128 582	(1 864)	(30 121)	23 375	(7)	29	0	**485 809**
Households		**138 462**	12 451	0	(4 086)	(267)	0	(7)	0	**146 553**
Loans to banks		**67 743**	**0**	**0**	**(29 620)**	**0**	**0**	**0**	**0**	**38 123**
Refinancing loans		**2 132**	0	0	(528)	0	0	0	0	**1 604**
Other loans		**65 611**	0	0	(29 092)	0	0	0	0	**36 519**

	Opening balance as at 1 January 2020	New commitments	Drawn / matured commitments	Net movements without stage transfer	From stage 1 to stage 2. or 3	From stage 2 or 3 to stage 1	From stage 2 to stage 3	Closing balance as at 31 December 2020
Stage 1	**168 691**	**243 786**	**(78 990)**	**(34 059)**	**(36 863)**	**605**		**263 170**
Loan commitments	**87 221**	161 588	(24 627)	(16 361)	(34 433)	605		173 993
Guarantees	**81 470**	82 198	(54 363)	(17 698)	(2 430)	0		89 177
Stage 2	**38 992**	**30 745**	**(16 368)**	**(8 355)**	**23 356**	**(863)**	**0**	**67 507**
Loan commitments	**3 874**	30 000	(280)	(2 731)	20 926	(863)	0	50 926
Guarantees	**35 118**	745	(16 088)	(5 624)	2 430	0	0	16 581
Stage 3	**3 189**	**0**	**(3 189)**	**0**		**0**	**0**	**0**
Loan commitments	**251**	0	(251)	0		0	0	0
Guarantees	**2 938**	0	(2 938)	0		0	0	0
Total	**210 872**	**274 531**	**(98 547)**	**(42 414)**	**(13 507)**	**(258)**	**0**	**330 677**
Loan commitments	**91 346**	191 588	(25 158)	(19 092)	(13 507)	(258)	0	224 919
Guarantees	**119 526**	82 943	(73 389)	(23 322)	0	0	0	105 758

		Opening balance as at 1 January 2019	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2019
Customer loans		**530 690**	**330 434**	**(6 635)**	**(50 685)**	**(13 820)**	**(487)**	**706**		**790 203**
General governments		**209 251**	3 766	0	(1 110)	0	0	0		**211 907**
Other financial corporations		**122 694**	105 459	0	(19 823)	0	0	0		**208 330**
Other non-financial corporations	**Stage 1**	**109 892**	220 977	0	(23 211)	(12 937)	(487)	491		**294 725**
Households		**88 853**	232	(6 635)	(6 541)	(883)	0	215		**75 241**
Loans to banks		**35 368**	**32 553**	**0**	**(178)**	**0**	**0**	**0**		**67 743**
Refinancing loans		**3 215**	0	0	(1 083)	0	0	0		**2 132**
Other loans		**32 153**	32 553	0	905	0	0	0		**65 611**

		Opening balance as at 1 January 2019	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2019
Customer loans		**14 495**	**11 512**	**(57)**	**2 009**	**13 431**	**(2 039)**	**(813)**	**127**	**38 665**
General governments		**0**	0	0	0	0	0	0	0	**0**
Other financial corporations		**0**	5 719	0	0	0	0	0	0	**5 719**
Other non-financial corporations	**Stage 2**	**13 532**	5 793	0	2 064	12 577	(2 039)	(556)	76	**31 447**
Households		**963**	0	(57)	(55)	854	0	(257)	51	**1 499**
Loans to banks		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans		**0**	0	0	0	0	0	0	0	**0**
Other loans		**0**	0	0	0	0	0	0	0	**0**
Customer loans		**109 438**	**20 342**	**(24 631)**	**(6 430)**	**0**	**3 118**	**(2)**	**(163)**	**101 672**
General governments		**5**	0	0	(5)		0	0	0	**0**
Other financial corporations		**0**	206	0	101		0	0	0	**307**
Other non-financial corporations	**Stage 3**	**61 322**	2 010	(24 500)	(2 212)		3 118	0	(95)	**39 643**
Households		**48 111**	18 126	(131)	(4 314)		0	(2)	(68)	**61 722**
Loans to banks		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans		**0**	0	0	0	0	0	0	0	**0**
Other loans		**0**	0	0	0	0	0	0	0	**0**
Customer loans		**654 623**	**362 288**	**(31 323)**	**(55 106)**	**(389)**	**592**	**(109)**	**(36)**	**930 540**
General governments		**209 256**	3 766	0	(1 115)	0	0	0	0	**211 907**
Other financial corporations		**122 694**	111 384	0	(19 722)	0	0	0	0	**214 356**
Other non-financial corporations	**Total**	**184 746**	228 780	(24 500)	(23 359)	(360)	592	(65)	(19)	**365 815**
Households		**137 927**	18 358	(6 823)	(10 910)	(29)	0	(44)	(17)	**138 462**
Loans to banks		**35 368**	**32 353**	**0**	**(178)**	**0**	**0**	**0**	**0**	**67 743**
Refinancing loans		**3 215**	0	0	(1 083)	0	0	0	0	**2 132**
Other loans		**32 153**	32 353	0	905	0	0	0	0	**65 611**

	Opening balance as at 1 January 2019	New commitments	Drawn / matured commitments	Net movements without stage transfer	From stage 1 to stage 2. or 3	From stage 2 or 3 to stage 1	From stage 2 to stage 3	Closing balance as at 31 December 2019
Stage 1	**171 298**	**91 887**	**(14 026)**	**(76 338)**	**(4 131)**	**1**		**168 691**
Loan commitments	**117 576**	46 177	(6 026)	(69 587)	(920)	1		**87 221**
Guarantees	**53 722**	45 710	(8 000)	(6 751)	(3 211)	0		**81 470**
Stage 2	**26 754**	**17 266**	**(2 089)**	**(3 717)**	**4 036**	**(1)**	**(3 257)**	**38 992**
Loan commitments	**3 826**	1 167	0	(1 624)	825	(1)	(319)	**3 874**
Guarantees	**22 928**	16 099	(2 089)	(2 093)	3 211	0	(2 938)	**35 118**
Stage 3	**0**	**0**	**0**	**0**	**0**	**0**	**3 189**	**3 189**
Loan commitments	**0**	0	0	0		0	251	**251**
Guarantees	**0**	0	0	0		0	2 938	**2 938**
Total	**198 052**	**109 153**	**(16 115)**	**(80 055)**	**(95)**	**0**	**(68)**	**210 872**
Loan commitments	**121 402**	**47 344**	**(6 026)**	**(71 211)**	**(95)**	**0**	**(68)**	**91 346**
Guarantees	**76 650**	**61 809**	**(10 089)**	**(8 844)**	**0**	**0**	**0**	**119 526**

Customer loans and loans to banks at fair value through profit and loss broken down into customer rating categories described under the risk management principles are as follows.

		2020			
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
General government	1 - 2	25	0	0	25
	3 - 6	596	0	0	596
	7 - 8	0	0	0	0
Total general government		**621**	**0**	**0**	**621**
Other financial corporation	1 – 2	0	0	0	0
	3 - 6	2 843	735	0	3 578
	7 – 8	0	0	0	0
Total other financial corporations		**2 843**	**735**	**0**	**3 578**
Other non-financial corporation	1 – 2	10	39	0	49
	3 – 6	0	3 033	20	3 053
	7 – 8	0	135	421	556
Total other non-financial corporations		**10**	**3 207**	**441**	**3 658**
Household	1 - 2	0	0	0	0
	3 - 6	32	156	0	188
	7 – 8	0	9	14	23
Total household		**32**	**165**	**14**	**211**
Total customer loans		**3 506**	**4 107**	**455**	**8 068**
Loans to banks	1 – 2	34 544	24	0	34 568
	3 – 6	446	0	0	446
	7 – 8	0	0	0	0
Total loans to banks		**34 990**	**24**	**0**	**35 014**

		2019			
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
General government	1 - 2	636	0	0	636
	3 - 6	64	0	0	64
	7 - 8	0	0	0	0
Total general government		**700**	**0**	**0**	**700**
Other financial corporation	1 – 2	0	0	0	0
	3 - 6	3 806	0	0	3 806
	7 – 8	0	0	0	0
Total other financial corporations		**3 806**	**0**	**0**	**3 806**
Other non-financial corporation	1 – 2	2 664	16	0	2 680
	3 – 6	29	1 710	0	1 739
	7 – 8	0	710	708	1 418
Total other non-financial corporations		**2 693**	**2 436**	**708**	**5 837**
Household	1 - 2	0	0	0	0
	3 - 6	41	3	0	44
	7 – 8	0	198	10	208
Total household		**41**	**201**	**10**	**252**
Total customer loans		**7 240**	**2 637**	**718**	**10 595**
Loans to banks	1 – 2	44 152	0	0	44 152
	3 – 6	1 383	0	0	1 383
	7 – 8	0	0	0	0
Total loans to banks		**45 535**	**0**	**0**	**45 535**

The table below represents debt securities by external rating categories

	2020			2019		
	S&P rating	***Moody's rating***	**Amount**	***S&P rating***	***Moody's rating***	**Amount**
Amortized cost debt securities			**116 036**			**61 862**
Hungarian government bonds	*BBB*	*Baa3*	54 900	*BBB*	*Baa3*	48 725
Corporate bonds	*	*	53 324	*	*	5 182
Mortgage bonds	*BBB*	-	7 812	*BBB*	-	7 955
FVOCI debt securities			**39 046**			**39 909**
Government bonds	*BBB*	*Baa3*	38 565	*BBB*	*Baa3*	39 909
Treasury bills	*BBB*	*Baa3*	481	*BBB*	-	0

*: Internationl rating is not available for these corporate bonds.

Exposure to credit risk and collaterals

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan. however, collateral provides additional security and the Group request that corporate borrowers provide it. The Group may take collateral in form of a first rank mortgage over real estate. pledges on all corporate assets and other liens and guarantees (mostly state guarantees) as detailed in the next subsection.

The purpose of the table is to present a comparison between the net carrying amount of the customer loans and loans to bank at amortized cost and the corresponding collateral amounts to show the coverage. The fair value of the collaterals is maximized at the net carrying amount of the loans and commitments.

LOANS AT AMORTIZED COST	**Under collateralized**		**Full or over collateralized**		**Uncollateralized**	**Total 31 December 2020**	
	carrying value of loans	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**	**fair value of collateral**
Customer loans	**643 908**	**447 576**	**175 499**	**175 499**	**243 408**	**1 062 815**	**623 075**
General governments	196 578	191 248	13 041	13 041	2 638	212 257	204 289
Other financial corporations	208 018	141 663	422	422	53 025	261 465	142 085
Other non-financial corporations	235 811	114 165	53 657	53 657	154 862	444 330	167 822
Households	3 501	500	108 379	108 379	32 883	144 763	108 879
Loans to banks	**36 516**	**36 513**	**0**	**0**	**1 603**	**38 119**	**36 513**
Refinancing loans	0	0	0	0	1 603	1 603	0
Other loans	36 516	36 513	0	0	0	36 516	36 513
Total	**680 424**	**484 089**	**175 499**	**175 499**	**245 011**	**1 100 934**	**659 588**

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2019	
LOANS AT AMORTIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**	**fair value of collateral**
Customer loans	**417 507**	**304 223**	**242 175**	**242 175**	**240 565**	**900 247**	**546 398**
General governments	203 104	201 748	4 285	4 285	3 414	210 803	206 033
Other financial corporations	93 192	45 943	75 905	75 905	44 624	213 721	121 848
Other non-financial corporations	121 058	56 483	45 455	45 455	171 306	337 819	101 938
Households	153	49	116 530	116 530	21 221	137 904	116 579
Loans to banks	**0**	**0**	**65 592**	**65 592**	**2 130**	**67 722**	**65 592**
Refinancing loans	0	0	0	0	2 130	2 130	0
Other loans	0	0	65 592	65 592	0	65 592	65 592
Total	**417 507**	**304 223**	**307 767**	**307 767**	**242 695**	**967 969**	**611 990**

The following table includes the reconciliation of the collateral value and the net carrying value for credit impaired (stage 3 and POCI) loans only. The fair value of the collaterals is maximized at the net carrying amount of the loans.

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2020	
LOANS AT AMORTIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**	**fair value of collateral**
Customer loans	**2 939**	**1 431**	**49 845**	**49 845**	**33 895**	**86 679**	**51 276**
General governments	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	97	97	14 063
Other non-financial corporations	2 379	1 076	12 987	12 987	940	16 306	37 213
Households	560	355	36 858	36 858	32 858	70 276	0
Loans to banks	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0
Total	**2 939**	**1 431**	**49 845**	**49 845**	**33 895**	**86 679**	**51 276**

LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2019	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
Customer loans	**6 547**	**4 681**	**50 065**	**50 065**	**22 079**	**78 691**	**54 746**
General governments	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	225	225	0
Other non-financial corporations	6 410	4 648	10 238	10 238	640	17 288	14 886
Households	137	33	39 827	39 827	21 214	61 178	39 860
Loans to banks	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0
Total	**6 547**	**4 681**	**50 065**	**50 065**	**22 079**	**78 691**	**54 746**

The following table includes the carrying amount of the customer loans and loans to banks mandatorily at fair value through profit and loss and the corresponding collateral amounts. The fair value of the collaterals is maximized at the net carrying amount of the loans.

LOANS AT FAIR VALUE	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2020	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
Loans and advances to banks	**0**	**0**	**0**	**0**	**35 014**	**35 014**	**0**
Municipality loan program	0	0	0	0	25 959	25 959	0
Business development loan program	0	0	0	0	8 137	8 137	0
Agricultural development loan program	0	0	0	0	655	655	0
Retail loan program	0	0	0	0	263	263	0
Customer loans	**34**	**31**	**1 862**	**1 862**	**6 172**	**8 068**	**1 893**
General governments	0	0	621	621	0	621	621
Other financial corporations	0	0	0	0	3 578	3 578	0
Other non-financial corporations	20	18	1 044	1 044	2 594	3 658	1 062
Households	14	13	197	197	0	211	210
Total	**34**	**31**	**1 862**	**1 862**	**41 186**	**43 082**	**1 893**

LOANS AT FAIR VALUE	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2019	
	carrying value of loans	fair value of collateral	carrying value of loans	fair value of collateral	carrying value of loans	carrying value of loans	fair value of collateral
Loans and advances to banks	**0**	**0**	**0**	**0**	**45 535**	**45 535**	**0**
Municipality loan program	0	0	0	0	27 858	27 858	0
Business development loan program	0	0	0	0	16 377	16 377	0
Agricultural development loan program	0	0	0	0	862	862	0
Retail loan program	0	0	0	0	438	438	0
Customer loans	**7 019**	**3 454**	**2 547**	**2 547**	**1 029**	**10 595**	**6 001**
General governments	0	0	691	691	9	700	691
Other financial corporations	3 806	1 252	0	0	0	3 806	1 252
Other non-financial corporations	3 198	2 188	1 619	1 619	1 020	5 837	3 807
Households	15	14	237	237	0	252	251
Total	**7 019**	**3 454**	**2 547**	**2 547**	**46 564**	**56 130**	**6 001**

Exposure to credit risk and collaterals –off-balance sheet items

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2020	
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	carrying value of commitments	fair value of collateral
Loan commitments and guarantees	**64 784**	**36 227**	**19 913**	**19 913**	**244 314**	**329 011**	**56 140**
Loan commitments	41 401	22 007	4 041	4 041	178 280	223 722	26 048
Guarantees	23 383	14 220	15 872	15 872	66 034	105 289	30 092

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2019	
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	carrying value of commitments	fair value of collateral
Loan commitments and guarantees	**73 920**	**42 221**	**26 678**	**26 678**	**106 658**	**207 256**	**68 899**
Loan commitments	42 119	27 967	3 102	3 102	44 892	90 113	31 069
Guarantees	31 801	14 254	23 576	23 576	61 766	117 143	37 830

c) Collateral and other security enhancements

An estimate of the fair value of collateral and other security enhancements (up to the amount of receivables) is shown in the table below.

	31 December 2020											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollaterialised	Total
LOANS AT AMORIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Customer loans	**315 896**	**310 378**	**211 403**	**149 864**	**182 356**	**118 068**	**109 752**	**44 763**	**819 407**	**623 073**	**243 408**	**1 062 815**
General governments	208 562	203 231	1 057	1 058	0	0	0	0	209 619	204 289	2 638	**212 257**
Other financial corporations	107 286	107 099	0	0	84 145	28 209	17 009	6 777	208 440	142 085	53 025	**261 465**
Other non-financial corporations	0	0	171 830	110 498	27 753	19 402	89 885	37 921	289 468	167 821	154 862	**444 330**
Households	48	48	38 516	38 308	70 458	70 457	2 858	65	111 880	108 878	32 883	**144 763**
Loans to banks	**36 516**	**36 513**	**0**	**0**	**0**	**0**	0	**0**	**36 516**	**36 513**	**1 603**	**38 119**
Refinancing loans	0	0	0	0	0	0	0	0	0	0	1 603	**1 603**
Other loans	36 516	36 513	0	0	0	0	0	0	36 516	36 513	0	**36 516**

Other category mostly includes suretyship (HUF 40 313 million) and cash deposits (HUF 43 131 million), and it also includes bank guarantees (HUF 18 million) and other collaterals (HUF 22 451 million).

	31 December 2019											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollaterialised	Total
LOANS AT AMORIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Customer loans	**311 140**	**309 754**	**128 610**	**110 307**	**145 339**	**100 565**	**74 593**	**25 773**	**659 682**	**546 399**	**240 565**	**900 247**
General governments	203 104	201 748	1 308	1 308	2 977	2 977	0	0	207 389	206 033	3 414	**210 803**
Other financial corporations	97 112	97 082	0	0	55 415	18 625	16 570	6 142	169 097	121 849	44 624	**213 721**
Other non-financial corporations	10 837	10 837	86 185	67 976	11 497	3 513	57 994	19 613	166 513	101 939	171 306	**337 819**
Households	87	87	41 117	41 023	75 450	75 450	29	18	116 683	116 578	21 221	**137 904**
Loans to banks	**33 052**	**33 052**	**0**	**0**	**0**	**0**	**32 540**	**32 540**	**65 592**	**65 592**	**2 130**	**67 722**
Refinancing loans	0	0	0	0	0	0	0	0	0	0	2 130	**2 130**
Other loans	33 052	33 052	0	0	0	0	32 540	32 540	65 592	65 592	0	**65 592**

The following table includes an estimate of the fair value of collateral and other security enhancements (up to the amount of receivables) for credit impaired (stage 3 and POCI) loans only.

	31 December 2020											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla-terialised	Total
LOANS AT AMORIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Customer loans	**0**	**0**	**50 921**	**49 717**	**113**	**113**	**1 750**	**1 447**	**52 784**	**51 277**	**33 895**	**86 679**
General governments	0	0	0	0	0	0	0	0	0	0	0	**0**
Other financial corporations	0	0	0	0	0	0	0	0	0	0	97	**97**
Other non-financial corporations	0	0	13 503	12 504	113	113	1 750	1 446	15 366	14 063	940	**16 306**
Households	0	0	37 418	37 213	0	0	0	1	37 418	37 214	32 858	**70 276**
Loans to banks	**0**	**0**	**0**	**0**	**0**	**0**	0	**0**	**0**	**0**	**0**	**0**
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	**0**
Other loans	0	0	0	0	0	0	0	0	0	0	0	**0**

	31 December 2019											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla-terialised	Total
LOANS AT AMORIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Customer loans	**0**	**0**	**54 777**	**52 892**	**13**	**13**	**1 822**	**1 842**	**56 612**	**54 747**	**22 079**	**78 691**
General governments	0	0	0	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0	0	225	225
Other non-financial corporations	0	0	14 840	13 049	13	13	1 795	1 826	16 648	14 888	640	17 288
Households	0	0	39 937	39 843	0	0	27	16	39 964	39 859	21 214	61 178
Loans to banks	**0**	**0**	**0**	**0**	**0**	**0**	0	**0**	**0**	**0**	**0**	**0**
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0	0	0	0	0	0

The following table includes the carrying amount of the customer loans and loans to bank mandatorily at fair value through profit and loss and an estimate of the fair value of collateral and other security enhancements (up to the amount of receivables).

	31 December 2020											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollaterialised	Total
LOANS AT FAIR VALUE	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Loans and advances to banks	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**35 014**	**35 014**
Municipality loan program	0	0	0	0	0	0	0	0	**0**	**0**	25 959	**25 959**
Business development loan program	0	0	0	0	0	0	0	0	**0**	0	8 137	**8 137**
Agricultural development loan program	0	0	0	0	0	0	0	0	0	0	655	**655**
Retail loan program	0	0	0	0	0	0	0	0	**0**	0	263	**263**
Customer loans	**77**	**77**	**1 711**	**1 711**	**0**	**0**	**108**	**106**	**1 896**	**1 894**	**6 172**	**8 068**
General governments	0	0	621	621	0	0	0	0	621	621	0	**621**
Other financial corporations	0	0	0	0	0	0	0	0	0	0	3 578	**3 578**
Other non-financial corporations	75	75	901	901	0	0	88	86	1 064	1 062	2 594	**3 658**
Households	2	2	189	189	0	0	20	20	211	211	0	**211**

	31 December 2019											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollaterialised	Total
LOANS AT FAIR VALUE	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Loans and advances to banks	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**45 535**	**45 535**
Municipality loan program	0	0	0	0	0	0	0	0	0	0	27 858	**27 858**
Business development loan program	0	0	0	0	0	0	0	0	0	0	16 377	**16 377**
Agricultural development loan program	0	0	0	0	0	0	0	0	0	0	862	**862**
Retail loan program	0	0	0	0	0	0	0	0	0	0	438	**438**
Customer loans	**71**	**71**	**5 173**	**4 165**	**3 469**	**1 141**	**853**	**624**	**9 566**	**6 001**	**1029**	**10 595**
General governments	0	0	691	691	0	0	0	0	691	691	9	**700**
Other financial corporations	0	0	0	0	3 469	1 141	337	111	3 806	1 252	0	**3 806**
Other non-financial corporations	69	69	4 260	3 253	0	0	488	485	4 817	3 807	1 020	**5 837**
Households	2	2	222	221	0	0	28	28	252	251	0	**252**

Collateral and other security enhancements to credit risk and collaterals –off-balance sheet items

	31 December 2020											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla-terialised	Total
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	carrying value of commitments
Loan commitments and guarantees	**3 606**	**3 606**	**11 836**	**7 265**	**19 611**	**12 495**	**49 644**	**32 774**	**84 697**	**56 140**	**244 314**	**329 011**
Loan commitments	2 112	2 112	7 752	3 181	15 285	8 169	20 293	12 586	45 442	26 048	178 280	223 722
Guarantees	1 494	1 494	4 084	4 084	4 326	4 326	29 351	20 188	39 255	30 092	66 034	105 289

	31 December 2019											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla-terialised	Total
	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	fair value of collateral	carrying value of commitments	carrying value of commitments
Loan commitments and guarantees	**21 102**	**21 102**	**32 428**	**21 295**	**7 297**	**5 211**	**39 771**	**21 291**	**100 598**	**68 899**	**106 658**	**207 256**
Loan commitments	1 911	1 911	27 339	19 090	3 059	973	12 912	9 095	45 221	31 069	44 892	90 113
Guarantees	19 191	19 191	5 089	2 205	4 238	4 238	26 859	12 196	55 377	37 830	61 766	117 143

The Central Budget determined a state guarantee frame for the Bank's asset side credit exposures (guarantee provided to the Bank) and also for liability side obligations (guarantee provided for the Bank). The amount and utilization (representing the amount allocated either to loan programs or individual loans) and the actul loan balance disbursed under the state guarantee frame and the related collaterals, being the state guarantee itself were the following.

	2020	2019
Asset side state guarantee frame	**650 000**	**800 000**
Utilization	632 882	256 745
from this actual loan balance at yearend	*221 330*	*239 087*
Collaterals	207 202	226 302
Liability side guarantee frame	**1 700 000**	**1 900 000**
Utilization	1 114 224	1 138 609
Collaterals	1 172 299	1 068 421

d) Restructured loans

The Group classifies a loan into the restructured category when a concession or amendment is made due to the borrower's current or anticipated financial difficulties which the Group would not have given if the borrower were financially sound. The table below does not include customers who do not pay due to the moratorium, as the Bank did not consider the fact of the moratorium to be an event triggering an automatic restructuring.

	Gross	Impairment	Net
31 December 2018	**18 476**	**(10 792)**	**7 684**
New restructured transactions	0	0	0
Derecognition	428	(10)	418
Decrease due to repayment	(790)	223	(567)
Decrease due to recovery	0	0	0
FX change	24	568	592
31 December 2019	**18 138**	**(10 011)**	**8 127**
New restructured transactions	0	0	0
Changes in existing restructured loans	87	(1 051)	(964)
Derecognition	147	0	147
Decrease due to repayment	0	0	0
Decrease due to recovery	0	0	0
FX change	1 449	(1 035)	414
31 December 2020	**19 821**	**(12 097)**	**7 724**

Neither during 2020, nor during 2019 there was no such contract modification that would have led to derecognition and re-recognition implying a derecognition gain or loss.

e) Concentration of credit risk

The below table includes the concentration of credit risk by industry on net carrying amount for customer loans.

Loans and advances to customers	**2020**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial services	432 886	54 710	0	1 178	488 774
Property development	50 866	122 798	5 922	0	179 586
Other services (local governments. health-care, other services)	29 033	4 222	122	72 663	106 040
Construction (including motorway financing)	54 440	2 120	2	9	56 571
Industry	48 819	30 103	4 441	965	84 328
Agriculture	67 552	7 820	1	219	75 592
Transport, storage, post, telecoms	45 751	793	506	0	47 050
Trade	24 121	1 544	9	978	26 652
Accommodation, catering	0	6 171	13	106	6 290
Total	**753 468**	**230 281**	**11 016**	**76 118**	**1 070 883**
of which amortized cost	*749 962*	*226 174*	*10 575*	*76 104*	*1 062 815*
of which FVTPL	*3 506*	*4 107*	*441*	*14*	*8 068*

Loans and advances to customers	**2019**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial services	396 528	5 556	0	1 981	404 065
Property development	143 736	1 332	6 105	0	151 173
Other services (local governments, health-care, other services)	27 584	964	16	63 181	91 745
Construction (including motorway financing)	45 460	5 358	4	0	50 822
Industry	40 887	19 849	5 232	98	66 066
Agriculture	76 082	2 930	6	282	79 300
Transport, storage, post, telecoms	3 593	914	805	0	5 312
Trade	19 264	206	26	1 657	21 153
Accommodation, catering	41 154	36	16	0	41 206
Total	**794 288**	**37 145**	**12 210**	**67 199**	**910 842**
of which amortized cost	*787 048*	*34 508*	*11 496*	*67 195*	*900 247*
of which FVTPL	*7 240*	*2 637*	*714*	*4*	*10 595*

B. LIQUIDITY RISK

a) Principles of liquidity risk management

The Group's principal objective is to carry out secure and established course of business. and the prevention of liquidity issues which could threaten the Group to meet its obligations. The liquidity management is determined by the nature of the business. the strategy. the annual business plan. the legal regulations and the regulatory activities of National Bank of Hungary.

Liquidity means the availability of necessary funds in time needed to meet the obligations. Liquidity demand arises when the obligations become due. Liquidity risk is the gap between in and outflows in different amount and time.

Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR) and Directive 2013/36 / EU (CRD IV) of 26 June 2013 have transposed the Basel III. Regulation into the European regulatory framework for credit institutions. The new requirements were introduced gradually, and 2019

was the first year that all requirements were fully met. At the same time, MFB Zrt. was exempted from the liquidity requirements, which is included in the MFB Act.

The Group has significant amount of liquidity reserves in the form of government securities and deposits with commercial banks, as well as other liquidity-providing Central Bank-eligible securities, therefore future cash outflows are continuously covered on the asset side. In addition, the Group's liquidity was further increased in 2020 by the amount of capital increases received in several instalments.

The Bank's liquidity reserve as at 31 December 2020 and 2019

	2020			2019		
	Par value	**Fair value**	**Free disposal**	**Par value**	**Fair value**	**Free disposal**
Hungarian government bonds	87 514	96 370	70 694	82 474	91 885	72 454
Mortgage bonds issued by banks	7 521	7 971	0	7 521	8 315	0
Other Central Bank-eligible securities	3 660	7 151	3 660	5 030	5 200	0
Total	**98 695**	**111 492**	**74 354**	**95 025**	**105 436**	**72 454**

The members of the Group also had a significant amount of liquidity reserves, deposits of HUF 67.2 billion (2019: HUF 40 billion) were placed with domestic credit institutions.

Liquidity risk is managed in a preventive manner to minimize the maturity, principal repayment and interest payment mismatch of loans provided in the course of loan programs and other financing. The Group's funding opportunities are particularly favourable both in terms of domestic and foreign funding. The Group's cost of funding has decreased in the recent period, especially due to the maturity of previously borrowed funds, which allowed the raising of new funds on more favourable terms.

Cash flow statements are prepared at least on a monthly basis which contain all banking book cash flow items and credit and investment directorates predicted cash flow transactions considering different scenarios. For continuous liquidity management a liquidity forecast is prepared on a monthly basis.

The Bank specifies in an instruction in which instruments the members of the Group may invest their free liquidity and regulates the Group's credit institution exposures with bank limits. The members of the Group report their exposures to the Bank on a monthly basis, which is approved by the Bank's ALCO (Asset Liability Committee).

Pursuant to Article 8 (2) of the MFB Act, the Bank does not apply the rules on liquidity ratios and liquidity requirements set out in Articles 411-428 of CRR.

The Group measures its liquidity risks in the following ways:

- Quantification of dependence on large individual deposits;
- Comprehensive cash flow, liquidity forecast;
- Stress-test;
- Survival analysis;
- Quantification of liquidity ratios.

The Group manages its liquidity risks as follows:

- Where possible (market opportunities, pricing), using the most appropriate liabilities for the assets side;
- Designation and operation of appropriate processes and rules;
- Set up a limit system;
- Establishment of liquidity reserves;
- Effective asset-liability management;
- Provision of data by members of the Group.

Liquidity ratios and the results of stress testing confirmed that the short and long-term liquidity positions are adequate at all times, due to the significant amount of liquidity reserves and favourable funding opportunities.

Risk Management Aspects of COVID-19

With regard to the Group's liquidity, neither COVID-19 nor the payment moratorium caused any difficulties. The liquidity reserve that the Bank holds in government securities is well above the amount of exposures that could be affected by the payment moratorium at the worst case scenario. In the case of the year-end cash flow plan and liquidity statements, we used the most conservative approach, so we used the assumption in the calculation that all clients will use the payment moratorium until 30 June 2021.

b) Remaining contractual maturities of financial liabilities

Maturities on contractual (principal and interest), undiscounted cash flows of financial liabilities were as follows. The guarantees were classified in the first category irrespective of the actual maturity of the credit line holding period. Similarly, the loan commitments were also classified in the first category as they can be drawn down at request.

2020	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Customer deposits	**235 882**	(238 374)	(229 299)	(84)	(2 864)	(1 746)	(4 381)
Loans from banks	**527 012**	(548 402)	(1 178)	(5 755)	(71 947)	(301 098)	(168 424)
Debt securities issued	**735 659**	(769 786)	(20 480)	(20 545)	(170 380)	(500 681)	(57 700)
Other financial liabilities	**4 632**	(4 632)	(4 632)	0	0	0	0
Derivatives	**911**	(843)	(177)	0	(666)	0	0
inflow			22 881	0	133	0	0
outflow			(23 058)	0	(799)	0	0
Hedge derivatives	**0**	0	0	0	0	0	0
inflow			0	0	0	0	0
outflow			0	0	0	0	0
Total financial liabilities and derivatives	**1 504 096**	**(1 562 037)**	**(255 766)**	**(26 384)**	**(245 857)**	**(803 525)**	**(230 505)**
Guarantees	**105 758**	**105 758**	**105 758**				
Loan commitments	**224 919**	**224 919**	**224 919**				

2019	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Customer deposits	**57 115**	(57 150)	(50 085)	(11)	(3 767)	(320)	(2 967)
Loans from banks	**362 993**	(371 011)	(1 309)	(6 012)	(30 467)	(220 374)	(112 849)
Debt securities issued	**693 269**	(719 409)	(480)	(83)	(335 162)	(360 717)	(22 967)
Other financial liabilities	**45 087**	(45 087)	(2 573)	(8)	(42 506)	0	0)
Derivatives	**253**	(289)	(60)	(23)	(103)	(103)	0
inflow			14 137	1 499	25	25	0
outflow			(14 197)	(1 522)	(128)	(128)	0
Hedge derivatives	**890**	(925)	0	58	(305)	(678)	0
inflow			0	58	183	1 285	0
outflow			0	0	(488)	(1 963)	0
Total financial liabilities and derivatives	**1 159 607**	**(1 193 871)**	**(54 507)**	**(6 079)**	**(412 310)**	**(582 192)**	**(138 783)**
Guarantees	**119 526**	**119 526**	**119 526**				
Loan commitments	**91 346**	**91 346**	**91 346**				

The Group is subject to additional HUF 54 538 million (2019: 39 574 million HUF) venture capital note payment obligation related to the equity consolidated associates that is payable as required by the investment plans.

C. MARKET RISKS

a) Currency risk management – basis of risk management

The Bank has assets and liabilities. both on and off-balance sheet. denominated in various foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank manages the currency structure of assets and liabilities on and off-balance sheet, utilizing forward foreign exchange transactions and other hedging instruments. It is the policy of the Bank that it should not speculate in currencies and should only take currency positions within strict limits. The Board of Directors establishes and monitors specific regulations based on statutory and internal limits. and approves the overall strategy. Compliance to these limits is regularly monitored.

The Foreign Exchange Guarantee Frame Agreement (FX Agreement) between the Bank and the Hungarian Ministry of Finance was signed in 2004. the modification was signed with the Ministry for National Economy in 2014. This FX Agreement manages foreign exchange risks of the Bank's foreign currency borrowings (EUR). Based on this FX Agreement. at the final maturity of the borrowings or upon introduction of EUR as the official currency of Hungary the State compensates any foreign exchange loss incurred on these borrowings and the Bank is required to pay to the State the amount of realized foreign exchange gains on these transactions in instalments. The amount of receivables from the State according to the FX Agreement is presented in Note 14.

Monthly stress tests quantify the impact of possible exchange rate movements (+/- 10% shift for EUR/HUF and EUR/USD).

The net exposure of the Bank is the total exposure decreased by the exposure fall under the FX state guarantee frame. The open position was long for EUR, CHF and GBP, and short for USD in 2020. With regard to the aggregate foreign exchange position, the strengthening of the HUF would increase the bank's profit. As for the USD position, a weakening of the USD would have a positive impact on the Bank's earnings. The following table represents the Bank's foreign exchange position in which the effect of the currency hedging contract with the Hungarian State has been already adjusted.

2020	**Absolute value**	**Net position**
EUR	3 085	3 085
USD	2 954	(2 954)
Other currencies	24	24
Total	**6 062**	**155**

2019	**Absolute value**	**Net position**
EUR	3 028	3 028
USD	3 465	(3 465)
Other currencies	15	15
Total	**6 508**	**(422)**

According to the stress-tests, 10% change in HUF exchange rates in the worst direction would cause HUF 606 million decrease in the Bank's foreign exchange income and thus the own equity as well (2019: HUF 651 million).

The Bank is exempted from keeping the trading book and does not take speculative positions due to a strategic decision. Accordingly, market risks (foreign exchange and interest rate) arise from the banking book, i.e. the normal operation of the bank (lending, raising funds). The Bank limits the amount of open foreign currency position and interest rate risk exposure by limits. Neither COVID-19 nor the related payment moratorium has an impact on the foreign exchange open position or the interest rate risk. The Bank closes the open foreign exchange position due to the possible increase in ECL due to COVID-19 with an appropriate market transaction. The Bank has set a limit of EUR 6 million for the foreign currency open position due to impairment/provision for foreign currency assets. If the amount of impairment/provision exceeds this limit, the Bank closes the position with a minimum of a market transaction equal to the amount of the overrun.

b) Foreign exchange risk analysis of financial assets and liabilities

2020	HUF	EUR	USD	Other currency	Total
Assets					
Cash, cash balances at central banks and other demand deposits	77 020	258	23	22	77 323
Financial assets held for trading	443	0	0	0	443
Non-trading financial assets mandatorily at fair value through profit or loss	43 082	3 651	0	0	46 733
Financial assets at fair value through other comprehensive income	41 387	6 934	0	0	48 321
Financial assets at amortized cost	1 206 881	269 656	15 279	0	1 491 816
Derivatives – Hedge accounting	1 608	0	0	0	1 608
Total financial assets (1)	**1 370 421**	**280 499**	**15 302**	**22**	**1 666 244**
Liabilities					
Financial liabilities held for trading	911	0	0	0	911
Financial liabilities at amortized cost	801 811	672 588	28 786	0	1 503 185
Derivatives – Hedge accounting	0	0	0	0	0
Total financial liabilities (2)	**802 722**	**672 588**	**28 786**	**0**	**1 504 096**
NET BALANCE SHEET POSITION (1) - (2)	**567 699**	**(392 089)**	**(13 484)**	**22**	**162 148**
Derivative notional amounts	(21 614)	10 085	11 914	0	**385**
NET FOREIGN EXCHANGE POSITION at 31 December	**546 085**	**(382 004)**	**(1 570)**	**22**	**162 533**
Impact of receivables from State due to currency-hedging agreement	0	392 796	0	0	**392 796**
ADJUSTED NET FOREIGN EXCHANGE POSITION at 31 December	**546 085**	**10 792**	**(1 570)**	**22**	**555 329**

The Bank manages foreign currency open positions (either short or long) within the strict limits approved by ALCO.

2019	HUF	EUR	USD	Other CCY	Total
Assets					
Cash, cash balances at central banks and other demand deposits	10 235	1 488	17	15	11 755
Financial assets held for trading	41 772	0	0	0	41 772
Non-trading financial assets mandatorily at fair value through profit or loss	56 130	0	0	0	56 130
Financial assets at fair value through other comprehensive income	42 206	9 582	0	0	51 788
Financial assets at amortized cost	791 932	270 261	4 083	0	1 066 276
Derivatives – Hedge accounting	1 073	0	0	0	1 073
Total financial assets (1)	**943 348**	**281 331**	**4 100**	**15**	**1 228 794**
Liabilities					
Financial liabilities held for trading	253	0	0	0	253
Financial liabilities at amortized cost	471 672	444 248	242 544	0	1 158 464
Derivatives – Hedge accounting	890	0	0	0	890
Total financial liabilities (2)	**472 815**	**444 248**	**242 544**	**0**	**1 159 607**
NET BALANCE SHEET POSITION (1) - (2)	**470 533**	**(162 917)**	**(238 444)**	**15**	**69 187**
Derivative notional amounts	(319)	(197 180)	235 192	0	**37 693**
NET FOREIGN EXCHANGE POSITION at 31 December	**470 214**	**(360 097)**	**(3 252)**	**15**	**106 880**
Impact of receivables from State due to currency-hedging agreement	0	369 259	0	0	**369 259**
ADJUSTED NET FOREIGN EXCHANGE POSITION at 31 December	**470 214**	**9 162**	**(3 252)**	**15**	**476 139**

c) Principles of interest rate risk management

Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net interest income. Gaps in the value of assets, liabilities and off-balance sheet instruments that mature or reprice during a given period generate interest rate risk. The Bank gives special attention to the preventive management of interest rate risk. The Bank's objective is to harmonize loans and their resources already during the acquisition of funds regarding maturity, interest base and repricing periods to prevent significant repricing mismatches. The Bank does not undertake interest rate exposure for speculative purposes. If the interest of loans and fund of loans are in mismatches, the Bank concludes interest rate swap deals to ensure the proper closing of the position. Before signing an interest rate swap deal a detailed proposal is prepared for the Asset-Liability Committee which determines the parameters of the deal.

The analysis of interest rate risk exposure is prepared on a monthly basis. Regularly prepared reports in connection with interest rate risk management are the following:

- Repricing balance sheet concerning full-scale assets and liabilities.
- Calculation of BPV (Basis Point Value) and GAP
- Stress-tests on interest rate risk exposure.
- Stress-tests on the drastic changes of interest rates.
- Measurement of applied interest bases in case of interest bearing assets and liabilities.

d) Interest rate risk analysis

The interest rate risk analysis is presented only in relation to the Bank, as this risk is not relevant for the other members of the MFB Group.

The performed interest rate risk reports and stress-tests indicate that the Bank's exposure to interest rate risk according to market reference interest rates (EURIBOR, LIBOR, BUBOR) is low. greater changes in market rates - in any direction – do not cause great negative effect on the Bank's profit due to the repricing consonance. However, by the end of 2020, the exposure to interest rate risk had increased, mainly due to the temporary placement of incoming capital in interest-bearing assets.

According to stress-tests. 1% change in BUBOR and 0.25% change in EURIBOR – at the same time and in the same direction - causes approximately HUF 3 539 million effect (2019: HUF 1 856 million), while 3% change in BUBOR and 1% change in EURIBOR causes approximately HUF 10 636 million effect (2019: HUF 5 043 million) on the Bank's annual interest income (the effect is positive in case of interest rate increase, negative in case of interest rate decrease).

The Bank assess the possible effects of interest rate changes – considering different direction and degree – on the value of the Bank's portfolio and on the capital using BPV (basis point value) GAP on a monthly basis. A 200 basis point increase in interest rates on interest-bearing assets and liabilities would have the following effect on the value of the Bank's capital, adjusted by revaluation band:

	31 December 2020								
	1-30 days	**31-90 days**	**91 days - 1 year**	**1 - 2 years**	**2 - 3 years**	**3 - 4 years**	**4 - 5 years**	**over 5 years**	**Total**
HUF	2	(436)	272	(111)	(602)	805	1 457	(13 530)	**(12 143)**
EUR	(44)	397	998	696	(285)	1 497	24 584	(14 670)	**13 174**
USD	(1)	11	0	0	0	0	0	0	**10**

	31 December 2019								
	1-30 days	**31-90 days**	**91 days - 1 year**	**1 - 2 years**	**2 - 3 years**	**3 - 4 years**	**4 - 5 years**	**over 5 years**	**Total**
HUF	(8)	(1 003)	(203)	1 166	266	(85)	1 209	(4 187)	**(2 845)**
EUR	235	287	123	1 682	1 487	(340)	1 811	(20 429)	**(15 143)**
USD	0	(20)	14	0	0	0	0	0	**(6)**

e) Market risk analysis

From market risk point of view, it is important that the Bank is not licensed for investment services, and does not undertake speculative positions. Trading position contains short-term government bonds and own foreign exchange exposures. The Bank is exempted from keeping a trading book and preparing reports.

The Bank performs VAR analysis for the FX position by its market risk management system. In the VAR calculations, the short government securities stock as well as the total open book foreign exchange position of the Bank are included. The VAR position calculated from the portfolio concerning 99% confidence level and 10 days holding period shows a low value it was 0.02% of the regulatory capital as at 31 December 2020 (2019: 0.04%). This means that the probability of a HUF 68 million losses in the Bank's FX position – concerning 10 days holding period – is only 1 % as at 31 December 2020 (2019: HUF 91 million).

VAR position – 31 December 2020

Regulatory capital (million HUF): 361 793

Absolute risk indicators	Interest	Foreign exchange	Diversification	Total	VAR expressed as a percentage of Regulatory capital
Net asset value	481	155	0	**636**	
Parametric VAR	0.4	67.8	0	**68.2**	**0.02**

VAR position – 31 December 2019

Regulatory capital (million HUF): 217 469

Absolute risk indicators	Interest	Foreign exchange	Diversification	Total	VAR expressed as a percentage of Regulatory capital
Net asset value	0	(422)	0	**(422)**	
Parametric VAR	0	91	0	**91**	**0.04**

D. OPERATIONAL RISK

Operational risk refers to the probability of losses caused by inappropriately designed or incorrectly executed business processes, internal errors induced by people carelessly or deliberately, intentionally executed external attacks against banking systems or operational processes, inappropriate operating of IT infrastructure, effects of external environment. The operational risk loss data are presented in the consalidated financial statement on a Bank only basis as among the MFB Group members the Bank has a structured operational risk management framework that ensures systematic identification and assessment of operational risks, elaboration and implementation of measures for mitigation of such risks.

Framework of effective banking operational risk management is based on proper internal governance which ensures that risk management policies, internal regulatory documentation and systems remain effective in a constantly changing business and regulatory environment.

For the above reason the Bank builds its operational risk management activity on the following principles:

- Bank performs operational risk management in a decentralized way along central coordination. Operational risk management is coordinated by a designated colleague (OpRisk Coordinator) of Strategic Risk Management Directorate within Risk Division; execution of operation risk management is responsibility of all areas of the Bank.
- Bank complies with the solvency capital requirement calculation concerning operational risk (CRR) by using basic indicator methodology. According to this method the capital requirement for operational risk is 15% of the CRR's benchmark indicator.
- Bank follows a comprehensive operational risk management approach:
  - Identifies. measures inherent risk elements of processes, systems, human activities, external environment (loss data collection and analysis based on Operational Risk Management Policy).
  - Process-focused, focusing on identifying losses and process efficiency improvement activity.
  - Methodology is proactive, collects potential risks as well not only already occurred and registered losses.
- Management of the Bank receives information on relevant operational risk management events in standalone form or as part of other management reports quarterly.
- The Bank provides education and training to all employees annually in order to improve risk awareness, general risk sensitivity and disseminate specific operational risk management knowledge.
- Bank maintains a separate database about operational risks and losses, which enables to fulfil its internal and external obligations concerning identification, measurement, analysis, evaluation, management, reporting, monitoring and capital requirement calculation and supervisory reporting.
- Operational risk management responsibilities and related tasks are also reflected in the job descriptions of the OpRisk Coordinator and designated colleagues of all concerned areas of the Bank.

The Bank meets the solvency capital requirement for operational risks according to the basic indicator method, according to which the Bank 's operational risk capital requirement was HUF 2 855 million on 31 December 2020. The Bank's operational risk losses are much lower than this on an annual basis. In 2020, the most significant operational risk loss was related to COVID-19-related expenditures (unplanned costs and investments). These totaled HUF 91.4 million.

The table below shows the additional expenses related to COVID-19, grouped according to the MNB Management Letter of 13 January 2021:

	Amount
Costs of preventing the spread of the coronavirus epidemic	28
Cost of mass remote work and setting up costs of home offices	41
Costs related to canceled trips and on - the - spot checks	2
Fees paid to consultants and external service providers	20
Total	**91**

In addition, the Bank incurred a gross operating risk loss of HUF 49.6 million, 96% of which is accounted for by the following two items: a redeemed counter-guarantee (HUF 34.2 million) and a supervisory fine of HUF 11 million imposed on the Bank by the MNB.

E. CAPITAL MANAGEMENT

According to Section 1 (7) of the HDB Law the Bank applies the regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR) in the respect of prudential requirements with the differences set out in HDB Law. The Bank's share capital must be at least HUF 100 billion according to the HDB Law. Among the Group members only the Bank falls under the CRR regulations. The HDB Law exempt the Bank from consolidated supervision therefore consolidated adjusted capital and capital adequacy is not prepared. The data in this section is identical with the stand alone Bank data.

In order to maintain its current solvency and to be able to meet its liabilities, the Bank must, at all times, have appropriate levels of primary core capital (i.e. Tier 1 capital: 4.5%), core capital (6.0%) and full regulatory capital (8.0%). Tier 1 capital has to contain the capital maintenance buffer (2.5%) mentioned in local Banking law. In the framework of the internal capital adequacy procedure, the Bank regularly determines the additional capital requirement for risky portfolios, which are prioritized by the MNB in its supervisory review. As of 2020 and 2019, compliance with the leverage ratio (3%) required by the Hungarian banking law is also mandatory.

In accordance with CRR a credit institution - for the purpose of maintaining solvency and the ability to fulfil liabilities - must have a solvency margin complying at all times (in all survey periods) with the amount of the risk of the financial and investment activities performed thereby and must continuously maintain at least 7% common equity Tier 1 and 10.5% capital adequacy ratio, that was kept both during 2020 and 2019. The supervision of complying with capital management regulations is performed by the National Bank of Hungary.

The Bank complied with the regulatory and prudential regulations and the limits. The capital adequacy ratio exceeded the minimum required ratio both in 2020 and in 2019. The Bank informs the Board of Directors quarterly about the activities and changes in the capital during the period. The regulatory capital is calculated and the compliance with limits is examined on a monthly basis.

	2020	2019
I. Calculation of Regulatory Capital		
Share capital	265 900	114 500
Share premium	81 870	81 870
Retained earnings	24 007	21 520
Accumulated other comprehensive income	498	746
General reserve	0	2 087
Net result for the year	(8 832)	400
Common equity Tier 1 capital before deduction	363 443	221 123
Total amount of deducted item		
Intangible assets	(1 650)	(3 654)
Common equity Tier 1 Capital (CET1)	**361 793**	**217 469**
Additional Tier1 Capital (AT1)	0	0
Tier 1 Capital (Tier1 or. T1)	**361 793**	**217 469**
General risk reserve	0	0
Tax impact of general risk reserve	0	0
Tier 2 Capital (T2)	**0**	**0**
Regulatory Capital (T1+T2)	**361 793**	**217 469**
II. Calculation of Capital Requirement		
Total capital requirement for credit risk	124 983	80 055
Total capital requirement for exchange rate risk	249	277
Total capital requirement for operating risk	2 850	2 353
Total capital requirement for credit valuation adjustment	598	440
Total Capital Requirement	**128 680**	**83 125**
Risk weighted exposure	**1 608 497**	**1 039 051**
III. Capital adequacy ratio	**22.49%**	**20.93%**

F. FAIR VALUE

In order to increase the consistency and comparability of the fair value measurement and related disclosures, IFRS 13 sets out a fair value hierarchy, categorizing the inputs applied at determination of the fair values into three levels.

The Group applies the following fair value hierarchy:

Level 1: The fair value of financial instruments is based on their quoted market price in active markets for identical instruments that are available for the Bank at the reporting date.

Level 2: The fair value of financial instruments is based on directly or indirectly observable data other than the quoted market price. The followings can be used for the valuation: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. Where discounted cash flow techniques are used, estimated future cash flows are based on the Bank's economic estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where valuation models are used, inputs are based on market related measures at the reporting date.

Level 3: The fair value of financial instruments is based on inputs other than observable market data. The valuation is based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group considers the fair value of its financial instruments to be level 1 if it was determined exclusively based on level 1 data. Level 2 category is applied when the measurement was based not only level 1 inputs, but no level 3 input, was required. When more fair values are available, the use of higher fair values hierarchy get priority, therefore if a security is primarily categorized as level 2 but level 1 data is also available the level 1 data will be applied automatically.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognized valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. For measuring derivatives both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) are taken into consideration when market participants would take this into consideration in pricing the derivatives.

Model inputs and values are calibrated against historical data and published forecasts and. where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

The Group measures forward transactions (derivative transactions) and HUF loans to credit institutions at EURIBOR-based interest rates at fair value. As the Group does not provide investment services, it enters into forward transactions only with credit institution partners who are not directly exposed to COVID-19 or the payment moratorium. The same is true for the significant proportion of loans valued at fair value.

a) Financial instruments measured at fair value by the level of fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date. by the level of the applied fair value hierarchy. The amounts are based on the values recognized in the statement of financial position.

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Derivatives		**443**		**443**
Non-trading financial assets mandatorily at fair value through profit or loss			**46 733**	**46 733**
Debt securities			3 651	3 651
Loans to customers			8 068	8 068
Loans to banks			35 014	35 014
Financial assets at fair value through other comprehensive income	**39 046**		**9 275**	**48 321**
Equity instruments			9 275	9 275
Debt instruments	39 046			39 046
Derivatives – Hedge accounting		**1 608**		**1 608**
FINANCIAL LIABILITIES				
Derivatives		911		**911**
Derivatives – Hedge accounting		0		**0**

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Derivatives		**41 772**		**41 772**
Non-trading financial assets mandatorily at fair value through profit or loss			**56 130**	56 130
Loans to customers			10 595	10 595
Loans to banks			45 535	**45 535**
Financial assets at fair value through other comprehensive income	**39 909**		**11 879**	**51 788**
Equity instruments			11 879	11 879
Debt instruments	39 909			39 909
Derivatives – Hedge accounting		**1 073**		**1 073**
FINANCIAL LIABILITIES				
Derivatives		253		**253**
Derivatives – Hedge accounting		890		**890**

The Bank uses the discounted future cash flows model. for its derivatives that is adjusted by the credit risk of the counterparty (asset side) or the Bank's own credit risk (liability side). The fair value of derivatives in hedge accounting is also calculated by using the same method. The underlying transactions in hedge accounting, the hedged item, are not reclassified into a fair value category, but remain in the amortized cost category.

Assets included in the „mandatorily at fair value through profit or loss" category are those failed on the SPPI test established by IFRS 9. The fair value of these items is determined based on the Group's internal model, which takes into account the value of future cash flows and expected market yield surcharge when discounting. The Group calculates the fair value of loans based on the discounted expected cash flow and discounts the contractual (capital, interest, interest subsidy) or individually determined future expected cash flows with the current yield curve or reference rate flat, increased by the product-level spread. In case of collective valuation, all contractual cash flows are taken into account and discounted. In case of individual valuation, the calculation includes the total expected cash flow. The fair value calculation is performed only for the already disbursed part, therefore the undrawn amount does not affect the fair value calculated.

For debt securities presented as financial instruments at fair value through other comprehensive income (formerly available for sale securities), the fair values are determined as the average of the best buy and sale price available publicly disclosed by Government debt management agency for the reporting date.

For the fair value determination of equity securities, the Group takes into consideration the expected return on the market, the marketability of the item, its mobilization (the supply and demand conditions and the available market prices, the proportion from the net equity of the investment) and the probability and magnitude of the loss. Venture capital fund units owned by the Bank are classified (determination of fair value) on a quarterly basis, in the initial phase of the capital funds, using the following methods. As the net asset value decreases in the years following the start-up of the equity fund due to the nature of the business and does not give an adequate picture of the potential of the investment, we assume that the enrty value (cost) gives a good approximation of the fair value of the investment in the initial period. An alternative to determining fair value is the so-called plan performance model. The point is that it does not focus on an annual fact/fact-based assessment, but on a plan/fact-based assessment measured cumulatively from the start of the fund. The main parameters of the plan performance model are: fulfillment of placements, costs accounted for in the fund, expenses of financial operations / recognized impairment ratio, amount of exits, net asset value. Venture capital funds have no material liabilities and no other material assets.

There was no transfer among the different fair value hierarchy categories.

b) Movement of financial assets categorized into level 3

	2020			
	Customer loans	**Loans to banks**	**Other equity instruments**	**Debt securities**
Opening balance as at 1 January	**10 595**	**45 535**	**11 879**	**0**
New disbursements/acquisition/capital increases	2 498	22	722	
Sales	0	0	(261)	
Reclassification*	0	0	(3 651)	3 651
Repayments	(4 259)	(10 592)		
Profit or loss (fair value changes) during the year	(766)	49	434	
Fair value changes during the year accounted into OCI			369	0
Transfers from/to level 3. hierarchy category	0	0	(217)	0
Closing balance at 31 December	**8 068**	**35 014**	**9 275**	**3 651**

** Further details about the reclassification are in Note 6.*

	2019		
	Customer loans	**Loans to banks**	**Other equity instruments**
Opening balance as at 1 January	**62 498**	**52 056**	**6 071**
New disbursements/acquisition/capital increases	709	805	6 804
Sales	(9)	0	(370)
Repayments	(52 317)	(7 338)	
Profit or loss (fair value changes) during the year	(286)	12	(84)
Fair value changes during the year accounted into OCI			(282)
Change due to the changes in ownership percentages			(260)
Transfers from/to level 3. hierarchy category	0	0	0
Closing balance at 31 December	**10 595**	**45 535**	**11 879**

The Group used discounted cash flow model valuation technique to determine the fair value for customer and bank loans in level 3 category both as at 31 December 2020 and 2019. The significant unobservable inputs applied were the probability of default and the individual credit spread of the given customer, by the way they do not significantly affect the fair value measurement. For equity instruments the Group applied discounted cash flow model for the expected net cash flow derived from the entity.

Significant increase in any of the input parameters in isolation would result in lower fair values. In case of equity instruments increase in expected net cash flows would result in higher fair value.

c) Financial instruments not measured at fair value by the level of fair value hierarchy

	2020				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying value**
Cash. cash balances at central banks and other demand deposits	6	77 362		**77 368**	**77 323**
Financial asset at amortized cost	**65 296**	**0**	**1 440 974**	**1 506 270**	**1 491 816**
Debt securities	**65 296**		**58 560**	**123 856**	**120 705**
Hungarian government bonds	57 325			57 325	54 900
Corporate bonds			58 560	58 560	57 993
Mortgage bonds	7 971			7 971	7 812
Loans			**1 111 967**	**1 111 967**	**1 100 934**
Customer loans			**1 073 891**	**1 073 891**	**1 062 815**
General governments			215 652	215 652	212 257
Other financial corporations			262 589	262 589	261 465
Other non-financial corporations			450 334	450 334	444 330
Households			145 316	145 316	144 763
Loans to banks			**38 076**	**38 076**	**38 119**
Refinancing loans			1 567	1 567	1 604
Other loans			36 509	36 509	36 515
Other financial assets			**1 999**	**1 999**	**1 999**
Trade receivables			1 015	1 015	1 015
Margin accounts			984	984	984
Deposits at central and other banks			**268 448**	**268 448**	**268 178**
Central bank deposits			221 964	221 964	222 009
Other bank deposits			46 484	46 484	46 169
Financial liabilities at amortized cost		**748 516**	**751 528**	**1 500 044**	**1 503 185**
Customer deposits			**235 219**	**235 219**	**235 882**
Interbank deposits			27 659	27 659	27 661
Customer deposits (collateral behind loans)			207 560	207 560	208 221
Due from banks			**511 677**	**511 677**	**527 012**
Refinancing loans			236 490	236 490	246 802
Other loans taken			275 187	275 187	280 210
Debt securities issued		**748 516**		**748 516**	**735 659**
Listed HUF bonds		280 594		280 594	283 379
Listed CCY bonds		467 922		467 922	452 280
from this listed on foreign stock exchange		*378 614*		*378 614*	*384 725*
Other financial liabilities			**4 632**	**4 632**	**4 632**
Margin accounts			569	569	569
Creditors			2 592	2 592	2 592
Other financial liabilities			1 471	1 471	1 471

	2019				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying value**
Cash. cash balances at central banks and other demand deposits	8	11 750		**11 758**	**11 755**
Financial asset at amortized cost	**65 527**	**35 161**	**894 368**	**1 056 390**	**1 066 276**
Debt securities	**65 527**			**65 527**	**61 862**
Hungarian government bonds	51 976			51 976	48 725
Corporate bonds	5 200			5 200	5 182
Mortgage bonds	8 351			8 351	7 955
Loans			**893 291**	**954 625**	**967 696**
Customer loans			**886 598**	**886 598**	**900 247**
General governments			209 291	209 291	210 803
Other financial corporations			213 820	213 820	213 721
Other non-financial corporations			328 134	328 134	337 819
Households			135 353	135 353	137 904
Loans to banks			**68 027**	**68 027**	**67 722**
Refinancing loans			2 089	2 089	2 130
Other loans			65 938	65 938	65 592
Other financial assets			**1 077**	**1 077**	**1 077**
Trade receivables			659	659	659
Margin accounts			418	418	418
Deposits at central and other banks		**35 161**		**35 161**	**35 368**
Central bank deposits		0		0	0
Other bank deposits		35 161		35 161	35 368
Financial liabilities at amortized cost		**752 762**	**412 496**	**1 165 258**	**1 158 464**
Customer deposits			**56 610**	**56 610**	**57 115**
Interbank deposits			50 100	50 100	50 100
Customer deposits (collateral behind loans)			6 510	6 510	7 015
Due from banks			**355 886**	**355 886**	**362 993**
Refinancing loans			208 458	208 458	213 001
Other loans taken			147 428	147 428	149 992
Debt securities issued		**707 675**		**707 675**	**693 269**
Listed HUF bonds		271 666		271 666	268 354
Listed CCY bonds		436 009		436 009	424 915
from this listed on foreign stock exchange		*334 850*		*334 850*	*323 613*
Other financial liabilities		**45 087**		**45 087**	**45 087**
Margin accounts		42 505		42 505	42 505
Creditors		1 259		1 259	1 259
Other financial liabilities		1 323		1 323	1 323

The fair value of cash and cash equivalents and demand and short term bank deposits was considered to be equal to the carrying amount at the reporting date.

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on OTC trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

In case of purchased and issued debt securities measured at amortized cost, the fair value of the instrument is calculated based on the daily market closing rates available in the Inforex system. Where this information is not available, the securities are classified into level 2 or 3 fair value hierarchy and accordingly, discounted cash flow method is applied by using the current market yield curves. The fair value of issued bonds is determined based on data provided by market makers, however as there is no active market for these bonds therefore they were categorized into level 2.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

37. OFFSETTINGS

The below tables include all repurchase agreements and all such derivatives where ISDA agreements allows the net settlements.

Financial assets subject to offsetting and potential offsetting agreements - 2020

	Gross carrying amount	Amounts set off against financial liabilities	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	2 051	0	2 051	(569)	0	0	**1 482**
Repurchase agreements	0	0	0	0	0	0	0
Total	**2 051**	**0**	**2 051**	**(569)**	**0**	**0**	**1 482**

Financial liabilities subject to offsetting and potential offsetting agreements - 2020

	Gross carrying amount	Amounts set off against financial assets	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral given	Non-cash financial collateral given	
Derivatives	911	0	911	(984)	0	0	**(73)**
Reverse repurchase agreements	0	0	0	0	0	0	0
Total	**911**	**0**	**911**	**(984)**	**0**	**0**	**(73)**

Financial assets subject to offsetting and potential offsetting agreements - 2019

	Gross carrying amount	Amounts set off against financial liabilities	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	42 844	0	42 844	(42 505)	0	0	339
Repurchase agreements	0	0	0	0	0	0	0
Total	**42 844**	**0**	**42 844**	**(42 505)**	**0**	**0**	**339**

Financial liabilities subject to offsetting and potential offsetting agreements - 2019

	Gross carrying amount	Amounts set off against financial assets	Net carrying amount	Potential effect of netting agreement not qualifying for offsetting in the Financial Position Statements			Net amount after potential offsetting
				Financial instruments	Cash collateral given	Non-cash financial collateral given	
Derivatives	1 143	0	1 143	(418)	0	0	725
Reverse repurchase agreements	0	0	0	0	0	0	0
Total	**1 143**	**0**	**1 143**	**(418)**	**0**	**0**	**725**

38. MATURITY TABLE

The following table shows the residual maturity breakdown of financial assets and liabilities. The guarantees were classified in the category „within a year", irrespective of the actual maturity of the credit line holding period. The loan commitments were classified on the basis of their actual maturity.

	2020			2019		
	Within a year	**Over a year**	**Total**	**Within a year**	**Over a year**	**Total**
Financial Assets						
Cash, cash balances at central banks and other demand deposits	77 323		77 323	11 755		11 755
Financial assets held for trading	443		443	41 772		41 772
Non-trading financial assets mandatorily at fair value through profit or loss	5 829	40 904	46 733	8 930	47 200	56 130
Financial assets at fair value through other comprehensive income	16 500	31 821	48 321	16 520	35 268	51 788
Financial assets at amortized cost	637 635	854 181	1 491 816	185 348	880 928	1 066 276
Derivatives – Hedge accounting	1 608		1 608	1 073		1 073
Total Financial Assets	**739 338**	**926 906**	**1 666 244**	**265 398**	**963 396**	**1 228 794**
Financial Liabilities						
Financial liabilities held for trading	911		911	253		253
Financial liabilities at amortized cost	506 918	996 267	1 503 185	453 481	704 983	1 158 464
Derivatives – Hedge accounting	0		0	890		890
Total Financial Liabilities	**507 829**	**996 267**	**1 504 096**	**454 624**	**704 983**	**1 159 607**
Guarantees	**105 758**		**105 758**	**119 526**		**119 526**
Loan commitments	**77 734**	**147 185**	**224 919**	**49 468**	**41 878**	**91 346**

The Group manages liquidity risk through liquidity reserves (Central Bank eligible securities), committed freely available credit lines (from which still available is HUF 18.26 billion equivalent EUR) and liquidity GAP limits. It provides timely renewal and replacement of expiring funds.

39. DISCOUNTINUED OPERATION

MMBF Földgáztároló Zártkörűen Működő Részvénytársaság was sold to MSZKSZ (former minority owner) on September 5, 2019 as part of the Bank strategy to clean its investment portfolio from those elements which are not closely related to its development banking activity. Due to the Bank's role as a financial investor in MMBF Zrt., the sale of its majority stake in the medium term (3-5 years) was aimed to realize the return set at acquisition. The sale of the 51% stake in MMBF Zrt. was carried out at a market value determined by an independent property valuation, which took into account all operational and regulatory risks arising from the company's special activities. The selling price of MMBF Zrt.'s stake exceeded the gross book value presented in the Bank's individual financial statements, which assured the Bank that the actual return on the transaction exceeded the original expectation. The positive result realized in the stand alone financial satements increased the Bank's stand alone regulatory capital and own equity. All settlements have been made in connection with the sale of MMBF, and there are no outstanding items or items to consider that would have an impact on these financial statements.

The financial performance and cash flow information presented are for the eight months ended 31 August 2019.

	31.08.2019 Restated
Revenues	16 723
Expenses	(8 059)
Profit before tax	**8 664**
Tax expense related to profit or loss	(1 120)
Profit after tax	**7 544**
Profit attributable to non-controlling interest	3 697
Profit attributable to the owner	**3 847**
Loss on sale of subsidiary	(14 573)
Loss from discountinued operation (adjusted with period profit)	**(7 029)**
Loss attributable to the owner	*(10 726)*
Profit attributable to non-controlling interest	*3 697*

The Bank had 51% ownership in MMBF Zrt. in 2018 which was sold during 2019, therefore the non-controlling interest (minority owners) has 49% in 2019 until the sale. The following table summarizes the main Financial position lines of MMBF Zrt.

	31.08.2019
Non-current assets	103 451
from which property, plant and equipments	*36 747*
from which intangible assets	*64 218*
Current assets	14 195
from which cash equivalent	*12 294*
Total Assets	**117 646**
Provisions	4 315
Non-current liabilities	37 623
from which other loans taken	*37 623*
Current liabilities	8 901
from which other loans taken	*6 299*
Total Liabilities	**50 839**
Own Equity	**66 807**
Equity attributable to the owner	34 073
Share of non-controlling interest	32 734

40. EXERCISING OWNER'S RIGHTS

The Bank exercises the owner's rights in the name of the Hungarian State for state owned companies determined by the appendix 1. of the HDB Law and in venture capital funds determined by the decrees 8/2016. (IV.19.) and 64/2016. (XII.28.) of Ministry of National Development. Income and expenses arising from the management of State property forms the income and expenses, or financing income and expenses of the central budget. The Bank acts as an agent (not allowed to sell the entities and is not entitled for any dividend (unless has its own investment in the entity)) in this relationship and recognizes only cost reimbursement received from the State for fulfilling the owner's right activity, amounted to HUF 25 million (2019: HUF 300 million) presented on "Other operating income" line.

The companies and venture capital funds in which the Bank exercises the owner's rights as at 31 December 2020 and 2019 are the following:

Name of the company / fund	Activity	State ownership		Share capital	
		2020	2019	2020	2019
ABC Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	4 300	4 300
AJH Növekedési Kockázati Tőkealap	Venture capital fund	69.99%	69.99%	4 286	4 286
Bonitás Kockázati Tőkealap	Venture capital fund	69.23%	69.23%	6 500	6 500
Bonitás Kockázati Tőkealap II	Venture capital fund	76.87%	76.87%	12 158	12 158
Capitalisatio Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
CenTech Új Magyarország Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	5 000	5 000
Conor Seed Capital Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	2 150	2 150
Core Venture Közös Magvető Kockázati Tőkealap	Venture capital fund	69.93%	69.93%	1 319	1 319
Core Venture Közös Növekedési Kockázati Tőkealap	Venture capital fund	69.93%	69.93%	4 290	4 290
DBH Investment Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	5 000	5 000
Diákhitel Központ Zártkörűen Működő Részvénytársaság	Crediting	100.00%	100.00%	300	300
Euroventures IV. Kockázati Tőkealap	Venture capital fund	100.00%	100.00%	7 821	7 821

Name of the company / fund	Activity	State ownership		Share capital	
		2020	2019	2020	2019
Finatech I. Kockázati Tőkealap	Venture capital fund	69.96%	69.96%	4 288	4 288
Finatech II. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Finext Startup Kockázati Tőkealap	Venture capital fund	67.93%	67.93%	3 610	3 610
Forte Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	3 857	3 857
Garantiqa Hitelgarancia Zártkörűen Működő Részvénytársaság	Other financial supplementary services	43.72%	30.70%	9 652	7 840
GRAN Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	1 450	1 450
GRAN II. Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	800	3 400
GRAN III. Kockázati Tőkealap	Venture capital fund	74.03%	74.03%	6 931	6 931
Kairos Növekedési Kockázati Tőkealap	Venture capital fund	69.99%	69.99%	6 429	6 429
Kutatás-fejlesztési és Innovációs Állami Tőkealap	Venture capital fund	100.00%	100.00%	30 000	30 000
Infokommunikációs Állami Tőkealap	Venture capital fund	100.00%	100.00%	6 075	6 075
Irinyi I. Kockázati Tőkealap	Venture capital fund	100.00%	100.00%	7 477	7 477
MFB Invest Befektetési és Vagyonkezelő Zártkörűen Működő Részvénytársaság	Business and other management consultancy	4.20%	7.19%	47 560	27 826
Morando Kockázati Tőkealap	Venture capital fund	69.94%	69.94%	6 506	6 506
OTP Kockázati Tőkealap I.	Venture capital fund	55.88%	55.88%	6 800	6 800
PBG FMC Tőkealap	Venture capital fund	69.77%	69.77%	4 300	4 300
Perion 2013. Kockázati Tőkealap	Venture capital fund	68.00%	68.00%	3 884	3 884
Prosperitás Profit Közös Növekedési Kockázati Tőkealap	Venture capital fund	69.98%	69.98%	6 430	6 430
Prosperitás Proseed Közös Magvető Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	2 150	2 150
Regionális Fejlesztési Holding Zártkörűen Működő Részvénytársaság	Economy development activities	100.00%	100.00%	17 842	17 542

Name of the company / fund	Activity	State ownership		Share capital	
		2020	2019	2020	2019
Solus I. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Solus II. Kockázati Tőkealap	Venture capital fund	87.51%	87.51%	8 010	8 010
Takarék Kockázati Tőkealap I.	Venture capital fund	76.92%	76.92%	12 150	12 150
Tőkepartner Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	4 300	4 300
Üzleti Infokommunikációs, Digitalizációs Tőkealap	Venture capital fund	100.00%	100.00%	9 346	9 346
Valor Capital Közös Zártvégű Kockázati Tőkealap	Venture capital fund	69.99%	69.99%	3 087	3 087
Venturio 2013. Kockázati Tőkealap	Venture capital fund	68.00%	68.00%	4 411	4 411
X-VENTURES ALPHA I. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	2 492	3 122
X-Ventures Béta Kockázati Tőkealap	Venture capital fund	69.77%	69.77%	3 280	3 280
Vespucci Capital I. Kockázati Tőkealap (before X-Ventures Delta Kockázati Tőkealap)	Venture capital fund	70.00%	70.00%	13 351	13 351
X-Ventures Gamma Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351

41. EVENTS AFTER THE REPORTING PERIOD

Recommendation of the European Banking Authority (EBA) on payment moratoriums applied in the light of the COVID 19 crisis, updated on 2 December 2020, was issued by MNB on 21 January 2021 in its circular on the use of macroeconomic information and factors indicating a significant increase in credit risk. The issued circular also confirms that it does not automatically consider repayment arrears due to the moratorium as a default event, and does not automatically consider repayment rescheduling as a restructuring if during the aggregate period of Moratorium 1 and Moratorium 2 the exposure was subject to a moratorium for less than 9 months until 30 June 2021 and if the exposure was not subject to a moratorium after 31 March 2021.

However, if the exposure affected by Moratorium 2 becomes affected by the moratorium for more than 9 months during the aggregate period of Moratorium 1 and Moratorium 2 by 30 June 2021, it is reasonable to assume that the obligor is in financial difficulty to meet its financial obligations, or will be, so the transaction has to be considered as restructured. Exceptions to this are cases in which it can be credibly demonstrated that the debtor has no financial difficulties in meeting its financial obligations and is not expected to have any financial difficulties.

In accordance with the above principles, the Bank applies the provisions of the MNB's circular from 1 January 2021 by subjecting all exposures subject to a moratorium to a risk-based individual examination, regardless of whether the time spent during the combined period of Moratorium 1 and Moratorium 2 exceeds 9 months.

In accordance with EBA's position and the MNB's guidelines, MFB does not automatically consider repayment arrears due to the moratorium to be a default event and does not automatically consider repayment rescheduling to be restructuring.

Already in 2020, the Bank reviewed its large loans, which form a significant part of the portfolio. Transactions for which the expected impact of the coronavirus warranted reclassification were reclassified by the Bank to Stage 2 or restructured categories and, based on an individual decision, increased the amount of impairment. Thus, if the recommendations of the MNB's management circular had already been applied in 2020, it would not have caused a significant change in the impairment.

Budapest, 6 April 2021

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

MFB Hungarian Development Bank Private Limited Company
2.

MFB Hungarian Development Bank Private Limited Company
Consolidated management report for the year 2020

Table of contents

Introduction 3
1. Operating conditions 4
2. Business events in 2020 5
2.1. MFB Hungarian Development Bank Private Limited Company 7
2.2. Activities of the main companies included in the scope of consolidation 10
2.3. Key features of the internal audit and risk management systems of the corporate group 15
3. Main figures of the consolidated accounts 16
3.1. Balance sheet total 16
3.2. Shareholders' equity 16
3.3. Profit after tax 17
3.4. Key indicators reflecting MFB's consolidated operation 19
4. The MFB Group's strategic business policy concept for 2021 22
5. Other key processes 23
6. Events after the balance sheet date 24

Introduction

MFB Hungarian Development Bank Private Limited Company (hereinafter: MFB, Bank) has prepared its management report containing the consolidated data of 2020 in accordance with Act CXX of 2001 on the Capital Market and Decree 24/2008. (VIII. 15.) of the Ministry of Finance on the detailed rules on disclosure obligations related to publicly traded securities.

The purpose of the report is to allow the Bank's governing bodies to learn the details of the Bank's and subsidiaries (Group, MFB Group) operations and business processes in the reporting period, and, based on balance sheet and profit and loss account data, get an accurate picture of the Group's management in 2020.

The operations of MFB in 2020, were greatly influenced by the economic effects of COVID-19. The recession brought about by the crisis had a substantial impact on the Bank's performance in 2020 – on its financial results and on the volume, direction and type of its transactions, and the channels through which they were executed.

In an effort to counteract the negative economic impact of the coronavirus and to help relaunch the economy, the MFB Group made available a combination of financing options to Hungarian businesses through various coordinated loan, capital and guarantee programmes. These programmes are designed to provide solutions to the pressing liquidity needs of businesses, as well as to preserve jobs, foster investment and development, and keep the companies in the hands of their Hungarian owners. Of the various programmes, financing through capital funds, the advantage of which is that it can also provide financing for businesses that have no access or only limited access to loan financing, was assigned particular importance.

The growth in business activity resulted in such an increase in the capital requirement of an extent such that the Bank's total capital adequacy ratio threatened to fall to a critical level by the end of 2020. To prevent this and to ensure the stability of its operations, the Bank received a total of HUF 151.4 billion in capital contributions from the owner, in two instalments.

Under the rules of the payment moratorium introduced to mitigate the effects of the coronavirus on the national economy, companies with loans had the option of temporarily suspending their loan payments. At MFB, there were about 6,800 contracts where customers took up the opportunity offered by the payment moratorium; of these, 2,200 were for MFB-funded loan products and 4,600 were related to EU-funded loans. The accounting impact of the moratorium was a loss of HUF 1.0 billion in the Bank's earnings for 2020.

The impact of the coronavirus was reflected in the risk rating assigned to the Bank's customers, and thus in an increase in impairment and provisions, with the Bank's cost of risk increasing significantly as compared to the previous year.

Operational risks represented another risk factor in 2020. With regard to smaller teams and departments at the Bank's and subsidiaries, particular attention had to be paid to ensuring the professional substitution of staff. Another factor that increased operational risk was that some of our colleagues or those living with them in the household were in the high-risk category due to their age or health condition, and so it was essential to provide for their substitution in the event that they were to fall ill. The situation was similar for families with children, where parents had to find ways of looking after their children during periods of quarantine and school closure.

1. Operating conditions

Macroeconomic factors

In the first three quarters of 2020 the Hungarian economy saw an 8.6% year-on-year decline in capital investment. Due to the fall in demand caused by the coronavirus and the restrictive measures introduced in response to it, several projects were cancelled or postponed. Companies in the tourism, catering and hospitality sector were most severely affected by the crisis, with the volume of investments in this sector dropping by 33.6% year-on-year in the first three quarters. In these new circumstances, there was a significant demand for products and services in the health and information and communication sectors, and as a result, investments in these sectors increased by 51.0% and 10.4% respectively.

The gross corporate loan portfolio increased by 12.9% (+HUF 1,068.5 billion) in the course of 2020, which exceeded the previous year's growth figure (11.2%). The double-digit increase can be explained by the repayment moratorium, which meant that the banks' loan portfolios were not eroded – instead, new lending boosted overall loan volumes.

The MNB reduced the base rate, which had been at 0.90% since May 2016, to 0.75% in June 2020, and then to 0.60% in July.

Legislative changes with a significant bearing on the operations of the MFB Group[1]

The table below shows the year-end utilisation of state guarantee and interest subsidy facilities approved for the Bank under Act LXXI of 2019 on the central budget of Hungary for the year 2020:

data in HUF million	Limit	Drawn down	Available
Fundraising limit	1 700 000	1 114 224	585 776
Loan financing and guarantee limit	650 000	632 882	17 118
Exchange rate hedging agreement limit	2 000 000	1 512 679	487 321

Among the legislative changes affecting MFB and MFB Group in 2020, it is worth highlighting the amendments of Act XX of 2001 on the Hungarian Development Bank Private Limited Company effective from 1 January 2020 and 18 June 2020, in addition to which various statutory regulations (especially government decrees) pertaining to emergency situation(s) imposed by the Government also affected the activities of MFB and MFB Group.

Founder's Resolutions

The minister without portfolio responsible for the management of national assets, who exercises shareholder rights in respect of the Bank, passed several important resolutions pertaining to the Bank's operations. In accordance with the tasks and powers defined in the Articles of Association, most of the Founder's Resolutions made in 2020 set out specific tasks, took business decisions, specified deadlines for their completion and described the method of verification, and stipulated the increase in MFB Zrt's registered capital.

[1] Companies in which, pursuant to the provisions of Act XX of 2001 on MFB Hungarian Development Bank Private Limited Company, MFB's direct and indirect voting share is greater than 50%.

2. Business events in 2020

MFB is the lead credit institution of a corporate group in long-term state ownership that provides a complex range of services.
The core of the companies included in the scope of consolidation consists of MFB's strategic investments, i.e. the MFB Group, in other words companies in which MFB holds a direct and indirect voting share greater than 50% as per the provisions of Act XX of 2001 on MFB Hungarian Development Bank Private Limited Company. Based on this, as at the end of 2020 the following companies belonged to the MFB Group:

- MKK Magyar Követeléskezelő Zrt.
- MFB-Ingatlanfejlesztő Zrt.
- MFB Invest Zrt.
- Hiventures Zrt.
- MFB Growth Capital Fund (MFB NTA)
- MFB SME Capital Fund
- Divat&Design [Fashion & Design] Capital Fund
- Debrecen City Capital Fund
- Székesfehérvár City Capital Fund
- Kaposvár City Capital Fund
- Veszprém City Capital Fund
- FOCUS VENTURES Zrt.
- MFB Investment and Transaction Private Equity Fund (BTMA)

In accordance with one of MFB Group's strategic objectives of placing greater emphasis on equity financing, and with the effort to mitigate the negative economic effects of COVID-19, three new capital funds were added to the MFB Group in 2020. As in 2019, the creation of city funds supporting the economic recovery of their respective regions continued, this time with the participation of FOCUS VENTURES Zrt., a capital fund management firm owned by MFB Invest Zrt., and as a part of this, the Kaposvár City Capital Fund and the Veszprém City Capital Fund were established. The range of capital funds managed by Hiventures and owned by MFB Zrt. (MFB SME Capital Fund and MFB NTA) was expanded to include the MFB Investment and Transaction Private Equity Fund, the purpose of which was to mitigate the economic shock caused by the coronavirus and help ensure the continuity of business activity.

The combined (pre-consolidation) net earnings of the MFB Group in 2020 (without MFB) was HUF 10,938 million. The largest item in this positive figure was the profit of MKK Zrt. in 2020 calculated on an IFRS basis. The reason for the lower profit than in the previous year is that MMBF Földgáztároló Zrt. was excluded from the scope of consolidation.

The individual companies' net earnings for the year, recognised for the purposes of consolidation and before adjustments, were as follows:

million HUF	2020.	2019.
According to IFRS	**15 448**	**19 750**
MMBF Földgáztároló Zrt.	0	7 544
MKK Zrt.	15 448	12 206
According to HAS	**-4 512**	**-3 504**
MFB Ingatlanfejlesztő Zrt.	221	-80
MFB Invest Zrt.	-1 478	-1 454
Hiventures Zrt.	484	43
MFB Growth Investment Fund	-1 957	-1 683
MFB SME Investment Capital Fund	-740	-183
Divat&Design [Fashion & Design] Capital Fund	-159	-48
Debrecen City Capital Fund	-256	-57
Székesfehérvár City Capital Fund	-127	-29
Logos-Ventures Fund Management Ltd.	0	14
FOCUS VENTURES Ltd. (MFB Invest Equity Fund Management Ltd.)	8	-28
MFB Investment and Transaction Private Fund	-470	0
Veszprém City Capital Fund	-2	0
Kaposvár City Capital Fund	-34	0
Total	**10 938**	**16 245**

Due to the various core activities of the companies, below are highlighted the key aspects of the operations of each member of the MFB Group.

2.1. MFB Hungarian Development Bank Private Limited Company

MFB was the dominant institution within the MFB Group in terms of both capitalisation and total assets.

Business processes
Lending, new guarantees

In 2020 the Bank **approved** 6.9% more **loan applications** than it had in the previous year, **in a total value of HUF 386 billion**, of which HUF 294 billion were loan applications approved for large individual transactions and HUF 92 billion for loan programmes.
In 2020 **the value of new loan disbursements exceeded HUF 294 billion**; at the end of the year the Bank's total net loans amounted to HUF 1,111 billion, which was HUF 148 billion higher than at the end of 2019[2].

In 2020, the Bank provided **HUF 82 billion in new guarantees** to its customers, which exceeds the 2019 figure by HUF 9 billion.

Interests

Due to the COVID pandemic, MFB's investment activities also received more emphasis in 2020, and thus subscribing for the investment units of venture capital funds – and thus supporting capital disbursements through the funds – has gained more weight within the direct investments of MFB.
The Bank's net **ownership interests[3] increased by HUF 198.2 billion** to HUF 315.1 billion **in 2020**, the principal elements of which were as follows:

- Obligation undertaken to subscribe for units of the MFB Investment and Transaction Private Equity Fund
- Increase of the subscribed capital of the MFB Corporate Investment and Transaction Capital Fund (SME Capital Fund)
- Increase of the subscribed capital of the MFB Growth Capital Fund
- Capital increase in MFB Invest Zrt.
- Capital increase in MFB Ingatlanfejlesztő Zrt.

Actual capital placements and investment-unit subscriptions amounted to HUF 49.7 billion in 2020.

Management of EU funds

MFB was a funds management entity in the 2007-2013 programming period, and acts as the Fund of Funds implementing entity for the 2014-2020 European Union programming period;

[2] Total loans on the balance sheet in 2019 were HUF 994,894 million, which includes repo transactions and their impairment too. In the management report, by loans we mean those loans where the final beneficiary is a corporate, municipal or retail customer, and therefore the repo transactions were reclassified to interbank items. The volume amount is consistent with the balance sheet numbers in section V of the report; the balance sheet is presented in detail in that section.
[3]Also presented in this part of the balance sheet is the CEFoF interest recognised among *Non-trading financial instruments mandatorily measured at fair value through profit or loss*. The volume amount is consistent with the balance sheet numbers in section V of the report; the balance sheet is presented in detail in that section.

it disposes over the available funds in its own name, but for the benefit of the Managing Authorities. Consequently, it maintains separate records of the funds of programming periods, which do not form part of the Bank's balance sheet.

The intermediation of EU funds increased significantly in 2020: the network of MFB Points received more than 15,000 loan applications in a value of HUF 275.5 billion, and made a positive decision in 71% of the cases. A total of 183 capital investment decisions were made and the related contracts concluded in a value of HUF 40.228 billion between the financial intermediaries involved in the implementation of the programmes (as the entities representing the funds) and the Final Beneficiaries that received capital investment grants under the various EU-funded capital programmes.

In 2020 the Bank **disbursed EU funds totalling HUF 188.6 billion** through intermediaries, including loans of HUF 163.7 billion and venture capital of HUF 24.9 billion.

Funding

In 2020, MFB raised medium and long-term external funds in the amount of HUF 485.3 billion. The currency of the funds raised was 35.0% forint, 61.6% euro and 3.4% US dollar.
The Bank issued EUR 750 million in foreign currency bonds to refinance bonds of USD 750 million par value that expired during the year, and to finance its portfolio growth. In addition, HUF 69.7 billion of forint bonds were issued, and loans of EUR 100 million, USD 56.5 million and nearly HUF 100 billion were drawn down to fund its asset-side growth.
Central bank funds used to finance loans granted under the MNB's Funding for Growth Scheme (FGS) amounted to HUF 48 billion.

Financial management

The Bank's **net interest income** (HUF 13,779 million) **exceeds the previous year's figure** as a result of the increase in interest-bearing assets, and dividend income (HUF 1,830 million) was also higher than in the previous year.

Expenses of banking operations (HUF 10,893 million) increased only slightly despite the further expansion of tasks, while the effect on profit of changes in impairment/provisions (HUF 13,629 million) was significantly higher than in 2019, mainly as the result of the additional charges recognised due to COVID-19.
The Bank realised **one-off earnings** of HUF 1 billion by terminating its MFB membership in the Integration Organisation of Cooperative Credit Institutions (SZHISZ).
The Bank spent HUF 1.756 million on capital expenditure in 2020. These expenses were aimed at ensuring the necessary infrastructure, implementing developments required for performing the range of tasks, and at replacing obsolete equipment.

Summary

The Bank's activities in 2020 were largely determined by the economic effects of the COVID-19 pandemic. Besides mitigating the economic damage caused by the virus, the Bank's key objective in 2020 was to utilise state assets in an optimal and rational way. As a short-term consequence of the responses to the crisis, the Bank **recorded negative earnings** in 2020, **although earnings excluding COVID items was actually positive**, and the Bank's **balance sheet total rose** in parallel with the expansion in the loan and investment portfolio which was primarily the result of the crisis measures.

In 2020 MFB continued to implement its medium-term strategy, which is focused on **addressing deficiencies in the market**. Based on the latest MFB survey conducted at the turn of 2020/2021, there are unmet financing needs of nearly HUF 800 billion in the economy that promise reasonable returns, and meeting these needs gradually is a task that can be justified even according to EU standards. In comparison, this amount **equals 9% of the total corporate loan portfolio** of the banking sector.

2.2. Activities of the main companies included in the scope of consolidation

As of 31 December 2020, the key information relating to the subsidiaries included in the scope of consolidation was as follows:

MKK Magyar Követeléskezelő Zrt.

The management of retail-customer debt and of other, proprietary receivables continues to be predominant within the company's business activity, and within this, its main activities include the management of tax and contribution claims purchased from the tax authority (in a decreasing extent in line with the depletion of the portfolio), workout activity, brokerage activity and factoring.

The company's operations continued undisturbed in 2020 and its liquidity position remained stable. It also continued to gradually increase its market presence and share during the year. The more notable debt purchase transactions were the following:

- In the consumer debt market, the company continued to purchase secured claims against private individuals in 2020.
- The company successfully completed a number of high-value corporate and municipal claims settlement arrangements in 2020 involving payment by instalments.
- In accordance with the relevant legislation (Government Decree 1/2012 (I.20.) on the Student Loan Scheme), the doubtful receivables of student loans company Diákhitel Központ Zrt. were assumed under an assignment framework agreement concluded on 21 December 2018 and an individual contract signed on 15 January 2019, and over the various quarters of 2020, MKK Zrt. bought additional claims packages as part of a transfer of unpaid debts from terminated contracts.

In 2020, most of the firm's revenues came from its core activity, specifically from yields and income earned on the individual claims.
MKK Zrt.'s 2020 profit for the year according to IFRS was HUF 15,448.1 million.

MFB Invest Zrt.

The company is the investment competence centre for the MFB Group, and as such, its tasks include implementing individual large-scale priority investments, making placements through its own funds and performing fund-of-funds activities. The company participates as an expert and co-owner in various projects that yield benefits over the long term and are considered a priority for the national economy. The company concluded an agency agreement with MFB Zrt. for the exercising of voting rights related to the latter's interest in Hiventures Zrt. (In most cases, MFB exercises ownership rights, with the exception of, for example, capital increases). At the start of 2019, the firm's five-year strategy was adopted, which aims to expand its product offering and its placements and to implement various organisational development initiatives.

The company's placements amounted to HUF 14,146 million in 2020, as a result of which net long-term (invested) assets increased by HUF 44,022 million, or around 40%, compared to 2019. Within placements in 2020, corporate bonds represented a significant portion (HUF 4,795 million, 33.9% of the placements for the year): through these, MFB Invest provides alternative financing in the market to SMEs implementing development projects. In addition to bond placements, the company participated as an investor in the creation of new capital funds implemented by external fund managers, where the resources provided by MFB Invest were

supplemented with market-based funding, thus providing a more substantial financing opportunity for businesses implementing developments (mostly for SMEs). FOCUS VENTURES Zrt., which is owned by MFB Invest Zrt., continued the investment activities related to city funds that it had begun in 2019 and established new city funds, with MFB Invest Zrt. as investor.

The company's net result for 2020 was a loss of HUF -1,478 million, which is due to the specific nature of its capital investment activity, and of which HUF -1,988 million were impairment charges recognised on its investments.

FOCUS VENTURES Zrt.

The primary task of the company is to perform fund management activities in respect of the MFB Group's own funds, with special regard to the management of city funds of key importance to the national economy.

In 2020 the fund manager created three additional capital funds with HUF 11 billion in subscribed capital, and thus the total subscribed capital of the managed funds reached HUF 26 billion. The following capital funds were created in 2020:

- Kaposvár City Capital Fund (HUF 3 billion subscribed capital)
- Veszprém City Capital Fund (HUF 3 billion subscribed capital)
- Debrecen City Capital Fund (HUF 5 million subscribed capital)

In the case of the new funds, the emphasis in 2020 was on creating the preconditions for operation, while in the case of the previously established funds in Debrecen (HUF 10 billion subscribed capital) and Székesfehérvár (HUF 5 billion), investment activity has already begun. In the case of both the previously established capital funds, there is one investment in the portfolio.

Debrecen City Capital Fund

The aim of the capital fund, established in 2019 with a budget of HUF 10 billion, is primarily to finance projects implemented in Debrecen and Hajdú-Bihar counties, thus providing growth opportunities for businesses in the region. There is one investment in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Székesfehérvár City Capital Fund

The aim of the capital fund, established in 2019 with a budget of HUF 5 billion, is to finance projects implemented in Székesfehérvár and its surroundings, thus providing growth opportunities for companies in the region. There is one investment in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Kaposvár City Capital Fund

The aim of the capital fund, established in 2020 with a budget of HUF 3 billion, is to finance projects implemented in Kaposvár and its surroundings, thus providing growth opportunities for companies in the region. There are no investments in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Veszprém City Capital Fund

The aim of the capital fund, established in 2020 with a budget of HUF 3 billion, is to finance projects implemented in Veszprém and its surroundings, thus providing growth opportunities for companies in the region. There are no investments in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Hiventures Zrt.

In accordance with the strategy of the MFB Group, the individual capital investments of the banking group are performed by MFB Invest Zrt. as the relevant competence centre, while Hiventures Zrt., operating as a subsidiary of MFB Invest Zrt., is responsible for the management of bulk capital investment activities through the MFB SME Capital Fund, the Fashion & Design Capital Fund, and the MFB Investment and Transaction Private Equity Fund, which are owned by the Bank, as well as through the EU capital funds (State Fund for Research, Development and Innovation - RDI, the Information and Communication Capital Fund - ICC, and the Digitalisation Capital Fund - DCF).

COVID-19 brought major changes to the operating environment of Hiventures Zrt. In response, the MFB Group increased the range of entities that it finances, as a result of which the funds managed by Hiventures Zrt. launched various rescue programmes, as well as a financing programme for large companies. During operations in 2020, a new fund, the MFB Private Equity Investment Fund (MFB BTMA) and – within the framework of the MFB NTA and MFB SME Capital Funds – two rescue capital programmes were launched.

Due to the increasing volume of the managed portfolio, the company's fund management fee income exceeded that of the previous year, and thus the pre-tax profit (HUF 484 million) was also higher than in 2019.

MFB SME Capital Fund

The primary objective of the MFB SME Capital Fund, established in September 2019 with HUF 31 billion in funding, is to finance small and medium-sized enterprises, increase and strengthen the competitiveness and productivity of domestic and international M&A activity and, through this, of Hungarian SMEs. Due to the economic importance of the SME segment, it is at the heart of targeted economic development programmes in Hungary. The aim of these measures to help SMEs is to improve their competitiveness and productivity and thus improve their chances of success in international markets.

The subscribed capital of the capital fund is HUF 41 billion, 13,2% of which has been paid up. There were no placements between the registration of the fund and 31 May 2020. The reason for this was the slower than expected negotiations regarding terms and conditions for the first transactions and a delay on the banking leg of the deals. The first transaction was completed at the end of the second quarter.
In June 2020, in order to mitigate the economic impact of COVID-19, the launch of the "SME rescue capital programme" through a HUF 10 billion capital increase of MFB SME was approved.

The Fund's net result for the year was a loss of HUF -740 million in 2020.

Fashion & Design Capital Fund

The aim of the Fashion & Design Capital Fund, which was launched in September 2019 with funding of HUF 5 billion, is to finance start-ups or young innovative companies with high growth potential in the fashion and design sector that, through the capital support, can create innovative products or services by implementing their ideas and refining prototypes that can then be taken to the international market. Through the new fund, the Hungarian economy and Hiventures will open up towards an industry in which there are substantial opportunities for innovation and digital transformation, as well as for launching new clothing products and fashion accessories. To this end, as a first step, Hiventures entered into a strategic cooperation agreement with the Hungarian Fashion & Design Agency in 2019. Currently there are four companies in the portfolio of the capital fund. The fund's net result for the year was a loss of HUF -159 million in 2020.

MFB Growth Capital Fund (NTA)

In terms of development stages, the capital fund finances micro, small and medium-sized enterprises (and in some cases, large companies) that are at the start of the development and financing chain. In venture capital speak, these are incubation-size, seed, start-up, or occasionally growth-stage businesses.

In June 2020, in order to mitigate the economic impact of COVID-19, the launch of the "Startup rescue capital programme" through a HUF 10 billion capital increase of MFB NTA was approved.

The economic crisis caused by COVID-19 may well hit the Growth Capital Fund the hardest, as its investments are most exposed to the negative effects of the crisis. For one, the NTA tends to make early-stage investments: the target companies that have received funds so far have only recently begun operating (the fund has investments dating back to just 2017), and so they have not yet had a chance to become financially robust. Secondly, the target group consists mainly of medium-sized and small businesses, which are generally of a higher risk, and are more sensitive to the effects of the crisis.

As a result of the placements, MFB Growth Capital Fund held shares in 97 companies as of 31 December 2020. In 2020, the fund's net result for the year was a loss of HUF -1.957 million.

MFB Investment and Transaction Private Equity Fund (BTMA)

The primary objective of the MFB BTMA Capital Fund, established in September 2020, is to finance small and medium-sized enterprises and large companies, in particular with the following capital investment focus:

- Restructuring Capital Programme
- Transaction Capital Programme
- Economic Development Capital Programme

The subscribed capital of the capital fund is HUF 150 billion, 10% of which has been paid up. No placements from the fund were made during 2020.

MFB-Ingatlanfejlesztő Zrt.

During the reporting period, the company operated as the real estate competence centre of the MFB Group. As part of this, it performed the banking group's property management, development, utilisation and sales tasks, but under its new strategy from 2019, it also completed market-based purchases of properties that were consistent with its existing activities and portfolio (e.g. office buildings), which allowed it to stabilise its profit-generating capacity.

In 2020 the company took over additional properties from companies under MFB's ownership (in particular, from MFB Invest) and continued to conduct the operational and utilisation tasks related to the properties. During the year, 5 properties taken over within the MFB Group were sold for a total of HUF 169.3 million.

The company purchased the Spirál Office Building in November 2020. MFB Zrt. contributed loans and equity financing for the acquisition of these properties. Through the development project, the Company was able to significantly improve its net earnings, even by 2020.

The company's net result for the year 2020 was a profit of HUF 220.6 million.

2.3. Key features of the internal audit and risk management systems of the corporate group

According to Section 134 (3) of the Accounting Act relating to consolidated management reports, if the negotiable securities of a company included in consolidation have been admitted for trading on a regulated market of any country of the European Economic Area, it must include in the consolidated management report a description of the main features of the corporate group's internal audit and risk management systems in connection with the preparation of the consolidated annual accounts.

Given the fact that the bonds issued by MFB are listed on the stock exchange, we present below the main features of the corporate group's internal audit and risk management systems in connection with the preparation of the consolidated annual accounts:

- MFB's companies included in the consolidation circle are consolidated on the basis of reporting packages containing Hungarian annual accounts and IFRS adjustments audited by independent statutory auditors and, in the case of subsidiaries newly added to the consolidation circle, on the basis of a "purchase price allocation" (PPA) valuation prepared by an independent consultancy firm.
- In its consolidation accounting policy, MFB specifies the deadlines and the contents of the consolidation data reports.
- MFB decides on the business policy and business plans of the companies belonging to the MFB Group, and approves the founder's resolutions and general meeting mandates relating to these companies, including the election of executive officers, the members of the Supervisory Board, as well as the chief executive of each company.
- MFB delegates a representative to the Supervisory Board and Board of Directors of all the consolidated companies.
- MFB's Internal Audit Directorate may audit the members of MFB Group on the basis of the internal audit plan approved by MFB's Supervisory Board. In order to ensure the uniform quality of internal audit within the group, the Bank applies a group-level directive to ensure the operation of internal audit processes, applied methodologies and independence within the organisation.
- In accordance with Section 8 (2) of the MFB Act, MFB is exempt from the requirements relating to consolidated supervision. However, MFB lays down, in Board directives, specific rules on group-level risk taking, which contain guidance for the risk management activities of the MFB Group in respect of lending, market and operational risk. The members of the MFB Group have integrated the provisions of the group-level rules into their own regulations.
- MFB exercises monitoring activity in respect of the members of the MFB Group through monthly and quarterly reporting.

The Bank's risk management policy, hedge policy, price, credit, interest rate, liquidity and cash flow risk are detailed in Note 36.

3. Main figures of the consolidated accounts

MFB's consolidated annual accounts for the year 2020 contain the following key data in accordance with international accounting standards:

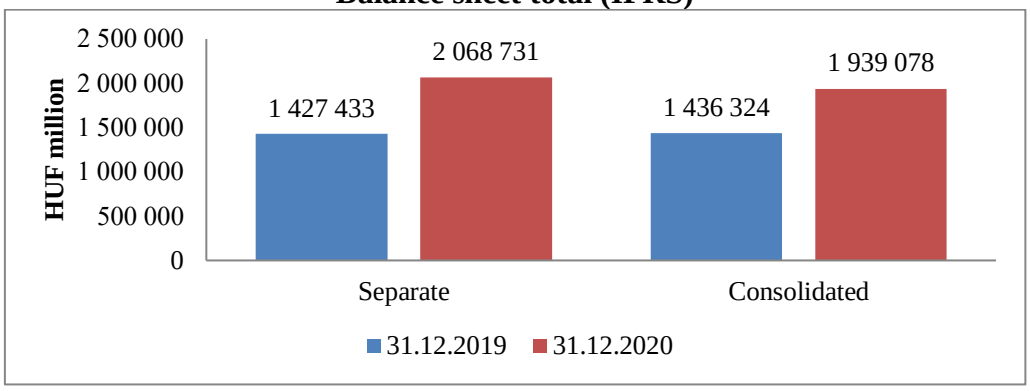
- The consolidated balance sheet total was HUF 1 939 078 million as at 31 December 2020.
- The value of consolidated shareholders' equity amounted to HUF 411 721 million at the end of 2020.
- Consolidated net profit for 2020 was HUF 2 536 million.

The explanations for the significant figures of the consolidated accounts are as follows:

3.1. Balance sheet total

The change in the balance sheet total under international accounting standards was the following:

Balance sheet total (IFRS)

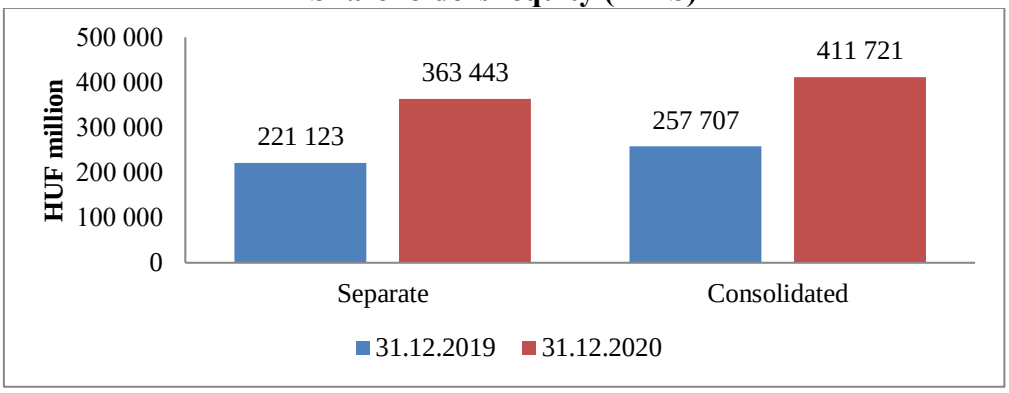


In 2020 the group-level balance sheet total amounted to HUF 1 939 billion, which is 35% more than the 2019 figure. During the year, the growth of the balance sheet total was due to the expansion of lending activity, mainly related to MFB's activity, and a short term interbank transaction: a company with a significant loan portfolio placed a security deposit with MFB Zrt. in the same amount as its loan (HUF 197 billion), which was utilised on the interbank market by the Bank. Both the security deposit and the interbank deal expired in January 2021.
MFB's balance sheet total of HUF 2 069 billion represents 107% of the group's balance sheet total, as the unpaid part of the commitments undertaken connected to the capital funds' investment coupons were removed during the consolidation.

3.2. Shareholders' equity

The capitalisation of the group provides sufficient medium-term funding for operations and enables the secure completion of tasks. The value of, and the annual change in, shareholders' equity according to international accounting standards was as follows:

Shareholders' equity (IFRS)



The value of consolidated IFRS shareholder's equity increased in 2020 by HUF 151.4 billion, primarily because the Bank received capital from its owner two times during the year, mainly to meet the prudential limits connected to the investment activities.

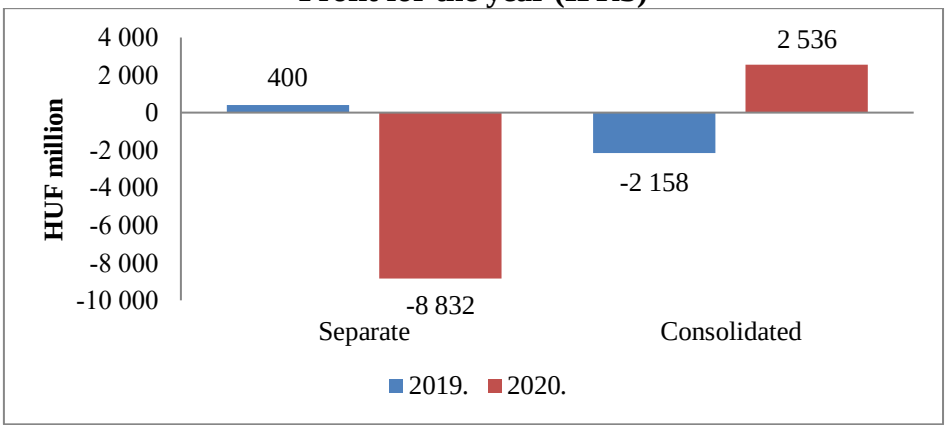
3.3. Profit after tax

MFB's non-consolidated 2020 loss for the year under international accounting standards was HUF 8 832 million, whereas on consolidated level the net profit amounted to HUF 2 536 million thanks to MKK's considerable profit according to IFRS standards.

	2019.	**2020.**	**Difference**
Separate net profit for the year	400	-8 832	-9 232
Consolidated profit for the year	-2 158	2 536	4 694
- of which: Profit attributable to the shareholder	*-5 855*	*2 604*	8 459
- of which: Profit attributable of non-controlling interest	*3 697*	*-68*	-3 765

The diagram below shows the changes in the stand-alone and consolidated profit figures (IFRS):

Profit for the year (IFRS)



The changes in the consolidated profit figures are summarised in the following table:

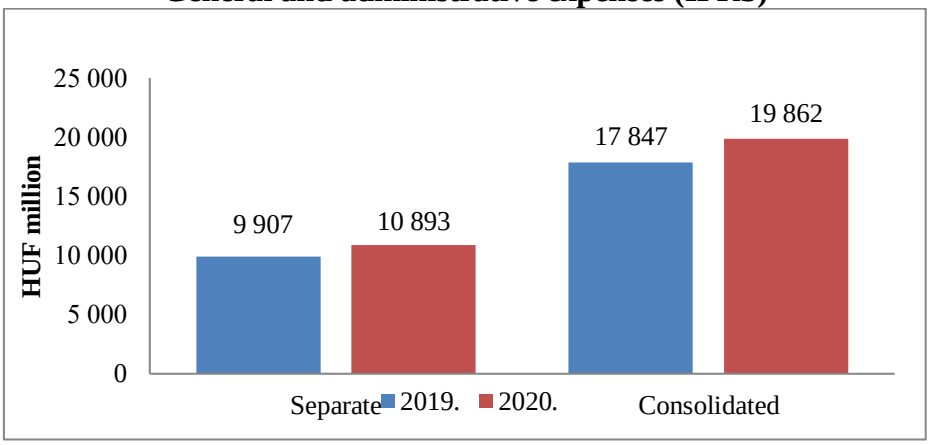
million HUF	2019	2020	Index
Net interest income	18 055	23 669	131%
General and administrative expenses	(17 847)	(19 862)	111%
Cost reimbursements	3 535	3 982	113%
Effect of the changes in impairment / provision	5 368	785	15%
Profit/loss from other revenues	(6 844)	(578)	8%
Taxation	(4 425)	(5 459)	123%
Profit for the year	**(2 158)**	**2 536**	**-118%**

MFB's consolidated profit for the year is HUF 2 536 million. In examining the profit items, it is worth noting that:

- The net interest income is higher than the previous year's figure, primarily due to an expansion in the portfolio of interest-bearing assets owned by the parent company, MFB.
- The costs are higher in value compared to previous year, which partly derives from the increase of the costs in case of the parent company, MFB. With regard to non-personnel expenses, the increase in advertising was significant, partly because a portion of the marketing expenditures planned for 2019 was postponed to 2020. On the other hand, additional costs emerged due to marketing campaigns connected to the economy protecting course of actions and programmes brought into life on account of the Coronavirus.

Changes in general and administrative expenses are detailed in the following chart:

General and administrative expenses (IFRS)



- On the cost reimbursement line, the reimbursement of costs associated with the management of EU funds and with the exercising of state ownership rights appear in 2020. The amount of expense reimbursements received rose mainly because of the increase in personnel expenses associated with EU tasks in 2020;
- The effect of impairment/changes in provisions is more favourable than it was in the previous year - despite the considerable amount of additional provisions made in answer to the economic impact of the Coronavirus -, mainly because the valuation of purchased receivables resulted in release of provisions.
- The negative balance of other revenues and expenditures in 2019 derived from the removal of equity shares in MMBF from the portfolio. Such transaction did not occur

in 2020. Other items include the loss booked for 2020 in connection with repayment moratorium.

- The tax figure was higher than previous year's amount, because of the higher amount of bank tax, and bank supervisory fee, which increased in line with the expansion of the portfolio.

3.4. Key indicators reflecting MFB's consolidated operation

Financial indicators

ROA

million HUF, %

		2019	2020	Index
1.	Profit for the year	-2 158	2 536	-
2.	Total assets	1 436 324	1 939 078	135.00%
3.=1/2	**Return on Assets (ROA)**	**-0.15%**	**0.13%**	**-**

ROE

million HUF. %

		2019	2020	Index
1.	Profit for the year	-2 158	2 536	-
2.	Shareholder's equity	257 707	411 721	159.76%
3.=1/2	**Return on Equity (ROE)**	**-0.84%**	**0.62%**	**-**

Thanks to the positive result of 2020, the value of both ROA and ROE indicators are more favourable compared to 2019.

Cost/income ratio

million HUF, %

		2019	2020	Index
1.	General and administrative expenses	17 847	19 862	111.29%
2.	Net interest income + companies sales revenue	18 055	23 669	131.09%
3.=1/2	**Cost/income ratio**	**98.85%**	**83.93%**	**84.91%**

As the increase of the revenues exceeds the increase of the expenses, the value of the C/I indicator improved from last year.

Liquidity ratio

million HUF, %

		2019	2020	Index
1.	Liquid assets (cash, MNB deposits, avaiable-for-sale securities)	135 140	443 519	328.19%
2.	Total assets	1 436 324	1 939 078	135.00%
3.=1/2	**Liquidity ratio**	**9.41%**	**22.87%**	**243.10%**

In case of MFB, due to the short term interbank transactions fuelled by a considerable amount of security deposit (put in by a customer with significant loan amount) and capital received from the owner, the portion of the state bonds and interbank items (liquid assets together) exceeds the last year's figure. Excluding the security deposit deal the liquidity ratio would be under 13% in 2020.
Liquid assets available at the end of the year continue to provide coverage for the management of an unexpected extraordinary liquidity situation.

Leverage ratio

million HUF, %

		2019	2020	Index
1.	Total assets	1 436 324	1 939 078	135.00%
2.	Shareholder's equity	257 707	411 721	159.76%
3.=1/2	**Leverage ratio**	**5.57**	**4.71**	**84.50%**

In line with the capital allocation the consolidated leverage ratio of the Bank decreased, and the Group continues to have sufficient capital to ensure its reliable operation.

Non-financial indicators

Headcount of MFB and MFB group

number, %

		2019	2020	Index
1.	Closing headcount	736	741	100.7%
2.	Average headcount*	681.1	712.5	104.6%

*In 2019 without MMBF Zrt.

In parallel with the expansion of tasks (capital fund investment activity), both closing and average headcount increased in 2020.

Announced MFB programmes, sub-programmes

number, %

		2019	2020	Index
1.	MFB programmes	9	15	166.7%
2.	MFB sub-programmes	2	2	100.0%
3.	Total amount of MFB programs	529	969	183.2%

In 2020, the Bank announced and launched the directly financed MFB Agricultural Loan Programme, the MFB Forestry Loan Programme, as well as the MFB Region Competitiveness Financial Business Refinancing Programme marketed through its refinancing partners, as well as the MFB Crisis Loan and the MFB Crisis Plus Loan intended to mitigate the economic impact of COVID-19, and the MFB Force Majeure Guarantee Programme.
In order to mitigate the economic effects of COVID-19, the limit for the MFB Competitiveness Loan Programme was increased to HUF 150 billion, as a result of which, together with the existing and newly introduced financing programmes, customers had a chance to apply for loans up to a limit of HUF 969 billion under 15 programmes in 2020.

Announced EU programmes

number, %

		2019	2020	Index
1.	EU programmes	27	28	103.7%
2.	Total amount of EU programs	741	801	108.1%

The increase in the Gross Budget for 2020 was warranted by the change in the Annual Development Framework in effect at the end of the year, as well as the exchange rate difference and the amount of the approved over-commitment for each product.

4. The MFB Group's strategic business policy concept for 2021

The basic task of MFB and MFB Group is to provide domestic economic players with financing under favourable terms which will stimulate investment and development, as well as to support long-term economic development priorities and raise the money-market funds required for these.

The activities of MFB, as a development bank, will continue to complement the operations of the Hungarian banking sector in 2021 through the Bank's involvement in financing transactions that would not take place on a market basis but that are desirable for the national economy. Based on the latest MFB survey conducted at the turn of 2019 and 2020, there are unmet financing needs of approximately HUF 800 billion in the economy that promise reasonable returns, and meeting these needs gradually is a task that can be justified even according to EU standards. This requires new target segments in addition to the existing ones and a renewed product and service content.

In 2021, the Bank intends to continue financing large individual transactions, which have been at the focus of its attention for a while, supplementing loan products with guarantees. In the case of refinancing loans, MFB Zrt. expects to maintain the Crisis Loan programmes introduced in connection with the mitigation of the economic consequences of the COVID virus.
It represents a change in the Bank's investment and asset management activities that subscribing for the investment units of capital funds – and thus supporting disbursements through the funds – is gaining more weight within the direct investments of MFB. The operations of subsidiaries follow the strategic group-level objectives approved, and MFB Zrt. provides capital increase to expand the business activities of the subsidiaries.

The Bank's headcount will increase slightly in 2021 due to the growth in business activity. MFB continues to prepare its cost budget taking two main aspects into consideration: standard operating expenses and capital expenditures will remain under close control, while strategic and regulatory tasks will demand significant capital expenditures and preparatory expenses, mainly in IT. In order to support the achievement of the business objectives, the level of marketing expenses will also remain high.

The financial and economic effects of COVID-19 on the Bank and on the MFB Group were in most cases already reflected in the processes and results of 2020. In 2021, more and more the spill-over effects of those actions (e.g. the postponement of procurements to 2021) can be expected.

As a result of the above trends and processes, The Bank's and the MFB Group'S liquidity and funding will remain stable throughout the year, but the planned disbursements must be implemented and the planned cost level must be maintained for the profit targets to be achieved. Nevertheless, the Bank must – both in the short and long term – continue to allow for financial and business risks that may affect the success of the 2021 plan, including the protracted impact of the coronavirus, the returns on the subsidiary portfolio and the challenges of renewing channels and products. Managing these risks will remain a key task in the future.

5. Other key processes

The MFB Group performs its environmental protection duties in accordance with environmental protection standards and laws; it does not finance activities that are damaging the environment and does not pursue activities that are harmful to the environment.
A warranty claim indicated by the buyer in connection with a property sale deal press MFB Ingatlanfejlesztő Zrt. to make provisions for environmental remediation, as liability in amount of HUF 13.5 million. In 2020, the amount of costs accounted for during the transportation of hazardous waste was HUF 6.6 million.

The following Companies have branch sites:

- MKK Zrt. – business address, as per the Articles of Association: 1138 Budapest, Madarász Viktor u. 47-49.
- MFB-Ingatlanfejlesztő Zrt.
  - The Company's business address as follows:
    1135 Budapest, Szegedi út 35-37.
  - The branches of the Company are as follows:
    - 2800 Tatabánya, Bárdos László utca 2. (Tatabánya Pláza),
    - 9970 Szentgotthárd, Füzesi út 3/b (Gotth'art Hotel)
    - 2700 Cegléd, Fürdő utca 24.
    - 3100 Salgótarján, Kassai sor 6.
    - 3100 Salgótarján, Alkotmány út 18. fszt.
    - 3100 Salgótarján, Alkotmány út 18. I. emelet
    - 1134 Budapest, Dózsa György út 128-130.

MFB and the other members of the MFB Group do not have any branch offices or business sites except the seat of MFB.

In its human resource policy the MFB Group is committed to condemning any form of discrimination – based on sex, age, religion, race, political or trade union affiliation, language of other differences – and respecting the rights of the disabled. MFB Group directly supports community development, the promotion of financial awareness and the creation of opportunities. Respect for human rights is an important consideration in respect of both business partners and employees, and the Bank places great emphasis on this issue in its regulations, the organisation of its operations, its communication and its complaint handling processes. The Bank does not have a separate diversity policy applicable to the managing and supervisory bodies, as it is partly defined in the Code of Conduct and Ethics.
MFB is taking steps to create the conditions for a family friendly workplace. In this context, employees expecting a baby or working while on maternity leave may choose part-time or remote work.

The other non-financial statements not covered here are contained in the relevant chapters of the management report; they are not discussed in a separate chapter to avoid duplication.

6. Events after the balance sheet date

Recommendation of the European Banking Authority (EBA) on payment moratoriums applied in the light of the COVID 19 crisis, updated on 2 December 2020, was issued by MNB on 21 January 2021 in its circular on the use of macroeconomic information and factors indicating a significant increase in credit risk. The issued circular also confirms that it does not automatically consider repayment arrears due to the moratorium as a default event, and does not automatically consider repayment rescheduling as a restructuring if during the aggregate period of Moratorium 1 and Moratorium 2 the exposure was subject to a moratorium for less than 9 months until 30 June 2021 and if the exposure was not subject to a moratorium after 31 March 2021.

However, if the exposure affected by Moratorium 2 becomes affected by the moratorium for more than 9 months during the aggregate period of Moratorium 1 and Moratorium 2 by 30 June 2021, it is reasonable to assume that the obligor is in financial difficulty to meet its financial obligations, or will be, so the transaction has to be considered as restructured. Exceptions to this are cases in which it can be credibly demonstrated that the debtor has no financial difficulties in meeting its financial obligations and is not expected to have any financial difficulties.

In accordance with the above principles, the Bank applies the provisions of the MNB's circular from 1 January 2021 by subjecting all exposures subject to a moratorium to a risk-based individual examination, regardless of whether the time spent during the combined period of Moratorium 1 and Moratorium 2 exceeds 9 months.

In accordance with EBA's position and the MNB's guidelines, MFB does not automatically consider repayment arrears due to the moratorium to be a default event and does not automatically consider repayment rescheduling to be restructuring.

Already in 2020, the Bank reviewed its large loans, which form a significant part of the portfolio. Transactions for which the expected impact of the coronavirus warranted reclassification were reclassified by the Bank to Stage 2 or restructured categories and, based on an individual decision, increased the amount of impairment. Thus, if the recommendations of the MNB's management circular had already been applied in 2020, it would not have caused a significant change in the impairment.

Budapest, 6 April 2021

Dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

MFB Hungarian Development Bank
Private Limited Company
2.

Corporate Governance Report
(MFB Group)

2020

Budapest, 6 April 2021

Introduction

Pursuant to Section 95/B(1) on the business report under Act C of 2000 on Accounting, any business whose negotiable securities have been admitted for trading on a regulated market of a Member State of the European Economic Area is required to publish a Corporate Governance Statement in its business report.

MFB Hungarian Development Bank Private Limited Company (hereinafter: MFB Zrt. or the Company) is thus required to publish a statement with respect to the bonds it issues.

MFB Zrt. has published the following report on its corporate governance practices during the 2020 financial year.

The Company's internal system of governance and control is based on the Recommendations and Proposals for Corporate Governance, approved by the Budapest Stock Exchange on 8 December 2020. The corporate governance principles defined in the Recommendations have been adopted by the Company without any material differences.

It must be, however, taken into consideration that MFB Zrt. is a single-member private joint-stock company, where, on the basis of Section 1(2) of Act XX of 2001 on Magyar Fejlesztési Bank Részvénytársaság (hereinafter: MFB Act) and Section I of Annex 2 of Act CXCVI of 2011 on National Assets, 100% of the shares representing the Company are exclusively owned by the Hungarian State. Any alienation of the shares or offering of the same as security shall be deemed null and void. As part of its responsibilities under Sections 3(1) to (3) of the MFB Act, the Company is required to proceed, both independently and in cooperation with other Hungarian and international organisations, in accordance with the requirements of transparency, expediency, economy, efficiency and prudence, with a view to securing the development funds required to achieve the economic development objectives defined by the medium and long-term economic strategy of the Government. The Company shall act on behalf of its sole shareholder, the Hungarian State. The objectives of the State and the acting Government are set out by the law or conveyed to the Company by a Government Resolution.

The shareholder's (owner's) rights of the State over MFB Zrt. shall be exercised by the Minister responsible for supervising state assets. On the basis of Section 144(1) of Government Decree No 94/2018 of (V.22.) setting out the duties and competences of the members of the Government, the Minister without portfolio responsible for supervising national assets is a member of the Government, responsible for supervising state assets (hereinafter: the person exercising shareholder's rights).

The person exercising shareholder's rights shall issue the founder's resolution for the Company, thus determining the Company's strategic decisions. In a founder's resolution, the person exercising shareholder's rights shall require the Company to carry out the tasks set out in the Government's resolutions. The person exercising shareholder's rights shall decide on the selection, appointment, recall and discharge of members of the Board of Directors, members and the Chair of the Supervisory Board and the Chief Executive Officer heading the Company's work organisation under an employment contract.

Pursuant to Act CXXII of 2009 on publicly owned companies (hereinafter: Kgtv. Act), MFB Zrt. is a publicly owned company.

For the purposes of the provisions of the Kgtv. Act, the Company is treated as a company of priority importance for the national economy.

In other words, MFB Zrt's corporate governance practices are determined by the economic development objectives set in the Government's medium and long-term economic strategy, its classification as a company of priority importance for the national economy, the characteristics of being a single-member private joint-stock company and the provisions of the MFB Act and the Statutes of MFB Zrt.

Based on its size and the number of its employees, the Company is a large enterprise. It has a formalised operation. In addition to Act CCXXXVII of 2013 on credit institutions and financial companies (hereinafter: Hpt. Act), the Company's Statutes and the provisions of the rules of procedure of the Board of Directors and the Supervisory Board, the governance and functioning of the Company are determined by the remuneration policy, which is under the competence of the person exercising shareholder's rights, and internal regulations required by EU and national legislation and provisions applicable to credit institutions.

1.1 A brief presentation of the operation of the Board of Directors / Governing Board, and the distribution of responsibilities and tasks between the Board of Directors / Governing Board and the management.

The Board of Directors is the Company's managing body. Members of the Board of Directors are the Company's executive officers.

The Board of Directors consists of 5 to 9 members. Members of the Board of Directors are appointed – for a 5-year term – and recalled by the person exercising shareholder's rights. The Board of Directors is headed by its Chair. The Chair of the Board is elected by the Board members from among themselves. During the term of his or her mandate, the CEO shall be a member of the Board of Directors, without a specific decision by the person exercising shareholder's rights. Notwithstanding the term specified in Article 14(4) of the MFB Act, the CEO shall remain a member of the Board for the entire duration of his or her mandate. In the event that the Chair of the Board of Directors and the CEO is the same person, pursuant to the third sentence of Section 15(2) of the MFB Act, the CEO shall be entitled to use the title of Chairman & CEO.

Members of the Board of Directors may be recalled from their office at any time by the person exercising shareholder's rights without further explanation. At least two members of the Board shall be employees of the Company (internal members). According to Section 149 (2) of the Hpt. Act, the directors of the company pursuant to the Hpt. Act may be elected as internal members of the Board of Directors. The Board membership of internal members shall cease immediately on the termination of their employment. Members of the Board of Directors and their family members may not be Members of the European Parliament, Members of Parliament, members of any municipal/local governments or spokespersons for a national or ethnic minority. The Chair of the Board of Directors and Board members shall make a declaration of property in accordance with the applicable statutory provisions.

The Board shall exercise its rights and responsibilities as a corporate body.

The Board shall draw up the Company's reports under the Accounting Act and a proposal for the appropriation of net profit and submit them to the person exercising shareholder's rights for approval by 15 June the following financial year. The Board of Directors shall ensure that the Company's books are appropriately maintained. Moreover, the responsibilities of the Board shall include the approval of the Company's regulations on organisation and operation as well as any regulations assigned by the Rules of Procedure of the Board or by the law to the competence of the Board. Similarly, the Board of Directors shall make a decision on any major issues specified in the Board's

Rules of Procedure.

The Company shall not have an appointing committee or a remuneration committee.

The person exercising shareholder's rights may not deprive the Board of Directors of its powers.

Meetings of the Board shall be convened as appropriate but at least once every three months. Board meetings shall be convened by the Chair of the Board through the forwarding of an invitation to Board members at least 8 days prior to the proposed date of the meeting. The invitation shall specify the venue, date and hour of the meeting and the proposed agenda of the meeting; any written documents relevant to the agenda shall be attached to the invitation as far as possible. Any issue that has not been included in the agenda of the meeting shall only be discussed by the Board of Directors if at least two-thirds of the Board members are present and all attending members unanimously agree that the agenda item in question should be discussed at the meeting. The Chair of the Supervisory Board shall be invited to any meeting of the Board of Directors.

Any member of the Board of Directors may request that a Board meeting be convened, specifying the agenda to be discussed by such meeting. The meeting shall be convened by the Chair of the Board of Directors for a day within 15 days of such request.

Meetings of the Board of Directors shall have a quorum if it is attended by the majority of Board members. Decisions shall be made by a simple majority of the votes of attending members. The unanimous vote of the Board of Directors shall be required for decisions provided for in Section 106 of the Hpt. Act (internal loans) and decisions under Section 144(3) of the Hpt. Act.

The Board may also adopt a decision without convening a meeting, in writing (by mail or fax) (urgent written procedure). Moreover, the Chair of the Board of Directors may convene an emergency Board meeting.

1.2 An introduction of the Board of Directors / Governing Board, Supervisory Board and management members (for board members, also indicating each member's status of independence), a presentation of the boards structures.

As at 31 December 2020, the members of the Board of Directors are as follows:

1. Dr. Levente Sipos-Tompa, internal member of the Board of Directors , Chairman & CEO,
2. Kornél Kisgergely, internal member of the Board of Directors,
3. Dr. József Zsolt Bohács, external member of the Board of Directors,
4. Dr. István Varga, external member of the Board of Directors
5. Zsuzsanna Polgár, external member of the Board of Directors.

The start and end dates of the mandates are set out in detail under item 13 of the Company's Certificate of Incorporation.

As at 31 December 2020, the Chair and the members of the Supervisory Board are as follows:

1. Dr. Zoltán Tibor Halasi, Chair of the Supervisory Board
2. Katalin Nagyné Maros, member of the Supervisory Board,
3. Ervin Gönczy, member of the Supervisory Board, employee representative
4. Dr. Ágnes Takács, member of the Supervisory Board, employee representative
5. Dr. Péter Pataki, member of the Supervisory Board,
6. Rita Inámi-Bolgár, member of the Supervisory Board.

The start dates of the mandates are set out in detail under item 15 of the Company's Certificate of Incorporation.

The Bank's most senior officer responsible for operations is the Chief Executive Officer. The Company's Chief Executive Officer is Dr. Levente Sipos-Tompa.

The employee is entitled to substitute the Chief Executive Officer is Kornél Kisgergely Director General.

1.3 Specifying the number of meetings which the Board of Directors / Governing Board, Supervisory Board and committees held in the given period, completed with attendance rates.

In 2020, in view of the emergency situation due to the COVID-19 epidemic, the Board of Directors had met 2 times and adopted decisions 86 times without holding a meeting by urgent written procedure, with the following participation rates:

Date of Board meeting/ adopted a decision by urgent written procedure	**Participation rate**
23 January 2020-meeting	Of 5 members, 4 participated
25 February 2020-meeting	Of 5 members, 5 participated
Urgent procedure	
3 March 2020	Of 5 members, 5 participated
9 March 2020	Of 5 members, 4 participated
12 March 2020	Of 5 members, 5 participated
18 March 2020	Of 5 members, 5 participated
26 March 2020	Of 5 members, 4 participated
1 April 2020	Of 5 members, 5 participated
2 April 2020	Of 5 members, 5 participated
3 April 2020	Of 5 members, 5 participated
16 April 2020	Of 5 members, 5 participated
17 April 2020	Of 5 members, 5 participated
23 April 2020	Of 5 members, 5 participated
27 April 2020	Of 5 members, 5 participated
28 April 2020	Of 5 members, 5 participated
29 April 2020	Of 5 members, 5 participated
5 May 2020	Of 5 members, 5 participated
12 May 2020	Of 5 members, 4 participated
13 May 2020	Of 5 members, 4 participated
14 May 2020	Of 5 members, 4 participated
19 May 2020	Of 5 members, 4 participated
22 May 2020	Of 5 members, 4 participated
5 June 2020	Of 5 members, 5 participated
9 June 2020	Of 5 members, 5 participated
10 June 2020	Of 5 members, 5 participated
11 June 2020	Of 5 members, 5 participated
16 June 2020	Of 5 members, 5 participated
17 June 2020	Of 5 members, 5 participated
18 June 2020	Of 5 members, 5 participated
19 June 2020	Of 5 members, 5 participated

Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
26 June 2020	Of 5 members, 5 participated
29 June 2020	Of 5 members, 5 participated
30 June 2020	Of 5 members, 4 participated
8 July 2020	Of 5 members, 5 participated
13 July 2020	Of 5 members, 4 participated
15 July 2020	Of 5 members, 4 participated
16 July 2020	Of 5 members, 4 participated
20 July 2020	Of 5 members, 5 participated
23 July 2020	Of 5 members, 5 participated
27 July 2020	Of 5 members, 5 participated
31 July 2020	Of 5 members, 5 participated
6 August 2020	Of 5 members, 5 participated
17 August 2020	Of 5 members, 5 participated
18 August 2020	Of 5 members, 5 participated
28 August 2020	Of 5 members, 5 participated
7 September 2020	Of 5 members, 4 participated
10 September 2020	Of 5 members, 4 participated
16 September 2020	Of 5 members, 4 participated
18 September 2020	Of 5 members, 4 participated
25 September 2020	Of 5 members, 5 participated
29 September 2020	Of 5 members, 5 participated
30 September 2020	Of 5 members, 5 participated
1 October 2020	Of 5 members, 5 participated
6 October 2020	Of 5 members, 5 participated
7 October 2020	Of 5 members, 5 participated
8 October 2020	Of 5 members, 5 participated
14 October 2020	Of 5 members, 5 participated
19 October 2020-I. procedure	Of 5 members, 5 participated
19 October 2020-II. procedure	Of 5 members, 5 participated
21 October 2020	Of 5 members, 5 participated
27 October 2020	Of 5 members, 5 participated
28 October 2020	Of 5 members, 5 participated
3 November 2020	Of 5 members, 5 participated
5 November 2020	Of 5 members, 5 participated
6 November 2020	Of 5 members, 5 participated
9 November 2020	Of 5 members, 5 participated
11 November 2020	Of 5 members, 5 participated
12 November 2020	Of 5 members, 5 participated
17 November 2020	Of 5 members, 5 participated
19 November 2020	Of 5 members, 5 participated
20 November 2020	Of 5 members, 5 participated
23 November 2020	Of 5 members, 5 participated

Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
24 November 2020	Of 5 members, 5 participated
27 November 2020-I. procedure	Of 5 members, 5 participated
27 November 2020-II. procedure	Of 5 members, 5 participated
27 November 2020-III. procedure	Of 5 members, 5 participated
1 December 2020	Of 5 members, 5 participated
2 December 2020	Of 5 members, 5 participated
3 December 2020	Of 5 members, 5 participated
8 December 2020	Of 5 members, 4 participated
10 December 2020	Of 5 members, 4 participated
11 December 2020	Of 5 members, 5 participated
16 December 2020 I. procedure	Of 5 members, 5 participated
16 December 2020 II. procedure	Of 5 members, 5 participated
17 December 2020	Of 5 members, 5 participated
18 December 2020	Of 5 members, 5 participated
22 December 2020	Of 5 members, 5 participated
28 December 2020	Of 5 members, 4 participated

The Supervisory Board had held 2 meetings in 2020 and made decisions in 30 cases without holding a meeting, by written voting. In view of the emergency situation due to the COVID-19 epidemic, the Supervisory Board had taken its decisions by written voting from the 18th of March 2020. The participation rates were as follows:

Date of Supervisory Board meeting/ adopted a decision by written procedure	Participation rate
24 January 2020-meeting	Of 6 members, 5 participated
27 February 2020-meeting	Of 6 members, 4 participated
Written procedure	
18 February 2020	Of 6 members, 6 participated
18 March 2020	Of 6 members, 5 participated
6 April 2020	Of 6 members, 5 participated
20 April 2020	Of 6 members, 5 participated
29 April 2020	Of 6 members, 4 participated
14 May 2020	Of 6 members, 5 participated
18 May 2020	Of 6 members, 4 participated
26 May 2020	Of 6 members, 5 participated
10 June 2020	Of 6 members, 5 participated
17 June 2020	Of 6 members, 4 participated
23 June 2020	Of 6 members, 4 participated
26 June 2020	Of 6 members, 4 participated
15 July 2020	Of 6 members, 5 participated
16 July 2020	Of 6 members, 5 participated
28 July 2020	Of 6 members, 4 participated
3 August 2020	Of 6 members, 4 participated

Date of Supervisory Board meeting/ adopted a decision by written procedure	Participation rate
19 August 2020	Of 6 members, 4 participated
27 August 2020	Of 6 members, 4 participated
14 September 2020	Of 6 members, 4 participated
23 September 2020	Of 6 members, 4 participated
5 October 2020	Of 6 members, 5 participated
12 October 2020	Of 6 members, 5 participated
19 October 2020	Of 6 members, 5 participated
28 October 2020	Of 6 members, 5 participated
5 November 2020	Of 6 members, 5 participated
10 November 2020	Of 6 members, 4 participated
27 November 2020	Of 6 members, 5 participated
8 December 2020	Of 6 members, 5 participated
17 December 2020	Of 6 members, 4 participated
28 December 2020	Of 6 members, 4 participated

1.4 A presentation of the work done by the Board of Directors / Governing Board, the Supervisory Board and the management as well as the considerations for assessing their individual members. Specifying if the assessment carried out in the given period resulted in any changes.

The Company has implemented a set of regulations drawn up by the person exercising shareholder's rights in consideration of the provisions of Act CXXII of 2009 on the more economical operation of publicly owned companies (hereinafter: Kgtv. Act) and Government Resolution No 1660/2015 (IX. 15.) regarding the renewal of the system of remuneration of management employees of companies in majority public ownership (hereinafter: Govt. Resolution), in respect of the method and amount of the remuneration of executive officers, members of the Supervisory Board and management employees and the system of their remuneration (hereinafter: Remuneration Policy).

The Remuneration Policy has been amended by the person exercising shareholder's rights as from 29 October 2019 by the Founder's Resolution No. 23/2019 (X.29.)

The main rules for defining and assessing the system of performance requirements (annual bonuses) for executive employees are as follows:

- A bonus-based remuneration system shall be implemented for managers in order to encourage the successful achievement of business policy and economic targets for the year concerned and efficient operation;
- As a performance requirement, any target condition should be based on performance that can be objectively defined and be based on performing one's job with reasonable expertise and diligence. In case of a performance objective comprising the achievement of the key figure(s) of the business plan, the target conditions have to be set within ranges. A performance objective comprising the achievement of the key figure(s) of the business plan cannot be set solely if its fulfilment resulted in the 100% payment of the related bonus;
- The amount of the annual bonus of a manager shall not exceed the extent regulated in the relevant Government Decision. If the Company has made a loss, no bonus shall be paid to the manager;
- The performance requirements and conditions should preferably be defined simultaneously with or within 30 days of the adoption of the business plan for the year, unless under exceptional circumstances where they may be set at a later date;

- The performance requirements shall be assessed and settled simultaneously with or within 30 days of the adoption of the financial statement (balance sheet) for the financial year, unless under exceptional circumstances, where it may take place at a later date;
- If any of in the set performance requirements or not, or partially fulfilled, the employer's rights shall decide, on the amount and the payment of the bonus in proportion to the otherwise fulfilled performance requirements;
- Where the employment of a manager is terminated during the year, the bonus shall be payable on a pro rata basis simultaneously with the adoption of financial statement closing the financial year according to the Act on Accounting or within 30 days of the adoption of the financial statement;
- The circumstances listed in the Remuneration Policy may be considered as factors reducing or excluding the payment of a bonus. The person entitled to set the performance requirements may determine additional factors reducing or excluding the payment of a bonus.

1.5 A report on the operation of each committee, elaborating on the professional background of committee members, the number of and the attendance rate at the meetings held as well as the major topics discussed at the meetings and a presentation of the general operation of each committee. When presenting the operation of the Audit Committee, any decision by the Board of Directors / Governing Board against the proposal of the committee should be mentioned (also including the explanations offered by the Board of Directors / Governing Board). The Company website, where all tasks delegated to the committees and the dates of the members' appointment must be published, should also be mentioned. (If this information is not available on the Company website, it must be included in the Corporate Governance Report.)

Supervisory Board

The Supervisory Board consists of 3 to 6 members. The Chair and members of the Supervisory Board are appointed for a definite period of up to 5 years and are recalled by the person exercising shareholder's rights. At least one-third of the members of the Supervisory Board shall be employee representatives for as long as the Company has more than 200 (two hundred) full-time employees on an average annual basis. Only natural persons may be Supervisory Board members; other than employee representatives, they may not be employees of the Company.

The Supervisory Board shall supervise the Company's management. Within the frames of this authority, the Supervisory Board may request reports or information from senior executives and employees of the company, may inspect the company's accounting records, registers, books and documents, may examine the company's payment account, cash register, securities and commodities, as well as its contracts, or may place them under examination by an expert.Such reports or information may also be requested or the Company's records may also be examined or ordered to be examined by individual members of the Supervisory Board.

The Supervisory Board shall have all rights and obligations set out for the supervisory boards of credit institutions by the applicable legislation in effect from time to time.

The Supervisory Board shall:

a) ensure that the Bank has a comprehensive and fully functional control system;
b) put forth a proposal for the Company's auditor and his or her fee;
c) verify the Bank's annual and interim financial statements;
d) technically manage and review the internal audit unit; as part of that function, the Supervisory Board shall
    1. adopt the annual review plan of the internal audit unit,
    2. discuss, at least once every six months, the reports drawn up by internal audit and review the implementation of the required measures,
    3. assist, where appropriate, the efforts of internal audit by inviting external experts,
    4. put forth proposals for adjusting the number of staff of the internal audit unit,
e) draw up recommendations and proposals on the basis of the findings of inspections by internal audit;
f) decide with respect to any preliminary agreement related to the establishment, or the termination by the Bank, of the employment of the internal auditor and the head of the internal audit unit.

Without the application of Section 3:123 of the Civil Code, the Supervisory Board is obliged to examine all relevant business policy reports requiring the decision of the holder of ownership rights, as well as all submissions relating to matters within the competence of the holder of ownership rights. The holder of ownership rights may decide on the reports pursuant to the Accounting Act only in the possession of the written report of the Supervisory Board. Decisions regulated in Section 106 (1) of the Hpt. Act (internal loan) require, in addition to the unanimous decision of the Board of Directors of the company, the consent of the Supervisory Board.

Meetings of the Supervisory Board shall be convened by the Chair of the Supervisory Board in writing (by mail, email or fax sent to members), ensuring that there is a period of at least eight (8) days between the sending of the invitations and the date of the meeting. The invitation shall include the agenda of the meeting along with the proposals for the issues concerning the agenda items. Any two Supervisory Board members may request the Chair to convene a Supervisory Board meeting, specifying the reason and the goal of the proposed meeting. Where the Chair fails to convene a meeting within 5 (five) days, such meeting may be convened by any member having requested that the meeting be convened.

The Supervisory Board shall have a quorum if more than two-thirds of its members or at least 3 (three) members are present at the meeting. Decisions of the Supervisory Board shall be adopted by a majority of votes by members of the Supervisory Board. The Supervisory Board may also adopt a decision without convening a meeting, in writing (by mail or fax) exceptionally, in particularly and immensely justified cases. A decision shall have been adopted if, within 3 (three) days of dispatch (or, in exceptional cases, within a shorter period specified by the Chair), at least 2/3 (two-thirds) of the members of the Supervisory Board (but a minimum of 3 members) have sent their votes to the Bank's registered office in the form of a private deed of full probative value. There shall be no need to wait for the vote of a member of the Supervisory Board if such member previously notified the Chair of the Supervisory Board of the fact that, during the period concerned, he/she would not be able to participate in the work of the Supervisory Board, in person or through a written voting procedure, due to another engagement.

The rules of procedure of the Supervisory Board shall be determined by the Supervisory Board and approved by the person exercising shareholder's rights. The Chair of the Supervisory Board and Supervisory Board members shall make a declaration of property in accordance with the applicable legislation.

Audit Committee

The Audit Committee shall:

a) assist the Supervisory Board in its activities, including
   - the review of the system of financial reporting,
   - the selection of an auditor, and
   - cooperation with the auditor;
b) review and monitor the independence of the auditor, including in particular compliance with Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC;
c) monitor the statutory audit of the annual and consolidated annual financial statements, taking into account the findings and conclusions made during the quality review of statutory public oversight auditing, conducted by an authority carrying out public oversight auditing duties;
d) monitor the efficiency of the Bank's internal control and risk management systems, putting forward recommendations where appropriate;
e) monitor the process of financial reporting, putting forward recommendations where appropriate.

The functions and competences of the Audit Committee are set out in detail in the rules of procedure of the Audit Committee.

As at 31 December 2020, the Chair and the members of Audit Committee are as follows:

1. Rita Inámi-Bolgár, Chair of the Audit Committee,
2. Katalin Nagyné Maros, member of the Audit Committee,
3. Dr. Péter Pataki, member of the Audit Committee.

In 2020, in view of the emergency situation due to the COVID-19 epidemic, the Audit Committee had not meet and took its decisions 10 times by written voting. The participation rate was as follows.

Date of Audit Committee meeting/ adopted a decision by written procedure	**Participation rate**
24 February 2020	Of 3 members, 2 participated
16 March 2020	Of 3 members, 2 participated
3 April 2020	Of 3 members, 2 participated
28 May 2020	Of 3 members, 3 participated
16 June 2020	Of 3 members, 3 participated
27 July 2020	Of 3 members, 2 participated
8 September 2020	Of 3 members, 3 participated
22 October 2020	Of 3 members, 3 participated
16 November 2020	Of 3 members, 2 participated
14 December 2020	Of 3 members, 2 participated

Detailed information on the 2020 meetings of the Board of Directors and the Supervisory Board is set out in section 1.3.

The Company's internal decision-making bodies include:

a) the person exercising shareholder's rights,
b) Board of Directors,
c) Management Body,
d) Asset-Liability Management Committee,
e) Individual Credit Committee,
f) Shareholder Censorship Committee
g) EU Management Committee,
h) Infringement Management Committee.

Other internal decision-making bodies of the Company by individual power (eg. Crisis Committee) are regulated by the regulation documents of the Bank.

The Company's internal decision preparation bodies include the:

a) Support Committee,
b) Housing Committee,
c) Aid Committee,
d) Public Procurement Preparation and Assessment Committee,
e) Workplace Health and Safety Committee,
f) Health and Safety Parity Body,
g) Ethics Committee,
h) Scrapping Committee.

The Company shall publish on its website management information and, as an annex to the annual publication information, information on the professional background of members of the Board of Directors and the Supervisory Board.

1.6 A description of the system of internal controls, an evaluation of the activities performed in the given period. A report on the efficiency and effectiveness of the risk management procedures. (Information about where shareholders can access the Board of Directors / Governing Board report on the operation of internal controls.)

The Bank shall develop and operate its internal audit system in accordance with the characteristics, scope, complexity and risks of its activities with a view to ensuring that it conducts its activities under an appropriate management system and appropriate controls in order to achieve the objectives of the organisation.

Organisational structure and the defining of functions and responsibilities

In terms of its organisational structure and within the specific organisational units, the Bank shall define competences in order to delimit the functions and responsibilities related to specific processes as well as the specific functions and responsibilities pertaining to cross-organisational processes, isolating those functions that are incompatible from the point of view of the process. The processes, responsibilities and controls are set out in the regulatory documents, whereas the functions and responsibilities pertaining to each job are set out in the job descriptions.

Decision-making system
In addition to defining the functions and competences, it is of priority importance to exactly define the competences related to the making of personal and committee decisions in order to ensure that a clear, transparent and consistent framework system, commensurate with the complexity and the financial consequences of each topic is in place to assist the decision-making process during day-to-day operation.

Regulatory framework system
By setting up the area focusing on the adoption of a consistent Group-level regulatory concept and process control, the Bank intends to ensure that the regulatory structure concerning the processes and activities is suitably consistent and uniform and that sufficiently detailed regulatory documents that cover the entire process are drawn up for each process. When drawing up the regulatory documents, the Legal Directorate and the Compliance Directorate ensure that they fully comply with the statutory provisions.

Internal defence lines
Within its organisation, the Bank has implemented a three-tier risk protection system. Keeping the proportionality principle in mind, in order to execute the internal control, the Bank has implemented efficient, comprehensive internal control functions (risk control function, compliance function, internal audit function, information security and prevention of fraud functions).

Board of Directors/Suvervisory Board

I. Chief Executive Officer
   A) Mangement
      Internal procedure, controls built in the procedure and management controls
   B) Risk management, Compliance, Bank- and Information Security/ BCP/ DRP, Prevention of fraud

II. Audit Comitee
   A) Internal Audit,
   B) Audit

In order to ensure the independence of control functions,
1) the control function's staff shall not engage in any activities under their control;
2) it shall be organisationally separate from the functional and organisational areas it controls;
3) its remuneration shall not be dependent on the performance of the areas controlled;
4) the control function shall have access to the resources required for its operation.

Risk management
The Bank's risk control function is carried out by the Risk Management Division, a dedicated organisational unit independent from the business areas. The framework of risk management and control is provided by an appropriately structured regulatory hierarchy, ensuring prudent banking operation through abstract guidelines at a high level and through increasingly detailed instructions and rules of procedure at the lower levels. In order to reasonably limit the assumption of risks, limits are applied in order to observe risk levels so as to ensure that targets are achieved in accordance with the relevant risk appetite.
The function is given sufficient priority during the decision-making process in order to ensure that risk

criteria are assessed and sufficiently considered when making any decision.

Compliance
The compliance function covers the institution as a whole as well as each organisational unit, business area and activity, in particular with regard to conflict of interest issues, market abuses and the prevention of money laundering. The compliance statute issued as a group-level directive also contains the expectations of MFB Zrt. regarding the compliance activities of the companies belonging to the MFB Group.

Internal audit
The Bank maintains an autonomous internal audit department, which is structurally and functionally independent of its other areas; the resources required for internal audit activities are made available on a continuous basis. Internal audit is an independent and objective activity aiming to provide reasonable assurance (verification) and advice with a view to improving the Bank's operation and increase its success. As part of its activities, it examines and provides reasonable assurance, supported by sufficient evidence, on whether the risk management, governance and control systems, and processes developed and operated by management, comply with the relevant requirements. It promotes the achievement of the Bank's objectives through an appropriate and efficient methodology and through risk-based control activities.

Information system
In addition to the regulation of processes and the conscious separation of functions and responsibilities, the level of control of processes is also improved within the information systems.
In the majority of its basic processes, the Bank applies information systems that purposefully support the strengthening of the control environment of processes, thus ensuring the appropriate implementation of processes through various built-in automated mechanisms.
Access to the information system is granted through multi-level filters (business manager, data owner), which are regularly reviewed. Authorisations are assigned in a way that ensures that each employee is granted active authorisation only to applications that are relevant to his or her duties, and in addition, staff responsible for data-entry and approval functions are separated from each other.

Built-in and follow-up controls
The Bank designs its administrative processes and regulatory documents are a way that enables controls to be built into the various processes. Controls are thus incorporated into the various processes in order to ensure that any task should only be carried out once the previous task has been verified and corrected where appropriate, in order to ensure the conformity of the inputs of complementary tasks. No single operation may be carried out, processed and verified by the same person, as that would not ensure the identification and correction of errors detected during implementation.

The Bank's regulatory documents set out the task and process-specific control points, i.e. the control activities. The Bank's procedures are developed in a way that ensures that any transaction is only implemented after a documented review.

At the Bank, the heads of the competent organisational units are responsible for the implementation of built-in control and management control.

Management control
The various management levels and the organisational structure aim to facilitate the efficient achievement of the Bank's objectives and strategy. Management control functions must be carried out at each level of management. Management control tools include requiring employees to report, requesting reports, exercising the right to sign documents, the verification of the fulfilment of tasks

from a formal and substantive point of view, on-site reviews carried out in person and the operation of the management information system. The heads of individual organisational units shall oversee their team members and require them to report on a regular basis, as provided for in internal regulations and rules of procedure. The detailed rules for management control, including reports and business trips, are set out in the regulatory documents.

Management information system
The development and operation of a management information system encompassing all of its activities are an important element of the Bank's control system. The purpose of the management information system is to ensure that consistent and comprehensive information are available for the various levels of management during governance and control.

The Bank's management information system includes the entirety of Bank and Group-level information generated for the management on a timely basis at sufficient depth as well as the system that forwards such collected and properly processed information to the user in due time, while being capable of responding to changes.

The internal reports constituting the management information system, the frequency of submission of such reports and the indication of the relevant management level shall be set out in a regulatory document and be regularly reviewed.

Exercising shareholder control
The Bank shall exercise control over the organisations belonging to the MFB Group.
As part of such shareholder supervision, the Bank extends the elements of its internal control system listed above to an extent that ensures that the operation of the various companies is appropriately monitored and governed, and that the common goals of the MFB Group are achieved, as well as ensuring the requisite and sufficient exchange of information between the Bank and other Group companies.

1.7. Information on whether the auditor performed any activities not related to auditing.

The Bank's auditor for the 2020 financial year was the KPMG Hungária Könyvvizsgáló, Adó- és Közgazdasági Tanácsadó Korlátolt Felelősségű Társaság.

The Bank availed itself of certain non-audit services (other than prohibited non-audit services) from the KPMG Network, especially from the KPMG Korlátolt Felelősségű Társaság but in respect of such services the independence of the auditor was not breached, in accordance with the provisions of Articles 22 and 22b of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, Sections 61 to 65 of the Kkt. Act, Article 5 of Regulation (EU) 2014/537 of the European Parliament and of the Council and Section 67/A of the Kkt. Act.

1.8. An overview of the Company's publication policy and its insider trading policy.

A separate policy provides for the prohibition of insider trading and market manipulation, stipulating that persons performing managerial duties and persons closely associated with them and employees having access to inside information are prohibited from entering into transactions or charging other persons with entering into transactions involving securities issued by the Bank or derivatives or other financial instruments related to said securities. The Company has not implemented a share-based incentive scheme.
With regard to the publishing of information, the Company acts in accordance with the applicable laws and stock exchange regulations.

1.9. An overview of the method of exercising shareholder rights.

The Company's capital stock amounts to HUF 265,900,000,000 (Two Hundred and Sixty-Five Billion Nine Hundred Million Forints), which consists of 265,900 printed registered ordinary shares of a nominal value of HUF 1,000,000 each. The Company's shares are non-transferable. Each share embodies the same rights.

Where the Company's capital stock is increased from assets additional to the capital stock, the new shares are acquired by the State without consideration. Depending on the decision of the person exercising shareholder's rights, the capital stock may be reduced by reducing the number or the nominal value of the shares, or both. The person exercising shareholder's rights shall not pay any amount out of the capital stock before the reduction in the capital stock has been registered in the Companies Register. The Board of Directors shall be entitled to issue shares of combined denomination and to break up shares of combined denomination.

The Board of Directors shall keep the register of shareholders on the registered shares in accordance with the provisions of the Hpt. Act and Act V of 2013 on the Civil Code (hereinafter: Civil Code). The register of shareholders shall be accessible to any person.

1.10. A brief presentation of the rules for the conduct of the General Meeting.

Since the Company is a single-member joint-stock company, it has no shareholders' meeting; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, by a founder's resolution, subject to the provisions applicable to the Company. Proposals for the person exercising shareholder's rights shall be approved by the Company's Board of Directors and discussed by the Supervisory Board. Any decision shall take effect on its communication to the executive officers.

1.11. Demonstration of how the issuer complies with Chapter IV of Act LXVII of 2019 on the Promotion of Long-Term Shareholder Participation and the Amendment of Certain Acts for the Purpose of Legal Harmonization.

The company is not subject to Act LXVII of 2019 on the Promotion of Long-Term Shareholder Participation and the Amendment of Certain Acts for the Purpose of Legal Harmonization, so the regulations in question do not apply to the company.

Corporate Governance Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance Report, the Company makes a statement regarding the extent to which it has implemented in its own corporate governance practice the recommendations and proposals specified in the relevant sections of the Corporate Governance Recommendations issued by the Budapest Stock Exchange Ltd., by completing the following tables. These tables provide an overview for the investors of the extent of the compliance - by the relevant company - with certain requirements set out in the Corporate Governance Recommendations at glance, and enable easy comparison of the practices of the specific companies.

Level of compliance with the Recommendations

The Company indicates whether it follows the relevant recommendation or not, and if not, briefly explains the reasons why it did not follow that specific recommendation.

R 1.1.1 Does the Company have an organisational unit dealing with investor relationship management, or a designated person to perform these tasks?

Yes.

R 1.1.2 Are the Company's Articles of Association available on the Company's website?

Yes.

R 1.1.4 If the Company's Articles of Association allow shareholders to exercise their rights in their absence, did the Company publish the methods and conditions of doing so, including all necessary documents?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting. In lieu of the shareholder's meeting, matters under the competence of the supreme decision-making body are decided on by a founder's resolution issued by the person exercising shareholder's rights, which decision is equivalent to the decision of the shareholder's meeting.

R 1.2.1 Did the Company publish on its website a summary document containing the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.2 Did the Company publish the exact date when the range of those eligible to participate in a given company event is set (record date), and also the last day when the shares granting eligibility for participating in a given company event are traded?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.3 Did the Company hold its General Meetings in a manner providing for maximum shareholder participation?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.6 The Company did not restrict the shareholders' right to designate a different representative for each of their securities accounts to represent them at any General Meeting. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.2.7 For proposals for the agenda items, were the Board of Directors' draft resolution and also the Supervisory Board's opinion disclosed to the shareholders?

Yes.

R 1.3.3 The Company did not restrict the right of its shareholders attending a General Meeting to request information, add comments and submit proposals, or set any preconditions for these with the exception of some measures taken to conduct the General Meeting in a correct manner and as intended. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.4 By answering the questions raised at the General Meeting, did the Company ensure compliance with the information provision and disclosure principles set out in legal and stock exchange requirements?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.5 Did the Company publish on its website the answers to the questions that the representatives of the Company's boards or its auditor present at the General Meeting could not satisfactorily answer at the meeting within 3 working days following the General Meeting, or an official statement explaining why it refrained from giving answers?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.7 Did the Chairman of the General Meeting order a recess or suggest that the General Meeting be postponed when a proposal or proposal relating to a particular issue on the agenda was submitted which the shareholders hadn't had a chance to become familiar with before the General Meeting?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.8.1 The Chairman of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling executive officers and Supervisory Board members. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting, but the above principle was observed in respect of the decision of the person exercising shareholder's rights.

R 1.3.8.2 For executive officers or Supervisory Board members, whose nominations were supported by shareholders, did the Company disclose the identity of the supporting shareholder(s)?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.9 Prior to discussing agenda items concerning the amendment of the Articles of Association, did the General Meeting pass a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific way?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.3.10 Did the Company publish the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

R 1.6.1.1 Do the Company's publication guidelines cover the procedures for electronic, online disclosure?

Yes.

R 1.6.1.2 Does the Company design it's by considering the aspects of disclosure and the information of investors?

Yes.

R 1.6.2.1 Does the Company have an internal publication policy in place which covers the processing the information listed in Section 1.6.2 of the Recommendations document?

Yes.

R 1.6.2.2 Do the internal regulations of the Company cover the methods for the assessment of events judged to be important for publication?
Yes.

R 1.6.2.3 Did the Board of Directors/Governing Board assess the efficiency of the publication processes?

No. Explanation: the Company's internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company's website and in the printed press. The shareholder is notified by the Board of Directors in the annual financial report.

R 1.6.2.4 Did the Company publish the findings of the efficiency assessment of the publication process?

No. Explanation: the Company's internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company's website and in the printed press. The shareholder is notified by the Board of Directors in the annual report.

R 1.6.3 Did the Company publish its annual company event calendar?

No. Explanation: since the Company is a single-member joint-stock company, no corporate events calendar has been drawn up. On the company website, market operators are notified of any major announcements (loan schemes and financing opportunities), financial statements, press releases, events and publications. Since the strategic objectives and main activities of MFB Zrt. are set out for the public in the MFB Act, any information for the public is only required in the case of a change in such objectives and activities. The Company's strategic objectives and their implementation are described in the annual report, which is published on the company website in Hungarian and English.

R 1.6.4 Did the Company publish its strategy, business ethics and policies regarding other stakeholders?

No. Explanation: Since the strategic objectives and main activities of MFB Zrt. are set out for the public by law (Act XX of 2001), no specific information for the public needs to be published. The Company's strategic objectives and the implementation of these are described in the annual report, which is published on the company website. The major detailed conditions of the Company's main activities, the rules for credit products, their rules of procedure and the names of refinancing partners and brokers involved in the implementation of specific loan programmes are published on the company website on a continuous basis. The Company's Ethics Statement is available on the company website.

R 1.6.5 Did the Company publish the career information of Board of Directors / Governing Board, Supervisory Board and management members in its annual report or on the company website?

Yes.

R 1.6.6 Did the Company publish all relevant information about the internal organisation and the operation of the Board of Directors / Governing Board and the Supervisory Board, about the work of the management, the assessments of these and the changes in the current year?

No. Explanation: Due to the fact that the Company is privately held, it is not subject to such disclosure obligation.

R 1.6.8 Did the Company publish its risk management guidelines and information about its system of internal controls, the main risks and the principles for their management?

Yes.

R 1.6.9.1 Did the Company publish its guidelines relating to the trading of its shares by insiders?

No. Explanation: The shares of the Company are non-negotiable and, therefore, no policies have been drawn up regarding the trading of shares. Members of the Board of Directors, the Supervisory Board and the management may not acquire an interest in the Company's securities. There is no share-based incentive scheme.

R 1.6.9.2 Did the Company disclose the share of the Board of Directors / Governing Board, Supervisory Board and management members in the securities issued by the Company in the annual report or in some other way?

No. Explanation: Members of the Board of Directors, the Supervisory Board and the management may not acquire shares in the company's securities.

R 1.6.10 Did the Company publish the relationship of Board of Directors / Governing Board, Supervisory Board and management members may have with third parties which could affect the operation of the Company?

No. Explanation: The conflict of interest rules concerning employees and members of the Board of Directors and the Supervisory Board are provided for in the MFB Act, the Hpt. Act and the Civil Code, whereas an internal policy ensures compliance with such rules.

R 2.1.1 Does the Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors / Governing Board?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the supreme decision-making body are decided on by a founder's resolution issued by the person exercising shareholder's rights, which is equivalent to a resolution of the shareholder's meeting. The article of association contains clear provisions regarding the responsibilities of the founder and the Board of directors.

R 2.2.1 Does the Board of Directors / Governing Board has rules of procedure in place defining the organisational structure, the actions for arranging for and conducting the meetings and the tasks regarding the adopted resolutions, as well as other issues related to the operation of the Board of Directors / Governing Board?

Yes.

R 2.2.2 Does the Company publish the procedure used for nominating Board of Directors / Governing Board members?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and discharge of members of the Board of Directors fall under the competence of the person exercising shareholder's rights.

R 2.3.1 Does the Supervisory Board provide a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it, in its rules of procedure and work plan?

Yes.

R 2.4.1.1 Did the Board of Directors / Governing Board and the Supervisory Board hold meetings periodically at a predefined interval?

Yes.

R 2.4.1.2 Did the rules of procedure of the Board of Directors / Governing Board and the Supervisory Board provide rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic telecommunications means?

Yes.

R 2.4.2.1 Did board members have access to the proposals to be presented at the meeting of the respective board at least five days prior to the meeting?

Yes.

R 2.4.2.2 Did the Company arrange the proper conduct of the meetings, the drawing up of the meeting minutes and management of the resolutions made by the Board of Directors / Governing Board and the Supervisory Board?

Yes.

R 2.4.3 Do the rules of procedure provide for the regular or ad hoc participation of non-board members at respective board's meetings?

Yes.

R 2.5.1 Were the members of the Board of Directors / Governing Board and the Supervisory Board nominated and elected in a transparent process, and was the information about the candidates made public in due time before the General Meeting?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and discharge of members of the Board of Directors and the Supervisory Board and determining the remuneration of the members and Chair of the Board fall under the competence of the person exercising shareholder's rights.

A 2.5.2 Does the composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations?

Yes.

A 2.5.3 Did the Company ensure that the newly elected Board of Directors / Governing Board and Supervisory Board members became familiar with the structure and operation of the Company and their tasks were carried out as members of the respective boards?

Yes.

R 2.6.1 Did the Governing Board / Supervisory Board request (in the context of preparing the annual corporate governance report) its members considered to be independent to confirm their independence at regular intervals?

No. Explanation: The Board of Directors does not request its members, considered to be independent, to confirm their independence at regular intervals.

R 2.6.2 Does the Company provide information about the tools which ensure that the Board of Directors / Governing Board assess objectively the management's activities?

No. Explanation: The Company is a single-person joint-stock company, where the Board of Directors is responsible for monitoring the management's performance. Fees are determined by the person exercising employer's rights. The employer's rights over the CEO are exercised by the Minister exercising the government's exclusive shareholder's (owner's) rights. The Minister decides on the selection, appointment, recall and discharge of the Chair and the members of the Board of Directors, members and the Chair of the Supervisory Board, members of the Audit Committee and the Chief Executive Officer.

R 2.6.3 Did the Company publish its guidelines concerning the independence of its Governing Board / Supervisory Board members and the applied independence criteria on its website?

No. Explanation: On its website, the Company does not specifically publish the guidelines concerning the independence of the Board of Directors and the Supervisory Board and the relevant independence criteria, as they are provided for in the Hpt. Act, the Civil Code, the MFB Act and the Kgtv. Act.

R 2.6.4 Does the Supervisory Board of the Company have any members who has held any position in the Board of Directors or in the management of the Company in the previous five years, not including cases when they were involved to ensure employee participation?

Yes.

R 2.7.1 Did members of the Board of Directors / Governing Board inform the Board of Directors / Governing Board and (if applicable) the Supervisory Board (or the Audit Committee if a uniform governance system is in place) if they, or individuals they have business relations with, or their relatives have interest in any business transactions of the Company (or any subsidiaries thereof) which excludes their independence?

Yes.

R 2.7.2 Were transactions and assignments between members of boards/ members of the management/individuals closely associated with them and the Company/subsidiaries of the Company carried out in accordance with the Company's general business practice but applying more stringent transparency rules compared to general business practice, and were they approved?

No. Explanation: There was no such transaction.

R 2.7.3 Did board members inform the Supervisory Board / Audit Committee (Nominating Committee) if they had received an appointment for board membership or management position of a company not belonging to the Company Group?

No. Explanation: members of the Company's Board of Directors and Supervisory Board may only be executive officers or Supervisory Board members in companies specified by the MFB Act. When they are elected, members must issue a statement on their existing status as an executive officer and their Supervisory Board membership, and must notify the competent organisational unit of the Company of any change to such status in accordance with MFB Zrt's relevant policy.

R 2.7.4 Did the Board of Directors / Governing Board develop guidelines for the flow of information and the management of insider information within the Company, and monitor compliance with them?

Yes.

R 2.8.1 Did the Company create an independent internal audit function that reports directly to the Audit Committee / Supervisory Board?

Yes.

R 2.8.2 Does Internal Audit have unrestricted access to all information necessary for carrying out audits?

Yes.

R 2.8.3 Did shareholders receive information about the operation of the system of internal controls?

Yes.

R 2.8.4 Does the Company have a function ensuring compliance (compliance function)?

Yes.

R 2.8.5.1 Is the Board of Directors / Governing Board or a committee operated by it responsible for the supervision and management of the entire risk management of the Company?

Yes.

R 2.8.5.2 Did the relevant organisation of the Company and the General Meeting received information about the efficiency of the risk management procedures?

Yes.

R 2.8.6 With the involvement of the relevant areas, did the Board of Directors / Governing Board develop the basic principles of risk management taking into account the special idiosyncrasies of the industry and the Company?

Yes.

R 2.8.7 Did the Board of Directors / Governing Board define the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives?

Yes.

R 2.8.8 Did internal control systems functions report about the operation of internal control mechanisms and corporate governance functions to the competent board at least once a year?

Yes.

R 2.9.2Did the Board of Directors / Governing Board invite the Company's auditor in an advisory capacity to the meetings on financial reports?

Yes.

Level of compliance with proposals

P 1.1.3 Does the Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights also when they are not present in person?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.4 Did the Company determine the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.5 Does the voting procedure used by the Company ensure a clear, unambiguous and fast determination of voting results, and in the case of electronic voting, also the validity and reliability of the results?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.1.1 Were the Board of Directors/Governing Board and the Supervisory Board represented at the General Meeting?

No. While the Company has no shareholders' meeting, the Board of Directors and the Supervisory Board submit their opinion on the founder's resolutions issued by the person exercising shareholder's rights.

P 1.3.1.2 In the event the Board of Directors/Governing Board and the Supervisory Board was absent, was it disclosed by the Chairman of the General Meeting before discussion of the agenda began?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.1 The Articles of Association of the Company did not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments there if that person's presence and expert opinion is presumed to be necessary or help provide information to the shareholders and help the General Meeting make decisions. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.2 The Articles of Association of the Company did not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments there. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.6 Does the annual report of the Company prepared as specified in the Accounting Act contain a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's annual operation?

Yes.

P 1.4.1 In line with Section 1.4.1, did the Company pay dividend within 10 working days to those of its shareholders who had submitted all the necessary information and documents?

No. Explanation: no dividends were paid by the Company**.**

P 1.6.11 Did the Company publish its information in English as well, in line with the provisions of Section 1.6.11?

Yes

P 1.6.12 Did the Company inform its investors about its operation, financial situation and assets on a regular basis, but at least quarterly?

Yes.

P 2.9.1 Does the Company have in place internal procedures regarding the use of external advisors and outsourced activities?

Yes.