MFB HUNGARIAN DEVELOPMENT BANK
PRIVATE LIMITED
COMPANY AND ITS SUBSIDIARIES

Consolidated 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 and its subsidiaries
Consolidated Statement of Financial Position
(amounts presented in million HUF)

ASSETS	Notes	2021	2020
Cash, cash balances at central banks and other demand deposits	**4**	**169 525**	**77 323**
Financial assets held for trading	**9**	**783**	**443**
Derivatives		783	443
Non-trading financial assets mandatorily at fair value through profit or loss	**5**	**97 219**	**46 733**
Debt securities		60 513	3 651
Loans		36 706	43 082
Loans to customers		*7 109*	*8 068*
Loans to banks		*29 597*	*35 014*
Financial assets at fair value through other comprehensive income	**6**	**46 603**	**48 321**
Of which assets encumbered		*6 547*	*8 316*
Equity instruments		14 066	9 275
Debt securities		32 537	39 046
Financial assets at amortized cost	**7**	**1 641 435**	**1 491 816**
Of which assets encumbered		*331 836*	*197 439*
Debt securities		385 538	120 705
Loans		1 213 151	1 100 934
Loans to customers		*1 155 547*	*1 062 815*
Loans to banks		*57 604*	*38 119*
Other financial assets		357	1 999
Deposits at central and other banks		42 389	268 178
Derivatives – Hedge accounting	**9**	**7 849**	**1 608**
Investments in associates	**8**	**169 870**	**50 967**
Property, plant and equipment	**11**	**7 049**	**6 020**
Investment property	**11.1**	**33 567**	**33 638**
Intangible assets	**12**	**5 958**	**4 943**
Tax assets		**56**	**305**
Current tax assets		0	210
Deferred tax assets		56	95
Other assets	**13**	**31 046**	**19 952**
Receivables from the state due to currency-hedging agreement	**14**	**162 081**	**157 009**
TOTAL ASSETS		**2 373 041**	**1 939 078**

The accompanying notes to financial statements on pages 8 to 155 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated 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**	**1 836 610**	**1 503 185**
Customer deposits		141 905	235 882
Loan from banks		598 877	527 012
Debt securities issued	15.1	1 085 030	735 659
Other financial liabilities		10 798	4 632
Derivatives – Hedge accounting	**9**	**0**	**0**
Provisions	**16**	**3 547**	**1 914**
Tax liabilities	**31**	**3 989**	**3 325**
Current tax liabilities		574	119
Deferred tax liabilities		3 415	3 206
Other liabilities	**17**	**32 136**	**18 022**
TOTAL LIABILITIES		**1 876 946**	**1 527 357**
Share capital	18	349 900	265 900
Share premium	18	81 870	81 870
Valuation reserve		(2 342)	91
Retained earnings		66 373	61 331
Other reserves	19	294	0
Equity attributable to the owner		**496 095**	**409 192**
Non-controlling interest	**20**	**0**	**2 529**
TOTAL EQUITY		**496 095**	**411 721**
TOTAL EQUITY AND LIABILITIES		**2 373 041**	**1 939 078**

Budapest, 28 March 2022

dr. Levente Sipos-Tompa	Kornél Kisgergely
Chairman and Chief Executive Officer	Director General

MFB Hungarian Development Bank Private Limited Company and its subsidiaries
Consolidated Income Statements
(amounts presented in million HUF)

	Notes	2021	2020
Interest income calculated using the effective interest method		46 081	36 845
Other similar income		6 250	14 747
Interest expenses		(19 563)	(29 206)
Net interest income	**22**	**32 768**	**22 386**
Dividend income	23	0	7
Fee and commission income		3 371	1 525
Fee and commission expenses		(203)	(242)
Net Fee and commission income or expenses	**24**	**3 168**	**1 283**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25	1 190	(268)
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		363	(717)
Gains or (-) losses from hedge accounting, net	10	27	771
Exchange differences [gain or (-) loss], net		509	38 900
Gains or (-) losses on derecognition of non-financial assets, net	26	(234)	325
Other operating revenue and income	27	10 066	7 223
Total operating income		**47 858**	**31 664**
Salaries and employee benefits		(14 855)	(12 600)
Other administrative expenses		(6 336)	(5 254)
Administrative expenses	**28**	**(21 191)**	**(17 854)**
Depreciation		(2 218)	(2 008)
Other operating expenses	27	(6 656)	(4 119)
Contract modification loss, net	7.1.1	(1 045)	(2 118)
Impairment (-) or reversal of impairment of financial instruments	30	(5 198)	2 146
Impairment (-) or reversal of impairment of investments in exempted associates	31	(817)	(1 294)
Impairment (-) or reversal of impairment of non-financial instruments	32	0	(67)
Profit or (-) loss from associates		(684)	(1 381)
Profit before tax		**10 049**	**4 969**
Tax expense related to profit or loss of continuing operation	33	(2 240)	(2 433)
Profit after tax		**7 809**	**2 536**
Profit for the year		**7 809**	**2 536**
Profit attributable to non-controlling interest	***20***	***0***	***(68)***
Profit attributable to the owner		**7 809**	**2 604**

The accompanying notes to financial statements on pages 8 to 155 form an integral part of these consolidated financial statements

MFB Hungarian Development Bank Private Limited Company and its subsidiaries

Consolidated Other Comprehensive Income Statements

(amounts presented in million HUF)

	Notes	2021	2020
Profit for the year		**7 809**	**2 536**
Other comprehensive income		**(2 433)**	**121**
Items that will not be reclassified to profit or loss		**467**	**335**
Change in far value of equity instruments at fair value through other comprehensive income		513	369
Tax impact of items that will not be reclassified to profit and loss		(46)	(34)
Items that may be reclassified to profit or loss		**(2 900)**	**(214)**
Debt instruments at fair value through other comprehensive income		(2 900)	(242)
Fair value change	6	(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		**5 376**	**2 657**
Comprehensive income, (-) expense attributable to non-controlling interest		**0**	**(68)**
Comprehensive income, (-) expense attributable to the owner		**5 376**	**2 725**

The accompanying notes to financial statements on pages 8 to 155 form an integral part of these consolidated financial statements

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

	Notes	Share Capital	Share premium	Other Reserves	Retained earnings	Valuation reserve	Non-controlling interest	Total
		18	**19**	**19**		**6**	**20**	
Balance at 1 January 2020		**114 500**	**81 870**	**2 087**	**56 263**	**(30)**	**3 017**	**257 707**
Profit for the year					2 604		(68)	2 536
Other comprehensive income						121		121
Total comprehensive income					**2 604**	**121**	**(68)**	**2 657**
General reserve used	**19**			(2 087)	2 087			0
Capital increase	**18**	151 400						151 400
Loss in control of subsidiaries							2	2
Changes in ownership					377		(422)	(45)
Balance at 31 December 2020		**265 900**	**81 870**	**0**	**61 331**	**91**	**2 529**	**411 721**
Profit for the year					7 809			7 809
Other comprehensive income						(2 433)		(2 433)
Total comprehensive income					**7 809**	**(2 433)**		**5 376**
General reserve allocation				294	(294)			0
Capital increase	**18**	84 000						84 000
Changes in ownership					(1 921)		(2 529)	(4 450)
Sale of FVOCI investments					(552)			(552)
Balance at 31 December 2021		**349 900**	**81 870**	**294**	**66 373**	**(2 342)**	**0**	**496 095**

The accompanying notes to financial statements on pages 8 to 155 form an integral part of these consolidated financial statements

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

	Notes	2021	2020
Operating cash flow			
Profit/(loss) before tax		10 049	4 969
Adjustments to profit before tax			
Depreciation and amortization		2 218	2 008
Fair valuation impact		(1 066)	38 192
Impact of equity method applied for associates		684	1 381
Net profit/loss on sale of non-financial instruments		234	(325)
Net interest income	22	(32 768)	(22 386)
Dividend income	23	0	(7)
Change in provisions		1 408	(2 053)
Change in impairment		(4 839)	(175)
Operating cash flow		***(24 080)***	***21 604***
Decrease/(increase)) in operating assets			
Non-trading financial assets mandatorily at fair value through profit or loss		(48 986)	13 089
Financial assets at fair value through other comprehensive income		(1 822)	(551)
Financial assets at amortized cost, except debt securities		129 142	(351 128)
Other assets		(11 831)	(15 072)
Receivables from the State due to currency-hedging agreement		(5 072)	(22 884)
Increase/(decrease) in operating liabilities			
Financial liabilities measured at amortized cost, except issued bonds		(16 449)	304 027
Other liabilities		29 532	24 518
Actual cash flow movements			
Interest received		34 812	46 217
Dividend received	23	0	7
Interest paid		(17 380)	(34 602)
Income tax paid		(1 489)	(1 306)
Net cash provided by/ (used in) operating activities		**66 377**	**(16 081)**

The accompanying notes to financial statements on pages 8 to 155 form an integral part of these consolidated financial statements

(amounts presented in million HUF)

	Notes	2021	2020
Cash flow from investing activities			
Payments for debt securities held at amortized cost	7.2	(355 414)	(68 203)
Proceeds from debt securities held at amortized cost	7.2	89 190	7 531
Investments in associates		(120 368)	(8 950)
Proceeds from sale of investments in subsidiaries and associates		18	590
Payments for property, plant and equipment and intangible assets and investment properties		(4 203)	(26 263)
Proceeds from sale of property, plant and equipment		29	25
Net cash (used in) / provided by investing activities		**(390 748)**	**(95 270)**
Cash flow from financing activities			
Capital increase		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		(842)	(462)
Net cash (used in) / provided by financing activities		**416 554**	**176 961**
Gross change in cash and cash equivalents		**92 183**	**65 610**
Cash and cash equivalents as at 1 January	4	77 368	11 758
Cash and cash equivalents as at 31 December	4	169 551	77 368

1. PRINCIPAL ACTIVITIES OF THE GROUP

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

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

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

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

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

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

The 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.

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

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

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

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

A. Members of the Group (subsidiaries)

Name of the subsidiary	Activity	Owner	Voting power 2021	2020
MFB-Ingatlanfejlesztő Zrt.	Real estate portfolio management	MFB	100%	100%
MKK Magyar Követeléskezelő Zrt.	Workout/Factoring	MFB	100%	100%
MFB Növekedési Tőkealap ("NTA")	Venture capital fund	MFB	100%	100%
MFB Vállalati Beruházási és Tranzakciós Magántőkealap (volt MFB KKV Tőkealap)	Venture capital fund	MFB	100%	100%
MFB Invest Befektetési és Vagyonkezelő Zrt.	Investment portfolio managementa	MFB	100%	95.7952%
Hiventures Kockázati tőkealap-kezelő Zrt.	Venture capital fund management	Invest	100%	95.7952%
FOCUS VENTURES Tőkealap-kezelő Zrt.	Private equity fund management	Invest	100%	95.7952%
Divat&Design Tőkealap	Venture capital fund	Invest	100%	95.7952%
Debrecen Városi Tőkealap	Venture capital fund	Invest	100%	95.7952%
Székesfehérvár Városi Tőkealap	Venture capital fund	Invest	100%	95.7952%
Veszprém Városi Tőkealap	Venture capital fund	Invest	100%	95.7952%
Kaposvár Városi Tőkealap	Venture capital fund	Invest	100%	95.7952%
Nyiregyháza Városi Tőkealap	Venture capital fund	Invest	100%	
Pécs Városi Tőkealap	Venture capital fund	Invest	100%	
Decreases in controlling interest				
MFB Beruházási és Tranzakciós Magántőkealap	Venture capital fund	MFB		100%

All of the above companies are incorporated in Hungary.

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

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

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

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

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

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

MFB Vállalati Beruházási és Tranzakciós Magántőkealap (MFB Company Investment and Transaction Private Equity Fund) (former MFB KKV Tőkealap (MFB SME Fund)

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

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

The fund is managed by Hiventures Zrt. In January 2021 the MFB SME Fund was transformed and is continuing its activity under a new name: MFB Company Investment and Transaction Private Equity Fund. In parallel MFB Crisis Fund, that has been founded by HUF 150 billion capital, as an answer to the economic challenges caused by the COVID 19 pandemic, were ceased. The new fund disposes above HUF 75 billion, and its investment policy and goals are equivalent with the formal SME Fund and Crisis Fund.

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

Private Equity firm responsible for financing of medium-sized and larger companies' development-type projects. It performs investments directly with acquiring shareholdings in enterprises and indirectly with investing to Funds. Due to a shares swap agreement between the Hungarian State and MFB, the partial ownership of the State in MFB Invest was ceased on 27 May 2021. Consequently, MFB became the sole shareholder of the company again.

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

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

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

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

Divat&Design Tőkealap (Fashion & Design Fund)

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

Debrecen Városi Tőkealap (Debrecen Urban Fund)

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

Székesfehérvár Városi Tőkealap (Székesfehérvár Urban Fund)

The purpose of the Fund is to finance projects in Székesfehérvár and Fejér County, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

Veszprém Városi Tőkealap (Veszprém Urban Fund)

The purpose of the Fund is to finance projects in Veszprém and Veszprém County, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

Kaposvár Városi Tőkealap (Kaposvár Urban Fund)

The purpose of the Fund is to finance projects in Kaposvár and Somogy County, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

Nyiregyháza Városi Tőkealap (Nyiregyháza Urban Fund)

The purpose of the Fund is to finance projects in Niyregyháza and Szabolcs-Szatmár-Bereg County, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

Pécs Városi Tőkealap (Pécs Urban Fund)

The purpose of the Fund is to finance projects in Pécs and Baranya County, thus providing growth opportunities for companies in the region. The fund is managed by FOCUS VENTURES.

B. Mergers, acquisitions and sales

Sales, derecognitions

MFB Beruházási és Tranzakciós Magántőkealap (MFB Investment and Transaction Fund)

The purpose of the Fund is to finance SMEs and larger enterprises, with special focus on the below topics:

- Restructuring
- Buyout
- Economy development

The fund was managed by Hiventures Zrt. In order to optimise financial resource available to enterprises, the termination of the Fund occurede on 7 January 2021 and its purpose was transferred to MFB Company Investment and Transaction Private Equity Fund.

2. BASIS OF PREPARATION

Statement of compliance

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

Consolidated financial statements were approved by the Board of Directors on 28 March 2022. The Annual Financial Statements were approved by the Board of Directors also on 28 March 2022.

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

Basis of measurement

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

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

Functional currency

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

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

	31 December 2021 (HUF)	**31 December 2020 (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 consolidated 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 Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of income, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group’s accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group’s control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the financial statements with substantial management judgement and/or estimates are summarized below with respect to judgements/estimates involved.

Impairment
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of 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 Group’s expected credit loss calculations (ECL) are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

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

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

Fair value

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

Legal risk

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

Exempted associates

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

Covid-19 effects

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

Subsidiaries

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

Associates

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

Transactions eliminated during consolidation

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

b) Foreign currency transactions

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

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

c) Financial assets and liabilities

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

i. Recognition

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

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

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

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

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

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

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- the expected frequency, value and timing of sales are also important aspects of the Bank's assessment

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

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

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

SPPI test

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

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

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred 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 Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Group has transferred the financial asset if, and only if, either:

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

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

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

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

iii. Measurement

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

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

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

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

iv. Classification

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

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

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

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

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

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

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

v. Amortized cost measurement

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

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

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

vi. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

a) in the case of non-retail exposure:

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

b) in the case of retail exposure:

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

Stage 3 (impaired credit risk category)
Default (non-performing), credit-impaired category. The third stage includes defaulted transactions for which there is either objective evidence of impairment or a probable future default of the debtor. To classify into this category, the Group monitors various default events (e.g. delays exceeding the threshold for significant credit default, termination, liquidation proceedings, bankruptcy proceedings, compulsory winding-up proceedings, commencement of winding-up proceedings, forced restructuring, if the transaction was in default at the time of the restructuring, etc.) The Group 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

vii. Collateral valuation

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

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

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

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

The Group continuously monitors its restructured loans to ensure that 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 Group.

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

- at least 365 days have passed since the date of the restructuring and since the end of the grace period provided for in the restructuring agreement and
- there is no delay (principal, interest, commission, fee) 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.

d) Leasing

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

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

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

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

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

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

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

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

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

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

e) Impairment of non-financial assets

At each reporting date, the Group 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 Group makes estimates for the realizable amount on a quarterly basis. Impairments are recognized or reversed according to these estimates in profit or loss.

f) Cash and cash equivalents

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

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

g) Loans and advances to banks and to customers

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

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

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

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

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

h) Securities

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

Venture capital investments that cannot be classified as equity instruments under IAS 32 in which the Bank has no significant influence are also presented here. Since these instruments do not meet the SPPI test, the Group presents them within debt instrument, mandatorily fair valued through profit and loss. 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 Group applies impairment calculation for all of its debt securities (except those fair valued through profit and loss) and the expected credit loss is recognized in profit and loss.

i) Encumbered assets

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

j) Repurchase and reverse repurchase agreements

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

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

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

k) Investments

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

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

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

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

l) Derivative financial instruments

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

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

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

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

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

m) Hedge accounting

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

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

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

n) Property, plant and equipment and Intangible assets

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

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

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

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

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

o) Investment property

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

p) Bonds issued

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

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

q) Provisions

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

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

r) Offsetting

Financial assets and financial liabilities are offsetted in the statement of financial position when and only when the Group has a legally enforceable right to set off the amounts and intends to settle them either on a net basis or at the same time intend to realise the assets and settle liabilities at the same time. The Group has various netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include: repo and reverse repo transactions, securities borrowing and lending arrangements, and over-the-counter and exchange traded derivatives. 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.

s) Commitments and contingencies

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

t) Interest income and expense

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

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

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

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

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

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

Interest income and expense include:

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

u) Fee and commission income and expense

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

v) Dividend income

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

w) Current and other taxes

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

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date. The base of the income tax is the profit before tax adjusted by the tax base modifying items. The corporate tax was unified at a flat rate of 9% both in 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 Group recognizes deferred tax asset if it is probable that the temporary differences will reverse in the foreseeable future.

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

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

The **special bank tax of financial institutions is** presented among other expenses. The tax is in effect since 2010. The base of the special tax is the adjusted balance sheet total of the second preceding year (meaning 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 Group recognizes the special bank tax of financial institutions when it becomes legally enforceable (i.e., when the obligating event arises) which is on 1 January each year.

In order to implement the Economic Protection Action Plan, a **special credit institution tax on the epidemiological situation** for replenishing the Epidemiological Fund was introduced for banks 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).

x) Statement of cash flows

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

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

y) Events after the reporting period

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

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

z) New standards and interpretations

Standards and Interpretations effective in the current period

A number of new standards are effective from 1 January 2021 that do not have a material effect on the Group’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).b*
- *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 Group's consolidated 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 Group.

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

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

	2021	2020
Cash	6	6
Cash balances with National Bank of Hungary (NBH)	162 675	43 774
Overnight deposits	*161 019*	*42 452*
Statutory reserve	*1 656*	*1 322*
Other demand deposits	6 870	33 588
Gross balances	**169 551**	**77 368**
Impairment	(26)	(45)
Total	**169 525**	**77 323**

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

	2021			
	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**

	2020			
	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.

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

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	2 648	712	129	3 489
Households	136	12	18	166
	5 689	**1 273**	**147**	**7 109**
Total	**35 203**	**1 356**	**147**	**36 706**

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

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

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

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
Equity instruments		
Listed on stock exchange	0	0
Not listed on stock exchange	14 066	9 275
	14 066	**9 275**
Debt securities		
Hungarian government bonds	32 537	38 565
Treasury bills	0	481
	32 537	**39 046**
from this encumbered assets	*6 547*	*8 316*
Total	**46 603**	**48 321**

	2021			
Debt securities	**Gross carríing amount**	**Impairment**	**Fair value adjustment**	**Fair value**
Hungarian government bonds	35 077	0	(2 540)	32 537
Treasury bills	0	0	0	0
	35 077	**0**	**(2 540)**	**32 537**
Equity instruments				
European Investment Fund			166	550
Other			0	3 701
Kall Ingredients Kft.			674	6 458
OTP OJSC (Investberbank)			0	522
Venture capital investments			(622)	2 835
			218	**14 066**
Fair value adjustment recognized in valuation reserve			(2 322)	
Valuation reserve after deferred tax adjustment			**(2 342)**	

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

All debt securities are classified as stage 1 both as at 31 December 2021 and 2020.

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

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

The Venture capital investment line includes investments by Group owned venture capital funds. These entities on the one hand have a few years of business history, or even those that do not have a business history, which does not allow the acquisition of funds from the credit market or traditional capital markets. In addition to the start-up companies, the development-phase companies are also part of this investment portfolio. In addition, small and medium-sized enterprises that have been operating for a long time are also included in the portfolio, where the aim of the investment is to increase the competitiveness and productivity of enterprises. The projected average maturity is 3-7 years, and the ownership share acquired is between 9-50%.

7. FINANCIAL ASSETS AT AMORTIZED COST

	2021	2020
Debt securities		
Hungarian government bonds	53 494	54 900
Corporate bonds	325 899	57 993
Mortgage bonds	6 145	7 812
	385 538	**120 705**
from this encumbered assets	*93 353*	*37 145*
Customer loans		
General governments	38 554	212 257
Other financial corporations	304 089	261 465
Other non-financial corporations	685 164	444 330
Households	127 740	144 763
	1 155 547	**1 062 815**
from this encumbered assets	*238 446*	*159 310*
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	22 588	46 169
	42 389	**268 178**
Other financial assets		
Trade receivables	320	1 015
Margin accounts	37	984
	357	**1 999**
from this encumbered assets	*37*	*984*
Total	**1 641 435**	**1 491 816**
from this encumbered assets	*331 836*	*197 439*

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

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

7.1 LOANS

	2021				
GROSS OUTSTANDING	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Customer loans					
General governments	38 672	0	0	18	38 690
Other financial corporations	209 601	96 764	0	142	306 507
Other non-financial corporations	418 897	274 731	21 565	7 403	722 596
Households	61 087	7 676	11	68 853	137 627
	728 257	**379 171**	**21 576**	**76 416**	**1 205 420**
Loans to banks					
Refinancing loans	827	0	0	0	827
Other loans	56 782	0	0	0	56 782
	57 609	**0**	**0**	**0**	**57 609**
IMPAIRMENT					
Customer loans					
General governments	(136)	0	0	0	(136)
Other financial corporations	(348)	(2 025)	0	(45)	(2 418)
Other non-financial corporations	(1 704)	(21 778)	(12 092)	(1 858)	(37 432)
Households	(4)	(79)	(7)	(9 797)	(9 887)
	(2 192)	**(23 882)**	**(12 099)**	**(11 700)**	**(49 873)**
Loans to banks					
Refinancing loans	0	0	0	0	0
Other loans	(5)	0	0	0	(5)
	(5)	**0**	**0**	**0**	**(5)**
NET CARRYING AMOUNT					
Customer loans					
General governments	38 536	0	0	18	38 554
Other financial corporations	209 253	94 739	0	97	304 089
Other non-financial corporations	417 193	252 953	9 473	5 545	685 164
Households	61 083	7 597	4	59 056	127 740
	726 065	**355 289**	**9 477**	**64 716**	**1 155 547**
Loans to banks					
Refinancing loans	827	0	0	0	827
Other loans	56 777	0	0	0	56 777
	57 604	**0**	**0**	**0**	**57 604**
TOTAL NET CARRYING AMOUNT	**783 669**	**355 289**	**9 477**	**64 716**	**1 213 151**

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

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

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

	2021	**2020**
Amortized cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event	130 165	149 772
from this resulted from the moratorium settlement	112 498	148 418
Gains less losses recognized in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition	(796)	(1 558)
from this resulted from the moratorium settlement	(1 083)	(1 556)
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 Group does not have any such outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity neither as at 31 December 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 1)

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

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

Main rules of Moratorium 1

The moratorium on payments may be applied to loans already disbursed by the debtor under its contract by midnight on the 18th of March 2020.

The 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.

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

[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.

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 2021and 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.

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

	2021							
GROSS OUTSTANDING	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	***from this moratorium 3***	**Contract modification loss**	***from this moratorium 3***
Customer loans								
General government*	0	0	0	0	0	*0*		
Other financial corporations	24 175	73 309	0	0	97 484	*18 395*		
Other non-financial corporations	21 161	33 089	5 447	0	59 697	*8 821*		
Households	19 117	2 172	0	229	21 518	*2 847*		
	64 453	**108 570**	**5 447**	**229**	**178 699**	***30 063***		
Loans to banks								
Refinancing loans	656	0	0	0	656	*0*		
Other loans	0	0	0	0	0	*0*		
	656	**0**	**0**	**0**	**656**	***0***		
IMPAIRMENT								
Customer loans								
General government	0	0	0	0	0	*0*		
Other financial corporations	(66)	(1 553)	0	0	(1 619)	*(279)*		
Other non-financial corporations	(52)	(14 184)	(3 582)	0	(17 818)	*(742)*		
Households	0	(3)	0	(69)	(72)	*(69)*		
	(118)	**(15 740)**	**(3 582)**	**(69)**	**(19 509)**	***(1 090)***		
Loans to banks								
Refinancing loans	0	0	0	0	0	*0*		
Other loans	0	0	0	0	0	*0*		
	0	**0**	**0**	**0**	**0**	***0***		
NET CARRYING AMOUNT								
Customer loans								
General government	**0**	**0**	**0**	**0**	**0**	***0***	**0**	**0**
Other financial corporations	**24 241**	**74 862**	**0**	**0**	**99 103**	***18 674***	**(862)**	**(246)**
Other non-financial corporations	**21 213**	**47 273**	**9 029**	**0**	**77 515**	***9 563***	**(443)**	**(139)**
Households	**19 117**	**2 175**	**0**	**160**	**21 452**	***2 778***	**(27)**	**(9)**
	64 571	**124 310**	**9 029**	**160**	**198 070**	***31 015***	**(1 332)**	**(394)**
Loans to banks								
Refinancing loans	**656**	**0**	**0**	**0**	**656**	***0***	**0**	**0**
Other loans	**0**	**0**	**0**	**0**	**0**	***0***	**0**	**0**
	656	**0**	**0**	**0**	**656**	***0***	**0**	**0**
TOTAL NET CARRYING AMOUNT	**65 227**	**124 310**	**9 029**	**160**	**198 726**	***31 015***	**(1 332)**	**(394)**
Other modification losses							**287**	
CONTRACT MODIFICATION LOSS TOTAL							**(1 045)**	**(394)**

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

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

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

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

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

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

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

7.2 DEBT SECURITIES

	2021			
Debt securities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Hungarian government bonds	53 494	0	0	**53 494**
Corporate bonds	327 490	492	0	**327 982**
Mortgage bonds	6 148	0	0	**6 148**
	387 132	**492**	**0**	**387 624**
IMPAIRMENT				
Hungarian government bonds	0	0	0	**0**
Corporate bonds	(1 935)	(148)	0	**(2 083)**
Mortgage bonds	(3)	0	0	**(3)**
	(1 938)	**(148)**	**0**	**(2 086)**
NET CARRYING AMOUNT				
Hungarian government bonds	53 494	0	0	**53 494**
Corporate bonds	325 555	344	0	**325 899**
Mortgage bonds	6 145	0	0	**6 145**
	385 194	**344**	**0**	**385 538**

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

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

Reconciliation of assets arising from investing activities

	2020	**Proceeds from maturity or sale**	**Discount/ Premium**	**Acquisition cost**	**2021**
Hungarian government bonds	54 900	0	(1 406)	0	**53 494**
Corporate bonds	58 189	(85 690)	2 127	353 356	**327 982**
Mortgage bonds	7 815	(3 500)	(225)	2 058	**6 148**
Total	**120 904**	**(89 190)**	**496**	**355 414**	**387 624**

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

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

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

7.3 DEPOSITS AT CENTRAL AND OTHER BANKS

	2021			
Deposits at central and other banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Central bank deposits	19 804	0	0	19 804
Other bank deposits	22 616	0	0	22 616
	42 420	**0**	**0**	**42 420**
IMPAIRMENT				
Central bank deposits	(3)	0	0	(3)
Other bank deposits	(28)	0	0	(28)
	(31)	**0**	**0**	**(31)**
NET CARRYING AMOUNT				
Central bank deposits	19 801	0	0	19 801
Other bank deposits	22 588	0	0	22 588
	42 389	**0**	**0**	**42 389**

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

7.4 OTHER FINANCIAL ASSETS

	2021			
Other financial assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
GROSS VALUE				
Trade receivables	0	324	0	324
Margin accounts	37	0	0	37
	37	**324**	**0**	**361**
IMPAIRMENT				
Trade receivables	0	(4)	0	(4)
Margin accounts	0	0	0	0
	0	**(4)**	**0**	**(4)**
NET CARRYING AMOUNT				
Trade receivables	0	320	0	320
Margin accounts	37	0	0	37
	37	**320**	**0**	**357**

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

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

8. INVESTMENTS IN ASSOCIATES

	2021		
	gross value	**impairment**	**net value**
Associates	156 608		156 608
Exempted associates	20 200	(6 938)	13 262
Total	**176 808**	**(6 938)**	**169 870**

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

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

	2021	**2020**
Carrying amount at 1 January	**50 967**	**44 080**
Fair value of net assets of associate acquired	112 165	6 285
Share of profit of associates	(401)	(997)
Share of capital increase of associates	8 303	2 712
Share of other equity movements of associates	(142)	(47)
Dividends from associates	0	0
FX impact of associates	178	887
Impairment of investments in associates	(817)	(1 295)
Decrease in associates	(383)	(658)
Carrying amount at 31 December	**169 870**	**50 967**

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

The Group's interest in its associates as at 31 December 2021 and 2020 were as follows.

		2021			2020
Name of the company	**Activities**	**Own equity**	**Subscribed capital ****	**Voting power**	**Voting power**
Enter Tomorrow Kockázati Tőkealap	Venture capital fund	7 361	8 923	49.00%	46.94%
BBCA Szolnok Biokémiai Zrt.	Venture capital fund	17 411	17 410	48.93%	46.87%
Garantiqa Hitelgarancia Zrt	Organic chemical producer	58 573	9 652	38.04%	38.04%
Impact Ventures I. Magántőkealap	Guarantee provider	1 805	2 326	39.50%	37.84%
Impact Ventures II. Magántőkealap	Venture capital fund	174	290	29.63%	28.38%
Debreceni Iparfejlesztési Alap*	Venture capital fund	5 739	6 750	66.67%	63.86%
Chi Fu Hungarian Economic Opportunity Fund	Venture capital/private equity fund	11 504	14 760	50.00%	47.90%
Water Impact Alap*	Venture capital/private equity fund	1 181	1 458	99.00%	94.84%
Nyíregyházi Iparfejlesztési Alap*	Venture capital/private equity fund	2 096	2 200	90.90%	87.08%
Valor Zöld Alap	Venture capital/private equity fund	2 091	2 109	49.00%	46.94%
WX-INNOCARGO Kft.	Venture capital/private equity fund	4 056	4 207	47.54%	29.87%
Activegraf Inc.	Computer programing	129	1 468	20.11%	20.11%
Tranzakciós és Vállalatfejlesztési Alap*	Venture capital/private equity fund	3 080	3 300	90.00%	-
Kecskemét Prémium Ipari Park Magántőkealap*	Venture capital/private equity fund	2 571	2 622	80.00%	-
Finext HelloParks Alapok Alapja Értékpapír Befektetési Alap*	Venture capital/private equity fund	20 627	20 664	75.00%	-
Equilor II Magántőkealap*	Venture capital/private equity fund	6 958	7 143	70.00%	-
Riverland Magántőkealap*	Venture capital/private equity fund	7 205	7 149	69.94%	-
Klasszikus Iparágak Magántőkealap*	Venture capital/private equity fund	8 305	8 580	69.93%	-
CENTRAL EUROPEAN OPPORTUNITY II Magántőkealap*	Venture capital/private equity fund	3 582	3 582	69.79%	-
Főnix Magántőkealap*	Venture capital/private equity fund	12 052	12 127	69.74%	-
Infinitum Magántőkealap*	Venture capital/private equity fund	3 570	3 590	69.64%	-
Gordiusz Magántőkealap*	Venture capital/private equity fund	71 880	71 849	69.59%	-
Ramóna Ingatlanforgalmazó és Ingatlanfejlesztő Alap*	Venture capital/private equity fund	3 521	3 660	68.7%	-
Szatmári Konzervgyár Kft.	Fruit and vegetable processing	2 986	875	40.00%	-
EKO Konzervipari Kft.	Fruit and vegetable processing	4 576	1 396	24.99%	-
SajóSolar Villamosenergetikai Kft.	Electricity generation	5 322	2 658	24.46%	-

**: The voting power column here represents the ownership percentage as the fund is managed by a fund manager where the majority ownership is not with the Group, therefore the equity method was used for this company consolidation*
*** Subscribed capital represents the paid in capital in case of Venture capital funds.*

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

Summarised financial information of each material associate is as follows at 31 December 2021:

	Garantiqa	**Krízis és Turisztikai Tőkealapok**	**Other venture capital funds**	**Other individually immaterial associates**	**Total associates**
Current assets	14 815	21 439	20 360	28 388	85 002
Non-current assets	84 382	84 455	50 836	40 708	260 381
Total Assets	**99 197**	**105 894**	**71 196**	**69 096**	**345 383**
Current liabilities	40 624	646	1 141	17 803	60 214
Non-current liabilities	0	0	0	16 813	16 813
Total Liabilities	**40 624**	**646**	**1 141**	**34 616**	**77 027**
Own Equity	**58 573**	**105 248**	**70 055**	**34 480**	**268 356**
Revenue	28 827	0	0	19 240	48 067
Profit or loss from continuing operations	3 012	(192)	(3 381)	(173)	(734)
Profit or loss from discontinued operations	0	0	0	0	0
Other comprehensive income	0				
Total comprehensive income	3 012				

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

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

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

Associates exempted from consolidation, therefore are treated at cost less impairment are presented below in descending order of the voting power, indicating the current subscribed capital as at 31 December 2021.

	2021			2020
	Owner	**Subscribed capital**	**Voting power**	**Voting power**
Exempted associates – under liquidation procedure				
Csepeli Lakásfejlesztő Zrt. "f.a."	NTA	1 000	49.00%	49.00%
Középületépítő Zrt. "f.a."	MFB	1 802	47.89%	47.89%
Meditcom EMER Kft. "f.a."	NTA	500	37.50%	37.50%
Let Me Inn Kft. ”f.a.”	NTA	5	30.00%	30.00%
Taxnology Innovations Kft. ”v.a.”	NTA	3	27.00%	9.00%
ClipWareHouse Zrt. ”f.a.”	NTA	6	25.01%	25.01%
Multipass Solutions Zrt. ”kt.a.”	NTA	23	22.21%	22.21%
Other exempted associates				
Bankmonitor Holding Kft.	VBTMA	10	49.00%	
Royalpack Group Holding Kft.	VBTMA	6	49.00%	
Blogter.com Kft	NTA	58	48.28%	48.28%
Monsun Kft.	NTA	3	48.07%	48.07%
SCOLVO Zrt.	NTA	10	46.80%	46.80%
PanIQ Franchising Inc.	NTA és VBTMA	18	44.92%	16.67%
FilmFinity Filmgyártó és Forgalmazó Zrt.	NTA	9	44.88%	24.97%
Thriveo Central Europe Kft.	Divat&Design TA	35	43.88%	
TrustAir Aviation Kft.	Invest	194	40.00%	38.32%
Concrate Style Kft.	Szfhvár VTA	5	40.00%	38.32%
MFA Alternatív Energia Műszaki- és Fejlesztési Kft.	Debrecen VTA	5	40.00%	
Zsigmond International Kft.	Divat&Design TA	3	38.48%	9.00%
SVG-Hungary Gépgyár Zrt.	Invest	27	35.19%	33.71%
Pure Sound Media Szolgáltató Kft.	NTA	5	35.00%	22.50%
Vág-Tech Projekt Kft.	VBTMA	5	34.04%	34.04%
Harmony Holding Kft.	VBTMA	5	34.00%	34.00%
DAIGE Kft.	NTA és Divat&Design TA	3	33.34%	17.19%
Vajda Real Estate Kft.	VBTMA	6	33.33%	
Cargo-Viszed Kft.	NTA	3	32.42%	32.42%
Koin Europe Kft.	NTA	5	32.00%	32.00%
CodeBerry School Kft.	NTA	12	30.00%	15.94%
KU-NA Kft.	Debrecen VTA	6	30.00%	

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

	2021			2020
	Owner	**Subscribed capital**	**Voting power**	**Voting power**
POST FOR RENT International Zrt.	NTA	7	29.31%	20.00%
SDSYS Zrt.	NTA	175	28.54%	28.54%
Duelbox Interaktív Rendezvénytechnika Kft.	NTA	5	28.53%	28.53%
iWelcome2 Tourinform Kft.	NTA	5	28.50%	28.50%
RiskCover Hungary Zrt.	NTA	50	28.00%	28.00%
Neticle Zrt.	NTA	64	27.38%	27.38%
Filipper Kft.	NTA	3	27.20%	9.00%
Flying Birds Entertainment Kft.	NTA	13	27.00%	27.00%
StyleHub Eccomerce Kft	NTA	5	26.12%	26.12%
CX-Ray Kft.	NTA	20	26.00%	27.00%
Automizy Marketing-technológiai Zrt.	NTA	7	25.00%	25.00%
Chatler.ai Informatikai és Szolgáltató Kft.	NTA	4	25.00%	25.00%
Detka Oktató Kft.	VBTMA	207	24.91%	
Gazda Kistermelői Lap és Könyvkiadó Kft.	Invest	102	24.49%	23.46%
Bagabags Trade Kft.	Divat&Design TA	4	23.86%	
Móra-BookR Kids Gyermek és Ifjúsági Digitális Kiadó Kft.	NTA	119	23.60%	27.44%
AP Plast Holding Kft.	VBTMA	44	23.09%	23.08%
szereldmagad.hu Kft.	NTA	18	22.64%	22.64%
PELSO Look Kereskedelmi Kft.	Divat&Design TA	3	22.22%	
Liber8Tech Hungary Kft.	NTA	6	22.12%	22.12%
ORIANA International Tanácsadó, Fejlesztő és Szolgáltató Zrt.	NTA	6	22.00%	22.00%
Rollet Kft.	NTA	14	21.73%	22.31%
Flight Refund Kft.	NTA	16	21.17%	21.17%
Nowtechnologies Zrt.	NTA	9	21.12%	21.12%
DreamJo.bs Zrt.	NTA	7	21.05%	21.05%
ChemPass Kft.	NTA	6	20.00%	20.00%
4D Interactive Anatomy Zrt.	NTA	6	20.00%	20.00%
Kwindoo Magyarország Kft.	NTA	4	20.00%	20.00%

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

All of the above companies are incorporated in Hungary.

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

Decreases in 2021 indicating the Group’s voting power on the year end before derecognition.

		Voting power	
Company name	**Business activity**	**2021**	**2020**
Start Garancia Zrt.	Financial services		49.94%
Helpy Kft.	Trading		34.66%
Liatech Gyártó, Kereskedelmi és Szolgáltató Kft. "f.a."	Manufacture of construction concrete products		32.56%
Clean-Water Kft. "f.a."	Metalworking		31.31%
Hajtós Pincér Kft.	Catering		27.20%
redinner Kft.	Data processing, web hosting		27.20%
Sybrillo Kft. ”v.a.”	Manufacture of optical equipment		25.01%

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

9. DERIVATIVES

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

	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 Group 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 Group classifies its derivative contracts into the financial assets and liabilities held for trading categories, but does not open derivative positions for trading purposes only, all of its positions are considered as economic hedging positions. Foreign exchange swaps are concluded for instruments in a different currency other than the source of financing, solely for short term maturity and for the purpose of daily liquidity management.

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

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

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

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

	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 Group accounted for as a result of balance sheet positions closing at the same time on the line item "*Exchange difference gains or (-) loss, net*" in a manner consistent with its accounting policy decision. Maturing cross currency interest rate swaps have converted the Bank's previously issued USD 750 million foreign exchange bond into EUR and these cross currency rate swaps have expired with the maturity of the bond during the year.

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. 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.

	2021			
Hedged item	**Assets**		**Liabilities**	
	Carrying value of hedged item	**from this accumulated fair value adjustment**	**Carrying value of hedged item**	**from this accumulated fair value adjustment**
Loan	50 359	(7 762)		
Debt securities issued			0	0
Total	**50 359**	**(7 762)**	**0**	**0**

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

	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
Avarege fixed interest rate			3.20%			3.20%
Hedge of bonds						
Nominal amount (mEUR)				300		
Avarege fixed interest rate				2.43%		

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

					Gains or (-) losses from hedge accounting, net				
2021	**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**	**Fair value used for calculating hedge inefectiveness**	**Ineffectiveness recognised in profit and loss**
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				
2020	**2020 Fair value**	**2019 Fair value**	**Change in fair value**	**Change in interest accrual**	**Gains or (-) losses from hedge deal**	**Gains or (-) losses from hedged item**	**Total**	**Fair value used for calculating hedge inefectiveness**	**Ineffectiveness recognised in profit and loss**
Asset side hedge deal	802	(890)	1 692	12	1 680	(1 011)	**669**	814	0
Liability side hedge deal	806	1 073	(267)	9	(276)	378	**102**	756	0
Total hedge interest rate swaps	**1 608**	**183**	**1 425**	**21**	**1 404**	**(633)**	**771**	**1 570**	**0**

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

11. PROPERTY, PLANT AND EQUIPMENT

	2021	2020
Property, plant and equipment	5 186	4 655
Right of use assets	1 863	1 365
Net book value	**7 049**	**6 020**

Property, plant and equipment

	Real estates	Production machinery	Equipment	Total
Gross value				
Opening balance 2021	**5 950**	**0**	**3 305**	**9 255**
Additions	173	0	1 022	1 195
Disposals	(12)	0	(280)	(292)
Closing balance 2021	6 111	0	**4 047**	**10 158**
Depreciation				
Opening balance 2021	**(2 556)**	**0**	**(2 044)**	**(4 600)**
Charge for the year	(89)	0	(563)	(652)
Disposals	11	0	269	280
Closing balance 2021	**(2 634)**	**0**	**(2 338)**	**(4 972)**
Net book value				
31 December 2020	**3 394**	**0**	**1 261**	**4 655**
31 December 2021	**3 477**	**0**	**1 709**	**5 186**

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

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

Right of use assets

	Real estates	Parking places	Cars, trucks	Total
Gross value				
Opening balance 2021	**2 079**	**108**	**42**	**2 229**
Additions	884	171	15	1 070
Disposals	(173)	0	0	(173)
Closing balance 2021	**2 790**	**279**	**57**	**3 126**
Depreciation				
Opening balance 2021	**(812)**	**(41)**	**(11)**	**(864)**
Charge for the year	(495)	(60)	(15)	(570)
Disposals	171	0	0	171
Closing balance 2021	**(1 136)**	**(101**	**(26)**	**(1 263)**
Net book value				
31 December 2020	**1 267**	**67**	**31**	**1 365**
31 December 2021	**1 654**	**178**	**31**	**1 863**

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

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:

	2021	2020
Short-term leases	109	89
Leases of low-value assets	29	11
	138	**100**

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

11.1 INVESTMENT PROPERTIES

	2021	2020
Cost	35 319	35 243
Reclassification	0	0
Accumulated impairment	0	0
Accumulated depreciation	(1 752)	(1 605)
Net book value	**33 567**	**33 638**
Net opening balance	**33 638**	**10 697**
Reclassification	0	0
Additions	97	23 098
Disposal – net	(18)	(10)
Impairment	0	0
Depreciation charge	(150)	(147)
Closing net balance	**33 567**	**33 638**

The fair value of the investment properties presented in the table above is HUF 35 644 million (2020: 34 874 million) and is classified as level 3 in the fair value hierarchy. The fair value of investment properties were determined by external valuers using methods based on income approache or market comparative data approach.

The following table presents the results related to investment properties.

	2021	2020
Impairment on investment properties	**0**	**0**
Additions	0	0
Reversal	0	0
Total impairment	**0**	**0**
Expenses from investment properties		
Acquisition cost	0	0
Maintenance expenses	(456)	(260)
Sale related cost	0	0
Total	**(456)**	**(260)**

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

12. INTANGIBLE ASSETS

	Property rights	**Intellectual properties**	**Total**
Gross value			
Opening balance 2021	**758**	**10 653**	**11 411**
Additions	124	1 751	1 875
Disposals	(11)	(90)	(101)
Closing balance 2021	**871**	**12 314**	**13 185**
Amortization			
Opening balance 2021	**(580)**	**(5 888)**	**(6 468)**
Charge for the year	(103)	(743)	(846)
Impairment	0	0	0
Disposals	4	83	87
Closing balance 2021	**(679)**	**(6 548)**	**(7 227)**
Net book value			
31 December 2020	**178**	**4 765**	**4 943**
31 December 2021	**192**	**5 766**	**5 958**

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

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

13. OTHER ASSETS

	2021	2020
Accrued income from reimbursed cost	8 866	8 670
Accrued fund management fee	988	966
Deferred expenses	1 702	580
Intermediated services	19	1 268
Deferred initial fair value adjustment	17 334	5 678
Repossessed assets	120	235
Other	615	803
Special bank tax due to Covid-19	1 402	1 752
Total	**31 046**	**19 952**

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

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

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

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

Deferred initial fair value adjustment
In 2013 the National Bank of Hungary launched its so called Funding for Growth Scheme 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.

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

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

Repossessed real estates
These repossessed real estates used to be serve as a collateral behind loans provided by the Group. The Group primary aim with these real estates to sell. The provision created for these properties was HUF 1 million at 31 December 2021 (2020: HUF 147 million)

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

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

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

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

	2021	2020
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**

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

	2021		2020	
	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
from this amount already repaid by customers on which the balance is fixed	*379 726*	*446 699*	*364 893*	*427 798*
Foreign exchange losses		186 614		182 901
Amount already received from the State *(relating to the not yet closed program)*		(52 299)		(52 299)
from this received during the year		*0*		*(17 687)*
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**
from this amount already repaid by customers on which the balance is fixed		*(94 739)*		*(89 312)*
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.

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

15. FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

	2021	2020
Deposits		
Interbank deposits	103 148	27 661
Customer deposits (collateral behind loans)	11 836	208 221
Other customer deposits	26 921	0
	141 905	**235 882**
Loans taken		
Refinancing loans	261 909	246 802
Other loans taken	336 968	280 210
	598 877	**527 012**
Debt securities issued		
Listed HUF bonds	512 116	283 379
Listed FX bonds	572 914	452 280
from this listed on foreign stock exchange	*461 336*	*384 275*
	1 085 030	**735 659**
Other financial liabilities		
Margin accounts	6 883	569
Creditors	1 947	2 592
Finance leases liabilities	1 968	1 471
	10 798	**4 632**
Total	**1 836 610**	**1 503 185**

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. This category also includes the external loans of the subsidiaries.

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

15.1. DEBT SECURITIES ISSUED

					2021		2020	
Name of bond	**ISIN code**	**Issue**	**Maturity**	**Interest rate**	**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		

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

					2021		2020	
Name of bond	**ISIN code**	**Issue**	**Maturity**	**Interest rate**	**Nominal value**	**Carrying value**	**Nominal value**	**Carrying value**
MFB202810	HU0000360912	2021.11.17	2028.10.22	fix 3.9% (annually)	34 550	34 474		
		2021.12.01			23 495	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	2023.01.25	fix 2.0% (annually)	27 504	27 364		
		2021.12.01			23 956	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**

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

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

	2020	Proceeds from bond issuance	Discount/ Premium	Repayments at maturity	Exchange rate change	2021
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**

	2019	Proceeds from bond issuance	Discount/ Premium	Repayments at maturity	Exchange rate change	2020
HUF bonds	**268 354**	69 939	166	(55 080)	0	**283 379**
EUR bonds	**201 478**	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	2021	2020
Financial guarantees	1 621	469
Loan commitments	1 628	1 197
Subtotal for IFRS9 provision method	***3 249***	***1 666***
Legal cases	47	18
Other	251	230
Total (Note 29)	**3 547**	**1 914**

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.

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

17. OTHER LIABILITIES

	2021	2020
Non-income taxes	1 336	1 024
Settlement from wages	1 937	1 487
Deferred income	2 354	700
Accrued costs	426	445
Lending related liabilities	326	277
Liabilities related to factoring activity	102	186
Liabilities to managing authorities	4 962	4 249
Fees due before disbursement but not paid	61	90
Debtors' advance payments	454	583
Venture capital note payment obligation	2 784	3 057
Deferred initial fair value adjustment	17 256	5 573
Other	138	351
Total	**32 136**	**18 022**

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

Venture capital note payment obligation both as at 31 December 2021 and 2020 related to the subscribed but not yet paid capital increase of Central European Fund of Funds. The amount is payable as required by the investment plans.

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

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.

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

20. NON CONTROLLING INTEREST

On 30 December 2019 Kisvállalkozás-fejlesztő Pénzügyi Zrt. had merged into MFB Invest Zrt. resulted that the Bank ownership in MFB Invest Zrt and its subsidiaries decreased to 92.81%, and the non-controlling interest (minority owners) of 7.19% appeared in 2019. The non-controlling interest decreased to 4.21% in 2020 due to the capital increase executed in MFB Invest Zrt. and in 2021 there was an additional capital increase and an equity swap agreement signed resulted discountinuation of non-controling interest. The following table summarizes the main Financial position and Income statement lines of MFB Invest Zrt and its subsidiaries.

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

21. CONTINGENT LIABILITIES, COMMITMENTS

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

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

	2021	2020
Loan commitments	226 633	224 919
Capital commitments	93 875	0
Guarantees	504 951	105 758
Guarantees and loan commitments total	**825 459**	**330 677**
Legal cases	316	272
Other commitments	1 476	1 461
Total	**827 251**	**332 410**

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.

22. NET INTEREST INCOME

	2021	2020
Financial assets at fair value through other comprehensive income	563	587
Financial assets at amortized cost	45 332	36 041
Negative interest from financial liabilities	186	217
Interest income calculated using the effective interest method	**46 081**	**36 845**
Financial assets held for trading	214	12 610
Non-trading financial assets mandatorily at fair value through profit or loss	1 060	984
Derivatives – Hedge accounting	832	661
Other assets	4 144	492
Other similar income	**6 250**	**14 747**
Total interest income	**52 331**	**51 592**
Interest expense		
Financial liabilities held for trading	(1 514)	(6 381)
Financial liabilities at amortized cost	(17 641)	(22 370)
Derivatives – Hedge accounting	(126)	(369)
Other liabilities	(8)	(27)
Negative interest from financial assets	(274)	(59)
Total interest expense	**(19 563)**	**(29 206)**
Net interest income	**32 768**	**22 386**

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

Net interest income analysis by customer types:

	2021	2020
Interest income		
Customers	38 569	33 829
National Bank of Hungary	4 623	829
Other banks	2 726	14 652
Securities	6 413	2 282
Total	**52 331**	**51 592**
Interest expense		
Customers	(388)	(57)
National Bank of Hungary	(2 176)	(360)
Other banks	(4 307)	(7 766)
Securities	(12 692)	(21 023)
Total	**(19 563)**	**(29 206)**
Net interest income	**32 768**	**22 386**

23. DIVIDEND INCOME

	2021	2020
Other investments	0	7
Total	**0**	**7**

24. NET FEE AND COMMISSION INCOME / EXPENSES

	2021	2020
Fee and commission income		
Fund management fees	1 016	995
Guarantee fees	1 366	392
Loan servicing fees	959	126
Fees from receivable management	13	0
Other fees and commission	17	12
Total	**3 371**	**1 525**
Fee and commission expenses		
Agent fees	(130)	(190)
Guarantee fees	(35)	(12)
Bank account commission	(35)	(11)
Other fees and commission	(3)	(29)
Total	**(203)**	**(242)**
Net fee and commission income / (expenses)	**3 168**	**1 283**

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

25. 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	**246**	**(8)**
Loans	(40)	(346)
Debt securities	286	338
Financial assets at fair value through other comprehensive income	**944**	**(260)**
Debt securities	162	0
Equity instruments	782	(260)
Total	**1 190**	**(268)**

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

	2021	2020
Derecognition loss of property, plant and equipment and intangible assetss	31	5
Derecognition (loss), gain of exempted associates	(265)	336
Derecognition (loss), gain of other assets	0	(16)
Total	**(234)**	**325**

27. OTHER OPERATING INCOME/EXPENSES

	2021	2020
Other income		
Compensation received from EU	4 124	3 957
Consideration received from State	25	25
Recovery of previous years costs	18	81
Rental and management income from investment properties	2 806	1 118
Rental income	52	52
Reimbursement of financial contribution	0	1 000
Income from legal cases	0	57
Revenue from consultancy	295	176
Reimbursed expenses	0	82
Deferred initial fair value of borrowings	2 076	244
Other	670	431
Total other operating income	**10 066**	**7 223**
Other expenses		
Donations	(100)	(129)
Expenses related to previous years	(76)	(117)
Taxes – except income tax and special bank tax	(1 436)	(877)
Special bank tax	(2 639)	(2 224)
Other expenses related to lending and borrowing not part of effective interest	(190)	(120)
Deferred initial fair value of loans granted	(2 049)	(319)
Expenses from legal cases	(29)	0
Other	(137)	(333)
Total other operating expense	**(6 656)**	**(4 119)**

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

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.

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

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Wages and salaries	(11 198)	(9 426)
Compulsory social security	(2 077)	(1 889)
Other personnel expenses	(1 580)	(1 285)
Personnel expenses	**(14 855)**	**(12 600)**
Marketing	(1 590)	(1 515)
Office and property maintenance	(925)	(726)
System support and maintenance	(799)	(697)
Expert fees	(832)	(615)
Rental expense	(457)	(358)
Post, newspapers and document filing	(357)	(251)
Other material type services	(314)	(241)
Electricity, water, gas supply	(117)	(114)
Education	(107)	(88)
Labour mediation	(28)	(84)
Legal costs	(93)	(68)
Media	(110)	(54)
Membership fees	(65)	(54)
Insurances	(78)	(53)
Bank cost	(89)	(53)
Traveling	(34)	(41)
Other welfare services	(42)	(28)
Other	(299)	(214)
Other general administrative expenses	**(6 336)**	**(5 254)**
Total general and administrative expenses	**(21 191)**	**(17 854)**

The average number of the employees in 2021 was 793 (2020: 712).

Expert fees include HUF 103.54 million gross fees paid to the auditor for the 2021 annual audit and other audit related services (2020: HUF 93.97 million). Audit fees paid to KPMG Hungary Ltd. amounted HUF 97.53 million (2020 HUF 72.01 million). There was no fee paid to the statutory auditor KPMG Hungary Ltd. neither in 2021 nor in 2020 for any non-audit services.

KPMG Advisory Ltd. (member of KPMG Group) provided non-audit services to the Group during 2021 amounted to gross HUF 4.7 million (2020: HUF 11.33 million).

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

29. 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	**(248)**	**(1 666)**	**(1 914)**	**(310)**	**(3 616)**	**(3 926)**
2. Charge	(106)	(2 906)	(3 012)	(72)	(974)	(1 046)
3. Release	40	1 498	1 538	113	2 959	3 072
4. Utilization	16	0	16	21	0	21
5. Foreign exchange difference	0	(175)	(175)	0	(35)	(35)
6. Closing balance at 31 December	**(298)**	**(3 249)**	**(3 547)**	**(248)**	**(1 666)**	**(1 914)**
Net movement *(excluding item 5.)*	(50)	(1 408)	(1 458)	62	1 985	2 047
Balance in the Profit or loss statement						
Other income (legal cases)	29	0	29	(77)	0	(77)
Impairment (-) or reversal of impairment of financial instruments	0	1 408	1 408	0	(1 985)	(1 985)
Amounts charged to wages	28		28	9		9
Amount charged to other expenses	(7)	0	(7)	6	0	6

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

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
Loan commitments	**(1 197)**	**270**	**(655)**	**49**	**0**	**0**	**0**	**(95)**	**(1 628)**
Stage 1	(118)	195	(655)	31	51	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
TOTAL	**(1 666)**	**98**	**(1 556)**	**50**	**0**	**0**	**0**	**(175)**	**(3 249)**

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 release without stage transfer	Charge due to origin	Utilization and expiries	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	FX impact	Closing balance as at 31 December 2020
Guarantees	**(2 383)**	**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	**(1 233)**	**255**	**(226)**	**36**	**0**	**0**	**0**	**(29)**	**(1 197)**
Stage 1	(584)	534	(133)	22	127	(83)		(1)	(118)
Stage 2	(617)	(314)	(93)	14	(127)	83	0	(25)	(1 079)
Stage 3	(32)	35	0	0			0	(3)	0
TOTAL	**(3 616)**	**2 349**	**(403)**	**39**	**0**	**0**	**0**	**(35)**	**(1 666)**

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

30. 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	(2 371)	(11 603)	**(13 974)**	(2 487)	(11 123)	**(13 610)**
Loans to banks	0	(1)	**(1)**	0	18	**18**
Debt securities	(1 459)	(428)	**(1 887)**	(379)	186	**(193)**
Deposits at Central and other banks	0	(8)	**(8)**	(617)	600	**(17)**
Other financial receivables	(28)	57	**29**	(1)	0	**(1)**
Other demand deposits	0	20	**20**	(11 038)	10 996	**(42)**
Guarantees	(901)	(171)	**(1 072)**	(177)	2 097	**1 920**
Loan commitments	(652)	316	**(336)**	(226)	291	**65**
Subtotal	**(5 411)**	**(11 818)**	**(17 229)**	**(14 925)**	**3 065**	**(11 860)**
Recovery of purchased receivables			**12 031**			**14 006**
Total profit and loss impact			**(5 198)**			**2 146**

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.

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

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	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 2021
Customer loans – Stage 1	**(1 293)**	**(1 646)**	**0**	**(8)**	**810**	**0**	**(37)**			**(18)**	**(2 192)**
General governments	**(98)**	(23)	0	(14)	0	0	0			(1)	**(136)**
Other financial corporations	**(701)**	(64)	0	273	161	0	(17)			0	**(348)**
Other non-financial corporations	**(476)**	(1 558)	0	(204)	571	0	(20)			(17)	**(1 704)**
Households	**(18)**	(1)	0	(63)	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)**
Customer loans – Stage 2	**(17 178)**	**(189)**	**0**	**(5 468)**	**(810)**	**206**	**37**	**(197)**		**(283)**	**(23 882)**
General governments	**0**	0	0	0	0	0	0	0		0	**0**
Other financial corporations	**(1 060)**	(12)	0	(801)	(161)	0	17	0		(8)	**(2 025)**
Other non-financial corporations	**(16 115)**	(177)	0	(4 669)	(571)	206	20	(197)		(275)	**(21 778)**
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**

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

LOANS	Opening balance as at 1 January 2021	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 2021
Customer loans – Stage 3	**(22 945)**	**(62)**	**9 446**	**1 342**		**(206)**	**0**	**197**	**(151)**	**280**	**(12 099)**
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	1 336		(206)	0	197	(151)	280	**(12 092)**
Households	**(13)**	0	0	6		0	0	0	0	0	**(7)**
Customer loans – POCI	**(3 757)**	**(474)**	**0**	**(7 469)**		**0**	**0**	**0**	**0**	**0**	**(11 700)**
General governments	**0**	0	0	0		0	0	0	0	0	**0**
Other financial corporations	**(45)**	0	0	0		0	0	0	0	0	**(45)**
Other non-financial corporations	**(1 956)**	(7)	0	105		0	0	0	0	0	**(1 858)**
Households	**(1 756)**	(467)	0	(7 574)		0	0	0	0	0	**(9 797)**
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	**(45 173)**	**(2 371)**	**9 446**	**(11 603)**	**0**	**0**	**0**	**0**	**(151)**	**(21)**	**(49 873)**
General governments	**(98)**	(23)	0	(14)	0	0	0	0	0	(1)	**(136)**
Other financial corporations	**(1 806)**	(76)	0	(528)	0	0	0	0	0	(8)	**(2 418)**
Other non-financial corporations	**(41 479)**	(1 804)	9 446	(3 432)	0	0	0	0	(151)	(12)	**(37 432)**
Households	**(1 790)**	(468)	0	(7 629)	0	0	0	0	0	0	**(9 887)**
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)**

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

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)**	**(427)**	**0**	**0**	**0**		**(1 938)**
Hungarian government bonds	**0**	0	0	0	0	0		**0**
Corporate bonds	**(49)**	(1 459)	(427)	0	0	0		**(1 935)**
Mortgage bonds	**(3)**	0	0	0	0	0		**(3)**
Stage 2*	**(147)**	**0**	**(1)**	**0**	**0**	**0**		**(148)**
Hungarian government bonds	**0**	0	0	0	0	0		**0**
Corporate bonds	**(147)**	0	(1)	0	0	0		**(148)**
Mortgage bonds	**0**	0	0	0	0	0		**0**

**: Only stage 1 and 2 securities were at the Group 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 Group 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*	**(33)**	**(28)**	**57**					**(4)**
Trade receivables	**(33)**	(28)	57					**(4)**
Margin accounts	**0**	0	0					**0**

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

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

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 Group portfolio in 2020.*

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**	**Unwinding**	**FX impact**	**Closing balance as at 31 December 2020**
Customer loans – Stage 1	**(3 155)**	**(718)**	**0**	**(2 697)**	**5 762**	**0**	**(461)**			**(24)**	**(1 293)**
General governments	**(1 104)**	0	0	1 013	0	0	0			(7)	**(98)**
Other financial corporations	**(389)**	(578)	0	(620)	891	0	(5)			0	**(701)**
Other non-financial corporations	**(1 651)**	(126)	0	(3 096)	4 870	0	(456)			(17)	**(476)**
Households	**(11)**	(14)	0	6	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)**
Customer loans – Stage 2	**(4 157)**	**(1 487)**	**26**	**(6 287)**	**(5 762)**	**12 621**	**461**	**(12 113)**		**(480)**	**(17 178)**
General governments	**0**	0	0	0	0	0	0	0		0	**0**
Other financial corporations	**(164)**	(2)	0	(5)	(891)	0	5	0		(3)	**(1 060)**
Other non-financial corporations	**(3 990)**	(1 485)	26	(6 275)	(4 870)	12 613	456	(12 113)		(477)	**(16 115)**
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**

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

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 3	**(20 700)**	**(137)**	**1 350**	**(808)**		**(12 621)**	**0**	**12 113**	**(245)**	**(1 897)**	**(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	**0**
Other non-financial corporations	**(20 696)**	(137)	1 350	(807)		(12 613)	0	12 113	(245)	(1 897)	**(22 932)**
Households	**(4)**	0	0	(1)		(8)	0	0	0	0	**(13)**
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 – POCI	**(2 281)**	**(145)**	**0**	**(1 331)**		**0**	**0**	**0**	**0**	**0**	**(3 757)**
General governments	**0**	0	0	0		0	0	0	0	0	**0**
Other financial corporations	**(82)**	0	0	37		0	0	0	0	0	**(45)**
Other non-financial corporations	**(1 659)**	(19)	0	(278)		0	0	0	0	0	**(1 956)**
Households	**(540)**	(126)	0	(1 090)		0	0	0	0	0	**(1 756)**
Customer loans - TOTAL	**(30 293)**	**(2 487)**	**1 376**	**(11 123)**	**0**	**0**	**0**	**0**	**(245)**	**(2 401)**	**(45 173)**
General governments	**(1 104)**	0	0	1 013	0	0	0	0	0	(7)	**(98)**
Other financial corporations	**(635)**	(580)	0	(588)	0	0	0	0	0	(3)	**(1 806)**
Other non-financial corporations	**(27 996)**	(1 767)	1 376	(10 456)	0	0	0	0	(245)	(2 391)	**(41 479)**
Households	**(558)**	(140)	0	(1 092)	0	0	0	0	0	0	**(1 790)**
Loans to banks - TOTAL	**(21)**	**0**	**0**	**18**	**0**	**0**	**0**	**0**	**0**	**(1)**	**(4)**
Refinancing loans	**(2)**	0	0	1	0	0	0	0	0	0	**(1)**
Other loans	**(19)**	0	0	17	0	0	0	0	0	(1)	**(3)**

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

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

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

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

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

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

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

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

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

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

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

	2021	2020
1. Opening balance as at 1 January	**(6 841)**	**(5 694)**
2. Charge	(1 357)	(2 121)
3. Release and utilization	1 039	1 040
3.a. Release	*540*	*827*
3.b. Utilization	*499*	*213*
4. Foreign exchange difference	0	0
5. Reclassification	221	(66)
6. Closing balance as at 31 December	**(6 938)**	**(6 841)**
Net movement	(97)	(1 147)
Balance in the Income statements (2+3a)	**(817)**	**(1 294)**

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

	2021	2020
Property, plant and equipment (Note 11)	0	(1)
Intangibles (Note 12)	0	(8)
Other assets	0	(58)
Total	**0**	**(67)**

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

	2021			2020		
	Other receivables	**Repossessed assets**	**Total**	**Other receivables**	**Repossessed assets**	**Total**
1. Opening balance as at 1 January	(114)	(147)	(261)	(114)	(245)	(359)
2. Charge	0	0	0	0	(64)	(64)
3. Release and utilization	5	146	151	0	162	162
3.a. Release	*0*	*0*	*0*	*0*	*6*	*6*
3.b. Utilization	*5*	*146*	*151*	*0*	*156*	*156*
4. Closing balance as at 31 December	(109)	(1)	(110)	(114)	(147)	(261)
Net movement	5	146	151	0	98	98
Balance in the Income statements	**0**	**0**	**0**	**0**	**(58)**	**(58)**

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

33. 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	1 994	1 172
from this corporate tax	*535*	*219*
from this local tax and innovation contribution	*1 459*	*953*
Deferred tax	246	1 261
Total	**2 240**	**2 433**

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**	**Deferred tax asset**	**Recognized in profit or loss**	**Recognized in OCI**	**Deferred tax liability**	**Deferred tax asset**
Tax expense	**1 994**				**1 172**			
Deferred tax by titles								
Property, plant and equipment	17	0	60	0	15	0	43	0
Provisions	(15)	0	(15)	0	0	0	0	0
Financial instruments	233	1	3 400	(56)	1 243	6	3 205	(95)
Tax loss carry forward	11	**0**	(30)	0	3	**0**	(42)	0
Total	**246**	**1**	**3 415**	**(56)**	**1 261**	**6**	**3 206**	**(95)**
Total tax expense in the Income statements	**2 240**				**2 433**			

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

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 before income taxes		**10 049**		**4 969**
Corporate tax	**9.00%**	**904**	**9.00%**	**447**
Local tax and innovation contribiution impact	14.52%	1 459	19.18%	953
Corporate tax impact of subsidiaries negative result	4.40%	442	9.46%	470
Tax loss carry forward	(1.51%)	(152)	19.34%	961
Subsidiary and euity consolidation impact	(2.59%)	(260)	(7.31%)	(363)
Effect of other tax base modifying items	(1.52%)	(153)	(0.70%)	(35)
Effective tax	**22.30%**	**2 240**	**48.96%**	**2 433**

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

The accumulated amount of tax losses carries forward in 2021 was HUF 76 709 million (2020: HUF 82 675 million). The tax losses originated until 2014 (HUF 53 265 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: 1 647 million, 2023: 3 198 million, 2024: 1 665, 2025: 12 093 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 6 904 million (2020: HUF 7 441 million).

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

34. RELATED PARTIES

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

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

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

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

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

	2021		**2020**	
	Associates	**State**	**Associates**	**State**
ASSETS				
Non-trading financial assets mandatorily at fair value through profit or loss	**969**	**0**	**671**	**0**
Loans to customers	*969*	*0*	*671*	*0*
Financial assets at fair value through other comprehensive income	**0**	**32 537**	**0**	**39 046**
Debt securities	*0*	*32 537*	*0*	*39 046*
Financial assets at amortized cost	**22 340**	**55 727**	**17 044**	**58 372**
Debt securities	*0*	*53 494*	*0*	*54 900*
Loans to customers	*22 309*	*1 893*	*17 039*	*2 604*
Other financial receivables	*31*	*340*	*5*	*868*
Investments in associates	**169 870**		**50 967**	
Tax assets		**0**		**210**
Current tax assets		*0*		*210*
Other assets	**0**	**9 076**	**3**	**8 973**
Receivables from the state due to currency-hedging agreement*		**162 273**		**157 009**

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

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

	2021		2020	
	Associates	**State**	**Associates**	**State**
LIABILITIES				
Financial liabilities measured at amortized cost	**2 151**	**0**	**2 864**	**0**
Deposits	***2 151***	***0***	***2 864***	***0***
Tax liabilities		**574**		**119**
Current tax liabilities		*574*		*119*
Other liabilities	**19**	**6 391**	**18**	**5 482**
Guarantees and loan commitments	**252 242**	**0**	**20 830**	**0**
INCOME STATEMENTS				
Interest income	1 192	1 803	883	1 815
Interest expense	(4)		(20)	
Dividend income	0		0	
Fee and commission income	27		31	
Fee and commission expense	(6)		(11)	
Other operating income	294	4 368	2	4 918
Other operating expense	(18)	(3 874)	0	(3 062)
Impairment (-) or reversal of impairment of financial instruments *	(32)	(16)	(1 764)	0
Impairment or (-) reversal of impairment of investments in exempted associates	(817)	0	(1 294)	0
Tax expense related to profit or loss		(1 994)		(1 172)

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

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.

35. SEGMENT REPORTING

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

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

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

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

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

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

2021	**Banking**	**Investment**	**EU fund management**	**Debt management**	**Venture capital funding**	**Property management**	**Total**
Total segment income and gain							
Interest income	42 618	0	0	8 592	1 115	6	**52 331**
from this interest income calculated using the effective interest method	*36 628*	*0*	*0*	*8 592*	*855*	*6*	***46 081***
from this other similar income	*5 990*	*0*	*0*	*0*	*260*	*0*	***6 250***
Fee and commission income	2 337	0	5	13	1 016	0	**3 371**
from this fund management fee	*0*	*0*	*0*	*0*	*1 016*	*0*	***1 016***
from this guarantee fees	*1 366*	*0*	*0*	*0*	*0*	*0*	***1 366***
from this loan servicing fees	*959*	*0*	*0*	*0*	*0*	*0*	***959***
from this fee from receivable management	*0*	*0*	*0*	*13*	*0*	*0*	***13***
from this other fees and commission	*12*	*0*	*5*	*0*	*0*	*0*	***17***
Dividend income	0	0	0	0	0	0	**0**
Gains on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	403	675	0	(157)	269	0	**1 190**
Gains on financial assets and liabilities held for trading, net	1	0	0	0	0	0	**1**
Gains on non-trading financial assets mandatorily at fair value through profit or loss, net	123	698	0	0	(458)	0	**363**
Gains or (-) losses from hedge accounting, net	21	6	0	0	0	0	**27**
Exchange differences [profit], net	(51)	(80)	0	0	640	0	**509**
Other operating income	2 135	49	4 249	118	649	2 866	**1 066**
Total segment income and gain	**47 587**	**1 348**	**4 254**	**8 566**	**3 231**	**2 872**	**67 858**
Interest expenses	(14 515)	(3 749)	0	(888)	0	(411)	**(19 563)**
Fee and commission expenses	(203)	0	0	0	0	0	**(203)**
from this agent fees	*(130)*	*0*	*0*	*0*	*0*	*0*	***(130)***
from this guarantee fees	*(35)*	*0*	*0*	*0*	*0*	*0*	***(35)***
from this bank account commission	*(35)*	*0*	*0*	*0*	*0*	*0*	***(35)***
from this other fees and commission	*(3)*	*0*	*0*	*0*	*0*	*0*	***(3)***
Losses on derecognition of non-financial assets, net	*(1)*	*(486)*	*0*	*0*	*220*	*33*	***(234)***
Contract modification loss, net	(1 045)	0	0	0	0	0	**(1 045)**
Other operating expenses	(4 932)	(879)	(95)	(387)	(203)	(160)	**(6 656)**
Administrative expenses	(6 022)	(1 850)	(3 573)	(4 452)	(4 314)	(980)	**(21 191)**
Depreciation	(563)	(173)	(334)	(858)	(134)	(156)	**(2 218)**
Segment profit before impairment and provisions	**20 306**	**(5 789)**	**252**	**1 981**	**(1 200)**	**1 198**	**16 748**

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

2021	**Banking**	**Investment**	**EU fund management**	**Debt management**	**Venture capital funding**	**Property management**	**Total**
Impairment (-) or reversal of impairment on financial instruments	(9 411)	(79)	0	4 431	(150)	11	(5 198)
Impairment (-) or reversal of impairment of investments in exempted associates	0	1 083	0	0	(1 900)	0	(817)
Impairment of non-financial instruments	0	0	0	0	0	0	0
Profit or (-) loss from associates	0	1 146	0	0	(1 830)	0	(684)
Segment income before tax	**10 895**	**(3 639)**	**252**	**6 412**	**(5 080)**	**1 209**	**10 049**
Income tax expense	(687)	(209)	0	(865)	(388)	(91)	(2 240)
Profit for the year	10 208	(3 848)	252	5 547	(5 468)	1 118	7 809

2021	**Banking**	**Investment**	**EU fund management**	**Debt management**	**Venture capital funding**	**Property management**	**Total**
Segment revenue							
Interest income	42 618	0	0	8 592	1 115	6	**52 331**
Fee and commission income	2 337	0	5	13	1 016	0	**3 371**
Dividend income	0	0	0	0	0	0	**0**
Other operating income	2 135	49	4 249	118	649	2 866	**10 066**
Total segment revenue	47 090	49	4 254	8 723	2 780	2 872	**65 768**
Timing of revenue							
Point in time	4 472	49	4 254	131	1 665	2 866	**13 437**
Over time	42 618	0	0	8 592	1 115	6	**52 331**

2021	**Banking**	**Investment**	**Not allocated**	**Debt management**	**Venture capital funding**	**Property management**	**Total**
Segment assets	**1 585 631**	**232 170**	**290 974**	**75 168**	**116 774**	**1 820**	**2 302 537**
Participation of segment from total assets	68.86%	10.08%	12.64%	3.26%	5.07%	0.09%	100.00%
Segment liabilities	**1 399 764**	**204 955**	**30 674**	**66 357**	**103 086**	**1 607**	**1 806 443**
Participation of segment from total liabilities	77.49%	11.35%	1.70%	3.67%	5.71%	0.08%	100.00%

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

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

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

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

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

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

36. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

The primary tools for developing a risk and risk management culture are the regular review and updating of risk and risk management policies and internal regulatory documents, the continuous communication of the defined value system and the regular training of employees in line with their roles and responsibilites 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 Group.

The risk principles and strategies are approved by the Group'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 Group'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 the Group's 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 the 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 Group 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 Group does not fulfill the obligations undertaken in the contract and this results in a financial loss on consolidated level. 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 Group if the client fails to meet its contractual obligations. Credit risk arises principally from the Group's lending and investment activities, including the acqusition of investment certificates.

The Group 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 Group intends to take risks. Beyond that the Group rates its clients at least once per year and performs extra reviews when appropriate.

The customer rating procedures applied by the Group are as follows:
- customer qualification of new companies and project companies,
- customer rating of operating companies,
- classification on the basis of consolidated financial statements,
- customer rating in a standardized lending process,
- customer rating of local government,
- simplified customer rating based on objective and subjective criteria (under HUF 50 million. excluding new businesses or project companies),
- Rating of venture capital funds and private equity funds,
- country and customer rating (countries, national and international financial institutions. insurance companies)

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

Customers are classified into customer rating categories based on objective and subjective factors. The Group 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 Group 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 Group 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 Group 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 Group, which induce a non-performing category.

Evaluation of collateral

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

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

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

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

Customer and Customer group limits, sector limits

The customer limit is defined as the amount of the highest risk against one customer that can be undertaken. The maximum limit for a customer or customer group is the Bank's large exposures limit. 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 Group 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 Group’s or any of its Subsidiaries’ claims against the Customer exceeding 30 days and HUF 30 000;
- delays in payments the Group’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 Group’s information about the customer transactions that are observable in the course of the business, but not accessible from a system, however indicate an increase in credit risk.

Impaired credit risk category – Stage 3 - is used for all transaction where there is objective evidence of the default. Transactions above the significant credit obligation threshold that are more than 90 days overdue, transactions with status “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 untill their maturity or derecognition.

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

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

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

When determining the probability of default, the Group classifies credit institutions with external credit ratings and those credit institutions and financial undertakings that do not have external credit ratings, individual corporate loans, agricultural loans, loans through agents, municipalities and parties into different valuation groups based on partner and customer types. When segmenting the portfolio, the Group takes into consideration the credit risk categories by product type and sector code in order to determine the value of probability of default (PD), the loss given default (LGD) and the credit conversion factor (CCF), taking into account also the transactions covered by the State guarantee.

For the purposes of determining PD, the Bank treats an exposure as 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.

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

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

Incorporation of forward-looking information

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

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

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

Risk Management Aspects of COVID-19

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

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.

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.

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

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.

		2021				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
General governments	1 - 2	2 622	0	0	0	2 622
	3 - 6	36 050	0	0	0	36 050
	7 - 8	0	0	0	18	18
Total general governments		**38 672**	**0**	**0**	**18**	**38 690**
Other financial corporations	1 – 2	115 886	0	0	0	115 886
	3 - 6	93 715	95 242	0	0	188 957
	7 – 8	0	1 522	0	142	1 664
Total other financial corporations		**209 601**	**96 764**	**0**	**142**	**306 507**
Non-financial corporations	1 – 2	71 430	19 348	0	0	90 778
	3 – 6	347 468	253 875	0	0	601 343
	7 – 8	0	1 508	21 564	7 403	30 475
Total non-financial corporations		**418 898**	**274 731**	**21 564**	**7 403**	**722 596**
Households*	1 - 2	2 114	59	0	0	2 173
	3 - 6	58 331	4 444	1	0	62 776
	7 – 8	641	3 173	11	68 853	72 678
Total households		**61 086**	**7 676**	**12**	**68 853**	**137 627**
Total customer loans		**728 257**	**379 171**	**21 576**	**76 416**	**1 205 420**
Impairment		(2 192)	(23 882)	(12 099)	(11 700)	(49 873)
Maximum credit exposure		**726 065**	**355 289**	**9 477**	**64 716**	**1 155 547**

*: 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.

		2021				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Banks	1 - 2	57 609	0	0	0	57 609
Total loans to banks		**57 609**	**0**	**0**	**0**	**57 609**
Impairment		(5)	0	0	0	(5)
Maximum credit exposure		**57 604**	**0**	**0**	**0**	**57 604**
Deposits at central and other banks	1 - 2	42 420	0	0	0	42 420
Total deposits at central and other banks		**42 420**	**0**	**0**	**0**	**42 420**
Impairment		(31)	0	0	0	(31)
Maximum credit exposure		**42 389**	**0**	**0**	**0**	**42 389**

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

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

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

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

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

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

		2021				
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loan commitments	1 - 2	21 034	200	0	0	21 234
	3 - 6	169 316	21 063	0	0	190 379
	7 - 8	15 000	20	0	0	15 020
Total loan commitments		**205 350**	**21 283**	**0**	**0**	**226 633**
Capital commitments	1-2	93 875	0	0	0	93 875
Capital commitments		**93 875**	**0**	**0**	**0**	**93 875**
Guarantees	1 - 2	226 070	12 770	0	0	238 840
	3 - 6	251 930	10 000	0	0	261 930
	7 – 8	4 181	0	0	0	4 181
Total guarantees		**482 181**	**22 770**	**0**	**0**	**504 951**
Guarantees and capital and loan commitments total		**781 406**	**44 053**	**0**	**0**	**825 459**

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

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

The table below represents the gross carrying amount transfers between impairment categories for customer loans valued at amortized cost and for undrawn loan commitments and guarantees. The movements represent 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 30.

		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	Stage 1	**751 255**	**242 797**	**(196 579)**	**(18 173)**	**(60 189)**	**0**	**9 146**		**728 257**
General governments		**212 355**	8 430	(196 579)	14 466	0	0	0		**38 672**
Other financial corporations		**208 369**	63 663	0	(22 720)	(44 193)	0	4 482		**209 601**
Other non-financial corporations		**260 874**	170 400	0	(4 489)	(12 358)	0	4 470		**418 897**
Households		**69 657**	304	0	(5 430)	(3 638)	0	194		**61 087**
Loans to banks		**38 123**	**9 899**	**0**	**9 588**	**0**	**0**	**0**		**57 610**
Refinancing loans		**1 604**	9 899	0	(10 676)	0	0	0		**827**
Other loans		**36 519**	0	0	20 264	0	0	0		**56 783**
Customer loans	Stage 2	**243 352**	**1 785**	**0**	**83 007**	**60 189**	**(356)**	**(9 146)**	**340**	**379 171**
General governments		**0**	0	0	0	0	0	0	0	**0**
Other financial corporations		**54 760**	568	0	1 725	44 193	0	(4 482)	0	**96 764**
Other non-financial corporations		**183 741**	1 217	0	81 913	12 358	(356)	(4 470)	328	**274 731**
Households		**4 851**	0	0	(631)	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**

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

		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	**Stage 3**	**113 381**	**7 933**	**(11 822)**	**(11 516)**		**356**	**0**	**(340)**	**97 992**
General governments		**0**	0	0	18		0	0	0	**18**
Other financial corporations		**142**	0	0	0		0	0	0	**142**
Other non-financial corporations		**41 194**	1 051	(11 822)	(1 483)		356	0	(328)	**28 968**
Households		**72 045**	6 882	0	(10 051)		0	0	(12)	**68 864**
Loans to banks		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans		**0**	0	0	0	0	0	0	0	**0**
Other loans		**0**	0	0	0	0	0	0	0	**0**
Customer loans	**Total**	**1 107 988**	**252 515**	**(208 401)**	**53 318**	**0**	**0**	**0**	**0**	**1 205 420**
General governments		**212 355**	8 430	(196 579)	14 484	0	0	0	0	**38 690**
Other financial corporations		**263 271**	64 231	0	(20 995)	0	0	0	0	**306 507**
Other non-financial corporations		**485 809**	172 668	(11 822)	75 941	0	0	0	0	**722 596**
Households		**146 553**	7 186	0	(16 112)	0	0	0	0	**137 627**
Loans to banks		**38 123**	**9 899**	**0**	**9 588**	**0**	**0**	**0**		**57 610**
Refinancing loans		**1 604**	9 899	0	(10 676)	0	0	0		**827**
Other loans		**36 519**	0	0	20 264	0	0	0		**56 783**

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

	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	**263 170**	**633 740**	**(20 357)**	**(93 144)**	**(22 003)**	**20 000**		**781 406**
Loan commitments	173 993	150 269	(19 308)	(97 941)	(1 663)	0		205 350
Capital commitments	0	93 875	0	0	0	0		93 875
Guarantees	89 177	389 596	(1 049)	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	**330 677**	**633 740**	**(55 070)**	**(83 888)**	**0**	**0**	**0**	**825 459**
Loan commitments	224 919	150 269	(50 871)	(97 684)	0	0	0	226 633
Capital commitments	0	93 875	0	0	0	0	0	93 875
Guarantees	105 758	389 596	(4 199)	13 796	0	0	0	504 951

		Opening balance as at 1 January 2020	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Customer loans	Stage 1	**790 203**	**160 136**	**0**	**(5 255)**	**(213 418)**	**(84)**	**19 672**		**751 255**
General governments		**211 907**	0	0	448	0	0	0		**212 355**
Other financial corporations		**208 330**	47 222	0	1 725	(50 071)	0	1 163		**208 369**
Other non-financial corporations		**294 725**	109 834	0	(2 348)	(158 246)	0	16 909		**260 874**
Households		**75 241**	3 080	0	(5 080)	(5 101)	(84)	1 600		**69 657**
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		**36 519**

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

		Opening balance as at 1 January 2020	New loans	Sale	Net movements without stage transfer	From stage 1 to stage 2	From stage 1 or 2 to stage 3	From stage 2 or 3 to stage 1	From stage 3 to stage 2	Closing balance as at 31 December 2020
Customer loans	Stage 2	**38 665**	**10 913**	**0**	**257**	**213 418**	**(20 913)**	**(19 585)**	**20 598**	**243 352**
General governments		**0**	0	0	0	0	0	0	0	**0**
Other financial corporations		**5 719**	100	0	33	50 071	0	(1 163)	0	**54 760**
Other non-financial corporations		**31 447**	10 813	0	438	158 246	(20 892)	(16 909)	20 598	**183 741**
Households		**1 499**	8	0	(214)	5 101	(21)	(1 513)	0	**4 851**
Loans to banks		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans		**0**	0	0	0	0	0	0	0	**0**
Other loans		**0**	0	0	0	0	0	0	0	**0**
Customer loans	Stage 3	**101 672**	**9 987**	**(1 864)**	**3 274**		**20 997**	**(87)**	**(20 598)**	**113 381**
General governments		**0**	0	0	0		0	0	0	**0**
Other financial corporations		**307**	0	0	(165)		0	0	0	**142**
Other non-financial corporations		**39 643**	613	(1 864)	2 508		20 892	0	(20 598)	**41 194**
Households		**61 722**	9 374	0	931		105	(87)	0	**72 045**
Loans to banks		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans		**0**	0	0	0	0	0	0	0	**0**
Other loans		**0**	0	0	0	0	0	0	0	**0**
Customer loans	Total	**930 540**	**181 036**	**(1 864)**	**(1 724)**	**0**	**0**	**0**	**0**	**1 107 988**
General governments		**211 907**	0	0	448	0	0	0	0	**212 355**
Other financial corporations		**214 356**	47 322	0	1 593	0	0	0	0	**263 271**
Other non-financial corporations		**365 815**	121 260	(1 864)	598	0	0	0	0	**485 809**
Households		**138 462**	12 454	0	(4 363)	0	0	0	0	**146 553**
Loans to banks		**67 743**	**0**	**0**	**(29 620)**	**0**	**0**	**0**	**0**	**38 123**
Refinancing loans		**2 132**	0	0	(528)	0	0	0	0	**1 604**
Other loans		**65 611**	0	0	(29 092)	0	0	0	0	**36 519**

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

	Opening balance as at 1 January 2020	New commitment s	Drawn / matured commitmen ts	Net movements without stage transfer	From stage 1 to stage 2. or 3	From stage 2 or 3 to stage 1	From stage 2 to stage 3	Closing balance as at 31 December 2020
Stage 1	**168 691**	**276 418**	**(87 913)**	**(75 848)**	**(25 427)**	**7 250**		**263 170**
Loan commitments	**87 221**	194 755	(36 469)	(55 705)	(22 997)	7 189		173 993
Guarantees	**81 470**	81 663	(51 444)	(20 143)	(2 430)	61		89 177
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	**210 872**	**318 478**	**(92 134)**	**(106 538)**	**0**	**0**	**0**	**330 677**
Loan commitments	**91 346**	236 815	(37 752)	(65 489)	0	0)	0	224 919
Guarantees	**119 526**	81 663	(54 382)	(41 049)	0	0	0	105 758

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

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.

		2021			
	customer rating categories	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
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	2 621	644	86	3 351
	7 – 8	9	68	43	120
Total other non-financial corporations		**2 648**	**712**	**129**	**3 489**
Household	1 - 2	0	0	0	0
	3 - 6	136	9	6	151
	7 – 8	0	3	12	15
Total household		**136**	**12**	**18**	**166**
Total customer loans		**5 689**	**1 273**	**147**	**7 109**
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**

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

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

The table below represents debt securities by external rating categories

	2021			2020		
	S&P rating	***Moody's rating***	**Amount**	***S&P rating***	***Moody's rating***	**Amount**
Amortized cost debt securities			**379 758**			**116 036**
Hungarian government bonds	*BBB*	*Baa2*	53 494	*BBB*	*Baa3*	54 900
Corporate bonds*			320 119			53 324
Mortgage bonds	*BBB*	-	6 145	*BBB*	-	7 812
FVOCI debt securities			**32 537**			**39 046**
Government bonds	*BBB*	*Baa2*	32 537	*BBB*	*Baa3*	38 565
Treasury bills	*BBB*	*Baa3*	0	*BBB*	*Baa3*	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

**: Internationl 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. Recpectively 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.*

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

Exposure to credit risk and collaterals

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

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

LOANS AT AMORTIZED COST	**Under collateralized**		**Full or over collateralized**		**Uncollateralized**	**Total 31 December 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	**285 892**	**217 561**	**469 978**	**469 978**	**399 677**	**1 155 547**	**687 539**
General governments	23 747	15 492	12 914	12 914	1 893	38 554	28 406
Other financial corporations	132 519	129 155	104 761	104 761	66 809	304 089	233 916
Other non-financial corporations	129 054	72 500	261 802	261 802	294 308	685 164	334 302
Households	572	414	90 501	90 501	36 667	127 740	90 915
Loans to banks	**36 904**	**36 900**	**0**	**0**	**20 699**	**57 603**	**36 900**
Refinancing loans	0	0	0	0	826	826	0
Other loans	36 904	36 900	0	0	19 873	56 777	36 900
Total	**322 796**	**254 461**	**469 978**	**469 978**	**420 376**	**1 213 150**	**724 439**

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

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

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

LOANS AT AMORTIZED COST	Under collateralized carrying value of loans	Under collateralized fair value of collateral	Full or over collateralized carrying value of loans	Full or over collateralized fair value of collateral	Uncollateralized carrying value of loans	Total 31 December 2021 carrying value of loans	Total 31 December 2021 fair value of collateral
Customer loans	**3 235**	**1 779**	**33 439**	**33 439**	**37 519**	**74 193**	**35 218**
General governments	0	0	0	0	18	18	0
Other financial corporations	0	0	0	0	97	97	0
Other non-financial corporations	2 710	1 410	11 543	11 543	764	15 017	12 953
Households	525	369	21 896	21 896	36 640	59 061	22 265
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	**3 235**	**1 779**	**33 439**	**33 439**	**37 519**	**74 193**	**35 218**

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

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	**2 939**	**1 431**	**49 845**	**49 845**	**33 895**	**86 679**	**51 276**
General governments	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	97	97	14 063
Other non-financial corporations	2 379	1 076	12 987	12 987	940	16 306	37 213
Households	560	355	36 858	36 858	32 858	70 276	0
Loans to banks	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Refinancing loans	0	0	0	0	0	0	0
Other loans	0	0	0	0	0	0	0
Total	**2 939**	**1 431**	**49 845**	**49 845**	**33 895**	**86 679**	**51 276**

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	fair value of collateral
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**	**1 201**	**1 201**	**5 908**	**7 109**	**1 201**
General governments	0	0	555	555	0	555	555
Other financial corporations	0	0	0	0	2 899	2 899	0
Other non-financial corporations	0	0	480	480	3 009	3 489	480
Households	0	0	166	166	0	166	166
Total	**0**	**0**	**1 201**	**1 201**	**35 505**	**36 706**	**1 201**

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

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

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	fair value of collateral
Loan commitments and guarantees	**329 347**	**212 566**	**210 509**	**210 509**	**282 433**	**822 289**	**423 075**
Loan commitments	60 261	18 607	36 508	36 508	128 315	225 084	55 115
Capital commitments	0	0	0	0	93 875	93 875	0
Guarantees	269 086	193 959	174 001	174 001	60 243	503 330	367 960

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

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

c) Collateral and other security enhancements

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

	31 December 2021													
	State guarantee		**Property**		**Other mortgage**		**Other**		**Total collateral**		**Uncolla-terialised**	**Total**
LOANS AT AMORIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Customer loans	**178 242**	**167 665**	**291 047**	**263 675**	**198 344**	**195 300**	**88 237**	**60 898**	**755 870**	**687 538**	**399 677**	**1 155 547**
General governments	12 111	12 111	24 550	16 295	0	0	0	0	36 661	28 406	1 893	**38 554**
Other financial corporations	109 595	109 360	0	0	120 356	120 220	7 329	4 336	237 280	233 916	66 809	**304 089**
Other non-financial corporations	56 500	46 158	240 274	221 326	13 175	10 267	80 907	56 551	390 856	334 302	294 308	**685 164**
Households	36	36	26 223	26 054	64 813	64 813	1	11	91 073	90 914	36 667	**127 740**
Loans to banks	**36 904**	**36 900**	**0**	**0**	**0**	**0**	0	**0**	**36 904**	**36 900**	**20 669**	**57 603**
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	19 873	**56 777**

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 23 660 million).

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

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

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

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

	31 December 2021											
	State guarantee		**Property**		**Other mortgage**		**Other**		**Total collateral**		**Uncolla-terialised**	**Total**
LOANS AT AMORIZED COST	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**fair value of collateral**	**carrying value of loans**	**carrying value of loans**
Customer loans	**0**	**0**	**35 117**	**33 940**	**0**	**0**	**1 556**	**1 277**	**36 673**	**35 217**	**37 520**	**74 193**
General governments	0	0	0	0	0	0	0	0	0	0	18	**18**
Other financial corporations	0	0	0	0	0	0	0	0	0	0	97	**97**
Other non-financial corporations	0	0	12 696	11 685	0	0	1 556	1 267	14 252	12 952	764	**15 016**
Households	0	0	22 421	22 255	0	0	0	10	22 421	22 265	36 641	**59 062**
Loans to banks	**0**	**0**	**0**	**0**	**0**	**0**	0	**0**	**0**	**0**	**0**	**0**
Refinancing loans	0	0	0	0	0	0	0	0	0	0	0	**0**
Other loans	0	0	0	0	0	0	0	0	0	0	0	**0**

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

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

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 carrying value of loans	State guarantee fair value of collateral	Property carrying value of loans	Property fair value of collateral	Other mortgage carrying value of loans	Other mortgage fair value of collateral	Other carrying value of loans	Other fair value of collateral	Total collateral carrying value of loans	Total collateral fair value of collateral	Uncolla-terialised carrying value of loans	Total carrying value of loans
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**	**1 113**	**1 113**	**0**	**0**	**14**	**14**	**1 201**	**1 201**	**5 908**	**7 109**
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	2 899	**2 899**
Other non-financial corporations	72	72	396	396	0	0	12	12	480	480	3 009	**3 489**
Households	2	0	162	162	0	0	2	2	166	166	0	**166**

31 December 2020

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

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

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

	31 December 2021											
	State guarantee		**Property**		**Other mortgage**		**Other**		**Total collateral**		**Uncolla-terialised**	**Total**
	carrying value of commitments	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**carrying value of commitments**
Loan commitments and guarantees	**346 770**	**327 422**	**75 958**	**34 436**	**26 530**	**26 530**	**90 598**	**34 688**	**539 856**	**423 076**	**282 433**	**822 289**
Loan commitments	5 891	5 891	75 722	34 200	13 547	13 547	1 609	1 478	96 769	55 116	128 315	225 084
Capital commitments	0	0	0	0	0	0	0	0	0	0	93 875	93 875
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											
	State guarantee		**Property**		**Other mortgage**		**Other**		**Total collateral**		**Uncolla-terialised**	**Total**
	carrying value of commitments	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**fair value of collateral**	**carrying value of commitments**	**carrying value of commitments**
Loan commitments and guarantees	**3 606**	**3 606**	**11 836**	**7 265**	**19 611**	**12 495**	**49 644**	**32 774**	**84 697**	**56 140**	**244 314**	**329 011**
Loan commitments	2 112	2 112	7 752	3 181	15 285	8 169	20 293	12 586	45 442	26 048	178 280	223 722
Guarantees	1 494	1 494	4 084	4 084	4 326	4 326	29 351	20 188	39 255	30 092	66 034	105 289

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

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

	2021	2020
Asset side state guarantee frame	**1 700 000**	**650 000**
Utilization	955 634	632 882
from this actual loan balance at yearend	*421 214*	*221 330*
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 Group classifies a loan into the restructured category when a concession or amendment is made due to the borrower's current or anticipated financial difficulties which the Group would not have given if the borrower were financially sound. The table below does not include customers who do not pay due to the moratorium, as the Bank did not consider the fact of the moratorium to be an event triggering an automatic restructuring.

	Gross	Impairment	Net
31 December 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 derecognition gain or loss.

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

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**	**POCI**	**Total**
Financial services	366 077	95 429	0	1 258	462 764
Property development	73 301	211 101	6 581	0	290 983
Other services (local governments. health-care, other services)	24 705	6 328	193	60 786	92 012
Construction (including motorway financing)	47 735	1 131	0	2	48 868
Industry	55 643	29 176	2 233	1 044	88 096
Agriculture	63 322	8 854	11	235	72 422
Transport, storage, post, telecoms	74 648	256	596	15	75 515
Trade	21 627	1 167	0	1 235	24 029
Accommodation, catering	4 696	3 120	0	151	7 967
Total	**731 754**	**356 562**	**9 614**	**64 726**	**1 163 527**
of which amortized cost	*726 065*	*355 289*	*9 477*	*64 716*	*1 155 547*
of which FVTPL	*5 689*	*1 273*	*137*	*10*	*7 109*

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

B. LIQUIDITY RISK

a) Principles of liquidity risk management

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

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

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

Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR) and Directive 2013/36 / EU (CRD IV) of 26 June 2013 have transposed the Basel III. Regulation into the European regulatory framework for credit institutions. The new requirements were introduced gradually, and 2019 was the first year that all requirements were fully met. At the same time, MFB Zrt. was exempted from the liquidity requirements, which is included in the MFB Act.

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

The members of the Group also had a significant amount of liquidity reserves, deposits of HUF 54.6 billion (2020: HUF 67.2 billion) were placed with domestic credit institutions.

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

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

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

The Group measures its liquidity risks in the following ways:
- Quantification of dependence on large individual deposits;
- Comprehensive cash flow, liquidity forecast;
- Stress-test;
- Survival analysis;
- Quantification of liquidity ratios.

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

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

Risk Management Aspects of COVID-19

With regard to the Group's liquidity, neither COVID-19 nor the payment moratorium caused any difficulties. The liquidity reserve that the Bank holds in government securities 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.

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

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	**141 905**	(142 037)	(130 114)	(2)	(2 155)	(2 359)	(7 407)
Loans from banks	**598 877**	(627 356)	(2 131)	(5 457)	(51 690)	(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	**10 798**	(10 798)	(10 798)	0	0	0	0
Derivatives	**664**	(294)	(156)	(43)	(4)	(40)	(51)
inflow			59 260	38	1 883	259	94
outflow			(59 416)	(81)	(1 887)	(299)	(145)
Hedge derivatives							
inflow			0	0	0	0	0
outflow			0	0	0	0	0
Total financial liabilities and derivatives	**1 837 274**	**(1 956 072)**	**(144 439)**	**(5 502)**	**(189 988)**	**(1 158 445)**	**(457 698)**
Guarantees	**504 951**	**504 951**	**504 951**				
Capital commitments	**93 875**	**93 875**	**2 774**	**55 849**	**3 880**	**31 372**	**0**
Loan commitments	**214 566**	**214 566**	**214 566**				

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

The Group is subject to additional HUF 261 696 million (2020: 54 538 million HUF) venture capital note payment obligation related to the equity consolidated associates that is payable as required by the investment plans.

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

C. MARKET RISKS

Market risks are presented in the consolidated financial statements only for the Bank, because only the Bank has relevant exposure to market risk within the Group. The positions quantified accordingly and their effects adequately reflect the market risk exposure of the Group as a whole.

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 strenghtening 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).

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

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	168 729	760	19	17	169 525
Financial assets held for trading	783	0	0	0	783
Non-trading financial assets mandatorily at fair value through profit or loss	93 529	3 690	0	0	97 219
Financial assets at fair value through other comprehensive income	39 595	7 008	0	0	46 603
Financial assets at amortized cost	1 279 956	344 489	16 990	0	1 641 435
Derivatives – Hedge accounting	7 849	0	0	0	7 849
Total financial assets (1)	**1 590 441**	**355 947**	**17 009**	**17**	**1 963 414**
Liabilities					
Financial liabilities held for trading	664	0	0	0	664
Financial liabilities at amortized cost	1 029 132	784 647	22 824	7	1 836 610
Derivatives – Hedge accounting	0	0	0	0	0
Total financial liabilities (2)	**1 029 796**	**784 647**	**22 824**	**7**	**1 837 274**
NET BALANCE SHEET POSITION (1) - (2)	**560 645**	**(428 700)**	**(5 815)**	**10**	**126 140**
Derivative notional amounts	(66 785)	62 752	4 299	0	**266**
NET FOREIGN EXCHANGE POSITION at 31 December	**493 860**	**(365 948)**	**(1 516)**	**10**	**126 406**
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	**493 860**	**13 463**	**(1 516)**	**10**	**505 817**

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

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

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

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.

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

d) Interest rate risk analysis

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

The performed interest rate risk reports and stress-tests indicate that the Bank's exposure to interest rate risk according to market reference interest rates (EURIBOR, LIBOR, BUBOR) is low, greater changes in market rates - in any direction – do not cause great negative effect on the Bank's profit due to the repricing consonance. 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 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. The operational risk loss data are presented in the consalidated financial statement on a Bank only basis as among the MFB Group members the Bank has a structured operational risk management framework that ensures systematic identification and assessment of operational risks, elaboration and implementation of measures for mitigation of such risks.

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

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

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.
- 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. Among the Group members only the Bank falls under the CRR regulations. The HDB Law exempt the Bank from consolidated supervision therefore consolidated adjusted capital and capital adequacy is not prepared. The data in this section is identical with the stand alone Bank data.

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

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.

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

	2021	2020
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 Group applies the following fair value hierarchy:

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

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

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

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

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

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

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

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

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

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

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

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

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			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Derivatives		**783**		**783**
Non-trading financial assets mandatorily at fair value through profit or loss			97 219	**97 219**
Debt securities			60 513	60 513
Loans to customers			7 109	7 109
Loans to banks			29 597	29 597
Financial assets at fair value through other comprehensive income	**32 537**		**14 066**	**46 603**
Equity instruments			14 066	14 066
Debt instruments	32 537			32 537
Derivatives – Hedge accounting		7 849		**7 849**
FINANCIAL LIABILITIES				
Derivatives		664		**664**
Derivatives – Hedge accounting		0		**0**

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

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

Assets included in the „mandatorily at fair value through profit or loss” category are those failed on the SPPI test established by IFRS 9. The fair value of these items is determined based on the Group’s internal model, which takes into account the value of future cash flows and expected market yield surcharge when discounting. The Group calculates the fair value of loans based on the discounted expected cash flow and discounts the contractual (capital, interest, interest subsidy) or individually determined future expected cash flows with the current yield curve or reference rate flat, increased by the product-level spread. In case of collective valuation, all contractual cash flows are taken into account and discounted. In case of individual valuation, the calculation includes the total expected cash flow. The fair value calculation is performed only for the already disbursed part, therefore the undrawn amount does not affect the fair value calculated. The main inputs used for venture capital investments in this category 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 enrty value (cost) gives a good approximation of the fair value of the investment in the initial period. An alternative to determining fair value is the so-called plan performance model. The point is that it does not focus on an annual fact/fact-based assessment, but on a plan/fact-based assessment measured cumulatively from the start of the fund. The main parameters of the plan performance model are: fulfillment of placements, costs accounted for in the fund, expenses of financial operations / recognized impairment ratio, amount of exits, net asset value. Venture capital funds have no material liabilities and no other material assets.

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

For the fair value determination of equity securities, the Group takes into consideration the expected return on the market, the marketability of the item, its mobilization (the supply and demand conditions and the available market prices, the proportion from the net equity of the investment) and the probability and magnitude of the loss.

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

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

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	**8 068**	**35 014**	**9 275**	**3 651**
New disbursements/acquisition/capital increases	1 450	150	5 685	56 125
Sales	0	0	(188)	0
Repayments	(1 382)	(5 682)		
Profit or loss (fair value changes) during the year	(451)	115	(8)	737
Fair value changes during the year accounted into OCI			(39)	
Transfers from/to level 3. hierarchy category	(576)	0	(659)	0
Closing balance at 31 December	**7 109**	**29 597**	**14 066**	**60 513**

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

The Group used discounted cash flow model valuation technique to determine the fair value for customer and bank loans in level 3 category both as at 31 December 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 Group applied discounted cash flow model for the expected net cash flow derived from the entity.

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

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

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

	2021				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying value**
Cash. cash balances at central banks and other demand deposits	6	169 485		**169 491**	**169 525**
Financial asset at amortized cost	**57 201**	**0**	**1 571 886**	**1 629 087**	**1 641 435**
Debt securities	**57 201**		**307 629**	**364 830**	**385 538**
Hungarian government bonds	50 865			50 865	53 494
Corporate bonds			307 629	307 629	325 899
Mortgage bonds	6 336			6 336	6 145
Loans			**1 221 511**	**1 221 511**	**1 213 151**
Customer loans			**1 165 119**	**1 165 119**	**1 155 547**
General governments			35 875	35 875	38 554
Other financial corporations			298 989	298 989	304 089
Other non-financial corporations			702 754	702 754	685 164
Households			127 501	127 501	127 740
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			**357**	**357**	**357**
Trade receivables			320	320	320
Margin accounts			37	37	37
Deposits at central and other banks			**42 389**	**42 389**	**42 389**
Central bank deposits			19 800	19 800	19 801
Other bank deposits			22 589	22 589	22 588
Financial liabilities at amortized cost		**1 052 942**	**688 884**	**1 741 826**	**1 836 610**
Customer deposits			**138 358**	**138 358**	**141 905**
Interbank deposits			103 131	103 131	103 148
Customer deposits (collateral behind loans)			9 101	9 101	11 836
Other customer deposits			26 126	26 126	26 921
Due from banks			**539 728**	**539 728**	**598 877**
Refinancing loans			225 984	225 984	261 909
Other loans taken			313 744	313 744	336 968
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
from this listed on foreign stock exchange		*455 830*		*455 830*	*461 336*
Other financial liabilities			**10 798**	**10 798**	**10 798**
Margin accounts			6 883	6 883	6 883
Creditors			1 947	1 947	1 947
Other financial liabilities			1 968	1 968	1 968

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

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

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.

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

37. OFFSETTINGS

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

Financial assets subject to offsetting and potential offsetting agreements - 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**

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

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)**

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

38. MATURITY TABLE

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

	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	169 525		169 525	77 323		77 323
Financial assets held for trading	783		783	443		443
Non-trading financial assets mandatorily at fair value through profit or loss	5 460	91 759	97 219	5 829	40 904	46 733
Financial assets at fair value through other comprehensive income	8 794	37 809	46 603	16 500	31 821	48 321
Financial assets at amortized cost	298 385	1 343 050	1 641 435	637 635	854 181	1 491 816
Derivatives – Hedge accounting	7 849		7 849	1 608		1 608
Total Financial Assets	**490 796**	**1 472 618**	**1 963 414**	**739 338**	**926 906**	**1 666 244**
Financial Liabilities						
Financial liabilities held for trading	664		664	911		911
Financial liabilities at amortized cost	310 886	1 525 724	1 836 610	506 918	996 267	1 503 185
Derivatives – Hedge accounting	0		0	0		0
Total Financial Liabilities	**311 550**	**1 525 724**	**1 837 274**	**507 829**	**996 267**	**1 504 096**
Guarantees	**504 951**		**504 951**	**105 758**		**105 758**
Capital commitments	**62 503**	**31 372**	**93 875**			
Loan commitments	**79 842**	**146 791**	**226 633**	**77 734**	**147 185**	**224 919**

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

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

39. 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
Finatech I. Kockázati Tőkealap	Venture capital fund	69.96%	69.96%	4 288	4 288
Finatech II. Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	13 351	13 351
Finext Startup Kockázati Tőkealap	Venture capital fund	-	67.93%	-	3 610
Forte Kockázati Tőkealap	Venture capital fund	70.00%	70.00%	3 857	3 857

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

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

40. 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 unceratinty 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 finacial statements cannot be detetermined as at the reporting date but the Group monitor the situations/potential risks.

MFB Hungarian Development Bank Private Limited Company
Consolidated management report for the year 2021

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Introduction

MFB Hungarian Development Bank Private Limited Company (hereinafter: MFB, Bank) has prepared its management report containing the consolidated data of 2021 in accordance with Act CXX of 2001 on the Capital Market and Decree 24/2008. (VIII. 15.) of the Ministry of Finance on the detailed rules on disclosure obligations related to publicly traded securities.

The purpose of the report is to allow the Bank's governing bodies to learn the details of the Bank's and subsidiaries (Group, MFB Group) operations and business processes in the reporting period, and, based on balance sheet and profit and loss account data, get an accurate picture of the Group's management in 2021.

The performance of MFB Zrt. and the MFB Group 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 growth in business activity resulted in such an increase in the capital requirement of an extent such that the Bank's total capital adequacy ratio threatened to fall to a critical level by the end of 2021. To prevent 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. The accounting impact of the moratorium was billions-forint loss in the Bank's earnings for 2021.

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.

1. Operating conditions

Macroeconomic factors

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.

Legislative changes with a significant bearing on the operations of the MFB Group[1]

The table below shows the year-end utilisation of state guarantee and interest subsidy facilities approved for the Bank under Act 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 highlighted[2], 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.

Founder's Resolutions

The minister without portfolio responsible for the management of national assets, who exercises shareholder rights in respect of the Bank, passed several important resolutions pertaining to the Bank's operations. In accordance with the tasks and powers defined in the Articles of Association, most of the Founder's Resolutions made in 2021 set out specific tasks, took business decisions, specified deadlines for their completion and described the method of verification, and stipulated the increase in MFB Zrt's registered capital.

[1] Companies in which, pursuant to the provisions of Act XX of 2001 on MFB Hungarian Development Bank Private Limited Company, MFB's direct and indirect voting share is greater than 50%.

[2] 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.

2. Business events in 2021

MFB is the lead credit institution of a corporate group in long-term state ownership that provides a complex range of services.
The core of the companies included in the scope of consolidation consists of MFB's strategic investments, i.e. the MFB Group, in other words companies in which MFB holds a direct and indirect voting share greater than 50% as per the provisions of Act XX of 2001 on MFB Hungarian Development Bank Private Limited Company. Based on this, as at the end of 2021 the following companies belonged to the MFB Group:

- MKK Magyar Követeléskezelő Zrt.
- MFB-Ingatlanfejlesztő Zrt.
- MFB Invest Zrt.
- Hiventures Zrt.
- MFB Growth Capital Fund (MFB NTA)
- Divat&Design [Fashion & Design] Capital Fund
- Debrecen City Capital Fund
- Székesfehérvár City Capital Fund
- Kaposvár City Capital Fund
- Nyíregyháza City Capital Fund
- Pécs City Captial Fund
- Veszprém City Capital Fund
- FOCUS VENTURES Zrt.
- MFB Investment and Transaction Private Equity Fund (BTMA)

In accordance with one of MFB Group's strategic objectives of placing greater emphasis on equity financing, and with the effort to mitigate the negative economic effects of COVID-19, three new capital funds were added to the MFB Group in 2021. As in 2020, the creation of city funds supporting the economic recovery of their respective regions continued, this time with the participation of FOCUS VENTURES Zrt., a capital fund management firm owned by MFB Invest Zrt., and as a part of this, the Nyíregyháza City Capital Fund and the Pécs City Capital Fund were established. The range of capital funds managed by Hiventures and owned by MFB Zrt. (MFB SME Capital Fund and MFB NTA) was expanded to include the MFB Investment and Transaction Private Equity Fund, the purpose of which was to mitigate the economic shock caused by the coronavirus and help ensure the continuity of business activity.

The combined (pre-consolidation) net earnings of the MFB Group in 2021 (without MFB) was HUF 2,374 million. The largest item in this positive figure was the profit of MKK Zrt. in 2021 calculated on an IFRS basis. The profit is lower than it was in the previous year, primarily because of the negative impact of COVID-19 on MKK's profit.

The individual companies' net earnings for the year, recognised for the purposes of consolidation and before adjustments, were as follows:

million HUF	2021.	2020.
According to IFRS	**5 547**	**15 448**
MKK Zrt.	5 547	15 448
According to HAS	**-3 173**	**-4 511**
MFB Ingatlanfejlesztő Zrt.	1 118	221
MFB Invest Zrt.	46	-1 478
Hiventures Zrt.	422	484
MFB Growth Investment Fund	-2 369	-1 957
Fashion&Design Investment Capital Fund	-190	-159
Debrecen City Capital Fund	-276	-256
Székesfehérvár City Capital Fund	-135	-127
Kaposvár City Capital Fund	-91	-34
Nyíregyháza City Capital Fund	-110	0
Pécs City Capital Fund	-48	0
Veszprém City Capital Fund	-84	-2
FOCUS VENTURES Ltd. (MFB Invest Equity Fund Management Ltd.)	156	8
MFB Investment and Transaction Private Fund	0	-470
MFB Corporate Investment and Transaction Private Fund (formerly MFB SME Investment Capital Fund)	-1 612	-740
Total	**2 374**	**10 938**

Due to the various core activities of the companies, below are highlighted the key aspects of the operations of each member of the MFB Group.

2.1. MFB Hungarian Development Bank Private Limited Company

MFB was the dominant institution within the MFB Group in terms of both capitalisation and total assets.

Business processes
Lending, new guarantees

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.[3]

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)
- 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 2021**[4], to HUF 379 billion, Actual capital placements and investment-unit subscriptions amounted to HUF 228 billion in 2021.

[3]In 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.
[4]Also 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.

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.

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 390 million in foreign currency bonds to refinance bonds of USD 500 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.
Central bank funds used to finance loans granted under the MNB-funded loan programme amounted to HUF 72 billion.

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 12 526 million) increased only slightly despite the further expansion of tasks, while the effect on profit of changes in impairment/provisions (HUF 11 731 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.

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.

2.2. Activities of the main companies included in the scope of consolidation

As of 31 December 2021, the key information relating to the subsidiaries included in the scope of consolidation was as follows:

MKK Magyar Követeléskezelő Zrt.

The management of retail-customer debt and of other, proprietary receivables continues to be predominant within the Company's business activity, and within this, its main activities include the management of tax and contribution claims purchased from the tax authority (in a decreasing extent in line with the depletion of the portfolio), workout activity, brokerage activity and factoring.

The Company's operations continued undisturbed in 2021 and its liquidity position remained stable. It also retained its market presence and share during the year. The more notable debt purchase transactions were the following:

- In 2021, the company continued to purchase secured and unsecured claims against private individuals in the consumer debt market.
- The company continued in 2021 to purchase Széchenyi credit card receivables from Garantiqa Hitelgarancia Zrt.

In 2021, most of the firm's revenues came from its core activity, specifically from yields and income earned on the individual claims.
MKK Zrt's after-tax profit for the year 2021 was HUF 3,084 million according to the Hungarian Accounting Standards (HAS).

MFB Invest Zrt.

The company is the investment competence centre for the MFB Group, and as such, its tasks include implementing individual large-scale priority investments, making placements through its own funds, performing fund-of-funds activities, as well as subscribing to corporate bonds. The company participates as an expert and co-owner in various projects that yield benefits over the long term and are considered a priority for the national economy. The company concluded an agency agreement with MFB Zrt. for the exercising of voting rights related to the latter's interest in Hiventures Zrt (In most matters, MFB exercises ownership rights, with the exception of, for example, capital increases). At the start of 2019, the firm's five-year strategy was adopted, which aims to expand its product offering and its placements and to implement various organisational development initiatives.

The company's placements amounted to HUF 41 060 million in 2021, as a result of which net long-term (invested) assets increased by HUF 84 684 million, or more than 92%, compared to 2020. Within the placements of 2021, a significant portion is accounted for by investments in capital funds managed by market-based fund managers as part of its fund-of-funds activity (HUF 34,900 million – 85% of the placements of the reporting year). The Company participated as an investor in the creation of a number of new capital funds implemented by external fund managers in 2021, where the resources provided by MFB Invest Zrt. were supplemented with market-based funding, thus providing a more substantial financing opportunity for businesses implementing developments – typically SMEs. In addition to investing in these capital funds, MFB Invest Zrt. continued to subscribe to corporate bonds, through which the company provides alternative financing to SMEs implementing developments in the market. FOCUS VENTURES Zrt., which is owned by MFB Invest Zrt., continued the investment activities related to city funds that it had begun in 2019 and established new city funds, with MFB Invest Zrt. as investor.

The company’s profit for 2021 was HUF 46 million, which is mainly due to unrealised foreign exchange gains resulting from the revaluation of investments denominated in foreign currencies at the end of the period, in addition to higher revenues and lower costs and expenses compared to the plan.

FOCUS VENTURES Zrt.

The primary task of the company is to perform fund management activities in respect of the MFB Group’s own funds, with special regard to the management of city funds of key importance to the national economy.

In 2021 the fund manager created two additional capital funds with HUF 8 billion in subscribed capital, and thus the total subscribed capital of the managed funds reached HUF 29 billion. The following capital funds were created in 2021:

- Pécs City Capital Fund (HUF 3 billion subscribed capital)
- Nyíregyháza City Capital Fund (HUF 5 billion subscribed capital)

In the case of the new funds, the emphasis in 2021 was on creating the preconditions for operation, while in the case of the previously established funds, investment activity has already begun.

Debrecen City Capital Fund

The aim of the capital fund, established in 2019 with an envelope of HUF 10 billion, is primarily to finance projects implemented in Debrecen and Hajdú-Bihar counties, thus providing growth opportunities for businesses in the region. There are two investments in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Székesfehérvár City Capital Fund

The aim of the capital fund, established in 2019 with an envelope of HUF 5 billion, is to finance projects implemented in Székesfehérvár and Fejér County, thus providing growth opportunities for companies in the region. There is one investment in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Kaposvár City Capital Fund

The aim of the capital fund established with an envelope of HUF 3 billion in 2020 is to finance projects in Kaposvár and its catchment area, as well as in Somogy county, thus providing growth opportunities for businesses in the region. There are no investments in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Veszprém City Capital Fund

The aim of the capital fund established with an envelope of HUF 3 billion in 2020 is to finance projects in Veszprém and its catchment area, as well as in Veszprém county, thus providing growth opportunities for businesses in the region. There are no investments in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Nyíregyháza City Capital Fund

The aim of the capital fund established with an envelope of HUF 5 billion in 2021 is to finance projects in Nyíregyháza and its catchment area, as well as in Szabolcs-Szatmár-Bereg county, thus providing growth opportunities for businesses in the region. There are no investments in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Pécs City Capital Fund

The aim of the capital fund established with an envelope of HUF 3 billion in 2021 is to finance projects in Pécs and its catchment area, as well as in Baranya county, thus providing growth opportunities for businesses in the region. There are no investments in the portfolio of the capital fund. The management of the fund is performed by FOCUS VENTURES Zrt.

Hiventures Zrt.

In accordance with the strategy of the MFB Group, the individual capital investments of the banking group are performed by MFB Invest Zrt. as the relevant competence centre, while Hiventures Zrt., operating as a subsidiary of MFB Invest Zrt., is responsible for the management of bulk capital investment activities through the MFB Growth Capital Fund, MFB Corporate, Investment and Transaction Capital Fund and the Fashion & Design Capital Fund which are owned by the Bank, as well as through the EU capital funds (State Fund for Research, Development and Innovation - RDI, the Information and Communication Capital Fund - ICC, and the Digitalisation Capital Fund - DCF).

COVID-19 brought major changes to the operating environment of Hiventures Zrt. In response, the MFB Group increased the range of entities that it finances, as a result of which the funds managed by Hiventures Zrt. launched various rescue programmes, as well as a financing programme for large companies. During operations in 2020, a new Fund, the MFB Private Equity Investment Fund (MFB BTMA) and – within the framework of the MFB NTA and MFB SME Capital Funds – two rescue capital programmes were launched. The MFB SME Capital Fund was transformed at the end of 2020 and will continue to operate under the new name MFB Corporate Investment and Transaction Private Equity Fund (MFB VBTMA fund). At the same time, the MFB BTMA fund that was set up during the COVID-19 crisis was wound up. The purpose of the MFB VBTMA funds is the same as that of the previous MFB SME and MFB VBTMA funds.

Due to the declining managed portfolio, in 2021 the company's fund management fee income was lower and its operating expenses were higher than in 2020, and thus the pre-tax profit was HUF 422 million.

MFB Corporate Investment and Transaction Private Equity Fund

The primary objective of the MFB SME Capital Fund, established in September 2019 with HUF 31 billion in funding, is to finance small and medium-sized enterprises, increase and strengthen the competitiveness and productivity of domestic and international M&A activity and, through this, of Hungarian SMEs. Due to the economic importance of the SME segment, it is at the heart of targeted economic development programmes in Hungary. The aim of these measures to help SMEs is to improve their competitiveness and productivity and thus improve their chances of success in international markets.

In June 2020, in order to mitigate the economic impact of COVID-19, the launch of the "SME rescue capital programme" through a HUF 10 billion capital increase of MFB SME was approved.

The MFB SME Capital Fund was transformed at the end of 2020 and will continue to operate under the new name MFB Corporate Investment and Transaction Private Equity Fund (MFB VBTMA fund). At the same time, the HUF 150 billion Crisis Fund (MFB BTMA) set up during the COVID-19 crisis was wound up. The MFB VBTMA fund has share capital of HUF 75 billion, and its aim is the same as the goals of the previous MFB SME and MFB VBTMA funds

The Fund's net result for the year was a loss of HUF -1,612 million in 2021.

Fashion & Design Capital Fund

The aim of the Fashion & Design Capital Fund, which was launched in September 2019 with funding of HUF 5 billion, is to finance start-ups or young innovative companies with high growth potential in the fashion and design sector that, through the capital support, can create innovative products or services by implementing their ideas and refining prototypes that can then be taken to the international market. Through the new fund, the Hungarian economy and Hiventures will open up towards an industry in which there are substantial opportunities for innovation and digital transformation, as well as for launching new clothing products and fashion accessories. To this end, as a first step, Hiventures entered into a strategic cooperation agreement with the Hungarian Fashion & Design Agency in 2019. Currently there are four companies in the portfolio of the Capital Fund. The Fund's net result for the year was a loss of HUF -190 million in 2021.

MFB Growth Capital Fund (NTA)

In terms of development stages, the Capital Fund finances micro, small and medium-sized enterprises (and in some cases, large companies) that are at the start of the development and financing chain. In venture capital speak, these are incubation-size, seed, start-up, or occasionally growth-stage businesses.

In June 2020, in order to mitigate the economic impact of COVID-19, the launch of the "Startup rescue capital programme" through a HUF 10 billion capital increase of MFB NTA was approved.

The economic crisis caused by COVID-19 may well hit the Growth Capital Fund the hardest, as its investments are most exposed to the negative effects of the crisis. For one, the NTA tends to make early-stage investments: the target companies that have received funds so far have only recently begun operating (the Fund has investments dating back to just 2017), and so they have not yet had a chance to become financially robust. Secondly, the target group consists mainly of medium-sized and small businesses, which are generally of a higher risk, and are more sensitive to the effects of the crisis.

In 2021, the Fund's net result for the year was a loss of HUF -2,369 million.

MFB-Ingatlanfejlesztő Zrt.

During the reporting period, the Company operated as the real estate competence centre of the MFB Group. As part of this, it performed the banking group's property management, development, utilisation and sales tasks, but under its new strategy from 2019, it also completed market-based purchases of properties that were consistent with its existing activities and portfolio (e.g. office buildings), which allowed it to stabilise its profit-generating capacity.

In 2021, the company continued to perform operation and utilisation activities with respect to the properties taken over from the members of the MFB Group. During the year, 4 properties taken over within the MFB Group were sold for a total of HUF 51.7 million.

The Company's after-tax profit for the year 2021 was a profit of HUF 1,118 million.

2.3. Key features of the internal audit and risk management systems of the corporate group

According to Section 134 (3) of the Accounting Act relating to consolidated management reports, if the negotiable securities of a company included in consolidation have been admitted for trading on a regulated market of any country of the European Economic Area, it must include in the consolidated management report a description of the main features of the corporate group's internal audit and risk management systems in connection with the preparation of the consolidated annual accounts.

Given the fact that the bonds issued by MFB had been admitted for trading on the Stock Exchange, we present below the main features of the corporate group's internal audit and risk management systems in connection with the preparation of the consolidated annual accounts:

- MFB's companies included in the consolidation circle are consolidated on the basis of reporting packages containing Hungarian annual accounts and IFRS adjustments audited by independent statutory auditors and, in the case of subsidiaries newly added to the consolidation circle, on the basis of a "purchase price allocation" (PPA) valuation prepared by an independent consultancy firm.
- In its consolidation accounting policy, MFB specifies the deadlines and the contents of the consolidation data reports.
- MFB decides on the business policy and business plans of the companies belonging to the MFB Group, and approves the founder's resolutions and general meeting mandates relating to these companies, including the election of the senior executives, supervisory board members, and the companies' chief executive officers.
- MFB delegates a representative to the Supervisory Board and Board of Directors of all the consolidated companies.
- MFB's Internal Audit Directorate may audit the members of MFB Group on the basis of the internal audit plan approved by MFB's Supervisory Board. In order to ensure the consistent quality of internal audit within the Group, the Bank applies a group-wide policy that sets out the internal control processes and the methodologies to be applied, and assures the independence of the internal audit function within the organisation. In 2021, the Internal Audit Directorate conducted audits concerning the following subsidiaries: 1) In the case of Diákhitel Zrt., it conducted a general IT audit, and 2) in the case of MFB Invest Zrt., Hiventures Zrt. and Focus Hiventures Zrt., it conducted an audit of their capital investment and related processes.
- In accordance with Section 8 (2) of the MFB Act, MFB is exempt from the requirements relating to consolidated supervision. At the same time, MFB lays down, in Board directives, specific rules on group-level risk taking, which contain guidance for the risk management activities of the MFB Group in respect of lending, market and operational

risk. The members of the MFB Group have integrated the provisions of the group-level rules into their own regulations.

- MFB exercises monitoring activity in respect of the members of the MFB Group through monthly and quarterly reporting.

The risk management policy of the MFB Group, the hedging policy, and the price, credit, interest rate, liquidity and cash flow risks are described in detail in Note 36.

3. Main figures of the consolidated accounts

MFB's consolidated annual accounts for the year 2021 contain the following key data in accordance with international accounting standards:

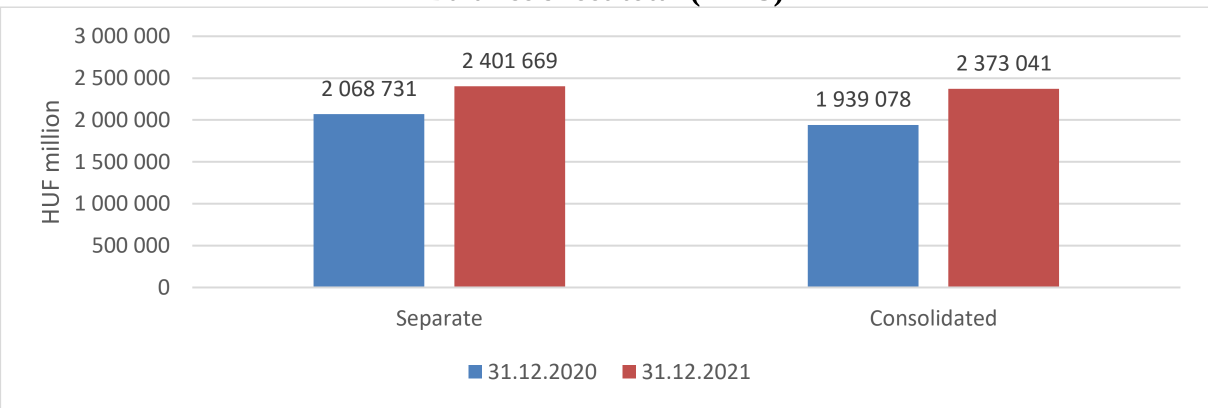
- The consolidated balance sheet total was HUF 2 373 041 million as at 31 December 2021.
- The value of consolidated shareholders' equity amounted to HUF 496 095 million at the end of 2021.
- Consolidated net profit for 2021 was HUF 7 809 million.

The explanations for the significant figures of the consolidated accounts are as follows:

3.1. Balance sheet total

The change in the balance sheet total under international accounting standards was the following:

Balance sheet total (IFRS)

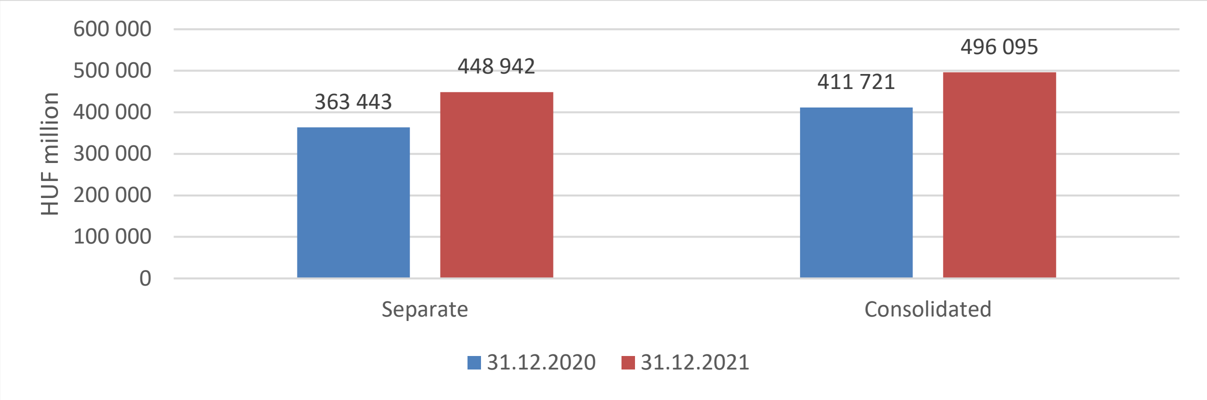


In 2021 the group-level balance sheet total amounted to HUF 2 373 billion, which is 22% more than the 2020 figure. During the year, the growth of the balance sheet total was due to the expansion of lending activity, and corporate bond subscriptions and purchases which are mainly related to MFB's activity.
MFB's balance sheet total of HUF 2 402 billion represents 101% of the group's balance sheet total.

3.2. Shareholders' equity

The capitalisation of the group provides sufficient medium-term funding for operations and enables the secure completion of tasks. The value of, and the annual change in, shareholders' equity according to international accounting standards was as follows:

Shareholders' equity (IFRS)



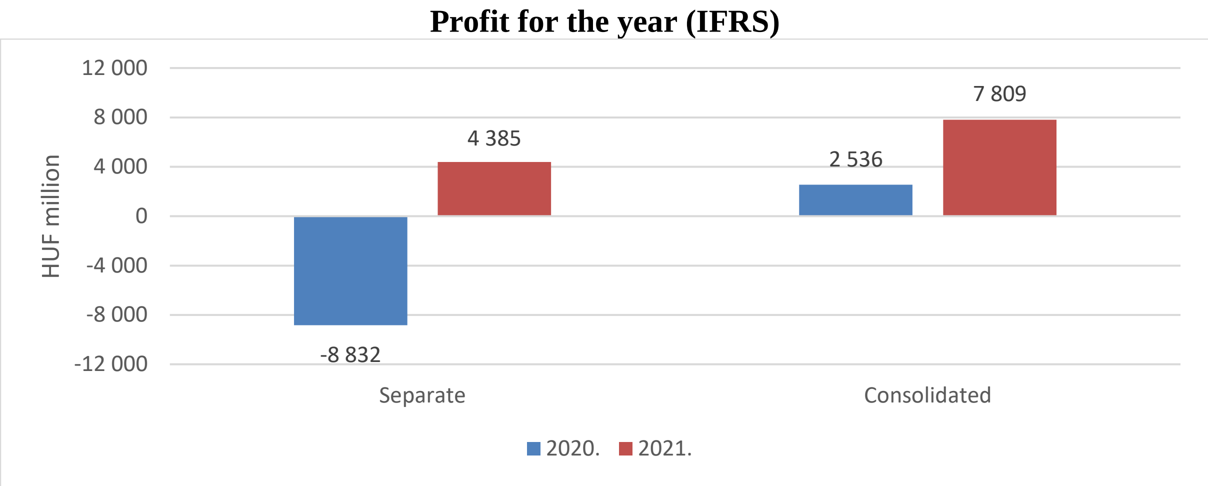
The value of consolidated IFRS shareholder's equity increased in 2021 by HUF 85 billion, primarily because the Bank received capital from its owner two times during the year (in amount of HUF 84 billion in total), mainly to meet the prudential limits connected to the investment activities.

3.3. Profit after tax

MFB's non-consolidated 2021 profit after tax for the year under international accounting standards was HUF 4 385 million, whereas on consolidated level the net profit amounted to HUF 7 809 million thanks to parent company, MFB considerable profit according to IFRS standards.

The table below shows the changes in the stand-alone and consolidated profit figures (IFRS):

	2020.	2021.	Difference
Separate net profit for the year	-8 832	4 385	13 218
Consolidated profit for the year	2 536	7 809	5 273
- of which: Profit attributable to the shareholder	*2 604*	*7 809*	5 205
- of which: Profit attributable of non-controlling interest	*-68*	*0*	68



The changes in the consolidated profit figures are summarised in the following table:

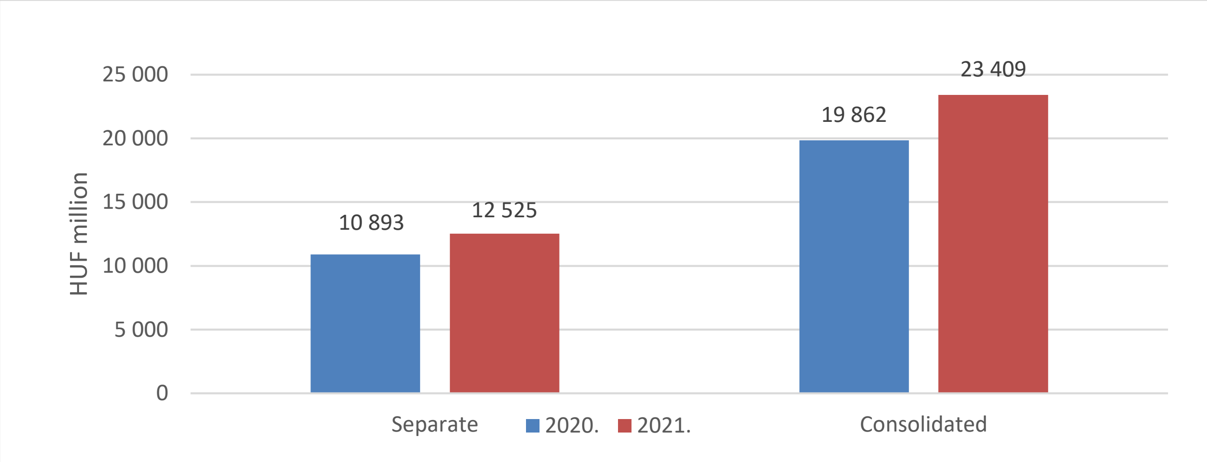
million HUF	2020.	2021.	Index
Net interest income	23 669	35 936	152%
General and administrative expenses	(19 862)	(23 409)	118%
Cost reimbursements	3 982	4 150	104%
Effect of the changes in impairment / provision	785	(6 015)	-766%
Profit/loss from other revenues	(579)	3 264	-564%
Taxation	(5 459)	(6 117)	112%
Profit for the year	**2 536**	**7 809**	**308%**

MFB's consolidated profit for the year is HUF 7 809 million. In examining the profit items, it is worth noting that:

- The net interest income is higher than the previous year's figure, primarily due to the expansion in the portfolio of interest-bearing assets owned by the parent company, MFB.
- The marge increased too, in case of MFB, primarily because the rate of the USD issued bonds - expired in the last quarter of 2020 - were replaced by EUR bonds with a smaller rate.
- The value of the costs exceeds the previous years amount. The increase in personnel cost is mainly regarding the higher average headcount at group level. With regard to non-personnel costs the expert fees and property maintenance costs increased the most. Due to the fact that a portion of the expenditures planned for 2020 was postponed to 2021 and the real estate stock of MFB Ingatlanfejlesztő Zrt. increased significantly in the last quarter of 2020.

  Changes in general and administrative expenses are detailed in the following chart:

General and administrative expenses (IFRS)



- 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 negative amount of impairment/changes in provisions is due to the additional provisions made in parallel with the increased lending activity. Besides, higher amount of provisions were made in relation to MFB Growth Capital Fund.
- The positive balance of other revenues and expenditures in 2021 derived from the MFB Invest – Corvinus share exchange transaction, the profit of market capital funds (valued at fair value) booked in 2021 for the first time, and the higher fee income of MFB Ingatlanfejlesztő Zrt. Other items include the loss booked in connection with repayment moratorium, which deteriorate the profit less in 2021 compared to the prior year.
  The tax figure in 2021 was higher than previous year's amount, due to the higher amount of bank tax, and bank supervisory fee, which increased in line with the expansion of the portfolio.

3.4. Key indicators reflecting MFB's consolidated operation

Financial indicators

ROA

million HUF, %

		2020.	2021.	Index
1.	Profit for the year	2 536	7 809	307,93%
2.	Total assets	1 939 078	2 373 041	122,38%
3.=1/2	**Return on Assets (ROA)**	**0,13%**	**0,33%**	**251,61%**

ROE

million HUF. %

		2020.	2021.	Index
1.	Profit for the year	2 536	7 809	307,93%
2.	Shareholder's equity	411 721	496 095	120,49%
3.=1/2	**Return on Equity (ROE)**	**0,62%**	**1,57%**	**255,55%**

The value of both ROA and ROE are more favourable compared to 2020, thanks the higher amount of profit for 2021. The positive impact of the higher profit for 2021 was only partly neutralized by the higher amount of total assets (in case of ROA), and higher amount of shareholders's equity (in case of ROE).

Cost/income ratio

million HUF, %

		2020.	2021.	Index
1.	General and administrative expenses	19 862	23 409	117,86%
2.	Net interest income + companies sales revenue	23 669	35 936	151,83%
3.=1/2	**Cost/income ratio**	**83,92%**	**65,15%**	**77,63%**

As the increase of the revenues exceeds the increase of the expenses, the value of the C/I indicator improved from last year.

Liquidity ratio

million HUF, %

		2020.	2021.	Index
1.	Liquid assets (cash, MNB deposits, avaiable-for-sale securities)	443 519	304 705	68,70%
2.	Total assets	1 939 078	2 373 041	122,38%
3.=1/2	**Liquidity ratio**	**22,87%**	**12,84%**	**56,14%**

The portion of the state bonds and interbank items (liquid assets together) compared to total assets is lower than last years's figure. The amount of liquid assets was considerable higher in 2020 due to the short term interbank transactions fuelled by a considerable amount of security deposit (put in by a customer with significant loan amount). Excluding the security deposit deal from the 2020 figure the liquidity ratio would be under 13%, likewise in 2021.
Liquid assets available at the end of the year continue to provide coverage for the management of an unexpected extraordinary liquidity situation.

Leverage ratio

million HUF, %

		2020.	2021.	Index
1.	Total assets	1 939 078	2 373 041	122,38%
2.	Shareholder's equity	411 721	496 095	120,49%
3.=1/2	**Leverage ratio**	**4,71**	**4,78**	**101,57%**

Based on the balance sheet total and equity increased by nearly the same extent during the year. The Bank's consolidated leverage ratio has slightly changed compared to 2020. The Group continues to have sufficient capital to ensure its reliable operation.

Non-financial indicators

Headcount of MFB and MFB group

number, %

		2020.	2021.	Index
1.	Closing headcount	741	808	109,0%
2.	Average headcount	712,5	792,8	111,3%

In parallel with the expansion of tasks (capital fund investment activity), both closing and average headcount increased in 2020.

Announced MFB programmes, sub-programmes

number, %

		2020.	2021.	Index
1.	MFB programmes	15	12	80,0%
2.	MFB sub-programmes	2	0	0,0%
3.	Total amount of MFB programs	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

number, %

		2020.	2021.	Index
1.	EU programmes	28	29	103,6%
2.	Total amount of EU programs	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.

4. The MFB Group's strategic business policy concept for 2021

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

The activities of MFB, as a development bank, will continue to complement the operations of the Hungarian banking sector in 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 latest MFB survey conducted at the 2021 year end, there are unmet financing needs of approximately HUF 550 billion in the economy that promise reasonable returns, and meeting these needs gradually is a task that can be justified even according to EU standards.

In 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 maintain the Crisis Loan programmes introduced in connection with the mitigation of the economic consequences of the COVID virus.

It represents a change in the Bank's investment and asset management activities that subscribing for the investment units of capital funds – and thus supporting disbursements through the funds – is gaining more weight within the direct investments of MFB. The operations of subsidiaries follow the strategic group-level objectives approved, and MFB Zrt. provides capital increase to expand the business activities of the subsidiaries.

MFB continues to prepare its cost budget taking two main aspects into consideration: standard operating expenses and capital expenditures will remain under close control, while strategic and regulatory tasks will demand significant capital expenditures and preparatory expenses, mainly in IT. In order to support the achievement of the business objectives, the level of marketing expenses will also remain high.

The financial and economic effects of COVID-19 on the Bank and on the MFB Group were in most cases already reflected in the processes and results of 2020. In 2022, more and more the spill-over effects of those actions (e.g. the postponement of procurements to 2022) can be expected.

As a result of the above trends and processes, The Bank's and the MFB Group'S liquidity and funding will remain stable throughout the year, but the planned disbursements must be implemented and the planned cost level must be maintained for the profit targets to be achieved. Nevertheless, the Bank must – both in the short and long term – continue to allow for financial and business risks that may affect the success of the 2021 plan, including the protracted impact of the coronavirus, the returns on the subsidiary portfolio and the challenges of renewing channels and products. Managing these risks will remain a key task in the future.

5. Other key processes

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 Group member companies, the first sustainability survey of the Bank Group was completed in 2021, in which the Group members presented the sustainability performance of their business areas and internal operations. 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 CO_2 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 CO_2 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 CO_2 equivalent (t CO_2)	**659**	**582**	**627**		**-34.95**
CO_2 equivalent consumption per capita (t CO_2 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.

The following Companies have branch sites:

- MKK Zrt. – business address, as per the Articles of Association: 1138 Budapest, Madarász Viktor u. 47-49.
- MFB-Ingatlanfejlesztő Zrt.
  - The Company's business address as follows:
  - 1135 Budapest, Szegedi út 35-37.
  - 1134 Budapest, Dózsa György út 128-130.
  - The Company's business address as follows:
    - 2800 Tatabánya, Bárdos László u. 2.
    - 9970 Szentgotthárd, Füzesi út 3/b.
    - 2700 Cegléd, Fürdő utca 24.
    - 3100 Salgótarján, Kassai sor 6.
    - 3100 Salgótarján, Alkotmány út 18. fszt.
    - 3100 Salgótarján, Alkotmány út 18. I. emelet

MFB and the other members of the MFB Group do not have any branch offices or business sites except the seat of MFB.

6. 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 unceratinty 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 finacial statements cannot be detetermined as at the reporting date but the Group 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
(MFB Group)

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
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

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
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
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

	Date of Board meeting/ adopted a decision by urgent written procedure	Participation rate
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
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

	Date of Supervisory Board meeting/ adopted a decision by written procedure	Participation rate
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 the request, 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
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/Suvervisory Board

I. Chief Executive Officer
   - A) Mangement
     Internal procedure, controls built in the procedure and management controls
   - B) Risk management, Compliance, Bank- and Information Security/ BCP/ DRP, Prevention of fraud

II. Audit Comitee
   - A) Internal Audit,
   - B) Audit

In order to ensure the independence of control functions,
1) the control function's staff shall not engage in any activities under their control;
2) it shall be organisationally separate from the functional and organisational areas it controls;
3) its remuneration shall not be dependent on the performance of the areas controlled;
4) the control function shall have access to the resources required for its operation.

Risk management
The Bank's risk control function is carried out by 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 are a way that enables controls to be built into the various processes. Controls are thus incorporated into the various processes in order to ensure that any task should only be carried out once the previous task has been verified and corrected where appropriate, in order to ensure the conformity of the inputs of complementary tasks. No single operation may be carried out, processed and verified by the same person, as that would not ensure the identification and correction of errors detected during implementation.

The Bank's regulatory documents set out the task and process-specific control points, i.e. the control activities. The Bank's procedures are developed in a way that ensures that any transaction is only implemented after a documented review.

At the Bank, the heads of the competent organisational units are responsible for the implementation of built-in control and management control.

Management control
The various management levels and the organisational structure aim to facilitate the efficient achievement of the Bank's objectives and strategy. Management control functions must be carried out at each level of management. Management control tools include requiring employees to report, requesting reports, exercising the right to sign documents, the verification of the fulfilment of tasks

from a formal and substantive point of view, on-site reviews carried out in person and the operation of the management information system. The heads of individual organisational units shall oversee their team members and require them to report on a regular basis, as provided for in internal regulations and rules of procedure. The detailed rules for management control, including reports and business trips, are set out in the regulatory documents.

Management information system

The development and operation of a management information system encompassing all of its activities are an important element of the Bank's control system. The purpose of the management information system is to ensure that consistent and comprehensive information are available for the various levels of management during governance and control.

The Bank's management information system includes the entirety of Bank and Group-level information generated for the management on a timely basis at sufficient depth as well as the system that forwards such collected and properly processed information to the user in due time, while being capable of responding to changes.

The internal reports constituting the management information system, the frequency of submission of such reports and the indication of the relevant management level shall be set out in a regulatory document and be regularly reviewed.

Exercising shareholder control

The Bank shall exercise control over the organisations belonging to the MFB Group. As part of such shareholder supervision, the Bank extends the elements of its internal control system listed above to an extent that ensures that the operation of the various companies is appropriately monitored and governed, and that the common goals of the MFB Group are achieved, as well as ensuring the requisite and sufficient exchange of information between the Bank and other Group companies.

1.7. Information on whether the auditor performed any activities not related to auditing.

The Bank's auditor for the 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 it's by considering the aspects of disclosure and the information of investors?

Yes.

R 1.6.2.1 Does the Company have an internal publication policy in place which covers the processing the information listed in Section 1.6.2 of the Recommendations document?

Yes.

R 1.6.2.2 Do the internal regulations of the Company cover the methods for the assessment of events judged to be important for publication?

Yes.

R 1.6.2.3 Did the Board of Directors/Governing Board assess the efficiency of the publication processes?

No. Explanation: the Company's internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company's website and in the printed press. The shareholder is notified by the Board of Directors in the annual financial report.

R 1.6.2.4 Did the Company publish the findings of the efficiency assessment of the publication process?

No. Explanation: the Company’s internal regulations on communication ensure that any information intended for publication is published as soon as possible on the Company’s website and in the printed press. The shareholder is notified by the Board of Directors in the annual report.

R 1.6.3 Did the Company publish its annual company event calendar?

No. Explanation: since the Company is a single-member joint-stock company, no corporate events calendar has been drawn up. On the company website, market operators are notified of any major announcements (loan schemes and financing opportunities), financial statements, press releases, events and publications. Since the strategic objectives and main activities of MFB Zrt. are set out for the public in the MFB Act, any information for the public is only required in the case of a change in such objectives and activities. The Company's strategic objectives and their implementation are described in the annual report, which is published on the company website in Hungarian and English.

R 1.6.4 Did the Company publish its strategy, business ethics and policies regarding other stakeholders?

No. Explanation: Since the strategic objectives and main activities of MFB Zrt. are set out for the public by law (Act XX of 2001), no specific information for the public needs to be published. The Company's strategic objectives and the implementation of these are described in the annual report, which is published on the company website. The major detailed conditions of the Company's main activities, the rules for credit products, their rules of procedure and the names of refinancing partners and brokers involved in the implementation of specific loan programmes are published on the company website on a continuous basis. The Company's Ethics Statement is available on the company website.

R 1.6.5 Did the Company publish the career information of Board of Directors / Governing Board, Supervisory Board and management members in its annual report or on the company website?

Yes.

R 1.6.6 Did the Company publish all relevant information about the internal organisation and the operation of the Board of Directors / Governing Board and the Supervisory Board, about the work of the management, the assessments of these and the changes in the current year?

No. Explanation: Due to the fact that the Company is privately held, it is not subject to such disclosure obligation.

R 1.6.8 Did the Company publish its risk management guidelines and information about its system of internal controls, the main risks and the principles for their management?

Yes.

R 1.6.9.1 Did the Company publish its guidelines relating to the trading of its shares by insiders?

No. Explanation: The shares of the Company are non-negotiable and, therefore, no policies have been drawn up regarding the trading of shares. Members of the Board of Directors, the Supervisory Board and the management may not acquire an interest in the Company’s securities. There is no share-based incentive scheme.

R 1.6.9.2 Did the Company disclose the share of the Board of Directors / Governing Board, Supervisory Board and management members in the securities issued by the Company in the annual report or in some other way?

No. Explanation: Members of the Board of Directors, the Supervisory Board and the management may not acquire shares in the company's securities.

R 1.6.10 Did the Company publish the relationship of Board of Directors / Governing Board, Supervisory Board and management members may have with third parties which could affect the operation of the Company?

No. Explanation: the conflict of interest rules concerning employees and members of the Board of Directors and the Supervisory Board are provided for in the MFB Act, the Hpt. Act and the Civil Code, whereas an internal policy ensures compliance with such rules.

R 2.1.1 Does the Company’s Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors / Governing Board?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the supreme decision-making body are decided on by a founder’s resolution issued by the person exercising shareholder's rights, which is equivalent to a resolution of the shareholder’s meeting. The article of association contains clear provisions regarding the responsibilities of the founder and the Board of directors.

R 2.2.1 Does the Board of Directors / Governing Board has rules of procedure in place defining the organisational structure, the actions for arranging for and conducting the meetings and the tasks regarding the adopted resolutions, as well as other issues related to the operation of the Board of Directors / Governing Board?

Yes.

R 2.2.2 Does the Company publish the procedure used for nominating Board of Directors / Governing Board members?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders’ meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and discharge of members of the Board of Directors fall under the competence of the person exercising shareholder's rights.

R 2.3.1 Does the Supervisory Board provide a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it, in its rules of procedure and work plan?

Yes.

R 2.4.1.1 Did the Board of Directors / Governing Board and the Supervisory Board hold meetings periodically at a predefined interval?

Yes.

R 2.4.1.2 Did the rules of procedure of the Board of Directors / Governing Board and the Supervisory Board provide rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic telecommunications means?

Yes.

R 2.4.2.1 Did board members have access to the proposals to be presented at the meeting of the respective board at least five days prior to the meeting?

Yes.

R 2.4.2.2 Did the Company arrange the proper conduct of the meetings, the drawing up of the meeting minutes and management of the resolutions made by the Board of Directors / Governing Board and the Supervisory Board?

Yes.

R 2.4.3 Do the rules of procedure provide for the regular or ad hoc participation of non-board members at respective board's meetings?

Yes.

R 2.5.1 Were the members of the Board of Directors / Governing Board and the Supervisory Board nominated and elected in a transparent process, and was the information about the candidates made public in due time before the General Meeting?

No. Explanation: the Company is a single-member joint-stock company; matters under the competence of the shareholders' meeting are decided upon by the person exercising shareholder's rights in writing, subject to the provisions applicable to the Company. The appointment, recall and discharge of members of the Board of Directors and the Supervisory Board and determining the remuneration of the members and Chair of the Board fall under the competence of the person exercising shareholder's rights.

A 2.5.2 Does the composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations?

Yes.

A 2.5.3 Did the Company ensure that the newly elected Board of Directors / Governing Board and Supervisory Board members became familiar with the structure and operation of the Company and their tasks were carried out as members of the respective boards?

Yes.

R 2.6.1 Did the Governing Board / Supervisory Board request (in the context of preparing the annual corporate governance report) its members considered to be independent to confirm their independence at regular intervals?

No. Explanation: The Board of Directors does not request its members, considered to be independent, to confirm their independence at regular intervals.

R 2.6.2 Does the Company provide information about the tools which ensure that the Board of Directors / Governing Board assess objectively the management's activities?

No. Explanation: The Company is a single-person joint-stock company, where the Board of Directors is responsible for monitoring the management's performance. Fees are determined by the person exercising employer's rights. The employer's rights over the CEO are exercised by the Minister exercising the government's exclusive shareholder's (owner's) rights. The Minister decides on the selection, appointment, recall and discharge of the Chair and the members of the Board of Directors, members and the Chair of the Supervisory Board, members of the Audit Committee and the Chief Executive Officer.

R 2.6.3 Did the Company publish its guidelines concerning the independence of its Governing Board / Supervisory Board members and the applied independence criteria on its website?

No. Explanation: On its website, the Company does not specifically publish the guidelines concerning the independence of the Board of Directors and the Supervisory Board and the relevant independence criteria, as they are provided for in the Hpt. Act, the Civil Code, the MFB Act and the Kgtv. Act.

R 2.6.4 Does the Supervisory Board of the Company have any members who has held any position in the Board of Directors or in the management of the Company in the previous five years, not including cases when they were involved to ensure employee participation?

Yes.

R 2.7.1 Did members of the Board of Directors / Governing Board inform the Board of Directors / Governing Board and (if applicable) the Supervisory Board (or the Audit Committee if a uniform governance system is in place) if they, or individuals they have business relations with, or their relatives have interest in any business transactions of the Company (or any subsidiaries thereof) which excludes their independence?

Yes.

R 2.7.2 Were transactions and assignments between members of boards/ members of the management/individuals closely associated with them and the Company/subsidiaries of the Company carried out in accordance with the Company's general business practice but applying more stringent transparency rules compared to general business practice, and were they approved?

No. Explanation: There was no such transaction.

R 2.7.3 Did board members inform the Supervisory Board / Audit Committee (Nominating Committee) if they had received an appointment for board membership or management position of a company not belonging to the Company Group?

No. Explanation: members of the Company's Board of Directors and Supervisory Board may only be executive officers or Supervisory Board members specified by the MFB Act. When they are elected, members must issue a statement on their existing status as an executive officer and their Supervisory Board membership, and must notify the competent organisational unit of the Company of any change to such status in accordance with MFB Zrt's relevant policy.

R 2.7.4 Did the Board of Directors / Governing Board develop guidelines for the flow of information and the management of insider information within the Company, and monitor compliance with them?

Yes.

R 2.8.1 Did the Company create an independent internal audit function that reports directly to the Audit Committee / Supervisory Board?

Yes.

R 2.8.2 Does Internal Audit have unrestricted access to all information necessary for carrying out audits?

Yes.

R 2.8.3 Did shareholders receive information about the operation of the system of internal controls?

Yes.

R 2.8.4 Does the Company have a function ensuring compliance (compliance function)?

Yes.

R 2.8.5.1 Is the Board of Directors / Governing Board or a committee operated by it responsible for the supervision and management of the entire risk management of the Company?

Yes.

R 2.8.5.2 Did the relevant organisation of the Company and the General Meeting received information about the efficiency of the risk management procedures?

Yes.

R 2.8.6 With the involvement of the relevant areas, did the Board of Directors / Governing Board develop the basic principles of risk management taking into account the special idiosyncrasies of the industry and the Company?

Yes.

R 2.8.7 Did the Board of Directors / Governing Board define the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives?

Yes.

R 2.8.8 Did internal control systems functions report about the operation of internal control mechanisms and corporate governance functions to the competent board at least once a year?

Yes.

R 2.9.2Did the Board of Directors / Governing Board invite the Company's auditor in an advisory capacity to the meetings on financial reports?

Yes.

Level of compliance with proposals

P 1.1.3 Does the Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights also when they are not present in person?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.4 Did the Company determine the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.2.5 Does the voting procedure used by the Company ensure a clear, unambiguous and fast determination of voting results, and in the case of electronic voting, also the validity and reliability of the results?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.1.1 Were the Board of Directors/Governing Board and the Supervisory Board represented at the General Meeting?

No. While the Company has no shareholders' meeting, the Board of Directors and the Supervisory Board submit their opinion on the founder's resolutions issued by the person exercising shareholder's rights.

P 1.3.1.2 In the event the Board of Directors/Governing Board and the Supervisory Board was absent, was it disclosed by the Chairman of the General Meeting before discussion of the agenda began?

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.1 The Articles of Association of the Company did not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments there if that person's presence and expert opinion is presumed to be necessary or help provide information to the shareholders and help the General Meeting make decisions. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.2.2 The Articles of Association of the Company did not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments there. (Answer Yes, if not)

No. Explanation: the Company is a single-member joint-stock company with no shareholder's meeting.

P 1.3.6 Does the annual report of the Company prepared as specified in the Accounting Act contain a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's annual operation?

Yes.

P 1.4.1 In line with Section 1.4.1, did the Company pay dividend within 10 working days to those of its shareholders who had submitted all the necessary information and documents?

No. Explanation: no dividends were paid by the Company**.**

P 1.6.11 Did the Company publish its information in English as well, in line with the provisions of Section 1.6.11?

Yes

P 1.6.12 Did the Company inform its investors about its operation, financial situation and assets on a regular basis, but at least quarterly?

Yes.

P 2.9.1 Does the Company have in place internal procedures regarding the use of external advisors and outsourced activities?

Yes.