

**MFB HUNGARIAN DEVELOPMENT BANK
PRIVATE LIMITED
COMPANY**

Annual Financial Statements

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

31 December 2021

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MFB Hungarian Development Bank Private Limited Company
Statement of Financial Position
(amounts presented in million HUF)

ASSETS	Notes	2021	2020
Cash, cash balances at central banks and other demand deposits	4	163 724	55 986
Financial assets held for trading	9	783	443
Derivatives		783	443
Non-trading financial assets mandatorily at fair value through profit or loss	5	94 200	44 125
Debt securities		60 513	3 651
Loans		33 687	40 474
<i>Loans to customers</i>		4 090	5 460
<i>Loans to banks</i>		29 597	35 014
Financial assets at fair value through other comprehensive income	6	33 087	39 668
<i>Of which assets encumbered</i>		6 547	8 316
Equity instruments		550	622
Debt securities		32 537	39 046
Financial assets at amortized cost	7	1 582 982	1 432 559
<i>Of which assets encumbered</i>		331 585	196 886
Debt securities		378 260	116 036
Loans		1 174 754	1 070 204
<i>Loans to customers</i>		1 117 150	1 032 085
<i>Loans to banks</i>		57 604	38 119
Other financial assets		219	1 882
Deposits at central and other banks		29 749	244 437
Derivatives – Hedge accounting	9	7 849	1 608
Investments in subsidiaries and associates	8	317 796	310 792
Property, plant and equipment	11	4 893	4 032
Intangible assets	12	5 040	4 077
Tax assets		0	161
Current tax assets		0	161
Deferred tax assets		0	0
Other assets	13	29 234	18 271
Receivables from the state due to currency-hedging agreement	14	162 081	157 009
TOTAL ASSETS		2 401 669	2 068 731

The accompanying notes to annual financial statements on pages 8 to 135 form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Financial Position
(amounts presented in million HUF)

LIABILITIES	Notes	2021	2020
Financial liabilities held for trading	9	664	911
Derivatives		664	911
Financial liabilities measured at amortized cost	15	1 849 589	1 501 077
Customer deposits		157 150	235 902
Loan from banks		598 626	526 457
Debt securities issued	15.1	1 085 030	735 659
Other financial liabilities		8 783	3 059
Derivatives – Hedge accounting	9	0	0
Provisions	16	3 475	1 872
Tax liabilities	31	259	50
Current tax liabilities		230	0
Deferred tax liabilities		29	50
Other liabilities	17	98 741	201 378
TOTAL LIABILITIES		1 952 728	1 705 288
Share capital	18	349 900	265 900
Share premium	18	81 870	81 870
Valuation reserve		(2 389)	498
Retained earnings		19 266	15 175
Other reserves	19	294	0
TOTAL EQUITY		448 941	363 443
TOTAL EQUITY AND LIABILITIES		2 401 669	2 068 731

Budapest, 28 March 2022

dr. Levente Sipos-Tompa
Chairman and Chief Executive Officer

Kornél Kisgergely
Director General

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form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Income Statement
(amounts presented in million HUF)

	Notes	2021	2020
Interest income calculated using the effective interest method		37 937	28 446
Other similar income		5 990	14 521
Interest expenses		(19 573)	(29 188)
Net interest income	21	24 354	13 779
Dividend income	22	1 684	1 830
Fee and commission income		2 353	539
Fee and commission expenses		(203)	(246)
Net Fee and commission income or expenses	23	2 150	293
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	24	1 078	(8)
Gains or (-) losses on financial assets and liabilities held for trading, net	9.1	1	(38 246)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		821	(169)
Gains or (-) losses from hedge accounting, net	10	27	771
Exchange differences [gain or (-) loss], net		(67)	37 957
Gains or (-) losses on derecognition of non-financial assets, net	25	8	(2)
Other operating revenue and income	26	6 438	5 445
Total operating income		36 494	21 650
Salaries and employee benefits		(7 752)	(6 816)
Other administrative expenses		(3 704)	(3 071)
Administrative expenses	27	(11 456)	(9 887)
Depreciation		(1 070)	(1 006)
Other operating expenses	26	(5 911)	(3 395)
Contract modification loss, net	7.1.1	(1 045)	(2 118)
Impairment (-) or reversal of impairment of financial instruments	29	(9 473)	(10 124)
Impairment (-) or reversal of impairment of investments in subsidiaries and associates	30	(2 258)	(3 496)
Impairment (-) or reversal of impairment of non-financial instruments	11, 12	0	(9)
Profit/(loss) before tax		5 281	(8 385)
Tax expense related to profit or loss	31	(896)	(447)
Profit/(loss) for the year		4 385	(8 832)

The accompanying notes to annual financial statements on pages 8 to 135 form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Other Comprehensive Income
(amounts presented in million HUF)

	Notes	2021	2020
Profit/(loss) for the year		4 385	(8 832)
Other comprehensive income		(2 887)	(248)
Items that will not be reclassified to profit or loss			
Change in fair value of equity instruments at fair value through other comprehensive income		13	(34)
Tax impact of items that will not be reclassified to profit and loss		14	(37)
Items that may be reclassified to profit or loss		(2 900)	(214)
Debt instruments at fair value through other comprehensive income	6	(2 945)	(242)
Fair value change		(2 945)	(242)
Profit recognized in the income statements		0	0
Tax impact of items that will be reclassified to profit and loss		45	28
Total comprehensive income for the year		1 498	(9 080)

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

	Share Capital	Share premium	Other Reserves	Retained earnings	Valuation reserve	Total
Notes	18	18	19		6	
Balance at 1 January 2020	114 500	81 870	2 087	21 920	746	221 123
Loss for the year				(8 832)		(8 832)
Other comprehensive income					(248)	(248)
Total comprehensive income				(8 832)	(248)	(9 080)
General reserve used			(2 087)	2 087		0
Capital increase	19	151 400				151 400
Balance at 31 December 2020	265 900	81 870	0	15 175	498	363 443
Profit for the year				4 385		4 385
Other comprehensive income					(2 887)	(2 887)
Total comprehensive income				4 385	(2 887)	1 498
General reserve allocation	19		294	(294)		0
Capital increase	18	84 000				84 000
Balance at 31 December 2021	349 900		294	19 266	(2 389)	448 941

The accompanying notes to annual financial statements on pages 8 to 135
form an integral part of these annual financial statements

MFB Hungarian Development Bank Private Limited Company
Statement of Cash Flows
(amounts presented in million HUF)

	Notes	2021	2020
Operating cash flow			
Profit/(loss) before tax		5 281	(8 385)
<i>Adjustments to profit before tax</i>			
Depreciation and amortization		1 070	1 006
Fair valuation impact	9.1, 10	(1 524)	37 644
Net profit/loss on sale of non-financial instruments		(8)	2
Net interest income	21	(24 354)	(13 779)
Dividend income	22	(1 684)	(1 830)
Change in provisions		1 428	(2 068)
Change in impairment		317	14 311
Operating cash flow		(19 474)	26 901
<i>Decrease/(increase) in operating assets</i>			
Non-trading financial assets mandatorily at fair value through profit or loss		(48 454)	15 221
Financial assets at fair value through other comprehensive income		3 095	(301)
Financial assets at amortized cost, except debt securities		120 063	(359 510)
Other assets		(6 778)	(14 382)
Receivables from the State due to currency-hedging agreement	14	(5 072)	(22 884)
<i>Increase/(decrease) in operating liabilities</i>			
Financial liabilities measured at amortized cost, except issued bonds		(980)	304 246
Other liabilities		41 353	25 606
<i>Actual cash flow movements</i>			
Interest received		26 990	37 667
Dividend received	22	1 684	1 830
Interest paid		(17 370)	(34 607)
Income tax paid		(641)	(586)
Net cash provided by/ (used in) operating activities		94 416	(20 799)

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MFB Hungarian Development Bank Private Limited Company
Statement of Cash Flows
(amounts presented in million HUF)

	Notes	2021	2020
Cash flow from investing activities			
Payments for debt securities held at amortized cost	7.2	(352 926)	(63 387)
Proceeds from debt securities held at amortized cost	7.2	89 190	7 531
Investments in subsidiaries and associates		(137 080)	(49 609)
Proceeds from sale of investments in subsidiaries and associates		0	0
Payments for property, plant and equipment and intangible assets		(2 899)	(1 757)
Proceeds from sale of property, plant and equipment		4	7
Net cash (used in) / provided by investing activities		(403 711)	(107 215)
Cash flow from financing activities			
Capital increase	18	84 000	151 400
Proceeds from bond issuance	15.1	533 779	341 672
Repayments for issued bond at maturity	15.1	(200 383)	(315 649)
Finance lease liability payments		(382)	(106)
Net cash provided by financing activities		417 014	177 317
Gross change in cash and cash equivalents			
<i>Cash and cash equivalents as at 1 January</i>	4	56 031	6 728
<i>Cash and cash equivalents as at 31 December</i>	4	163 750	56 031

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1. PRINCIPAL ACTIVITIES

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 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 37)

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 Hungarian State has a 100% ownership share in the Bank. As of 22 May 2018, the State, as a shareholder, is represented by the minister responsible for state property.

The Bank is obliged to have its annual 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 annual 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)

2. BASIS OF PREPARATION

Statement of compliance

These annual 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.

These Annual Financial Statements were approved by the Board of Directors on 28 March 2022.

The Bank prepares and discloses its statutory annual report in accordance with Act C of 2000 on Accounting. The Bank is required to prepare its consolidated financial statements in accordance with EU IFRSs. The Consolidated Financial Statements of the Bank prepared in accordance with EU IFRSs for 2021 - which are the statutory consolidated financial statements of the Bank – was also approved by the Board of Directors on 28 March 2022.

The Bank’s consolidated and separate financial statements will be published on the same day.

Basis of measurement

These annual financial statements have been prepared on historical cost or amortized cost basis except for those, which are measured at fair value. The Bank 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 annual financial statements are measured using Hungarian Forint, the currency of the primary economic environment in which the Bank operates ('the functional currency'). These annual financial statements are presented in Hungarian Forints rounded to the nearest million ("HUF million").

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

	31 December 2021	31 December 2020
	(HUF)	(HUF)
EUR	369.00	365.13
USD	325.71	297.36
JPY	2.8293	2.8864
GBP	440.03	406.16
PLN	80.30	79.29
CHF	356.90	337.41
CZK	14.84	13.87

Reporting period

These annual financial statements are prepared for the reporting period between 1 January 2021 and 31 December 2021. The end of the reporting period is the reporting date.

Use of estimates and judgements

The preparation of the Bank's annual 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 Bank'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 Bank'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 annual 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 contractual 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 Bank'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 Bank's internal credit rating model, which assigns probability of defaults to the individual ratings

- The Bank'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 Bank'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 34.

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 34.

Legal risk

The Bank 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 Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank 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 Bank 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.

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 Bank 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 its 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 Bank'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 34 for details.

3. SIGNIFICANT ACCOUNTING POLICIES

a) 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.

b) 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 Bank becomes a party of the contractual provisions of the instruments.

i. Recognition

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

The Bank'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 Bank's original expectations, the Bank 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 Bank 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 Bank 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 Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

SPPI test

As a second step of its classification process the Bank assesses the contractual terms of its financial assets to identify whether they meet the criteria of the SPPI test. The Bank 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 Bank and the credit risk. To perform the SPPI assessment, the Bank 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 Bank 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 as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

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 Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Bank has transferred the financial asset if, and only if, either:

- the Bank 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 Bank 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 Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset,
- the Bank cannot sell or pledge the original asset other than as security to the eventual recipients,
- the Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank 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 Bank has transferred substantially all the risks and rewards of the asset or (ii) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. The Bank 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 Bank 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 Bank's continuing involvement, in which case, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 case 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 Bank or on its behalf, and in case of liabilities, amounts paid by the lender to or on behalf of the Bank. The fees paid include, in the case of assets, amounts paid by the Bank to or on behalf of the borrower, and in case of liabilities, amounts paid by the borrower to the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank classifies its refinancing and direct loans that have passed the SPPI test. Also this category includes those purchased debt securities that the Bank 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 Bank 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 Bank 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 Bank shows the portion of its securities that it has classified as a held to collect and sale business model. Equity instruments for which the Bank 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 Bank 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 Bank shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses.

The Bank 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. In calculating the credit-adjusted effective interest rate on POCI assets at initial recognition, the Bank 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 Bank is applying a forward-looking expected credit loss (hereinafter ECL) approach for its impairment calculation. From 1 January 2019, the Bank 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 Bank 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 Bank 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 Bank 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 Bank calculates the impairment of the financial instrument based on the 12-month expected credit loss (hereinafter: Stage 1). At each reporting date, the Bank 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 (hereinafter: Stage 2 or Stage 3).

Regardless of the above, the Bank 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 Bank uses this simplified approach.

Based on the above process, the Bank 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 Bank 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 Bank at deal level rather than by a borrower level.

Stage 2 (increased credit risk category)

Significant increase in credit risk (deals where the Bank has become aware of negative information about the exposure but does not yet have objective evidence of impairment). The Bank 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 not reaching a significant credit obligation¹ to the Bank or any of its Subsidiaries, a significant deterioration in the Customer's rating, or becoming insolvent. Information received by the Bank during Customer monitoring that relates to the probable future default of the customer is also considered negative information. Furthermore, restructuring where the transaction was performing at the time of the restructuring is considered negative information. The Bank continuously monitors and records the defined criteria for the increase in credit risk. Lifetime credit loss is determined by the Bank 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 Bank 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, if the transaction was in default at the time of the restructuring, etc.) The Bank

¹A 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).

also classifies significant receivables purchased at a discount of more than 20% (POCI) as well as products that it classifies as impaired (e.g. redeemed guarantees) 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.

Individual and collective impairment

The Bank 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 Bank may choose individual valuation as well if transaction exceeds the material threshold value set by the Bank, which also relies on quantitative and qualitative factors.

The Bank 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 Bank 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.

Loan commitments and letters of credit

When estimating lifetime expected credit loss for undrawn loan commitments, the Bank 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 Bank’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 Bank 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 Bank 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 Bank’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 Bank 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 Bank sometimes repossess real estate collaterals. The Bank’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 Bank’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

Except for the application of special rules for transactions subject to the payment moratorium, the Bank 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 Bank 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 Bank continuously monitors its restructured loans to ensure that the current status of the restructured loans is recorded in accordance with applicable regulations. In case the transaction status in the monitoring system changes to the Restructuring category, the loan is presented in Stage 2 or Stage 3, depending on whether the transaction was performing at the time of the restructuring and whether the customer complies with the amended payment obligations. All of its impaired (Stage 3) exposures are considered as non-performing exposures by the Bank.

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) at the time of qualification 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

c) Leasing

Accounting for leases by the Bank as a lessee

The Bank 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 Bank. 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 Bank 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 Bank at HUF 1 500 000.

In determining the lease term, management of the Bank 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 Bank 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.

d) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

The recoverable amount of an asset or CGU (Cash Generating Unit) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

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.

The model calculates the amount of free cash flow underlying the DCF valuation until the end of the explicit business plan based on the accepted valid 5-10 year 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.

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 Bank makes estimates for the realizable amount on a quarterly basis. Impairments are recognized or reversed according to these estimates in profit or loss.

e) 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 Bank in the management of its short-term commitments.

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

f) Loans and advances to banks and to customers

The Bank'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.

g) 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 Bank presents them within debt instrument, mandatorily fair valued through profit and loss. The related subscribed but not yet paid capital increase of these venture capital investments/notes that is payable as required by the investment plans is recognized among the capital commitments within off balance sheet items if the investment is closer to a loan commitment. Otherwise the not yet paid capital is recognized among the "*Other liabilities*" and be part of the investments initial cost.

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 Bank 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.

h) 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.

i) 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 Bank 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 Bank. 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 Bank. 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.

j) Investments in subsidiaries and associates

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.

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.

Other equity investments comprise other share holdings, which do not meet the above criteria.

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

In these annual financial statements, investments in subsidiaries and associates are accounted for at cost less impairment in accordance with IAS 27. Impairment is charged and released through profit or loss in accordance with IAS 36. 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.

k) Derivative financial instruments

The Bank 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 Bank 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 Bank does not enter into transactions with speculative purposes.

To reduce the interest rate risk, the Bank 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.

l) Hedge accounting

The Bank uses derivative instruments to manage exposures to interest rate risk and partially foreign currency risk. The Bank only enters into economic hedging transactions only and, if this hedging relationship is properly documented, the hedge accounting is applied for them. The Bank applies IFRS 9 rules for its hedge accounting. Based on IFRS9 rules at inception of a hedge relationship the Bank 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 Bank is not involved in any cash flow hedge relationship

m) 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 Bank 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
Intangible asset	
Concessions and similar rights	6
Property rights connected to real estates	2 – 100
Software	1 – 8
Other intangible assets	3 – 6

n) 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.

o) Provisions

A provision is recognized, when the Bank 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.

p) Offsetting

Financial assets and financial liabilities are offsetted in the statement of financial position when and only when the Bank 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 Bank 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. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

q) 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 Bank, 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.

r) 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 Bank 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 Bank 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 Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets the Bank 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 Bank also holds investments in assets with negative interest rates. The Bank discloses interest paid on these assets as an interest expense.

The Bank 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.

s) *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.

t) *Dividend income*

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

u) *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 when tax relates to items recognized directly in equity, in which case it is recognized in the statement of other comprehensive 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 2021 and in 2020.

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 Bank 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 the Bank business plan. 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 if the Bank has a legal enforceable right to set off the current tax receivable and liabilities and deferred tax receivable and liabilities relate to income taxes levied by the same taxation authority.

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 2019 for year 2021 and 2018 for year 2020), the rate was 0.15% under HUF 50 billion, and 0.20% above HUF 50 billion both in 2021 and 2020. The Bank 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 in 2020. 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 profit and loss of 2020 (see note 13).

v) Statement of cash flows

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

w) 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 annual 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 annual financial statements of the Bank. The material non-adjusting events after the reporting date are presented in Note 38.

x) New standards and interpretations

Standards and Interpretations effective in the current period

A number of other new standards are also effective from 1 January 2021 that do not have a material effect on the Bank's financial statements.

- *Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020)*
- *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)*

Standards issued by IASB and adopted by EU but their application date is after 31 December 2021

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).*
- *Annual Improvements to IFRS Standards 2018–2020.*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*

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

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

- i. *Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023)*
- ii. *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023)*
- iii. *Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)*
- iv. *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)*
- v. *Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively) and effective for annual periods beginning on or after 1 January 2023)*

The implementation of these amendments, new standards and interpretations are not expected to affect significantly the annual financial statements of the Bank.

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

	<u>2021</u>	<u>2020</u>
Cash	5	5
Cash balances with National Bank of Hungary (NBH)	162 675	43 774
<i>Overnight deposits</i>	161 019	42 452
<i>Statutory reserve</i>	1 656	1 322
Other demand deposits	1 070	12 252
Gross balances	163 750	56 031
Impairment	(26)	(45)
Total	163 724	55 986

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 1% in 2021. The monthly average balance of the statutory reserve in December 2021 was HUF 956.9 million (December 2020: HUF 672.33 million).

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

5.1 DEBT SECURITIES

	<u>2021</u>			
	Stage 1	Stage 2	Stage 3	Total
Debt securities				
Venture capital note – investment type	0	0	3 984	3 984
Venture capital note – loan type	0	0	56 529	56 529
Total	0	0	60 513	60 513

	<u>2020</u>			
	Stage 1	Stage 2	Stage 3	Total
Debt securities				
Venture capital note – investment type	0	0	3 651	3 651
Total	0	0	3 651	3 651

At year end 2021 HUF 2 784 million (2020: HUF 3 057 million) from the above balance of “*Venute capital note – investment type*” 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 unpaid capital increase will be paid in accordance with the drawdowns of fund managers to finance the investments made.

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Notes to Annual Financial Statements for the year ended 31 December 2021
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5.2 LOANS

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks				
Municipality loan program	24 167	63	0	24 230
Business development loan program	4 578	0	0	4 578
Agricultural development loan program	595	20	0	615
Retail loan program	174	0	0	174
	29 514	83	0	29 597
Loans and advances to customers				
General governments	555	0	0	555
Other financial corporations	2 350	549	0	2 899
Non-financial corporations	336	93	51	480
Households	136	12	8	156
	3 377	654	59	4 090
Total	32 891	737	59	33 687

	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	613	441	1 064
Households	32	165	0	197
	3 506	1 513	441	5 460
Total	38 496	1 537	441	40 474

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.

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

	<u>2021</u>	<u>2020</u>
Equity instruments		
Listed on stock exchange	0	0
Not listed on stock exchange	550	622
	550	622
Debt securities		
Hungarian government bonds	32 537	38 565
Treasury bills	0	481
	32 537	39 046
<i>from this encumbered assets</i>	6 547	8 316
Total	33 087	39 668

7. FINANCIAL ASSETS AT AMORTIZED COST

	<u>2021</u>	<u>2020</u>
Debt securities		
Hungarian government bonds	53 494	54 900
Corporate bonds	318 621	53 324
Mortgage bonds	6 145	7 812
	378 260	116 036
<i>from this encumbered assets</i>	<i>93 353</i>	<i>37 145</i>
Customer loans		
General governments	36 661	209 619
Other financial corporations	322 653	297 834
Other non-financial corporations	689 270	450 282
Households	68 566	74 350
	1 117 150	1 032 085
<i>from this encumbered assets</i>	<i>238 195</i>	<i>158 757</i>
Loans to banks		
Refinancing loans	827	1 604
Other loans	56 777	36 515
	57 604	38 119
Deposits at central and other banks		
Central bank deposits	19 801	222 009
Other bank deposits	9 948	22 428
	29 749	244 437
Other financial assets		
Trade receivables	182	898
Margin accounts	37	984
	219	1 882
<i>from this encumbered assets</i>	<i>37</i>	<i>984</i>
Total	1 582 982	1 432 559
<i>from this encumbered assets</i>	<i>331 585</i>	<i>196 886</i>

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 collateralized 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 collateralized by the loans disbursed, supplemented with individual corporate loans that was also possible to be collateralized 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.

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(amounts presented are expressed in HUF million unless otherwise noted)

7.1 LOANS

GROSS OUTSTANDING	2021			
	Stage 1	Stage 2	Stage 3	Total
Customer loans				
General governments	36 757	0	0	36 757
Other financial corporations	228 087	96 764	0	324 851
Other non-financial corporations	428 848	274 214	21 516	724 578
Households	60 969	7 676	11	68 656
	754 661	378 654	21 527	1 154 842
Loans to banks				
Refinancing loans	827	0	0	827
Other loans	56 782	0	0	56 782
	57 609	0	0	57 609
IMPAIRMENT				
Customer loans				
General governments	(96)	0	0	(96)
Other financial corporations	(173)	(2 025)	0	(2 198)
Other non-financial corporations	(1 704)	(21 561)	(12 043)	(35 308)
Households	(4)	(79)	(7)	(90)
	(1 977)	(23 665)	(12 050)	(37 692)
Loans to banks				
Refinancing loans	0	0	0	0
Other loans	(5)	0	0	(5)
	(5)	0	0	(5)
NET CARRYING AMOUNT				
Customer loans				
General governments	36 661	0	0	36 661
Other financial corporations	227 914	94 739	0	322 653
Other non-financial corporations	427 144	252 653	9 473	689 270
Households	60 965	7 597	4	68 566
	752 684	354 989	9 477	1 117 150
Loans to banks				
Refinancing loans	827	0	0	827
Other loans	56 777	0	0	56 777
	57 604	0	0	57 604
TOTAL NET CARRYING AMOUNT	810 288	354 989	9 477	1 174 754

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GROSS OUTSTANDING	2020			
	Stage 1	Stage 2	Stage 3	Total
Customer loans				
General governments	209 693	0	0	209 693
Other financial corporations	244 324	54 760	0	299 084
Other non-financial corporations	274 589	181 548	33 497	489 634
Households	69 510	4 851	23	74 384
	798 116	241 159	33 520	1 072 795
Loans to banks				
Refinancing loans	1 604	0	0	1 604
Other loans	36 519	0	0	36 519
	38 123	0	0	38 123
IMPAIRMENT				
Customer loans				
General governments	(74)	0	0	(74)
Other financial corporations	(190)	(1 060)	0	(1 250)
Other non-financial corporations	(476)	(15 944)	(22 932)	(39 352)
Households	(18)	(3)	(13)	(34)
	(758)	(17 007)	(22 945)	(40 710)
Loans to banks				
Refinancing loans	(1)	0	0	(1)
Other loans	(3)	0	0	(3)
	(4)	0	0	(4)
NET CARRYING AMOUNT				
Customer loans				
General governments	209 619	0	0	209 619
Other financial corporations	244 134	53 700	0	297 834
Other non-financial corporations	274 113	165 604	10 565	450 282
Households	69 492	4 848	10	74 350
	797 358	224 152	10 575	1 032 085
Loans to banks				
Refinancing loans	1 603	0	0	1 603
Other loans	36 516	0	0	36 516
	38 119	0	0	38 119
TOTAL NET CARRYING AMOUNT	835 477	224 152	10 575	1 070 204

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

	<u>2021</u>	<u>2020</u>
Amortized cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	130 165	149 772
<i>from this resulted from the moratorium settlement</i>	<i>112 498</i>	<i>148 418</i>
Gains less losses recognized in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(796)	(1 558)
<i>from this resulted from the moratorium settlement</i>	<i>(1 083)</i>	<i>(1 556)</i>
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	1 212	6 859

The Bank 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 2021 nor at 31 December 2020.

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 until the 31st of December 2020 (Moratorium I)

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 I

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 moratorium on payments extends to retail and corporate debtors, excluding the Hungarian state, local governments, and, with the exception of financial enterprises, entities² as defined in paragraph 39 of Act CXXXIX of 2013 on the National Bank of Hungary. However, the Bank extended the payment moratorium to its financial enterprises due to refinanced loans and loans channeled through intermediaries.

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 the Bank's balance sheet, thereby excluded from this report, as well.

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. Claims arising from a contract terminated for reasons other than late payment, including installment 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 Hungarian National Bank are, in particular, credit institutions, mortgage credit institutions, housing savings banks, 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 installments due during the remaining term, shall be paid in equal annual installments 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 installments due and the interest or fees payable in installments arising under the moratorium does not exceed the amount of the installments 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 had not have to be formally amended and notarized.

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 debts accumulated during the term of the moratorium.

II. Period of the payment moratorium from the 1st of January 2021 until the 31st of October 2021 (Moratorium 2)

According to the decision of the Government, it has been considered justified to maintain the protection provided by Moratorium 1. With this in mind, from the 1st of January 2021 until the 30th of June 2021, the Bank had granted 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, extended it firstly from the 1st of January 2021 until the 30th of September 2021 and later on, until the 31st of October 2021 by Government Decrees 317/2021. (VI.9.) and 536/2021. (IX.15.) amending the original Government Decree 637/2020. (XII. 22).

Main rules of Moratorium 2

Bearing that in mind that Moratorium 1 has gotten terminated on the 31st of December 2020, Moratorium 2 had been due to eligible debtors availing themselves of the Moratorium previously, with unchanged conditions. A debtor who has been otherwise entitled to use Moratorium 2, nevertheless has not availed itself of the payment deferral during Moratorium 1, had to declare its intention of taking advantage of the moratorium explicitly. Otherwise, Moratorium 2 had been regulated led by the very same rules as set out in point I.

III. Period of the payment moratorium from the 1st of November 2021 until the 30th of June 2022 (Moratorium 3)

Following the expiry of the Moratorium 2, the Government considered it necessary to further ensure a moratorium on payments for certain social groups, consequently, Government Decree 536/2021. (IX.15.) amending Government Decree 637/2020 (XII. 22.) on the introduction of special emergency rules for loan repayment moratorium allows a moratorium on payment to be maintained from the 1st of November 2021 until the 30th of June 2022 for the debtor, on application submitted to the creditor, in case the eligibility conditions are met, who/which has availed itself of the moratorium in the month of September 2021, i.e., has been entitled to avail itself of the moratorium on payment from the 1st of January 2021 and the payment of the principal, interest or fee debt became due during the period of the moratorium until the 31st of October 2021.

Main rules of Moratorium 3

Moratorium 3 is being regulated led by the very same rules as set out in point I, with the exception that the debtor entitled to avail itself of Moratorium 3 had to submit a request to the Bank to maintain the payment moratorium by the 31st of October 2021.

In the case of natural persons, persons who, at the time of the submission of the application, are pregnant, raising a child, seeking employment, having a public employment legal relationship or receiving pension are entitled to benefit from the Moratorium 3. A natural person debtor has been entitled to file an application for Moratorium 3 even if the eligibility conditions were met in the case of a close relative living together with it under the Civil Code.

A debtor who qualifies as a business is entitled to use Moratorium 3 if its net sales from the activities of the business have decreased by at least 25% in the 18 months prior to the application for availing itself of Moratorium 3 and the company applying for availing itself of Moratorium 3 has not entered into a new agreement to take a soft loan (discounted loan for economic recovery) or another type of loan during the period in between.

The debtor had to declare the fulfilment of the conditions of eligibility in the awareness of its criminal liability, and/or it had to declare in statement that it is in possession of any kind of documents of probative value supporting and corroborating the eligibility.

The Board of Directors of the Bank approved the continuous application of the decisions of the Board of Directors previously taken in respect of Moratorium 1 and Moratorium 2 with respect to Moratorium 3, as well, by its decision 199/2021 (XI.24).

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

The table below includes information on loans and advances **measured 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 3 and the moratorium 2 (2020: moratorium 1 and moratorium 2). The presented loan balances for 31 December 2021 also includes the subportfolio for which moratorium 2 was closed and cleared, while the column "of which" shows the subportfolio still under moratorium as at the end of the year, which was the basis for the moratorium 3 loss calculation. The calculation for 31 December 2020 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.

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GROSS OUTSTANDING	2021					Contract modification loss	from this moratorium 3
	Stage 1	Stage 2	Stage 3	Total	from this moratorium 3		
Customer loans							
General government	0	0	0	0	0		
Other financial corporations	24 175	73 309	0	97 484	18 395		
Other non-financial corporations	21 161	33 089	5 447	59 697	8 821		
Households	19 117	2 172	0	21 289	2 618		
	64 453	108 570	5 447	178 470	29 834		
Loans to banks							
Refinancing loans	656	0	0	656	0		
Other loans	0	0	0	0	0		
	656	0	0	656	0		
IMPAIRMENT							
Customer loans							
General government	0	0	0	0	0		
Other financial corporations	(66)	(1 553)	0	(1 619)	(279)		
Other non-financial corporations	(52)	(14 184)	(3 582)	(17 818)	(742)		
Households	0	(3)	0	(3)	0		
	(118)	(15 740)	(3 582)	(19 440)	(1 021)		
Loans to banks							
Refinancing loans	0	0	0	0	0		
Other loans	0	0	0	0	0		
	0	0	0	0	0		
NET CARRYING AMOUNT							
Customer loans							
General government	0	0	0	0	0	0	0
Other financial corporations	24 241	74 862	0	99 103	18 674	(862)	(246)
Other non-financial corporations	21 213	47 273	9 029	77 515	9 563	(443)	(139)
Households	19 117	2 175	0	21 292	2 618	(27)	(9)
	64 571	124 310	9 029	197 910	30 855	(1 332)	(394)
Loans to banks							
Refinancing loans	656	0	0	656	0	0	0
Other loans	0	0	0	0	0	0	0
	656	0	0	656	0	0	0
TOTAL NET CARRYING AMOUNT	65 227	124 310	9 029	198 566	30 855	(1 332)	(394)
Other modification losses						287	
CONTRACT MODIFICATION LOSS TOTAL						(1 045)	(394)

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	2020				Contract modification loss
	Stage 1	Stage 2	Stage 3	Total	
GROSS OUTSTANDING					
Customer loans					
General government*	196 579	0	0	196 579	
Other financial corporations	49 986	54 649	0	104 635	
Other non-financial corporations	18 992	83 891	16 313	119 196	
Households	20 631	1 750	14	22 395	
	286 188	140 290	16 327	442 805	
Loans to banks					
Refinancing loans	1 326	0	0	1 326	
Other loans	0	0	0	0	
	1 326	0	0	1 326	
IMPAIRMENT					
Customer loans					
General government	(1)	0	0	(1)	
Other financial corporations	(95)	(1 058)	0	(1 153)	
Other non-financial corporations	(13)	(9 933)	(12 126)	(22 072)	
Households	(1)	(3)	(6)	(10)	
	(110)	(10 994)	(12 132)	(23 236)	
Loans to banks					
Refinancing loans	(1)	0	0	(1)	
Other loans	0	0	0	0	
	(1)	0	0	(1)	

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

	2020				Contract modification loss
	Stage 1	Stage 2	Stage 3	Total	
NET CARRYING AMOUNT					
Customer loans					
General government	196 578	0	0	196 578	(73)
Other financial corporations	49 891	53 591	0	103 482	(742)
Other non-financial corporations	18 979	73 958	4 187	97 124	(1 166)
Households	20 630	1 747	8	22 385	(135)
	286 078	129 296	4 195	419 569	(2 116)
Loans to banks					
Refinancing loans	1 325	0	0	1 325	0
Other loans	0	0	0	0	0
	1 325	0	0	1 325	0
TOTAL NET CARRYING AMOUNT	287 403	129 296	4 195	420 894	(2 116)
Other modification losses					(2)
CONTRACT MODIFICATION LOSS TOTAL					(2 118)

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.

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	2021				<i>from this Moratorium 3</i>
	Stage 1	Stage 2	Stage 3	Total	
Loans and advances to banks					
Municipality loan program	0	0	0	0	<i>0</i>
Business development loan program	4 032	0	0	4 032	<i>939</i>
Agricultural development loan program	269	20	0	289	<i>22</i>
Retail loan program	57	0	0	57	<i>5</i>
	4 358	20	0	4 378	<i>966</i>
Loans and advances to customers					
General governments	0	0	0	0	<i>0</i>
Other financial corporations	2 280	549	0	2 829	<i>2 390</i>
Non-financial corporations	253	64	51	368	<i>360</i>
Households	116	10	8	134	<i>123</i>
	2 649	623	59	3 331	<i>2 873</i>
Total	7 007	643	59	7 709	<i>3 839</i>

	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

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7.2 DEBT SECURITIES

Debt securities	2021			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Hungarian government bonds	53 494	0	0	53 494
Corporate bonds	320 508	0	0	320 508
Mortgage bonds	6 148	0	0	6 148
	380 150	0	0	380 150
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(1 887)	0	0	(1 887)
Mortgage bonds	(3)	0	0	(3)
	(1 890)	0	0	(1 890)
NET CARRYING AMOUNT				
Hungarian government bonds	53 494	0	0	53 494
Corporate bonds	318 621	0	0	318 621
Mortgage bonds	6 145	0	0	6 145
	378 260	0	0	378 260
2020				
Debt securities	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Hungarian government bonds	54 900	0	0	54 900
Corporate bonds	53 373	0	0	53 373
Mortgage bonds	7 815	0	0	7 815
	116 088	0	0	116 088
IMPAIRMENT				
Hungarian government bonds	0	0	0	0
Corporate bonds	(49)	0	0	(49)
Mortgage bonds	(3)	0	0	(3)
	(52)	0	0	(52)
NET CARRYING AMOUNT				
Hungarian government bonds	54 900	0	0	54 900
Corporate bonds	53 324	0	0	53 324
Mortgage bonds	7 812	0	0	7 812
	116 036	0	0	116 036

Reconciliation of assets arising from investing activities

	<u>2020</u>	<u>Proceeds from maturity or sale</u>	<u>Discount/ Premium</u>	<u>Acquisition cost</u>	<u>2021</u>
Hungarian government bonds	54 900	0	(1 406)	0	53 494
Corporate bonds	53 373	(85 690)	1 957	350 868	320 508
Mortgage bonds	7 815	(3 500)	(225)	2 058	6 148
Total	116 088	(89 190)	326	352 926	380 150

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	<u>2019</u>	<u>Proceeds from maturity or sale</u>	<u>Discount/ Premium</u>	<u>Acquisition cost</u>	<u>2020</u>
Hungarian government bonds	48 725	0	(1 423)	7 598	54 900
Corporate bonds	5 185	(7 531)	(70)	55 789	53 373
Mortgage bonds	7 958	0	(143)	0	7 815
Total	61 868	(7 531)	(1 638)	63 387	116 088

HUF 3 500 million from the total amounts presented in column “*Proceeds from maturity or sale*” relates to maturity (2020: 5 030 million).

7.3 DEPOSITS AT CENTRAL AND OTHER BANKS

Deposits at central and other banks	<u>2021</u>			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Central bank deposits	19 804	0	0	19 804
Other bank deposits	9 976	0	0	9 976
	29 780	0	0	29 780
IMPAIRMENT				
Central bank deposits	(3)	0	0	(3)
Other bank deposits	(28)	0	0	(28)
	(31)	0	0	(31)
NET CARRYING AMOUNT				0
Central bank deposits	19 801	0	0	19 801
Other bank deposits	9 948	0	0	9 948
	29 749	0	0	29 749
Deposits at central and other banks	<u>2020</u>			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Central bank deposits	222 009	0	0	222 009
Other bank deposits	22 451	0	0	22 451
	244 460	0	0	244 460
IMPAIRMENT				
Central bank deposits	0	0	0	0
Other bank deposits	(23)	0	0	(23)
	(23)	0	0	(23)
NET CARRYING AMOUNT				0
Central bank deposits	222 009	0	0	222 009
Other bank deposits	22 428	0	0	22 428
	244 437	0	0	244 437

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7.4 OTHER FINANCIAL ASSETS

Other financial assets	2021			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Trade receivables	0	182	0	182
Margin accounts	37	0	0	37
	37	182	0	219
IMPAIRMENT				
Trade receivables	0	0	0	0
Margin accounts	0	0	0	0
	0	0	0	0
NET CARRYING AMOUNT				
Trade receivables	0	182	0	182
Margin accounts	37	0	0	37
	37	182	0	219

Other financial assets	2020			
	Stage 1	Stage 2	Stage 3	Total
GROSS VALUE				
Trade receivables	0	911	0	911
Margin accounts	984	0	0	984
	984	911	0	1 895
IMPAIRMENT				
Trade receivables	0	(13)	0	(13)
Margin accounts	0	0	0	0
	0	(13)	0	(13)
NET CARRYING AMOUNT				
Trade receivables	0	898	0	898
Margin accounts	984	0	0	984
	984	898	0	1 882

8. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2021		
	gross value	impairment	net value
Subsidiaries	252 649	(11 820)	240 829
Associates	80 225	(3 258)	76 967
Total	332 874	(15 078)	317 796

	2020		
	gross value	impairment	net value
Subsidiaries	317 339	(10 057)	307 282
Associates	6 768	(3 258)	3 510
Total	324 107	(13 315)	310 792

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The Banks' controlling and significant interests as at 31 December 2021 and 2020 were as follows.

<u>Name of the company</u>	<u>Activities</u>	<u>Voting power</u>	
		2021	2020
<u>Subsidiaries</u>			
MFB-Ingatlanfejlesztő Zrt	Real estate portfolio management	100%	100%
MFB Invest Befektetési és Vagyonkezelő Zrt	Investment portfolio management	100%	95.79%
MFB Növekedési Tőkealap	Venture capital fund	100%	100%
MKK Magyar Követeléskezelő Zrt	Claim management	100%	100%
MFB Vállalati Beruházási és Tranzakciós Magántőkealap (former MFB KKV Tőkealap)	Venture capital fund	100%	100%
MFB Beruházási és Tranzakciós Magántőkealap	Venture capital fund		100%
<u>Associates</u>			
Középületépítő Zrt "under liquidation"	Property management	47.89%	47.89%
Garantiqa Hitelgarancia Zrt	Financial services	38.04%	38.04%
Equilor II Magántőkealap	Venture capital fund	20-50%	
Főnix Magántőkealap	Venture capital fund	20-50%	
Gordiusz Magántőkealap	Venture capital fund	20-50%	
Infinitum Magántőkealap	Venture capital fund	20-50%	
Riverland Magántőkealap	Venture capital fund	20-50%	
Central European Opportunity II Magántőkealap	Venture capital fund	20-50%	

All of the above companies are incorporated in Hungary.

The increases during the year were due to the capital increase of HUF 47 000 million and due to share exchange of HUF 4 310 million in MFB Invest Zrt. and in MFB Vállalati Beruházási és Tranzakciós Magántőkealap there was further HUF 34 000 million venture capital note subscribed. MFB Beruházási és Tranzakciós Tőkealap was established in 2020 with HUF 150 000 million face value notes has been cancelled during the year. During 2021 Equilor II Magántőkealap, Főnix Magántőkealap, Gordiusz Magántőkealap and Riverland Magántőkealap were established with HUF 50 000 million face value notes each, while Infinitum Magántőkealap and Central European Opportunity II Magántőkealap were established with HUF 25 000 million face value notes each within framework of Crisis Capital Programs as well as the Tourism Capital Program.

9. DERIVATIVES

The Bank 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.

	2021			
	Assets		Liabilities	
	fair value	notional	fair value	notional
Derivatives in economic hedge relationship				
Interest rate swaps	695	4 654	(513)	4 564
Cross currency interest rate swaps	0	0	0	0
Foreign currency swaps	88	23 883	(151)	61 254
Total derivatives in economic hedge relationship	783	28 447	(664)	65 818
Fair value hedge derivatives				
Interest rate swaps	7 849	45 851	0	0
Total hedge derivatives	7 849	45 851	0	0

	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

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 Bank 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. In 2020 those cross currency interest rate swaps expired of which fair value changes was recognized against the currency-hedging agreement with the State, therefore the change in fair value of the financial assets and liabilities held for trading was not material.

The Bank 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.

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	2021 Net fair value	2020 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	182	(500)	682	0	610	72
Cross currency interest rate swaps	0	0	0	0	0	0
Foreign currency swaps	(63)	32	(95)	0	(24)	(71)
Total	119	(468)	587	0	586	1

According to the accounting policy decision, the Bank 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".

	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)

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 Bank 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.

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 one large loan. 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 27 million (2020: HUF 771 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, interest rate risk on 3 issued bonds (amounting to EUR 300 million) and on 1 large loan was hedged in a hedging relationship (IRS). None of the related clients were 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.

Hedged item	2021			
	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	50 359	(7 762)		
Debt securities issued			0	0
Total	50 359	(7 762)	0	0

Hedged item	2020			
	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

	2021			2020		
	Less than 1 year	1-5 year	More than 5 years	Less than 1 year	1-5 year	More than 5 years
Hedge of loans						
Nominal amount (mHUF)			45 851			45 851
Average fixed interest rate			3.20%			3.20%
Hedge of bonds						
Nominal amount (mEUR)				300		
Average fixed interest rate				2.43%		

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					Gains or (-) losses from hedge accounting, net			Fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit and loss
	2021 Fair value	2020 Fair value	Change in fair value	Change in interest accrual	Gains or (-) losses from hedge deal	Gains or (-) losses from hedged item	Total		
2021									
Asset side hedge deal	7 849	802	7 047	56	6 991	(6 951)	40	7 809	0
Liability side hedge deal	0	806	(806)	(51)	(755)	742	(13)	0	0
Total hedge interest rate swaps	7 849	1 608	6 241	5	6 236	(6 209)	27	7 809	0

					Gains or (-) losses from hedge accounting, net			Fair value used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit and loss
	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		
2020									
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

11. PROPERTY PLANT AND EQUIPMENT

	2021	2020
Property, plant and equipment	4 307	3 834
Right of use assets	586	198
Net book value	4 893	4 032

Property, plant and equipment

	Real estates	Equipments	Total
<i>Gross value</i>			
Opening balance 2021	5 467	2 055	7 522
Addition	109	685	794
Disposals	(11)	(227)	(238)
Closing balance 2021	5 565	2 513	8 078
<i>Depreciation</i>			
Opening balance 2021	(2 447)	(1 241)	(3 688)
Charge for the year	(37)	(277)	(314)
Disposals	11	221	231
Closing balance 2021	(2 474)	(1 297)	(3 771)

	Real estates	Equipments	Total
<i>Net book value</i>			
31 December 2020	3 020	814	3 834
31 December 2021	3 092	1 216	4 307

	Real estates	Equipments	Total
<i>Gross value</i>			
Opening balance 2020	5 421	1 749	7 170
Addition	46	676	722
Disposals	0	(370)	(370)
Closing balance 2020	5 467	2 055	7 522
<i>Depreciation</i>			
Opening balance 2020	(2 331)	(1 410)	(3 741)
Charge for the year	(116)	(191)	(306)
Impairment	0	(1)	(1)
Disposals	0	361	361
Closing balance 2020	(2 447)	(1 241)	(3 688)

	Real estates	Equipments	Total
<i>Net book value</i>			
31 December 2019	3 090	339	3 429
31 December 2020	3 020	814	3 834

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Right of use assets

	Real estates	Parking places	Total
<i>Gross value</i>			
Opening balance 2021	366	23	389
Addition	498	0	498
Disposals	(173)	0	0
Closing balance 2021	691	23	714
<i>Depreciation</i>			
Opening balance 2021	(187)	(4)	(191)
Charge for the year	(108)	(2)	(110)
Disposals	173	0	0
Closing balance 2021	(122)	(7)	(128)
<i>Net book value</i>			
31 December 2020	179	19	198
31 December 2021	569	16	586

	Real estates	Parking places	Total
<i>Gross value</i>			
Opening balance 2020	365	23	388
Addition	1	0	1
Disposals	0	0	0
Closing balance 2020	366	23	389
<i>Depreciation</i>			
Opening balance 2020	(93)	(2)	(95)
Charge for the year	(94)	(2)	(96)
Disposals	0	0	0
Closing balance 2020	(187)	(4)	(191)
<i>Net book value</i>			
31 December 2019	272	21	293
31 December 2020	179	19	198

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:

	<u>2021</u>	<u>2020</u>
Short-term leases	106	87
Leases of low-value assets	27	9
	<u>133</u>	<u>96</u>

12. INTANGIBLE ASSETS

	<u>2021</u>	<u>2020</u>
<i>Opening net book value</i>	4 077	3 654
<i>Gross value</i>		
Opening balance	9 461	9 184
Reclassification	1	0
Addition	1 608	1 033
Disposals	(88)	(756)
Closing balance	10 982	9 461
<i>Amortization</i>		
Opening balance	(5 384)	(5 530)
Charge for the year	(645)	(602)
Impairment	0	(8)
Disposals	87	756
Closing balance	(5 942)	(5 384)
<i>Closing net book value</i>	5 040	4 077

The Bank records software and intellectual property as intangible assets.

13. OTHER ASSETS

	<u>2021</u>	<u>2020</u>
Deferred income from reimbursed cost	8 866	8 670
Deferred expenses	1 589	502
Intermediated services	19	1 268
Deferred initial fair value adjustment	17 334	5 678
Other	24	401
Special bank tax due to Covid-19	1 402	1 752
Total	29 234	18 271

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 Bank'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's accounting register. According to the Financing Agreement the Bank is not

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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 and in 2020 the FGS Hajrá program (both called FGS) in order to finance the operation and investments of small- and medium size businesses (SMB) as an economic development activity. Within both of these programs, 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.

	<u>2021</u>	<u>2020</u>
Opening balance	5 677	1 052
Additions from new loans	13 723	4 956
Decrease due to sales	(45)	0
Annual amortisation	(2 021)	(331)
Closing balance	17 334	5 677

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.

	<u>2021</u>	<u>2020</u>
Guarantee frame maximum amount	2 000 000	2 000 000
Programed amounts within the frame	1 512 679	1 512 679
Free frame	487 321	487 321
Sum used from the frame amount	826 110	820 594

	<u>2021</u>		<u>2020</u>	
	Opening FX rates	Year end NBH FX rate	Opening FX rates	Year end NBH FX rate
Converted amount	639 496	826 110	637 693	820 594
<i>from this amount already repaid by customers on which the balance is fixed</i>	<i>379 726</i>	<i>446 699</i>	<i>364 893</i>	<i>427 798</i>
Foreign exchange losses		186 614		182 901
Amount already received from the State (relating to the not yet closed program)		(52 299)		(52 299)
<i>from this received during the year</i>		<i>0</i>		<i>(17 687)</i>
Foreign exchange losses of FX state guarantee		134 315		130 602
Interest foreign exchange losses of FX state guarantee		27 766		26 407
Total foreign exchange losses on the converted amount, before correction		162 081		157 009
<i>from this amount already repaid by customers on which the balance is fixed</i>		<i>(94 739)</i>		<i>(89 312)</i>
Total foreign exchange losses on the converted amount		162 081		157 009

There was no significant change in 2021, one of which was a significant decrease in business activity covered by the exchange rate hedging agreement and the other was that the EUR/HUF exchange rate did not change significantly. However 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.

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15. FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

	<u>2021</u>	<u>2020</u>
Deposits		
Interbank deposits	103 148	27 661
Customer deposits (collateral behind loans)	12 138	208 241
Other customer deposits	41 864	0
	<u>157 150</u>	<u>235 902</u>
Loans taken		
Refinancing loans	261 909	246 802
Other loans taken	336 717	279 655
	<u>598 626</u>	<u>526 457</u>
Debt securities issued		
Listed HUF bonds	512 116	283 379
Listed FX bonds	572 914	452 280
<i>from this listed on foreign stock exchange</i>	461 336	384 275
	<u>1 085 030</u>	<u>735 659</u>
Other financial liabilities		
Margin accounts	6 883	569
Creditors	1 309	2 281
Finance leases liabilities	591	209
	<u>8 783</u>	<u>3 059</u>
Total	<u>1 849 589</u>	<u>1 501 077</u>

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

“Loans taken” includes long-term liabilities in FGS programs.

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15.1. DEBT SECURITIES ISSUED

Name of bond	ISIN code	Issue	Maturity	Interest rate	2021		2020	
					Nominal value	Carrying value	Nominal value	Carrying value
Foreign currency bonds								
MFB BOND EUR 300M	XS1330975977	2015.12.08	2021.12.08	fix 2.375% (annually)	0	0	109 539	110 378
MFB BOND EUR 95.2M	HU0000359039	2019.07.03	2022.09.28	fix 0.05% (annually)	15 037	15 109	14 879	15 021
		2019.09.11			20 111	20 212	19 900	20 100
MFB BOND EUR 90M	HU0000359328	2019.11.20	2021.09.22	fix 0.010% (annually)	0	0	32 862	32 884
MFB BOND EUR 750M	XS2010030752	2020.06.24	2025.06.24	fix 1.375% (annually)	276 750	277 215	273 848	273 897
MFB BOND EUR 500M	XS2348280707	2021.06.09	2026.06.09	fix 0.375% (annually)	184 500	184 121		
MFB BOND EUR 206.75M	HU0000360821	2021.09.29	2023.06.28	fix 0.010% (annually)	33 007	32 999		
		2021.10.13			43 283	43 258		
Total foreign currency bonds					572 688	572 914	451 028	452 280
HUF bonds								
MFB202101	HU0000356696	2015.10.21	2021.01.20	fix 2.40% (annually)	0	0	5 000	5 112
		2015.11.11			0	0	7 500	7 667
		2015.12.16			0	0	7 500	7 666
MFB202210	HU0000357702	2017.06.14	2022.10.26	fix 1.50% (annually)	4 500	4 498	4 500	4 481
		2017.11.22			12 000	12 052	12 000	12 075
		2019.06.20			20 000	20 111	20 000	20 181
MFB202710	HU0000357892	2017.10.04	2027.10.27	fix 3.00% (annually)	4 180	4 241	4 180	4 248
		2019.10.09			16 890	17 971	16 890	18 130
		2021.10.06			13 175	13 013		
		2021.11.04			34 910	33 429		
MFB202110	HU0000358478	2018.09.17	2021.10.27	fix 1.70% (annually)	0	0	7 510	7 507
		2018.11.28			0	0	10 700	10 737
		2019.02.06			0	0	5 000	5 031
MFB202406	HU0000358700	2019.02.06	2024.06.26	fix 2.6% (annually)	15 000	15 299	15 000	15 337
		2019.03.06			13 300	13 544	13 300	13 571
MFB202104	HU0000359096	2019.09.04	2021.04.21	fix 0.03% (annually)	0	0	15 000	15 067
MFB202311	HU0000359138	2019.09.25	2023.11.24	fix 1.0% (annually)	17 110	17 133	17 110	17 137
		2021.10.20			18 905	18 440		
		2021.11.04			3 171	3 087		
MFB202208	HU0000359385	2019.12.11	2022.08.24	fix 0.5% (annually)	49 021	49 080	49 021	49 035
MFB202506	HU0000359674	2020.05.27	2025.06.24	fix 1.7% (annually)	35 000	35 437	35 000	35 519
MFB202604	HU0000360037	2020.10.21	2026.04.22	fix 1.9% (annually)	34 706	35 198	34 706	34 878
MFB203110	HU0000360771	2021.09.15	2031.10.22	fix 2.9% (annually)	33 950	33 284		
		2021.10.20			24 035	21 980		
MFB203304	HU0000360896	2021.11.11	2033.04.20	fix 4.2% (annually)	9 600	9 378		

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Name of bond	ISIN code	Issue	Maturity	Interest rate	2021		2020	
					Nominal value	Carrying value	Nominal value	Carrying value
MFB202810	HU0000360912	2021.11.17 2021.12.01	2028.10.22	fix 3.9% (annually)	34 550 23 495	34 474 22 417		
MFB202410	HU0000361027	2021.12.08	2024.10.24	fix 4.3% (annually)	12 441	12 287		
MFB202910	HU0000361035	2021.12.08	2029.10.24	fix 4.6% (annually)	10 680	10 418		
MFB202704	HU0000361092	2021.12.15	2027.04.22	fix 4.5% (annually)	24 575	24 477		
MFB202301	HU0000360888	2021.11.11 2021.12.01	2023.01.25	fix 2.0% (annually)	27 504 23 956	27 364 23 504		
Total HUF bonds					516 654	512 116	279 917	283 379
Total bonds					1 089 342	1 085 030	730 945	735 659

In 2021 the Bank issued two new fix interest bearing EUR bond totalling EUR 706.75 million, and seven new fix rate HUF bonds at a nominal value of HUF 224.8 billion, while there was additional issuance on two existing bonds amounting to HUF 70 billion face value. Two EUR bonds with a nominal value of EUR 390 million and two HUF bonds with a nominal value of HUF 43 billion expired during the year.

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.

Reconciliation of liabilities arising from financing activities

	<u>2020</u>	<u>Proceeds from bond issuance</u>	<u>Discount/ Premium</u>	<u>Repayments at maturity</u>	<u>Exchange rate change</u>	<u>2021</u>
HUF bonds	283 379	286 684	263	(58 210)	0	512 116
EUR bonds	452 280	247 095	864	(142 173)	14 848	572 914
USD bond	0	0	0	0	0	0
Total	735 659	533 779	1 127	(200 383)	14 848	1 085 030
	<u>2019</u>	<u>Proceeds from bond issuance</u>	<u>Discount/ Premium</u>	<u>Repayments at maturity</u>	<u>Exchange rate change</u>	<u>2020</u>
HUF bonds	268 354	69 939	166	(55 080)	0	283 379
EUR bonds	201 478	271 733	1 891	(39 514)	16 692	452 280
USD bond	223 437	0	(2 858)	(221 055)	476	0
Total	693 269	341 672	(801)	(315 649)	17 168	735 659

16. PROVISIONS

Provisions by title	<u>2021</u>	<u>2020</u>
Financial guarantees	1 621	469
Loan commitments	1 628	1 200
<i>Subtotal for IFRS 9 provision method</i>	3 249	1 669
Legal cases	0	5
Other	226	198
Total (Note 28)	3 475	1 872

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

	<u>2021</u>	<u>2020</u>
Non- income taxes	874	594
Settlement from wages	1 171	825
Deferred income	2 235	431
Accrued costs	304	153
Lending related liabilities	326	277
Liabilities to managing authorities	4 962	4 249
Fees due before disbursement but not paid	61	90
Venture capital note payment obligation	71 544	189 167
Deferred initial fair value adjustment	17 256	5 573
Other	8	19
Total	98 741	201 378

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 as at 31 December 2021 and 2020 related to MFB Növekedési Tőkealap, Central European Fund of Funds, MFB Vállalati Beruházási és Tranzakciós Magántőkealappal (former MFB KKV Fund) and MFB Beruházási és Tranzakciós Magántőkealap. The amounts are 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 2021 the Bank received share capital increase of HUF 39 billion as at 3 December 2021 and an additional HUF 45 billion as at 22 December 2021. 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 349 900 (2020: 265 900) ordinary shares, with HUF 1 million nominal value each was HUF 349 900 million (2020: 265 900 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 both as at 31 December 2021 and 2020 was HUF 81 870 million.

Hungarian Accounting Act (Act C of 2000, section 114/B)

Pursuant to section 114/B of the Hungarian Accounting Act, the Bank shall present a specific equity reconciliation table for the reporting date and present it as part of the notes.

The equity reconciliation table contains the opening and closing information for each component of IFRS equity, and the opening and closing information for certain specified equity components, as well as the amount of the retained earnings available for payment of dividends. This amount can be determined from the last row of the equity reconciliation table and consists of retained earnings and after-tax profit for the year, less any increase in the valuation reserve for investment properties and increased by its tax impact. This section of the Accounting Act defines the content of the free profit reserve available for payment of dividends.

Parts of the reconciliation table

Share capital: as defined in the articles of association to the extent that it is an equity instrument.

Capital reserve: the sum of all components of equity that do not meet the definition of IFRS share capital, subscribed but not paid-up capital, retained earnings, valuation reserve, after-tax profit or allocated reserve.

Retained earnings: accumulated profit of the previous years that was not paid as dividends to shareholders.

Valuation reserve: the sum of other comprehensive income, including cumulative and other comprehensive income for the year, plus the amount of the valuation reserve created before the transition to IFRS.

Allocated reserve: includes amounts appropriated from the capital reserve and the retained earnings. Pursuant to the provisions of the Hungarian Credit Institutions Act, a credit institution is required to set aside 10% of its after-tax profit for the year, which it may use only to offset losses from its activities. In accordance to the section 83 (7) of the Credit Institution Act, if a credit institution prepares its annual financials in accordance with IFRS, it must separate the general reserve from the retained earnings and presents it as an Allocated reserve in the equity reconciliation table.

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Based on section 114/B of the Hungarian Accounting Act, the Bank's equity reconciliation table for 31 December 2021 is as follows:

31 December 2021	Share Capital	Capital Reserve	Retained earnings	Other Reserves	Valuation reserve	Allocated reserve	Profit after tax	Total
Own equity under IFRS rules	349 900	81 870	19 266	294	(2 389)	0	0	448 941
General reserve				(294)		294		0
Profit after tax			(4 385)				4 385	0
Own equity under Hungarian Accounting Act rules (section 114/B)	349 900	81 870	14 881	0	(2 389)	294	4 385	448 941

The registered share capital by the Court is HUF 349 900 million. The reserve available for dividend payment is HUF 19 266 million.

Based on section 114/B of the Hungarian Accounting Act, the Bank's equity reconciliation table for 31 December 2020 is as follows:

31 December 2020	Share Capital	Capital Reserve	Retained earnings	Other Reserves	Valuation reserve	Allocated reserve	Profit after tax	Total
Own equity under IFRS rules	265 900	81 870	15 175	0	498	0	0	363 559
General reserve								0
Profit after tax			8 832				(8 832)	0
Own equity under Hungarian Accounting Act rules (section 114/B)	265 900	81 870	24 007	0	498	0	(8 832)	363 443

The registered share capital by the Court is HUF 265 900 million. The reserve available for dividend payment is HUF 15 175 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 Bank is not allowed to pay dividend from the statutory reserves.

20. CONTINGENT LIABILITIES, COMMITMENTS

To meet the financial needs of customers, the Bank 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 Bank.

	<u>2021</u>	<u>2020</u>
Loan commitments	247 395	235 328
Capital commitments	270 418	0
Guarantees	504 951	105 558
Guarantees and loan commitments total	1 022 764	340 886
Legal cases	275	272
Other commitments	1 476	1 461
Total	1 024 515	342 619

Capital commitments represents the subscribed but not yet paid capital increase of venture capital investments/notes that is payable as required by the investment plans if the investment is closer to a loan commitment.

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.

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21. NET INTEREST INCOME

	<u>2021</u>	<u>2020</u>
Financial assets at fair value through other comprehensive income	563	587
Financial assets at amortized cost	37 188	27 642
Negative interest from financial liabilities	186	217
Interest income calculated using the effective interest method	37 937	28 446
Financial assets held for trading	214	12 610
Non-trading financial assets mandatorily at fair value through profit or loss	800	758
Derivatives – Hedge accounting	832	661
Other assets	4 144	492
Other similar income	5 990	14 521
Total interest income	43 927	42 967
Interest expense		
Financial liabilities held for trading	(1 514)	(6 381)
Financial liabilities at amortized cost	(17 651)	(22 352)
Derivatives – Hedge accounting	(126)	(369)
Other liabilities	(8)	(27)
Negative interest from financial assets	(274)	(59)
Total interest expense	(19 573)	(29 188)
Net interest income	24 354	13 779

Net interest income analysis by customer types:

	<u>2021</u>	<u>2020</u>
Interest income		
Customers	30 839	25 418
National Bank of Hungary	4 623	829
Other banks	2 499	14 527
Securities	5 966	2 193
Total	43 927	42 967
Interest expense		
Customers	(408)	(54)
National Bank of Hungary	(2 176)	(360)
Other banks	(4 297)	(7 751)
Securities	(12 692)	(21 023)
Total	(19 573)	(29 188)
Net interest income	24 354	13 779

22. DIVIDEND INCOME

	2021	2020
Dividend received from subsidiaries	1 684	1 830
MKK Zrt.	1 684	1 830
Dividend received from associates	0	0
Other investments	0	0
Total	1 684	1 830

23. NET FEE AND COMMISSION INCOME / EXPENSES

	2021	2020
Fee and commission income		
Guarantee fees	1 366	392
Loan servicing fees	970	135
Other fees and commission	17	12
Total	2 353	539
Fee and commission expenses		
Agent fees	(130)	(194)
Guarantee fees	(35)	(12)
Bank account commission	(35)	(11)
Other fees and commission	(3)	(29)
Total	(203)	(246)
Net fee and commission income / (expenses)	2 150	293

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

	2021	2020
Financial assets at amortized cost	403	(8)
Loans	117	(346)
Debt securities	286	338
Financial assets at fair value through other comprehensive income	675	0
Debt securities	0	0
Equity instruments	675	0
Total	1 078	(8)

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

	2021	2020
Derecognition gain of investments in subsidiaries and associates	9	0
Derecognition loss of property, plant and equipment and intangible assets	(1)	(2)
Derecognition gain of other assets	0	0
Total	8	(2)

26. OTHER OPERATING INCOME/EXPENSES

	<u>2021</u>	<u>2020</u>
Other income		
Compensation received from EU	4 124	3 957
Consideration received from State	25	25
Recovery of previous years costs	18	81
Rental income	52	52
Reimbursement of financial contribution	0	1 000
Income from legal cases	5	63
Deferred initial fair value of borrowings	2 076	244
Other	138	23
Total other operating income	6 438	5 445
Other expenses		
Donations	(100)	(115)
Expenses related to previous years	(72)	(117)
Taxes – except income tax and special bank tax	(1 185)	(663)
Special bank tax	(2 201)	(1 919)
Other expenses related to lending and borrowing not part of effective interest	(190)	(120)
Deferred initial fair value of loans granted	(2 049)	(319)
Other	(114)	(142)
Total other operating expense	(5 911)	(3 395)

The Bank received HUF 4 053 million compensations for performing the tasks in connection with 2007-13 and 2014-20 EU programming periods in 2021 (2020: HUF 3 907 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 71 million in 2021 (2020: HUF 50 million).

The Bank received HUF 25 million (2020: HUF 25 million) consideration from the State for the exercising of owner's rights as determined in the XXII chapter of the central budget.

27. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2021</u>	<u>2020</u>
Wages and salaries	(5 900)	(5 167)
Compulsory social security	(1 098)	(1 029)
Other personnel expenses	(754)	(620)
Personnel expenses	(7 752)	(6 816)
Marketing	(1 318)	(1 199)
Expert fees	(464)	(336)
Rental expense	(389)	(349)
System support and maintenance	(559)	(392)
Office maintenance	(331)	(274)
Traveling	(25)	(33)
Media	(83)	(35)
Other material type costs	(65)	(63)
Post and newspapers	(115)	(89)
Electricity, water, gas supply	(60)	(58)
Membership fees	(50)	(47)
Education	(63)	(63)
Insurances	(53)	(37)
Other welfare services	(35)	(28)
Other	(94)	(68)
Other general administrative expenses	(3 704)	(3 071)
Total general and administrative expenses	(11 456)	(9 887)

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The average number of the employees in 2021 was 369.6 (2020: 359).

Expert fees include HUF 54 million gross fees paid to the auditor for the 2021 annual audit and other audit related services (2020: HUF 50 million). There was no fee paid to the statutory auditor KPMG Hungary Ltd. in neither 2021 nor in 2020 for any non-audit services. There was no fee paid for KPMG Advisory Ltd. (member of KPMG Group) provided non-audit services to the Bank during 2021 (2020: HUF 6.6 million). The Bank was not the cost bearer for other services used by KPMG Tanácsadó Kft., and KPMG Legal Tóásó Law Office, therefore no costs were incurred in connection with these services in the Bank's books newither in 2021 not in 2020.

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28. PROVISIONS OR (-) REVERSAL OF PROVISIONS

	2021			2020		
	Other items	Guarantees and loan commitments	Total	Other items	Guarantees and loan commitments	Total
1. Opening balance as 1 January	(203)	(1 669)	(1 872)	(277)	(3 628)	(3 905)
2. Charge	(51)	(1 520)	(1 571)	(35)	(978)	(1 013)
3. Release	28	115	143	109	2 972	3 081
4. Utilization	0	0	0	0	0	0
5. Foreign exchange difference	0	(175)	(175)	0	(35)	(35)
5. Closing balance at 31 December	(226)	(3 249)	(3 475)	(203)	(1 669)	(1 872)
Net movement (excluding item 5.)	(23)	(1 405)	(1 428)	74	1 994	2 068
Balance in the Profit or loss statement						
Other income (legal cases)	(5)	0	(5)	(83)	0	(83)
Impairment (-) or reversal of impairment of financial instruments	0	1 405	1 405	0	(1 994)	(1 994)
Amounts charged to wages	28	0	28	9	0	9

The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2021 by credit risk stages. The movements represent every changes during the year, in contrast to last year, when year-on-year changes were presented. To ensure comparability tables for 2020 were modified accordingly.

	Opening balance as at 1 January 2021	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 2021
Guarantees	(469)	(172)	(901)	1	0	0	0	(80)	(1 621)
Stage 1	(425)	(293)	(901)	1	245	(2)	0	(80)	(1 455)
Stage 2	(44)	121	0	0	(245)	2	0	0	(166)
Stage 3	0	0	0	0	0	0	0	0	0
Loan commitments	(1 200)	270	(652)	49	0	0	0	(95)	(1 628)
Stage 1	(121)	195	(652)	31	51	0	0	0	(496)
Stage 2	(1 079)	75	0	18	(51)	0	0	(95)	(1 132)
Stage 3	0	0	0	0	0	0	0	0	0
TOTAL	(1 669)	98	(1 553)	50	0	0	0	(175)	(3 249)

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The table below presents the changes in the provision for financial guarantees and undrawn loan commitments during 2020 by credit risk stages.

	Opening balance as at 1 January 2020	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 2020
Guarantees	(2 383)	2 094	(177)	3	0	0	0	(6)	(469)
Stage 1	(28)	(225)	(177)	3	8	0	0	(6)	(425)
Stage 2	(608)	572	0	0	(8)	0	0	0	(44)
Stage 3	(1 747)	1 747	0	0			0	0	0
Loan commitments	(1 245)	264	(226)	36	0	0	0	(29)	(1 200)
Stage 1	(596)	543	(133)	22	127	(83)		(1)	(121)
Stage 2	(617)	(314)	(93)	14	(127)	83	0	(25)	(1 079)
Stage 3	(32)	35	0	0			0	(3)	0
TOTAL	(3 628)	2 358	(403)	39	0	0	0	(35)	(1 669)

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

	2021			2020		
	Charge due to origin	Net charge without stage transfer	Total as at 31 December 2021	Charge due to origin	Net charge without stage transfer	Total as at 31 December 2020
Customer loans	(1 882)	(4 373)	(6 255)	(1 841)	(10 190)	(12 031)
Loans to banks	0	(1)	(1)	0	18	18
Debt securities	(1 459)	(379)	(1 838)	(232)	186	(46)
Deposits at Central and other banks	0	(8)	(8)	(617)	600	(17)
Other financial receivables	0	13	13	0	0	0
Other demand deposits	0	20	20	(11 038)	10 996	(42)
Guarantees	(901)	(171)	(1 072)	(177)	2 097	1 920
Loan commitments	(652)	319	(333)	(226)	300	74
Total profit and loss impact	(4 894)	(4 580)	(9 474)	(14 131)	4 007	(10 124)

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

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The table below presents the changes in the impairment for financial assets during 2021 by credit risk stages. The movements represent every changes during the year, in contrast to last year, when year-on-year changes were presented. To ensure comparability tables for 2020 were modified accordingly.

LOANS	Opening balance as at 1 January 2021	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 2021
Customer loans – Stage 1	(758)	(1 631)	0	(342)	809	0	(37)			(17)	(1 976)
General governments	(74)	(8)	0	(13)	0	0	0			(1)	(96)
Other financial corporations	(190)	(64)	0	(63)	161	0	(17)			0	(173)
Other non-financial corporations	(476)	(1 558)	0	(203)	571	0	(20)			(17)	(1 704)
Households	(18)	(1)	0	(62)	78	0	0			0	(4)
Loans to banks – Stage 1	(4)	0	0	(1)	0	0	0			0	(5)
Refinancing loans	(1)	0	0	1	0	0	0			0	0
Other loans	(3)	0	0	(2)	0	0	0			0	(5)

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LOANS	Opening balance as at 1 January 2021	Charge due to origin	Utilization	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	Unwinding	FX impact	Closing balance as at 31 December 2021
Customer loans – Stage 2	(17 007)	(189)	0	(5 413)	(809)	0	37	0		(283)	(23 664)
General governments	0	0	0	0	0	0	0	0		0	0
Other financial corporations	(1 061)	(12)	0	(800)	(161)	0	17	0		(8)	(2 025)
Other non-financial corporations	(15 944)	(177)	0	(4 615)	(571)	0	20	0		(275)	(21 561)
Households	(3)	0	0	2	(78)	0	0	0		0	(79)
Loans to banks – Stage 2	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 – Stage 3	(22 945)	(62)	9 446	1 382		0	0	0	(151)	280	(12 050)
General governments	0	0	0	0		0	0	0	0	0	0
Other financial corporations	0	0	0	0		0	0	0	0	0	0
Other non-financial corporations	(22 932)	(62)	9 446	1 376		0	0	0	(151)	280	(12 043)
Households	(13)	0	0	6		0	0	0	0	0	(7)
Loans to banks – Stage 3	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	(40 710)	(1 882)	9 446	(4 373)	0	0	0	0	(151)	(20)	(37 692)
General governments	(74)	(8)	0	(13)	0	0	0	0	0	(1)	(96)
Other financial corporations	(1 251)	(76)	0	(863)	0	0	0	0	0	(8)	(2 198)
Other non-financial corporations	(39 351)	(1 797)	9 446	(3 442)	0	0	0	0	(151)	(12)	(35 308)
Households	(34)	(1)	0	(54)	0	0	0	0	0	0	(90)
Loans to banks - TOTAL	(4)	0	0	(1)	0	0	0	0	0	0	(5)
Refinancing loans	(1)	0	0	1	0	0	0	0	0	0	0
Other loans	(3)	0	0	(2)	0	0	0	0	0	0	(5)

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DEBT SECURITIES	Opening balance as at 1 January 2021	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 2021
Stage 1*	(52)	(1 459)	(379)					(1 890)
Hungarian government bonds	0	0	0					0
Corporate bonds	(49)	(1 459)	(379)					(1 887)
Mortgage bonds	(3)	0	0					(3)

*: Only stage 1 securities were at the Bank portfolio in 2021.

DEPOSITS AT CENTRAL AND OTHER BANKS	Opening balance as at 1 January 2021	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 2021
Stage 1*	(23)	0	(8)					(31)
Central bank deposits	0	0	(3)					(3)
Other bank deposits	(23)	0	(5)					(28)

*: Only stage 1 deposits were at the Bank portfolio in 2021.

OTHER FINANCIAL ASSETS	Opening balance as at 1 January 2021	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 2021
Stage 2*	(13)	0	13					0
Trade receivables	(13)	0	13					0
Margin accounts	0	0	0					0

*: Only stage 2 receivables were at the Bank portfolio in 2021.

OTHER DEMAND DEPOSITS	Opening balance as at 1 January 2021	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 2021
Stage 1*	(45)	0	20					(25)
Cash balances with National Bank of Hungary	0	0	(25)					(25)
Other demand deposits	(45)	0	45					0

*: Only stage 1 deposits were at the Bank portfolio in 2021.

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The table below presents the changes in the impairment for financial assets during 2020 by credit risk stages.

LOANS	Opening balance as at 1 January 2020	Charge due to origin	Sale	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	(2 644)	(217)	0	(3 173)	5 762	0	(461)			(24)	(758)
General governments	(590)	0	0	523	0	0	0			(7)	(74)
Other financial corporations	(386)	(77)	0	(613)	891	0	(5)			0	(190)
Other non-financial corporations	(1 657)	(126)	0	(3 090)	4 870	0	(456)			(17)	(476)
Households	(11)	(14)	0	7	1	0	0			0	(18)
Loans to banks – Stage 1	(21)	0	0	18	0	0	0			(1)	(4)
Refinancing loans	(2)	0	0	1	0	0	0			0	(1)
Other loans	(19)	0	0	17	0	0	0			(1)	(3)

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LOANS	Opening balance as at 1 January 2020	Charge due to origin	Sale	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	Unwinding	FX impact	Closing balance as at 31 December 2020
Customer loans – Stage 2	(4 039)	(1 487)	0	(6 208)	(5 762)	12 621	461	(12 113)		(481)	(17 007)
General governments	0	0	0	0	0	0	0	0		0	0
Other financial corporations	(164)	(2)	0	(6)	(891)	0	5	0		(3)	(1 061)
Other non-financial corporations	(3 872)	(1 485)	0	(6 195)	(4 870)	12 613	456	(12 113)		(479)	(15 944)
Households	(3)	0	0	(7)	(1)	8	0	0		0	(3)
Loans to banks – Stage 2	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 – Stage 3	(20 700)	(137)	1 350	(809)		(12 621)	0	12 113	(245)	(1 895)	(22 945)
General governments	0	0	0	0		0	0	0	0	0	0
Other financial corporations	0	0	0	0		0	0	0		0	0
Other non-financial corporations	(20 696)	(137)	1 350	(807)		(12 613)	0	12 113	(245)	(1 895)	(22 931)
Households	(4)	0	0	(2)		(8)	0	0		0	(14)
Loans to banks – Stage 3	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	(27 383)	(1 841)	1 350	(10 190)	0	0	0	0	(245)	(2 401)	(40 710)
General governments	(590)	0	0	523	0	0	0	0	0	(7)	(74)
Other financial corporations	(550)	(79)	0	(619)	0	0	0	0	0	(3)	(1 251)
Other non-financial corporations	(26 225)	(1 748)	1 350	(10 092)	0	0	0	0	(245)	(2 391)	(39 351)
Households	(18)	(14)	0	(2)	0	0	0	0	0	0	(34)
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)

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Stage 1*	(6)	(232)	186					(52)
Hungarian government bonds	0	0	0					0
Corporate bonds	(3)	(232)	186					(49)
Mortgage bonds	(3)	0	0					(3)

*: Only stage 1 securities were at the Bank 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 Bank 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*	(13)	0	0					(13)
Trade receivables	(13)	0	0					(13)
Margin accounts	0	0	0					0

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

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30. IMPAIRMENT OR (-) REVERSAL OF IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	2021	2020
1. Opening balance as at 1 January	(13 315)	(9 824)
2. Charge	(2 258)	(3 496)
3. Release and utilization	0	0
4. Foreign exchange difference	0	0
5. Reclassification	495	5
6. Closing balance as at 31 December	(15 078)	(13 315)
Net movement	(1 763)	(3 491)
Balance in the Income statements	(2 258)	(3 496)

31. TAXATION

Income tax expenses include current taxes, and deferred taxes. In both 2021 and 2020 the corporate tax rate was 9%, the local tax rate was 2%, and the innovation contribution rate was 0.3%.

	2021	2020
Current tax	872	425
<i>from this corporate tax</i>	129	1
<i>from this local tax and innovation contribution</i>	743	424
Deferred tax	24	22
Total	896	447

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

	2021			2020		
	Recognized in profit or loss	Recognized in OCI	Deferred tax liability	Recognized in profit or loss	Recognized in OCI	Deferred tax liability
Tax expense	872			425		
Deferred tax by titles						
Property, plant and equipment	17		59	15		42
FVOCI debt securities, equity instruments	0	(44)	15	0	(31)	59
Other provisions	(4)		(15)	4		(11)
Tax loss carry forward	11		(29)	3		(40)
Total	24	(44)	30	22	(31)	50
Total tax expense in the Income statements	896			447		

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

Reconciliation of effective tax rate	2021		2020	
	Tax rate	Amount	Tax rate	Amount
Profit (loss) before income taxes		5 281		(8 385)
Corporate tax	9.00%	475	9.00%	(754)
Local tax and innovation contribution impact	13.94%	736	(5.06%)	424
Permanent differences				
Local tax	(0.86%)	(66)	0.45%	(38)
Tax loss carry forward	(2.33%)	(123)	(11.46%)	961
Non-tax deductible items	0.03%	2	(0.04%)	3
Dividend	(1.99%)	(151)	1.97%	(165)
Other	0.30%	23	(0.19%)	16
Effective tax	16.97%	896	(5.33%)	447

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The accumulated amount of tax losses carries forward in 2021 was HUF 72 487 million (2020: HUF 73 852 million). The tax losses originated until 2014 (HUF 53 820 million) 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 (2021: 5 164 million, 2022: 810 million, 2023: 2 373 million, 2025: 10 643 million).

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 2021 is HUF 6 524 million (2020: HUF 6 647 million).

32. RELATED PARTIES

The Bank is owned by the Hungarian State. The Bank identifies subsidiaries and 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. Related party transactions are carried out under normal market conditions.

The Bank 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.

Subsidiaries: Any company where the Bank has managing control. The Bank has control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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	2021			2020		
	Subsidiaries	Associates	State	Subsidiaries	Associates	State
ASSETS						
Financial assets at fair value through other comprehensive income	0	0	32 537	0	0	39 046
Debt securities	0	0	32 537	0	0	39 046
Financial assets at amortized cost	37 684	20 834	53 834	58 924	16 607	55 768
Debt securities	0	0	53 494	0	0	54 900
Loans to customers	37 684	20 833	0	58 924	16 607	0
Other financial receivables	0	1	340	0	0	868
Investments in subsidiaries and associates	252 649	80 225	0	317 339	3 510	0
Tax assets	0	0	0	0	0	161
Current tax assets	0	0	0	0	0	161
Other assets	0	0	9 050	0	3	8 964
Receivables from the state due to currency-hedging agreement¹	0	0	162 273	0	0	157 009
LIABILITIES						
Financial liabilities at amortized cost	15 248	2 151	0	26	2 864	0
Deposits	15 245	2 151	0	20	2 864	0
Other financial liabilities	3	0	0	6	0	0
Tax liabilities	0	0	330	0	0	0
Current tax liabilities	0	0	(330)	0	0	0
Other liabilities	68 763	19	5 929	186 113	18	4 853
Guarantees and loan commitments	25 284	252 242	0	14 832	20 830	0
PROFIT AND LOSS						
Interest income	1 287	1 008	1 722	1 187	796	1 730
Interest expense	(32)	(4)	0	(0)	(20)	0
Dividend income	1 684	0	0	1 830	0	0
Fee and commission income	11	27	0	14	31	0
Fee and commission expense	(2)	(6)	0	(5)	(11)	0
Other operating income	1	2	4 368	1	2	3 932
Other operating expense	(35)	(18)	(3 608)	(21)	0	(2 649)
Contract modification loss, net	0	283	0	0	(12)	0
Impairment (-) or reversal of impairment of financial instruments ²	0	43	0	0	(1 764)	0
Impairment or (-) reversal of impairment of investments in subsidiaries and associates	(2 258)	0	0	(3 496)	0	0
Tax expense or (-) income related to profit or loss from continuing operations	0	0	(973)	0	0	(425)

1: from the presented amount HUF 3 713 million (2020: HUF 38 373 million) was presented in the income statements' line "Exchange differences [gain or (-) loss], net".

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

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The key management personnel compensation in 2021 and 2020 was the following:

	2021	2020
Members of the Board of Directors	27	24
Members of the Supervisory Board	22	23
CEOs and deputy CEOs	106	112
Total	155	159

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.

33. 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 Bank.

The Bank'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.

The Bank 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 Bank. 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 net segment's asset 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.

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2021	Banking	Investment	EU fund management	Total
Total segment income and gain				
Interest income	43 927	0	0	43 927
<i>from this interest income calculated using the effective interest method</i>	37 937	0	0	37 937
<i>from this other similar income</i>	5 990	0	0	5 990
Fee and commission income	2 348	0	5	2 353
<i>from this guarantee fees</i>	1 371	0	5	1 376
<i>from this loan servicing fees</i>	965	0	0	965
<i>other fees and commission</i>	13	0	0	13
Dividend income	0	1 684	0	1 684
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	403	675	0	1 078
Gains on financial assets and liabilities held for trading, net	1	0	0	1
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	123	698	0	821
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(1)	9	0	8
Gains from hedge accounting, net	21	6	0	27
Other operating income	2 140	49	4 249	6 438
Total segment income and gain	48 962	3 121	4 254	56 337
Interest expenses	(15 824)	(3 749)	0	(19 573)
Fee and commission expenses	(203)	0	0	(203)
<i>from this agent fees</i>	(130)	0	0	(130)
<i>from this guarantee fees</i>	(35)	0	0	(35)
<i>from this bank account commission</i>	(11)	0	0	(11)
<i>from this other fees and commission</i>	(27)	0	0	(27)
Exchange differences [profit], net	(51)	(16)	0	(67)
Other operating expenses	(4 937)	(879)	(95)	(5 911)
Administrative expenses	(6 032)	(1 851)	(3 573)	(11 456)
Depreciation	(563)	(173)	(334)	(1 070)
Segment profit before impairment and provisions	21 352	(3 547)	252	18 057
Impairment (-) or reversal of impairment of financial instruments	(9 395)	(79)	0	(9 473)
Impairment (-) or reversal of impairment of investments in subsidiaries and associates	0	(2 258)	0	(2 258)
Impairment of non-financial instruments	0	0	0	0
Contract modification loss, net	(1 045)	0	0	(1 045)
Segment income before tax	10 912	(5 884)	252	5 281
Income tax expense				(896)
Profit for the year				4 385
Segment revenues				
Interest income	43 927	0	0	43 927
Fee and commission income	2 348	0	5	2 353
Dividend income	0	1 684	0	1 684
Other operating income	2 140	49	4 249	6 438
Total segment revenue	48 415	1 733	4 254	54 402
Timing of revenue				
Point in time	4 488	1 733	4 254	10 475
Over time	43 927	0	0	43 927

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2021	Banking	Investment	Not allocated	Total
Segment assets	1 768 486	378 859	254 324	2 401 669
Participation of segment from total assets	73.64%	15.77%	10.59%	100.00%
Segment liabilities	1 584 129	339 365	29 234	1 952 728
Participation of segment from total liabilities	81.12%	17.38%	1.50%	100.00%

2020	Banking	Investment	EU fund management	Total
Total segment income and gain				
Interest income	42 967	0	0	42 967
<i>from this interest income calculated using the effective interest method</i>	28 446	0	0	28 446
<i>from this other similar income</i>	14 521	0	0	14 521
Fee and commission income	539	0	0	539
<i>from this guarantee fees</i>	392	0	0	392
<i>from this loan servicing fees</i>	135	0	0	135
<i>other fees and commission</i>	12	0	0	12
Dividend income	0	1 830	0	1 830
Exchange differences [profit], net	24 248	13 709	0	37 957
Gains from hedge accounting, net	493	278	0	771
Other operating income	346	1 192	3 907	5 445
Total segment income and gain	68 593	17 009	3 907	89 509
Interest expenses	(28 191)	(997)	0	(29 188)
Fee and commission expenses	(246)	0	0	(246)
<i>from this agent fees</i>	(194)	0	0	(194)
<i>from this guarantee fees</i>	(12)	0	0	(12)
<i>from this bank account commission</i>	(11)	0	0	(11)
<i>from this other fees and commission</i>	(29)	0	0	(29)
Losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	234	(242)	0	(8)
Losses on financial assets and liabilities held for trading, net	(24 433)	(13 813)	0	(38 246)
Losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(108)	(61)	0	(169)
Losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(1)	(1)	0	(2)
Contract modification loss, net	(2 118)	0	0	(2 118)
Other operating expenses	(2 317)	(1 078)	0	(3 395)
Administrative expenses	(4 051)	(2 290)	(3 546)	(9 887)
Depreciation	(412)	(233)	(361)	(1 006)
Segment profit before impairment and provisions	6 950	(1 706)	0	5 244
Impairment (-) or reversal of impairment of financial instruments	(10 124)	0	0	(10 124)
Impairment (-) or reversal of impairment of investments in subsidiaries and associates	0	(3 496)	0	(3 496)
Impairment of non-financial instruments	(6)	(3)	0	(9)
Segment income before tax	(3 180)	(5 205)	0	(8 385)
Income tax expense				(447)
Loss for the year				(8 832)

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2020	Banking	Investment	EU fund management	Total
Segment revenues				
Interest income	42 967	0	0	42 967
Fee and commission income	539	0	0	539
Dividend income	0	1 830	0	1 830
Other operating income	346	1 192	3 907	5 445
Total segment revenue	43 852	3 022	3 907	50 781
Timing of revenue				
Point in time	885	3 022	3 907	7 814
Over time	42 967	0	0	42 967
2020	Banking	Investment	Not allocated	Total
Segment assets	1 529 394	311 414	227 923	2 068 731
Participation of segment from total assets	73.9%	15.1%	11.0%	100.0%
Segment liabilities	1 401 486	285 370	18 432	1 705 288
Participation of segment from total liabilities	82.2%	16.7%	1.1%	100.0%

34. FINANCIAL RISK MANAGEMENT

The Bank'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 Bank 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 Bank is continually developing its comprehensive risk culture that, in line with the Bank'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 Bank 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 (in the amount of USD 56.5 million). Only this loan amount and its sources can be found 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 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. The Bank integrates the management of environmental, social and governance risks (ESG risks) into the ICAAP framework.

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

- Due to its core business, the Bank 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 Bank 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 Bank 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 in line with their roles and responsibilities in risk-taking, risk management and risk control. This way a prudent, consistent and informed risk culture is embedded in the day-to-day operations of the Bank.

The risk principles and strategies are approved by the Bank's 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,
- EU Steering Committee,
- Irregularities Management Committee,
- Development Steering Committee.

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

The powers and responsibilities of each committee are contained in the Bank's Articles of Association, the Rules of Procedure of the Board of Directors and the Decision-Making Rules of Procedure.

The determination of decision levels depends on the size of the commitment, the score and the level of coverage.

Risk Management Division and Strategic Risk Management Directorate

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 Bank exercises its risk control function through a dedicated organizational unit, the Strategic Risk Management Directorate, which is independent of the business areas and the operational risk management area. In view of the aspects of proportionality, it is not justified to operate the risk control area as an independent division, therefore, assessing the advantages and disadvantages, the Bank operates the Strategic Risk Management Directorate within the framework of the Risk Management Division. The organizational unit performing the risk control function is responsible for defining the Group's risk management framework, enforcing external and internal limits and controls, and monitoring the 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 operating 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 responsibilities of the Risk Analysis Department include the performance of risk analysis and risk control tasks for loans, investment transactions, fund managers and funds, the assessment of client ratings, limits and industry analyzes, and the monitoring of compliance with contract and disbursement conditions.

- *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 Bank is exposed are credit, liquidity, market risk (foreign exchange risk and banking book 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

The essence of credit risk is that the given customer of the Bank does not fulfill the obligations undertaken in the contract and this results in a financial loss for the Bank. Credit risk may arise primarily from lending (including bond underwriting) and investment activities (including to obtain investment certificates).

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

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 and partner ratings must be performed during the decision-making process for all customers against whom the Bank intends to take risks. Beyond that, the Bank 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),

- Rating of venture capital funds and private equity funds,
- country and customer rating (countries, national and international financial institutions, insurance companies)

Customers are classified into customer rating categories based on objective and subjective factors. The Bank uses the so-called slotting method for customer ratings of new companies and project companies, in accordance with the Basel recommendation. The customer rating of operating companies and customers subject to rating on the basis of consolidated financial statements is based on a PD-based rating model. This rating may be modified by a maximum of one category in each direction by subjective evaluation. 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. Simplified rating procedures are also largely based on objective indicators. The rating of local governments and budgetary institutions is based on the analysis of defined objective indicators and subjective indicators. The Bank uses an expert model audited by an external expert to rate venture capital funds and private equity funds.

The applied ratings are the following:

Rating category	PD average	Credit quality
1	0.003%	outstanding
2	0.008%	strong
3	0.205%	good
4	0.700%	average
5	2.500%	acceptable
6	6.000%	weak
7	19.195%	insolvent
8	100.00%	default

The Default category includes a customer who is more than 90 days in arrears with respect to a significant payment obligation to the Bank or its subsidiary, and against whom bankruptcy, liquidation, debt settlement or compulsory cancellation proceedings are pending, or against whom the Bank has or its subsidiary has waived a claim.

In determining the default category, the Bank takes into account compliance with Article 178 of the CRR and the relevant MNB regulations. For the application of the criterion in Article 178 (1) (a) of CRR, we apply the Special and Workout monitoring statuses applied by the Bank, which induce a non-performing category.

Evaluation of collateral

The main types of collaterals accepted by the Bank 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 Bank 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. Pursuant to Section 8 (1c) of the MFB Act, the large exposures limit does not apply to companies in the direct majority ownership of MFB, as well as to companies as defined in Annex 1 to the Act. Irrespective of the legal provision, the Bank also applies customer and customer group limits to these companies. The determination of customer and customer group limits depends on, among other things, the result of customer and partner ratings, the amount of equity or net income according to the closed financial statements of companies and the amount of interest-bearing liabilities. The sectoral limit depends on the financial situation 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 Bank considers the following cases to be a significant increase in credit risk:

- significant deterioration in customer ratings or falling into category 7, insolvent;
- delays in the amount of the Bank's or any of its Subsidiaries' claims against the Customer exceeding 30 days and HUF 30 000;
- delays in payments the Bank's or any of its Subsidiaries' receivables from the Customer that exceed 90 days and do not reach the significant credit obligation threshold and
- change in other monitoring information,
- restructuring, if the transaction was performing at the time of the restructuring.

Information to be considered include the Bank'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 "special" or "workout" in the Bank's "early warning indicator" system and transactions for which corecive measures have been taken against the customer (e.g. liquidation, bankruptcy, etc.) and terminated transactions are categorized as Stage 3. The Bank may also classify the transaction in Stage 3 in the following cases: the customer has committed fraud in connection with the contract, has seriously breached any of its contractual obligations to the Bank or a third party, a contractual security has been called, the customer has been liquidated.

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

In Stage 1 category the Bank 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 Bank.

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 Bank 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 Bank 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 defaulted 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 Bank 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.

Baseline trajectory	2020	2021	2022
GDP annual changes (YoY)	(0.30%)	2.20%	3.50%
Housing price index annual changes (YoY)	6.00%	3.30%	3.00%
Yield on 5-year Hungarian government securities annual changes	(0.31%)	0.05%	0.05%
Optimistic trajectory	2020	2021	2022
GDP annual changes (YoY)	2.00%	4.00%	3.50%
Housing price index annual changes (YoY)	7.00%	4.30%	4.00%
Yield on 5-year Hungarian government securities annual changes	(0.31%)	0.05%	0.05%
Pessimistic trajectory	2020	2021	2022
GDP annual changes (YoY)	(4.70%)	1.40%	3.50%
Housing price index annual changes (YoY)	5.00%	2.30%	2.00%
Yield on 5-year Hungarian government securities annual changes	(0.31%)	0.05%	0.05%

The Bank examines the sensitivity of impairment to changes in scenarios during stress testing. According to the testing on the macro-correction factor relevant sub portfolio in case of the pessimistic scenario HUF 560 million additional impairment would be required while in case of the optimistic scenario HUF 745 million impairment would be released compared to the amount settled.

Forborne loans

Except in cases where special rules relating to the payment moratorium are applied, the Bank 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.

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).

After 1 November 2021, the Bank will continue to suspend the calculation of days past due for exposures affected by the credit repayment moratorium (Moratorium 3) and will not automatically establish a default event. However, in the light of the revised payment deadlines, it examines whether other conditions for the classification of these exposures as defaulted exposures (unlikely to pay) have been met.

After 1 November 2021, the Bank assumes, as a general rule, that a debtor registered in Moratorium 3 is experiencing or will have difficulty meeting its financial obligations and has therefore classified such exposures as restructured and reclassified them as Stage 2 due to a significant increase in credit risk. It only deviated from this assumption and the recording of the exposure as a restructured exposure based on a detailed examination supported by evidence in individual cases.

The Bank does not classify as repeatedly restructured exposures that:

- have been reclassified solely due to the expiry of the 9 months spent in Moratorium 1 and Moratorium 2 and receive payment relief (interest, principal payment rescheduling, extension of maturity) through debt modification schemes after Moratorium 2, and
- they have been restructured once since 1 January 2011 and it has become necessary to amend the contract to be restructured solely on the basis of the time spent in the moratorium.

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, the baseline, optimistic and pessimistic trajectories defined by them, and the trajectory weighting are annexed to the MNB's quarterly circular 'Management Circular on the Use of Macroeconomic Information in the Application of IFRS 9 and Factors Indicating a Significant Increase in Credit Risk', which contains macroeconomic information. Such an annex shall be received at least 2 times and not more than 4 times a year.

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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 2021, 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.

	customer rating categories	2021			
		Stage 1	Stage 2	Stage 3	Total
General governments	1 - 2	707	0	0	707
	3 - 6	36 050	0	0	36 050
	7 - 8	0	0	0	0
Total general governments		36 757	0	0	36 757
Other financial corporations	1 - 2	134 372	0	0	134 372
	3 - 6	93 715	95 242	0	188 957
	7 - 8	0	1 522	0	1 522
Total other financial corporations		228 087	96 764	0	324 851
Non-financial corporations	1 - 2	84 143	19 348	0	103 491
	3 - 6	344 706	253 358	0	598 064
	7 - 8	0	1 508	21 515	23 023
Total non-financial corporations		428 849	274 214	21 515	724 578
Households*	1 - 2	1 996	59	0	2 055
	3 - 6	58 331	4 444	1	62 776
	7 - 8	643	3 172	10	3 825
Total households		60 970	7 675	11	68 656
Total customer loans		754 663	378 653	21 526	1 154 842
Impairment		(1 977)	(23 665)	(12 050)	(37 692)
Maximum credit exposure		752 686	354 988	9 476	1 117 150

*: 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.

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	customer rating categories	2021			
		Stage 1	Stage 2	Stage 3	Total
Banks	1 - 2	57 609	0	0	57 609
Total loans to banks		57 609	0	0	57 609
Impairment		(5)	0	0	(5)
Maximum credit exposure		57 604	0	0	57 604
Deposits at central and other banks	1 - 2	29 780	0	0	29 780
Total deposits at central and other banks		29 780	0	0	29 780
Impairment		(31)	0	0	(31)
Maximum credit exposure		29 749	0	0	29 749

	customer rating categories	2020			
		Stage 1	Stage 2	Stage 3	Total
General governments	1 - 2	197 637	0	0	197 637
	3 - 6	12 056	0	0	12 056
	7 - 8	0	0	0	0
Total general governments		209 693	0	0	209 693
Other financial corporations	1 - 2	152 501	0	0	152 501
	3 - 6	91 824	54 759	0	146 583
	7 - 8	0	0	0	0
Total other financial corporations		244 325	54 759	0	299 084
Non-financial corporations	1 - 2	128 264	40 835	0	169 099
	3 - 6	146 325	139 247	0	285 572
	7 - 8	0	1 466	33 497	34 963
Total non-financial corporations		274 589	181 548	33 497	489 634
Households*	1 - 2	4	0	0	4
	3 - 6	69 324	158	13	69 495
	7 - 8	181	4 694	10	4 885
Total households		69 509	4 852	23	74 384
Total customer loans		798 116	241 159	33 520	1 072 795
Impairment		(758)	(17 007)	(22 945)	(40 710)
Maximum credit exposure		797 358	224 152	10 575	1 032 085

*: 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.

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	customer rating categories	2020			Total
		Stage 1	Stage 2	Stage 3	
Banks	1 - 2	38 123	0	0	38 123
Total loans to banks		38 123	0	0	38 123
Impairment		(4)	0	0	(4)
Maximum credit exposure		38 119	0	0	38 119
Deposits at central and other banks	1 - 2	244 460	0	0	244 460
Total deposits at central and other banks		244 460	0	0	244 460
Impairment		(23)			(23)
Maximum credit exposure		244 437	0	0	244 437

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

	customer rating categories	2021			Total
		Stage 1	Stage 2	Stage 3	
Loan commitments	1 - 2	46 318	200	0	46 518
	3 - 6	164 794	21 063	0	185 857
	7 - 8	15 000	20	0	15 020
Total loan commitments		226 112	21 283	0	247 395
Capital commitments	1 - 2	270 418	0	0	270 418
Capital commitments		270 418	0	0	270 418
Guarantees	1 - 2	226 070	12 770	0	238 840
	3 - 6	251 930	10 000	0	261 930
	7 - 8	4 181	0	0	4 181
Total guarantees		482 181	22 770	0	504 951
Guarantees, capital and loan commitments total		978 711	44 053	0	1 022 764

	customer rating categories	2020			Total
		Stage 1	Stage 2	Stage 3	
Loan commitments	1 - 2	82 369	15 000	0	97 369
	3 - 6	96 833	35 926	0	132 759
	7 - 8	5 200	0	0	5 200
Total loan commitments		184 402	50 926	0	235 328
Guarantees	1 - 2	43 381	7 001	0	50 382
	3 - 6	45 596	9 580	0	55 176
	7 - 8	0	0	0	0
Total guarantees		88 977	16 581	0	105 558
Guarantees and loan commitments total		273 379	67 507	0	340 886

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The table below represents the gross carrying amount transfers between impairment categories for customer loans valued at amortised cost and for undrawn loan commitments and guarantees. The movements represent every changes during the year, in contrast to last year, when year-on-year changes were presented. To ensure comparability tables for 2020 were modified accordingly. See the impairment and provision transfers between impairment categories in note 29.

	Opening balance as at 1 January 2021	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 2021
Customer loans	798 116	241 003	(196 579)	(35 851)	(59 539)	0	7 511		754 661
General governments	209 693	8 430	(196 579)	15 213	0	0	0		36 757
Other financial corporations	244 325	63 663	(0)	(40 191)	(44 193)	0	4 482		228 087
Other non-financial corporations	274 589	168 607	0	(5 474)	(11 708)	0	2 834		428 848
Households	69 509	304	0	(5 399)	(3 638)	0	194		60 969
Loans to banks	38 123	9 899	0	9 588	0	0	0		57 609
Refinancing loans	1 604	9 899	0	(10 676)	0	0	0		827
Other loans	36 518	0	0	20 264	0	0	0		56 782
Customer loans	241 159	1 784	0	83 670	59 539	0	(7 511)	12	378 654
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	54 759	568	0	1 727	44 193	0	(4 482)	0	96 764
Other non-financial corporations	181 548	1 217	0	82 575	11 708	0	(2 834)	0	274 214
Households	4 852	0	0	(632)	3 638	0	(194)	12	7 676
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

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	Opening balance as at 1 January 2021	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 2021
Customer loans	33 520	828	(11 665)	(1 144)		0	0	(12)	21 527
General governments	0	0	0	0		0	0	0	0
Other financial corporations	0	0	0	0		0	0	0	0
Other non-financial corporations	33 497	828	(11 665)	(1 144)		0	0	0	21 516
Households	23	0	0	(0)		0	0	(12)	11
Loans to banks	0	0	0	0		0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0
Other loans	0	0	0	0		0	0	0	0
Customer loans	1 072 795	243 615	(208 244)	46 675	0	0	0	0	1 154 842
General governments	209 693	8 430	(196 579)	15 213	0	0	0	0	36 757
Other financial corporations	299 084	64 231	(0)	(38 463)	0	0	0	0	324 851
Other non-financial corporations	489 634	170 652	(11 665)	75 957	0	0	0	0	724 578
Households	74 384	304	0	(6 032)	0	0	0	0	68 656
Loans to banks	38 123	9 899	0	9 588	0	0	0	0	57 609
Refinancing loans	1 604	9 899	0	(10 676)	0	0	0	0	827
Other loans	36 519	0	0	20 264	0	0	0	0	56 782

	Opening balance as at 1 January 2021	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 2021
Stage 1	273 379	810 281	(20 157)	(82 790)	(22 003)	20 000		978 711
Loan commitments	184 402	150 268	(19 308)	(87 587)	(1 663)	0		226 112
Capital commitments	0	270 418	0	0	0	0		270 418
Guarantees	88 977	389 596	(849)	4 797	(20 340)	20 000		482 181
Stage 2	67 507	0	(34 713)	9 256	22 003	(20 000)	0	44 053
Loan commitments	50 926	0	(31 563)	257	1 663	0	0	21 283
Guarantees	16 581	0	(3 150)	8 999	20 340	(20 000)	0	22 770
Stage 3	0	0	0	0		0	0	0
Loan commitments	0	0	0	0		0	0	0
Guarantees	0	0	0	0		0	0	0
Total	340 886	810 281	(54 870)	(73 534)	0	0	0	1 022 764
Loan commitments	235 328	150 268	(50 871)	(87 330)	0	0	0	247 395
Capital commitments	0	270 418	0	0	0	0	0	270 418
Guarantees	105 558	389 596	(3 999)	13 796	0	0	0	504 951

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	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	828 929	170 007	0	(6 990)	(213 418)	(84)	19 672		798 116
General governments	205 002	0	0	4 691	0	0	0		209 693
Other financial corporations	251 879	45 726	0	(4 372)	(50 071)	0	1 163		244 325
Other non-financial corporations	296 968	121 200	0	(2 242)	(158 246)	0	16 909		274 589
Households	75 080	3 080	0	(5 067)	(5 101)	(84)	1 600		69 509
Loans to banks	67 743	0	0	(29 620)	0	0	0		38 123
Refinancing loans	2 132	0	0	(528)	0	0	0		1 604
Other loans	65 611	0	0	(29 092)	0	0	0		36 518
Customer loans	38 324	9 066	0	252	213 418	(20 914)	(19 585)	20 598	241 159
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	5 719	100	0	32	50 071	0	(1 163)	0	54 759
Other non-financial corporations	31 106	8 966	0	433	158 246	(20 892)	(16 909)	20 598	181 548
Households	1 499	0	0	(213)	5 101	(21)	(1 513)	0	4 852
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

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	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	32 196	137	(1 864)	2 738		20 997	(87)	(20 598)	33 520
General governments	0	0	0	0		0	0	0	0
Other financial corporations	0	0	0	0		0	0	0	0
Other non-financial corporations	32 187	137	(1 864)	2 743		20 892	0	(20 598)	33 497
Households	9	0	0	(4)		105	(87)	0	23
Loans to banks	0	0	0	0		0	0	0	0
Refinancing loans	0	0	0	0		0	0	0	0
Other loans	0	0	0	0		0	0	0	0
Customer loans	899 449	179 210	(1 864)	(4 000)	0	0	0	0	1 072 795
General governments	205 002	0	0	4 691	0	0	0	0	209 693
Other financial corporations	257 598	45 826	0	(4 340)	0	0	0	0	299 084
Other non-financial corporations	360 261	130 303	(1 864)	934	0	0	0	0	489 634
Households	76 588	3 080	0	(5 284)	0	0	0	0	74 384
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	190 713	276 418	(87 913)	(87 662)	(25 427)	7 250		273 379
Loan commitments	109 443	194 755	(36 469)	(67 519)	(22 997)	7 189		184 402
Guarantees	81 270	81 663	(51 444)	(20 143)	(2 430)	61		88 977
Stage 2	38 992	42 060	(1 283)	(30 439)	25 427	(7 250)	0	67 507
Loan commitments	3 874	42 060	(1 283)	(9 533)	22 997	(7 189)	0	50 926
Guarantees	35 118	0	0	(20 906)	2 430	(61)	0	16 581
Stage 3	3 189	0	(2 938)	(251)		0	0	0
Loan commitments	251	0	0	(251)		0	0	0
Guarantees	2 938	0	(2 938)	0		0	0	0
Total	232 894	318 478	(92 134)	(118 352)	0	0	0	340 886
Loan commitments	113 568	236 815	(37 752)	(77 303)	0	0	0	235 328
Guarantees	119 326	81 663	(54 382)	(41 049)	0	0	0	105 558

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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.

	customer rating categories	2021			Total
		Stage 1	Stage 2	Stage 3	
General government	1 - 2	3	0	0	3
	3 - 6	552	0	0	552
	7 - 8	0	0	0	0
Total general government		555	0	0	555
Other financial corporation	1 - 2	0	0	0	0
	3 - 6	2 350	549	0	2 899
	7 - 8	0	0	0	0
Total other financial corporations		2 350	549	0	2 899
Other non-financial corporation	1 - 2	18	0	0	18
	3 - 6	309	25	8	342
	7 - 8	9	68	43	120
Total other non-financial corporations		336	93	51	480
Household	1 - 2	0	0	0	0
	3 - 6	136	9	6	151
	7 - 8	0	3	2	5
Total household		136	12	8	156
Total customer loans		3 377	654	59	4 090
Loans to banks	1 - 2	29 373	83	0	29 456
	3 - 6	141	0	0	141
	7 - 8	0	0	0	0
Total loans to banks		29 514	83	0	29 597

	customer rating categories	2020			Total
		Stage 1	Stage 2	Stage 3	
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	439	20	459
	7 - 8	0	135	421	556
Total other non-financial corporations		10	613	441	1 064
Household	1 - 2	0	0	0	0
	3 - 6	32	156	0	188
	7 - 8	0	9	0	9
Total household		32	165	0	197
Total customer loans		3 506	1 513	441	5 460
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

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The table below represents debt securities by external rating categories

	2021			2020		
	<i>S&P rating</i>	<i>Moody's rating</i>	Amount	<i>S&P rating</i>	<i>Moody's rating</i>	Amount
Amortized cost debt securities			378 260			116 036
Hungarian government bonds	<i>BBB</i>	<i>Baa2</i>	53 494	<i>BBB</i>	<i>Baa3</i>	54 900
Corporate bonds*			318 621			53 324
Mortgage bonds	<i>BBB</i>	-	6 145	<i>BBB</i>	-	7 812
FVOCI debt securities			32 537			39 046
Government bonds	<i>BBB</i>	<i>Baa2</i>	32 537	<i>BBB</i>	<i>Baa3</i>	38 565
Treasury bills	<i>BBB</i>	<i>Baa3</i>	0	<i>BBB</i>	<i>Baa3</i>	481
FVTPL debt securities			60 513			3 651
Venture capital notes – investment type**			3 984			3 651
Venture capital notes – loan type**			56 529			0

*: *International rating is not available for these corporate bonds. According to the internal rating system allocation in 2021 AT3 HUF 268 002 million, AT4 HUF 52 117 million. Respectively the same amount in 2020 AT2 HUF 996 million, AT3 HUF 52 328 million.*

** *FVTPL debt securities have no international rating, their risk assessment is based on the investment policy and the performance of the target companies.*

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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 Bank request that corporate borrowers provide it. The Bank 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.

	<u>Under collateralized</u>		<u>Full or over collateralized</u>		<u>Uncollateralized</u>	<u>Total 31 December 2021</u>	
	<u>carrying value of loans</u>	<u>fair value of collateral</u>	<u>carrying value of loans</u>	<u>fair value of collateral</u>	<u>carrying value of loans</u>	<u>carrying value of loans</u>	<u>fair value of collateral</u>
LOANS AT AMORTIZED COST							
Customer loans	276 544	212 656	483 580	483 580	357 026	1 117 150	696 236
General governments	23 747	15 492	12 914	12 914	0	36 661	28 406
Other financial corporations	126 404	126 028	129 537	129 537	66 712	322 653	255 565
Other non-financial corporations	126 344	71 090	272 638	272 638	290 288	689 270	343 728
Households	49	46	68 491	68 491	26	68 566	68 537
Loans to banks	36 905	36 900	0	0	20 699	57 604	36 900
Refinancing loans	0	0	0	0	826	826	0
Other loans	36 905	36 900	0	0	19 873	56 778	36 900
Total	313 449	249 556	483 580	483 580	377 725	1 174 754	733 136

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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	632 863	442 960	149 164	149 164	250 057	1 032 084	592 124
General governments	196 578	191 248	13 041	13 041	0	209 619	204 289
Other financial corporations	199 289	137 928	422	422	98 123	297 834	138 350
Other non-financial corporations	234 055	113 639	64 320	64 320	151 906	450 281	177 959
Households	2 941	145	71 381	71 381	28	74 350	71 526
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	669 379	479 473	149 164	149 164	251 660	1 070 203	628 637

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

LOANS AT AMORTIZED COST	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2021	
	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	1	9 473	9 473	2	9 477	9 474
General governments	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0
Other non-financial corporations	0	0	9 472	9 472	0	9 472	9 472
Households	2	1	1	1	2	5	2
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	1	9 473	9 473	2	9 477	9 474

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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
Customer loans	623	551	9 943	9 943	9	10 575	10 494
General governments	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0
Other non-financial corporations	623	551	9 935	9 935	7	10 565	10 486
Households	0	0	8	8	2	10	8
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	623	551	9 943	9 943	9	10 575	10 494

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 2021	
	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	29 597	29 597	0
Municipality loan program	0	0	0	0	24 230	24 230	0
Business development loan program	0	0	0	0	4 578	4 578	0
Agricultural development loan program	0	0	0	0	615	615	0
Retail loan program	0	0	0	0	174	174	0
Customer loans	0	0	1 192	1 192	2 898	4 090	1 192
General governments	0	0	555	555	0	555	555
Other financial corporations	0	0	0	0	2 898	2 898	0
Other non-financial corporations	0	0	480	480	0	480	480
Households	0	0	157	157	0	157	157
Total	0	0	1 192	1 192	32 495	33 687	1 192

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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
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	1 848	1 848	3 578	5 460	1 879
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	0	1 064	1 062
Households	14	13	183	183	0	197	196
Total	34	31	1 848	1 848	38 592	40 474	1 879

Exposure to credit risk and collaterals – off balance sheet items

	Under collateralized		Full or over collateralized		Uncollateralized	Total 31 December 2021	
	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	329 347	212 566	235 793	235 793	454 454	1 019 594	448 359
Loan commitments	60 261	18 607	61 792	61 792	123 793	245 846	80 399
Capital commitments	0	0	0	0	270 418	270 418	0
Guarantees	269 086	193 959	174 001	174 001	60 243	503 330	367 960

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	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	254 521	339 217	56 140
Loan commitments	41 401	22 007	4 041	4 041	188 687	234 128	26 048
Guarantees	23 383	14 220	15 872	15 872	65 834	105 089	30 092

c) Collateral and other security enhancements

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

LOANS AT AMORIZED COST	31 December 2021											
	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised	Total
	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	178 242	167 665	278 197	252 001	223 121	220 076	80 565	56 494	760 125	696 236	357 025	1 117 150
General governments	12 111	12 111	24 550	16 295	0	0	0	0	36 661	28 406	0	36 661
Other financial corporations	109 595	109 360	0	0	145 133	144 996	1 214	1 209	255 942	255 565	66 711	322 653
Other non-financial corporations	56 500	46 158	249 957	232 020	13 175	10 267	79 350	55 284	398 982	343 729	290 288	689 270
Households	36	36	3 690	3 686	64 813	64 813	1	1	68 540	68 536	26	68 566
Loans to banks	36 904	36 900	0	0	0	0	0	0	36 904	36 900	20 700	57 604
Refinancing loans	0	0	0	0	0	0	0	0	0	0	826	826
Other loans	36 904	36 900	0	0	0	0	0	0	36 904	36 900	19 874	56 778

Other category mostly includes suretyship (HUF 33 864 million) and cash deposits (HUF 3 354 million), and it also includes bank guarantees (HUF 18 million) and other collaterals (HUF 19 256 million).

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31 December 2020												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	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	184 327	123 942	182 356	118 068	99 450	39 736	782 029	592 124	250 056	1 032 085
General governments	208 562	203 231	1 057	1 058	0	0	0	0	209 619	204 289	0	209 619
Other financial corporations	107 286	107 099	0	0	84 145	28 209	8 280	3 042	199 711	138 350	98 123	297 834
Other non-financial corporations	0	0	182 312	121 927	27 753	19 402	88 311	36 630	298 376	177 959	151 906	450 282
Households	48	48	958	957	70 458	70 457	2 859	64	74 323	71 526	27	74 350
Loans to banks	36 515	36 513	0	0	0	0	0	0	36 515	36 513	1 604	38 119
Refinancing loans	0	0	0	0	0	0	0	0	0	0	1 603	1 603
Other loans	36 515	36 513	0	0	0	0	0	0	36 515	36 513	1	36 516

Other category mostly includes suretyship (HUF 40 313 million) and cash deposits (HUF 43 131million), and it also includes bank guarantees (HUF 18 million) and other collaterals (HUF 12 190 million).

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) loans only.

31 December 2021												
LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncolla- terialised	Total
	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	9 474	9 474	0	0	0	0	9 474	9 474	3	9 477
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	0	0
Other non-financial corporations	0	0	9 471	9 471	0	0	0	0	9 471	9 471	0	9 471
Households	0	0	3	3	0	0	0	0	3	3	3	6
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

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31 December 2020

LOANS AT AMORIZED COST	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of loans	Total carrying value of loans
	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		
Customer loans	0	0	10 278	10 226	113	113	175	155	10 566	10 494	9	10 575
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	0	0
Other non-financial corporations	0	0	10 270	10 218	113	113	175	155	10 558	10 486	7	10 565
Households	0	0	8	8	0	0	0	0	8	8	2	10
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 2021

LOANS AT FAIR VALUE	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of loans	Total carrying value of loans
	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		
Loans and advances to banks	0	0	0	0	0	0	0	0	0	0	29 597	29 597
Municipality loan program	0	0	0	0	0	0	0	0	0	0	24 230	24 230
Business development loan program	0	0	0	0	0	0	0	0	0	0	4 578	4 578
Agricultural development loan program	0	0	0	0	0	0	0	0	0	0	615	615
Retail loan program	0	0	0	0	0	0	0	0	0	0	174	174
Customer loans	74	74	1 104	1 104	0	0	14	14	1 192	1 192	2 898	4 090
General governments	0	0	555	555	0	0	0	0	555	555	0	555
Other financial corporations	0	0	0	0	0	0	0	0	0	0	2 898	2 898
Other non-financial corporations	72	72	396	396	0	0	12	12	480	480	0	480
Households	2	2	153	153	0	0	2	2	157	157	0	157

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31 December 2020

LOANS AT FAIR VALUE	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of loans	Total carrying value of loans
	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		
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	1 697	1 697	0	0	108	106	1 882	1 880	3 578	5 460
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	0	1 064
Households	2	2	175	175	0	0	20	20	197	197	0	197

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

31 December 2021

Loan commitments and guarantees	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of commitments	Total carrying value of commitments
	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		
Loan commitments and guarantees	346 770	327 422	75 957	34 436	51 813	51 813	90 598	34 688	565 138	448 359	454 456	1 019 594
Loan commitments	5 891	5 891	75 721	34 200	38 830	38 830	1 609	1 478	122 051	80 399	123 795	245 846
Capital commitments	0	0	0	0	0	0	0	0	0	0	270 418	270 418
Guarantees	340 879	321 531	236	236	12 983	12 983	88 989	33 210	443 087	367 960	60 243	503 330

31 December 2020

Loan commitments and guarantees	State guarantee		Property		Other mortgage		Other		Total collateral		Uncollateralised carrying value of commitments	Total carrying value of commitments
	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		
Loan commitments and guarantees	3 606	3 606	11 836	7 265	19 611	12 495	49 644	32 774	84 697	56 140	254 520	339 217
Loan commitments	2 112	2 112	7 752	3 181	15 285	8 169	20 293	12 586	45 442	26 048	188 687	234 128
Guarantees	1 494	1 494	4 084	4 084	4 326	4 326	29 351	20 188	39 255	30 092	65 834	105 089

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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 actual loan balance disbursed under the state guarantee frame and the related collaterals, being the state guarantee itself were the following.

	2021	2020
Asset side state guarantee frame	1 700 000	650 000
Utilization	955 634	632 882
<i>from this actual loan balance at yearend</i>	<i>421 214</i>	<i>221 330</i>
Collaterals	385 837	207 202
Liability side guarantee frame	1 900 000	1 700 000
Utilization	1 585 369	1 114 224
Collaterals	1 622 414	1 172 299

d) Restructured loans

The Bank 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 Bank 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 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
New restructured transactions	183 807	(16 042)	167 765
Changes in existing restructured loans	(358)	1 165	807
Derecognition	0	0	0
Decrease due to repayment	0	0	0
Decrease due to recovery	0	0	0
FX change	711	(251)	460
31 December 2021	203 981	(27 225)	176 756

Neither during 2021 nor during 2020 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	2021			
	Stage 1	Stage 2	Stage 3	Total
Financial services	388 128	95 429	0	484 428
Property development	86 214	211 101	6 581	303 896
Other services (local governments, health-care, other services)	15 676	5 879	115	21 670
Construction (including motorway financing)	47 735	1 131	0	48 866
Industry	54 683	28 983	2 233	85 899
Agriculture	63 322	8 854	11	72 187
Transport, storage, post, telecoms	74 648	0	596	75 244
Trade	21 573	1 146	0	22 719
Accommodation, catering	4 082	3 120	0	7 202
Total	756 061	355 643	9 536	1 121 240
<i>of which amortized cost</i>	<i>752 684</i>	<i>354 989</i>	<i>9 477</i>	<i>1 117 150</i>
<i>of which FVTPL</i>	<i>3 377</i>	<i>654</i>	<i>59</i>	<i>4 090</i>

Loans and advances to customers	2020			
	Stage 1	Stage 2	Stage 3	Total
Financial services	489 148	54 710	0	543 858
Property development	50 866	122 798	5 922	179 586
Other services (local governments, health-care, other services)	20 167	2 282	122	22 571
Construction (including motorway financing)	54 440	2 120	2	56 562
Industry	48 819	28 379	4 441	81 639
Agriculture	67 552	7 820	1	75 373
Transport, storage, post, telecoms	45 751	0	506	46 257
Trade	24 121	1 385	9	25 515
Accommodation, catering	0	6 171	13	6 184
Total	800 864	225 665	11 016	1 037 545
<i>of which amortized cost</i>	<i>797 358</i>	<i>224 152</i>	<i>10 575</i>	<i>1 032 085</i>
<i>of which FVTPL</i>	<i>3 506</i>	<i>1 513</i>	<i>441</i>	<i>5 460</i>

B. LIQUIDITY RISK

a) Principles of liquidity risk management

The Bank's principal objective is to carry out secure and established course of business, and the prevention of liquidity issues which could threaten the Bank 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 Bank has a significant amount of primary liquidity reserves in government securities and other liquidity-providing Central Bank-eligible securities, therefore future cash outflows are continuously

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covered on the asset side. In addition, the Bank's liquidity was further increased in 2021 by the amount of capital increases received in several instalments.

The Bank's liquidity reserve as at 31 December 2021 and 2020

	2021			2020		
	Par value	Fair value	Free disposal	Par value	Fair value	Free disposal
Hungarian government bonds	84 326	83 400	66 506	87 514	96 370	70 694
Mortgage bonds issued by banks	6 285	5 869	2 264	7 521	7 971	0
Other Central Bank-eligible securities	263 660	245 073	263 660	3 660	7 151	3 660
Total	354 271	334 342	332 430	98 695	111 492	74 354

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 Bank's funding opportunities are particularly favourable both in terms of domestic and foreign funding. The Bank'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. The Bank experienced a change in this from the second half of 2021, mainly due to the increase in market HUF interest rates / yields.

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.

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 Bank 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 Bank 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.

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 Bank's liquidity, neither COVID-19 nor the payment moratorium caused any difficulties. The liquidity reserve that the Bank holds in government securities and other Central Bank-eligible securities is well above the amount of exposures that could be affected by the payment moratorium at the worst case scenario.

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.

2021	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	157 150	(157 282)	(145 057)	(2)	(2 155)	(2 392)	(7 676)
Loans from banks	598 626	(627 105)	(2 131)	(5 456)	(51 440)	(368 290)	(199 788)
Debt securities issued	1 085 030	(1 175 587)	(1 240)	0	(136 139)	(787 756)	(250 452)
Other financial liabilities	8 783	(8 783)	(8 783)	0	0	0	0
Derivatives	664	(294)	(156)	(43)	(4)	(40)	(51)
	<i>inflow</i>		59 260	38	1 883	259	94
	<i>outflow</i>		(59 416)	(81)	(1 887)	(299)	(145)
Hedge derivatives	0	0	0	0	0	0	0
	<i>inflow</i>		0	0	0	0	0
	<i>outflow</i>		0	0	0	0	0
Total financial liabilities and derivatives		(1 969 051)	(157 367)	(5 501)	(189 738)	(1 158 478)	(457 967)
Guarantees	504 951	504 951	504 951				
Capital commitments	270 418	270 418	2 774	128 279	98 568	40 797	0
Loan commitments	247 395	235 328	235 328				

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	235 902	(238 394)	(229 319)	(84)	(2 864)	(1 746)	(4 381)
Loans from banks	526 457	(547 847)	(1 175)	(5 755)	(71 395)	(301 098)	(168 424)
Debt securities issued	735 659	(769 786)	(20 480)	(20 545)	(170 380)	(500 681)	(57 700)
Other financial liabilities	3 059	(3 059)	(3 059)	0	0	0	0
Derivatives	911	(843)	(177)	0	(666)	0	0
	<i>inflow</i>		22 881	0	133	0	0
	<i>outflow</i>		(23 058)	0	(799)	0	0
Hedge derivatives	0	0	0	0	0	0	0
	<i>inflow</i>		0	0	0	0	0
	<i>outflow</i>		0	0	0	0	0
Total financial liabilities and derivatives		(1 559 929)	(254 210)	(26 384)	(245 305)	(803 525)	(230 505)
Guarantees	105 558	105 558	105 558				
Loan commitments	235 328	235 328	235 328				

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 2021. 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 strengthening of the USD would have a negative 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.

2021	Absolute value	Net position
EUR	6 758	6 758
USD	3 519	(3 519)
Other currencies	18	18
Total	10 295	3 257

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

According to the stress-tests, 10% change in HUF exchange rates in the worst direction would cause HUF 1 030 million decrease in the Bank's foreign exchange income and thus the own equity as well (2020: HUF 606 million).

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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

2021	HUF	EUR	USD	Other currency	Total
Assets					
Cash, cash balances at central banks and other demand deposits	162 937	751	19	17	163 724
Financial assets held for trading	783	0	0	0	783
Non-trading financial assets mandatorily at fair value through profit or loss	90 510	3 690	0	0	94 200
Financial assets at fair value through other comprehensive income	32 537	550	0	0	33 087
Financial assets at amortized cost	1 221 517	344 475	16 990	0	1 582 982
Derivatives – Hedge accounting	7 849	0	0	0	7 849
Total financial assets (1)	1 516 133	349 466	17 009	17	1 882 625
Liabilities					
Financial liabilities held for trading	664	0	0	0	664
Financial liabilities at amortized cost	1 043 488	783 270	22 824	7	1 849 589
Derivatives – Hedge accounting	0	0	0	0	0
Total financial liabilities (2)	1 044 152	783 270	22 824	7	1 850 253
NET BALANCE SHEET POSITION (1) - (2)	471 981	(433 804)	(5 815)	10	32 372
Derivative notional amounts	(66 785)	62 752	4 299	0	266
NET FOREIGN EXCHANGE POSITION at 31 December	405 196	(371 052)	(1 516)	10	32 638
Impact of receivables from State due to currency-hedging agreement	0	379 411	0	0	379 411
ADJUSTED NET FOREIGN EXCHANGE POSITION at 31 December	405 196	8 359	(1 516)	10	412 049

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

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2020	HUF	EUR	USD	Other currency	Total
Assets					
Cash, cash balances at central banks and other demand deposits	55 762	179	23	22	55 986
Financial assets held for trading	443	0	0	0	443
Non-trading financial assets mandatorily at fair value through profit or loss	40 474	3 651	0	0	44 125
Financial assets at fair value through other comprehensive income	39 124	544	0	0	39 668
Financial assets at amortized cost	1 147 626	269 655	15 278	0	1 432 559
Derivatives – Hedge accounting	1 608	0	0	0	1 608
Total financial assets (1)	1 285 036	274 029	15 301	22	1 574 389
Liabilities					
Financial liabilities held for trading	911	0	0	0	911
Financial liabilities at amortized cost	800 967	671 324	28 786	0	1 501 077
Derivatives – Hedge accounting	0	0	0	0	0
Total financial liabilities (2)	801 878	671 324	28 786	0	1 501 988
NET BALANCE SHEET POSITION (1) - (2)	483 158	(397 295)	(13 485)	22	72 400
Derivative notional amounts	(21 614)	10 085	11 914	0	385
NET FOREIGN EXCHANGE POSITION at 31 December	461 544	(387 210)	(1 571)	22	72 785
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	461 544	5 586	(1 571)	22	465 581

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 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. By the end of 2021, the risk exposure had further decreased, mainly due to the decrease in the stock of HUF interest-bearing assets with a revaluation within one year.

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 1 427 million effect (2020: HUF 3 539 million), while 3% change in BUBOR and 1% change in EURIBOR causes approximately HUF 4 637 million effect (2020: HUF 10 636 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 2021									
	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	16	(380)	(252)	1 382	(163)	687	755	(35 795)	(33 748)
EUR	(21)	(304)	145	3 730	944	18 814	14 274	(18 174)	19 008
USD	0	9	0	0	0	0	0	0	9

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

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 0.03% of the regulatory capital as at 31 December 2021 (2020: 0.02%). This means that the probability of a HUF 114,2 million losses in the Bank's FX position – concerning 10 days holding period – is only 1% as at 31 December 2021 (2020: HUF 68,2 million).

VAR position – 31 December 2021

Regulatory capital (million HUF): **446 877**

Absolute risk indicators	Interest	Foreign exchange	Diversification	Total	VAR expressed as a percentage of Regulatory capital
Net asset value	0	3 258	0	3 258	
Parametric VAR	0	114.2	0	114.2	0.03

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

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.

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:
 - Fully identifies and measures the risk elements inherent in the processes, systems, human activities and external environment (collection and analysis of loss data, based on the Operational Risk Management Regulations). Operational risk management also covers the core business of the bank and other (non-score banking) activities.
 - 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.

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- 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.
- The framework provides a common model for group members (subsidiaries) in terms of definitions, identification, measurement, monitoring, management, and risk mitigation.
- 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 3 680 million on 31 December 2021 (2020: HUF 2 855 million). The Bank's operational risk losses are much lower than this on an annual basis. In 2021, the most significant operational risk loss was related to COVID-19-related expenditures (unplanned costs and investments). These totaled HUF 40.8 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	24.2
Cost of mass remote work and setting up costs of home offices	0
Costs related to canceled trips and on - the - spot checks	0
Fees paid to consultants and external service providers	16.6
Total	40.8

In addition, the Bank incurred a gross operating risk loss of HUF 3.1 million.

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.

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. From 2019, compliance with the level of the leverage ratio prescribed in the Hungarian banking law (3%) is also mandatory. The Bank meets the required capital requirements, so the capital position is considered stable.

According to the requirements of the CRR, credit institutions must have an adequate amount of own funds to cover the risk of the activity performed at all times in order to maintain their current solvency and meet their obligations. Together with the capital maintenance buffer, it must continuously maintain an adjusted core capital ratio of at least 7% and a total capital adequacy ratio of 10.5%, which the Bank continued to comply with in 2021 and 2020, including the HUF 84 billion capital increase indicated in item 18. Compliance with capital adequacy regulations is monitored by the National Bank of Hungary.

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The Bank complied with the regulatory and prudential regulations and the limits. The capital adequacy ratio exceeded the minimum required ratio both in 2021 and in 2020. 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.

	<u>2021</u>	<u>2020</u>
I. Calculation of Regulatory Capital		
Share capital	349 900	265 900
Share premium	81 870	81 870
Retained earnings	14 881	24 007
Accumulated other comprehensive income	(2 389)	498
General reserve	294	0
Net result for the year	4 385	(8 832)
Common equity Tier 1 capital before deduction	448 941	363 443
Total amount of deducted item		
Intangible assets	(2 064)	(1 650)
Common equity Tier 1 Capital (CET1)	446 877	361 793
Additional Tier1 Capital (AT1)		0
Tier 1 Capital (Tier1 or T1)	446 877	361 793
General risk reserve	0	0
Tax impact of general risk reserve	0	0
Tier 2 Capital (T2)	0	0
Regulatory Capital (T1+T2)	446 877	361 793
II. Calculation of Capital Requirement		
Total capital requirement for credit risk	210 471	124 983
Total capital requirement for exchange rate risk	542	249
Total capital requirement for operating risk	3 680	2 850
Total capital requirement for credit valuation adjustment	652	598
Total Capital Requirement	215 345	128 680
Risk weighted exposure	2 691 812	1 608 497
III. Capital adequacy ratio	16.60%	22.49%

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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank measures forward transactions (derivative transactions) and HUF loans to credit institutions at EURIBOR-based interest rates at fair value. As the Bank 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.

	2021			Total
	Level 1	Level 2	Level 3	
FINANCIAL ASSETS				
Derivatives		783		783
Non-trading financial assets mandatorily at fair value through profit or loss			94 200	94 200
<i>Debt securities</i>			60 513	60 513
<i>Loans to customers</i>			4 090	4 090
<i>Loans to banks</i>			29 597	29 597
Financial assets at fair value through other comprehensive income	32 537		550	33 087
Equity instruments			550	550
Debt instruments	32 537			32 537
Derivatives – Hedge accounting		7 849		7 849
FINANCIAL LIABILITIES				
Derivatives		664		664
Derivatives – Hedge accounting		0		0
	2020			Total
	Level 1	Level 2	Level 3	
FINANCIAL ASSETS				
Derivatives		443		443
Non-trading financial assets mandatorily at fair value through profit or loss			44 125	44 125
<i>Debt securities</i>			3 651	3 651
<i>Loans to customers</i>			5 460	5 460
<i>Loans to banks</i>			35 014	35 014
Financial assets at fair value through other comprehensive income	39 046		622	39 668
Equity instruments			622	622
Debt instruments	39 046			39 046
Derivatives – Hedge accounting		1 608		1 608
FINANCIAL LIABILITIES				
Derivatives		911		911
Derivatives – Hedge accounting		0		0

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 Bank's internal model, which takes into account the value of future cash flows and expected market yield surcharge when discounting. The Bank 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. The main inputs used for venture capital investments in this category

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take into account the fair value of the net asset value to the Bank, adjusted for the maximized first yield guarantee. 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 entry 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.

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 Bank 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.

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

b) Movement of financial assets categorized into level 3

	2021			
	Customer loans	Loans to banks	Other equity instruments	Debt securities
Opening balance as at 1 January	5 461	35 014	622	3 651
New disbursements/acquisition/capital increases	0	150	0	56 125
Sales	0	0	(78)	0
Repayments	(1 378)	(5 682)		
Profit or loss (fair value changes) during the year	7	115	(8)	737
Fair value changes during the year accounted into OCI			14	
Transfers from/to level 3. hierarchy category	0	0	0	0
Closing balance at 31 December	4 090	29 597	550	60 513

	2020			
	Customer loans	Loans to banks	Other equity instruments	Debt securities
Opening balance as at 1 January	9 571	45 535	3 876	0
New disbursements/acquisition/capital increases	0	22	0	0
Sales	0	0	0	0
Reclassification*	0	0	(3 651)	3 651
Repayments	(3 893)	(10 592)		
Profit or loss (fair value changes) during the year	(217)	49	434	0
Fair value changes during the year accounted into OCI			(37)	
Transfers from/to level 3. hierarchy category	0	0	0	0
Closing balance at 31 December	5 461	35 014	622	3 651

* At year end 2020, the Central European Funds of Fund was reclassified to "Non-trading financial assets mandatorily at fair value through profit and loss – Debt securities" as they cannot be classified as equity instruments under IFRS9.

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The Bank 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 2021 and 2020. 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 Bank 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

	2021			Total	Carrying value
	Level 1	Level 2	Level 3		
Cash, cash balances at central banks and other demand deposits	5	163 685		163 690	163 724
Financial asset at amortized cost	57 201	0	1 511 776	1 568 977	1 582 982
Debt securities	57 201		300 351	357 552	378 260
Hungarian government bonds	50 865			50 865	53 494
Corporate bonds			300 351	300 351	318 621
Mortgage bonds	6 336			6 336	6 145
Loans			1 181 457	1 181 457	1 174 754
Customer loans			1 125 065	1 125 065	1 117 150
General governments			33 982	33 982	36 661
Other financial corporations			317 926	317 926	322 653
Other non-financial corporations			704 830	704 830	689 270
Households			68 327	68 327	68 566
Loans to banks			56 392	56 392	57 604
Refinancing loans			815	815	827
Other loans			55 577	55 577	56 777
Other financial assets			219	219	219
Trade receivables			182	182	182
Margin accounts			37	37	37
Deposits at central and other banks			29 749	29 749	29 749
Central bank deposits			19 800	19 800	19 801
Other bank deposits			9 949	9 949	9 948
Financial liabilities at amortized cost		1 052 942	701 863	1 754 805	1 849 589
Customer deposits			153 603	153 603	157 150
Interbank deposits			103 131	103 131	103 148
Customer deposits (collateral behind loans)			9 403	9 403	12 138
Other customer deposits			41 069	41 069	41 864
Due from banks			539 477	539 477	598 626
Refinancing loans			225 984	225 984	261 909
Other loans taken			313 493	313 493	336 717
Debt securities issued		1 052 942		1 052 942	1 085 030
Listed HUF bonds		473 810		473 810	512 116
Listed CCY bonds		579 132		579 132	572 914
<i>from this listed on foreign stock exchange</i>		455 830		455 830	461 336
Other financial liabilities			8 783	8 783	8 783
Margin accounts			6 883	6 883	6 883
Creditors			1 309	1 309	1 309
Other financial liabilities			591	591	591

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	2020			Total	Carrying value
	Level 1	Level 2	Level 3		
Cash, cash balances at central banks and other demand deposits	5	56 026		56 031	55 986
Financial asset at amortized cost	65 296	0	1 381 403	1 446 699	1 432 559
Debt securities	65 296		53 891	119 187	116 036
Hungarian government bonds	57 325			57 325	54 900
Corporate bonds			53 891	53 891	53 324
Mortgage bonds	7 971			7 971	7 812
Loans			1 080 923	1 080 923	1 070 204
Customer loans			1 042 847	1 042 847	1 032 085
General governments			213 014	213 014	209 619
Other financial corporations			299 011	299 011	297 834
Other non-financial corporations			455 919	455 919	450 282
Households			74 903	74 903	74 350
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			1 882	1 882	1 882
Trade receivables			898	898	898
Margin accounts			984	984	984
Deposits at central and other banks			244 707	244 707	244 437
Central bank deposits			221 964	221 964	222 009
Other bank deposits			22 743	22 743	22 428
Financial liabilities at amortized cost		748 516	749 420	1 497 936	1 501 077
Customer deposits			235 239	235 239	235 902
Interbank deposits			27 659	27 659	27 661
Customer deposits (collateral behind loans)			207 580	207 580	208 241
Due from banks			511 122	511 122	526 457
Refinancing loans			236 490	236 490	246 802
Other loans taken			274 632	274 632	279 655
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
<i>from this listed on foreign stock exchange</i>		<i>378 614</i>		<i>378 614</i>	<i>384 275</i>
Other financial liabilities			3 059	3 059	3 059
Margin accounts			569	569	569
Creditors			2 281	2 281	2 281
Other financial liabilities			209	209	209

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.

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35. 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 - 2021

	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	8 632	0	8 632	(6 883)	0	0	1 749
Repurchase agreements	0	0	0	0	0	0	0
Total	8 632	0	8 632	(6 883)	0	0	1 749

Financial liabilities subject to offsetting and potential offsetting agreements - 2021

	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	664	0	664	(37)	0	0	627
Reverse repurchase agreements	0	0	0	0	0	0	0
Total	664	0	664	(37)	0	0	627

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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)

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36. 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.

	2021			2020		
	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	163 724		163 724	55 986		55 986
Financial assets held for trading	783		783	443		443
Non-trading financial assets mandatorily at fair value through profit or loss	3 802	90 398	94 200	5 473	38 652	44 125
Financial assets at fair value through other comprehensive income	8 794	24 293	33 087	16 449	23 219	39 668
Financial assets at amortized cost	218 343	1 364 639	1 582 982	533 169	899 390	1 432 559
Derivatives – Hedge accounting	7 849		7 849	1 608		1 608
Total Financial Assets	403 295	1 479 330	1 882 625	613 128	961 261	1 574 389
Financial Liabilities						
Financial liabilities held for trading	664		664	911		911
Financial liabilities at amortized cost	323 563	1 526 026	1 849 589	504 810	996 267	1 501 077
Derivatives – Hedge accounting	0		0	0		0
Total Financial Liabilities	324 227	1 526 026	1 850 253	505 721	996 267	1 501 988
Guarantees	504 951		504 951	105 558		105 558
Capital commitments	229 621	40 797	270 418	0	0	0
Loan commitments	100 604	146 791	247 395	88 143	147 185	235 328

The Bank manages liquidity risk through liquidity reserves (Central Bank eligible securities and liquidity GAP limits). It provides timely renewal and replacement of expiring funds.

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37. 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 shares form 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 receives only cost reimbursement from the State for fulfilling the owner's right activity, amounted to HUF 25 million (2020: HUF 25 million) presented on "Other operating income" line.

The companies and venture capital funds in which the Bank exercises the owner's rights at 31 December 2021 and 2020 are the following:

Name of the company / fund	Activity	State ownership		Share capital	
		2021	2020	2021	2020
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%	-	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
Finattech I. Kockázati Tőkealap	Venture capital fund	69.96%	69.96%	4 288	4 288
Finattech II. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Finext Startup Kockázati Tőkealap	Venture capital fund	-	67.93%	-	3 610
Forte Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	3 857	3 857

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Name of the company / fund	Activity	State ownership		Share capital	
		2021	2020	2021	2020
Garantiqa Hitelgarancia Zártkörűen Működő Részvénytársaság	Other financial supplementary services	43.72%	43.72%	9 652	9 652
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%	-	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%	-	47 560
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%	23 842	17 542
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%	-	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

38. EVENTS AFTER THE REPORTING PERIOD

In the context of the Russian-Ukrainian war that broke out on 24 February 2022, the MFB examined potential risk factors for the two countries concerned at both individual banking and group level and did not identify any significant direct exposure.

There is a significant uncertainty about the potential impacts of the further developments of the war in Ukraine and related response/sanctions and their impacts on economy, etc. therefore the potential impacts on the financial statements cannot be determined as at the reporting date but the Bank monitors the situations/potential risks.



MAGYAR
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**MFB HUNGARIAN DEVELOPMENT
BANK PRIVATE LIMITED COMPANY
2021 MANAGEMENT REPORT**

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I. Executive summary

MFB Hungarian Development Bank Private Limited Company (hereinafter: “MFB Zrt.”, “MFB” or the “Bank”) has prepared its 2021 management report in compliance with the Act on Accounting and pursuant to the rules of procedure of its Board of Directors and Supervisory Board. The purpose of the report is to allow the Bank’s governing bodies to learn the details of the Bank’s operations and business processes in the reporting period, and, based on balance sheet and income statement data, to gain an accurate picture of the Bank’s financial management in 2021.

The performance of MFB Zrt. in 2021 was again significantly impacted by the protraction of the coronavirus epidemic. In 2021, in response to the crisis brought on by COVID-19, MFB Zrt. set helping to kick-start and support the recovery of the economy as its key economic policy objective. Businesses needed targeted state-funded assistance to ensure sufficient liquidity was available for them to maintain the continuity of their operations, thus retaining jobs and, ultimately, increasing the output capacity of the Hungarian economy – even in the post-pandemic recovery and re-start phase.

The loan, guarantee and capital products introduced to counter the negative economic effects of the pandemic resulted in a significant expansion in business activity in 2021; with regard to new loans, guarantees and capital products placed, the value of new commitments amounted to nearly HUF 1,900 billion (HUF 1,630 billion MFB-funded and HUF 238 billion EU-funded), representing the highest placement value of the past few years.

The growth in business activity resulted in 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 2021. To forestall this and to ensure the stability of its operations, the Bank received a total of HUF 84 billion in capital contributions from the owner, in two instalments.

Under the rules of the payment moratorium and its extension that was introduced to mitigate the effects of the coronavirus on the national economy, customers with loans had the option of temporarily suspending their loan payments. At MFB, under Moratorium 2 and Moratorium 3, there were about 5 407 contracts where customers took up the opportunity offered by the moratorium; of these, 1 579 were for MFB-funded loan products and 3 828 were related to EU-funded loans. The accounting impact of the moratorium was a one-billion-forint loss in the Bank’s earnings for 2021.

The impact of the crisis continued in terms of the risk rating of the Bank’s customers in 2021, and the significant increase in activity also justified a larger amount of impairment and provisioning, and so the Bank’s cost of risk was high in 2021 as well.

The negative effect on profit of the epidemic was offset by the portfolio of interest-bearing assets in terms of both higher-than-planned volumes (preferential deposits) and more favourable-than-expected conditions (individual loans)

Among the operational risks in 2021, health risks continued to be prominent. With regard to smaller teams and departments at the Bank, particular attention had to be paid to ensuring the professional substitution of staff. The substitution of colleagues deemed to be at high risk and/or of those with small children during sick leave was also a problem that needed to be solved.

I.1. The Bank's key data

The key financial data for 2021 is summarised in the table below¹:

data in HUF million	2021
Balance sheet total	2 401 669
Shareholders' equity	448 942
Total operating income	28 188
Total operating expenses	-20 179
Other items	-3 624
Profit/loss for the year	4 385

I.2. Business processes

Lending, new guarantees

2021 resulted in an outstanding increase in activity in terms of MFB-funded loans and guarantees.

In 2021 the Bank **approved 5% more loan applications** than it had in the previous year, **in a total value of HUF 406 billion**, of which HUF 280 billion were loan applications approved for large individual transactions and HUF 126 billion for loan programmes.

In 2021 **the value of new loan disbursements exceeded HUF 455 billion**; at the end of the year the Bank's total net loans amounted to HUF 1 209 billion, which was HUF 98 billion higher than at the end of 2020.²

In 2021 the Bank **subscribed a total of HUF 353 billion in corporate bonds**, of which HUF 85 billion was sold over the course of the year, meaning that the net portfolio increase was HUF 267 billion.

In 2021 the Bank granted its customers **new guarantees of HUF 422 billion**, which exceeds the corresponding 2020 figure by HUF 339 billion.

Equity interests

In the context of the Bank's responses to the COVID epidemic, in 2021 MFB's subscriptions of investment units in the various capital funds and thus its support for the capital placements made through these funds continued to be heavily represented among its direct investments. Capital increases in its own businesses and investment-unit subscription liabilities amounted to HUF 482 billion in 2021, the main elements of which were the following:

- Subscription to investment units of capital funds under the Crisis Capital programmes (Crisis II, Crisis III, Crisis IV)

¹In the management report, total operating income and total operating expenses include the revenue and expenses related to the Bank's core activity, while other profit and loss from financial assets is presented in the *Other items*. The income statement is presented in detail in section V.

²In the management report, by loans we mean those loans where the final beneficiary is a corporate, municipal or retail customer. 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.

- Subscription to the investment units of capital funds under the Tourism Capital Programme
- Increase of the subscribed capital of the MFB Corporate Investment and Transaction Capital Fund
- Capital increase in MFB Invest Zrt.

Only capital sums actually placed are included in the Bank's year-end balance sheet; the additional payment obligations associated with the above-mentioned new Crisis and Tourism market funds are included among off-balance sheet items. Accordingly, the Bank's net **equity interests portfolio grew by HUF 64 billion in 2021³**, to HUF 379 billion, Actual capital placements and investment-unit subscriptions amounted to HUF 228 billion in 2021.

EU funds management

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; 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; these do not form part of the Bank's balance sheet.

The MFB Points network had their most successful year to date in 2021, achieving a loan disbursement volume of HUF 218 billion for the year – well in excess of the figures achieved before. The total of EU loans disbursed by the nationwide MFB Points network operated by the domestic banks (Takarékbank Zrt., Budapest Bank Zrt, MKB Bank Nyrt. [the banks of the newly established Magyar Bankholding Zrt.], as well as OTP Bank Nyrt, and Gránit Bank Zrt.), in the period from its 2016 launch to the end of 2021 exceeded HUF 600 billion. Also worthy of note is the fact that more applications from companies were received in the subject year than in 2016-2020 combined. A total of 113 capital investment decisions were made and the related contracts concluded in a value of HUF 30.8 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 2021 the Bank **disbursed EU funds totalling HUF 238 billion** through intermediaries, including loans of HUF 217 billion and venture capital of HUF 21 billion.

I.3. Funding management

In 2021, MFB raised medium and long-term external funds in the amount of HUF 631.3 billion. 51.6% of the funds raised were in forint, and 48.4% in euro.

The Bank issued a total of EUR 500 million in foreign currency bonds to refinance bonds of EUR 390 million par value that expired during the year, and to finance its growing range of tasks. In addition, EUR 206.75 million and HUF 294.95 billion of bonds were issued, and loans of EUR 145 million, and HUF 35 billion were drawn down primarily to fund its asset-side growth.

³Also presented in this part of the balance sheet are the capital fund units 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.

Central bank funds used to finance loans granted under the MNB-funded loan programme amounted to HUF 72 billion.

I.4. Finances

The Bank's **net interest income** (HUF 24 354 million) **exceeded the previous year's figure** as a consequence of the increase in interest-bearing assets and the favourable conditions. Net fee and commission income (HUF 2 150 million), thanks to the larger guarantee portfolio, came in higher than the previous year's figure, while dividend income (HUF 1 684 million) was slightly below the figure for 2020.

Expenses of banking operations (HUF 12 525 million) increased only slightly despite the further expansion of tasks, while the effect on profit of changes in impairment/provisions (HUF 9 362 million) was smaller than the figure for 2020.

Among **other items**, the modelled expected financial loss of the extended moratorium for alleviating the economic difficulties caused by the coronavirus epidemic (HUF -1 333 million) and the modelled accounting gain on market funds measured at fair value (HUF 698 million) were some of the larger items.

The Bank spent HUF 2 899 million on **capital expenditures in banking operations** in 2021. These capital investments were aimed at ensuring the necessary infrastructure, implementing developments required for performing the requisite range of tasks, and at replacing obsolete equipment.

I.5. Summary

The Bank's activities in 2021 were largely determined by the measures taken to restart the economy. In 2021, the Bank provided significant funds to businesses to mitigate the economic damage caused by the epidemic and to expand investments to stimulate economic growth. Accordingly, the **balance sheet total increased** in line with the expansion of the loan, corporate bond and investment portfolio. In addition, one of the key goals of the Bank in 2021 was to ensure the optimal and rational use of state assets, and in 2021 the Bank realised a **profit after tax of HUF 4.4 billion**.

In 2021, MFB continued to implement its medium-term strategy, which focuses on **addressing shortcomings in the market**. The implementation of the Bank's strategy for 2017-2021 was completed as of the end of this year, and in terms of its results, it may be reported that the Bank significantly exceeded (by a factor of more than two) the total of its commitments set out in the strategy for 2017-2021.

Based on MFB's latest survey conducted at the end of 2021, there are unmet financing needs of nearly HUF 550 billion in the economy that promise reasonable returns, and even under EU principles, meeting these needs gradually is a task well worth pursuing. To put this into context: this figure represents 6% of the entire volume of corporate loans of the Hungarian banking sector.

I.6. Corporate governance statement

Under Section 95/B(1) of Act C on Accounting of 2000, which applies to management reports, a business whose transferable securities have been accepted for trading on a regulated market in any Member State of the European Economic Area must publish a corporate governance statement in its management report. –Pursuant to the above–, MFB is required to make a statement in light of the bonds it has issued. The Bank prepares the corporate governance statement simultaneously with the management report but as a separate document, and publishes it on its website.

II. Operating conditions

II.1. Macroeconomic effects⁴

In the first three quarters of 2021 the Hungarian economy saw an 8.5% year-on-year increase in capital investment. The decline in economic activity caused by the coronavirus in 2020 was followed by a rebound in 2021. Capital investments by companies in the hospitality sector, which was hardest hit by the crisis, increased by 22.6% in the first three quarters y-o-y. A positive turnaround was observed in most sectors, with companies involved in arts, entertainment and leisure, also badly hit by the crisis, showing the largest annual growth in terms of capital investments (+ 51% in Q1-Q3 2021).

Gross corporate loans increased by 8.9% (+ HUF 829.0 billion) in the first eleven months of 2021, which was slightly lower than the growth in the same period of 2020 (+ 14.3%). The lower growth can be explained partly by the payment moratorium, the phasing out of the Funding for Growth Scheme (FGS) and rising lending rates.

In the first half of 2021, the National Bank of Hungary (MNB) kept the key interest rate at 0.60%, then in the second half of the year, in parallel with the acceleration of inflation, it continuously raised the key interest rate, which stood at 2.40% at the end of the year.

II.2. Legislative changes significantly affecting the Bank's operations

The table below shows the year-end utilisation of state guarantee and interest subsidy facilities approved for the Bank under Act XC of 2020 on the central budget of Hungary for the year 2021:

data in HUF million	Limit	Drawn down	Available
Fundraising limit	1 900 000	1 585 369	314 631
Loan financing, surety and guarantee limit	1 700 000	955 634	744 366
Exchange rate hedging agreement limit	2 000 000	1 512 679	487 321

Among the legislative changes affecting MFB Zrt. in 2021, the amendments of Act XX of 2001 on the Hungarian Development Bank Private Limited Company effective from 30 September 2021 deserve to be highlighted⁵, 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 Zrt.

II.3. 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 of 2021 set out specific tasks, concerned the taking of business decisions, specifying deadlines for their completion and

⁴Q1-Q3 2021 data

⁵ The growing role of guarantees in the economy warrants the fact that – in accordance with the regulatory concept underlying Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings – MFB Zrt. may undertake sureties, guarantees and other banking commitments independently, without being bound by other transactions.

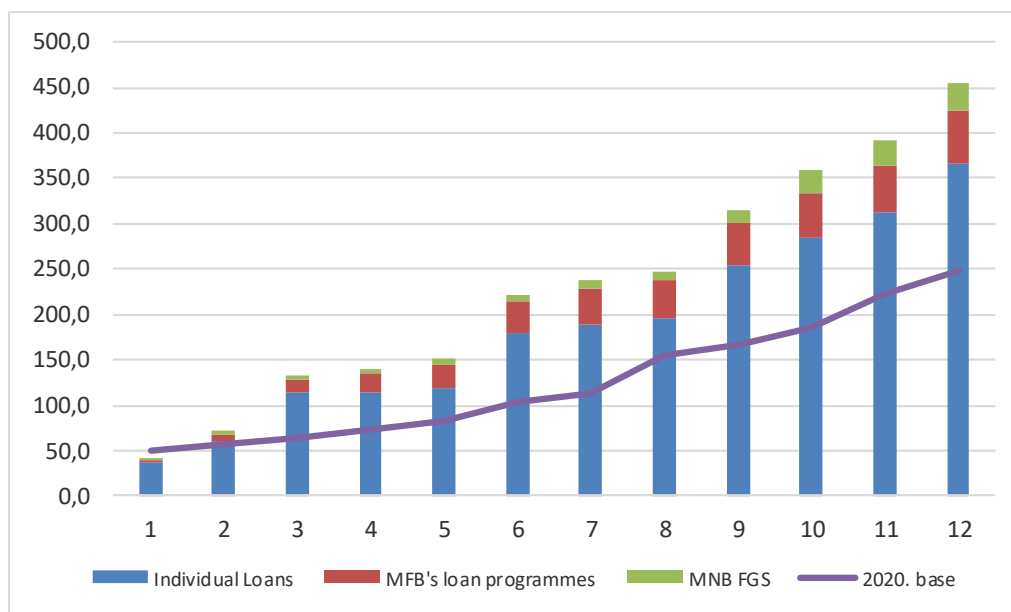
describing the method for verifying their implementation, and stipulated the increase in MFB Zrt.'s registered capital, as well as the recall, appointment or re-appointment of executive officers.

III. The Bank's activities in 2021

III.1. Lending

In 2021, the Bank made a positive decision on loan applications of a combined HUF 406 billion; the total amount of newly concluded or amended contracts was HUF 420 billion. The value of MFB-funded loans disbursed in 2021 (excluding loan-type securities) was HUF 455.7 billion.

The graph below presents the 2021 changes in MFB-funded loans in more detail (in HUF billion):



Total lending in 2021 significantly exceeded the disbursement figures for 2020, due to the growth in individual large loans and the expansion in lending programmes.

Loan programmes

The value of new loans placed under the various loan programmes was 22% higher than the previous year's figure.

Through its loan programmes the Bank had provided borrowing opportunities to the following target groups as at the end of 2021:

- micro, small and medium-sized businesses meeting the criteria for SMEs,
- businesses not meeting the criteria for SMEs (mid-caps and large companies),
- agribusinesses.

The focus in 2021 continued to be on reducing and mitigating the negative economic effects of the COVID-19 pandemic, and on resuming business operations to at least pre-pandemic levels in the second half of the year. Crisis management loan products redesigned or newly introduced in 2020 continued to be popular in 2021. However, with the exhaustion of the MFB FGS Go! facility, the source of funding for the two most sought-after loan programmes, the MFB Crisis Loan and the MFB Crisis Plus Loan, these latter ceased to be marketed on 30 September 2021. In view of the still significant funding needs of customers, the development of successor

products for these programmes from market funding sources began at the end of summer 2021, and the available MFB Economic Reconstruction Loan programme was rapidly redesigned to ensure that the financing goals previously funded by the favourably priced but no longer available MFB Crisis Loan and MFB Crisis Plus Loan should – albeit under higher pricing – continue to be fundable at least temporarily until the successor products of the Crisis Loans could be launched. Alongside this, the Loan Programmes themselves were streamlined, with loan programmes for which there was little or no interest on the part of customers being terminated or else transferred to being exclusively and directly marketed by MFB. In addition to the above, since the start of October 2021 the Bank has been providing refinancing funds for the Széchenyi Microcredit Facility to encourage investments by micro-businesses.

The MFB's loan programmes, leasing programme and guarantee programme available at the end of 2021 were as follows:

- Business development loan programmes
 - MFB Economy Reconstruction Loan Programme,
 - MFB Region Competitiveness Financial Business Refinancing Loan Programme,
 - MFB Széchenyi Microcredit Refinancing Programme.
- Agri loan programmes
 - MFB Agri Loan Programme,
 - MFB Forestry Loan Programme,
 - MFB Agri Working Capital Loan Programme 2020,
 - MFB Food Industry Working Capital Loan Programme 2020,
 - MFB TЭСZ Working Capital Loan Programme 2020.
- Directly funded loan programme:
 - MFB Competitiveness Loan Programme.

The above loan programmes have provided and continue to provide the widest possible access to funding designed to enable the comprehensive implementation of borrowing requirements altered due to the COVID-19 pandemic, as well as of macroeconomic objectives for economic recovery.

The Bank's development activities related to MFB-funded products in 2021 were as follows:

- At the end of March 2021, the original limit for the **MFB Competitiveness Loan Programme** (HUF 150 billion) was reduced to HUF 15 billion, and since the end of May 2021 it has only been possible to apply for this loan scheme within the framework of direct MFB financing.
- In July 2021, the deadline for concluding a contract under the **MFB Agri Working Capital Loan Programme 2020**, the **MFB Food Industry Working Capital Loan Programme 2020** and the **MFB TЭСZ Working Capital Loan Programme 2020** was extended to the end of 2022, and charging of the aid content of the interest subsidy to the temporary aid category was introduced, which significantly broadened the range of businesses that could be financed. At the end of December 2021, the terms and conditions of the loan programmes were amended again, with this latest amendment stipulating the extension of the period of access to the temporary aid categories and, in the case of loan contracts for pig farming, a 100% interest subsidy under certain specified conditions.
- Interest in the **MFB Crisis Loan** and the **MFB Crisis Plus Loan**, which are the main products of the crisis management loan programmes, continued in 2021, but the programmes expired on 30 September 2021 with the exhaustion of the MNB FGS Go! limit that had served as the source of funding for these loans. Due to the high level of interest,

the amount allocated to the MFB for FGS Go! was not sufficient to fully cover the sums requested in the loan applications. Thus commenced

- the development of the successor products of the Crisis products from market funding sources, titled MFB Economy Reconstruction Loan Programme 2.0 and MFB Economy Reconstruction Loan Programme Plus 2.0, and
 - the reworking of the terms and conditions of the “original” MFB Economy Reconstruction Loan Programme to ensure that the refinancing of the Financial Businesses could continue until the successor products of the Crisis products are developed and the amendment to the relevant Government Resolution is published.
- In order to achieve the above, in April 2021 the **MFB Economic Reconstruction Loan Programme** was extended to 30 June 2022, and **at the end of July 2021**, amendments to the programme came into force which ensured that when demand for the Crisis products ceased, and in the transitionary period until the successor products for these latter could be developed, the loan purposes hitherto covered by the Crisis products could continue to be financed, and in addition to this, the financial envelope for the scheme was increased.
 - During 2021, the **MFB Region Competitiveness Financial Business Refinancing Loan Programme** was modified only in respect of the time available to apply for the product and to conclude the contract (these were extended to 30 April 2022 and 30 June 2022 respectively).
 - Negotiations on cooperation with KAVOSZ Zrt. also started in August 2021, the first step of which was the announcement of the **MFB Széchenyi Microcredit Refinancing Programme from the beginning of October 2021**, which provides refinancing for the Financial Businesses marketing the KAVOSZ Széchenyi Microcredit Facility. The facility can be applied for by micro-businesses (as well as small businesses from 1 January 2022) to finance large-scale (agricultural and non-agricultural) investments or to replace loans related to the businesses’ activities, under extremely favourable terms, with a financial envelope of HUF 100 billion.
 - At the end of December 2021, the Government approved the financial envelope for the **MFB Economy Reconstruction Loan Programme 2.0** and the **MFB Economy Reconstruction Loan Programme Plus 2.0**, the interest subsidy related to the programmes, and the regulations relating to the state payment guarantee. The products will be developed in consultation with the Bank’s relevant specialist departments, with VÁFISZ (Association of Lenders to Businesses), and with the Financial Businesses that have joined the programmes, and the marketing of these products is expected to begin in February 2022.
 - During 2021, the MFB-funded loan programmes and the loan programmes for which there was a significant decrease in interest were reviewed in line with the needs of the market. Due to this, and to the exhaustion of available funds, our two “star” programmes were closed.

Programmes terminated in 2021:

- MFB FGS Fix Leasing Refinancing Programme (31 January 2021);
 - MFB Crisis Loan (30 September 2021);
 - MFB Crisis Plus Loan (30 September 2021);
 - MFB Forestry Loan Programme (31 December 2021).
- In August 2021, an ambitious strategy for the **online sale of self-funded loan products** was drawn up to enable MFB to engage with digitalisation trends that have particularly accelerated as a result of the coronavirus, and to react to them in accordance with the expectations of the market. Due to the higher-priority developments that will tie up significant IT capacities, mainly concerning EU programmes, the Bank plans to begin implementing this in 2022.

Individual placements

MFB approved a total of nearly HUF 280 billion in individual loan applications in 2021, and the total value of individual new contracts and contract amendments was HUF 291 billion. In the case of individual loans, the annual amount disbursed was in excess of HUF 367 billion.

Within individual placements, the Bank continues to give priority to meeting the financing needs of the companies in its group; the amount of new loans granted to group members was nearly HUF 19 billion in 2021, while the value of new contracts and contract amendments amounted to HUF 45 billion.

III.2. Corporate bonds

In 2021, MFB Zrt. participated in corporate financing in the framework of the MNB bond programme and also financed companies through bond subscriptions in the context of individual transactions. In 2021, the Bank subscribed a total of HUF 353 billion in corporate bonds (an increase of 530% compared to the previous year), and of this total, it resold HUF 85 billion in securities over the course of the year.

III.3. Guarantees and sureties provided

In addition to loan products, MFB continued to help businesses in 2021 with guarantees and sureties directly or indirectly related to loan transactions. The total amount of new guarantees issued by the Bank was HUF 421.5 billion in 2021, which was 408% higher than the previous year.

The guarantee portfolio stood at HUF 501 billion at the end of the year, while the value of guarantee facilities was HUF 3.9 billion.

III.4. Investments⁶

Companies in which MFB holds a direct ownership stake

As a result of the protraction of the COVID epidemic, MFB's investment activities continued to receive more emphasis in 2021, with MFB's subscriptions of investment units in the various capital funds and thus its support for the capital placements made through these funds continuing to be heavily represented among its direct investments. The advantage of capital investment is that it can also provide financing for businesses that have no access or only limited access to loan financing. In addition, focusing on rebuilding the economy and placing it back on a growth footing is a good means of financing growth and even international expansion, e.g. for financing corporate or real estate transactions, or for financing slower-payback investments. In order to mitigate the economic impact of the COVID-19 epidemic, in 2021 the Bank participated in establishing a number of capital funds, committing a total of HUF 350 billion in the framework of the Crisis Capital programmes (towards a total of seven private equity funds with a subscribed capital of HUF 50 billion each) and a further HUF 50 billion in the framework of the Tourism Capital programmes (towards two private equity funds with a subscribed capital of HUF 25 billion each), alongside a minimum contribution of 30% from private investors. Actual disbursements totalled HUF 129.6 billion in 2021.

In addition, the Bank undertook another HUF 34 billion commitment in subscribing to units of the MFB Corporate Investment and Transaction Capital Fund.

In addition to the liabilities undertaken in respect of the investment units for the capital funds, the Bank increased its capital in MFB Invest Zrt. in order to finance that company's capital

⁶ Ownership interests, including capital increases not yet registered

investment activities, and as a result of the share swap between MFB Invest Zrt. and Corvinus Zrt., the state's share in MFB Invest Zrt. passed to MFB (HUF 4.3 billion).

Companies in which MFB exercises ownership rights

The Bank exercised ownership rights in respect of the following investments as at 31 December 2021:

- Diákhitel Központ Zrt.
- Garantiqa Hitelgarancia Zrt.
- Regionális Fejlesztési Holding Zrt.
- Capital funds of the 2007-2013 programming period and capital funds of the 2014-2020 programming period.

III.5. EU funds management

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; it disposes over the available funds in its own name, but for the benefit of the Managing Authorities. Consequently, the funds of the programming periods do not form part of the Bank's balance sheet; it keeps separate records of these funds.

The 2007-2013 programming period is over: the closing process has been completed, and the remaining banking tasks are related to the management of the existing portfolio and of the repaid funds.

In the 2014-2020 programming period, EU programmes provided borrowing opportunities for the following target groups:

- micro, small and medium-sized businesses,
- large companies,
- retail/residential customers (natural persons, condominium associations, housing cooperatives),
- non-governmental organisations.

Continuing the processes begun in previous years, in 2021 the processing of combined and stand-alone credit products continued (acceptance of loan applications in relation to six EU credit products, plus credit assessment, contracting and disbursement), significant portfolio cleaning drives were implemented, and in addition, responding to the difficulties brought on by the COVID-19 pandemic, the GINOP-9.1.1-21 Interest-Free Restart Quick Loan Credit Programme was developed. Capital investments continued in the venture capital segment.

The COVID-19 pandemic has had a very serious impact on businesses in recent years, making it impossible for thousands of micro-businesses to remain viable. As one element of state-sponsored measures to combat this, in early 2021 the Government asked MFB to develop and implement a micro-business loan programme with a financial envelope of HUF 100 billion, aimed at kick-starting the economy and supporting businesses most affected by the economic crisis. MFB has developed the GINOP-9.1.1.-21 Interest-Free Restart Quick Loan, charged to the REACT-EU funding pool made available to Hungary.

The loan programme was introduced in the MFB Point network on 8 March 2021. Partly based on feedback from intermediaries and partly in line with the needs of businesses, MFB made this opportunity available to an increasingly wide circle of prospective borrowers, which meant that

by the submission deadline, i.e. 30 November 2021, some 13,000 applications totalling HUF 112 billion had been received across the MFB Point network as a whole. During the programme nearly 11,000 businesses were supported, assuring them of the conditions needed to get them back on their feet quickly and remain operational for the long term.

In order to overcome the economic difficulties caused by the coronavirus, MFB repeatedly initiated the reallocation of EU funds in 2021 to the working capital loan component of the SME Technology Loan Programme, developed in 2020, in order to support the stabilisation and relaunch of businesses' operations. The HUF 51 billion increase in the limit of the reopened loan programme, charged to the reallocated funds, was exhausted in three months, and more than 2 776 loan applications totalling HUF 195 billion were received during the entire period.

The ten Financial Intermediaries managing the seven capital programmes announced in the 2014-2020 period continued with their investment activities in the changed economic environment (brought on by COVID-19) in 2021; however, the impact of COVID-19 was evident in their investment activity, with total commitments for the year coming in below the 2020 level.

In 2021, MFB placed a total of HUF 238.2 billion in financial instruments, broken down as follows:

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Product types	Amount disbursed to final beneficiaries in 2021 (HUF billion)
Loan products	200.3
GINOP-8.2.1-3.4.1-15	0.7
GINOP-8.1.1-16	0.2
GINOP-8.3.5-18/A	13.0
GINOP-8.4.1/A-17	18.0
GINOP-8.8.1-17	0.3
GINOP-8.4.1/B-16	-
GINOP-8.3.5-18	2.7
GINOP-8.2.6-18	0.3
GINOP-8.3.5-18/B	86.5
GINOP-9.1.1-21	76.4
VEKOP-5.2.1-17	2.0
EFOP-5.1.1-17	0.2
Venture capital products*	20.7
GINOP-8.1.3/A-16	3.9
GINOP-8.1.3/B-17	11.9
GINOP-8.2.3-17	1.1
GINOP-8.2.5-17	1.7
GINOP-8.3.3-17	-
GINOP-8.2.7-18	1.3
VEKOP-2.1.2-17	0.8
Combined loan products	17.2
GINOP-3.1.2-8.2.4-16	0.1
GINOP-3.2.2-8.2.4-16	3.5
GINOP-3.2.4-8.2.4-16	0.1
GINOP-3.2.6-8.2.4-17	0.2
GINOP-1.2.3-8.3.4-16	3.6
GINOP-1.2.6-8.3.4-16	3.6
GINOP-4.1.1-8.4.4-16	0.6
GINOP-2.1.2-8.1.4-16	4.9
VEKOP-5.1.1-5.1.2-16	0.5
Total	238.2

*Without private investment

In 2021, preparations for the 2021-27 EU programming period began, the first important milestone of which was the Government's designation of Hungarian Development Bank Ltd as a holding-fund implementing entity (hereinafter HFIE) (in Section 31 of Govt Decree 256/2021. (V. 18.) on the Procedure for the Use of Grants from Certain European Union Funds in the

2021-2027 Programming Period), in the scope of which the Bank is also responsible for coordinating the implementation of financial instrument-type EU grants in the 2021-27 cycle. As an HFIE, the Bank will perform the task of implementing the operational programmes that determine how the financial instruments are used (GINOP Plus, DIMOP Plus, KEHOP Plus), and thus the discussions with the planners of the relevant operational programmes regarding the planned product types and the funding sources earmarked for the financial instruments have started. In order to start the implementation of financial instrument-type grants as soon as possible, the Government decided, in Govt Decree 1859/2021. (XII. 1.), on the minimum envelope for the financial instrument-type grants, based on which a public tender to select the financial intermediaries to be included as partners in the implementation was announced in December 2021. At the same time, the financial-instrument products are being designed and preliminary studies based on these are being conducted in accordance with the content of the draft OPs.

III.6. Changes in limits and thresholds

The Bank's key prudential indicators are summarised in the following table:

data in HUF million	31.12.2021
Regulatory capital	446 877
Large exposure limit:	
- customer/customer group	268 126
- credit institution	893 754
- financial business	446 877
Highest exposure:	
- customer/customer group	260 712
- credit institution	40 569
- financial business	61 461
Capital adequacy ratio, %	16.60%

* In order to effectively manage the economic effects of COVID-19, the MFB Act was amended in April, and the large exposure limit increased from 45% to 60%.

In order to mitigate the economic effects of COVID-19, in the interest of implementing the loan, capital and guarantee programmes introduced to help kick-start the economy, and of achieving the development policy objectives, and also for the purpose of maintaining the Bank's prudential operations, in 2021 MFB received a capital contribution from the owner, which was implemented in two stages, in a total value of HUF 84 billion, in the fourth quarter. As a result of the substantial growth in the Bank's activity, the capital requirement (8%) had increased by HUF 87 billion by the end of 2021, and thus the capital adequacy ratio had decreased to 16.60% by year-end.

The Bank observed the applicable legal requirements, the restrictions relating to prudential operation, and with the limits set in its internal directives.

IV. The Bank's asset-liability management

IV.1. Funding

The Bank raised medium and long-term external funds in the amount of HUF 631.3 billion in 2021. 51.6% of the funds raised were in forint, and 48.4% in euro. 58.0% of the borrowings were domestic bonds, 28.4% were international bonds and 13.6% were bilateral bank loans.

The Bank completed the following medium and long-term transactions in 2021:

- With Citigroup Global Markets Europe AG, Erste Group Bank AG, ING Bank N.V. and UniCredit Bank AG plc as lead arrangers, MFB Zrt. implemented an international bond issue with a maturity of 5 years, in the amount of EUR 500 million and a value date of 9 June 2021.
- In 2021, the Bank took out bilateral loans from two foreign credit institutions in the amount of EUR 145 million and from one domestic credit institution in the amount of HUF 35 billion.
- In May 2020 MFB Zrt. entered into distributor agreements with domestic credit institutions. Under the distributor agreements, the Bank may, over a period of 1 year (from the value date of the first issue), offer domestic euro-denominated bonds to the investing public through auctions on the Budapest Stock Exchange. OTP Bank Nyrt. will act as auction bidder. The Bank will list the bonds on the Budapest Stock Exchange. In 2021 the bond issue was completed with a total par value of HUF 206.75 billion.
- In March 2021 MFB Zrt. entered into distributor agreements with domestic credit institutions. Under the agreements, the Bank will, over a period of 2 years (from the value date of the first issue), offer domestic forint-denominated bonds to the investing public through auctions on the Budapest Stock Exchange. OTP Bank Nyrt. will act as auction bidder. The Bank will list the bonds on the Budapest Stock Exchange. In 2021 the bond issues were completed with a total par value of HUF 294,946 billion.

In addition to the above funding operations, the Bank drew down a total of HUF 72 billion from the central bank during the year to finance MFB loan placements implemented from MNB funds.

Changes in MFB's credit ratings

Following the change in the credit rating of the Hungarian State, on 28 September 2021 Moody's Investors Service (Moody's) changed the credit ratings of MFB Zrt. as follows:

- Backed long-term foreign currency senior unsecured debt rating: upgrade from "Baa3" (previously with a positive outlook) to "Baa2" with a stable outlook;
- Backed long-term foreign currency bank deposit rating: upgrade from "Baa3" (previously with a positive outlook) to "Baa2" with a stable outlook;
- Rating for backed short-term foreign currency bank deposit rating: upgrade from "Prime-3" to "Prime-2";

On 16 December 2021 Moody's affirmed its "Backed long-term foreign currency senior unsecured debt" and "Backed long-term foreign currency bank deposit" ratings at Baa2. At the same time, Moody's maintained a stable outlook for MFB Zrt. as an issuer, but withdrew the outlook related to the above two credit rating categories. The above change did not affect the rating of short-term foreign currency bank deposits placed at MFB Zrt.

The credit ratings assigned by Fitch Ratings earlier and the related outlook remained unchanged in 2021.

On 16 July 2021, Scope Ratings GmbH published the following credit ratings for MFB Zrt.:

- Long-term issuer credit rating – in foreign currency: “BBB+”;
- Senior unsecured debt – in foreign currency: “BBB+”;
- Short-term issuer credit rating – in foreign currency: “S-2”;
- Long-term issuer credit rating – in local currency: “BBB+”;
- Senior, unsecured debt – in local currency: “BBB+”;
- Short-term issuer credit rating – in local currency: “S-2”;

Outlook related to all the above credit ratings: stable.

IV.2. Asset and liability structure, maturity structure, maturity match

Based on the balance sheet items presented in section V, on 31 December 2020 net loans made up of 50% of the Bank’s total assets. (Within the loan portfolio, individual loans accounted for 87% and refinancing loans for 13%.) The net portfolio of corporate bonds was HUF 325 billion, accounting for 13% of the total at year-end, while other interest-bearing assets that partly serve as liquidity reserves (cash, interbank and MNB deposits, as well as other non-trading financial instruments) totalled HUF 281 billion, representing 12% of total assets. The value of investments account for 16%. Other assets together account for 9% of the balance sheet total.

Liabilities can be considered homogeneous. As a result of its activities determined by law, the Bank does not take retail deposits. Corporate deposits and lending-related collateral deposits accounted for 2% of total liabilities. Most of the Bank’s liabilities (70%) come from the international and domestic money and capital markets. Within that, bond issuance accounted for 64%, and borrowing represented 24%, while the share of MNB funds was 12%. The share of interbank loans was 5% as at the end of 2021. The Bank’s equity is another significant element on the liabilities side of the balance sheet, representing 19% of total liabilities, while other liabilities – consisting mainly of not yet disbursed commitments of the non-market capital funds – make up 4%.

The Bank’s asset coverage (maturity match), as well as the liquidity ratios, present a favourable picture; MFB’s stable liquidity position remained in 2021, and even improved significantly, mainly due to the capital increase and successful fundraising operations.

V. The Bank’s balance sheet and income statement

The Bank’s key 2021 balance sheet data are summarised in the table below⁷:

data in HUF million	31.12.2020	31.12.2021
	Actual	Actual
<i>Interest-bearing assets</i>	1 568 065	1 812 930
Cash, debt securities and other non-trading financial instruments	457 387	604 489
Loan portfolio	1 110 678	1 208 441
<i>Non-interest-bearing assets</i>	315 065	378 859
Equity interests	315 065	378 859
<i>Other assets</i>	185 601	209 880
Total assets	2 068 731	2 401 669
<i>Shareholders’ equity</i>	363 443	448 942
<i>Profit/loss for the year</i>	-8 832	4 385
<i>External funds</i>	1 501 077	1 849 589
<i>Provisions</i>	1 872	3 475
<i>Other liabilities</i>	202 339	99 663
Total liabilities	2 068 731	2 401 669

At the end of 2021 the Bank’s total assets exceeded the previous year-end figure by HUF 333 billion, mainly as a result of the sizeable increase in business activity (volume of loans and investments).

In 2021, the Bank received HUF 84 billion in capital contributions from founders in total, in two stages; the capital increase serves the prudent fulfilment of an increasing number of tasks, primarily investment related. The Bank’s equity increased by the amount of the net balance of the capital injections and the result.

The differences in the structure of assets compared to the end of the previous year are as follows:

⁷ Reconciliation to the balance sheet:

Cash, debt securities and other non-trading financial instruments includes:

- Cash, balances with central banks and other demand deposits
- Debt securities, except for Capital fund units recognised among *Non-trading financial instruments mandatorily measured at fair value through profit or loss*
- Other financial receivables
- Central bank and interbank deposits

Loan portfolio: Equal to the sum of the *Loans* lines in the balance sheet.

Equity interests:

- Instruments representing an ownership share
- Investments in subsidiaries, joint ventures and associates
- *Debt securities* recognised among *Non-trading financial instruments mandatorily measured at fair value through profit or loss* (Capital fund units)

Other assets: Receivables from the state, property, plant and equipment, intangible assets, financial instruments held for trading, derivatives, and other assets.

External funds: Financial liabilities measured at amortised cost

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- The increase in government securities, bonds, central bank deposits and other interbank deposits was mainly due to interbank transactions: the capital allocation received to finance business activity and a part of the drawn-down funds were temporarily placed by the Bank on the interbank market. In addition, the maintenance of liquidity reserves in line with the higher balance sheet total (a minimum of 5% of total assets must be held in government securities at all times) increased the total,
- loan volume was driven by the significant increase in individual loans and the smaller growth in loan programmes,
- the stock of investments was increased by the subscription of investment units of venture capital funds and the capital increase of MFB Invest Zrt.,
- the total of other assets was affected chiefly by the increase in exchange-rate guarantee receivables from the State due to the weaker forint.

The Bank's income statement is as follows⁸:

HUF million	2020	2021
	Actual	Actual
Total operating income	15 902	28 188
Net interest income	13 779	24 354
Dividend income	1 830	1 684
Net commission and fee income	293	2 150
Total operating expenses	-20 590	-20 179
Expenses of banking operations	-10 893	-12 526
<i>Personnel expenses</i>	-6 816	-7 752
<i>Other administrative expenses</i>	-3 071	-3 704
<i>Depreciation</i>	-1 006	-1 070
Expense reimbursement	3 932	4 078
Effect on profit of changes in impairment and provisions	-13 629	-11 731
Other income/expenses	-4 144	-3 624
Profit/loss for the year	-8 832	4 385

The Bank's profit/loss for the year was HUF 4.4 billion. In examining the profit items, it should be noted that

- net interest income is significantly higher than in the previous year, which was mainly due to the increase in interest-bearing assets, mainly related to the larger preferential deposit portfolio and partly to the more favourably priced credit transactions.
- the Bank recorded HUF 0.15 billion less in dividends on the 2020 performance of MKK Zrt. than it did in the previous year.
- the balance of commissions and fees received and paid is higher than in 2020, mainly as a result of the increase in fee income received due to the larger average guarantee portfolio,

⁸ Deviations from the balance sheet:

- In the management report, total operating income and total operating expenses include the revenue and expenses related to the core activity, while other profit and loss from financial assets is presented among *Other items*.
- *Expense reimbursement*: This is shown in the balance sheet under *Other operating income*

- expenses of banking operations exceeded the figure for the previous year; the 14% increase in personnel costs is mainly due to the increase in headcount (average headcount increased by 11 people), while material expenses increased by 17%, mainly due to higher IT and marketing expenditure. The expenses of banking operations are detailed in a separate section.
- the cost reimbursement line includes the reimbursement of costs related to tasks associated with the management of EU funds and to the exercise of state ownership rights. The figure for cost reimbursements received grew in 2021, mainly due to the increase in costs associated with EU tasks,
- The amount shown under effect on profit of changes in impairment and provisions stems partly from the obligation to recognise additional impairment/provisions on account of the economic impact of COVID-19 and partly from the general increase in activity. The changes in impairment and provisions are presented in a separate section.
- In 2021, on row income or expense a new item is the modelled accounting profit from market funds measured at fair value, which improved the overall profit figure by HUF 0.7 billion in 2021. Other items also include a loss recognised for 2021 due to the accounting recognition of the repayment moratorium, as well as the amount of taxes (including the special bank tax). The effect of the receivables sales on profit is also shown here.

MFB's net earnings figure before items recognised due to COVID-19 shows a profit greater than the net earnings actually recognised. Items due to COVID are primarily related to impairment/provisions associated with the pandemic, the accounting result due to the repayment moratorium, and the related expenses of banking operations. The Bank's profit and loss items due to COVID in 2021 were as follows:

- Direct and indirect expenses of banking operations (protective equipment, health services, advertising costs): HUF 572 million
- Effect on profit of changes in impairment and provisions HUF 3 745 million
- Loss due to the accounting recognition of the payment moratorium: HUF 1 333 million
- Other expenses (expenses due to programmes): HUF 16 million
- Banking supervision fee due to Crisis Capital programmes: HUF 288 million

Total HUF 5 954 million

Excluding the above profit items due to the epidemic, the Bank's total profit in 2021 would have been HUF 10 339 million.

VI. The Bank's financial management in 2021

VI.1. Cost management

The changes in expenses of banking operations in 2021⁹ are summarised in the table below:

data in HUF million	2020	2021
Other administrative expenses	-3 071	-3 704
Operating expenses	-374	-448
Communication expenses	-300	-329
Marketing expenses	-1 199	-1 355
IT expenses	-492	-666
Vehicle expenses	-118	-138
Expert expenses	-257	-363
Other expenses	-331	-405
Depreciation	-1 003	-1 070
Personnel expenses	-6 816	-7 752
Total expenses of banking operations	-10 893	-12 526
<i>Cost reimbursement by the State</i>	<i>3 932</i>	<i>4 078</i>
Net total expenses	-6 961	-8 448

In 2021, the direct costs of virus control related to health protection, prevention and treatment decreased compared to the previous year, amounting to HUF 43 million. This amount includes the price of protective equipment purchased by the Bank (masks, disinfectants, etc.), fees for virus-related health services purchased by the Bank for its employees, as well as expert expenses (studies, surveys, etc).

In line with the growing headcount due to increased business activity, personnel expenses increased by 14% compared to the previous year. The average headcount of the Bank was 369.9 in 2021, an increase of 11 compared to the previous year.

As regards non-personnel expenses, alongside a general increase in prices, the biggest increase compared to the previous year was in marketing and IT expenses. In terms of marketing, this was due to campaigns related to the programmes designed to kick-start the economy and the expansion in other tasks related to COVID-19, and in terms of IT, it was due to the continuation of a number of IT developments. The Bank spent a higher amount on health-related services due to Covid (screening, testing) than in the previous year.

⁹ In the management report, expenses of banking operations were grouped from a controlling perspective, according to the main connection points, while in the notes to the financial statements the costs were classified strictly on the basis of accounting principles.

Personnel expenses and headcount

MFB's active-employee headcount on 1 January 2021 was 366, with an additional 21 employees on the books but not included in the "statistical headcount" (i.e. those actually working). By the end of the year, the active-employee headcount had increased to 380, and the number of inactive employees was 16. The average number of employees of the Bank in 2021 was 369.9.

During 2021, MFB employed 51 students as interns, and in 2021 the Bank spent HUF 74.4 million to provide for the internship programme.

Cost reimbursements¹⁰

MFB receives reimbursement from the central budget to cover its operating expenses associated with the carrying out of tasks related to the exercise of ownership rights, the amount of which was HUF 25 million in 2021.

The Bank receives additional reimbursement from the Managing Authority in connection with its EU grant intermediation activities; in 2021, reimbursements of more than HUF 4 billion were recognised for this item. The higher amount accounted for here as compared to the previous year's reimbursement figure can be explained by the expansion of tasks (GINOP 9 Interest-free quick loan).

VI.2. Organisation, internal regulation

During 2021, the Bank amended its Organisational and Operational Regulations on one occasion in order to achieve the following key objectives:

- improving the efficiency of the work organisation,
- effective management of business development needs.

As a result of the change:

- the Strategic and Group Management Directorate and the Investment and Analysis Department (and within this, an Analysis Group) were set up,
- and business needs management and business analyst responsibilities were transferred to the Operation Development and Regulation Directorate.

In the 2021 business year, a number of additional regulatory documents were amended, among others, the Bank's Articles of Association was amended 3 times, the Rules of Procedure of the Board of Directors once and the Decision-making Rules of Procedure on 2 occasions.

- in view of the decrease in the number of MFB group members, the Ownership Censorship Committee, the tasks of which were taken over by the Executive Board, was abolished,
- decision-making powers related to business development needs have been transferred to the newly established Development Steering Committee, and
- the monetary limits related to decision-making powers have been revised.

VI.3. Capital expenditures in banking operations

Digitalisation

¹⁰ Other reimbursements (holiday reimbursement, EIB reimbursement) are included in other income

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- In 2021, the Bank continued with its efforts to place its operations on a digital footing. It introduced numerous technological solutions to help ensure that processes and staff are not tied to the office environment. A significant number of laptops were purchased, and thus all the Bank's employees now have portable computers. In order for employees to be able to use these devices, secure remote access was also set up by the Bank.
- In 2021, the Bank ensured that all employees were provided with a company mobile phone so that information would be available to them as soon as possible and for as many of them as possible. These company mobile devices, in conjunction with a secure central management system, are capable of running business email and teamwork applications.
- To support staff collaboration, the Bank installed Microsoft Teams and equipped several office conference rooms with special Teams-compatible devices, thus strengthening the opportunities for collaboration between employees in the office and those working from home. Use of the Teams application also made teamwork support available to employees.
- In order to support these processes, digital signature has been considerably extended by the Bank among employees with signing rights, so as to minimise delays in document forwarding, and to support the reduction of our carbon footprint by significantly reducing the amount of printing that is required.

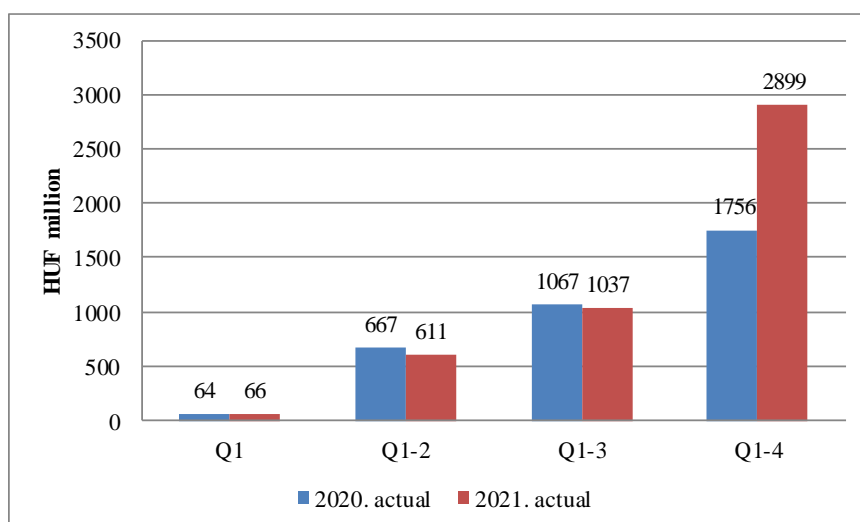
Developments

- During 2021, significant development capacity was brought to bear in relation to the pandemic situation, to refine IT infrastructure support for the economic stimulus programmes.
- The Bank also applied various IT solutions to help ensure its processes were compliant with the statutory regulations on the moratorium related to the pandemic.

Infrastructure

- During 2021, the Bank further strengthened the fault-tolerant capacity of the back-end infrastructure. At the same time, it expanded its resources earmarked for addressing new and growing needs, to ensure it is able to meet these needs promptly, as soon as they arise.

The Bank spent a total of HUF 2 899 million on capital projects during the year. The graph below presents the capital expenditures in banking operations:



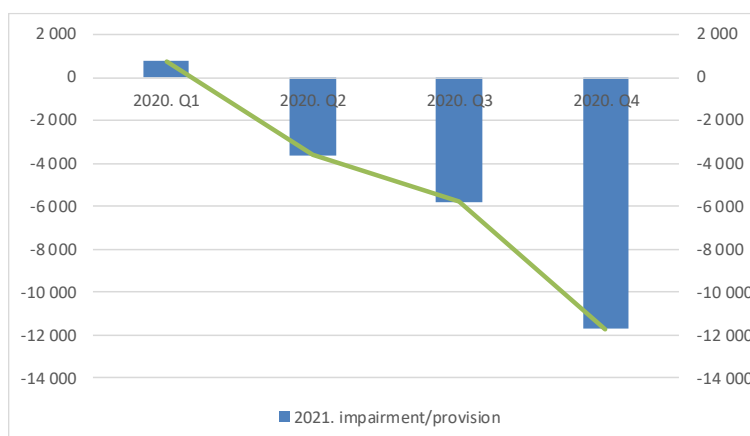
In 2021 the Bank closed 37 public procurement procedures with contracts totalling net HUF 3.1 billion, while another 8 public procurement procedures worth an estimated net HUF 24.7 billion were carried over to 2022.

VII. Effect on profit of impairment and provisions, operating loss events

VII.1. Effect on profit of impairment/provisions

The Bank recognised additional impairment and provisions in the amount of HUF 19.5 billion in 2021 to cover the risks in its business portfolio. The change in impairment/provisions – resulting from impairment reversals due to the improvements in the rating/classification of certain items and the repayment of loans – improved the Bank’s earnings by HUF 7.7 billion. Overall, the effect on profit of impairment/provisions was HUF 11.7 billion in 2021, of which HUF 3.7 billion can be attributed to transactions that become problematic due to COVID.

The graph below presents the change of the effect on profit of recognised/reversed impairment/provisions in 2021:



VII.2. Coverage of transactions

The coverage of transactions is presented broken down into loans and ownership interests.

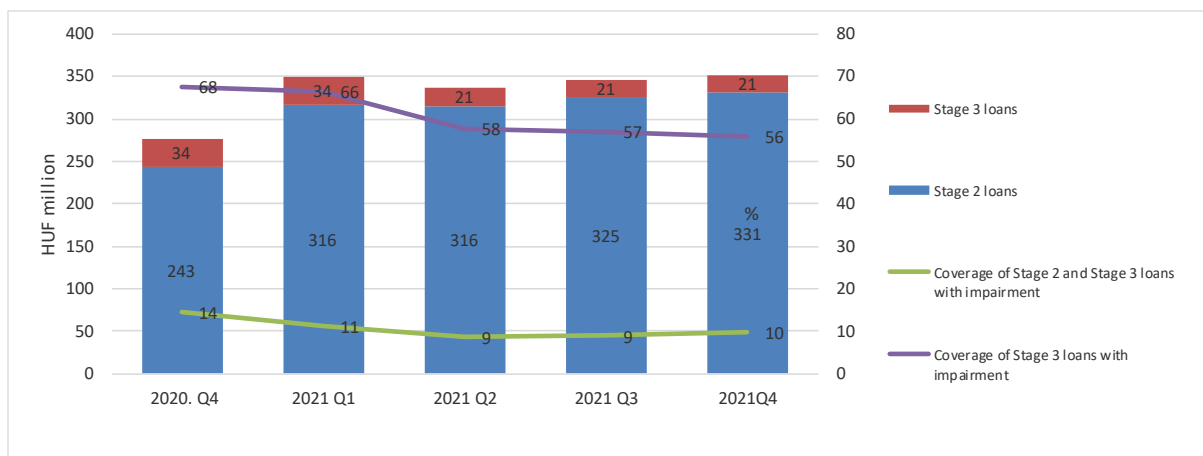
Adversely classified loans and coverage ratio

The ratio of Stage 2 and Stage 3 loans (non-pass loans) covered by impairment was 9% at the end of 2021, while the impairment coverage ratio of Stage 3 loans was 56%.

A significant change in ratings was caused by the fact that major customers were placed to the Stage 2 category, and thus the ratio of Stage 1 (pass) loans decreased to 69% by the end of the year, while the ratio of Stage 2 loans rose to 29%.

The graph below presents the changes in Stage 2 and Stage 3 loans and their impairment:

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The collateral coverage of Stage 3 (non-performing) loans exceeded 53% at the end of 2021; the value of this ratio rose by 14% compared to the end of 2020, with the reason for this being the sale of a relatively large Stage 3 loan with lower-than-average coverage.

Coverage of adversely rated investments (equity interests)

The value of the investments impaired at least 30% did not change in 2021, the impairment coverage of investments impaired at least 30% was thus 100% by the end of the year. In the case of three private equity funds, the Bank recorded a total provision of HUF 78 million for the capital contribution obligation.

Operational loss events

In 2021, the most significant operational risk loss was caused by COVID19-related expenditures (unscheduled costs, expenses and capital expenditure). The total value of these was HUF 40.8 million. In addition, the Bank incurred a gross operating-risk loss of HUF 3.1 million.

VIII. Key ratios illustrating the operations of MFB

Financial indicators

ROA

HUF million, %

		2020	2021	Index
1.	Profit/loss for the year	-8 832	4 385	-
2.	Balance sheet total	2 068 731	2 401 669	116.1%
3.=1/2	Return on assets (ROA)	-0.43%	0.18%	-

ROE

HUF million, %

		2020	2021	Index
1.	Profit/loss for the year	-8 832	4 385	-
2.	Shareholders' equity	363 443	448 942	123.5%
3.=1/2	Return on equity (ROE)	-2.4%	0.98%	-

Based on the net earnings figure for the previous year adjusted for Covid items (HUF 2 734 million), the value of both ROA (0.3%) and ROE (1.5%) increased, which is the result of the higher profit than the previous year plus the increase in equity due to the capital contribution from the owner.

Cost/income ratio

HUF million, %

		2020	2021	Index
1.	Expenses of banking operations (adjusted for expense reimbursements)	6 961	8 448	121.4%
2.	Net interest income	13 779	24 354	176.7%
3.=1/2	Cost/income ratio	50.5%	34.7%	68.7%

In 2021, net interest income increased more dynamically than the adjusted expenses of banking operations, and thus the ratio improved relative to the previous year.

Leverage

HUF million, %

		2020	2021	Index
1.	Balance sheet total	2 068 731	2 401 669	116.1%
2.	Shareholders' equity	363 443	448 942	123.5%
3.=1/2	Leverage indicator	5.7	5.3	94.0%

In parallel with the capital injection from the owner, the Bank's leverage ratio also increased. Due to the capital injection, the Bank had sufficient capital to ensure its reliable operation at the end of 2021.

Liquid assets ratio

HUF million, %

		2020	2021	Index
1.	Liquid assets	394 808	280 912	71.2%
2.	Total assets	2 068 731	2 401 669	116.1%
3.=1/2	Liquid assets ratio	19.1%	11.7%	61.3%

In 2020, the interbank placement of a larger, temporary collateral deposit had distorted the value of the indicator. If we ignore the latter, its value was below 10% at the end of the previous year, i.e. by the end of 2021 the ratio had risen, mainly due to the owner's capital contribution and the other funds raised being placed temporarily on the interbank market until use.

The volume of liquid assets available at the end of the year continues to provide sufficient cover to deal with an unforeseen liquidity emergency situation. The Bank keeps the government securities portfolio permanently above the level of liquidity reserves required by the regulations.

Activity indicator

HUF million, %

		2020	2021	Index
1.	Loan portfolio + Loan-type securities + Equity interests	1 487 423	1 910 694	-49.7%
2.	Balance sheet total	2 068 731	2 401 669	116.1%
3.=1/2	Business portfolio ratio	71.9%	79.6%	110.6%

The Bank's loan, corporate-bond and equity-interests portfolio increased significantly in 2021, and thus the value of the indicator rose compared to 2020.

Non-financial indicators

Headcount management

persons, %

		2020	2021	Index
1.	Closing headcount	366	380	103.8%
2.	Average headcount	359	370	103.0%

In 2021, despite the natural staff turnover, the Bank's closing headcount increased: it increased continuously from the second half of the year, and thus the average headcount was significantly higher than in 2020.

Announced MFB programmes and sub-programmes

number, HUF billion, %

		2020	2021	Index
1.	MFB programmes (number)	15	12	80.0%
2.	Sub-programmes (number)	2	0	0.0%
3.	Total programme funds (HUF billion)	969	669	69.0%

Among the loan programmes still available in 2020, the MFB Business Financing Programme 2020 (in the amount of HUF 150 billion) and its two sub-programmes, the MFB Municipal Infrastructure Development Programme 2020 (in the amount of HUF 100 billion), the MFB Leasing Refinancing Programme (in the amount of HUF 25 billion), and the MFB Force Majeure Guarantee Programme (in the amount of HUF 50 billion), were no longer available; given that the marketing of these programmes ceased during 2021, the opportunity to apply for them also expired. The financial envelope for the MFB Competitiveness Loan Programme, which was still available in the amount of HUF 150 billion in 2020, was reduced by HUF 135 billion to HUF 15 billion on 31 March 2021. At the same time, the HUF 140 billion envelope of the MFB Economy Reconstruction Loan Programme was increased on 23 July 2021 by HUF 60 billion, to HUF 200 billion. In addition, the MFB Széchenyi Microcredit Refinancing Programme was launched on 6 October 2021 with an envelope of HUF 100 billion. The other loan programmes that had been available in 2020 were still available in 2021 (during part of or for the entire calendar year) with an unchanged financial envelope.

Announced EU programmes

		2020	2021	Index
				number, HUF billion, %
1.	EU programmes (number)	28	29	103.6%
2.	Total EU programme funds (HUF billion)	801	901	112.5%

The increase in the total financial envelope for 2021 was a result of the introduction of the GNIOP 9 Interest-Free Quick Loan, the financial envelope for which was HUF 100 billion.

IX. Other activities

IX.1. Audit

During 2021, Internal Audit completed and issued 21 audit reports, of which 15 were related to planned and 6 to unplanned audits. Of these, 5 of the planned and 2 of the unplanned audits had been launched in 2020.

During 2021, Internal Audit conducted 10 planned audits that were included in the audit plan for the year. A detailed report on the results and findings of these was prepared for the Supervisory Board. In addition, 5 audits are expected to be completed in the first quarter of 2022 (data protection/GDPR, capital investment, EU Placements 2014-2020, consolidation processes, outsourcing).

Internal Audit followed up on the implementation of the recommendations set out in its audit reports on a quarterly basis, verified the completion of the tasks and reported to the Supervisory Board on the tasks that required a deadline extension.

Internal Audit was also involved in the regular risk-based evaluation of banking processes.

IX.2. Compliance

In accordance with international and Hungarian regulations and recommendations, the Bank operates a separate organisational unit (Compliance Directorate) to identify and manage compliance risks; the Directorate performs its tasks based on the compliance risk management methodology, the compliance bylaws and the compliance work plan.

Each year the Compliance Directorate prepares a comprehensive report for the Supervisory Board on the Bank's compliance activities and position, which includes the identification of compliance risks, an assessment and analysis of their impact, details of the required action plans, and an account of the monitoring of the results of these actions.

In addition to general compliance responsibilities (e.g. preventing money laundering and terrorist financing, preventing market abuses, ensuring compliance with conflict of interest rules, monitoring changes in legislation), the Compliance Directorate also performs other operational tasks to ensure adherence to ethical standards and rules of conduct, the objectives of which include ensuring the fair treatment of customers and integrity, a general prohibition on corruption and gifts, compliance with the key requirements pertaining to ethics, conduct and behaviour during work, and investigating any violation of ethical standards.

The operation of compliance processes contributes to prudent operation, reduces reputational risks and strengthens the corporate culture.

The Compliance Directorate discharged its regulatory, operational, training, consulting, risk assessment and control tasks set out in its 2021 Work and Audit Plan, in particular in the areas of money-laundering prevention and compliance with conflict-of-interest rules.

IX.3. Risk management activities

The Bank's organisational unit that performs a risk control function is responsible for defining the Bank's risk strategy, policies and methods, enforcing external and internal limits and controls, and ensuring and reviewing adequate execution both internally and through intermediaries. Accordingly, the Bank lays down risk governance principles and also performs a coordinative supervisory function among the companies where it holds an ownership interest or exercises shareholder rights. The Internal Capital Adequacy Assessment Process (ICAAP) comprehensively reviews the components of the Bank's risk management framework (Enterprise Risk Management, hereinafter "ERM") and the efficiency of their systemic operation. As part of the ERM the Bank has in place the lines of defence required by the MNB. As a result of effective risk management activities, the Bank is able to identify, measure and manage its key risks, and thus achieve the business objectives set by its owner and support economic development, which is defined as its fundamental task. The entire risk management functionality is integrated into the Bank's processes with the exception of the last phase of workout activities, which is performed by the group's dedicated competence centre, a subsidiary specialised in this field (MKK Zrt.).

Credit risk (risk of default)

Credit risk, as a collective term, includes all risks of default, including customer risk, counterparty risk and investment risk if the shortfall of the result of an investment from the business plan causes the Bank a financial loss.

The preparation process for exposures (risk-taking), during which the Bank identifies the risks of transactions and verifies that the loans are repayable, is determined by the internal regulations on exposures.

In 2021, the Bank quantified the capital requirement for credit risk using the standardised approach in Pillar 1 in accordance with Regulation (EU) No 575/2013, and in Pillar 2, as a small institution, followed a method based on the capital requirement set out in Pillar 1, and measures whether an additional capital requirement is required due to the type of risk not included in Pillar 1. The capital requirement for credit risk was HUF 210 471 million as at 31 December 2021.

Operational risks

The Bank's framework for efficient operational risk management is based on adequate internal governance, which ensures that risk management policies, internal regulatory documents and systems remain sufficiently effective in the continually changing business and regulatory environment.

The Bank meets the regulatory capital requirement applicable to operational risks in accordance with the basic indicator approach, according to which the Bank's operational risk capital requirement was HUF 3 680 million on 31 December 2021.

Market risk, FX risk

In the management of FX risks the Bank places the emphasis on the open position held at its own risk. The absolute value of the open position amounted to 2.3% of the regulatory capital on 31 December 2021, while its net value amounted to 0.73% of the regulatory capital. The Bank uses stress tests to measure the losses expected in the event of an extreme shift in exchange rates. Because of the small net open position, the outcomes of the stress tests also suggested a small potential loss.

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	31.12.2020	31.12.2021
Absolute value of open FX position	6 062	10 295
Stress test (10% exchange rate shift)	606	1 030
Limit (5% of regulatory capital)	17 974	22 344

There are no risk exposures for trading purposes. The transactions entered into by Treasury are regarded as transactions for hedging, liquidity management or limit maintenance purposes. The VaR of the positions held on 31 December 2021 amounts to a mere 0.03% of the Bank's regulatory capital.

Date	VaR (HUF million)	
	Value	Limit
31.12.2020	68	3 636
31.12.2021	114	3 646

The capital requirement of FX risk was HUF 542 million on 31 December 2021.

Residual risk

Residual risk refers to the risk that the credit risk mitigation (CRM) procedures recognised in capital requirement calculations are not as efficient as stated. The customer must have collateral values reviewed by an independent appraiser approved by the Bank at the frequency specified in the relevant agreement. During its loan monitoring activities, the Bank regularly inspects the collaterals behind transactions that involve an exposure; residual risks are managed as part of the monthly and quarterly rating/classification of outstanding loans, by recognising impairment and provisions to offset any decrease in coverage.

Concentration risk

Limit systems are the essential tools for managing concentration risks. The Bank manages concentration risks not only at bank level but also at the level of the MFB Group. The concept of large exposures to a single client or client group is governed by Regulation (EU) No 575/2013, while the limits of such exposures applicable to the Bank are regulated in the MFB Act. The Bank applies a set of sector limits to sectoral risk groups in the same monetary position based on the aggregate financial data of industry sectors. Our experience so far suggests that if sectoral risk group limits are observed, sector concentration will not warrant any additional capital requirement in the internal capital adequacy assessment process.

By calculating a commonly accepted statistical measure of concentration – the Herfindahl-Hirschman Index (HHI), where on a scale of 0 to 10 000 a value below 1 000 indicates low concentration, a value in the 1 000-1 800 range means medium concentration and a value above 1 800 means high concentration – the Bank regularly checks whether the sectoral concentration of direct exposures remains within the standard limits. The index stayed within the average-risk range throughout 2021.

Country risk

Prior to international financial transactions the Bank sets a country limit for all countries where the counterparty entity (or, in the case of foreign branches, the parent entity) is registered. The country limit is the aggregate of the political and economic risks that the Bank can take in respect of the given country (and the financial institutions registered there). Due to the non-material volumes, MFB had minimal country risk in 2021.

Interest rate risk in the banking book

The basic principle of the Bank’s interest rate risk management policy is that the Bank manages interest rate risks preventively; in other words, it tries to provide funding for its loan programmes and disbursements that is the best match in terms of reference rate, repricing period and maturity. As part of the management of interest rate risks the Bank enters into hedging deals if necessary.

Interest rate risk positions are quantified by currency using the basis point value (BPV) method as well as by assessing the impact on short-term profitability (scenario analysis).

HUF million		
31.12.2021	1 bp	1%
HUF	-168.74	-16 874
EUR	95.08	9 508
Total	-73.66	-7 366

The Bank employs stress tests (mild and strong stress) to evaluate the potential impact of exceptional (extreme) but possible events; thanks to the repricing match, these tests indicate a low-risk exposure.

Date	Mild stress test				Strong stress test			
	HUF - 1%	EUR + 0.25%	Total	Limit	HUF - 3%	EUR + 1%	Total	Limit
31.12.2020	-3 519	-20	-3 539	-10 864	-10 556	- 80	- 10 636	-28 970
31.12.2021	-1 071	-356	-1 427	-10 939	-3 214	-1 423	-4 637	-29 170

Liquidity risk

The purpose of the liquidity reserve policy is to ensure that sufficient liquid assets are available to the Bank to cover unexpected cash outflows at any time. The Bank is prepared in every regard to handle extraordinary liquidity situations adequately and safely, and has a recovery plan.

Under Section 8(2) of the MFB Act, the provisions of Articles 411-428 of Regulation (EU) 575/2013 do not have to be applied to MFB. The Bank, however, calculates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and compliance with the ratios is considered a priority in liquidity management.

In addition to the above, the Bank also uses structural GAP limits (which are set for maturity bands) in liquidity management, and also conducts 90-day survival analyses according to normal and stress scenarios.

Counterparty risk

To quantify the capital requirement of counterparty risk the Bank employs the original exposure method defined in Article 282 of the CRR.

When the original exposure method is employed, the potential exposure of an individual transaction is the notional value of the transaction multiplied by:

- the product of the time-to-maturity of the transaction, expressed in years, and 0.5% in the case of interest rate derivatives;
- 4% in the case of FX derivatives.

The Bank uses the standardised method described in Article 384 of the CRR to calculate the regulatory capital requirement of the credit valuation adjustment (hereinafter “CVA”) risk related to counterparty risk. Under the bilateral agreements concluded with its counterparties

the Bank exercises its right to add collaterals accepted for risk mitigation and reevaluates them regularly. The capital requirement of CVA 2021 was HUF 652 million on 31 December.

Strategic risks

The Bank manages strategic risks – which arise from changes in the business environment, making incorrect business decisions, adopting a high-risk business model or ignoring the changes in the business environment – by drawing up a medium-term comprehensive business strategy for 2017-2021 and reviewing and updating its risk management strategy and policy annually. The viable, safe and sustainable implementation of the business strategy is supported by functional sub-strategies. In its risk strategy MFB consciously moves toward risks that are larger but can be assumed prudently; at the same time, the increase in risk appetite and risk tolerance is balanced out by increasingly advanced risk management methods, improvements in risk-taking and risk mitigation techniques and continuous risk monitoring.

Risk arising from the economic environment

The Bank assesses the risks arising from changes in the economic environment by developing credit risk stress scenarios and analysing their potential impact on capital position and profits. Based on the 2021 analysis the Bank would weather any stress scenario without any problem. The review process was also added to the Bank's ICAAP framework.

Risk arising from the regulatory environment

The Bank adapts to the risks arising from changes in legislation. It informs its shareholder in a timely manner about the expected effects of the planned changes on the Bank and manages the related risks during capital planning. Due to the moratorium introduced to help mitigate the effects of the COVID-19 crisis, the Bank had to book an accounting loss of HUF 783 million in accordance with IFRS 9 (Financial Instruments).

IX.4. Marketing activities

During 2020, government measures introduced in the wake of the COVID-19 epidemic and the economic crisis significantly altered the Bank's business activity, and this also called for new tasks to be conducted in relation to MFB's marketing and communications activity. Coordinated group-level marketing communication, mutually reinforcing products and the related messages were of key importance. Data on implemented placements reinforced the success of group-level communication, which is of great importance not only for the effective support of crisis management but also for the development of the MFB Group as an umbrella brand.

The second and third waves of the pandemic and the safety measures taken in 2021 strengthened the trend further, i.e. the role of development banks increased significantly during this period, both in terms of the maintenance and expansion of financing opportunities and the communication tasks incumbent upon the development institutions.

The launch of the Interest-Free Restart Quick Loan developed by MFB in April 2021 essentially determined the communication directions for the year. MFB has developed solutions for a wider range of audiences than ever before, accompanied by ongoing PR communication support. The rollout of the product was complemented by an integrated marketing communication campaign, which included online and offline appearances as well as television and radio interviews and technical information.

In addition to the Interest-Free Restart Quick Loan, MFB's marketing and communications department also supported the sale of EU-funded products of 2014-2020 that had become available again, as well as of non-EU-funded products that had been developed in 2020. The

main focus during this period was on the provision of a wide range of information, the presentation of the opportunities available to businesses, and last but not least, the collection of customer requests and suggestions received as a result of the communication.

MFB placed great emphasis on providing up-to-date information on financing opportunities to the widest possible range of businesses. Following the Bank's announcements, the high-profile and high-traffic media covered these topics more than 2 000 times from 1 January to 30 November 2021, mentioning MFB.

The role of MFB's official website in marketing communication was to provide media briefings and product information. In the area of customer information, the Bank placed increasing emphasis on the content management of the Összetartók.hu website, which functioned as a landing site for both the integrated campaigns and the social-media campaigns. The tone and style of the site provide an opportunity to display the information on each product in a comprehensible form that is easily accessible to everyone, and it also provides space for presenting the various interconnections across the group.

IX.5. Sustainability, corporate social responsibility

In 2021, the Bank took its activities related to sustainability to a new level, and the topic was also included in the strategic documents defining the future of the Bank's operations, as a focus area. In order to manage sustainability issues, the Bank's Sustainability Working Group was established with the participation of the Bank's key departments. Under the coordination of the working group and with the active participation of the departments, the first sustainability survey of the Bank Group was completed in 2021, as were the self-assessment related to the Green Recommendation of the National Bank of Hungary and the action plan setting out the green developments planned for the coming years. Based on the self-assessment adopted and validated by the National Bank of Hungary, MFB Zrt. ranks in the first third of the Hungarian banking sector in terms of compliance with the Green Recommendation.

Measures taken by MFB Zrt. in 2021 to implement the Green Recommendation:

1. Sustainability considerations and commitments were incorporated into its new long-term strategy adopted by the Founder for the 2022-2030 period.
2. Internal processes were put in place to ensure that the management body and key personnel have the appropriate training and know-how in relation to climate risk, and that appropriate internal governance and control functions are created, and it set up a Sustainability Task Force to support this.
3. The Bank continuously provides employees with training opportunities with a focus relevant to sustainability (e.g. through the MFB Academy, each year it provides information to its employees on the latest topics related to sustainability, etc.).
4. Sustainability criteria have been integrated into the remuneration policies by amending the relevant regulations, and these criteria will be taken into account in the 2022 bonus system.

As is generally true of the Hungarian banking sector, MFB Zrt. also needs to make serious efforts to achieve further compliance, so it will launch a priority project from 2022 to implement the action plan.

In the following, we have summarised the Bank's performance in relation to sustainability in the areas of emissions, being a responsible employer, and social responsibility.

Emissions from the Bank's own operations and reducing these

The Bank does not participate in the financing of activities that are harmful to the environment, does not itself carry out environmentally damaging activities, and gives emphasis in its product

portfolio to loan objectives that finance environmental investments. The Bank does not conduct any research or experimental development activities of its own; the elements of product development are described in detail in the section on lending.

In connection with the Bank’s own operation, we have highlighted energy consumption, waste management and paper use as the key areas to be monitored in relation to emissions.

To ensure comparability and summability of the energy consumption data, the unit of measurement for each of the uses can be replaced by carbon dioxide equivalent, which means the amount of CO₂ that is emitted per unit of use. The carbon dioxide equivalent is also the unit used for calculating the carbon footprint. Regarding energy consumption, it should be noted that the value of carbon dioxide equivalent of energy consumption was reduced by 5% compared to the base year of 2019 (35 t of CO₂ saving), while the value of carbon dioxide equivalent of energy consumption per employee was reduced by 8%.

Energy consumption	2019	2020	2021	Change 2021-2019	CO ₂ saving 2021-2019 (t CO ₂)
Natural gas consumption (cubic meters)	73 480	63 225	75 533	2 053	4.32
Electricity consumption (kWh)	1 083 025	969 895	993 842	-89 183	-31.21
Fuel consumption (litres)	50 264	43 840	48 110	-2 154	-5.39
Impact of renewable energy production (kWh)			7 640	7 640	-2.67
Total CO₂ equivalent (t CO₂)	659	582	627		-34.95
CO₂ equivalent consumption per capita (t CO₂ per capita)	1.85	1.62	1.70		-0.15
Ratio of renewable energy production to total energy consumption (%)			0.43%		

When maintenance works are carried out at the Bank’s registered office, the materials used by external contractors are handled, removed and destroyed by the given contractor. The use of materials within the Bank is regulated by Directive 57/2021 (Fire Safety Regulations). The Bank provides for the collection, removal and destruction of the following materials harmful to the environment, regardless of whether they were generated on the Bank’s premises:

- non-rechargeable batteries, mobile phone batteries (special container near the reception desk),
- light sources (can be handed in to the facility management staff, who will see to the storage or removal of the materials).

The waste generated by the Bank amounted to 21 943 kg in 2021. 59.32 kg of waste was generated per employee during the year, which was a decrease from the previous years.

To facilitate the recycling of materials, the Bank collects the following waste materials selectively:

- plastic waste (typically PET bottles),
- paper waste (shredded paper, Tetra Pak packaging).

The above materials are removed, treated and recycled by specialist companies engaged by the Bank.

During 2021, a total of 4 471 kg of waste was selectively treated, which represents 20.4% of the total waste generated.

Consumption of office paper decreased significantly: both in absolute terms and in terms of use per employee, there was a decrease of almost 70% compared to the base year of 2019. From 2021, the Bank will also make recycled paper and other green-label office products available to its employees in its internal procurement system.

Paper use	2019	2020	2021	Change 2021-2019
Office paper consumption (kg)	13 344	6 076	4 220	-9 124
- of which recycled (kg)	-	-	20	20
Proportion of recycled office paper (%)	-	-	0.5%	0.50%
Office paper consumption per capita (kg/person)	37.4	16.9	11.4	-26.0

Responsible employer

In its human resource policy the Bank 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. The Bank places considerable emphasis on ensuring gender equality in the workplace, which is both cause and consequence of the fact that 56% of its employees are women. In 2021, 54% of the promotions were achieved among female employees. An important achievement was that the average gap between women’s and men’s salaries was fully eliminated in 2021.

Indicator	2019	2020	2021	Change 2021-2019
Average difference between women’s salaries and men’s salaries (%)	-9%	-3%	0%	9%

MFB directly supports the development of communities, the promotion of financial literacy and the creation of opportunities. Respect for human rights is an important consideration with regard to 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.

More than 60% of the Bank’s employees are married and planning a family and more than 50% already have children. MFB is taking steps to create the conditions for a family friendly workplace. In relation to this, employees expecting a baby or wishing to work while on maternity leave may choose to work part-time, while all employees have the option of occasionally working from home if they wish. MFB Zrt. also makes efforts to financially support married employees who are planning or already raising a family. The benefits provided by the Bank include one-off and regular allowances and other benefits (e.g. home loans).

In 2021, the Bank’s employees participated in 506 training events (1.4 per employee). 18 people participated in external sustainability training and 34 people in internal sustainability training.

The Bank continued to work on protecting the health of its employees in 2021: it financed occupational health and medical examinations as well as measures to protect against the coronavirus.

Indeed, in relation to COVID-19 the Bank has been working particular hard to protect its staff. As part of this, 3,290 rapid test kits and 6,900 masks were distributed during 2021. In order to reduce physical contact, the Bank's employees spent 33.22% of their working time at home in 2021.

Corporate social responsibility

In 2021, as an important step towards meeting its CSR objectives, the Bank concluded a cooperation agreement with the St. Martin's Child Rescue Service, as part of which the children's ambulance that had been used in Budapest was replaced in 2021 with the financial support of MFB.

In accordance with the "company tradition" established in previous years, in the run-up to Christmas 2021, a collection of non-perishable food items and gifts (toys, books, etc.) for 200 families living in shelters run by the Ecumenical Charity Service was made with the assistance of MFB employees, who helped wrap and deliver the items. This collection effort by the employees were supplemented by a donation of non-perishable foods purchased from the Bank's HUF 2 million assistance fund.

PC configurations that had been scrapped by the Bank but were still in good working order were donated to various educational institutions.

The other non-financial statements not covered here are contained in the relevant sections of the management report; they are not discussed in a separate section so as to avoid duplication.

IX.6. Audits by external organisations

- On 11 October 2021 the State Audit Office sent a report on the "Discharge of the 2020 budget – a review of the implementation of Hungary's 2020 central budget", according to which the 2020 central budget had been implemented in compliance with the statutory provisions. In addition, on 17 December 2021, the Bank received a report on the audit entitled "Review of the integrity of majority state-owned companies – at 208 companies", in which it found everything to be in order with regard to the Bank.
- There was no on-site MNB audit in 2021. As part of its normal market surveillance activities, the MNB requested data in relation to ICAAP in the fourth quarter of 2021, and the Bank provided data on the MNB Funding for Growth Scheme that was launched during the year and is still ongoing.
- Based on previous external official audits regarding the implementation of the financial instruments, the execution of the various measures stipulated in the various reports for MFB Zrt. as a Fund of Funds Implementing Entity had been continuous, with the Bank having prepared the reports on its activities by the deadline prescribed by law.

X. The 2022 business policy concept of MFB

The basic task of MFB Zrt. is to provide domestic companies with financing under favourable terms, which will stimulate investment and development, as well as to support long-term economic development priorities and to raise the funds from the money market that are needed for these.

The activities of MFB Zrt. as a development bank will continue to complement the operations of the Hungarian banking sector in 2022 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 survey conducted at the end of 2021, there are unmet financing needs of nearly HUF 550 billion in the economy that promise reasonable returns, and even under EU principles, meeting these needs gradually is a task well worth pursuing.

In addition to the existing ones, new target segments and renewed product-and- service content are needed, and the results of measures taken by MFB in previous years to mitigate the negative economic effects of COVID-19 and to then rebuild the economy must be maintained and where applicable, expanded.

Anticipating an alleviation in the pandemic, MFB Zrt. believes 2022 will be a year of consolidated expansion, and, with the strengthening of economic growth and thus a reduction in its anti-cyclical economic and development-policy role, expects the Bank to return to its previous path of growth – less dynamic than that of the more recent years, but one that is still based on development-policy priorities.

In 2022, 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 restructure and maintain the Crisis Loan programmes introduced in connection with the mitigation of the economic consequences of COVID and is planning to introduce new products as well.

In MFB Zrt.'s investment and asset-management activity, as in 2021, in 2022 as well, investments through the various capital funds will continue to figure predominantly, with the emphasis in 2022 being on capital placements actually made. The operations of subsidiaries follow the adopted strategic group-level objectives, and MFB Zrt. will provide capital increases to expand the business activity of the subsidiaries.

MFB continues to plan its cost management based on two considerations: standard operating expenses and capital expenditures will remain under tight 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 were in most cases already reflected in the processes and results of 2020 and 2021 (accounting effect of moratorium settlement, impairments and capital investments). In 2022, it will be the spill-over effects of these (e.g. the postponement of procurements to 2022) that will be most in evidence.

As a result of the above trends and processes, MFB Zrt. will report positive operating earnings for 2022, in accordance with the owner's expectations. The Bank's liquidity and funding will be stable throughout the year; however, in order to maintain earnings, it will be necessary to implement the planned placements and maintain the planned cost levels.

XI. Events after the balance sheet date

In the context of the Russian-Ukrainian war that broke out on 24 February 2022, the MFB examined potential risk factors for the two countries concerned at both individual banking and group level and did not identify any significant direct exposure.

There is a significant uncertainty about the potential impacts of the further developments of the war in Ukraine and related response/sanctions and their impacts on economy, etc. therefore the potential impacts on the financial statements cannot be determined as at the reporting date but the Bank monitor the situations/potential risks.

Budapest, 28. March 2022

Dr. Levente Sipos-Tompa
Chairman and Chief Executive
Officer

Kornél Kisgergely
Director General

Corporate Governance Report

2021

Budapest, 28. March 2022

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., Bank 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 2021 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 (4) 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 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. 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 2021, 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. Zsolt József 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 2021, the Chair and the members of the Supervisory Board are as follows:

1. Dr. Tibor Zoltán Halasi, Chair of the Supervisory Board
2. Katalin Erzsébet 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. Endre Vincze, 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 2021, in view of the emergency situation due to the COVID-19 epidemic, the Board of Directors had met 3 times and adopted decisions 107 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
1.	29 September 2021-meeting	Of 5 members, 4 participated
2.	3 November 2021-meeting	Of 5 members, 5 participated
3.	15 December 2021-meeting	Of 5 members, 4 participated
	Urgent procedure	
1.	5 January 2021	Of 5 members, 4 participated
2.	6 January 2021	Of 5 members, 5 participated
3.	11 January 2021	Of 5 members, 5 participated
4.	13 January 2021	Of 5 members, 5 participated
5.	14 January 2021	Of 5 members, 5 participated
6.	21 January 2021	Of 5 members, 4 participated
7.	25 January 2021	Of 5 members, 5 participated
8.	25 January 2021-II. procedure	Of 5 members, 5 participated
9.	29 January 2021	Of 5 members, 5 participated
10.	2 February 2021	Of 5 members, 5 participated
11.	2 February 2021-II. procedure	Of 5 members, 5 participated
12.	3 February 2021	Of 5 members, 5 participated
13.	4 February 2021	Of 5 members, 4 participated
14.	9 February 2021	Of 5 members, 5 participated
15.	12 February 2021	Of 5 members, 4 participated
16.	15 February 2021	Of 5 members, 5 participated
17.	15 February 2021-II. procedure	Of 5 members, 5 participated
18.	22 February 2021	Of 5 members, 5 participated
19.	23 February 2021	Of 5 members, 5 participated
20.	24 February 2021	Of 5 members, 5 participated
21.	25 February 2021	Of 5 members, 5 participated
22.	8 March 2021	Of 5 members, 5 participated
23.	9 March 2021	Of 5 members, 5 participated
24.	10 March 2021	Of 5 members, 5 participated
25.	17 March 2021	Of 5 members, 5 participated
26.	18 March 2021	Of 5 members, 5 participated

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
27.	18 March 2021-II. procedure	Of 5 members, 5 participated
28.	19 March 2021	Of 5 members, 5 participated
29.	22 March 2021	Of 5 members, 5 participated
30.	24 March 2021	Of 5 members, 5 participated
31.	25 March 2021	Of 5 members, 5 participated
32.	26 March 2021	Of 5 members, 5 participated
33.	29 March 2021	Of 5 members, 5 participated
34.	30 March 2021	Of 5 members, 5 participated
35.	30 March 2021-II. procedure	Of 5 members, 5 participated
36.	31 March 2021	Of 5 members, 5 participated
37.	1 April 2021	Of 5 members, 5 participated
38.	13 April 2021	Of 5 members, 5 participated
39.	20 April 2021	Of 5 members, 5 participated
40.	22 April 2021	Of 5 members, 5 participated
41.	22 April 2021-II. procedure	Of 5 members, 5 participated
42.	23 April 2021	Of 5 members, 5 participated
43.	24 April 2021	Of 5 members, 4 participated
44.	29 April 2021	Of 5 members, 5 participated
45.	3 May 2021	Of 5 members, 5 participated
46.	4 May 2021	Of 5 members, 4 participated
47.	5 May 2021	Of 5 members, 4 participated
48.	12 May 2021	Of 5 members, 5 participated
49.	13 May 2021	Of 5 members, 5 participated
50.	19 May 2021	Of 5 members, 5 participated
51.	27 May 2021	Of 5 members, 5 participated
52.	31 May 2021	Of 5 members, 5 participated
53.	2 June 2021	Of 5 members, 5 participated
54.	2 June 2021-II. procedure	Of 5 members, 5 participated
55.	3 June 2021	Of 5 members, 5 participated
56.	4 June 2021	Of 5 members, 5 participated
57.	8 June 2021	Of 5 members, 5 participated
58.	9 June 2021	Of 5 members, 5 participated
59.	10 June 2021	Of 5 members, 5 participated
60.	11 June 2021	Of 5 members, 5 participated
61.	16 June 2021	Of 5 members, 5 participated
62.	17 June 2021	Of 5 members, 5 participated
63.	18 June 2021	Of 5 members, 5 participated
64.	21 June 2021	Of 5 members, 5 participated
65.	23 June 2021	Of 5 members, 5 participated
66.	25 June 2021	Of 5 members, 5 participated
67.	5 July 2021	Of 5 members, 4 participated
68.	5 July 2021-II. procedure	Of 5 members, 4 participated
69.	12 July 2021	Of 5 members, 4 participated
70.	15 July 2021	Of 5 members, 3 participated
71.	16 July 2021	Of 5 members, 3 participated
72.	26 July 2021	Of 5 members, 4 participated
73.	27 July 2021	Of 5 members, 4 participated

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
74.	29 July 2021	Of 5 members, 4 participated
75.	30 July 2021	Of 5 members, 5 participated
76.	2 August 2021	Of 5 members, 5 participated
77.	4 August 2021	Of 5 members, 5 participated
78.	12 August 2021	Of 5 members, 5 participated
79.	25 August 2021	Of 5 members, 5 participated
80.	31 August 2021	Of 5 members, 4 participated
81.	31 August 2021	Of 5 members, 4 participated
82.	7 September 2021	Of 5 members, 4 participated
83.	16 September 2021	Of 5 members, 5 participated
84.	23 September 2021	Of 5 members, 4 participated
85.	24 September 2021	Of 5 members, 5 participated
86.	4 October 2021	Of 5 members, 5 participated
87.	11 October 2021	Of 5 members, 5 participated
88.	15 October 2021	Of 5 members, 5 participated
89.	18 October 2021	Of 5 members, 5 participated
90.	28 October 2021	Of 5 members, 5 participated
91.	8 November 2021	Of 5 members, 5 participated
92.	9 November 2021	Of 5 members, 5 participated
93.	11 November 2021	Of 5 members, 4 participated
94.	15 November 2021	Of 5 members, 4 participated
95.	19 November 2021	Of 5 members, 5 participated
96.	23 November 2021	Of 5 members, 5 participated
97.	26 November 2021	Of 5 members, 5 participated
98.	30 November 2021	Of 5 members, 5 participated
99.	8 December 2021	Of 5 members, 4 participated
100.	9 December 2021	Of 5 members, 5 participated
101.	10 December 2021	Of 5 members, 4 participated
102.	16 December 2021	Of 5 members, 5 participated
103.	17 December 2021	Of 5 members, 5 participated
104.	20 December 2021	Of 5 members, 4 participated
105.	21 December 2021	Of 5 members, 4 participated
106.	22 December 2021	Of 5 members, 5 participated
107.	27 December 2021	Of 5 members, 5 participated

In view of the emergency situation due to the COVID-19 epidemic the Supervisory Board had held 3 meetings in 2021 and made decisions in 25 cases without holding a meeting, by written voting.

	Date of Supervisory Board meeting/ adopted a decision by written procedure	Participation rate
1.	10 November 2021-meeting	Of 6 members, 4 participated
2.	30 November 2021-meeting	Of 6 members, 5 participated
3.	21 December 2021-meeting	Of 6 members, 4 participated
	Written procedure	
1.	6 January 2021	Of 6 members, 5 participated
2.	3 February 2021	Of 6 members, 4 participated

	Date of Supervisory Board meeting/ adopted a decision by written procedure	Participation rate
3.	8 February 2021	Of 6 members, 4 participated
4.	19 February 2021	Of 6 members, 5 participated
5.	10 March 2021	Of 6 members, 4 participated
6.	23 March 2021	Of 6 members, 5 participated
7.	26 March 2021	Of 6 members, 4 participated
8.	6 April 2021	Of 6 members, 4 participated
9.	21 April 2021	Of 6 members, 5 participated
10.	27 April 2021	Of 6 members, 5 participated
11.	5 May 2021	Of 6 members, 5 participated
12.	25 May 2021	Of 6 members, 4 participated
13.	11 June 2021	Of 6 members, 5 participated
14.	17 June 2021	Of 6 members, 5 participated
15.	22 June 2021	Of 6 members, 6 participated
16.	1 July 2021	Of 6 members, 4 participated
17.	22 July 2021	Of 6 members, 5 participated
18.	27 July 2021	Of 6 members, 4 participated
19.	10 August 2021	Of 6 members, 4 participated
20.	16 August 2021	Of 6 members, 5 participated
21.	1 September 2021	Of 6 members, 4 participated
22.	30 September 2021	Of 6 members, 4 participated
23.	16 November 2021	Of 6 members, 5 participated
24.	10 December 2021	Of 6 members, 4 participated
25.	16 December 2021	Of 6 members, 5 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 12 July 2021 by the Founder's Resolution No. 14/2021 (VII.12.).

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 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, including the annual publication information;
- 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 in writing 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 of receipt thereof, 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 (Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors (hereafter: Kkt. Act));
- 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 2021, the Chair and the members of Audit Committee are as follows:

1. Dr. Péter Pataki, Chair of the Audit Committee,
2. Endre Vincze, member of the Audit Committee,
3. Katalin Erzsébet Nagyné Maros, member of the Audit Committee.

In 2021, in view of the emergency situation due to the COVID-19 epidemic, the Audit Committee had not meet and took its decisions 15 times by written voting. The participation rate was as follows.

	Date of Audit Committee meeting/ adopted a decision by written procedure	Participation rate
1.	1 February 2021	Of 3 members, 3 participated
2.	8 February 2021	Of 3 members, 2 participated
3.	24 March 2021	Of 3 members, 3 participated
4.	31 March 2021	Of 3 members, 3 participated
5.	6 May 2021	Of 3 members, 3 participated
6.	21 May 2021	Of 3 members, 3 participated
7.	15 June 2021	Of 3 members, 2 participated
8.	17 June 2021	Of 3 members, 3 participated
9.	29 June 2021	Of 3 members, 2 participated

	Date of Audit Committee meeting/ adopted a decision by written procedure	Participation rate
10.	12 July 2021	Of 3 members, 2 participated
11.	2 September 2021	Of 3 members, 2 participated
12.	13 September 2021	Of 3 members, 2 participated
13.	4 October 2021	Of 3 members, 3 participated
14.	7 October 2021	Of 3 members, 3 participated
15.	15 December 2021	Of 3 members, 3 participated

Detailed information on the 2021 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) EU Management Committee,
- g) Infringement Management Committee
- h) Developmental 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 in addition the Operational Development and Regulatory Directorate 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 /Supervisory Board

I. Chief Executive Officer

A) Management

1. 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 Committee

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 within 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 ethic, conflict of interest issues, market abuses and the prevention of money laundering. The Compliance Directorate, an organisational unit independent of business and other banking area, performs the compliance function of the Bank. The activities of the Compliance Directorate are determined by 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 in 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 2021 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 349,900,000,000 (Three Hundred and Forty Nine Billion Nine Hundred Million Forints), which consists of 349,900 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 founder 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 its 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 have a 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 assesses 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. 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 as 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 2.9.2 Did 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.