Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

ANNUAL REPORT

31 December 2021

CONTENT

Statement of the issuer

Annual financial statements

- Independent auditors' report
- Income statement
- Statement of comprehensive income
- Statement of financial position
- Statement of changes in equity
- Statement of cash flows
- Notes

Management report

Statement of the Issuer

K&H Bank Zrt., as the Issuer (represented by Guy Libot, CEO and Attila Gombás, CFO) hereby declare that the Year 2021 Separate Annual Report and the Year 2021 Consolidated Annual Report of K&H Bank Zrt. have been prepared to the best of the Issuer's knowledge, in compliance with the applicable accounting laws and regulations, and the financial details contained therein reflect a true and reliable status of the assets, liabilities, financial position and profitability of K&H Bank Zrt. and the companies involved in the consolidation, and the Separate Management Report and Consolidated Management Report show a true and fair picture of the position, development and performance of K&H Bank Zrt. and the companies involved in the consolidation, including the major risks and uncertainties factors.

Budapest, April 29 2022

Guy Libot	**Attila Gombás**
Chief Executive Officer	Chief Financial Officer

KERESKEDELMI ÉS HITELBANK ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

SEPARATE FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED 31 DECEMBER 2021

WITH THE REPORT OF INDEPENDENT AUDITOR

pwc

INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the shareholder of K&H Bank Zrt.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of K&H Bank Zrt. (the "Company") which comprise the separate statement of financial position as of 31 December 2021 (in which total assets are MHUF 5,248,422), the separate income statement, the separate statement of comprehensive income (in which the total comprehensive income for the year is MHUF 48,910 profit), the separate statement of changes in equity, the separate statement of cash flows for the financial year then ended and the notes to the separate financial statements comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee dated 27 April 2022.

Basis for opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing ("HNSA") and with applicable laws and regulations in force in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the separate financial statements" section of our report.

We are independent of the Company in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors' Rules on ethics and professional conduct of auditors and on disciplinary process and, for matters not regulated in the Rules, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and we also comply with further ethical requirements set out in these.

The non-audit services that we have provided to the Company, in the period from 1 January 2021 to 31 December 2021, are disclosed in note 40 to the separate financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable laws and regulations in Hungary and that we have not provided non-audit services that are prohibited under Article 5 of Regulation of the European Parliament and Committee No 537/2014 and Subsection (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

1. *Overall materiality*	2. Overall materiality applied was MHUF 3,267
3. *Key Audit Matters*	• Impairment on loans and advances measured at amortised cost 4.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate financial statements as a whole.

Materiality	MHUF 3,267
Determination	5% of the average profit before tax of the last 3 years including this current year.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users and is a generally accepted benchmark. We believe that the three-year average of profit before tax is less fluctuating and therefore results in more stable materiality compared to the consideration of current year profit only. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment on loans and advances measured at amortised cost The net amount of loans and advances to customers (excluding central bank and credit institution, and general government) was MHUF 1,774,235 as at 31 December 2021, representing 34% of the balance sheet total. Impairment recognised in the balance sheet amounted to MHUF 38,774. The management disclosed the related assumptions, balances and estimates in point 2.3.3 of the notes to the separate financial statements on accounting policy, as well as in notes 15., 20.,23 and 43.4-43.5. Impairment recognised on expected credit losses is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating individual and collective impairment, especially when considering the current uncertain economic environment as a result of COVID-19 pandemic. The first step in the expected credit loss calculation is to identify whether there was significant increase in credit risk, the selected indicators will determine whether a 12-month or a lifetime expected credit loss is calculated. In the calculation of individual impairment, the most significant uncertainty is involved in the estimation of expected future cash flows, and in probability weighting of cash-flow scenarios, where cash flows include recoveries from both collections of contractual cash flows and from collaterals. The Group applies impairment models to calculate collective impairment. These models quantify the probability of default, exposure at default and the loss given default as the primary parameters in the estimation of the recoverable amount, taking into account forward looking information – in line with the requirements of IFRS 9. The modelling methodologies are developed using historical experience, which - in uncertain economic conditions that currently vary across customer segments and industry sectors - can result in limitations in their reliability to appropriately estimate expected credit loss. A further limitation is caused by the fact, that,	We understood and evaluated the lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval. Thereby the focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment due to the COVID-19 pandemic in expected credit losses. We performed credit review for individually significant loans on a sample basis. We checked the stage classification of the customer based on credit application and monitoring documents as well as customer-related financial and non-financial information. For a sample of individually impaired loans, we checked whether assumptions, estimations and scenario weightings applied in calculations of the recoverable amount are reasonable and whether the calculations are correct. When assessing the collective impairment, with the support of our internal modelling expert we assessed the applied methodology, assessed, whether it is in accordance with the standard, reviewed the validation documents, recalculated (on a sample basis) selected model parameters and the impairment and assessed the tool used by the Group to calculate impairment. We checked input data (including both data for modelling parameters and for the impairment calculation), indicators used to determine whether there was significant increase in credit risk and analysed the development of impairment. To address increased estimation uncertainty related to Covid-19, we evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to state payment support programs. We critically assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions, to identify significant increases in credit risk of single customers or customer groups. We read points 2.3.3., 15., 20.,23 and 43.4-43.5. of the notes to the separate financial statements to assess whether disclosures are in line with applicable regulations.

to reduce the economic consequences of the COVID-19 pandemic, the Hungarian government maintained the loan support programs introduced last year, including moratoria on loan repayment transactions available to and still used by many debtors. These programs complicate a timely reflection of a potential deterioration of the loan portfolio and result in artificially low observed default rates.

To address these limitations, management applied quantitative and qualitative adjustments to ECL that include the following:

- Adjustment of macroeconomic assumptions and the weighting of the applied scenarios
- Management overlay based on expert-based stress migration matrices taking into account sectoral effects and macroeconomic scenarios

We paid considerable attention to this area during our audit due to the significance of the amounts involved and because of the subjective nature of the judgments and assumptions that management is required to make, particularly due the high level of uncertainty that can be experienced in assessing the economic impact of the COVID-19 pandemic.

Other information: the business report

Other information comprises the business report of the Company. Management is responsible for the preparation of the business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the separate financial statements expressed in the “Opinion” section of our independent auditor’s report does not cover the business report.
In connection with our audit of the separate financial statements, our responsibility is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed, we conclude that the business report is materially misstated we are required to report this fact and the nature of the misstatement.

Based on the Accounting Act, it is also our responsibility when reading the business report to consider whether the business report has been prepared in accordance with the provisions of the Accounting Act and other relevant regulations, if any, and to express an opinion on this and on whether the business report is consistent with the separate financial statements.

As the Company is a public interest entity and the conditions in Paragraph a) and b) of Subsection (1) of Section 95/C of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by 95/C in its business report. In this respect, we shall state whether the business report includes the non-financial statement required by Section 95/C of the Accounting Act.

In our opinion, the 2021 business report of the Company is consistent with the 2021 separate financial statements in all material respects, and the business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the business report and therefore we have nothing to report in this respect.

The business report includes the non-financial statement required by Section 95/C of the Accounting Act.

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and to prepare the separate financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the annual financial statements prepared in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HNSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.
As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the separate financial statements and, based on the audit evidence obtained,

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

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

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

Report on other legal and regulatory requirements

We were first appointed as auditors of the Company on 28 April 2016. Our appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 6 years.

The engagement partner on the audit resulting in this independent auditor's report is Árpád Balázs.

Budapest, 27 April 2022

Árpád Balázs
Partner
Statutory auditor
Licence number: 006931
PricewaterhouseCoopers Könyvvizsgáló Kft.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Licence Number: 001464

Translation note:

Our report has been prepared in Hungarian and in English. In all matters of interpretation of information, views or opinions, the Hungarian version of our report takes precedence over the English version.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS OF THE SEPARATE FINANCIAL STATEMENTS

SEPARATE INCOME STATEMENT ... 5
SEPARATE STATEMENT OF COMPREHENSIVE INCOME ... 6
SEPARATE STATEMENT OF FINANCIAL POSITION ... 7
SEPARATE STATEMENT OF CHANGES IN EQUITY ... 8
SEPARATE STATEMENT OF CASH FLOWS ... 9
NOTE 1 – GENERAL ... 12
NOTE 2 – ACCOUNTING POLICIES ... 12
2.1 Basis of presentation ... 12
2.1.1 Statement of compliance ... 12
2.2 Significant accounting judgements and estimates ... 12
2.3 Significant accounting policies ... 13
2.3.1 Foreign currency translation ... 13
2.3.2 Financial assets ... 13
2.3.2.1 Financial assets – recognition and derecognition ... 14
2.3.2.1.1 Recognition ... 14
2.3.2.1.2 Derecognition and modification ... 14
2.3.2.1.3 Write-offs ... 16
2.3.2.2 Equity and debt instruments classification ... 16
2.3.2.2.1 Classification and measurement – debt instruments ... 16
2.3.2.2.2 Business model assessment ... 17
2.3.2.2.3 Assessment whether contractual cash flows are solely payments of principal and interest (SPPI) ... 17
2.3.2.2.4 Reclassification ... 18
2.3.2.2.5 Classification and measurement – Equity instruments ... 18
2.3.2.2.6 Classification and measurement - Derivatives ... 18
2.3.2.3 Fair value hierarchy of financial instruments ... 19
2.3.3 Financial assets - Impairment ... 20
2.3.3.1 Definition of default ... 20
2.3.3.2 Expected credit loss model ... 20
2.3.3.3 Significant increase in credit risk since initial recognition ... 21
2.3.3.3.1 Multi-Tier Approach – Bond portfolio ... 21
2.3.3.3.2 Multi-tier approach – Loan portfolio ... 21
2.3.3.4 Measurement of ECL ... 22
2.3.3.5 Purchased or originated credit impaired (POCI) ... 22
2.3.4 Cash, cash balances with central banks and other demand deposits ... 22
2.3.5 Financial liabilities ... 23
2.3.5.1 Financial liabilities – recognition and derecognition ... 23
2.3.5.2 Financial liabilities – own credit risk ... 24
2.3.5.3 Financial liability – financial guarantee contract ... 25
2.3.6 Offsetting ... 25
2.3.7 Hedge accounting ... 25
2.3.8 Participations ... 26
2.3.9 Leasing ... 26
2.3.9.1 The Bank, as a lessee ... 26
2.3.9.2 The Bank, as a lessor ... 27
2.3.10 Equity (Reserves) ... 28
2.3.11 Dividend on ordinary shares ... 28
2.3.12 Share based payment transactions ... 28
2.3.13 Investment property ... 28
2.3.14 Property, plant and equipment ... 28
2.3.15 Intangible assets ... 29
2.3.16 Impairment of non-financial assets ... 30
2.3.17 Contingent liabilities ... 30
2.3.18 Provisions ... 30
2.3.19 Revenue recognition ... 31
2.3.19.1 Net interest and similar income ... 31
2.3.19.2 Net fee and commission income ... 31
2.3.20 Employee benefits ... 32

2.3.20.1 Short-term employee benefits ... 32
2.3.20.2 Post-employment benefits ... 32
2.3.21 Government grants ... 32
2.3.22 Levies ... 32
2.3.23 Income tax ... 33
2.3.24 Non-current assets held-for-sale, liabilities associated with disposal groups ... 33
2.3.25 Fiduciary assets ... 33
2.3.26 Events after reporting period ... 34
2.4 Changes in accounting policies ... 34
2.4.1 Adoption of new or revised standards and interpretations ... 34
2.4.2 New accounting pronouncements ... 34
2.5 Taxes and levies payable by financial institutions ... 36
2.6 Change in estimate ... 36
2.7 Reclassifications ... 36
NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM ... 37
NOTE 4 – NET INTEREST AND SIMILAR INCOME ... 43
NOTE 5 – NET FEE AND COMMISSION INCOME ... 44
NOTE 6 – NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS ... 45
NOTE 7 – NET REALISED GAINS FROM SECURITIES AT FAIR VAUE THROUGH OTHER COMPREHENSIVE INCOME ... 45
NOTE 8 – DIVIDEND INCOME ... 46
NOTE 9 – GAINS ON THE DISPOSAL OF ASSETS AT AMORTISED COST ... 46
NOTE 10 – OTHER INCOME AND EXPENSE ... 46
NOTE 11 – GENERAL ADMINISTRATIVE EXPENSES ... 47
NOTE 12 – BANK TAX ... 47
NOTE 13 – AVERAGE NUMBER OF PERSONNEL AND STAFF EXPENSES ... 48
NOTE 14 – INCOME TAXES ... 48
NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY PORTFOLIO AND PRODUCT ... 50
NOTE 16 – TRANSFERRED FINANCIAL ASSETS ... 59
NOTE 17 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES ... 60
NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES ... 63
NOTE 19 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS ... 70
NOTE 20 – FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND GEOGRAPHIC LOCATION ... 71
NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY ... 73
NOTE 22 – IMPAIRMENT ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ... 83
NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS ... 84
NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS ... 97
NOTE 25 – NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS ... 101
NOTE 26 – OTHER ASSETS ... 101
NOTE 27 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES ... 102
NOTE 28 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES ... 103
NOTE 29 – INVESTMENT PROPERTIES ... 104
NOTE 30 – PROPERTY, PLANT AND EQUIPMENT ... 106
NOTE 31 – INTANGIBLE ASSETS ... 108
NOTE 32 – PROVISIONS FOR RISK AND CHARGES ... 109
NOTE 33 – OTHER LIABILITIES ... 110
NOTE 34 – SHARE CAPITAL ... 110
NOTE 35 – ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT ... 111
NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES ... 114
NOTE 37 – FINANCE AND OPERATING LEASES ... 118
NOTE 38 – RELATED PARTY TRANSACTIONS ... 122
NOTE 39 – DEFINED BENEFIT PLAN ... 128
NOTE 40 – AUDITOR'S REMUNERATION ... 128
NOTE 41 – SUBSIDIARIES ... 129

NOTE 42 – SUBSEQUENT EVENTS 130
NOTE 43 – RISK MANAGEMENT 131
43.1 General 131
43.2 Liquidity risk and funding management 132
43.3 Market Risk 140
43.4 Credit risk 145
43.5 Credit risk – forborne loans 162
43.6 Operational risk 171
NOTE 44 – SOLVENCY AND CAPITAL 172

SEPARATE INCOME STATEMENT

	Notes	2021	Reclassified 2020
		MHUF	MHUF
Interest and similar income		137 602	115 785
Interest income calculated using the effective interest method	4	112 323	97 512
Other similar income	4	25 279	18 273
Interest and similar expense	4	(32 654)	(27 366)
Net interest and similar income		104 948	88 419
Fee and commission income		95 481	86 627
Fee and commission expense		(24 962)	(22 579)
Net fee and commission income	5	70 519	64 048
Net gains / (losses) from financial instruments at fair value through profit or loss	6	33 757	(13 469)
Foreign exchange differences		(14 486)	32 622
Net realised gains / (losses) from financial assets at fair value through other comprehensive income	7	624	215
Dividend income	8	11 700	2 478
Gains on the disposal on held for sale instruments		1 211	-
Gain on the disposal of assets at amortised cost	9	3 504	2 685
Other income	10	1 932	1 978
Other expense	10	(1 540)	(957)
Total income		212 169	178 019
Operating expenses excluding impairment losses		(113 955)	(105 743)
Staff expenses	11;39	(32 316)	(31 086)
General administrative expenses	11	(60 359)	(55 764)
Depreciation and amortisation of tangible and intangible assets	30;31	(14 949)	(13 185)
Bank tax	12	(6 331)	(5 708)
Impairment:		2 284	(27 802)
At amortised cost	23	3 553	(23 243)
At fair value through other comprehensive income	22	20	(11)
Other	23	(1 289)	(4 548)
Modification losses on financial assets at amortized cost	3	(3 017)	(4 400)
Profit / (loss) before tax		97 481	40 074
Income tax expense	14	(13 074)	(7 621)
Profit / (loss) after tax		84 407	32 453

Approved by the Board of Directors on 20 April 2022.

Guy Libot	*Attila Gombás*
Chief Executive Officer	*Chief Financial Officer*
Member of the Board	*Member of the Board*

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021 MHUF	2020 MHUF
Profit / (loss) after tax		84 407	32 453
Other comprehensive income			
Items that may be reclassified to the profit or loss			
Revaluation reserve of debt instruments			
Net gain / (loss) from fair value changes		(6 756)	(470)
Deferred tax impact on fair value changes	27	731	51
Transfer from revaluation reserve to net profit:			
(Losses)/gains on impairment	22	(20)	11
(Losses)/ gains on disposal	7	(624)	(215)
Amortisation of reclassified assets	27	70	22
Deferred income tax			
Cash flow hedge			
Net gain / (loss) from fair value changes	6	(32 635)	(1 398)
Deferred tax impact on fair value changes	27	2 937	126
Transfer from cash flow hedge reserve to net profit:			
Ineffective part	6;24	52	115
Gross amount	6;24	538	(385)
Deferred income tax	27	(53)	24
Items that will not be reclassified to the profit or loss			
Revaluation reserve of equity instruments			
Net gain / (loss) from fair value changes		274	812
Deferred tax impact on fair value changes	27	(6)	43
Actuarial result on defined benefit plans	39	(6)	(3)
Deferred income tax	27	1	-
Total other comprehensive income / (loss)		(35 497)	(1 267)
Total comprehensive income		48 910	31 186

Approved by the Board of Directors on 20 April 2022.

Guy Libot *Chief Executive Officer* *Member of the Board*	*Attila Gombás* *Chief Financial Officer* *Member of the Board*

SEPARATE STATEMENT OF FINANCIAL POSITION

	Notes	2021 MHUF	2020 MHUF
ASSETS			
Cash and cash balances with central banks and other demand deposits with credit institutions		266 591	391 045
Cash		63 510	71 154
Cash balances with central banks	15;18;20	91 734	184 099
Other demand deposit with credit institutions	15;18;20	111 347	135 792
of which assets pledged as collateral	*15*	*38 065*	*31 625*
Financial assets		4 894 062	3 872 717
Held for trading	15;18;20;24	86 089	67 202
Mandatorily at fair value through profit or loss	15;18-20	206 014	139 570
At fair value through other comprehensive income	15;18;20	69 523	112 299
of which assets pledged as collateral	*15*	-	*24 226*
At amortised cost	15;18;20	4 460 923	3 528 181
of which assets pledged as collateral	*15*	*617 031*	*475 189*
Hedging derivatives	24	71 513	25 465
Fair value changes of hedged item under portfolio hedge of interest rate risk	24	(66 693)	17 841
Tax assets		3 401	3 058
Current tax assets		-	3 058
Deferred tax assets	27	3 401	-
Investments in subsidiaries and associated companies	28	17 396	12 410
Investment property	29	851	1 536
Property, plant and equipment	30	45 866	47 458
Intangible assets	31	58 821	46 441
Non-current assets held for sale and disposal groups	25	124	1 474
Other assets	26	28 003	22 747
Total assets		5 248 422	4 416 727
LIABILITIES AND EQUITY			
Financial liabilities	15;18;20	4 815 752	3 949 854
Held for trading	15;18;20	69 479	64 168
Designated at fair value through profit or loss	15;18;20	5 701	33 051
Measured at amortised cost	15;18;20	4 642 014	3 828 270
Hedging derivatives	24	98 558	24 365
Fair value changes of hedged item under portfolio hedge of interest rate risk	24	(72 738)	14 614
Tax liabilities		4 228	1 184
Current tax liabilities		4 228	991
Deferred tax liabilities	27	-	193
Provisions for risks and charges and credit commitments	32	2 894	2 844
Other liabilities	33	61 283	60 138
Total liabilities		4 811 419	4 028 634
Share capital	34	140 978	140 978
Share premium		48 775	48 775
Accumulated profit		232 546	156 362
Other reserves		14 704	41 978
Total equity	44	437 003	388 093
Total liabilities and equity		5 248 422	4 416 727

Approved by the Board of Directors on 20 April 2022.

Guy Libot
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

SEPARATE STATEMENT OF CHANGES IN EQUITY

			Other reserves					
	Share capital MHUF	Share premium MHUF	Statutory risk reserve MHUF	Revaluation reserve of securities MHUF	Cash flow reserve MHUF	Other revaluation reserves MHUF	Accumulated profit MHUF	Total equity MHUF
2020								
Balance at the beginning of the period	140 978	48 775	28 376	6 717	6 050	66	125 945	356 907
Net profit for the year	-	-	-	-	-	-	32 453	32 453
Other comprehensive income for the period (Note 6)	-	-	-	254	(1 518)	(3)	-	(1 267)
Total comprehensive income	-	-	-	254	(1 518)	(3)	32 453	31 186
VISA conversion (Note 7)	-	-	-	(1 209)	-	-	1 209	-
Transfer from retained earnings to statutory risk reserve (Note 44)	-	-	3 245	-	-	-	(3 245)	-
Total change	-	-	3 245	(955)	(1 518)	(3)	30 417	31 186
Balance at the end of the period	140 978	48 775	31 621	5 762	4 532	63	156 362	388 093
of which revaluation reserve for shares (Note 15)	-	-	-	*1 062*	-	-	-	*1 062*
of which revaluation reserve for bonds (Note 15)	-	-	-	*4 700*	-	-	-	*4 700*
2021								
Balance at the beginning of the period	140 978	48 775	31 621	5 762	4 532	63	156 362	388 093
Net profit for the year	-	-	-	-	-	-	84 407	84 407
Other comprehensive income for the period (Note 6)	-	-	-	(6 331)	(29 161)	(5)	-	(35 497)
Total comprehensive income	-	-	-	(6 331)	(29 161)	(5)	84 407	48 910
Transfer from revaluation reserve to retained earnings (see Note 7)	-	-	-	(218)	-	-	218	-
Transfer from retained earnings to statutory risk reserve (Note 44)	-	-	8 441	-	-	-	(8 441)	-
Total change	-	-	8 441	(6 549)	(29 161)	(5)	76 184	48 910
Balance at the end of the period	140 978	48 775	40 062	(787)	(24 629)	58	232 546	437 003
of which revaluation reserve for shares (Note 15)	-	-	-	*1 114*	-	-	-	*1 114*
of which revaluation reserve for bonds (Note 15)	-	-	-	*(1 901)*	-	-	-	*(1 901)*

Other revaluation reserves include own credit risk adjustments and the actuarial result on defined benefit plans. No dividend was paid on ordinary shares in 2021 (nor in 2020). See Note 44 for dividend proposed on ordinary shares in 2022.

Approved by the Board of Directors on 20 April 2022

Guy Libot
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

SEPARATE STATEMENT OF CASH FLOWS

	Notes	2021 MHUF	2020 MHUF
OPERATING ACTIVITIES			
Profit / (loss) before tax		97 481	40 074
Adjustments for:			
Interest and similar income	4	(137 602)	(115 785)
Interest and similar expense	4	32 654	27 366
Net transfer from revaluation reserve of securities	7	644	204
Net transfer from cash flow hedge reserve	6	(590)	270
Depreciation and impairment of property, plant and equipment, intangible assets, financial assets at fair value through other comprehensive income and other assets	30;31	16 182	17 732
(Profit)/Loss on the disposal of property, plant and equipment	9	(171)	(121)
(Profit)/Loss on the disposal of investment property	9	(448)	(403)
Change in impairment on financial assets values at amortised cost*	23	(3 553)	23 243
Change of modification result on financial assets at amortized cost		3 017	4 400
Change in other provisions	32	271	1 063
Unrealised valuation differences	6	2 069	(3 861)
Cash flows from operating profit / (loss) before tax and before changes in operating assets and liabilities		9 954	(5 818)
Changes in financial assets held for trading		(11 578)	15 522
Changes in financial assets mandatorily valued at fair value through profit or loss		(79 160)	(66 123)
Changes in financial assets valued at fair value through other comprehensive income		31 388	(19 907)
Changes in financial assets valued at amortised cost		(258 961)	110 796
Changes in other assets		(12 780)	900
Changes in operating assets		(331 091)	41 188
Changes in financial liabilities held for trading		13 130	(6 478)
Changes in financial liabilities designated at fair value through profit or loss		48 869	(18 665)
Changes in financial liabilities measured at amortised cost		806 651	682 017
Changes in other liabilities		(82 568)	(217)
Changes in operating liabilities		786 082	656 657
Income taxes paid		(12 989)	(7 987)
Interest received		145 058	98 460
Interest paid		(34 545)	(27 529)
Net cash from/(used in) operating activities		562 470	754 972

* Including impairments on loan commitments.

SEPARATE STATEMENT OF CASH FLOWS (continued)

	Notes	2021 MHUF	2020 MHUF
INVESTING ACTIVITIES			
Purchase of securities at amortised cost		(66 212)	(253 300)
Proceeds from the repayment at maturity of securities at amortised cost		42 313	58 609
Capital increase in subsidiary			-
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed			-
Dividends received		11 700	2 478
Purchase of intangible assets	31	(20 815)	(24 294)
Purchase of property, plant and equipment	30	(9 021)	(9 457)
Proceeds from the sale of property, plant and equipment	30	267	362
Proceeds from the sale of Non-current assets held for sale and disposal groups		1 458	-
Purchase of investment property	29	(173)	(376)
Proceeds from the sale of investment property	29	1 382	1 353
Net cash from/(used in) investing activities		(39 101)	(224 625)
FINANCING ACTIVITIES			
Repayment of principal of lease liabilities		(3 022)	(2 827)
Dividend paid		-	-
Net cash from/(used in) financing activities		(3 022)	(2 827)
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase/(decrease) in cash and cash equivalents		494 841	527 519
Net foreign exchange difference		594	642
Cash and cash equivalents at beginning of the period		817 949	289 788
Cash and cash equivalents at end of the period		1 313 384	817 949

SEPARATE STATEMENT OF CASH FLOWS (continued)

	Notes	2021 MHUF	2020 MHUF
OPERATING CASH FLOWS FROM DIVIDENDS			
Dividends received	8	11 700	2 478
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions		266 591	391 045
Loans and advances to banks repayable on demand and term loans to banks < 3 months	15	1 377 024	721 305
Deposits from banks repayable on demand and redeemable at notice	15	(330 231)	(294 401)
Total cash and cash equivalents		1 313 384	817 949

Loans and advances to banks repayable on demand and term loans to banks < 3 months are recorded as Financial assets at amortised cost in the statement of financial position. Deposits from banks repayable on demand and redeemable at notice are presented as financial liabilities measured at amortised cost.

The Bank uses the indirect method for presentation of cash flows resulting from operating activities.

Approved by the Board of Directors on 20 April 2022.

Guy Libot *Chief Executive Officer* *Member of the Board*	Attila Gombás *Chief Financial Officer* *Member of the Board*

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság ("K&H Bank Zrt." or "the Bank") is a limited liability company incorporated in Hungary. The Bank provide banking services through a nation-wide network of 198 branches. As at 31 December 2021 the Bank's registered office was at Lechner Ödön fasor 9, Budapest. Website: www.kh.hu.

The parent company of the Bank is KBC Bank N.V. The ultimate parent is KBC Group N.V.

Guy Libot Chief Executive Officer (Budapest) and Attila Gombás Chief Financial Officer (Budapest) are obliged to sign these financial statements.

The Bank is required to have its accounts audited under applicable law.

Person in charge of accounting tasks: Ecsedi Paula (Budapest), registration number: 140573.

NOTE 2 – ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below.

2.1 Basis of presentation

The financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risk that are being hedged.

The Bank maintains its accounting records and prepares its statutory accounts in accordance with commercial banking and fiscal regulations prevailing in Hungary. The Bank's functional currency is the Hungarian Forint ("HUF"). All balances are presented in millions of Hungarian Forints ("MHUF") unless otherwise stated. The tables in this report may contain rounding differences.

The accounting policies are consistent with those applied in prior year.

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRSs that have been adopted by the EU.

The Bank prepares consolidated annual financial statements according to the same accounting framework as the separate annual financial statements. The Bank's separate and consolidated annual financial statements are approved and published on the same day.

2.2 Significant accounting judgements and estimates

In the process of applying the Banks' accounting policies, Management has used its judgements and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on principal market at the measurement date. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g. fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale.

NOTE 2 – ACCOUNTING POLICIES (continued)

Where the fair values of financial assets and financial liabilities recorded on 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 mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives. For the sensitivity of the judgements used for fair value calculation see Note 18 and Note 43.3.

Allowance for impairment of loans and advances, provision contingent liabilities and commitments

The impairment allowances of loans and advances and provision for contingent liabilities are determined based on the expected credit losses (ECL). Calculating ECL requires significant judgments on different aspects for example, but not limited to, the borrowers' financial position and repayment capabilities, the value and recoverability of collaterals, forward looking and macroeconomic information. The Bank applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments.

The Bank regularly reviews its financial assets at amortised cost, financial assets valued at fair value through other comprehensive income and contingent liabilities and commitments to assess impairment and provision. The Bank applies its judgement on the basis of experience to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and where there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of amortised cost assets. Refer to Note 23 for further details and Note 43.4 for macro-economic forecast scenarios.

In cases when the historical loss experience is not able to capture all the specific risks (e.g.: COVID-19 related crisis) expert-based calculation at portfolio level is performed via a management overlay. For further details of the effect of the Covid-19 crises see Note 3.

Provision for litigations and claims

The amount of provision required to meet losses incurred as a result of litigations and claims is another principal area of estimation uncertainty in these financial statements. Refer to Note 32 for further details.

2.3 Significant accounting policies

2.3.1 Foreign currency translation

The functional and presentational currency of the Bank is HUF. Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the Hungarian National Bank as at the date of the statement of financial position. Negative and positive exchange rate differences are recognized in the income statement. Exceptions to the above general rule are the cases when a monetary asset or liability is involved in a cash flow hedge relationship as a hedging instrument and in accordance with the hedging documentation the foreign exchange translation difference of the hedging instrument is recognized as other comprehensive income. Non-monetary items are translated into the functional currency at a historical exchange rate as at the date of transaction. Non-monetary items measured at FV through OCI, which are denominated in foreign currencies, are translated into HUF at exchange rates quoted by the Hungarian National Bank as at the date of the statement of financial position and recorded as foreign exchange differences in the income statement. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the income statement on line foreign exchange differences.

2.3.2 Financial assets

The Bank applies all the requirements of IFRS 9 as from 1 January 2018, except for the hedge accounting transactions which continued to be accounted for in accordance with IAS 39.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.2.1 Financial assets – recognition and derecognition

2.3.2.1.1 Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting. All financial assets are measured initially at fair value plus transaction costs that are directly attributable to its acquisition; with the exception of financial assets measured at fair value through profit or loss.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss.
- If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is deferred and is released in profit or loss during the life and until the maturity of the financial instrument.

2.3.2.1.2 Derecognition and modification

The Bank derecognises a financial asset when the contractual cash flows from the asset expire or the Bank transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred.
In specific transactions like repurchase agreements and securities lending and borrowing the Bank assesses the transfer of the risks and rewards based on the applicable facts and circumstances and on the predetermined repurchase price. When this indicates that the Bank has retained substantially all risks and rewards then financial assets and liabilities are not derecognised but the relating consideration or financial assets received/paid are presented as separate financial liability/asset. 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 that the Bank could be required to repay.

<u>Repo and reverse repo agreements</u>

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities if the repurchase price is not fair value at the time of reacquisition. The counterparty liability for amounts received under these agreements is included in financial liabilities measured at amortised cost. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in financial assets at amortised cost. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

<u>Securities lending and borrowing</u>

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gain or losses included in Net gains / (losses) from financial instruments at fair value through profit or loss.

NOTE 2 – ACCOUNTING POLICIES (continued)

When during the term of a financial asset there is a change in the terms and conditions, then the Bank assesses whether the new terms are substantially different to the original terms indicating that the rights to the cash flows of the initial instruments have expired. In case the conclusion is that the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognising the existing financial asset and recognising a new financial asset based on the revised terms. Conversely, when the Bank assesses that the terms are not substantially different than the transaction is accounted for as financial asset modification.

Renegotiated loans

Where possible, the Bank seeks to renegotiate loans rather than to take possession of collateral.

The Bank considers a loan (receivable) renegotiated if the loan or credit arrangements are renegotiated, rescheduled (prolonged) and renegotiated upon the debtor's or the financial institution's initiative, within the framework of the amendment of the underlying contract, where the underlying contract is amended because of the considerable deterioration in the financial condition or solvency of the borrower, on account of which he is unable to meet the obligations of repayment as originally contracted. Such amendments result in significant changes in the terms and conditions of the underlying contract, bringing considerably more favourable terms for the client - by way of derogation from the market conditions pertaining to contracts of the same type bearing similar terms and conditions.

The assessment of the substantially different terms is made when loans to customers are renegotiated or otherwise modified. In considering the substantially different terms, the Bank evaluates whether:

- The borrower has changed;
- The loan has been partially written off because the Bank estimates that the part or entirety of the loan became irrecoverable;
- Changes made to a loan or loans of the same borrower resulted in refinancing or consolidation of the loans into a new loan;
- Due to significant financial difficulty of the borrower, the Bank has granted more than one concession;
- Substantial new terms have been introduced, such as profit share/equity-based return significantly modifying the risk profile of the loan;
- The nature of the interest rate or the reference rate has significantly changed;
- The currency of the contract has changed.

The amendments are representing, among others, the deferral of repayments (interest and/or principal) temporarily for a specific period (grace period), payment by instalments, modification of interest rates (for example repricing in the form of discount rates), capitalization of interest, changing the type of currency of denomination, extending the term of the loan, rescheduling instalment payments, reducing the level of collateralization or the level of security requested, or allowing other form of collateral or security, waiving the collateral or security requirement (non-collateralization), introducing new contract terms and conditions or eliminating certain existing terms and conditions. Furthermore a supplementary agreement or a new contract may be concluded between the debtor and the Bank, or between the borrower and an affiliate of the original lender, for a new loan for refinancing the debts (interest and principal) outstanding on account of the existing contract, or for undertaking additional commitments with a view to avoiding any further increase in risk exposure or to cutting losses, upon which the claims of the Bank (including the financial institution participating as the affiliate of the original lender) arising on account of the aforesaid supplementary agreement or new contract are also recognized as renegotiated loans (receivables).

The terms are considered as substantially different in any case if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset.

NOTE 2 – ACCOUNTING POLICIES (continued)

The process of financial asset modification requires adjusting the carrying amount of the previously recognised financial asset in order to reflect the changed terms on the contractual cash flows. In doing that the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss presented separately in the income statement. The carrying amount of the financial asset is recalculated as the present value of the estimated future cash payments through the expected life of the changed terms that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred as part of the modification shall adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Loans where the relevant contract had to be amended due to changes in market conditions are not considered as renegotiated loans (receivables), furthermore, where the parties agree in market conditions pertaining to similar agreements and where the solvency of the debtor is such as to ascertain his ability to comply with his ensuing contractual obligations.

If the renegotiation does not result in derecognition, the impact of modification will be presented as change in the assets' effective interest rate or change in gross carrying amount. The effect of contract modification on gross carrying amount is presented as modification losses on financial assets at amortized cost in the income statement (see Note 3).

Derecognition of renegotiated loans

For derecognition of the renegotiated loans the Bank applies the following criteria. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset. A substantial modification of the terms of an existing financial asset or a part of it is accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the asset and are amortised over the remaining term of the modified liability.

2.3.2.1.3 Write-offs

A write-off is a direct reduction of the gross carrying amount of a financial asset when the Bank has no reasonable expectations of recovering the financial asset on its entirety or a portion thereof. A write-off constitutes a derecognition event.
Write-offs do not constitute a debt forgiveness and the Bank retains its legal enforceable rights towards the borrower until the official legal proceedings have concluded otherwise.

2.3.2.2 Equity and debt instruments classification

On initial recognition of a financial asset, the Bank first assesses the contractual terms of the instrument in order to classify it as an equity or debt instrument. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets. In order to satisfy this condition, the Bank reviews whether the instrument includes no contractual obligation for the issuer to deliver cash or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
Any instruments which do not meet the criteria of equity instruments are classified as debt instruments by the Bank.

2.3.2.2.1 Classification and measurement – debt instruments

When the Bank concludes that the financial asset is a debt instrument then on initial recognition, it can be categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL);
- Designated at initial recognition at fair value through profit or loss (FVO);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost (AC)

NOTE 2 – ACCOUNTING POLICIES (continued)

Debt instruments have to be classified in the FVPL category when (i) they are not held in business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets or alternatively (ii) they are held in such business model but the contractual terms of the instrument give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Further, the Bank may in some cases, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as at fair value (FVO) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.3.2.2.2 Business model assessment

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, the Bank reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to key management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

2.3.2.2.3 Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

NOTE 2 – ACCOUNTING POLICIES (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

2.3.2.2.4 Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets which could occur when the Bank begins or ceases to perform an activity that is significant to its operations (e.g.: when the Bank acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

2.3.2.2.5 Classification and measurement – Equity instruments

Financial equity instruments are categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL);
- Equity instruments elected for fair value through other comprehensive income (FVOCI).

For investments in subsidiaries and affiliated undertakings the rules defined in Section “Participations” apply.

In the banking activity all equity instruments is included in the FVOCI category when the investment is not held for trading. This is a specific designation that is be made on a case-by-case basis, applicable to strategic investments. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis which is interpreted by the Bank as share-by-share basis. Equity categorised in the FVOCI category is subsequently measured at fair value with all changes recognised in other comprehensive income and without any recycling into the income statement even when the investments is disposed. The only exception applies to the dividend income which are recognised in the income statement.

2.3.2.2.6 Classification and measurement - Derivatives

The Bank can recognise derivative instruments either for trading purpose or as hedging derivatives. Derivatives can have asset or liability positions depending on their actual market value.

Trading derivatives

Derivative instruments are always measured at fair value and the Bank makes a distinction as follows:

- Derivatives that are held with a hedging intent but for which hedge accounting cannot be or is not applied (economic hedge): hedging instruments can be acquired with the intention of economically hedging an external exposure but without the application of hedge accounting. The interest component of these derivatives is recognised under ‘Net interest income’, while all other fair value changes are recognised under ‘Net result from financial instruments at fair value through profit or loss’.
- Derivatives held without hedging intent (trading derivative): the Bank can also enter into a derivative position without any intention to hedge economically a position. Such activity can relate to closing / selling an external position in the near term or for short-term profit taking purposes. All fair value changes on such derivatives are recognised under ‘Net result from financial instruments at fair value through profit or loss’.

NOTE 2 – ACCOUNTING POLICIES (continued)

Hedging derivatives

Hedging derivatives are derivatives which are specifically designated in a hedge relationship. The accounting process of such derivatives are detailed in the section "Hedge Accounting".

2.3.2.3 Fair value hierarchy of financial instruments

The fair value measurements are classified into the levels of fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The Bank assesses the significance of fair value adjustments at portfolio level in function of the proportion of the fair value adjustment relative to the size of the underlying portfolio. A fair value adjustment related to the unobservable input is considered to be material for the Bank if this fair value adjustment makes up at least 5% of the nominal exposure of the underlying portfolio.

The amount of the fair value which is calculated on transaction level is adjusted (MVA - Market Value Adjustment) by the Bank taking into account the elements listed below. The adjustment according to the following elements is calculated by instrument / transaction types or on customer level:

- close-out cost of the transactions,
- funding value adjustment,
- illiquidity of the markets,
- counterparty risk.

Changes to the fair value classification

The classification of a financial instrument into the fair value hierarchy is not static. Financial instruments can shift between different fair value levels for various reasons, for instance:

- Market changes: The market can become inactive. As a result, previously observable parameters can become unobservable (possible shift from level 1 to level 2 or 3);
- Model changes: The application of a new refined model that takes more observable input factors into account or reduces the fair value impact of unobservable inputs (possible shift from level 3 to level 2);
- Change in sensitivity: The sensitivity of a valuation input to the entire fair value may change over time. An unobservable input that used to be significant to the entire fair value measurement may become insignificant (or vice versa). The fair value classification in the hierarchy would consequently change from level 3 to level 2 (or vice versa).

Defining the fair value classification of a financial instrument can only be made taking into account changing market circumstances, upgraded models and the sensitivity of the valuation inputs. With this regard, the fair value classification per instrument/portfolio is reassessed by the Bank on a regular basis.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.3 Financial assets - Impairment

2.3.3.1 Definition of default

The Bank uses the definition for defaulted financial assets which is used for internal risk management purposes and it is in line with guidance and standards of the financial industry regulators. A financial asset is considered as defaulted if one or more of the following conditions are fulfilled:

- A significant deterioration in creditworthiness
- The asset is flagged as non-accrual
- The asset is flagged as a forborne asset in line with the internal policies for forbearance specified as stage 3 forborne
- Liquidation proceedings have been initiated against the client
- The counterparty has filed for bankruptcy or sought similar protection measures.
- The credit facility towards the customer is terminated.

The Bank applies a backstop for facilities that have at least 90 days past due status. In this context a backstop is used as a final control to ensure that all the assets that should have been designated as defaulted, are properly identified.

2.3.3.2 Expected credit loss model

The model for impairment of financial assets is called the Expected Credit Loss model (ECL). The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost;
- Debt instruments measured at fair value through the other comprehensive income;
- Loan commitments and financial guarantees;
- Finance lease receivables; and
- Trade and other receivables.

No ECL are calculated for equity investments. Financial assets that are in scope for the ECL carry an amount of impairments equal to the life-time ECL if the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month ECL (see below for the references to the significant increase in credit risk).
To distinguish between the different stages with regards the amount of ECL, the Bank uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.

All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12 month ECL. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time ECL. Once an asset meets the definition of default it migrates to stage 3.

IFRS 9 allows for a practical expedient for leasing and trade receivables. The ECL for trade receivable are measured in an amount equal to the life-time ECL. The Bank applies this practical expedient for trade receivables.

Impairment gains and losses on financial assets are recognised under the heading “Impairments” in the income statement.

Financial assets that are measured at amortised cost are presented on the statement of financial position at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other comprehensive income are presented on the statement of financial position at their carrying amount being the fair value at the reporting date. The adjustment for the ECL is recognised as a reclassification adjustment between the income statement and the other comprehensive income. For loan commitments and financial guarantees a provision for ECL is recognized as liability.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.3.3 Significant increase in credit risk since initial recognition

In accordance to the ECL model, a financial assets attracts life-time ECL once the credit risk has increased significantly since initial recognition; therefore the assessment of the significant increase in credit risk defines the staging of financial assets. The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned at initial recognition. This is a multi-factor assessment, and, thus the Bank has developed a multi-tier approach (MTA).

2.3.3.3.1 Multi-Tier Approach – Bond portfolio

For the bond portfolio the MTA consists of three tiers:

- Low credit exception: Bonds always carry 12-months ECL if they have a low credit risk at the reporting date (i.e. stage 1). The Bank uses the low credit risk exception for bonds which are graded as investment grade based on internal rating.
- Internal rating: only applicable if the first tier is not met. This is a relative assessment comparing the Probability of Default (PD) at initial recognition to the PD at the reporting date. The Bank makes the assessment on a facility level at each reporting period.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If none of these triggers results in a migration to stage 2, then the bond remains in stage 1. A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default. The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not present in a subsequent reporting date.

2.3.3.3.2 Multi-tier approach – Loan portfolio

For the loan portfolio the Bank uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, doesn't result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.

- Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. The Bank makes the assessment on a facility level at each reporting period.
- Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.
- Days past due: the Bank uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.
- Internal rating backstop: the Bank uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the Bank internal rating) before a financial asset is considered to be impaired.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default. The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not met at the reporting date. For Covid-19 related details, please refer to Note 3.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.3.4 Measurement of ECL

The ECL is calculated as the product of the probability of default (PD), the estimated exposure at default (EAD) and the loss given default (LGD).

The ECL are calculated in a way that reflect:
- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

The life-time ECL represents the sum of the ECL over the life time of the financial asset discounted at the original effective interest. The 12 months ECL represent the portion of the life time ECL that results from a default in 12-month period after the reporting date.

The Bank uses specific IFRS 9 models for PD, EAD and LGD to calculate ECL. To the extent possible the Bank uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. Having said that, the Bank ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:
- the Bank removes the conservatism which is required by the regulator for Basel models
- the Bank adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a “point-in-time” rather than “through-the-cycle” estimate (the latter is required by the regulator).
- the Bank applies forward looking macroeconomic information in the models.

The Bank also considers three different forward looking macro-economic scenarios with different weights in the calculation of ECL (see Note 43.4). The base case macro-economic scenario represents the Bank’s estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.
The maximum period for measurement of the ECL is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period.

2.3.3.5 Purchased or originated credit impaired (POCI)

The Bank defines POCI assets as financial assets in scope of the IFRS 9 impairment which at origination are already defaulted (i.e. meet the definition of default).
POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit adjusted effective interest rate. In subsequent period any changes to the estimated lifetime ECL are recognised in the income statement. Favourable changes are recognised as an impairment gain even if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

2.3.4 Cash, cash balances with central banks and other demand deposits

Cash comprises cash on hand and demand deposits, e.g. cheques, petty cash and central bank balances as well as other bank balances. For the purposes of reporting cash flows, cash and cash equivalents comprise balances with an original maturity less than 90 days, including cash, balances due from banks and balances with the Hungarian National Bank (including obligatory reserves) decreased with deposits from banks repayable on demand.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.5 Financial liabilities

Financial instruments or their component parts are classified as liabilities or as equity in accordance with the substance of the contractual arrangements on initial recognition and the definitions of financial liabilities and equity instruments. A financial instrument is classified as a liability if:

- the Bank has a contractual obligation to deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that are potentially unfavourable to the Bank; or
- the Bank has a contractual obligation to settle the financial instrument in a variable number of its own equity instruments.

A financial instrument is classified as an equity instrument if both of the conditions are not met and in that case is covered under the section “Equity”.

2.3.5.1 Financial liabilities – recognition and derecognition

The Bank recognises a financial liability when it becomes a party to the contractual provisions of the instrument which is typically the date when the consideration received in the form of cash or other financial asset has been received. At initial recognition the financial liability is recognised at fair value and less transaction costs that are directly attributable to its issuance, except for financial liabilities at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The Bank can also derecognise the financial liability and recognise a new one when there is an exchange between the Bank and the lenders of the financial liability with substantially different terms, as well as substantial modifications of the terms of the existing financial liabilities. In assessing whether terms are different, the Bank compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then the Bank derecognises the original financial liabilities and recognises a new one. When the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Financial liabilities held for trading

Held-for-trading liabilities are those incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking.

Trading liabilities can include derivative liabilities, short positions in debt and equity instruments, time deposits and debt certificates. In connection with derivative liabilities the Bank makes similarly distinction between trading and hedging derivatives as in case for derivative assets.
Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting date, trading liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.

NOTE 2 – ACCOUNTING POLICIES (continued)

Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss

IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in profit or loss except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by the Bank for the following reasons:

- the Bank designates a financial liability or group of financial liabilities at fair value when these are managed and their performance are evaluated on a fair value basis.
- Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value. This results that both the embedded derivative and the host contract are measured at fair value. the Bank uses this option when, for example, structured products contain non closely related embedded derivatives, in which case both the host contract and the embedded derivative are measured at fair value.

Financial liabilities measured at amortised cost

The Bank classifies most of its financial liabilities under this category, also those used to fund trading activities, when the trading intent is not present in the financial liabilities (e.g.: issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments and plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued, but not yet paid, are recorded under accruals and deferrals.

2.3.5.2 Financial liabilities – own credit risk

For financial liabilities designated at fair value, IFRS 9 requires measuring the financial liability on initial recognition at fair value. Thereafter fair value changes are recognized in the income statement, except for fair value changes related to the changes in own credit risk which are presented separately in OCI.

Accordingly, the fair value movement of the liability is presented in different parts: changes in own credit risk are presented in OCI and all other fair value changes are presented in the income statement under the line item “Net result from financial instruments at fair value through profit or loss”. The amounts recognized in OCI relating to the own credit risk are not recycled to the income statement even when the liability is derecognized and the amounts are realized. Although recycling is prohibited, the Bank transfers the amounts in OCI to other reserves within equity at derecognition. The only situation when the presentation of the own credit risk in OCI is not applied when this would create an accounting mismatch in the income statement.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.5.3 Financial liability – financial guarantee contract

A financial guarantee contract is a contract that requires the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Such a contract is initially recognised at fair value and is subsequently measured at the higher of

- the amount determined in accordance with impairment provisions of IFRS 9 (see section "Financial Assets – Impairment") and
- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15.

2.3.6 Offsetting

The Bank offsets and presents only a net amount in the statement of financial position of a financial asset and financial liability when and only when it has currently a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.3.7 Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed regularly. The frequency is defined in the hedging document. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Fair value micro hedging: In relation to fair value hedges which meet the conditions for hedge accounting, any gains or losses from the changes in fair value of the derivative are recognized immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. Accrued interest income from interest rate swaps is recognized in net interest and similar income. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. Any adjustment up to the point of discontinuation that is made to a hedged item for which the effective interest method is used is amortised to the income statement over its remaining life or recognized directly when the hedged item is derecognized.

Fair value macro hedging: a group of derivatives can be viewed in combination and jointly designated as a hedging instrument. The Bank uses interest rate swaps to hedge the interest rate risk for a portfolio of financial instruments (loans, deposits, securities). Interest rate swaps are measured at fair value, with fair-value changes being reported in the income statement. Accrued interest income from interest rate swaps is recognized in net interest and similar income. The hedged amount of loans is measured in fair value as well, with fair value changes being reported in the income statement. If a hedge is ineffective, the cumulative fair value change in the hedged amount will be amortised to the income statement over the remaining lifetime of the hedged assets or will be immediately removed from the statement of financial position if ineffectiveness is due to derecognition of the corresponding loans.

NOTE 2 – ACCOUNTING POLICIES (continued)

Cash flow hedges: In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in the other comprehensive income in the cash flow hedge reserve. Any ineffective portion of changes in the fair value of a derivative is immediately recognized in the income statement. The amount recognized in OCI is reclassified to the income statement as a reclassification adjustment in the same period as the hedged cash flows affect the income statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, the cumulative gain or loss on a cash flow hedge recognized in the other comprehensive income remains in the other comprehensive income until the forecasted transaction occurs, when it is then transferred to the income statement for the period.

For hedges which do not qualify for hedge accounting and trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

2.3.8 Participations

In the separate financial statement of the Bank, participations in subsidiaries and affiliated undertakings are measured at cost based on IAS 27, reduced by impairment determined in accordance with IAS 36. The carrying amount of other equity instruments with participating nature is determined in accordance with IFRS 9, such equity instruments are measured at fair value and impairment is not applied.

The Bank considers a participation in a subsidiary or in affiliated undertakings impaired, if there is a significant and permanent decrease in the fair value (and therefore the value of the participation decreases under the purchase value), or there is any objective evidence that the participation is impaired. Determining “Significant” and „permanent” requires a decision. „Significant” means generally 15% or more and “permanent” means more than 1 year.

2.3.9 Leasing

This classification is crucial for lessor positions; for lessee positions, this classification is of lesser importance since both classifications result in a similar recognition and measurement of the lease in the statement of financial position and profit or loss.

2.3.9.1 The Bank, as a lessee

On initial recognition the Bank recognises a right-of-use (ROU) asset and a lease liability which are both measured - in most cases - at the present value of the lease payments. The ROU asset will be recognized in the Bank’s statement of financial position similarly as to where the leased assets would be recognized if it were subject to a finance lease. The lease liability will be recognized as “Financial liabilities at amortised cost – other liabilities”.
The ROU asset is measured at cost, less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. The depreciation requirements follow IAS 16, the impairment requirements follow IAS 36. The lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.
The Bank recognises a financial cost on the lease. The cost represents the unwinding of the discount rate of the lease. The Bank uses the incremental borrowing rate for discounting the lease payments when and if the rate implicit in the lease is not readily determinable.
The lease term is determined as the non-cancellable period of the lease, taking into account the periods covered by an option to extend or terminate the lease. For assessing these options, the Bank uses all economic facts and circumstances, including the factors listed in IFRS 16 B37 to determine the lease term.
The lease liability is remeasured when there is a lease modification or a reassessment such as an indexation of the rent payment or at the reassessment of the lease term. The lease liability shall be remeasured using a revised discount rate, whereby the revised rate is determined at the date of the remeasurement in case of a change in the lease term. The remeasurement shall occur when there are changes to the lease term or in case of other

NOTE 2 – ACCOUNTING POLICIES (continued)

reassessments. The lease liability shall be remeasured using an unchanged discount rate when there are change in index or rate affecting payments.

The Bank opts to apply the following practical expedients foreseen in the standard: the Bank applies a single discount rate to a portfolio of leases with reasonably similar characteristics (‘portfolio approach’). The Bank applies the recognition exemption for both leases with a low value (< 5.000 EUR) and short-term leases (< 12 months). The Bank does not recognise contracts of intangibles as leasing agreement.

IFRS 16 requires that an lease should be recorded in the lessee's balance sheet both as an asset and as an obligation to pay future rentals. The derecognition requirements for finance lease liabilities are based on IFRS 9 rules.

At the commencement of the lease term, the sum to be recognised both as an asset and as a liability is the present value of the minimum lease payments each determined at the inception of the lease. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease. Any initial direct costs of the lessee are added to the amount recognised as an asset.

2.3.9.2 The Bank, as a lessor

All leases need to be classified as either finance leases or operating leases. The classification under IFRS 16 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset.

The amount due from the lessee under a finance lease is recognised in the Bank’s statement of financial position as claims from customers at an amount equal to the Bank’s net investment in the lease in the financial statement line item of financial assets at amortised cost. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and income. The net investment in a lease is its gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is equal to the minimum lease payments plus any unguaranteed residual accruing to the lessor.

During the lease term, the net investment in the lease will represent the remaining minimum lease payments, less that part of the minimum lease payments that is attributable to future gross earnings (i.e. interest) and it will also include the unguaranteed residual value. The unguaranteed residual value, which is expected to be small in a finance lease (even in a property lease), represent the amount the lessor expects to recover from the value of the leased asset at the end of the lease term that is not guaranteed in any way by either the lessee or third parties.

The requirements on subsequent measurement are based on IFRS 16, but for the impairment and derecognition of finance lease assets IFRS 9 rules must be applied.

Assets subject to operating leases are included in bank premises and equipment in the statement of financial position and lease payments received are presented as income in the income statement. When the Bank provides lease incentive to the lessee, the aggregate cost of incentives are treated as a reduction of rental income over the lease term.

In case of financing the purchase of a vehicle or other equipment, the main collateral is the vehicle or the other equipment, on which the Bank has got the right to buy. When the contract is extraordinarily terminated the assets received in the debt settlement are measured at cost which is defined as the fair value of the vehicle or other the equipment. If the carrying amount of the received asset differs from the value defined at the subsequent valuation of the asset then impairment is accounted for or the formerly booked impairment is fully or partially released.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.10 Equity (Reserves)

Reserves in the financial statements of the Bank contains the following:

- In Other Comprehensive Income
  - revaluation reserve of financial instruments measured through other comprehensive income, where the fair value changes of FVOCI financial instruments are recognised.
  - accumulated amount of financial liabilities designated at fair value through profit or loss that is attributable only to the own credit changes of the Bank
  - hedging reserve, which is the gain or loss on the hedging instrument included in a cash flow hedge that is determined to be an effective hedge.
  - remeasurement of defined benefit plans: the actuarial gains and losses recognised as remeasurements of the net defined benefit (e.g. effect of change in yield curves applied for estimating or discounting, or changes in tax rates related to the benefit)
- Statutory risk reserve which is set aside as 10% of the profit calculated in accordance with Hungarian Accounting Regulations for use against future losses.
- Share premium which is the excess amount received by the Bank over the par value of its shares at the time of capital increase.

2.3.11 Dividend on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

2.3.12 Share based payment transactions

A number of employees of the Bank receive remuneration in the form of share-based payment transactions. They are granted share appreciation rights, which can only be settled in cash (“cash-settled transactions”). The cost of cash-settled transactions is measured at fair value at the grant date, using the KBC share price determining the fair value. The value of the share-based payment is expensed in the year of the remunerated performance with recognition of a corresponding liability. The liability is valued at the closing price of the underlying share at the end of the period. The liability is released at the date of pay-out.

2.3.13 Investment property

Investment property is defined as a real estate property either built, purchased or acquired under a finance lease by the Bank, which is held to earn rentals or capital appreciations rather than used by the Bank for the supply of services or for administrative purposes.
The Bank subsequently measures investment property at initial cost minus accumulated depreciation and impairment losses.

Depreciation is provided on a straight-line basis during the useful life of the asset. The useful life of investment property is generally 33 years, except if the consideration of certain special circumstances results different useful lifetime.

2.3.14 Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period. An item of property, plant and equipment is recognized as an asset only when it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

The Bank considers movables as tangible asset only above HUF 100,000 initial cost. Items under this amount – including decorative elements, art works with low value – are accounted for as material cost.

NOTE 2 – ACCOUNTING POLICIES (continued)

Property, plant and equipment is initially measured at cost. Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

After initial recognition subsequent cost can increase the carrying amount of an asset or can be recognized as a separate asset, if it is probable that future economic benefits associated with the asset will flow to the Bank and the cost can be measured reliably. The carrying amount of replaced components are derecognized. Repairs and maintenance are charged to the income statement as incurred

In case of compound assets, main components of these can differ regarding the economic characteristics. In this case the initial cost is divided among main components. Useful life, residual value and depreciation method is determined individually for every main components.

The subsequent measurement of property, plant and equipment is based on the cost model, i.e. property, plant and equipment are carried at initial cost less accumulated depreciation and any accumulated impairment losses.

Every part of property, plant and equipment, which represents significant value compared to the total initial cost of the asset is depreciated separately. Depreciation is calculated on a straight-line basis under the estimated useful life of the asset. Land, art works have unlimited useful lives, therefore are not depreciated.

The estimated useful lives of property, plant and equipment are the following:

Land and buildings (including leasehold rights, and leasehold improvements)	10-50 years
Right-of-use assets (leases)	3-20 years
IT and office equipments (including system software)	3-7 years
Other	10-50 years

System software (operating systems) are initial software linked to the purchase of hardware, without whose installation the hardware will not function or operate. Such software regulates the internal operation of the computer and ensures communication with the configuration or the network, and thus includes operating systems, support software and compilers, therefore system software forms an integral part of related hardware.

The Bank prepares reassessment for the useful lives and the residual values at least on a yearly basis.

Leasehold rights are mainly right-of-use assets in connection with IFRS 16 Leases standard. For further details see Note 2.3.9. Leasing.

2.3.15 Intangible assets

An intangible asset shall be recognised if, and only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets can have a finite or indefinite useful life. The Bank owns intangible assets with finite useful life.

Intangible assets with finite lives are amortised over the useful economic life; the amortisation expense is recorded as operating expense in the income statement. The impairment assessment of intangible assets with finite lives is the same as tangible assets. Intangible assets with finite lives have no residual value, as the Bank does not intend to dispose the intangible assets before their economic useful lives.

NOTE 2 – ACCOUNTING POLICIES (continued)

The subsequent measurement of intangible assets is based on the cost model i.e. are carried at initial cost less accumulated amortisation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis under the estimated useful life of the asset:

Standard software and other intangibles	5 years
Core banking software	8 years

Core banking systems are software handling back-end data processing applications for processing all transactions that have occurred during the day and posting updated data on account balances to the mainframe. Core systems typically include deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools.

The Bank owns purchased trademarks, the depreciation is based on the useful life determined in the purchase agreement.

2.3.16 Impairment of non-financial assets

When the Bank prepares financial statements it ensures that the carrying amount of the non-financial asset does not exceed the amount what could be obtained from either using or selling it ("recoverable amount"). Property, plant and equipment, investment property and software are subject to the impairment review only when an objective evidence of impairment indicator exists. The Bank reviews at least annually whether there are any indicators of impairment.

When an impairment indicator is present, or the impairment test of an asset must be prepared, the Bank estimates the asset's recoverable amount. The recoverable amount is defined as the higher of fair value less cost to sell or the value in use, determined individually by assets, except if the economic benefits realized on the asset can not be separated from economic benefits realized on other assets or group of assets. In assessing value in use, the estimated future cash flows are 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.
Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.3.17 Contingent liabilities

In the ordinary course of its business, the Bank enters into off-statement of financial position commitments such as guarantees, commitments to extend credit, letters of credit, warranties and transactions with financial instruments. These commitments are recorded in the financial statements if and when they become payable.

Taking into account that IFRS 9 and IAS 37 do not contain specific requirements related to the accounting treatment of commitments for issuing non-financial guarantees, the Bank treats them in the same way as financial guarantees.

To determine the allowance for losses on contingent liabilities the Bank uses the Expected Credit Loss model (ECL) (for details see Note 2.3.3 Financial assets – Impairment).

2.3.18 Provisions

Provisions are recognised at the reporting date if and only if there is a present obligation (legal or constructive) due to 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.
When the timing effect is material, the amount recognised as a provision is the net present value of the best estimate.

NOTE 2 – ACCOUNTING POLICIES (continued)

Any compensation that arises in relation to provisions for operational losses from claims and legal disputes regarding commercial activity are presented in other income / (expense) when they become virtually certain.
When it is virtually certain that another party will repay the expenditure of the provisions, the reimbursement is treated as a separate asset.

2.3.19 Revenue recognition

2.3.19.1 Net interest and similar income

Net Interest Income falls under the scope of IFRS 9. Interest income and expense are calculated and recognised based on the effective interest rate method, or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation. The effective interest includes fees considered to be part of the effective interest rate of a financial instrument (generally fees received as compensation for risk or origination fees).). Prepayment fees are also presented as interest income.

Interest income calculated using effective interest method is presented as a separate line item on the face of the income statement. Interest income related to assets held for trading, mandatorily at fair value through profit or loss and hedging derivatives are presented in a separate line item as “other similar income”.

Interest income and expenses from financial instruments are, with the exceptions described below classified as “Net Interest Income”.

For financial assets measured at amortised cost or debt instruments measured at fair value through other comprehensive income, the calculation of the interest income depends on the stage of the asset used in the calculation of ECL. For assets that are in stage 1 and stage 2 the interest recognition is based on the gross carrying amount while for assets in stage 3 on the carrying amount (including POCI). The gross carrying amount of a financial asset is defined as the amortised cost before adjusting for any loss allowance.

2.3.19.2 Net fee and commission income

The Bank presents the revenue of different transaction under this line item. Most of these fall under the scope of IFRS 15 Revenue from Contracts with Customers as they cover services and goods provided by the Bank to its customers while certain transactions reported under Commitment credit are accounted for under IFRS 9. The revenue recognised on these transactions reflect the amount of consideration to which it expects to be entitled in exchange for transferring goods or service to the customers. For the recognition of revenue the Bank needs to identify the contract and define what the promises are (performance obligations) in the transaction. Thereafter the transaction price is calculated and allocated to all performance obligations identified in the contract. Revenue is recognised only when the Bank has satisfied the performance obligation.

The revenue from fiduciary and trading services falls under the scope of IFRS 15. These transactions are straightforward because the Bank provides series of distinct services which is consumed by the customer simultaneously when the benefits are provided. The Bank is remunerated after executed transactions or on a timely basis, the fee is determined as a fixed amount or a percentage. The fee arrangements do not include variable compensation and revenue is estimated and recognised straightforward. Due to the nature of the promises the Bank recognises these revenues at that point in time or over time.

NOTE 2 – ACCOUNTING POLICIES (continued)

Commitment credit represents revenue on fees received from lending and financial leasing business that are not considered as part of the Effective Interest Rate and consequently, have to be recognised under the scope of IFRS 15, except for financial guarantees which are accounted for in accordance with IFRS 9. This includes typically credit-related fees like loan administration fees or fees charged as prepayment fees. The Bank also recognises fees received for the issuance of guarantees, letters of credit, standby credit agreement and similar transactions. It also includes fees charged to companies with specific financing needs requiring integrated or highly complex structure. The terms applied by the Bank on these revenue do not contain complex arrangements and relates to a certain percentage of the transaction and variability is limited. The terms of the provided services are straightforward and are recognised in general at the point when the actual service has been performed or transferred to the customer except for financial guarantees for which the received fees are treated as income and recognised in general over time until expiry of the guarantee.

Fee income also contains fees related to payment services whereby the Bank charges the customer for different transactions linked with its current accounts, domestic or foreign payments, payment services through ATM, etc. These services are mainly completed when the actual transaction is executed therefore the relating consideration can be recognised directly at that point in time.

2.3.20 Employee benefits

2.3.20.1 Short-term employee benefits

Short-term employee benefits, such as salaries, paid absences, performance-based cash awards and social security costs are recognised over the period in which the employees provide the related services. The relating expenses are presented under the income statement as Staff expenses.

2.3.20.2 Post-employment benefits

A number of employees of the Bank receive post-employment benefits in the form of defined benefit plans. The defined benefit plan belongs to post-employment benefits. The components of the benefit costs related to the program are recorded as follows in the financial statements:

- vested benefits and costs arising from the change of the program's conditions as personal expenses in the income statement
- interest expenses related to the defined benefit plan as interest and similar expense in the income statement
- the revaluation of the defined benefit plan (e.g. impact of change of the curves used to the estimation and discount calculation or change of the tax rate related to the benefit) in other comprehensive income.

2.3.21 Government grants

Government grants are assistance by government in the form of transfers of resources to the Bank in return for past or future compliance with certain conditions relating to the operating activities of the entity.
Government grants are recognised when there is a reasonable assurance that the grant will be received and the conditions attached to it will be met. The grants are recognised in the income statement in a systematic basis to match the way that the Bank recognises the expenses for which the grants are intended to compensate.
Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. The Bank applies the deferred income (gross) presentation method.

2.3.22 Levies

Public authorities could impose different levies on the Bank. The amount of the levies can be dependent on the amount of revenue (mainly interest) generated by the Bank, on the amount of deposits accepted from customers, on the total balance sheet volume with corrections based on some specific ratio's. Levies are recognised, in accordance with IFRIC 21, when the obligating event that gives rise to the recognition of the liability, as stated in the relevant legislation, has occurred. Depending on the obligating event, levies can be recognised at one point or over time. The majority of the levies imposed on the Bank have to be recognised at one point, which occurs mainly at the beginning of the financial year. The Bank recognises the levies as part of Operating Expenses (See Note 2.5).

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.23 Income tax

Income tax consists of two elements: current year's taxes paid/payable and changes in deferred tax assets/liabilities. Income tax is accounted for either in the income statement or in the Other Comprehensive Income depending on where the items that triggered the tax are accounted for. Income taxes that are initially accounted for in the Other Comprehensive Income and that relate to gains/losses that are subsequently recognised in the income statement, are recycled in the income statement in the same period that the item is accounted for in the income statement. Current taxation is provided for in accordance with the fiscal regulations of Hungary.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred and current tax assets and liabilities are offset only if the Bank has a legally enforceable right to set off, and the Bank intend to settle them on a net basis or to realize the assets and settle the liabilities simultaneously

2.3.24 Non-current assets held-for-sale, liabilities associated with disposal groups

Non-current assets or group of assets and liabilities held for sale are those for which the Bank will recover the carrying amount from a sale transaction that is expected to qualify as a sale within a year, instead of through continuing use.

In line with IFRS 5 standard the Bank presents an instrument as Non-current asset or disposal group classified as held-for-sale only if it is available for immediate sale in its present condition and the sale of the asset is highly probable.

The Bank measures a non-current asset or disposal group classified as held for sale at the lower of carrying amount or fair value less cost to sell.

Non-current assets held for sale and liabilities held for sale are reported separately from the other assets and liabilities in the statement of financial position at the end of the reporting date.

Non-current assets held for sale (disposals groups) are not depreciated but measured at the lower of their carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Bank that either has been disposed of, or that is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business
- or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale.

2.3.25 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not assets of the Bank and accordingly are not included in these financial statements.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.26 Events after reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date that the financial statements are authorised for issue. There are two types of events after the reporting period:

- those which provide evidence of conditions that existed at the reporting date (adjusting events)
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and performance of the current year.
The impact and consequences of the non-adjusting events are disclosed in the notes of the financial statements.

2.4 Changes in accounting policies

2.4.1 Adoption of new or revised standards and interpretations

The following amended standard became effective from 1 January 2021, but did not have any material impact on the Bank:

- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- COVID-19-Related Rent Concessions Amendment to IFRS 16 - The amendments provided lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification.
- Amendment to IFRS 4 – deferral of IFRS 9 - The amendments to IFRS 4 addressed the temporary accounting consequences of the different effective dates of IFRS 9 and the forthcoming IFRS 17.

2.4.2 New accounting pronouncements

The Bank has not applied the following IASs, IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective. The Bank will apply these standards when they become mandatory.

The list of standards and amendments:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 - These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
  Effective from: to be determined by the IASB

- IFRS 17 Insurance contracts - IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices.
  Effective from: 1 January 2023

- Classification of liabilities as current or non-current – Amendments to IAS 1 - These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.
  Effective from: 1 January 2023

NOTE 2 – ACCOUNTING POLICIES (continued)

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 - The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

  Effective from: 1 January 2023

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 - The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use.
  Effective from: 1 January 2023

- Amendments to IAS 8: Definition of Accounting Estimates - The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.
  Effective from: 1 January 2023

- Amendments to IFRS 17 and an amendment to IFRS 4 - The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition.
  Effective from: 1 January 2023

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 - The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations.
  Effective from: 1 January 2023

- IFRS 14 Regulatory Deferral Accounts - IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS.
  Effective from: 1 January 2016 (No EU endorsement, EU waits for the final standard)

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies - IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information.
  Effective from: 1 January 2023

- Covid-19-Related Rent Concessions – Amendments to IFRS 16 - The amendments provided lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification.
  Effective from: 1 January 2023

- Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 - The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17.
  Effective from: 1 January 2023

NOTE 2 – ACCOUNTING POLICIES (continued)

2.5 Taxes and levies payable by financial institutions

Credit institutions and financial institutions are exposed to pay the so called "bank tax" introduced in 2010 in Hungary (see Note 12). The actual bank tax and its reversal (if any) are recorded as expense in the financial period in which it is legally payable. As the bank tax is payable based on non-net income measures it does not meet the definition of income tax under IFRS and is therefore presented as an operating expense in the income statement.

The IFRIC 21 Levies interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Based on the interpretation of IFRIC 21 the "bank tax" amount is recognized at the beginning of the year in a lump sum in the Bank's Financial Statements.

In addition to the regular "bank tax" extraordinary tax payment had to be made in 2020. As the additional "bank tax" is deductible in the next 5 years' regular tax obligation, it has no effect on the profit or loss, but it is reported as an outstanding claim in the statement of financial position.

In 2013 a tax called financial transaction levy (FTL) has been introduced. The FTL is payable based on specified type of transactions (including cash movements and money transfers). Subject of the levy are financial service providers (with seat or branch in Hungary). The FTL is recorded as part of general administrative expenses when the underlying business transaction occurs.

In the case of bankcard transactions the FTL is recognized at the beginning of the year in a lump sum, because the base of this levy is the bankcard transactions of the previous year that triggers the payment obligation of the levy at the beginning of the year.

The Investor Protection Fund (IPF) is established to provide indemnity to investors against property damages arising from the potential insolvency of investment service providers. Members make annual contribution payments to the IPF. Based on the interpretation of IFRIC 21 the amount is recognized at the beginning of the year in a lump sum in the Bank's Financial Statements.

The Resolution Fund was established in 2014 to shift the costs of crisis management in the financial sector to the members of the sector. The Fund is financed by credit institutions and investment firms from the annual fees paid by the members. According to IFRIC 21 the Bank records the total annual fee at the beginning of the period.

2.6 Change in estimate

The Bank fine-tuned some of the valuation methods used for valuation of the assets and liabilities but the change has no significant effect on the financial statements in 2021 (for details please see note 18).

2.7 Reclassifications

Some of the notes in the Financial Statements were changed in comparison with the previous year's presentation. The changed categories are marked in the concerned notes.

The reclassified notes are the following:

- Note 4 – Net interest and similar income
- Note 5 – Net fee and commission income

Interest income and expense resulting from lease activities were reclassified from Interests calculated using the effective interest method to other similar income / expense in Note 6 – Net interest and similar income.

The classes of fee and commission income in Note 7 were reviewed and fine-tuned for better presentation.

The changes were performed to better comply with the disclosure requirements of the corresponding standards

NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM

With the aim of mitigating the economic impact of the coronavirus, on 18 March 2020 a financial moratorium was announced for the retail and corporate debtors for principal, interest and fee payments which would become due until 31 December 2020 (Government decree of 47/2020 and 62/2020). The payment moratorium was automatic for all eligible debtors and loans (but the debtor had the right to opt-out from the payment moratorium).

In the subsequent period, the duration of the financial moratorium was prolonged in more steps:

- according to the government decree of 637/2020 (announced on 22 December 2020) the financial moratorium became available for another half year until 30 June 2021
- on 9 June 2021 the government announced the decree of 317/2021, in which the financial moratorium was prolonged until 30 September 2021 with unchanged conditions
- according to the government decree of 536/2021 (as of 15 September 2021) the government announced the following decisions:
    - the financial moratorium was extended with another 1 month until 31 October 2021 (with unchanged eligibility criteria)
    - as from November 2021 until 30 June 2022 the following new rules are applicable for the financial moratorium:
        - participation in the moratorium is not automatic for all eligible debtors, the client has to submit an application to the bank (opt-in scheme)
        - eligibility criteria for retail debtors: pensioners, families (with children up to 25 years of age), publicly employed, unemployed people or private persons whose income persistently decreased; corporate debtors: revenue decreased by 25% in the last 18 months (for more details see government decree).
- The government decree of 537/2021 (announced on 15 September 2021) introduced an interest rate settlement rule for credit card and overdraft type exposures under moratorium (both prospectively and retrospectively from the beginning of the moratorium). The interest rate applicable for the settlement was the average rate for personal loans in February 2020 according to the statistical publications of the Magyar Nemzeti Bank.

The moratorium did not result in debt forgiveness: the unpaid interest and fee accumulated during the moratorium shall be redeemed after the moratorium in equal annual parts during the extended remaining tenor of the loan together with the due principal instalments. The tenor of the loan will be prolonged in a way that the debtor's new instalment covering the deferred interest and fee as well next to the due capital shall not exceed the instalment determined in the original payment schedule. Although the debtors shall redeem all deferred payment obligations accumulated during the moratorium, as no interest can be charged on the unpaid interest the Group recognized a negative P&L impact arising from the time value of the payment deferral.

As an additional measure, the government decree of 782/2021 introduced an interest rate cap for short term retail mortgage loans with floating interests (where interest rates are repriced between 27 October 2021 and 30 June 2022). In case of these loans the reference rates used as a basis for determining the interest rate at repricing cannot exceed the relevant reference rate as of 27 October 2021 for the period between 1 January 2022 and 30 June 2022.

The estimated negative impact of the above measures (HUF 3 017 million loss in 2021, on top of the HUF 4 400 million negative impact already accounted for in 2020) is recognized as a modification to the gross carrying amount of the related loans in the Bank's statement of financial position and as modification losses on financial assets at amortized cost in the Bank's income statement.

NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM (continued)

The following tables present the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost under moratorium as at 31 December 2021.

	Gross carrying amount		Accumulated impairment			
	Performing	Non-performing	Performing	Non-performing	Total carrying amount	Proportion of loans in moratorium
	MHUF	MHUF	MHUF	MHUF	MHUF	%
Loans and advances at 31 December 2021						
General government	-	-	-	-	-	0.00
Corporate	9 934	5 611	(748)	(1 918)	12 879	1.28
of which: Small and Medium enterprises	1 429	2 165	(134)	(947)	2 513	0.41
Households	20 669	16 795	(1 073)	(5 390)	31 001	4.14
Consumer credit	4 164	4 987	(45)	(2 193)	6 913	6.81
Credit card	73	89	(6)	(46)	110	1.80
Current account	119	147	(15)	(83)	168	1.78
Finance lease	2	-	-	-	2	0.07
Mortgage loan	15 864	11 567	(980)	(3 066)	23 385	3.85
Term loan	447	5	(27)	(2)	423	1.95
Total	30 603	22 406	(1 821)	(7 308)	43 880	5.42

The fair value of loans and advances at fair value through profit or loss amounted to HUF 3 701 million in 2021 (HUF 27 667 million in 2020).

The following table presents the Bank's loan portfolio under moratorium as at 31 December 2020.

	Gross carrying amount		Accumulated impairment			
	Performing	Non-performing	Performing	Non-performing	Total carrying amount	Proportion of loans in moratorium
	MHUF	MHUF	MHUF	MHUF	MHUF	%
Loans and advances at 31 December 2020						
General government	2	-	-	-	2	0.00
Corporate	283 693	11 978	(12 179)	(4 093)	279 399	30.20
of which: Small and Medium enterprises	147 280	4 503	(5 167)	(2 099)	144 517	27.06
Households	257 376	5 913	(6 330)	(2 160)	254 799	37.71
Consumer credit	57 528	655	(1 193)	(446)	56 544	65.74
Credit card	4 431	11	(76)	(6)	4 360	75.66
Current account	5 550	146	(326)	(119)	5 251	53.87
Finance lease	811	-	(12)	-	799	23.27
Mortgage loan	179 748	5 067	(4 389)	(1 580)	178 846	32.64
Term loan	9 308	34	(334)	(9)	8 999	39.53
Total	541 071	17 891	(18 509)	(6 253)	534 200	67.92

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost. The fair value of loans and advances at fair value through profit or loss (presented as consumer credit and mortgage loan) amounted to HUF 3 701 million in 2021 (HUF 27 667 million in 2020).

NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM (continued)

Moratorium related significant judgements – effect on expected credit loss

The coronavirus pandemic hit the global economy very hard in 2020 and 2021. The initial significant deterioration in economic outlook has led to unprecedented policy responses by central banks and governments in all parts of the world.

As stated in the 2020 Annual Report, a management overlay was included on top of the result from the standard method for calculating loan impairment, as our ECL models are not able to adequately reflect all the specifics of the coronavirus crisis or the various government measures implemented in the different countries to support households, SMEs and corporate entities through this crisis. By year-end 2020, the collective coronavirus-related ECL amounted to HUF 19 730 million.

In 2021, the assessment of the impact of the coronavirus crisis was reviewed, factoring in the changed macroeconomic outlook and course of the pandemic. As a result, the outstanding collective coronavirus-related ECL amounted to HUF 13 491 million on 31 December 2021, which means there was a HUF 6 239 million reversal in the income statement.

The following components of the impact calculation were addressed in 2021:

For the performing loan portfolio:

- We adjusted the macroeconomic outlook based on the latest insights (see Note 45). The improved outlook and adjusted scenario weightings led to a reduction of the stress applied to the migration matrices (more details provided below).
- We refined the sectoral risk effect based on new insights on the level of vulnerability of companies to the consequences of the coronavirus pandemic. The most vulnerable clients continue to be weighted at 150% in the calculation, while the less vulnerable segments are weighted at 100%. Sectors not affected negatively (or affected positively) by the pandemic will no longer be subject to a management overlay (while in 2020 these sectors were weighted at 50%).

For the non-performing loan portfolio:

- We reverted to the standard method for calculating impairment on collectively managed ‘Stage 3’ loans. This is based on the expert judgement of the management departments that no additional coronavirus-related impact is expected for this segment.

In addition to the above changes made in 2021, the three-step approach set out below was applied to the performing portfolio to estimate the additional impact of the coronavirus crisis for the segments in which a management overlay was deemed necessary on top of the standard ECL process:

- This was done using a method that starts from the updated macroeconomic forecasts at year-end 2021. The base-case scenario was translated into expert-based stress migration matrices, per country and for each segment. The portfolio was transformed using this migration matrix, which resulted in a certain portion being moved to inferior PD classes or assigned ‘default’ status, a certain portion remaining unchanged and a minor portion being improved. After this transformation, the ECL was calculated again based on the new portfolio structure, including staging. The estimated impact on ECL under the coronavirus base-case scenario was then determined as the difference between the ECL calculated on the portfolio before and after applying the stressed migration matrix.
- Subsequently, a sectoral effect was incorporated into the calculation to refine the coronavirus-related ECL in order to reflect some sectors being more heavily affected than others, which is not yet included in the migration matrices. All exposures in the SME and corporate portfolio were classified according to their level of vulnerability to the consequences of the expected impact of the coronavirus crisis on the relevant sector (no sectoral stress was applied to mortgage loans and consumer finance). Based on this classification, the following expert-based weights have been applied to the ECL impact: 150% for critically vulnerable sectors and 100% for less vulnerable sectors. We reverted to the standard ECL process for sectors expected to experience only limited – or even positive – impact. This resulted in an ECL for each sector under the coronavirus base-case scenario. There were no major changes to the sector breakdown by vulnerability level in 2020 and 2021, just a few minor reallocations of underlying activities between the risk segments.

NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM (continued)

The following table presents the distribution of the Bank's loan portfolio where the risk is the exposure of the sectors to the negative effects of the pandemia.

2021

	Normal	High	Critical
	%	%	%
Agriculture, Farming & Fishing	100	-	-
Authorities	100	-	-
Automotive	10	90	-
Aviation	-	-	100
Beverages	100	-	-
Building & Construction	25	75	-
Chemicals	92	8	-
Commercial Real Estate	2	98	-
Consumer Products	90	10	-
Distribution	5	69	26
Electricity	-	-	-
Electrotechnics	15	85	-
Finance & Insurance	100	-	-
Food Producers	100	-	-
Horeca	-	-	100
IT	100	-	-
Machinery & Heavy Equipment	10	43	47
Media	100	-	-
Metals	-	100	-
Oil, Gas & Other Fuels	86	14	-
Paper & Pulp	100	-	-
Private Persons	86	-	14
Services	93	1	6
Shipping	-	-	100
Telecom	94	6	-
Textile & Apparel	100	-	-
Timber & Wooden Furniture	100	-	-
Traders	79	21	-
Water	100	-	-

NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM (continued)

2020

	Low risk	Medium risk	High risk
	%	%	%
Agriculture, Farming & Fishing	-	100	-
Authorities	100	-	-
Automotive	-	6	94
Aviation	-	-	100
Beverages	4	96	-
Building & Construction	-	86	14
Chemicals	11	89	-
Commercial Real Estate	3	74	23
Consumer Products	27	71	2
Distribution	52	22	26
Electricity	-	100	-
Electrotechnics	-	35	65
Finance & Insurance	100	-	-
Food Producers	99	1	-
Horeca	-	-	100
IT	-	71	29
Machinery & Heavy Equipment	-	-	100
Media	-	89	11
Metals	2	14	83
Oil, Gas & Other Fuels	-	3	97
Paper & Pulp	100	-	-
Private Persons	100	-	-
Services	24	46	30
Shipping	-	-	100
Telecom	100	-	-
Textile & Apparel	5	-	95
Timber & Wooden Furniture	-	100	-
Traders	-	92	8
Water	100	-	-

- Finally, a probability-weighted management overlay was calculated based on the base-case, optimistic and pessimistic scenarios and attributed weights. An expert-based scaling factor was applied to the estimated ECL for each sector under the coronavirus base-case scenario from the previous step to determine the collective impact of the coronavirus crisis under optimistic and pessimistic scenarios. The final overlay was determined by weighting the resulting coronavirus-related ECL under the three scenarios as follows: 80% for the base-case, 10% for the optimistic and 10% for the pessimistic scenario.

As stated earlier, the three-step approach applied to the performing portfolio resulted in a collective coronavirus-related ECL figure of HUF 13 491 million by year-end 2021, primarily in ‘Stage 2’.

NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM (continued)

Till the end of 2020, only minor PD shifts have been observed in the loan portfolio. Note that in line with ECB/ESMA/EBA guidance, any EBA-compliant government measures granted before the end of September 2020, as well as newly granted measures between 1 October 2020 and the end of December 2020, have not led to automatic transfer to stage 2 or stage 3.

In 2021, a conservative decision was made by the Bank to classify vulnerable clients who chose to opt-in in the new moratorium as high risk forborne and shift them to stage 3 category. Vulnerability was assessed based on client declaration (e.g. client declared unemployment as the reason for opt-in), transactional data or behavioral information. If no indicators of vulnerability were found then the client was flagged as performing Forborne and shifted to stage 2. These measures only affected retail book as non-retail portfolio was screened during 2021/2020, and the necessary steps were already taken (Forbearance measures, staging).

Economic scenarios

The Bank has formulated three different forecasts that differ on the virus evolution and its impact on the lockdown measures. In short the three scenarios can be summarized as follows:

Optimistic scenario:

- Risk posed by new variants and lower vaccination rates in developing countries does not appear to have a significant impact on economic recovery in Europe and the United States. The current restrictions may be lifted in the foreseeable future.
- Economic recovery is bolstered by a sharp improvement in consumer and business confidence, resulting in strong growth of consumption and investments. Stronger growth dynamics and tax and monetary incentives may lead to sustained high inflation.

Base scenario:

- The correlation between infections and hospitalisations has reduced due to the advanced vaccination campaigns in Europe and the United States. The existing restrictions can be lifted almost completely and the economy has returned to pre-pandemic levels. Global economic growth is still slowed down by the lower vaccination rates in developing countries, which poses risks for Europe and the US.
- The risk of new restrictive measures and more pessimistic economic sentiment weighing on economic activity has significantly reduced. Tax and monetary incentives support growth in a more moderate way. The higher inflation experienced in the reopening economy, driven by energy prices and bottlenecks in the supply chains, will be temporary.

Pessimistic scenario:

- New virus variants are breaking through the protection offered by current vaccines. Changing the vaccines takes time. This will lead to new restrictions, for which there will be little support from either the political class or the public. As a result they cannot be sustained long enough to sufficiently curb the spread of the virus. This will result in closures and reopenings of the economy.
- New, partial closures of the economy will have an impact on economic activity, disrupting and endangering economic recovery. Risk aversion among consumers and businesses will impact consumption and investment demand. The negative impact of new restrictive measures will be reinforced by bankruptcies and unemployment. This will have an impact on the recovery of economic activity, which will not return to pre-pandemic levels until the end of 2023. The sluggish economy will lead to deflationary trends.

For more information about the key indicators (GDP growth, unemployment rate and house price index) of the three scenarios see Note 43.4.

NOTE 4 – NET INTEREST AND SIMILAR INCOME

	2021 MHUF	Reclassified 2020 MHUF
Financial assets at amortised cost	99 261	92 793
Financial assets at fair value through other comprehensive income	2 881	2 950
Positive interest on financial liabilities	10 181	1 769
Interest income calculated using the effective interest method	112 323	97 512
Financial assets held for trading	78	99
Financial assets mandatorily fair value through profit or loss other than held for trading	7 484	3 624
Asset/liability management derivatives	1 374	1 329
Hedging derivatives	14 307	11 305
Interest and similar income from financial lease	2 036	1 916
Other similar income	25 279	18 273
Total interest and similar income	137 602	115 785
Financial liabilities measured at amortised cost	(12 510)	(13 289)
Other	(1)	-
Negative interest on financial assets	(1 103)	(1 427)
Interest expense calculated using the effective interest method	(13 614)	(14 716)
Asset/liability management derivatives	(4 325)	(1 271)
Hedging derivatives	(12 993)	(9 092)
Other financial liabilities at fair value through profit or loss	(744)	(1 388)
Interest and similar expense of defined benefit plans	(6)	(7)
Interest and similar expense from financial lease	(972)	(892)
Other similar expense	(19 040)	(12 650)
Total interest and similar expense	(32 654)	(27 366)
Net interest and similar income	104 948	88 419

The Bank recorded HUF 176 million interest income (unwinding discount effect) on impaired assets in 2021 (HUF 98 million in 2020).

NOTE 5 – NET FEE AND COMMISSION INCOME

	2021 MHUF	Reclassified 2020 MHUF
Credit and guarantee fee income	5 113	4 485
Structured finance	49	38
Total fee income related to financial instruments not at fair value through profit or loss	5 162	4 523
Brokerage services	9 305	5 488
Trust and fiduciary activities	2 507	5 260
Payment services	55 866	51 119
Card services	18 154	15 930
Other	4 487	4 307
Fee and commission income	95 481	86 627
Brokerage services	(511)	(895)
Credit and guarantee fee expense	(3 459)	(2 860)
Commissions to agents	(1 030)	(692)
Structured finance	-	(21)
Payment transactions	(5 874)	(5 465)
Card services	(9 245)	(8 385)
Insurance commissions	(4 047)	(3 708)
Other	(796)	(553)
Fee and commission expense	(24 962)	(22 579)
Net fee and commission income	70 519	64 048

Front-end fees related to financial assets at amortised cost (loans and receivables) are part of the effective interest rate method calculation and are recorded as interest income or expenses over the life of the underlying asset.

Although the Bank is in the scope of IFRS 15, the disclosures prescribed by the standard are not presented due to immateriality.

NOTE 6 – NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 MHUF	2020 MHUF
Trading securities	127	143
Interest rate derivatives (including interest and fair value changes in trading derivatives)	13 657	(1 101)
Other financial liabilities designated at fair value through profit or loss	350	793
Mandatorily at fair value through profit or loss other than held for trading	(12 368)	5 269
Foreign exchange trading (including interest and fair value changes in trading foreign exchange derivatives)	32 581	(18 843)
Fair value adjustments in hedge accounting*	(590)	270
Net gains / (losses) from financial instruments at fair value through profit or loss	33 757	(13 469)

The result of foreign exchange trading and the line item of foreign exchange differences in the income statement compensate each other, the net result of foreign exchange amounted to HUF 18 095 million gain in 2021 (HUF 13 779 million gain in 2020).

*Results of cash flow hedge derivatives transferred from other comprehensive income to the income statement amounted to HUF 538 million loss in 2021 (HUF 385 million gain in 2020) and HUF 52 million loss was recorded as the unrealised revaluation of the ineffective cash flow hedge transactions (HUF 115 million loss in 2020).

The change in the fair value of financial instruments at fair value through profit or loss, where the fair value calculation is based on non-observable parameters was HUF 16 348 million loss in 2021 (HUF 184 million gain in 2020).

NOTE 7 – NET REALISED GAINS FROM SECURITIES AT FAIR VAUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 MHUF	2020 MHUF
Fixed-income assets	624	215
Net realised gains from fixed income assets	624	215

In 2020 the Bank converted a part of its Visa Inc. C series preferred shares into A series since Visa Inc. plan to revoke the C series. In 2021 the Bank sold the converted shares. Due to the disposal a gain of HUF 217 million was transferred from revaluation reserve of equity instruments to accumulated profit in 2021 (see statement of changes in equity).

NOTE 8 – DIVIDEND INCOME

The Bank recognised HUF 11 699 million dividend income in 2021 (HUF 2 478 million in 2020).

	2021 MHUF	2020 MHUF
K&H Tanácsadó Zrt.	11 248	2 309
K&H Csoportszolgáltató Kft	44	33
K&H Ingatlanlízing Zrt.	117	121
K&H Faktor Zrt.	270	-
VISA Inc.	21	15
Total dividend income	11 700	2 478

NOTE 9 – GAINS ON THE DISPOSAL OF ASSETS AT AMORTISED COST

	2021 MHUF	2020 MHUF
Loss on the disposal of debt securities	(718)	-
Gain on the disposal of loans and advances	4 222	2 685
Gain on the disposal of assets at amortised cost	3 504	2 685

The disposals were not in contradiction with the concerned business model.

NOTE 10 – OTHER INCOME AND EXPENSE

	2021 MHUF	2020 MHUF
Gain on property, plant and equipment	619	536
Gain on sale of goods	31	126
Gain on other services	423	790
Recoveries related to operational risk	70	11
Other income - other	789	515
Gain on the sale of associated companies	-	-
Other income	1 932	1 978

The income of HUF 423 million reported as revenue on other services in 2021 (HUF 790 million 2020) results from finance and accounting, business management, technical, logistics and bank security services granted by the Bank to other KBC Group entities operating in Hungary.

NOTE 10 – OTHER INCOME AND EXPENSE (continued)

	2021 MHUF	2020 MHUF
Losses on property, plant and equipment	-	(12)
Losses due to operational risks	(1 267)	(293)
Other expense - other	(273)	(652)
Other expense	(1 540)	(957)

NOTE 11 – GENERAL ADMINISTRATIVE EXPENSES

	2021 MHUF	2020 MHUF
IT expenses	(13 875)	(13 002)
Rental expenses	478	567
Repair and maintenance	(1 910)	(2 201)
Marketing expenses	(1 170)	(1 106)
Professional fees	(2 829)	(2 785)
Other facilities expenses	(4 201)	(4 224)
Communication expenses	(25)	(25)
Travel expenses	(14)	(19)
Training expenses	(313)	(164)
Personnel related expenses	(249)	(267)
Financial transaction levy	(29 438)	(26 206)
Other administrative expenses	(6 819)	(5 861)
Other provision	6	(471)
Total general administrative expenses	(60 359)	(55 764)

NOTE 12 – BANK TAX

The Bank paid a bank tax of HUF 6 331 million in 2021 (HUF 5 708 million in 2020). The basis of the tax amounted to HUF 3 177 525 million for 2021 (HUF 2 886 471 million for 2020). The effective tax rate was 0,199 percent in 2021 (0,198 percent in 2020).

The bank tax payable by the Bank for the year 2021 is calculated as follows.

For credit institutions the tax base includes the total asset value as at 31 December 2019, less:

- Hungarian interbank loan receivables, including bank deposits and repo transactions;
- bonds and shares issued by Hungarian credit institutions, financial enterprises and investment enterprises;
- loan receivables, subordinated and supplementary subordinated loan receivables with respect to capital provided to Hungarian financial enterprises and investment enterprises (including receivables under repos, collateralized repos, repos settled in kind);
- receivables deriving from EU inter-bank credits, bonds and shares issued by other credit institutions.

In 2020 the tax base of credit institutions was the total asset value as at 31 December 2018 adjusted by the above mentioned decreasing items.

NOTE 12 – BANK TAX (continued)

The bank tax for credit institutions is payable at 0.15% on tax base below HUF 50 000 million and 0.20% on tax base above HUF 50 000 million in 2021 (0.15% and 0.20% in 2020).

The bank tax for the Bank is expected to be HUF 8 015 million in 2022. In 2022 the tax base of credit institutions is the total asset value as at 31 December 2020 adjusted by the above mentioned decreasing items.

For the Bank the liability of HUF 8 015 million is established on January 1, 2022.

The sector of financial institutions was obligated to pay an extra tax related to the Covid-19 crises. The tax base is the same as in case of the bank tax and it is calculated on the tax base above HUF 50 000 million applying a tax rate of 0.19%. The Group paid an extra tax of HUF 4 281 million in 2021 (HUF 5 351 million in 2020) which is not recorded as tax expense in the income statement since banks are allowed to deduct it from their bank tax in the upcoming 5 years.

NOTE 13 – AVERAGE NUMBER OF PERSONNEL AND STAFF EXPENSES

	2021	2020
White-collar staff	3 074	3 169
Management	44	38
Total average number of persons employed	3 118	3 207

	2021 MHUF	2020 MHUF
Wages and salaries	25 028	22 989
Social security charges	5 093	5 369
Defined benefit plan	(17)	(25)
Share based payments	78	56
Other staff expenses	2 134	2 697
Total staff expenses	32 316	31 086

NOTE 14 – INCOME TAXES

The components of income tax expense for the year ended 31 December 2021 and 2020 are:

	Notes	2021 MHUF	2020 MHUF
Statutory income tax expense		(7 073)	(3 287)
Statutory income tax from self-revision of prior years		10	(83)
Local business tax expense		(5 926)	(4 617)
Deferred taxes on income	27	(85)	366
Income tax (expense) / benefit		(13 074)	(7 621)

NOTE 14 – INCOME TAXES (continued)

Statutory income tax expense

In 2021 and 2020 corporate income tax was payable at 9% on yearly profits.

Considered their non-turnover characteristics, local business taxes are presented as an income tax expense for IFRS purposes. Local business taxes include local government tax and innovation tax.

There is no procedure for final agreement of tax assessments in Hungary. The tax authorities may examine the accounting records and revise assessments for up to six years after the period to which they relate. Consequently, the Bank may be subject to further assessments in the event of an audit by the tax authorities The corporate tax returns for the Bank have been reviewed and closed off by the taxation authorities for the years up to 2017. Management is not aware of any additional significant non-accrued potential tax liability which might arise relating to years not audited by the tax authorities.

The effective income tax rate varied from the statutory income tax rate due to the following items:

	2021 MHUF	2020 MHUF
Profit / (loss) before tax	97 481	40 074
Income tax rate	9,00%	9,00%
Income tax calculated	(8 773)	(3 607)
Plus/minus tax effects attributable to:		
Tax base decreasing items	1 491	913
Adjustments related to prior years	10	(83)
Local taxes and investment services tax	(5 926)	(4 617)
Tax base increasing items	124	(346)
Other	-	119
Total tax effects	(4 301)	(4 014)
Income tax expense (income tax calculated + total tax effects)	(13 074)	(7 621)

The effective income tax rate for 2021 is 13.41% (2020: 19.02%).

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY PORTFOLIO AND PRODUCT

	Held for trading	Mandatorily fair value through profit or loss	At fair value through other comprehensive income	At amortised cost*	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets at 31 December 2021						
Securities	902	-	69 523	1 002 750	-	1 073 175
Loans and advances	-	206 014	-	3 661 254	-	3 867 268
Derivatives	85 187	-	-	-	71 513	156 700
Total	86 089	206 014	69 523	4 664 004	71 513	5 097 143

	Held for trading	Mandatorily fair value through profit or loss	At fair value through other comprehensive income	At amortised cost*	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets at 31 December 2020						
Securities	564	-	112 299	987 119	-	1 099 982
Loans and advances	-	139 570	-	2 860 953	-	3 000 523
Derivatives	66 638	-	-	-	25 465	92 103
Total	67 202	139 570	112 299	3 848 072	25 465	4 192 608

*Including cash balance with central banks and other demand deposits to credit institutions.

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

	Held for trading	Designated at fair value through profit or loss	Hedging derivatives	Measured at amortised cost	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities as at 31 December 2021					
Deposits from central banks	-	-	-	266 692	266 692
Deposits from credit institutions and investment firms*	-	-	-	708 531	708 531
Deposits from customers and debt certificates	-	5 701	-	3 651 020	3 656 721
Deposits from customers	-	5 396	-	3 603 940	3 609 336
Demand deposits	-	-	-	3 086 832	3 086 832
Time deposits	-	5 396	-	156 530	161 926
Savings deposits	-		-	360 578	360 578
Debt certificates	-	305	-	47 080	47 385
Certificates of deposits	-	-	-	232	232
Non-convertible bonds	-	305	-	-	305
Non-convertible subordinated liabilities	-	-	-	46 848	46 848
Derivatives	69 479	-	98 558	-	168 037
Other				15 772	15 772
Total carrying value	69 479	5 701	98 558	4 642 015	4 815 753

*Of which HUF 51 336 million is deposits from banks repayable on demand.

Deposits from credit institutions and investment firms includes repo transactions of HUF 105 444 million.

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

	Held for trading	Designated at fair value through profit or loss	Hedging derivatives	Measured at amortised cost	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities as at 31 December 2020					
Deposits from central banks	-	-	-	247 198	247 198
Deposits from credit institutions and investment firms*	-	-	-	299 475	299 475
Deposits from customers and debt certificates	-	33 051	-	3 264 147	3 297 198
Deposits from customers	-	29 513	-	3 217 565	3 247 078
Demand deposits	-	-	-	2 746 833	2 746 833
Time deposits	-	29 513	-	146 660	176 173
Savings deposits	-	-	-	324 072	324 072
Debt certificates	-	3 538	-	46 582	50 120
Certificates of deposits	-	-	-	232	232
Non-convertible bonds	-	3 538	-	-	3 538
Non-convertible subordinated liabilities	-	-	-	46 350	46 350
Derivatives	64 168	-	24 365	-	88 533
Other	-	-	-	17 450	17 450
Total carrying value	64 168	33 051	24 365	3 828 270	3 949 854

*Of which HUF 43 428 million is deposits from banks repayable on demand.

Deposits from credit institutions and investment firms includes repo transactions of HUF 15 458 million.

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Details of financial instruments

Securities

Debt securities at fair value through other comprehensive income and at amortised cost are performing, non-past due bonds classified as stage 1 under IFRS 9.

The breakdown of securities is presented in the tables below.

	2021 MHUF	2020 MHUF
Held for trading		
Hungarian Treasury bills	38	20
Hungarian government bonds issued in HUF	862	544
Hungarian government bonds issued in foreign currency	2	-
Total held for trading securities	902	564

	2021			2020		
	Gross carrying amount MHUF	Fair value adjust-ment MHUF	Impair-ment MHUF	Gross carrying amount MHUF	Fair value adjust-ment MHUF	Impair-ment MHUF
Fair value through other comprehensive income						
Hungarian government bonds issued in HUF	66 412	(5 530)	(39)	107 997	5 986	(59)
Hungarian government bonds issued in foreign currency	-	-	-	-	-	-
Listed equity instrument	1 616	1 123	-	3 231	1 189	-
Unlisted equity instruments	646	-	-	646	-	-
Mortgage bonds	370	-	-	-	-	-
Bond issued by non-financial corporations in HUF	518	-	-	485	-	(1)
Total fair value through other comprehensive income	69 562	(4 407)	(39)	112 359	7 175	(60)

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

FVOCI equity instruments contain as at 31 December 2021 unlisted equity instruments in a value of HUF 646 million (HUF 645 million at the end of 2020) for which a fair value cannot be measured reliably. These investments are not traded on active markets. Management believes that the carrying value of the investments held at cost approximates their fair value.

The fair value of the Bank’s investment in Visa Inc. (class C shares in 2021) is presented as listed equity instrument in the table above.

These FVOCI investments contain long term investments in companies where the Bank does not have significant influence.

FVOCI investments disclosed on their net carrying amount are:

	2021 MHUF	2020 MHUF
Garantiqa Hitelgarancia Zrt.	640	640
SWIFT S.C.	6	5
	646	645

The Bank recorded HUF 6 025 million loss after tax in other comprehensive income as a result of the fair value revaluation of FVOCI debt securities in 2021 (HUF 419 million losses after tax for in 2020).

The unrealised result of FVOCI debt securities is cumulatively HUF 1 901 million loss after tax as at 31 December 2021 (HUF 4 700 million gain as at 31 December 2020).

Debt securities at amortised cost consisted of the following types of securities.

	2021 MHUF		2020 MHUF	
	Gross carrying amount MHUF	Impair-ment MHUF	Gross carrying amount MHUF	Impair-ment MHUF
At amortised cost				
Government bonds issued in HUF	848 924	(488)	899 070	(568)
Government bonds issued in foreign currency	111 078	(66)	67 749	-
Bonds issued by municipality issued in HUF	186	(4)	260	-
Bonds issued by financial corporations in HUF	8 075	-	8 950	(5)
Bonds issued by non-financial corporations in HUF	35 064	(18)	11 695	(30)
Total at amortised cost	1 003 327	(576)	987 724	(603)

Bonds issued by financial corporations include bonds issued by the Investor Protection Fund of Hungary.

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

The Bank participated in the Bond Funding for Growth Scheme (BGS) launched by Hungarian National Bank with the aim of developing local bond market, boosting securitization of existing loans and diversifying the funding structure of corporate sector. Within the framework of the scheme, Hungarian National Bank purchases bonds in both the primary and secondary markets.

Assets pledged as collateral for liabilities and contingent liabilities

	Note	2021		2020	
		Asset pledged MHUF	Related liability MHUF	Asset pledged MHUF	Related liability MHUF
Assets pledged for:					
Hungarian government bonds pledged for repo liabilities	17	106 796	105 445	15 357	15 458
Hungarian government bonds pledged for Funding for Growth Scheme launched by the Hungarian National Bank	15	252 477	236 145	231 303	247 198
Other demand deposit with credit institutions pledged for derivative transactions	17	38 065	168 041	31 625	88 533
Hungarian government bonds pledged for clearing transactions		93 362	-	72 530	-
Mortgage loans pledged for Issued mortgage bonds	15	164 396	155 000	180 225	148 000
Total		655 096	664 631	531 040	499 189

Assets pledged as collateral for refinancing credits, derivatives and clearing transactions contain cash and cash equivalents and securities. These assets are not transferred to the counterparty. In case of derivatives the terms and conditions of collateral settlement are defined in separate CSAs (Credit Support Annexes) between the counterparties. In case of securities the collateral requirement is defined on portfolio basis and it is held in custody at a central clearing house (KELER).

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

The following table presents the breakdown of financial assets mandatorily at fair value through profit or loss and at amortised cost by portfolio and product as at 31 December 2021.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2021*						
Central bank and credit institutions	4 060	-	4 060	1 837 474	(51)	1 837 423
General government	7	-	7	50 264	(668)	49 596
Corporate	37	-	37	1 044 725	(19 446)	1 025 279
of which: Small and Medium enterprises	5	-	5	660 964	(11 075)	649 889
Households	202 247	(337)	201 910	768 284	(19 328)	748 956
Consumer credit	140 853	(213)	140 640	107 436	(5 919)	101 517
Credit card	-	-	-	6 360	(256)	6 104
Current account	-	-	-	10 796	(1 345)	9 451
Finance lease	-	-	-	3 016	(28)	2 988
Mortgage loan	61 394	(124)	61 270	618 662	(11 440)	607 222
Term loan	-	-	-	22 014	(340)	21 674
Total	206 351	-337	206 014	3 700 747	(39 493)	3 661 254

For details of the valuation method of loans and advances mandatorily at fair value through profit or loss see Note 18.

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

The following table presents the breakdown of financial assets mandatorily at fair value through profit or loss and at amortised cost by portfolio and product as at 31 December 2020.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2020*						
Central bank and credit institutions	4 032	-	4 032	1 158 548	(39)	1 158 509
General government	34	-	34	82 003	(405)	81 598
Corporate	1 746	-	1 746	972 921	(27 298)	945 623
of which: Small and Medium enterprises	36	-	36	580 753	(13 856)	566 897
Households	133 869	(111)	133 758	697 282	(22 059)	675 223
Consumer credit	99 312	(5)	99 307	88 473	(2 458)	86 015
Credit card	-	-	-	5 880	(117)	5 763
Current account	-	-	-	10 859	(1 111)	9 748
Finance lease	-	-	-	3 470	(36)	3 434
Mortgage loan	34 557	(106)	34 451	565 778	(17 900)	547 878
Term loan	-	-	-	22 822	(437)	22 385
Total	139 681	(111)	139 570	2 910 754	(49 801)	2 860 953

*From the total balance of loans and advances to Central bank and credit institutions HUF 424 583 million is either repayable on demand or is maturing in less than 90 days (HUF 601 192 million in 2020). Reverse repo transactions amounted to HUF 52 700 million in 2021 (in 2020: HUF 25 399 million).

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Refinancing credits

The Bank has entered into several refinancing credit facilities with financial institutions (such as Takarékbank, MFB – Development Bank, EXIM Bank) for the purpose of funding portions of the Bank's activities. There are several covenants governing the determination of qualified recipients, the on-going monitoring process of the ultimate recipients and the repayment process. In all cases the Bank assumes all credit risk related to the ultimate borrower and must check compliance with all covenants.

The Hungarian National Bank (MNB) launched a program called Funding for Growth Scheme in 2013. The aim of the program is the refinancing of small and medium enterprises (SME) through the Hungarian bank system. The MNB funds the credit institutions attending the program through below market rate refinancing loans during a temporary period and in a limited amount. These funds are used by the credit institutions for granting credits to SMEs with similar, favourable conditions for pre-determined purposes. The maximum maturity of the refinancing loans is 10 years at initiation and it corresponds to the maturity of the loans granted to the customers.

The latest phase of Funding for Growth Scheme launched in April 2021 aims to help SMEs and corporations to mitigate the negative financial effects of the Covid-19 crises. The scheme makes financial funds available to micro-, small and medium-sized businesses through credit institutions and financial businesses at a fixed interest rate of a maximum 2.5%. The maximum tenor of the loans is set at 20 years. In a further easing of terms compared to previous phases of the scheme, it will be possible to draw down loans within three years from the signing of the contract. The minimum loan amount is reduced to HUF 1 million and the maximum loan amount per one SME is HUF 20 000 million. Financial institutions must assess loan applications within two weeks from the availability of the necessary information.

At 31 December 2021 and 2020, Management believes that the Bank is in compliance with all covenants. Refinancing credits are presented as financial liabilities at amortised cost in the statement of financial position.

In 2021 the Funding for Growth Scheme was closed.

	2021		2020	
	Liabilities	**Assets**	**Liabilities**	**Assets**
	MHUF	**MHUF**	**MHUF**	**MHUF**
Refinancing credits in the frame of the Funding for Growth Scheme	236 145	221 292	247 198	211 112
Other refinancing credits	292 040	140 206	236 514	95 204
Total refinancing credits	528 185	361 498	483 712	306 316

Non-convertible subordinated liabilities

	2021	2020
	MHUF	**MHUF**
Subordinated loan from KBC Group	46 848	46 350

In June 2006, the Bank borrowed EUR 60 million (HUF 22 140 million in 2021 and HUF 21 908 million in 2020) of subordinated debt from KBC Bank N.V. Dublin branch, a member of the KBC Group. In 2014 KBC Bank N.V. has taken over the facility from its branch. In March 2015 the loan's original maturity of 30 June 2016 was extended with 10 years. The loan bears a variable interest rate of 3 month-EURIBOR plus 2.70 percent per annum.

NOTE 15 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

In September 2015 the Bank agreed on an additional subordinated debt of EUR 30 million (HUF 11 070 million in 2021 and HUF 10 954 million in 2020) with KBC Bank N.V. with conditions of 10 years maturity and a variable interest rate of 3 month-EURIBOR plus 3.05 percent per annum.

The third subordinated loan contract between the Bank and KBC Bank N.V. was made in December 2017. KBC Bank N.V. granted an additional EUR 37 million (HUF 13 653 million in 2021 and HUF 13 510 million in 2020) loan to the Bank with a maturity of 10 years and a variable interest rate of 3 months-EURIBOR plus 1.53 percent per annum.

Non-convertible subordinated liabilities are presented as financial liabilities at amortised cost in the statement of financial position.

NOTE 16 – TRANSFERRED FINANCIAL ASSETS

The following table includes transferred financial assets continued to be recognised in their entirety.

	2021		2020	
	Carrying amount of transferred asset	Carrying amount of associated liability	Carrying amount of transferred asset	Carrying amount of associated liability
	MHUF	MHUF	MHUF	MHUF
Held-for-trading debt instruments	52 568	52 700	1 802	1 833
Debt securities at amortised cost	54 228	52 744	10 004	10 101
Debt securities at fair value through other comprehensive income			3 551	3 524
Total transferred assets and associated liabilities	106 796	105 444	15 357	15 458

Repo and reverse repo agreements

Under reverse repo transactions, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity, which generates a liability recorded as financial liability held at amortised cost in the financial position. The Bank recorded a HUF 52 700 million reverse repo transaction as at 31 December 2021 (in 2020 HUF 25 399 million).

The terms of repos and reverse repo transactions are less than three months and the interest rate is based on HUF interbank rates (BUBOR).

The Bank has no associated liabilities which have recourse limited only to the transferred assets.

NOTE 17 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following tables present the financial assets and liabilities which are subject to enforceable master netting agreements as at 31 December 2021:

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial assets	Gross amount of financial liabilities set off	Net amounts of financial assets	Financial instruments	Cash collateral received	Securities collateral received	Net amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives	156 700	-	156 700	124 373	1 816	-	30 511
Reverse repurchase agreements	52 700	-	52 700	-	-	52 687	22
Total financial assets subject to offsetting or master netting agreements	209 400	-	209 400	124 373	1 816	52 687	30 533

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial liabilities	Gross amount of financial assets set off	Net amounts of financial liabilities	Financial instruments	Cash collateral pledged	Securities collateral pledged	Net amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives	168 041	-	168 041	124 373	38 065	-	5 603
Repurchase agreements	105 445	-	105 445	-	-	106 796	(1 351)
Total financial liabilities subject to offsetting or master netting agreements	273 486	-	273 486	124 373	38 065	106 796	4 252

NOTE 17 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following tables present the financial assets and liabilities which are subject to enforceable master netting agreements as at 31 December 2020:

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial assets	Gross amount of financial liabilities set off	Net amounts of financial assets	Financial instruments	Cash collateral received	Securities collateral received	Net amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives	92 102	-	92 102	67 866	1 920	-	22 316
Reverse repurchase agreements	25 399	-	25 399	-	-	25 291	108
Total financial assets subject to offsetting or master netting agreements	117 501	-	117 501	67 866	1 920	25 291	22 424

	Amounts presented in the statement of financial position			Amounts not set off in the statement of financial position			
	Gross amount of recognised financial liabilities	Gross amount of financial assets set off	Net amounts of financial liabilities	Financial instruments	Cash collateral pledged	Securities collateral pledged	Net amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Derivatives	88 533	-	88 533	67 866	19 568	16	1 083
Repurchase agreements	15 458	-	15 458	-	-	15 357	103
Total financial liabilities subject to offsetting or master netting agreements	103 991	-	103 991	67 866	19 568	15 373	1 186

NOTE 17 – OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES (continued)

Derivatives, repurchase and reverse repurchase agreements are subject to different netting agreements as ISDA (International Swaps and Derivatives Association) Master Agreements, CSAs (Credit Support Annex) and GMRAs (Global Master Repurchase Agreement) in case of institutional clients (credit institutions and investment firms) or treasury limits in case of corporate customers.

Financial assets and liabilities subject to master netting agreements are not netted in the statement of financial position, since the Bank has no intention to settle these instruments on a net basis in the normal course of business.

Given cash collaterals are recognised in the loans-and-receivables portfolio as loans and advances to credit institutions and investment firms repayable on demand. Cash collaterals received are included in financial liabilities held on amortised cost and are recognised as demand deposits from credit institutions and investment firms.

Securities collaterals received are not recorded in the consolidated statements of financial position. Securities collaterals pledged are recognised in the consolidated statement of financial position in the appropriate portfolio (and are presented as assets pledged as collateral for liabilities and contingent liabilities in Note 15).

NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table below presents information concerning the fair value of financial assets and liabilities for year 2021:

	Fair value							
	Quoted market price (level 1)	**Valuation techniques - observable inputs (level 2)**	**Valuation techniques -un-observable inputs (level 3)**	**Total fair value**	**Total carrying amount**	**Accumulated difference between FV and carrying amount not recognised in PL or equity**	**Recognised in other comprehensive income: un- observable input**	**Recognised in profit or loss un-observable inputs***
	MHUF	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**
Cash and cash balances with central banks and other demand deposits with credit institutions	63 510	203 082	-	266 592	266 591	-	-	-
Financial assets	962 698	1 703 781	2 118 239	4 784 718	4 894 062	(109 344)	166	(11 947)
Held for trading	49	81 177	4 863	86 089	86 089	-	-	4 436
Debt securities	28	874	-	902	902	-	-	-
Derivatives	21	80 303	4 863	85 187	85 187	-	-	4 436
Fair value through other comprehensive income	66 379	882	2 262	69 523	69 523	-	166	-
Equity instruments	6	-	2 262	2 268	2 268	-	166	-
Debt securities	66 373	882	-	67 255	67 255	-	-	-
Measured at amortised cost	896 270	1 546 149	1 909 160	4 351 579	4 460 923	(109 344)	-	-
Debt securities	896 270	44 882	186	941 338	1 002 750	(61 412)	-	-
Loans and advances	-	1 501 267	1 908 974	3 410 241	3 458 173	(47 932)	-	-
Mandatorily at fair value through profit or loss other than held for trading	-	4 060	201 954	206 014	206 014	-	-	(16 383)
Hedging derivatives	-	71 513	-	71 513	71 513	-	-	-
Total financial assets and cash and cash balances with central banks and other demand deposits with credit institutions	1 026 208	1 906 863	2 118 239	5 051 310	5 160 653	(109 344)	166	(11 947)
Financial liabilities								
Held for trading derivatives	73	64 442	4 964	69 479	69 479	-	-	(4 401)
Fair value option	-	5 701	-	5 701	5 701	-	-	-
Deposits	-	5 396	-	5 396	5 396	-	-	-
Debt certificates	-	305	-	305	305	-	-	-
Measured at amortised cost	-	512 319	4 107 183	4 619 502	4 642 014	22 512	-	-
Deposits	-	462 724	4 091 411	4 554 135	4 579 162	25 027	-	-
Debt certificates	-	49 595	-	49 595	47 080	(2 515)	-	-
Other	-	-	15 772	15 772	15 772	-	-	-
Hedging derivatives	-	98 558	-	98 558	98 558	-	-	-
Total financial liabilities	73	681 020	4 112 147	4 793 240	4 815 752	22 512	-	(4 401)

*Recognised as Net gains / (losses) from financial instruments at fair value through profit or loss in the income statement.

NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The table below presents information concerning the fair value of financial assets and liabilities for year 2020:

	Fair value							
	Quoted market price (level 1)	Valuation techniques - observable inputs (level 2)	Valuation techniques -un-observable inputs (level 3)	Total fair value	Total carrying amount	Accumulated difference between FV and carrying amount not recognised in PL or equity	Recognised in other comprehensive income: un- observable input	Recognised in profit or loss un-observable inputs*
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Cash and cash balances with central banks and other demand deposits with credit institutions	71 154	319 891	-	391 045	391 045	-	-	-
Financial assets	1 141 743	972 946	1 826 474	3 941 163	3 872 717	68 446	373	6 014
Held for trading	13	61 495	5 694	67 202	67 202	-	-	4 512
Debt securities	-	564	-	564	564	-	-	-
Derivatives	13	60 931	5 694	66 638	66 638	-	-	4 512
Fair value through other comprehensive income	109 315	889	2 095	112 299	112 299	-	373	-
Equity instruments	1 782	-	2 095	3 877	3 877	-	373	-
Debt securities	107 533	889	-	108 422	108 422	-	-	-
Measured at amortised cost	1 032 415	881 065	1 683 147	3 596 627	3 528 181	68 446	-	-
Debt securities	1 032 415	20 616	260	1 053 291	987 119	66 172	-	-
Loans and advances	-	860 449	1 682 887	2 543 336	2 541 062	2 274	-	-
Mandatorily at fair value through profit or loss other than held for trading	-	4 032	135 538	139 570	139 570	-	-	1 502
Hedging derivatives	-	25 465	-	25 465	25 465	-	-	-
Total financial assets and cash and cash balances with central banks and other demand deposits with credit institutions	1 212 897	1 292 837	1 826 474	4 332 208	4 263 762	68 446	373	6 014
Financial liabilities								
Held for trading derivatives	16	58 490	5 662	64 168	64 168	-	-	(4 480)
Fair value option	-	33 051	-	33 051	33 051	-	-	-
Deposits	-	29 513	-	29 513	29 513	-	-	-
Debt certificates	-	3 538	-	3 538	3 538	-	-	-
Measured at amortised cost	-	142 008	3 688 435	3 830 443	3 828 270	(2 173)	-	-
Deposits	-	95 512	3 670 985	3 766 497	3 764 238	(2 259)	-	-
Debt certificates	-	46 496	-	46 496	46 582	86	-	-
Other	-	-	17 450	17 450	17 450	-	-	-
Hedging derivatives	-	24 365	-	24 365	24 365	-	-	-
Total financial liabilities	16	257 914	3 694 097	3 952 027	3 949 854	(2 173)	-	(4 480)

*Recognised as Net gains / (losses) from financial instruments at fair value through profit or loss in the income statement.

NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Hungarian government bonds have quoted market price except for some treasury bills and bonds maturing within 3 months, which are valued based on BUBOR yield curve within 3 months maturity. In 2021 no debt instruments were transferred from Quoted market price to Valuation techniques-market observable inputs category due to this change in valuation (nor in 2020).

The following evaluation tables present the change in the fair value of financial instruments for which no market observable inputs are available.

Financial assets	**Held-for trading-derivatives**	**Mandatorily fair value through profit or loss**	**Fair value other comprehensive income**	**Total**
	MHUF	**MHUF**	**MHUF**	**MHUF**
Balance as at 31 December 2020	5 694	135 538	1 450	142 682
Net gains / (losses)				
In profit or loss	(6)	(16 383)	-	(16 389)
In other comprehensive income	-	-	166	166
Acquisitions	4 442	95 426	-	99 868
Settlement	(5 267)	(13 045)	-	(18 312)
Other	-	418	-	418
Balance as at 31 December 2021	4 863	201 954	1 616	208 433

NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets	Held-for trading-derivatives	Mandatorily fair value through profit or loss	Fair value other comprehensive income	Total
	MHUF	MHUF	MHUF	MHUF
Balance as at 31 December 2019	4 347	65 463	2 423	72 233
Net gains / (losses)				
In profit or loss	2 271	1 502	-	3 773
In other comprehensive income	-	-	373	373
Acquisitions	2 241	74 714	-	76 955
Settlement	(3 165)	(9 621)	(1 346)	(14 132)
Other	-	3 480	-	3 480
Balance as at 31 December 2020	5 694	135 538	1 450	142 682

Financial liabilities	Held-for-trading derivatives
	MHUF
Balance as at 31 December 2020	5 662
Net (gains) / losses	
In profit or loss	(18)
Acquisitions	4 419
Settlement	(5 099)
Balance as at 31 December 2021	4 964

NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities	Held-for-trading derivatives MHUF
Balance as at 31 December 2019	4 357
Net (gains) / losses	
In profit or loss	2 272
Acquisitions	2 208
Settlement	(3 175)
Balance as at 31 December 2020	5 662

Fair value of financial instruments

Financial instruments at fair value

Held-for-trading instruments, financial instruments designated at fair value through profit or loss, financial assets mandatorily at fair value through profit or loss, financial assets at fair value through other comprehensive income and hedging derivatives are carried at their fair value.

Financial instruments which have an active market with regularly published price quotations are marked to market. Usually treasury bills, Hungarian government bonds, other listed bonds and listed equity instruments belong to this category, excluding Hungarian government bonds denominated in HUF and maturing within 3 months, premium Hungarian government bonds denominated in EUR, bonus Hungarian government bonds denominated in HUF and some treasury bills. There are no price quotations for Hungarian government bonds denominated in HUF and maturing within 3 months therefore they are valued based on BUBOR yield curve within 3 months maturity. For premium Hungarian government bonds denominated in EUR no active secondary market exists therefore they are valued at the price quoted at issuance. Since the Government grants the repurchase of the bonds at the issuance price Management believes that the carrying amount of these bonds approximates their fair value.

If there is no active market or quoted prices for a financial instrument then valuation techniques based on observable market parameters are used, such as discounted cash flow analysis or option pricing models. Bonus Hungarian government bonds denominated in HUF, most of the financial liabilities designated at fair value through profit or loss and most of the derivatives are valued based on these techniques, such as currency forwards and swaps, foreign exchange and interest rate options, cross currency- and interest rate swaps and forward rate agreements.

When market parameters are not available, the Bank uses its best estimations and assumptions to determine the relevant circumstances which have to be taken into account during the model valuation. Valuation techniques based on unobservable market parameters are used in case of held-for-trading exotic derivatives.

Exotic derivatives are primarily revalued by built-in models of the front office system using market observable parameters. For which no system model exists, there are two alternatives; (1) position is either back-to-back hedged, and the Bank accepts the hedging partner prices (when hedging bank acts as valuation agent) or (2) valuation is based on internal model based best estimates (e.g. in case of municipality bonds embedded swaption valuation).

The Bank provides exotic derivatives on back to back basis, accordingly immaterial result is recorded on held-for-trading exotic derivatives in the income statement. From the same reason, applying alternative assumptions for the fair value calculation would cause no result in the income statement.

NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The calculation of the fair value of Visa Inc. preferred shares is based on the amount of shares the Bank holds, the conversion rate to Visa Inc. listed shares, the Visa Inc. share price as listed on the New York Stock Exchange and the illiquidity discount. An increase or decrease of 10 bp in the level 3 component (illiquidity gap) of the fair value model of Visa shares increases or decreases the fair value of the shares by 0.12%.

For determination of the fair value of loan portfolios which failed the IFRS9 SPPI test the Bank applies a discounted cash-flow model for subsequent measurement. The estimates of expected cash-flows are based on stochastic model using historical demographical data. The Bank determines the fair value as the present value of the expected cash-flows to consider the time value and addition factors in the valuation model, such as impact of market rates, liquidity risk, credit risk, cost of capital, operational costs. For sensitivity analysis of the fair value see Note 43.3.

The difference between the fair value and the transaction price of financial instruments not recognised in profit or loss was immaterial at the end of the year in 2021 and 2020.

The following describes the methodology and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements.

FVOCI equity instruments held at cost

FVOCI equity instruments contain as at 31 December 2021 equity instruments in a value of HUF 646 million (HUF 645 million as at 31 December 2020) which fair value cannot be measured reliably.

Management believes that the carrying value of the investments held at cost approximates their fair value (for more information see Note 15).

Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets and financial liabilities measured at amortised cost

Debt securities at amortised cost include Hungarian government bonds issued in HUF and EUR. The fair value of Hungarian government bonds denominated in HUF and maturing over 3 months disclosed in this Note is calculated based on regularly quoted market prices, since these instruments have an active market. Hungarian government bonds denominated in HUF and maturing within 3 months are valued based on BUBOR yield curve within 3 months maturity. Hungarian government bonds issued in EUR have an active market with regularly published price quotations and are marked to market.

For premium Hungarian government bonds denominated in EUR no active secondary market exists therefore premium Hungarian government bonds are held at the price quoted at issuance in the statement of financial position. Since the Government grants the repurchase of the bonds at an exit price of 98% the Bank considers this exit price for calculation of the fair value in this note.

Bonus Hungarian government bonds denominated in HUF are valued by a valuation technique where the future cash flow is discounted by a curve calculated from IRS curves modified by asset swap and illiquidity spreads. Although illiquidity spread is non-market observable input, due to its immaterial effect in the fair value of the asset the bond is classified as financial instrument valued by valuation techniques – market observable inputs in the fair value hierarchy.

Municipality bonds were issued in HUF. There is an embedded option which assures that the municipality can change the denomination of the bond at any point of time during its duration to EUR or CHF at the spot rate of the conversion date. Nevertheless, the interest spread remains unchanged over the reference rate.

This optionality corresponds to a sold, deferred premium, American type multicurrency differential swaption from the Bank's point of view. Cross-currency swaption of this kind is an instrument for which no market value is available but its intrinsic value can be calculated from available market parameters. The value of the swaption is not material.

NOTE 18 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The municipality bond as such can be split to two components which fair values give the total fair value of the bond. The two instruments are (1) bonds and, (2) swaptions. The market value of the bonds is calculated using discounted present value of the future cash flows. The future cash flow of the bond is predicted by the default money market yield curve. The value of swaptions is calculated regularly.

There is no active market for these municipality bonds to get market observable parameters for the revaluation especially for credit spread which is a risk on the top of the Hungarian government bonds. To challenge the fair valuation model, the Bank uses a reasonably possible alternative assumption to increase the applied credit spread.

Municipality bonds did not fail the IFRS 9 SPPI test since the reference interest follows the concerned currency before and after the conversion as well.

For loans and advances and financial liabilities that are liquid or have a short term remaining maturity (less than one year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments. Fair value adjustments of refinanced loans with fixed or variable interest are included in unrecognised gain / (loss) of financial assets at amortised cost, fair value adjustments of refinancing liabilities with fixed or variable interest are included in unrecognised gain / (loss) of financial liabilities measured at amortised cost.

The estimated fair value of fixed interest bearing deposits with more than one year remaining maturity and refinancing liabilities (carried at amortised cost) is based on discounted cash flows using current interbank market yield curve appropriate for the remaining term to maturity.

The estimated fair value of fixed interest bearing assets with more than one year remaining maturity and refinanced loans (carried at amortised cost) is based on discounted cash flows using current interbank market yield curve appropriate for the remaining term to maturity which is adjusted with the average margin of the retail and corporate loan portfolio of the Bank to arrive at the estimated market yield curve of the asset.

The Bank believes that the carrying amount of the impaired loans is the best estimation of their fair value and therefore does not present any unrecognised gain or loss on impaired loans and advances in this Note.

NOTE 19 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 MHUF	2020 MHUF
Financial assets mandatorily at fair value through profit or loss		
Loans to customers	206 014	139 570
	206 014	139 570

Loans to customers measured mandatorily at fair value through profit and loss include customer loans which failed the SPPI test at the IFRS9 transition due to their interest conditions. In 2020 the significant increase is primarily attributable to the state subsidized loan (prenatal baby support loan).

	2021 MHUF	2020 MHUF
Financial liabilities designated at fair value through profit or loss		
Term deposits:		
- retail	19	126
- corporate	3 350	2 187
- investment funds	2 027	27 200
Other issued bonds	305	3 538
	5 701	33 051

In 2007 the Bank established a bond issuance program. The Bank, as issuer sells dematerialised bonds via public placement. The bonds may be denominated in HUF, EUR or USD. The maturities are between 60 days and 20 years with the interest rates being fixed or floating, linked to an index (equity, currency or commodity), or credit linked.

Upon initial recognition the bonds were designated by the Bank at fair value through profit or loss as the bonds are economically hedged by derivatives which do not achieve the criteria for hedge accounting.

Included in financial liabilities designated at fair value through profit or loss are retail and corporate term deposits combined with currency options which are accounted for as embedded derivatives. The fair value of the deposits and the options are not separated.

Based on the Bank’s treasury policy the long term fixed rate deposits from investment funds included in financial liabilities designated at fair value through profit or loss are economically hedged by interest rate derivatives, and do not qualify for hedge accounting.

There was no difference between the amount that the Bank would contractually be required to pay at maturity and the fair value of the deposits and issued bonds (the contractually paid amount was HUF 628 million lower in 2020).

NOTE 20 – FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND GEOGRAPHIC LOCATION

The Bank’s financial assets, and financial liabilities before taking into account any collateral held or other credit enhancements as at 31 December 2021 can be analysed by the following geographical regions.

	Cash balances with central banks and other demand deposits with credit institutions	Held for trading	Designated at fair value through profit or loss	Mandatory fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets								
Hungary	92 132	31 488	-	201 936	67 901	4 030 537	1 681	4 425 675
EMU countries	98 934	53 425	-	4 069	6	429 446	69 361	655 241
East-European countries	848	27	-	-	-	737	-	1 612
Russia	80	-	-	-	-	22	-	102
Ukraine	15	-	-	-	-	-	-	15
Other European countries	7 224	1 149	-	-	-	68	471	8 912
Non-European countries	3 848	-	-	9	1 616	113	-	5 586
Total	203 081	86 089	-	206 014	69 523	4 460 923	71 513	5 097 143
Financial liabilities								
Hungary	-	7 532	5 701	-	-	4 209 786	-	4 223 019
EMU countries	-	61 220	-	-	-	408 909	94 142	564 271
East-European countries	-	-	-	-	-	14 512	-	14 512
Russia	-	-	-	-	-	1 428	-	1 428
Ukraine	-	-	-	-	-	488	-	488
Other European countries	-	727	-	-	-	2 099	4 416	7 242
Non-European countries	-	-	-	-	-	4 792	-	4 792
Total	-	69 479	5 701	-	-	4 642 014	98 558	4 815 752

NOTE 20 – FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND GEOGRAPHIC LOCATION (continued)

The Bank's financial assets, and financial liabilities before taking into account any collateral held or other credit enhancements as at 31 December 2020 can be analysed by the following geographical regions.

	Cash balances with central banks and other demand deposits with credit institutions	Held for trading	Designated at fair value through profit or loss	Mandatory fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets								
Hungary	184 256	28 592	-	135 518	109 062	3 166 586	45	3 624 059
EMU countries	110 282	38 092	-	4 042	6	360 647	23 540	536 609
East-European countries	4 011	1	-	-	-	723	-	4 735
Russia	455	-	-	-	-	13	-	468
Ukraine	10	-	-	-	-	-	-	10
Other European countries	2 040	517	-	-	-	135	1 880	4 572
Non-European countries	18 837	-	-	10	3 231	77	-	22 155
Total	319 891	67 202	-	139 570	112 299	3 528 181	25 465	4 192 608
Financial liabilities								
Hungary	-	6 679	33 051	-	-	3 705 621	449	3 745 800
EMU countries	-	57 172	-	-	-	100 672	23 683	181 527
East-European countries	-	68	-	-	-	8 459	-	8 527
Russia	-	-	-	-	-	1 406	-	1 406
Ukraine	-	-	-	-	-	475		475
Other European countries	-	249	-	-	-	6 057	233	6 539
Non-European countries	-	-	-	-	-	5 580	-	5 580
Total	-	64 168	33 051	-	-	3 828 270	24 365	3 949 854

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY

Credit quality per class of financial assets

The table below presents the credit quality by asset classes as at 31 December 2021:

	Loans and advances mandatorily at fair value through profit or loss			
	Gross carrying amount		Accumulated negative changes in fair value due to credit risk	
	Performing	Non-performing	Non-performing	Total
	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2021				
Central bank and credit institutions	4 060	-	-	4 060
General government	7	-	-	7
Corporate	37	-	-	37
of which: Small and Medium enterprises	5	-	-	5
Households	200 654	1 593	(337)	201 910
Consumer credit	139 833	1 020	(213)	140 640
Credit card	-	-	-	-
Current account	-	-	-	-
Finance lease	-	-	-	-
Mortgage loan	60 821	573	(124)	61 270
Term loan	-	-	-	-
Trade receivables	-	-	-	-
Total	204 758	1 593	(337)	206 014

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Loans and advances at amortised cost*					
	Gross carrying amount			Accumulated impairment		
	Performing MHUF	Non-performing MHUF	Total MHUF	Performing MHUF	Non-performing MHUF	Total MHUF
Loans and advances at 31 December 2021						
Central bank and credit institutions	1 837 439	35	1 837 474	(51)	-	(51)
General government	50 263	1	50 264	(668)	-	(668)
Corporate	1 024 305	20 420	1 044 725	(11 527)	(7 919)	(19 446)
of which: Small and Medium enterprises	649 752	11 212	660 964	(5 238)	(5 837)	(11 075)
Households	736 408	31 876	768 284	(8 277)	(11 051)	(19 328)
Consumer credit	100 738	6 698	107 436	(2 371)	(3 548)	(5 919)
Credit card	6 184	176	6 360	(158)	(98)	(256)
Current account	8 928	1 868	10 796	(503)	(842)	(1 345)
Finance lease	3 016	-	3 016	(28)	-	(28)
Mortgage loan	595 563	23 099	618 662	(4 890)	(6 550)	(11 440)
Term loan	21 979	35	22 014	(327)	(13)	(340)
Trade receivables	-	-	-	-	-	-
Total	3 648 415	52 332	3 700 747	(20 523)	(18 970)	(39 493)

The table includes the net carrying amount of loans and advances at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

The table below presents the credit quality by asset classes as at 31 December 2020:

	Loans and advances mandatorily at fair value through profit or loss			
	Gross carrying amount		Accumulated negative changes in fair value due to credit risk	
	Performing	Non-performing	Non-performing	Total
	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2020				
Central bank and credit institutions	4 032	-	-	4 032
General government	34	-	-	34
Corporate	1 746	-	-	1 746
of which: Small and Medium enterprises	36	-	-	36
Households	133 626	243	(111)	133 758
Consumer credit	99 264	48	(5)	99 307
Credit card	-	-	-	-
Current account	-	-	-	-
Finance lease	-	-	-	-
Mortgage loan	34 362	195	(106)	34 451
Term loan	-	-	-	-
Trade receivables	-	-	-	-
Total	139 438	243	(111)	139 570

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Loans and advances at amortised cost*					
	Gross carrying amount			Accumulated impairment		
	Performing MHUF	Non-performing MHUF	Total MHUF	Performing MHUF	Non-performing MHUF	Total MHUF
Loans and advances at 31 December 2020						
Central bank and credit institutions	1 158 543	5	1 158 548	(39)	-	(39)
General government	81 624	379	82 003	(30)	(375)	(405)
Corporate	954 407	18 514	972 921	(18 416)	(8 882)	(27 298)
of which: Small and Medium enterprises	572 377	8 376	580 753	(9 530)	(4 326)	(13 856)
Households	674 739	22 543	697 282	(10 607)	(11 452)	(22 059)
Consumer credit	87 723	750	88 473	(1 923)	(535)	(2 458)
Credit card	5 847	33	5 880	(96)	(21)	(117)
Current account	9 909	950	10 859	(877)	(234)	(1 111)
Finance lease	3 470	-	3 470	(36)	-	(36)
Mortgage loan	545 018	20 760	565 778	(7 259)	(10 641)	(17 900)
Term loan	22 772	50	22 822	(416)	(21)	(437)
Trade receivables	-	-	-	-	-	-
Total	2 869 313	41 441	2 910 754	(29 092)	(20 709)	(49 801)

The table includes the net carrying amount of loans and advances at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

Aging analysis of loans per class of financial assets

	Loans and advances*							
	Performing				Non-performing			
	Not past due	Past due <= 30 days	Past due > 30 days <= 90 days	Past due > 90 days	Past due <= 30 days	Past due > 30 days <= 90 days	Past due > 90 days	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2021								
Central bank and credit institutions	1 841 448	-	-	-	35	-	-	1 841 483
General government	39 470	10 132	-	-	1	-	-	49 603
Corporate	1 000 625	11 714	245	231	10 877	229	1 395	1 025 316
of which: Small and Medium enterprises	635 243	8 805	242	229	3 758	228	1 389	649 894
Households	914 774	11 183	2 461	367	15 047	1 323	5 711	950 866
Consumer credit	234 708	2 485	918	89	3 329	249	379	242 157
Credit card	5 461	506	49	10	62	7	9	6 104
Current account	6 931	1 247	71	176	937	27	62	9 451
Finance lease	2 971	17	-	-	-	-	-	2 988
Mortgage loan	643 248	6 747	1 407	92	10 719	1 021	5 258	668 492
Term loan	21 455	181	16	-	-	19	3	21 674
Trade receivables	-	-	-	-	-	-	-	-
Total	3 796 317	33 029	2 706	598	25 960	1 552	7 106	3 867 268

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

Past due assets include those that are past due even by one day.

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	Loans and advances*							
	Performing				Non-performing			
	Not past due MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Total MHUF
Loans and advances at 31 December 2020								
Central bank and credit institutions	1 162 536	-	-	-	5	-	-	1 162 541
General government	80 114	1 514	-	-	-	-	4	81 632
Corporate	935 060	2 169	427	81	8 060	164	1 408	947 369
of which: Small and Medium enterprises	561 798	584	425	76	2 570	159	1 321	566 933
Households	779 934	15 477	1 967	380	2 878	522	7 823	808 981
Consumer credit	181 471	3 268	259	66	66	14	178	185 322
Credit card	5 724	21	6	-	7	-	5	5 763
Current account	8 326	509	38	159	639	3	74	9 748
Finance lease	3 434	-	-	-	-	-	-	3 434
Mortgage loan	558 785	11 518	1 663	155	2 153	505	7 550	582 329
Term loan	22 194	161	1	-	13	-	16	22 385
Trade receivables	-	-	-	-	-	-	-	-
Total	2 957 644	19 160	2 394	461	10 943	686	9 235	3 000 523

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

Maximum exposure to credit risk without taking into account of any collateral and credit enhancements

The table below presents the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2021 MHUF	2020 MHUF
Debt instruments*	1 070 913	1 096 106
Loans and advances	3 930 779	3 071 677
Derivatives*	156 699	92 103
Other assets	28 003	22 746
Total assets	5 186 394	4 282 632
Commitments to extend credit	724 455	667 977
Guarantees	371 805	287 152
Letters of credit	10 675	12 016
Total commitments and contingent liabilities	1 106 935	967 145
Total credit exposure	6 293 329	5 249 777

The amounts shown above represent the current credit risk exposure, which may change over time as a result of changes in values (derivative financial instruments, financial investments, etc.) and changes in FX rates (due to FCY lending). The effect of collateral and other risk mitigation techniques is shown in Note 43.4.

Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client/client group and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2021 was HUF 79 791 million (HUF 65 241 million as of 31 December 2020) before taking account of any collateral or other credit enhancements.

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

Gross carrying amount transfers between impairment stages

	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2021*							
Central bank and credit institutions							
General government	2 768						2 768
Corporate	66 883	26 289	3 513	224	2 839	5	99 753
of which: Small and Medium enterprises	28 812	21 304	594	224	2 836	5	53 775
Households	38 535	9 349	6 727	146	11 494	43	66 294
Consumer credit	6 824	1 475	1 331	2	4 225	1	13 858
Credit card	452	77	43	1	112	-	685
Current account	768	292	290	1	165	1	1 517
Finance lease	177	23	-	-	-	-	200
Mortgage loan	28 788	7 410	5 055	142	6 991	41	48 427
Term loan	1 526	72	8	-	1	-	1 607
Total	108 186	35 638	10 240	370	14 333	48	168 815
Loan commitments	17 406	38 423	1 455	70	280	2	57 636
Financial guarantees	11 500	3 160	56	-	4	-	14 720
Total	28 906	41 583	1 511	70	284	2	72 356

*The table includes the gross carrying amount of loans and advances at amortised cost.

The table shows year-to-year stage transfers.

NOTE 21 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

Gross carrying amount transfers between impairment stages

	From Stage 1 to Stage 2 MHUF	From Stage 2 to Stage 1 MHUF	From Stage 2 to Stage 3 MHUF	From Stage 3 to Stage 2 MHUF	From Stage 1 to Stage 3 MHUF	From Stage 3 to Stage 1 MHUF	Total MHUF
Loans and advances at 31 December 2020*							
Central bank and credit institutions	-						
General government	-	-	-	-	-	-	-
Corporate	69 997	6 059	4 982	23	2 857	5	83 923
of which: Small and Medium enterprises	30 597	5 883	195	22	170	5	36 872
Households	13 438	24 566	1 889	2 625	1 130	94	43 742
Consumer credit	2 901	1 337	278	27	62	13	4 618
Credit card	104	203	9	1	9	1	327
Current account	491	782	21	334	6	37	1 671
Finance lease	59	129	-	-	-	-	188
Mortgage loan	9 378	21 562	1 576	2 262	1 053	43	35 874
Term loan	505	553	5	1	-	-	1 064
Total	83 435	30 625	6 871	2 648	3 987	99	127 665
Loan commitments	38 225	8 467	42	23	63	11	46 831
Financial guarantees	4 388	14 006	165	-	-	-	18 559
Other commitments	18	-	-	-	-	-	18
Total	42 631	22 473	207	23	63	11	65 408

*The table includes the gross carrying amount of loans and advances at amortised cost.

The table shows year-to-year stage transfers.

NOTE 22 – IMPAIRMENT ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Bank reversed an impairment of HUF 20 million on debt securities at fair value through other comprehensive income in 2021 (reversed an impairment of HUF 11 million in 2020).

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs/sales	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 1 at 31 December 2021												
Debt securities												
General government	574	164	(180)	-	-	-	-	-	-	-	-	558
Corporate	30	18	(30)	-	-	-	-	-	-	-	-	18
Total impairment on debt securities	604	182	(210)	-	-	-	-	-	-	-	-	576
Loans and advances*												
Central bank and credit institutions	39	25	(13)	1	-	-	-	-	-	(1)	-	51
General government	30	7	(10)	(5)	(1)	-	-	-	-	(1)	-	20
Corporate	3 637	241	(975)	(788)	(325)	-	3	(2)	(77)	8	9	1 731
of which: Small and Medium enterprises	2 145	151	(4)	(819)	(253)	-	3	(2)	(1)	(138)	5	1 087
Households	1 318	669	(126)	(508)	(314)	-	-	(3)	(40)	92	-	1 088
of which: POCI	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	929	652	(105)	(418)	(110)	-	-	-	-	(29)	-	919
Credit card	33	4	(1)	5	(9)	-	-	-	1	6	-	39
Current account	38	1	(2)	44	(18)	-	-	-	(41)	13	-	35
Finance lease	6	1	0	(3)	(1)	-	-	-	-	-	-	3
Mortgage loan	260	11	(18)	(137)	(176)	-	-	(3)	-	118	-	55
Term loan	52	-	-	1	-	-	-	-	-	(16)	-	37
Total impairment on loans and advances	5 024	942	(1 124)	(1 300)	(640)	-	3	(5)	(117)	98	9	2 890

* Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs/sales	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 2 at 31 December 2021												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	2	-	2
General government	-	484	-	-	321	(158)	-	-	-	19	-	666
Corporate	14 779	236	(1 344)	(3 484)	3 970	(5 021)	17	(4)	(1)	561	99	9 808
of which: Small and Medium enterprises	7 385	234	-	(1 257)	1 831	(3 562)	17	(123)	-	(384)	32	4 173
Households	9 289	425	(1 065)	(1 673)	1 904	(2 278)	8	730	(154)	2	1	7 189
--of which: POCI	-	-	-	-	-	-	-	-	-	0	-	-
Consumer credit	994	288	(87)	111	642	(515)	-	20	(2)	1	-	1 452
Credit card	63	8	(4)	1	81	(37)	-	6	-	1	-	119
Current account	839	24	(225)	81	125	(229)	-	5	(152)	-	-	468
Finance lease	30	3	(3)	(14)	12	(4)	-	-	-	1	-	25
Mortgage loan	6 999	102	(746)	(1 852)	1 044	(1 420)	8	699	-	-	1	4 835
Term loan	364	-	-	-	-	(73)	-	-	-	(1)	-	290
Total impairment on loans and advances	24 068	1 145	(2 409)	(5 157)	6 195	(7 457)	25	726	(155)	584	100	17 665

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs/sales	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 3 at 31 December 2021												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
General government	375	-	(376)	-	1	-	-	-	-	-	-	-
Corporate	8 882	479	(819)	(145)	1 177	60	(133)	(736)	(474)	(427)	55	7 919
of which: Small and Medium enterprises	4 326	90	-	(138)	771	37	(133)	64	(4)	787	37	5 837
Households	11 452	699	(658)	(471)	1 757	535	(55)	4 441	(6 656)	(6)	13	11 051
of which: POCI	5 265	37	-	(99)	1	68	(4)	104	(3 963)	(312)	-	1 097
Consumer credit	535	243	(57)	(1)	745	178	(3)	1 946	(39)	1	-	3 548
Credit card	21	1	(3)	-	29	10	(1)	48	(7)	-	-	98
Current account	234	282	(15)	53	49	152	(1)	120	(35)	-	3	842
Finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage loan	10 641	173	(583)	(523)	934	195	(50)	2 327	(6 575)	1	10	6 550
Term loan	21	-	-	-	-	-	-	-	-	(8)	-	13
Total impairment on loans and advances	20 709	1 178	(1 853)	(616)	2 935	595	(188)	3 705	(7 130)	(433)	68	18 970

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

The significant increase of impairment on loans and advances in 2020 is mainly results from the Covid-19 related changes in estimations and accounting judgements (see Note 3).

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs/sales	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 1 at 31 December 2020												
Debt securities	452	194	(44)	-	-	-	-	-	-	2	-	604
Loans and advances*												
Central bank and credit institutions	45	14	(281)	(4)	-	-	-	-	-	265	-	39
General government	15	12	(8)	7	-	-	-	-	-	4	-	30
Corporate	2 050	1 111	(182)	704	(269)	181	4	-	(32)	(44)	114	3 637
of which: Small and Medium enterprises	1 338	687	-	202	(87)	177	4	-	(2)	(240)	66	2 145
Households	1 185	560	(70)	(322)	(55)	160	-	(48)	(2)	(90)	-	1 318
of which: POCI	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	904	528	(68)	(417)	(42)	23	-	(1)	1	1	-	929
Credit card	45	3	(2)	(13)	(1)	1	-	-	1	(1)	-	33
Current account	42	1	(2)	1	(4)	70	-	-	(4)	(66)	-	38
Finance lease	7	3	-	(6)	-	(1)	-	-	-	3	-	6
Mortgage loan	134	25	2	113	(8)	67	-	(47)	-	(26)	-	260
Term loan	53	-	-	-	-	-	-	-	-	(1)	-	52
Total impairment on loans and advances	3 295	1 697	(541)	385	(324)	341	4	(48)	(34)	135	114	5 024

* Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance MHUF	Incr. due to origin. MHUF	Decr. due to derecog. MHUF	Chg in cr. risk – no stage transfers MHUF	Chg in cr. risk – transf. from stage 1 MHUF	Chg in cr. risk – transf. from stage 2 MHUF	Chg in cr. risk – transf. from stage 3 MHUF	Chg due to modif. MHUF	Decr. due to write-offs/sales MHUF	Other MHUF	Transl. diff. MHUF	Closing balance MHUF
Impairment on financial assets at amortised cost classified as stage 2 at 31 December 2020												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
General government	-	-	11	-	-	-	-	-	-	(11)	-	-
Corporate	872	493	57	7 009	7 677	(329)	6	45	-	(1 899)	848	14 779
of which: Small and Medium enterprises	575	399	-	5 033	4 167	(169)	6	9	-	(2 924)	289	7 385
Households	3 086	356	(163)	4 585	1 701	(1 136)	425	(232)	(22)	680	9	9 289
of which: POCI	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	603	156	(27)	123	428	(292)	7	-	-	(4)	-	994
Credit card	58	6	(3)	10	31	(36)	-	-	-	(3)	-	63
Current account	300	64	(47)	252	109	(97)	283	-	(23)	(6)	4	839
Finance lease	14	14	-	9	8	(12)	-	-	-	(3)	-	30
Mortgage loan	2 095	116	(86)	4 191	1 125	(699)	135	(232)	1	348	5	6 999
Term loan	16	-	-	-	-	-	-	-	-	348	-	364
Total impairment on loans and advances	3 958	849	(95)	11 594	9 378	(1 465)	431	(187)	(22)	(1 230)	857	24 068

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs/sales	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost classified as stage 3 at 31 December 2020												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
General government	339	-	-	-	-	-	-	-	-	-	36	375
Corporate	11 157	185	(723)	(39)	764	1 343	(13)	-	(4 099)	(40)	347	8 882
of which: Small and Medium enterprises	8 854	171	-	(656)	28	50	(13)	-	(4)	(4 226)	122	4 326
Households	16 181	88	(465)	(609)	318	559	(554)	317	(5 294)	853	58	11 452
of which: POCI	7 783	10	-	166	-	55	(149)	41	-	(2 641)	-	5 265
Consumer credit	490	18	(10)	57	12	163	(23)	40	(208)	(4)	-	535
Credit card	36	-	(5)	(4)	5	6	(1)	-	(18)	2	-	21
Current account	631	15	(52)	(4)	4	12	(243)	-	(127)	(2)	-	234
Finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage loan	14 990	55	(398)	(658)	297	378	(287)	277	(4 941)	870	58	10 641
Term loan	34	-	-	-	-	-	-	-	-	(13)	-	21
Total impairment on loans and advances	27 677	273	(1 188)	(648)	1 082	1 902	(567)	317	(9 393)	813	441	20 709

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

The gross carrying amount of loans written-off amounted to HUF 1 338 million in 2021 (HUF 963 million in 2020).

The gross carrying amount of loans and advances which were sold by the Bank amounted to HUF 12 759 million in 2021 (HUF 15 978 million in 2020). The Bank recorded a HUF 8 592 million income on the disposals (HUF 8 104 million in 2020). The loans were retail mortgage loans.

Stage transfers show shifts between stages having impact on profit or loss. ‘Stage transfers from’ columns decrease the balance of impairments in the old stage category and increase the balance in the new stage category.

The breakdown of impairments on cash balances with central banks and other demand deposits to credit institutions and financial assets at amortised cost recorded in the income statement is presented below.

	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost at 31 December 2021				
Debt securities				
General government	16	-	-	16
Corporate	12	-	-	12
Total impairment on debt securities	28	-	-	28
Loans and advances*				
Central bank and credit institutions	(13)	-	-	(13)
General government	9	(647)	375	(263)
Corporate	1 846	5 630	117	7 593
of which: Small and Medium enterprises	924	2 860	(691)	3 093
Households	282	1 949	(6 248)	(4 017)
of which: POCI	-	-	(107)	(107)
Consumer credit	(19)	(459)	(3 051)	(3 529)
Credit card	1	(55)	(84)	(138)
Current account	(25)	219	(640)	(446)
Finance lease	3	6	-	9
Mortgage loan	323	2 165	(2 473)	15
Term loan	(1)	73	-	72
Total	2 152	6 932	(5 756)	3 328

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost at 31 December 2020				
Debt securities	(150)	-	-	(150)
Loans and advances*				
Central bank and credit institutions	271	-	-	271
General government	(11)	(11)	-	(22)
Corporate	(1 549)	(14 958)	(1 517)	(18 024)
of which: Small and Medium enterprises	(983)	(9 445)	420	(10 008)
Households	(225)	(5 536)	346	(5 415)
of which: POCI	-	-	(123)	(123)
Consumer credit	(23)	(395)	(257)	(675)
Credit card	12	(8)	(1)	3
Current account	(66)	(564)	268	(362)
Finance lease	4	(19)	-	(15)
Mortgage loan	(152)	(4 550)	336	(4 366)
Term loan	-	-	-	-
Total	(1 664)	(20 505)	(1 171)	(23 340)

*Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							**Other changes**			
	Opening balance	**Incr. due to origin.**	**Decr. due to derecog.**	**Chg in cr. risk – no stage transfers**	**Chg in cr. risk – transf. from stage 1**	**Chg in cr. risk – transf. from stage 2**	**Chg in cr. risk – transf. from stage 3**	**Chg due to modif.**	**Decr. due to write-offs**	**Other**	**Transl. diff.**	**Closing balance**
	MHUF	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**
Impairment on loan commitments and guarantees classified as stage 1 at 31 December 2021												
-	616	62	(119)	(291)	(18)	3	-	-	-	2	-	255
Financial guarantees	153	12	(87)	(50)	(8)	-	-	-	-	-	-	20
Other commitments	35	2	(31)	(3)	-	-	-	-	-	(1)	-	2
							-	-	-		-	
Total	804	76	(237)	(344)	(26)	3	-	-	-	1	-	277
Impairment on loan commitments and guarantees classified as stage 2 at 31 December 2021												
Loan commitments	197	95	(50)	1	93	(73)	-	5	-	-	-	268
Financial guarantees	22	2	(9)	28	13	(2)	2	-	-	5	-	61
Other commitments	1	-	-	(1)	-	-	-	-	-	-	-	-
									-		-	
Total	220	97	(59)	28	106	(75)	2	5	-	5	-	329

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on loan commitments and guarantees classified as stage 3 at 31 December 2021												
------Loan commitments	117	-	-	30	-	274	(30)	1	-	-	-	392
Financial guarantees	122	-	(22)	(7)	-	-	(46)	-	-	(7)	-	40
Other commitments	-	-	-	-	-	-	-	-	-	-	-	-
Total	239	-	(22)	23	-	274	(76)	1	-	(7)	-	432

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance MHUF	Incr. due to origin. MHUF	Decr. due to derecog. MHUF	Chg in cr. risk – no stage transfers MHUF	Chg in cr. risk – transf. from stage 1 MHUF	Chg in cr. risk – transf. from stage 2 MHUF	Chg in cr. risk – transf. from stage 3 MHUF	Chg due to modif. MHUF	Decr. due to write-offs MHUF	Other MHUF	Transl. diff. MHUF	Closing balance MHUF
Impairment on loan commitments and guarantees classified as stage 1 at 31 December 2020												
Loan commitments	283	377	(71)	19	(6)	4	-	-	-	10	-	616
Financial guarantees	31	113	(19)	27	-	1	-	-	-	-	-	153
Other commitments	2	34	(2)	-	-	-	-	-	-	1	-	35
Total	316	524	(92)	46	(6)	5	-	-	-	11	-	804
Impairment on loan commitments and guarantees classified as stage 2 at 31 December 2020												
Loan commitments	200	28	(27)	(12)	68	(69)	-	-	-	9	-	197
Financial guarantees	50	7	(22)	5	3	(20)	-	-	-	(1)	-	22
Other commitments	5	-	(5)	1	-	-	-	-	-	-	-	1
Total	255	35	(54)	(6)	71	(89)	-	-	-	8	-	220

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

		Changes recorded in the income statement as impairment on assets at amortised cost							Other changes			
	Opening balance	Incr. due to origin.	Decr. due to derecog.	Chg in cr. risk – no stage transfers	Chg in cr. risk – transf. from stage 1	Chg in cr. risk – transf. from stage 2	Chg in cr. risk – transf. from stage 3	Chg due to modif.	Decr. due to write-offs	Other	Transl. diff.	Closing balance
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Impairment on loan commitments and guarantees classified as stage 3 at 31 December 2020												
Loan commitments	53	86	-	(23)	-	-	-	-	-	1	-	117
Financial guarantees	708	13	(507)	(121)	-	21	-	-	-	8	-	122
Other commitments	-	-	-	-	-	-	-	-	-	-	-	-
Total	761	99	(507)	(144)	-	21	-	-	-	9	-	239

NOTE 23 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

The breakdown of provision on loan commitments and guarantees recorded in the income statement in 2021 is presented below.

	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF
Loan commitments	(363)	71	275	(17)
Financial guarantees	(133)	34	(75)	(174)
Other commitments	(32)	(1)	-	(33)
Total	(528)	104	200	(224)

The breakdown of provision on loan commitments and guarantees recorded in the income statement in 2020 is presented below.

	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF
Loan commitments	323	(12)	63	374
Financial guarantees	122	(27)	(594)	(499)
Other commitments	32	(4)	-	28
Total	477	(43)	(531)	(97)

	2021	2020
	MHUF	MHUF
Impairment on other		
Intangible assets	(508)	(2 469)
Investment property	-	(2)
Property, plant and equipment	(707)	(2 267)
Other	(74)	190
Total impairment on other	(1 289)	(4 548)

The Bank recorded impairment on software in a significant amount in 2020 since upgrades of more source system are in progress in recent years. The impairment recorded on property, plant and equipment relates mainly to right of use assets, where the Bank has changed its intention concerning the usage of the headquarter building, which led to the write-down of the right of use asset.

NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2021				Year ended 31 December 2020			
	Notional amount Assets	**Notional amount Liabilities**	**Positive fair value Assets**	**Negative fair value Liabilities**	**Notional amount Assets**	**Notional amount Liabilities**	**Positive fair value Assets**	**Negative fair value Liabilities**
Derivatives held for trading	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**	**MHUF**
Foreign exchange derivatives								
Currency forwards	71 134	70 889	1 924	(743)	115 994	115 213	1 773	(919)
Currency futures	44 872	44 918	21	(73)	44 327	44 508	13	(16)
Currency swaps	1 423 711	1 424 268	11 743	(13 363)	1 034 894	1 035 692	11 828	(12 707)
Currency options bought and sold	212 584	212 584	5 500	(5 512)	215 583	215 583	7 768	(7 761)
Total foreign exchange derivatives	1 752 301	1 752 659	19 188	(19 691)	1 410 798	1 410 996	21 382	(21 403)
Interest rate derivatives								
	1 671 616	1 671 615	63 766	(47 336)				
Interest rate swaps	33 380	33 380	619	(1 308)	2 281 308	2 281 308	45 001	(40 487)
Cross currency interest rate swaps	19 153	19 153	252	(225)	53 941	54 137	(488)	(1 718)
-					14 438	14 438	244	(244)
Forward rate agreements	1 724 149	1 724 148	64 637	(48 869)	-	-	-	-
Total interest rate derivatives					2 349 687	2 349 883	44 757	(42 449)
	-	-	-	-				
Equity options	5 043	5 043	165	(165)	-	-	-	-
Commodity swaps	5 935	5 936	1 196	(758)	1 587	1 587	39	(39)
Commodity options					4 302	4 302	459	(277)
	3 487 428	3 487 786	85 186	(69 483)				
Total derivatives held for trading					3 766 374	3 766 768	66 637	(64 168)
Derivatives designated as micro fair value hedges	22 800	22 800	303	(740)				
Interest rate swaps					20 815	20 815	-	(1 253)
Derivatives designated as portfolio fair value hedges	1 849 946	1 849 946	70 986	(71 444)				
Interest rate swaps					1 321 714	1 321 714	19 106	(21 138)
Derivatives designated as cash flow hedges	372 525	372 524	225	(23 391)				
Interest rate swap	39 076	39 387	-	(2 983)	363 818	363 818	6 258	(264)
Cross currency interest rate swaps					48 496	50 630	101	(1 710)
Total derivatives held for hedging	2 284 347	2 284 657	71 514	(98 558)	1 754 843	1 756 977	25 465	(24 365)
Total derivative financial instruments	5 771 775	5 772 443	156 700	(168 041)	5 521 217	5 523 745	92 102	(88 533)

NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Options

Although options are not accounted for as hedges, the Bank has an operational policy where the risks of options sold and purchased are matched on a one to one basis with offsetting deals conducted with counterparties of sound credit standing.

The Bank applies hedge accounting for some of its derivatives concluded in frame of Asset and Liability Management.

Cash flow hedge of interest rate risk

The aim of the cash-flow hedges designated by the Bank is to hedge changes in cash flows group of assets and liabilities related to changes in interest and foreign exchange rates. The hedging instruments are EUR and HUF interest rate swaps.

Hedging relationships are subject to prospective and retrospective effectiveness measurement. Fair value changes in hedging instruments for the effective part of the hedging relationship are recognised in other comprehensive income and are accumulated to Cash flow hedge reserve. Since the exchange revaluation result of the hedged assets and liabilities is recorded as Net gains / (losses) from financial instruments at fair value through profit or loss, the foreign exchange revaluation effect of the hedging cross currency interest rate swaps recorded in Other comprehensive income was transferred to the income statement at the same time.

The Bank recorded a HUF 28 308 million loss (HUF 1 398 million gain in 2020) in other comprehensive income in 2021 resulting from the changes of the fair value of hedging derivatives. The result is recorded as Cash flow hedge - Net gain / (loss) from fair value changes in other comprehensive income. In 2021 the Bank transferred HUF 52 million loss to the net profit due to ineffectiveness (HUF 115 million loss in 2020) recorded as Cash flow hedge – Ineffective part in other comprehensive income. The result of the transfers were recorded as Net gains / (losses) from financial instruments at fair value through profit or loss in the income statement (see Note 7).

The Bank recognised HUF 27 623 million gain in other comprehensive income as the effective portion at 31 December 2021 (HUF 4 925 million gain in 2020). Other comprehensive income includes HUF 558 million gain reserve on discontinued cash flow hedges in 2021 (HUF 52 million gain in 2020).

The periods when the cash flows are expected to occur are the following:

	2021		2020	
	Expected cash flows		Expected cash flows	
	Inflow	Outflow	Inflow	Outflow
	MHUF	MHUF	MHUF	MHUF
< 3 months	1 009	(2 334)	1 044	(354)
3-6 months	2 213	(6 762)	459	(325)
6 months - 1 year	2 651	(13 442)	625	(518)
1-2 years	3 625	(15 902)	3 358	(1 196)
2-5 years	2 047	(4 228)	34 636	(31 255)
> 5 years	11 292	(41 205)	18 251	(19 743)
Total	22 837	(83 873)	58 373	(53 391)

Forecast transactions for which hedge accounting had previously been used but which is no longer expected to occur amounted to HUF 37 million as at 31 December 2021 (HUF 36 million as at 31 December 2020). The related transfer was presented as Cash flow hedges – Gross amount in other comprehensive income.

NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge of interest rate risk

The risk to be hedged under fair value hedge of interest rate risk is interest rate risk, arising from changes in fair value of non-maturity deposits to changes in the risk-free (interest rate swap) yield curve. The hedging instruments are HUF interest rate swaps.

The accumulated fair value changes of hedged item under portfolio hedge of interest rate risk is presented separately in the statement of financial position and amounted to HUF 66 693 million loss and HUF 72 738 million gain in 2021 (HUF 14 614 million loss and HUF 17 841 million gain in 2020). The loss recorded on the hedged item was compensated by a gain recorded on the hedging instrument in the same amount. The fair value changes of the hedged item and the hedging instrument in the current year is recorded as Net gains / (losses) from financial instruments at fair value through profit or loss in the income statement.

Fair value hedge of fixed rate FVOCI bonds

The Bank defines the risk to be hedged as the interest rate risk arising from changes in fair value of FVOCI bonds to changes in the risk-free (interest rate swap) yield curve. The hedging instruments are fixed rate payer-floating rate receiver (BUBOR 3M-6M) interest rate swaps.

The changes in the fair value of the FVOCI government bonds and the interest rate swaps due to interest rate risk are offset in the income statement and the unhedged credit spread of the bonds remains in the other comprehensive income. The change in the fair value of the hedged instrument amounted to a loss of HUF 4 136 million in 2021 (a loss of HUF 1 029 million in 2020).

The following table presents information related to the hedged items under fair value hedge in 2021. Hedging instruments are interest rate swaps.

	Micro Fair value hedge		**Portfolio fair value hedge**	
	Carrying amount MHUF	**Accumulated fair value adjustments MHUF**	**Carrying amount MHUF**	**Accumulated fair value adjustments MHUF**
Hedged items				
Debt securities at fair value through other comprehensive income	-	-	21 941	(3 359)
Debt securities at amortised cost	-	-	323 116	(49 255)
Loans and advances at amortised cost	49 178	204	170 146	(20 117)
Total hedged assets	49 178	204	515 203	(72 731)
Deposits at amortised cost	-	-	1 168 563	(73 251)
Total hedged liabilities	-	-	1 168 563	(73 251)

NOTE 24 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents information related to the hedged items under fair value hedge in 2020. Hedging instruments are interest rate swaps.

	Micro Fair value hedge		Portfolio fair value hedge	
	Carrying amount MHUF	Accumulated fair value adjustments MHUF	Carrying amount MHUF	Accumulated fair value adjustments MHUF
Hedged items				
Debt securities at fair value through other comprehensive income	-	-	26 077	777
Debt securities at amortised cost	-	-	344 915	15 162
Loans and advances at amortised cost	22 170	1 047	126 616	1 406
Total hedged assets	22 170	1 047	497 608	17 345
Deposits at amortised cost	-	-	857 915	15 191
Total hedged liabilities	-	-	857 915	15 191

There is no remaining fair value adjustment recognised on any hedged item in case of discontinued hedges in the financial position in 2021 (nor in 2020).

NOTE 25 – NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

In the last quarter of 2021 the Bank sold a part of its core business assets. The transaction resulted in a HUF 1 211 million gain in 2021.

The net result of the transaction is presented separately in the income statement in 2021.

NOTE 26 – OTHER ASSETS

	2021 MHUF	2020 MHUF
Prepayments	4 378	5 424
Trade receivables	1 813	1 583
Receivables from employees	-	-
Receivables from bankcard service	7 781	6 449
Items in transit due to payment services	489	416
Items in transit due to trading in securities	84	29
Income accruals and cost prepayments	5 619	5 313
Inventories	1 283	410
Other receivables	6 557	3 123
	28 004	22 747

Prepayments include HUF 4 281 million (HUF 5 351 million in 2020) extra tax prepayment, further details in Note 14.

NOTE 27 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The deferred tax included in the statement of financial position and changes recorded in the income statement and equity are as follows:

For the period ended 31 December 2021:

	Assets MHUF	**Liabilities MHUF**	**Income statement MHUF**	**Equity MHUF**
Employee benefits	-	-	6	-
Tangibles and intangibles assets	733	-	(45)	-
Other provisions for risk and charges and credit commitments	140	-	(38)	-
Fair value adjustments FVOCI	95	-	(1)	795
Cash flow hedge	2 436	-	-	2 884
Other	(3)	-	(7)	-
				-
Total	3 401	-	(85)	3 679

For the period ended 31 December 2020:

	Assets MHUF	**Liabilities MHUF**	**Income statement MHUF**	**Equity MHUF**
Employee benefits	-	6	1	-
Tangibles and intangibles assets	-	(778)	277	-
Other provisions for risk and charges and credit commitments	-	(178)	91	-
Impairment for losses on loans and advances	-	-	-	-
Financial instruments at fair value	-	-	-	-
Fair value adjustments FVOCI	-	699	-	116
Cash flow hedge	-	448	-	150
Transition to IFRS 9	-	(4)	(3)	-
Total	-	193	366	266

In 2021 and 2020 income taxes were calculated on all temporary differences under the asset and liability method using a tax rate of 9 % or 10.82 % (9% corporate income tax and 10.82% local business tax).

NOTE 28 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

	2021 MHUF	2020 MHUF
K&H Autópark Kft.	410	410
K&H Csoportszolgáltató Kft.	60	60
K&H Equities Zrt.	4 771	4 771
K&H Tanácsadó Zrt.	850	850
K&H Faktor Zrt.	450	450
K&H Ingatlanlízing Zrt.	50	50
K&H Jelzálogbank Zrt.	10 500	5 500
K&H Érték Zrt.	305	319
Total	17 396	12 410

The table includes the net carrying amount of investments.

For more information on the subsidiaries and associated companies see Note 41.

NOTE 29 – INVESTMENT PROPERTIES

	Investment properties MHUF
At 31 December 2019	
Cost	2 009
Accumulated depreciation	(135)
Net book value	1 874
Movements in 2020	
Additions	376
Disposals - net	(712)
Impairment charge	(2)
Depreciation charge	-
At 31 December 2020	
Cost	1 645
Accumulated depreciation	(109)
Net book value	1 536
Movements in 2021	
Additions	173
Disposals - net	(858)
Impairment charge	-
Depreciation charge	-
At 31 December 2021	
Cost	924
Accumulated depreciation	(73)
Net book value	851

Investment properties include collaterals obtained by taking in possession. The Bank intends to sell investment properties within a reasonable time period.

NOTE 29 – INVESTMENT PROPERTIES (continued)

The following table presents the results related to investment properties.

	2021 MHUF	2020 MHUF
Impairment on investment property		
Additions	-	(2)
Reversals	-	-
Total impairment	-	(2)
Expenses from investment properties		
Acquisition cost	(55)	(95)
Maintenance expenses	(148)	(171)
Sale related cost	(49)	(51)
Total expenses	(252)	(317)

Expenses recorded in 2021 (and 2020) were not recognised as asset in the statement of financial position.

The difference between the fair value and the carrying amount of the assets is immaterial as at 31 December 2021 (and as at 31 December 2020).

The Bank believes that the carrying amount of investment properties approximates their fair value (classified as level 3 in the fair value hierarchy).

NOTE 30 – PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Reclassified IT equipment	Office equipment	Right of use assets	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2019						
Cost	49 978	13 939	9 254	16 772	2 512	92 455
Accumulated depreciation	(22 819)	(8 120)	(7 430)	(2 516)	(1 014)	(41 899)
Net book value	27 159	5 819	1 824	14 256	1 498	50 556
Movements in 2020						
Additions (acquired separately)	2 644	1 005	732	4 363	713	9 457
Disposals - net	(1 568)	(30)	-	322	(157)	(1 433)
Transfers	-	(1 474)	-	-	-	(1 474)
Impairment charge	(744)	(2)	(15)	(1 499)	(7)	(2 267)
Depreciation charge	(1 969)	(1 976)	(384)	(2 627)	(423)	(7 379)
At 31 December 2020						
Cost	51 613	12 661	9 723	19 636	2 849	96 482
Accumulated depreciation	(26 091)	(9 319)	(7 566)	(4 821)	(1 225)	(49 022)
Net book value	25 522	3 342	2 157	14 815	1 624	47 460

NOTE 30 – PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	IT equipment	Office equipment	Right of use assets	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2020						
Cost	51 613	12 661	9 723	19 636	2 849	96 482
Accumulated depreciation	(26 091)	(9 319)	(7 566)	(4 821)	(1 225)	(49 022)
Net book value	25 522	3 342	2 157	14 815	1 624	47 460
Movements in 2021						
Additions (acquired separately)	3 135	3 292	883	767	940	9 017
Disposals - net	(12)	(1 572)	-	(1 078)	(96)	(2 758)
Transfers	(124)	-	-	-	-	(124)
Impairment charge	(239)	(21)	(16)	(430)	(1)	(707)
Depreciation charge	(2 054)	(1 681)	(376)	(2 627)	(435)	(7 022)
At 31 December 2021						
Cost	51 271	13 485	9 835	20 567	3 408	98 566
Accumulated depreciation	(25 043)	(10 125)	(7 187)	(8 969)	(1 376)	(52 700)
Net book value	26 228	3 360	2 648	11 598	2 032	45 866

Expenditure on items in the course of construction amounted to HUF 36 831 million as at 31 December 2021 (HUF 27 796 million as at 31 December 2020).

Fully amortised tangible assets which were still in use amounted to HUF 19 188 million as at 31 December 2021 (HUF 18 468 million as at 31 December 2020).

NOTE 31 – INTANGIBLE ASSETS

	Software MHUF	Other intangible assets MHUF	Total MHUF
At 31 December 2019			
Cost	69 814	42	69 856
Accumulated depreciation	(39 392)	(42)	(39 434)
Net book value	30 422	-	30 422
Movements in 2020			
Additions (acquired separately)	24 294	-	24 294
Impairment charge	(2 469)	-	(2 469)
Depreciation charge	(5 806)	-	(5 806)
At 31 December 2020	-	-	-
Cost	93 329	42	93 371
Accumulated depreciation	(46 888)	(42)	(46 930)
Net book value	46 441	-	46 441
Movements in 2021			
Additions (acquired separately)	20 815	-	20 815
Impairment charge	(508)	-	(508)
Depreciation charge	(7 927)	-	(7 927)
At 31 December 2021			
Cost	110 146	42	110 188
Accumulated depreciation	(51 325)	(42)	(51 367)
Net book value	58 821	-	58 821

Fully amortised intangible assets which were still in use amounted to HUF 30 800 million as at 31 December 2021 (HUF 32 060 million as at 31 December 2020).

NOTE 32 – PROVISIONS FOR RISK AND CHARGES

	Provision for restructuring MHUF	Provision for tax litigation and pending legal disputes MHUF	Other MHUF	Total MHUF
Balance as at 31 December 2019	149	129	241	519
Amounts allocated	386	51	790	1 227
Amounts used	(149)	-	-	(149)
Unused amounts reversed	-	(11)	(4)	(15)
Other (foreign exchange revaluation)				
Balance as at 31 December 2020	386	169	1 027	1 582
Amounts allocated	-	960	-	960
Amounts used	(236)	(64)	(117)	(417)
Unused amounts reversed	-	(6)	(264)	(270)
Balance as at 31 December 2021	150	1 059	646	1 855

The Bank is party to litigation and claims arising in the normal course of business, the provision of HUF 1 056 million from the total provision for losses from tax litigation and pending legal disputes at 31 December 2021 relates to these litigations (HUF 164 million at 31 December 2020). Management considers the provision raised for the still pending cases adequate to cover any remaining potential losses.

Provisions on credit commitments of HUF 1 038 million as at 31 December 2021 (HUF 1 262 million as at 31 December 2020) is presented in Note 23 and Note 36. The sum of HUF 1 855 million provision for risk and charges and HUF 1 038 million provisions for credit commitments amounts to HUF 2 893 million (HUF 2 844 million in 2020).

NOTE 33 – OTHER LIABILITIES

	2021 MHUF	2020 MHUF
Trade creditors	7 959	6 309
Lease liabilities	23 697	23 733
Items in transit due to payment services	6 448	9 163
Items in transit due to lending activity	933	773
Items in transit due to trading securities	51	1
Liabilities from bankcard service	4 000	3 880
Other	18 195	16 279
Total other liabilities	61 283	60 138

Other liabilities include mainly short term liabilities.

Other includes trading tax liabilities, social charges, liability from transactional levy not settled yet, liabilities due to employees (see Note 38) and other accrued charges and deferred income arising from the normal course of business recorded as general administrative expenses in the income statement.

NOTE 34 – SHARE CAPITAL

	2021 MHUF	2020 MHUF
Ordinary shares issued and outstanding	140 978	140 978

The nominal value of the ordinary shares issued and outstanding at 31 December 2021 is HUF 1 per share (31 December 2020: HUF 1).

Shareholders of the Bank:

	2021 Shareholding %	2020 Shareholding %
KBC Bank N. V.	100.00	100.00
	100.00	100.00

NOTE 35 – ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT

Net debt with regard to financing activities are presented in the table below.

	Notes	2021 MHUF	2020 MHUF
Cash and cash equivalents		1 313 384	817 949
Subordinated liabilities (see Note 15)	15	(46 350)	(46 350)
Borrowing – repayable within 1 year	15	(22 737)	(10 063)
Borrowing – repayable after 1 year	15	(505 468)	(473 649)
Net debt		738 829	287 887

NOTE 35 – ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT (continued)

The components of net debt changed as follows in 2021.

	Cash	Cash balances with central banks	Other demand deposits with credit institutions	Loans and advances to banks repayable on demand and term loans to banks < 3 months	Deposits from banks repayable on demand and redeemable at notice	Subordinated liabilities	Borrowing – repayable within 1 year	Borrowing – repayable after 1 year	Total net debt
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Net debt as at 31 December 2020	71 154	184 099	135 792	721 305	(294 401)	(46 350)	(10 063)	(473 649)	287 887
Cash flows	(7 644)	(63 406)	(25 785)	650 148	(36 068)	3 154	(12 607)	(29 214)	478 578
Foreign exchange adjustments	-	-	1 476	(1 771)	(101)	(485)	-	(1 124)	(2 005)
Other non-cash movements	-	(28 959)	(136)	7 342	339	(2 669)	(67)	(1 481)	(25 631)
Net debt as at 31 December 2021	63 510	91 734	111 347	1 377 024	(330 231)	(46 350)	(22 737)	(505 468)	738 829

NOTE 35 – ADDITIONAL INFORMATION TO THE CASH FLOW STATEMENT (continued)

The components of net debt changed as follows in 2020.

	Cash	Cash balances with central banks	Other demand deposits with credit institutions	Loans and advances to banks repayable on demand and term loans to banks < 3 months	Deposits from banks repayable on demand and redeemable at notice	Subordinated liabilities	Borrowing – repayable within 1 year	Borrowing – repayable after 1 year	Total net debt
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Net debt as at 31 December 2019	54 226	272 000	87 276	1 639	(125 353)	(41 953)	(27 058)	(276 458)	(55 681)
Cash flows	16 928	(88 428)	43 671	712 999	(168 876)	3 117	16 995	(186 481)	349 925
Foreign exchange adjustments	-	-	4 937	9 289	(597)	(4 392)	-	(2 155)	7 082
Other non-cash movements	-	527	(92)	(2 622)	425	(3 122)	-	(8 555)	(13 439)
Net debt as at 31 December 2020	71 154	184 099	135 792	721 305	(294 401)	(46 350)	(10 063)	(473 649)	287 887

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

In the normal course of business, the Bank is a party to credit related financial instruments recorded as off balance sheet items.. These financial instruments include commitments to extend credit, financial guarantees and commercial letters of credit. These instruments involve elements of credit risk in excess of the amounts recognized in the statement of financial position.

Credit risk for off-statement of financial position financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making commitments and conditional obligations as it does for financial instruments in the statement of financial position through established credit approvals, risk control limits and monitoring procedures.

Commitments are contractual agreements to extend credit which generally have fixed expiration dates or other termination requirements and may require payment of a fee. The potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending credit facilities to other customers. The Bank applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under the guarantee.

Letters of credit represent a financing transaction by a Bank to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

The Bank has the following commitments, contingent assets and liabilities:

	2021 MHUF	2020 MHUF
Credit commitments – undrawn amount		
Received	8 199	19 894
Given		
Irrevocable	378 620	381 672
Revocable	346 751	287 236
Total given	725 371	668 908
Collaterals		
Given	371 926	287 448
Guarantees received/collateral		
For impaired and past due assets		
Non-financial assets	58 948	45 921
Financial assets	3 963	3 318
For assets that are not impaired or past due		
Non-financial assets	2 306 771	2 049 057
Financial assets	346 552	304 048
Total guarantees received/collateral	2 716 234	2 402 344
Other commitments given – irrevocable	10 675	12 052

The amount of the received guarantees and collaterals includes the indexed or reviewed collateral value.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

The following table presents the nominal value and the provision for loan commitments and guarantees at 31 December 2021.

	Nominal amount			Provision			
	Performing		Non-performing	Performing		Non-performing	
	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loan commitments	678 042	45 290	2 040	(257)	(268)	(392)	724 455
Financial guarantees	342 112	29 453	361	(20)	(61)	(40)	371 805
Other commitments	10 559	111	7	(2)	0	0	10 675
Total	1 030 713	74 854	2 408	(279)	(329)	(432)	1 106 935

For evaluation of provision on commitments and contingent liabilities in 2021 see Note 23.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

The following table presents the nominal value and the provision for loan commitments and guarantees at 31 December 2020.

	Nominal amount			Provision			
	Performing		Non-performing	Performing		Non-performing	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loan commitments	613 050	54 849	1 010	(617)	(197)	(117)	667 978
Financial guarantees	268 587	18 326	535	(153)	(22)	(121)	287 152
Other commitments	11 925	127	-	(35)	(1)	-	12 016
Total	893 562	73 302	1 545	(805)	(220)	(238)	967 146

For evaluation of provision on commitments and contingent liabilities in 2020 see Note 23.

NOTE 36 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol of dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end the Bank had several unresolved legal claims in the amount of HUF 407 million (HUF 1 386 million as at 31 December 2020) where the Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed. Accordingly no provision for these claims has been made in these financial statements.

NOTE 37 – FINANCE AND OPERATING LEASES

Lessor position

The Bank offers open end financial lease (OEFL), closed end financial lease (CEFL) and operating Lease (OL) products for existing or targeted Corporate, Business and Micro SME customers of the Bank. The products are handled in the Bank’s normal credit approval and monitoring process, which gives a well-defined and established basis for managing credit risk.

Leasing residual value risk management framework is in place which contains residual value policy, residual value limit setting methodology and guaranty framework.

Certain lease contracts designated as operating lease under Hungarian Accounting Standards are designated as finance lease according to the IFRS terminology.

The assets leased out by the Bank are predominantly cars and trucks. In finance lease, the lessee selects an asset and the Bank purchases that asset and gives it to the lessee. In this way the Bank acts as a financier of the assets borrowed by the lessee. The lessee will have to use the asset during the lease period and will have to pay for the cost of repairs, maintenance and insurance of the asset. The Bank is the legal owner of the asset during the period of lease and recovers a major part of the cost of the asset plus interest earned from lease payment by the lessee. The lessee assumes some risks of the ownership and enjoys some of the benefits. The lessee or the third party has the option to acquire ownership of the asset by paying a nominal price which is the repurchase price.

NOTE 37 – FINANCE AND OPERATING LEASES (continued)

The following tables indicate the key amounts of the Bank's lease activity:

	2021	2020
	MHUF	MHUF
Finance lease receivables		
Total of gross investment in the lease, receivable:		
less than one year	28 058	27 719
one to five years	55 033	59 269
more than five years	3 072	3 474
	86 163	90 462
The present value of minimum lease payments receivables*:		
less than one year	27 433	25 433
one to five years	51 366	54 716
more than five years	2 875	3 237
	81 674	83 386
Unearned finance income	4 490	7 075
Non-guaranteed residual values	12 054	14 240

*Net of impairment.

The total impairment recorded on finance lease receivables amounted to HUF 1 968 million as at 31 December 2021 (HUF 3 065 million as at 31 December 2020).

NOTE 37 – FINANCE AND OPERATING LEASES (continued)

Lessee position

Operative lease

The Bank has entered into property lease agreements which are accounted for as operating leases in previous years. According to IFRS 16 these contracts are presented as lease liabilities and right-of-use assets in 2019.

The following tables give additional information about the client types and the remaining maturity of these liabilities recorded according to IFRS 16.

	2021 MHUF	2020 MHUF
< 1 year	-	70
1-5 years	4 165	10 895
5 years	10 750	5 987
Total financial lease liabilities	14 915	16 952

	2021 MHUF	2020 MHUF
General government	595	1 040
Corporate	11 263	14 689
of which small and medium enterprises	3 057	1 223
Total financial lease liabilities	14 915	16 952

Expenses relating to short-term leases and low-value lease are included in general administration expenses and amounted to HUF 106 million in 2021 (HUF 180 million in 2020).

Following table shows the total cash outflow for leases.

	2021 MHUF	2020 MHUF
Interest expense	93	128
Principal repayment	3 022	2 827
Total cash outflow	3 115	2 955

NOTE 37 – FINANCE AND OPERATING LEASES (continued)

Finance lease

A part of the headquarter building of the Bank is owned by a third party is object of finance lease. The tables below present the minimum lease payments and the present value of the lease liability.

	2021 MHUF	2020 MHUF
Net carrying amount of leased assets in the Statement of financial position	14 078	14 534
The present value of finance lease liabilities may be analysed		
less than one year	40	36
one to five years	203	184
more than five years	23 454	23 513
The present value of finance lease liabilities may be analysed	23 697	23 733
less than one year	1 647	846
one to five year	6 764	3 405
more than five years	64 122	41 791
Finance lease liabilities-minimum lease payments	72 533	46 042

NOTE 38 – RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, related parties include all enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the Bank (this includes parents, subsidiaries and fellow subsidiaries), key management and associated companies.

Parent:

KBC Bank N.V. owns 100.00 % of the ordinary shares in K&H Bank (2020: 100.00%). The ultimate parent of the Bank is KBC Group N.V.

Subsidiaries:

See list of subsidiaries in Note 41.

Associates:

See list of associates in Note 41.

Members of KBC Bank and other related parties:

CBC Banque SA
Československa Obchodni Banka a.s.
Československa Obchodna Banka a.s.
KBC Bank Ireland Plc.
KBC Asset Management SA
KBC Asset Management N.V.
KBC Fund Management Limited
KBC Groep N.V.
KBC Securities N.V.
K&H Biztosító Zrt.
Patria Finance a.s.
K&H Pénzforgalmi Szolgáltató Kft.
Omnia N.V.

Other related parties through key management

If the Bank's key management has direct or indirect authority and responsibility for planning, directing and controlling the activity of a company outside of KBC Group, the companies are presented as other related parties through key management.

The banking transactions entered into with related parties in the normal course of business including loans and deposits were carried out on normal commercial terms and conditions and at market rates. All loans and advances to related parties are performing and are free of any provision for possible loan losses.

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

The year-end balances and the income and expenses in respect of related parties included in the financial statements are as follows:

	Parent	Subsi-diaries	Other related parties (KBC Group)	Other related parties (through key management)	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
As at 31 December 2021					
Assets					
Other demand deposit	96 013	-	383	-	96 396
Loans and advances	93 351	41 752	339 055	2 672	476 830
Current accounts	-	17 520	1 938	490	19 948
Term loans	93 351	24 232	337 117	2 182	456 882
Finance leases	-	-	-	-	-
Derivatives	122 189	-	529	-	122 718
Held for trading	50 609		529		51 138
Hedging	71 580		-		71 580
Other receivables	6	110	3 671	-	3 787
Total assets	311 559	41 862	343 638	2 672	699 731
Liabilities					
Deposits	322 027	197 834	73 872	381	594 114
Current accounts	4 479	41 904	64 940	381	111 704
Term deposits (with agreed maturity)	317 548	155 930	8 932	-	482 410
Subordinated liabilities	46 848	-	-	-	46 848
-Non-convertible bonds	-	-	-	-	-
Derivatives	155 374	-	762	-	156 136
Held for trading	61 232	-	762	-	61 994
Hedging	94 142	-	-	-	94 142
Other liabilities	153	23 265	816	-	24 234
Total liabilities	524 402	221 099	75 450	381	821 332
Income statement					
Net interest and similar income	(74)	(3 643)	(1 248)	(2)	(4 967)
Interest and similar income	1 451	803	47	21	2 322
Interest and similar expense	(1 525)	(4 446)	(1 295)	(23)	(7 289)
Net fee and commission income	174	52	10 749	40	11 015
Fee and commission income	960	52	11 434	43	12 489
Fee and commission expense	(786)	-	(685)	(3)	(1 474)
Other income	43	155	693	-	891
Other expense	(951)	(1 079)	(6 494)	-	(8 524)
Total income statement	(808)	(4 515)	3 700	38	(1 585)
Off-statement of financial position items					
Commitments and contingent liabilities	203 307	19 514	9 342	3 032	235 195
Guarantees received	1 669	-	9 944	-	11 613
Notional amount of derivatives	4 626 992	-	3 812	-	4 630 804

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

	Parent	Subsi-diaries	Other related parties (KBC Group)	Other related parties (through key management)	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
As at 31 December 2020					
Assets					
Other demand deposit	123 193	327	1 107	-	124 627
Loans and advances	79 680	38 758	281 151	2 420	402 009
Current accounts	-	14 185	1	264	14 450
Term loans	79 680	24 573	281 150	2 156	387 559
Finance leases	-	-	-	-	-
Derivatives	61 363	-	228	-	61 591
Held for trading	37 892	-	228	-	38 120
Hedging	23 471	-	-	-	23 471
Other receivables	(36)	151	2 753	-	2 868
Total assets	264 200	39 236	285 239	2 420	591 095
Liabilities					
Deposits	10 838	173 710	48 052	2 446	235 046
Current accounts	10 838	24 643	47 986	2 446	85 913
Term deposits (with agreed maturity)	-	149 067	66	-	149 133
Subordinated liabilities	46 350	-	-	-	46 350
Non-convertible bonds	-	-	-	-	-
Derivatives	80 505	-	412	-	80 917
Held for trading	57 061	-	412	-	57 473
Hedging	23 444	-	-	-	23 444
Other liabilities	115	23 304	605	-	24 024
Total liabilities	137 808	197 014	49 069	2 446	386 337
Income statement					
Net interest and similar income	31	(3 547)	(888)	52	(4 352)
Interest and similar income	1 608	636	20	54	2 318
Interest and similar expense	(1 577)	(4 183)	(908)	(2)	(6 670)
Net fee and commission income	(307)	(175)	6 760	38	6 316
Fee and commission income	580	47	7 378	39	8 044
Fee and commission expense	(887)	(222)	(618)	(1)	(1 728)
Other income	-	168	1 423	-	1 591
Other expense	(887)	(961)	(4 137)	-	(5 985)
Total income statement	(1 163)	(4 515)	3 158	90	(2 430)
Off-statement of financial position items					
Commitments and contingent liabilities	193 972	22 014	4 799	2 060	222 845
Guarantees received	637	50	7 238	-	7 925
Notional amount of derivatives	4 327 165	-	55 499	-	4 382 664

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

The interest rate of other demand deposits and loans and advances from related parties varied in a range of -0.493 and 11.99 percent in 2021 (-0.47 and 2.51 percent in 2020). Deposits due to related parties bear a minimum interest rates of 0 and a maximum interest rate of 2.83 percent in 2021 (0 and 2.7 in 2020). For interest rate conditions of subordinated liabilities see Note 15.

Transactions with key management

The Bank's key management includes the members of the executive committee, senior executive directors and executive directors.

Loans

In accordance with the Bank's internal policy, all employees of the Bank, including key management may apply for loans with favourable conditions. Favourable conditions include a waiver of handling fees and lower than market interest rates.

The major part of the total of HUF 600 million outstanding amount of loans of key management at 31 December 2021 was housing loan (HUF 623 million at 31 December 2020), with the long-term maturity obligations ranging from 15-20 years.

Deposits

In accordance with the Bank's internal policy, all the employees of the Bank, including key management staff are entitled to have a bank account and a securities/bond account with condition of K&H 4000+ account package offered for companies with number of employees over 4 000. According to this package the interest paid on deposit is the basic interest rate of the Hungarian National Bank less 3.25% but if it is negative, then the interest rate for the K&H Demand Deposit Account.

At 31 December 2021 the outstanding amount of deposits was HUF 717 million (HUF 718 million at 31 December 2020). In 2020 the Bank didn't pay interest on these deposits (nor in 2020).

Staff expenses

The following amounts have been recorded related to key management personnel:

Type of benefit	2021 MHUF	2020 MHUF
Short-term employee benefits	2 356	2 332
Other long-term benefits	22	19
Termination benefits	-	-
Share based payment (cash settled)	58	58
Total benefits	2 436	2 409

The liability of HUF 150 million (HUF 142 million in 2020) resulting from the carrying amount of share based payment is recorded as other liability in the statement of financial position.

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

Share based payment

The Bank applies specific rules for Key Identified Staff (KIS). The performance-based remuneration of Key Identified Staff is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking. This is ensured by specific rules, which are applicable to the variable remuneration of Key Identified Staff:

- At least 40% of variable remuneration awarded to Key Identified Staff may not be paid straightaway and its payment is spread over a period of three to five years;
- Half of the total amount of variable remuneration for Key Identified Staff is awarded in the form of non-cash instruments (phantom shares) with a one-year retention period;
- No advance payments may be made in relation to the variable component and claw-back/holdback is put in place (evidence of misconduct or serious error; significant deterioration in the financial performance of the Bank; major shortcomings in risk management; significant changes in the economic or regulatory capital base of the Bank).

Key Identified Staff who are allocated variable compensation of less than the amount stated in the Remuneration Policy are considered exempt Key Identified Staff. (In this case, variable remuneration is not subject to three years' deferral and payment in non-cash instruments, but 100% of the variable remuneration is settled upfront in cash.) The employees whose variable remuneration is subject to deferral and payment in non-cash instruments are called material Key Identified Staff.

Structure for 2021 variable compensation of material Key Identified Staff

	Individual variable remuneration awarded for 2020 performance year			
	Upfront part		Deferred part	
In case of KBC Senior General Managers	(50% of award)		(50% of award)	
In case of all KIS whose variable compensation is below the limit prescribed in the Remuneration Policy	(60% of award)		(40% of award)	
In case of all KIS whose variable compensation is equal to or exceeds the limit prescribed in the Remuneration Policy	(40% of award)		(60% of award)	
	Cash (50% of Upfront)	Non-cash instrument (50% of Upfront)	Cash (50% of Deferred)	Non-cash instrument (50% of Deferred)
Vesting schedule	fully vested at grant	fully vested at grant	3/5-year equal vesting tranches	3/5-year equal vesting tranches
Retention period		retention period ends April 2023		retention period ends one year after vesting

The cash is payable following vesting. The non-cash instrument is payable following the retention period.

The number of phantom shares to which each Key Identified Staff is entitled is calculated based on the average price of the KBC share during the first three months of the year following the year to which the variable remuneration relates. Phantom shares are converted into cash on the basis of the average price of the KBC share during the first three months of the pay-out year.

NOTE 38 - RELATED PARTY TRANSACTIONS (continued)

	2021		2020	
	number of shares	weighted average share price* HUF/share	number of shares	weighted average share price* HUF/share
Outstanding as at the beginning of the period	6 419	22 839	6 077	21 584
Granted	2 387	21 746	3 127	20 902
Exercised	(1 367)	20 697	(2 789)	19 155
Transferred**	(1 367)	20 697	4	19 155
Outstanding as at the end of the period	6 072	22 557	6 419	22 839

*Share prices as at the grant date weighted by the number of shares granted at that date.

**Shares granted to employees moving between KBC entities during the year may increase/decrease the number of shares to be exercised or paid off by the Bank. These changes are presented as transferred shares. Transferred shares also include no longer payable deferred amounts due to employment termination.

The value of the phantom shares outstanding as at 31 December 2021 based on the year-end closing price of KBC shares was 28 384 HUF/share (18 898 HUF/share as at 31 December 2020).

There were no shares exercisable as at 31 December 2021 (and as at 31 December 2020).

The weighted average share price of shares converted to cash as at the date of the exercise was 21 746 HUF/share in 2021 (20 902 HUF/share in 2020).

The weighted average remaining contractual life of phantom shares outstanding as at 31 December 2021 is 15 months (18 months as at 31 December 2020).

The Bank applied the share based payment plan for the 2021 performance as well.

As at 31 December 2021 the information related to the number of phantom shares for the 2021 performance is not available, since the first grant date is in April 2022.

From the grant date phantom shares are valued based on the quoted market prices of KBC shares. No intrinsic value is recorded.

A part of the Bank's employees are entitled to participate in defined benefit plan founded by the Bank. The amount of benefits to be provided depends on the employee's length of service in a certain past period and the level of reference interest rate. The future payments regarding to the plan have no significant effect on the Bank's cash flow.

NOTE 39 – DEFINED BENEFIT PLAN

The table below presents the reconciliation of defined benefit obligations recorded as other liabilities.

	2021 MHUF	2020 MHUF
Defined benefit obligations at the beginning of the period	286	318
Interest cost	6	7
Actuarial gains and losses arising from changes in financial assumptions	6	3
Benefits paid	(19)	(16)
Past service cost, including gains and losses arising from settlements	(18)	(26)
Defined benefit obligation at end of the period	261	286

Interest cost on defined retirement benefit plans are recorded as interest and similar expense in the income statement (see Note 4). Current service cost, benefits paid and past service includes the effect of the renegotiation of defined benefit plans. Current service costs are recorded as staff expenses in the income statement (see Note 13). Actuarial gains and losses arising from changes in financial assumptions are accounted directly in other comprehensive income.

NOTE 40 – AUDITOR'S REMUNERATION

	2021 MHUF	2020 MHUF
Fees for the statutory audit services	216	232
Fees related to permitted non-audit services provided by the statutory auditor	3	5
Total fees paid to audit firms	219	237

The amounts in the table above include VAT.

The Bank is provided with statutory audit services by PricewaterhouseCoopers Könyvvizsgáló Korlátolt Felelősségű Társaság.

Non-audit services provided by the statutory auditor includes services related to risk management.

NOTE 41 – SUBSIDIARIES

	Address of headquarter	Principal activities	Capital 2021	Effective Shareholding 2021	Effective Shareholding 2020
Fully consolidated subsidiaries			MHUF	%	%
K&H Jelzálogbank Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Other credit granting services	3 700	100	100
K&H Autópark Kft.	1095 Budapest, Lechner Ödön fasor 9.	Operating lease	11	100	100
K&H Ingatlanlízing Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Finance lease	50	100	100
K&H Csoportszolgáltató Kft.	1095 Budapest, Lechner Ödön fasor 9.	Group service center	60	100	100
K&H Equities Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Business and management consultancy	38	100	100
K&H Faktor Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Other financial services	51	100	100
K&H Érték Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Business and management consultancy	301	100	100
Subsidiaries in voluntary liquidation					
K&H Tanácsadó Zrt."v.a"	1095 Budapest, Lechner Ödön fasor 9.	Business and management consultancy	850	100	100

The principal place of business of the companies mentioned in the table is Hungary.

NOTE 42 – SUBSEQUENT EVENTS

At the time these financial statements were being prepared, the Russia-Ukraine war required additional attention in Hungary. The Bank has very limited direct exposure to Ukraine and Belarus and only limited direct exposure to Russia. The Bank is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to the Bank and its clients, both financially and operationally, with a.o. high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

NOTE 43 – RISK MANAGEMENT

43.1 General

The Bank is not only a universal commercial bank and a major player in the Hungarian market but also part of the KBC Group. As such the activities of the Bank cover a wide range including the retail, corporate and the professional money market segments. In its role as a financial intermediary, the Bank faces different uncertainties presenting both risk and opportunity at the same time. The challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value.

Risk management makes it possible for management to effectively deal with this uncertainty and the risks and opportunities linked to it, enhancing the capacity to build value. Therefore at both KBC Group and K&H Bank value and risk management is based on the following fundamental principles:

- Value, risk and capital management are inextricably linked to one another.
- Risk management is approached from a comprehensive, enterprise- wide angle, taking into account all the risks a company is exposed to and all the activities it engages in.
- Primary responsibility for value and risk management lies with line management, while within Capital and Risk Oversight (CRO) Services Division separate Value and Risk Management departments – operating independently of line management – perform advisory, supporting and supervisory role.
- Every material subsidiary is required to adhere to the same risk governance model as the parent company.

The Bank risk management activity is primarily based on the on-going Internal Capital Adequacy Assessment Process (ICAAP) that is aligned with international standards and KBC Group principles. The ICAAP is subject of annual Supervisory Review and Evaluation Process (SREP) conducted by the local supervisor in the frame of Joint Capital Decision of home and host supervisors.

The Bank has Recovery Plan prepared according to the guidelines set out by KBC Group and the local supervisor. The Recovery Plan of the Bank is integrated into the Recovery Plan of KBC Group.

Risk management governance model

The risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organisations with a view to ensuring the sound management of value creation and all the associated risks to which the banking business is exposed. The Bank's risk governance model is organised in three tiers:

- Overarching company and risk committees are the Board of Directors (BoD), the Audit Board (AB), Risk and Compliance Committee (RCC), the Executive Committee (ExCo), the Country Team (CT) and the Capital and Risk Oversight Committee (CROC). These committees concentrate on overarching risk management and on monitoring value creation.
- Specialised risk councils (Credit Risk Council (CRC), Operational Risk Councils (ORC) concentrate on implementing a group-wide framework for one particular type of risk and monitoring the associated risk management process. The risk councils are composed of representatives from line management and relevant Value and Risk Management departments.
- Line management and activity-specific committees have primary responsibility for value and risk management on the operational level. Whereas Value and Risk Management departments measure risks, economic capital and value creation for all relevant business entities and reports their findings directly to line management and the relevant activity-specific committees.
- Within CRO Services Division the Risk Integration and Support Directorate is dedicated to overarch the three existing risk centres of competence (Credit Risk, Market and Liquidity Risk and Non-financial Risks), enhance coordination and report to Management regarding value creation, risk and capital.

The Board of Directors and the Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Risk and Compliance Committee – quarterly risk reports, yearly overview of the remuneration policy and the risk based pricing policy - ensures that there is an ample flow of information to the relevant members of the Board over the course of the year. Moreover, through the involvement of the entire Board in the annual round of approvals of risk-tolerance limits, the Board is able to take informed decisions on the degree of risk it finds acceptable for the Bank and on the adequacy of the risk management structure.

NOTE 43 – RISK MANAGEMENT (continued)

Risk measurement and – monitoring

Risk measurement and monitoring in general includes the following sub-processes:

- Identification of risks is a process of discovering and defining material risks, namely those risks that could have a positive or negative impact on the financial position of the Bank. Identification of risks is further ensured with setting up New and Active Products Process (NAPPs) in all business domains.

- Measurement of risks; qualitative and quantitative assessment of exposure to risk. The Bank uses amongst others the following risk measures for the following most significant risk types:
  - Credit default and migration risks: nominal positions (outstanding/exposure), PD (probability of default), LGD/EL (loss given default/expected loss), credit concentration ratios, loan delinquency ratios, renegotiated loan ratios, credit loss ratios, RWA, stress test results;
  - Trading risk: historic VaR (value at risk), and stress test results;
  - ALM (asset-liability management) risk: BPV (basis point value), results of stress test on interest income, parametric VaR;
  - Operational risk: KRI (key risk indicator), results of risk self-assessment, level of compliance with Group Standards, availability of crisis management plans;
  - Liquidity risk: liquidity gaps, loan-to-deposit ratio, liquidity coverage ratio (LCR), net stable funding ratio (NSFR), liquidity concentration ratios, stress test results.

- Risk appetite and setting limits; is a way of authorizing specific forms of risk taking. A limit indicates how much risk the Bank considers being ‘an acceptable maximum’ for a portfolio or a segment of a portfolio. They reflect the general risk appetite, set by the Board of Directors. This general risk appetite cascades down in specific risk limits or tolerances that reflect the degree of acceptable variation to the achievement of objectives. Risk appetite and limits are agreed upon by the Board of Directors.

- Reporting; delivery of risk measurement results and compliance with the limits (comparison of risk exposure with the risk limit) to the decision makers (relevant risk committees) in a structured format. The main types of reports used in the Bank:
  - exposures to key risk types,
  - key risk indicators,
  - limit breaches,
  - losses,
  - advice from risk management department regarding the risk response.

  A dual reporting system by the local value and risk departments exists: hierarchical reporting to the local Executive Committee via the local risk committees, and functional reporting via the KBC Group Value and Risk Management to the group risk committees and on to the KBC Group Executive Committee.

- Monitoring and response to shortcomings; the purpose of responding to risks is to constrain threats and take advantage of the opportunities. Management (or respective decision makers) need to come up with a response to risk and define, implement and execute controls instruments that help to achieve a residual risk level aligned with the Bank’s risk limits.

The following paragraphs deal with each of the material risk types in more detail.

43.2 Liquidity risk and funding management

Liquidity is the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of the Bank in the maturity transformation of short-term deposits into long-term loans makes the Bank inherently vulnerable to liquidity risk both of an institution-specific nature and that which affects markets as a whole. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions. Financial market developments in the past decade have increased the complexity of liquidity risk and its management.

NOTE 43 – RISK MANAGEMENT (continued)

The objective of the liquidity risk management framework is to limit liquidity risks by taking into account an adequate level of funding, the potential growth of the Bank, and in considering liquidity shocks to guarantee the availability of sufficient cash flow to meet all of the Bank's financial commitments:

- in a normal business environment;
- under extreme circumstances (shocks);
- and on different time horizons (short, medium and long term).

The Bank assesses the following liquidity risk aspects:

- Short-term liquidity risk represents the risk that the Bank will not be able to meet its payment obligations in full or in time. Short-term liquidity risk is measured up to 30-90 working days.
- Long-term liquidity risk represents the risk that additional refinancing funds will be available only at higher market interest rates. Long-term liquidity risk is measured from 1 year onwards.
- Concentration liquidity risk occurs when the Bank has an excessive level of exposure to individual depositor, type of deposit instrument, market segment or currency of denomination, mainly on the liabilities' side. However, concentration liquidity risk can be also due to concentration in a particular on- or off-statement of financial position instrument, which could significantly alter expected cash flows.
- Marketable asset risk represents the risk that the Bank will not be able to liquidate assets on the market only at a discount.

The core collateral pool (liquidity buffer or liquidity reserve) is considered as the liquidity resource of the Bank. The Bank maintains adequate liquidity resources at all times, both as to amount, maturity and quality, to ensure that the Bank can continue to meet its liabilities as they fall due, both in normal and stressed times.

The structure of the core collateral pool reflects the Bank's market position, and advantages resulting from the composition of shareholders and various internal and external prudential expectations such as:

- Attracting significant client funds (both corporate and retail);
- Having (indirect) access to international capital markets, funds provided by KBC Group (parent company);
- Keeping the cost of funding to a minimum, while maintaining competitiveness (prices should be in line with the rates of other key players in the market);
- Avoiding as much as possible reliance on volatile deposits;
- Offering full service to clients with the widest possible array of financial products.

The Bank maintains adequate balances on its accounts with the Hungarian National Bank and foreign correspondents to continuously meet its obligations.

NOTE 43 – RISK MANAGEMENT (continued)

The following table shows a breakdown of the financial assets and financial liabilities by expected maturity at 31 December 2021:

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial assets					
Cash balances with central banks and other demand deposits with credit institutions	266 591	-	-	-	266 591
Held for trading	18 490	43 381	24 218	-	86 089
Mandatorily at fair value through profit or loss	12 192	40 287	153 535	-	206 014
Fair value through other comprehensive income	(119)	39 668	27 712	2 262	69 523
Amortised cost	2 024 840	1 126 069	1 310 014	-	4 460 923
Fair value changes of hedged item under portfolio hedge of interest rate risk	(66 693)	-	-	-	(66 693)
Hedging derivatives	750	10 236	60 527	-	71 513
Total financial assets and cash balances with central banks and other demand deposits with credit institutions	2 256 051	1 259 641	1 576 006	2 262	5 093 960

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial liabilities					
Held for trading	19 051	29 759	20 669	-	69 479
Designated at fair value through profit or loss	5 701	-	-	-	5 701
Hedging derivatives	4 535	52 464	41 559	-	98 558
Measured at amortised cost	3 885 358	589 106	167 550	-	4 642 014
Fair value changes of hedged item under portfolio hedge of interest rate risk	(72 738)	-	-	-	(72 738)
Total financial liabilities	3 841 907	671 329	229 778	-	4 743 014
Commitments and contingent liabilities	1 096 089	-	-	-	1 096 089
Total financial liabilities, commitments and contingent liabilities	4 937 996	671 329	229 778	-	5 839 103

Financial assets and liabilities repayable on demand are included in the <=1 year category.

NOTE 43 – RISK MANAGEMENT (continued)

The following table shows a breakdown of the financial assets and financial liabilities by expected maturity at 31 December 2020:

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial assets					
Cash balances with central banks and other demand deposits with credit institutions	391 045	-	-	-	391 045
Held for trading	33 237	17 104	16 861	-	67 202
Mandatorily at fair value through profit or loss	11 702	27 037	100 831	-	139 570
Fair value through other comprehensive income	58 907	49 515	-	3 877	112 299
Amortised cost	1 944 375	1 012 962	570 844	-	3 528 181
Fair value changes of hedged item under portfolio hedge of interest rate risk	17 841	-	-	-	17 841
Hedging derivatives	1 253	11 977	12 235	-	25 465
Total financial assets and cash balances with central banks and other demand deposits with credit institutions	2 458 360	1 118 595	700 771	3 877	4 281 603

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial liabilities					
Held for trading	31 043	21 076	12 049	-	64 168
Designated at fair value through profit or loss	16 348	16 703	-	-	33 051
Hedging derivatives	1 738	3 145	19 482	-	24 365
Measured at amortised cost	3 354 347	395 962	77 961	-	3 828 270
Fair value changes of hedged item under portfolio hedge of interest rate risk	14 614	-	-	-	14 614
Total financial liabilities	3 418 090	436 886	109 492	-	3 964 468
Commitments and contingent liabilities	968 409	-	-	-	968 409
Total financial liabilities, commitments and contingent liabilities	4 386 499	436 886	109 492	-	4 932 877

Financial assets and liabilities repayable on demand are included in the <=1 year category.

NOTE 43 – RISK MANAGEMENT (continued)

The remaining maturity of non-financial assets and liabilities held as at 31 December 2021 is presented in the table below.

	< 1 year MHUF	> 1 year MHUF	Total MHUF
Tax assets	3 074	-	3 074
Investment property	-	1 540	1 540
Property, plant and equipment	-	46 729	46 729
Intangible assets	-	46 442	46 442
Non-current assets held for sale and disposal groups	1 474	-	1 474
Other assets	22 744	-	22 744
Total assets	27 292	94 711	122 003
Tax liabilities	1 921	93	2 014
Provisions for risks and charges	2 823	16	2 839
Other liabilities	39 158	-	39 158
Total liabilities	43 902	109	44 011

The remaining maturity of non-financial assets and liabilities held as at 31 December 2020 is presented in the table below.

	Reclassified < 1 year MHUF	Reclassified > 1 year MHUF	Reclassified Total MHUF
Tax assets	3 058	-	3 058
Investment property	-	1 536	1 536
Property, plant and equipment	-	47 458	47 458
Intangible assets	-	46 441	46 441
Non-current assets held for sale and disposal groups	1 474	-	1 474
Other assets	22 747	-	22 747
Total assets	27 279	95 435	122 714
Tax liabilities	991	193	1 184
Provisions for risks and charges	2 828	16	2 844
Other liabilities	60 138	-	60 138
Total liabilities	63 957	209	64 166

The expected remaining maturity breakdown above represents the current and non-current classification of non-financial assets and liabilities.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the future undiscounted cash flows of financial liabilities and commitments and contingent liabilities by remaining contractual maturity as at 31 December 2021. For held-for-trading derivatives nominal values are disclosed in the table.

	Cash balances with central banks and other demand deposits with credit institutions	Held for trading derivatives	Mandatory fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets							
On demand and less than three months	203 082	508 229	5 565	10 403	1 492 157	894 771	3 114 207
More than three months but not more than one year	-	532 672	5 756	-	448 753	488 704	1 475 885
More than one but not more than five years	-	1 178 946	43 326	44 574	1 150 118	980 801	3 397 765
More than five years	-	501 106	165 208	15 109	1 320 928	535 636	2 537 987
Total	203 082	2 720 953	219 855	70 086	4 411 956	2 899 912	10 525 844

	Held for trading derivatives	Designated fair value through profit or loss	Amortised cost	Hedging deriv4atives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities					
On demand and less than three months	508 195	5 176	3 752 101	895 345	5 160 817
More than three months but not more than one year	532 535	430	128 256	489 094	1 150 315
More than one but not more than five years	1 178 058	-	595 451	980 762	2 754 271
More than five years	501 020	-	171 195	535 596	1 207 811
Total	2 719 808	5 606	4 647 003	2 900 797	10 273 214

NOTE 43 – RISK MANAGEMENT (continued)

	Commitments to extend credit	Guarantees	Letters of credit	Total
	MHUF	MHUF	MHUF	MHUF
Commitments and contingent liabilities				
On demand and less than three months	725 372	371 926	10 675	1 107 973
More than three months but not more than one year	-	-	-	-
More than one but not more than five years	-	-	-	-
More than five years	-	-	-	-
Total	725 372	371 926	10 675	1 107 973

The following tables present the future undiscounted cash flows of financial liabilities and commitments and contingent liabilities by remaining contractual maturity as at 31 December 2020. For held-for-trading derivatives nominal values are disclosed in the table.

	Cash balances with central banks and other demand deposits with credit institutions	Held for trading derivatives	Mandatory fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Hedging derivatives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Financial assets							
On demand and less than three months	319 893	572 722	3 668	6 386	906 496	422 464	2 231 629
More than three months but not more than one year	-	1 143 829	3 579	17 093	254 921	295 161	1 714 583
More than one but not more than five years	-	1 438 405	27 600	54 847	1 061 920	822 031	3 404 803
More than five years	-	425 104	101 635	41 604	1 300 775	317 245	2 186 363
Total	319 893	3 580 060	136 482	119 930	3 524 112	1 856 901	9 537 378

NOTE 43 – RISK MANAGEMENT (continued)

	Held for trading derivatives	Designated fair value through profit or loss	Amortised cost	Hedging deriv4atives	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Financial liabilities					
On demand and less than three months	572 626	7 632	3 221 549	424 173	4 225 980
More than three months but not more than one year	1 143 466	21 066	104 502	295 537	1 564 571
More than one but not more than five years	1 438 194	2 232	435 836	822 399	2 698 661
More than five years	425 104	0	74 642	317 416	817 162
Total	3 579 390	30 930	3 836 529	1 859 525	9 306 374

	Commitments to extend credit	Guarantees	Letters of credit	Total
	MHUF	MHUF	MHUF	MHUF
Commitments and contingent liabilities				
On demand and less than three months	668 909	287 448	12 052	968 409
More than three months but not more than one year	-	-	-	-
More than one but not more than five years	-	-	-	-
More than five years	-	-	-	-
Total	668 909	287 448	12 052	968 409

The Bank's exposure to the risk arising from the outflows of cash or other financial asset which can occur significantly earlier or can be for significantly different amounts from the data presented in the tables above is immaterial.

The Bank uses different ratios to measure and limit liquidity risk that arises from financial intermediation. The operational liquidity is monitored via limits on the unsecured liquidity gap, stress tests and "Basel III" and local regulatory liquidity indicators. From a structural liquidity point of view a group wide net stable funding ratio is used. The Bank is also analysing liquidity stress test results.

NOTE 43 – RISK MANAGEMENT (continued)

Operational liquidity is measured by the unsecured liquidity gap limit. The operational liquidity gap is the difference between the cash in and outflows in different time horizons (5 days, 30 days) and an internal limit was set for the gap to be covered by Hungarian National Bank eligible collaterals. The Bank had sufficient liquidity gap surplus in 2021 and 2020, having increasing reliance on sight deposits.

Liquidity stress tests

Contingency liquidity risk is assessed in the Bank on the basis of several liquidity stress scenarios. The aim of the stress tests is to measure how the liquidity buffer of the Bank evolves under stressed scenarios. For each scenario the evolution of the liquidity buffer is calculated: this is the amount of excess liquidity per time bucket. Excess liquidity is the amount of cash that is available which is not required to cover immediately maturing liabilities. The simulated liquidity buffer is the sum of two components: the expected cash evolution under stressed scenarios and the expected liquidity increasing actions under stressed scenarios. In essence, there are four different types of stress tests: K&H specific empirical scenario, 2013's Cyprus banking crisis inspired empirical scenario, Combined general market turmoil and Central Europe specific scenarios, and a reverse stress scenario. Under all scenarios the Bank would achieve the internally set survival period of one month and also the time to wall period is indicated which is sufficiently remote in each stress test.

Basel III and regulatory ratios

LCR and NSFR ratios prescribed in regulation from Basel III origin on liquidity measurement are calculated and reported regularly as key liquidity risk measure. Effective LCR threshold is 100% since 1 October 2015, the Bank's LCR ratio stood at 263% at the end of 2021 and at 222% at the end of 2020 meeting all time the regulatory minimum requirement. NSFR's 100% regulatory compliance is launched from 30 June 2021. The Bank stood at 171% at the end of 2021 and at 171% at the end of 2020.

43.3 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non-trading portfolios.

Market risk – trading

The Bank is exposed to market risk via the trading books of the Bank's dealing room and via the FX exposure of the subsidiaries. The Bank has set limits on the level of market risk that may be accepted. The Bank applies VaR methodology to assess the market risk positions held and to estimate the potential economic loss based on a number of parameters and assumptions for various changes in market conditions. VaR is defined as an estimate of the amount of money that can be lost on a given portfolio due to market risk, over a defined holding period, to a given confidence level. The measure only considers the market risk of the current portfolio and does not attempt to capture possible losses due to further trading or hedging, counterparty default or operational losses.

In practice the actual trading results will differ from the VaR calculation and in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions. Market risk positions are also subject to regular stress tests to assess if the Bank would withstand market shocks.

There are a number of different approaches used in the industry to generate VaR, with each having a varying level of suitability for different sizes and types of portfolios. The Bank has chosen to use the historical VaR methodology to measure and manage market risks in the trading book.

NOTE 43 – RISK MANAGEMENT (continued)

The hVaR approach uses the actual historic market performance to simulate possible future market evolutions. The hVaR methodology does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years (500 scenario dates). The hVaR that the Group applies is an estimate - using a confidence level of 99% and one-day holding period. The use of the 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, once every hundred days. However, the VaR method will not tell us how much we will lose on that day, only that it is expected to exceed a certain amount. HVaR has rapidly become the standard VaR approach in large, internationally active banks. Moreover, hVaR provides a much better fit with the increased emphasis on scenario-based risk management, which includes stress testing. HVaR calculates with 1 day holding period.

From 2020 Q2, the Bank reports its trading risk capital requirement applying CRR. Art.94 – Derogation of Small Trading Book (STB), as a result of compliance with regulatory requirements. Hungarian National Bank accepted that the Bank was going to use STB. Position risk' capital requirement is henceforth calculated under the credit risk framework, thus the trading risk capital requirement decreased significantly. There is continuous daily monitoring and strong control environment in place which was accepted by Hungarian National Bank to provide STB compliance and regulatory requirements. From this point of time, total VaR equals with the foreign exchange VaR figures and interest rate VaR is no longer considered within trading risk.

No exposure to equity risk in order to meet STB rules.

VaR results can be presented as follows:

	Foreign exchange MHUF	Interest rate MHUF	Total VAR MHUF
2021 – 31 December	5	-	5
2021 – Average daily	7	-	7
2021 – Highest	30	-	30
2021 – Lowest	1	-	1
2020 – 31 December	8	-	8
2020 – Average daily	10	7	12
2020 – Highest	51	25	51
2020 – Lowest	1	1	1

FX risk is handled via FX concentration limits in the Group.

From 2021, the Bank switched to the calculation methodology based on 1-day holding period from the previously used 10-days holding period to measure VaR.

The Bank's average limit utilization was well below the hVaR limit.

Trading risk taking was stable at around 11% of the available VaR limit. There was no limit overrun in the examined period. In March 2018 trading positions were migrated to KBC (phase 1: interest rate positions).

From 2020 Q2, the Bank reports its trading risk capital requirement applying CRR. Art.94 – Derogation of Small Trading Book (STB), as a result of compliance with regulatory requirements. Hungarian National Bank accepted that the Bank was going to use STB. Position risk' capital requirement is henceforth calculated under the credit risk framework, thus the trading risk capital requirement decreased significantly. There is continuous daily monitoring and strong control environment in place which was accepted by Hungarian National Bank to provide STB compliance and regulatory requirements. From this point of time, total VaR equals with the foreign exchange VaR figures and interest rate VaR is no longer considered within trading risk.

NOTE 43 – RISK MANAGEMENT (continued)

The Bank does not have exposure to direct equity risk. Trading portfolio buy back notes in closed and open-end capital protected funds from K&H Asset Management Funds so as to assure secondary market for these notes. Typically all funds are made of deposit and different option structures. The trading risk is managed with a EUR 5 million net nominal limit on these notes and above one year maturity all components are fully hedged. The structure of notes which are kept in trading book is dismantled and the option part is hedged back-to-back within the limits.

No exposure to equity risk in order to meet STB rules.

Market risk – Non-trading

The Capital and Risk Oversight Committee (CROC) is responsible for controlling the value creation, the maturity transformation and the market risks of the banking book. Risk tolerance levels are allocated by KBC Group and approved by the K&H Board of Directors.

Majority of the Bank's ALM risks are interest rate related risks; consequently the tolerance level is limited in BPV terms (10-basispoint upward parallel yield curve shift impact on net present value). The interest rate risk is also measured with scenario analyses (including stressed environment). ALM-Capital Model determines the amount of capital that is required in view of the ALM risk profile in the banking book. ALM-CM measures the impact of very severe events on the Available Capital under Pillar I. Banking book's inherent risks are interest rate risk, inflation, real estate and equity risk that are measured and monitored according to the Bank approach. Foreign currency risk is not inherent in the banking book.

The BPV tables below present the results of reasonable possible changes of the fair value of the financial instruments held at fair value on 31 December 2021 and 2020. Possible alternatives were calculated based on the scenarios of 10, 100, and 200 basis point parallel shifts in yield curves. The banking book is limited in BPV by an internally set limit. The results contain the impact of derivative exposures too.

NOTE 43 – RISK MANAGEMENT (continued)

UP Scenarios, 31 December 2021	denomination	Sensitivity of equity	Sensitivity of profit or loss	Total sensitivity
		MHUF	MHUF	MHUF
10 bp parallel up				
	EUR	(145)	(15)	(160)
	HUF	(540)	(251)	(791)
	USD	-	(1)	(1)
10 bp parallel up total		(685)	(267)	(952)
100 bp parallel up				
	EUR	(1 411)	(235)	(1 647)
	HUF	(5 150)	(2 498)	(7 648)
	USD	-	(11)	(11)
100 bp parallel up total		(6 561)	(2 744)	(9 306)
200 bp parallel up				
	EUR	(2 740)	(312)	(3 052)
	HUF	(10 157)	(4 832)	(14 989)
	USD	-	(16)	(16)
200 bp parallel up total		(12 897)	(5 160)	(18 057)

DOWN Scenarios, 31 December 2021	denomination	Sensitivity of equity	Sensitivity of profit or loss	Total sensitivity
		MHUF	MHUF	MHUF
10 bp parallel down				
	EUR	145	13	158
	HUF	542	250	792
	USD	-	1	1
10 bp parallel down Total		687	264	951
100 bp parallel down				
	EUR	1 411	(165)	1 247
	HUF	5 552	2 320	7 872
	USD	-	-	-
100 bp parallel down total		6 963	2 155	9 119
200 bp parallel down				
	EUR	2 740	(488)	2 252
	HUF	10 961	4 476	15 437
	USD	-	(4)	(4)
200 bp parallel down total		13 701	3 984	17 685

NOTE 43 – RISK MANAGEMENT (continued)

UP Scenarios, 31 December 2020	denomination	Sensitivity of equity	Sensitivity of profit or loss	Total sensitivity
		MHUF	MHUF	MHUF
10 bp parallel up				
	EUR	(214)	23	(191)
	HUF	(376)	213	(163)
	USD	-	(1)	(1)
10 bp parallel up total		(590)	235	(355)
100 bp parallel up				
	EUR	(2 092)	355	(1 737)
	HUF	(9 814)	1 628	(8 186)
	USD	-	(18)	(18)
100 bp parallel up total		(11 906)	1 965	(9 941)
200 bp parallel up				
	EUR	(4 073)	430	(3 644)
	HUF	(19 960)	4 173	(15 788)
	USD	-	(23)	(23)
200 bp parallel up total		(24 033)	4 580	(19 455)

DOWN Scenarios, 31 December 2020	denomination	Sensitivity of equity	Sensitivity of profit or loss	Total sensitivity
		MHUF	MHUF	MHUF
10 bp parallel down				
	EUR	216	(23)	192
	HUF	1 843	(214)	1 629
	USD	-	1	1
10 bp parallel down Total		2 059	(236)	1 822
100 bp parallel down				
	EUR	2 211	(86)	2 125
	HUF	12 437	(2 794)	9 643
	USD	-	4	4
100 bp parallel down total		14 648	(2 876)	11 772
200 bp parallel down				
	EUR	4 553	(510)	4 043
	HUF	24 612	(4 360)	20 252
	USD	-	23	23
200 bp parallel down total		29 165	(4 847)	24 318

NOTE 43 – RISK MANAGEMENT (continued)

Currency risk

Currency or foreign exchange (FX) risk basically arises from mismatches in the currency structure of the Bank's assets and liabilities. Positions are monitored on a daily basis and the hedging strategy of the Bank is to close all material FX positions in the bank's banking book, thus currency risk is managed exclusively within the trading book. Trading FX exposure is managed within the trading limit, and the global hVaR limit of the Bank. For details see the market risk-trading section above.

Fair valuation

One of the building blocks of a sound market risk management is also the prudent valuation of positions valued at Fair Value. This applies to *HFT instruments*: Held For Trading (adjustments impact P&L), *FIFV instruments*: financial instruments designated at fair value through profit or loss (adjustments impact P&L) and *FVOCI instruments*: Fair value through other comprehensive income (adjustments impact equity).

The Bank's overall Valuation Framework stipulates that, when available, published independent price quotations from well-established active markets are used to determine Fair Value. In case of non-active markets, other valuation techniques (i.e. mark-to-model) are used in order to arrive at realistic estimates of Fair Value.

Consequently a daily independent valuation of front-office positions is performed by the Treasury Middle Office. Market-observed prices used in the valuation are regularly validated by the Market and Liquidity Risk Department via a formal parameter review process. Apart from market parameters, valuation techniques/models are also subject of independent review by the Market and Liquidity Risk Department.

43.4 Credit risk

Credit risk is the potential shortfall relative to the value expected consequent on non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to an inter-professional transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter risk is also referred to as 'country risk'.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. The Bank makes available to its customers guarantees which may require that the Bank makes payment on their behalf. Such payments are collected from customers based on the terms of the credit contracts. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Credit risk is managed at both transactional and portfolio level. Managing credit risk at the transactional level means that there are sound procedures, processes and applications in place to estimate the risks before and after accepting individual credit exposures. Managing the risk at portfolio level encompasses periodic reporting on (parts of) the loan portfolio, monitoring limit discipline and the specific portfolio management function.

Expected credit loss (ECL)
Expected credit losses are modelled over the instrument's lifetime period. The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. The exception from determining the lifetime exposure based on contractual maturity, for credit cards and overdrafts, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, based on internal statistics it is set to 30 years.

NOTE 43 – RISK MANAGEMENT (continued)

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument is based on various models developed both locally and centrally depending on the sub-portfolio. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

It is important to note that the ECLs estimated for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables (e.g. unemployment, GDP evolution) that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as loans affected by settlement of CHF mortgage loans which were NPL at the time of settlement. (On 16 June 2014, the Hungarian Supreme Court rendered its decision regarding the legal assessment of foreign currency based loans ("FX loans") for consumers under Hungarian civil law. In accordance with the Conversion Act the Bank was required to convert foreign currency and foreign currency-based consumer mortgage loan contracts into Hungarian Forints with the effect date of 1 February 2015.)

For purposes of measuring PD, the Bank defines default as described in the Accounting policy – Definition of default chapter.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using the definition of cures.

Although the default/non-default flag is conceptually conceived on client level, a different treatment is allowed in case of retail exposures. For these exposures, the definition of default can be applied at the level of a particular facility, rather than at the level of the obligor. As a consequence, a default of a client on one retail exposure does not require to treat all other retail exposure of this client as defaulted as well.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. On loans issued to corporate entities, interbank loans and debt securities at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. For loans issued to individuals and other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For interbank operations and bonds issued by banks or government:

- 30 days past due;
- award of risk grade "Special monitoring";
- SICR based on relative threshold based either on external ratings or internal ratings, which corresponds to an approximate increase of PD by 4.0 times.

NOTE 43 – RISK MANAGEMENT (continued)

For loans issued to legal entities and bonds issued by corporate customers:

- 30 days past due;
- award of risk grade "Special monitoring";
- SICR based on relative threshold based either on external ratings or internal ratings. The following thresholds are used for external ratings: decrease of rating by 2 notches, for internal ratings by 5 notches, which corresponds to approximate increase of PD by 2.5 times;
- inclusion of loan into a watch list according to the internal credit risk monitoring process.

For loans to Individuals:

- 30 days past due;
- Relative threshold defined on the basis of a portfolio for products without existing scoring models: the Bank regularly monitors segments with increased credit risk (regions of higher credit risk, failed products, products on which issuing was stopped) and considers such portfolios to have a SICR; / Relative threshold defined on individual basis for products with existing scoring models: increase of the remaining lifetime PD compared to remaining lifetime PD estimated as of the date of initial recognition by 2.5 times.
- Due to the nature of the blanket moratorium instated by the Hungarian Government days past due information can no longer be used to identify a Significant Increase in Credit Risk. Thus transactional information is also being looked at, specifically the decrease of savings and wage information is also being used to identify SICR. It is being used as an Unlikely to Pay trigger and Forbearance trigger.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed. The monitoring is done in an automated way in the engine which calculates ECL.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio. The Bank performs an assessment on an individual basis for non-retail clients above HUF 300mln exposure. The Bank performs an assessment on a portfolio basis for the following types of loans: retail loans and non-retail loans where exposure is below HUF 300mln when no borrower-specific information is available.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Management Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

NOTE 43 – RISK MANAGEMENT (continued)

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings/models is monitored and reviewed on yearly periodic basis by the Modelling Department and validated by Credit Risk Department locally or centrally depending on the specific model.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

PDs are used for calculating ECLs: The Bank uses different statistical approaches depending on the segment and product type to calculated lifetime ECLs, such as the extrapolation of 12-month ECLs based on migration matrixes, developing lifetime ECL curves based on the historical default data, hazard rate.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards and overdrafts issued to both individuals and non-retail entities, and for financial guarantees is defined based on statistical analysis of past exposures at default.

NOTE 43 – RISK MANAGEMENT (continued)

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Bank's Chief Economist and provide the best estimate of the expected macro-economic development over the next five years. After five years, a mean reversion approach is used, which means that economic variables tend to revert to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP). The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Credit Risk Department also provides other possible scenarios (e.g. stress tests) along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking into account the range of possible outcomes of which each chosen scenario is representative. The assessment of SICR is performed using the12 month PD as a proxy for Lifetime PD under each of the bases and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Bank regularly reviews its methodology (back testing) and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed semi-annually.

The results of backtesting the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Accounting judgements and estimates related to ECL

A sensitivity analysis of the impact of these multiple economic scenarios on the collectively calculated ECL (i.e. without the ECL on individually assessed files of HUF 5 966 million at year-end 2021 (HUF 9 354 million in 2020), shows that the base scenario results in an ECL of HUF 34 040 million (HUF 38 667 million in 2020), which is HUF 1 226 million lower than the "down"-scenario and HUF 475 million higher than the "up"-scenario (HUF 3 027 million lower and HUF 926 million higher in 2020). The collectively calculated weighted ECL results (which was booked) amounts to HUF 40 080 million (HUF 39 633 million in 2020). Note that these amounts take into account the Covid-19 related management overlay (per scenario) at the end of 2021 (see Note 3).

NOTE 43 – RISK MANAGEMENT (continued)

The Bank used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward looking assumptions for Hungary that correlate with ECL level and their assigned weights were as follows at 31 December 2021:

31 December 2021

Variable	Scenario	Assigned weight	Assumption for: 2022	2023	2024	2025	2026
Unemployment rate	Base	80%	3.5%	3.2%	3.0%	3.2%	3.3%
	Upside	10%	3.3%	3.0%	2,8%	3,0%	3,2%
	Downside	10%	4.2%	4.0%	3,8%	3,8%	3,9%
Real GDP Growth rate	Base	80%	5.2%	4.0%	3.5%	3.2%	2.9%
	Upside	10%	6.0%	4.9%	4.5%	4.0%	3.6%
	Downside	10%	2.7%	2.8%	3.0%	2.8%	2.6%

31 December 2020

Variable	Scenario	Assigned weight	Assumption for: 2021	2022	2023	2024	2025
Unemployment rate	Base	55%	5.6%	4.8%	4.0%	4.0%	4.0%
	Upside	10%	4.2%	4.0%	3.8%	3.8%	3.9%
	Downside	35%	7.5%	6.5%	5.8%	5.5%	5.2%
Real GDP Growth rate	Base	55%	5.0%	3.5%	3.0%	2.8%	2.6%
	Upside	10%	4.0%	3.5%	3.0%	2.8%	2.6%
	Downside	35%	4.0%	3.5%	3.0%	2.8%	2.6%

Two variables are used during ECL calculation: the unemployment rate and the real GDP growth rate. Macroeconomic assumptions are updated on a quarterly basis. There were no changes regarding the assigned weights during 2021.

NOTE 43 – RISK MANAGEMENT (continued)

The industry breakdown of loans and advances is presented in the table below:

	2021 MHUF	2020 MHUF
Industry sector		
Agriculture, forestry and fishing	110 975	100 870
Mining and quarrying	848	898
Manufacturing	248 627	221 308
Electricity, gas, steam and air conditioning supply	92 324	66 329
Water supply	11 594	14 308
Construction	40 816	26 122
Wholesale and retail trade	144 566	133 277
Transport and storage	68 650	73 508
Accommodation and food service activities	20 276	18 807
Information and communication	11 114	8 099
Financial and insurance activities	99 051	97 836
Real estate activities	138 058	161 124
Professional, scientific and technical activities	31 565	30 923
Administrative and support service activities	19 268	13 344
Public administration and defence, compulsory social security	20	50
Education	1 284	1 381
Human health services and social work activities	1 657	1 938
Arts, entertainment and recreation	474	559
Central bank	1 201 734	624 118
Individuals	970 531	831 151
Central governments	28 904	60 275
Municipalities	21 367	21 762
Credit institutions	639 799	538 463
Other services	3 596	3 985
Gross loans and advances	3 907 098	3 050 435
Total impairment on loans and advances (see Note 23)	(39 830)	(49 912)
Total loans and advances	3 867 268	3 000 523

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Collateral and other credit enhancements

In compliance with its business policy the Bank does not grant collateral-based financing (i.e. financing that is not based on the loan repayment capacity of the client), however, there is one exception to this rule in case of a special credit type when the loan is collateralized with cash deposit. The borrower's cash flow represents the primary – direct – source of loan repayment to the Bank.

The inclusion of any type of collateral is subject to the assessment of the credit solvency of the client/guarantor, in the course of which the assets in question must be evaluated in compliance with the concerning internal regulations.

The main types of collateral applied are as follows:

- for retail lending, mortgages over residential real estate,
- for commercial lending, mortgage on real estate properties (both commercial and residential), state and institutional guarantees, and pledge on inventory and trade receivables,
- for securities lending cash deposits or security pledges.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

In case of corporate clients relationship-managers monitor the market value of collaterals, regularly request for a review of the concerning collateral or requests additional collateral behind the deal if necessary. For defaulted counterparties, collaterals are assessed thoroughly to estimate expected recovery in order to set necessary level of impairments. For retail clients the regularly updated indexed market values are used.

The carrying amount of investment properties and other assets, which were obtained by the Bank by taking possession during 2021 amounted to HUF 165 million (HUF 375 million in 2020).

The Bank sells its assets obtained as collateral instead of using them for its operation.

The following tables present un-, under- and full or over collateralised loans and advances, The tables include the fair value of collaterals maximized to the net carrying amount of loans and advances, loan commitments, guarantees and other commitments given.

NOTE 43 – RISK MANAGEMENT (continued)

	Under collateralised loans		Full and over collateralised loans				
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Uncollateralised loans	Total carrying amount of loans	Total fair value of collateral
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2021							
-Central bank and credit institutions	69 023	67 132	-	-	1 772 460	1 841 483	67 132
General government	31 195	23 358	2 588	2 588	15 820	49 603	25 946
Corporate	728 340	339 547	87 827	87 827	209 149	1 025 316	427 374
of which: Small and Medium enterprises	475 203	226 540	74 872	74 872	99 819	649 894	301 412
Households	36 531	22 801	796 392	796 392	117 943	950 866	819 193
Consumer credit	285	122	143 350	143 350	98 522	242 157	143 472
Credit card	-	-	-	-	6 104	6 104	-
Current account	2 832	1 664	160	160	6 459	9 451	1 824
Finance lease	1 089	975	1 899	1 898	-	2 988	2 873
Mortgage loan	21 179	14 542	641 465	641 465	5 848	668 492	656 007
Term loan	11 146	5 498	9 518	9 519	1 010	21 674	15 017
--Trade receivables	-	-	-	-	-	-	-
Total	865 089	452 838	886 807	886 807	2 115 372	3 867 268	1 339 645
Loan commitments and guarantees at 31 December 2021							
Loan commitments	185 568	67 408	4 520	4 520	535 283	725 371	71 928
Financial guarantees	192 534	92 754	517	517	178 876	371 927	93 271
Other commitments	5 318	1 407	-	-	5 357	10 675	1 407
Total	383 420	161 569	5 037	5 037	719 516	1 107 973	166 606

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions. The fair value of collaterals is maximised to the net carrying amount of the loans and loan commitments.

NOTE 43 – RISK MANAGEMENT (continued)

	Under collateralised loans		Full and over collateralised loans				
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Uncollateralised loans	Total carrying amount of loans	Total fair value of collateral
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2020							
Central bank and credit institutions	41 129	39 963	-	-	1 121 412	1 162 541	39 963
General government	46 213	38 889	3 291	-	32 128	81 632	42 180
Corporate	662 762	318 601	92 570	92 570	192 037	947 369	411 171
of which: Small and Medium enterprises	415 884	203 443	71 994	71 994	79 055	566 933	275 437
Households	101 873	86 703	607 751	607 751	99 357	808 981	694 454
Consumer credit	61 442	60 612	39 913	39 913	83 967	185 322	100 525
Credit card	-	- -	-	-	5 763	5 763	-
Current account	2 580	1 272	116	116	7 052	9 748	1 388
Finance lease	1 152	1 118	2 172	2 172	110	3 434	3 290
Mortgage loan	24 736	18 124	556 107	556 107	1 486	582 329	574 231
Term loan	11 963	5 577	9 443	9 443	979	22 385	15 020
Trade receivables	-	-	-	-	-	-	-
Total	851 977	484 156	703 612	703 612	1 444 934	3 000 523	1 187 768
Loan commitments and guarantees at 31 December 2020							
Loan commitments	181 947	73 078	6 019	6 019	480 944	668 910	79 097
Financial guarantees	160 456	85 163	173	173	126 819	287 448	85 336
Other commitments	3 081	992	9	9	8 962	12 052	1 001
Total	345 484	159 233	6 201	6 201	616 725	968 410	165 434

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions. The fair value of collaterals is maximised to the net carrying amount of the loans and loan commitments.

NOTE 43 – RISK MANAGEMENT (continued)

The breakdown of loans and advances* by the type of collateral is presented below.

	Collateralised by									
	residential immovable property		commercial immovable property		debt securities		other			
	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Total carrying amount of loans MHUF	Total fair value of collateral MHUF
Loans and advances* at 31 December 2021										
--Central bank and credit institutions	- -	- -	-	-	- -	- -	69 023	67 132	69 023	67 132
General government	- -	- -	9 303	2 077	- -	- -	24 480	23 869	33 783	25 946
Corporate	- -	- -	528 609	275 194	7 520	3 965	280 038	148 215	816 167	427 374
of which: Small and Medium enterprises	- -	- -	359 509	190 757	4 139	3 634	186 427	107 021	550 075	301 412
Households	806 278	799 478	10 764	5 885	256	242	15 625	13 588	832 923	819 193
Consumer credit	143 634	143 471	8 705 -	-	1	1	- -	-	143 635	143 472
-Credit card	0	0	- -	-	- -	- -	-	-	-	-
Current account	0	0	- -	1 478	- -	- -	933	346	2 992	1 824
Finance lease	0	0	- -	-	- -	- -	2 988	2 873	2 988	2 873
Mortgage loan	662 644	656 007	- -	-	- -	- -	-	-	662 644	656 007
Term loan	- -	- -	8 705	4 407	255	241	11 704	10 369	20 664	15 017
----Trade receivables	- -	- -	- -	-	-	-	-	-	-	-
Total	806 278	799 478	548 676	283 156	7 776	4 207	389 166	252 804	1 751 896	1 339 645
Unsecured exposures	104 881	-	964	-	4	-	2 010 019	-	2 115 868	-
Total carrying value loans and advances to customers at amortised cost (amount representing exposure to credit risk for each class of loans at amortised cost)	911 159	799 478	549 640	283 156	7 780	4 207	2 399 185	252 804	3 867 764	1 339 645

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions

NOTE 43 – RISK MANAGEMENT (continued)

	Collateralised by									
	residential immovable property		commercial immovable property		debt securities		other			
	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Carrying amount of loans MHUF	Fair value of collateral MHUF	Total carrying amount of loans MHUF	Total fair value of collateral MHUF
Loans and advances* at 31 December 2020										
Central bank and credit institutions	-	-	-	-	-	-	41 129	39 963	41 129	39 963
General government	-	-	8 283	1 426	-	-	41 221	40 754	49 504	42 180
Corporate	-	-	502 754	258 378	6 504	5 413	246 074	147 380	755 332	411 171
of which: Small and Medium enterprises	-	-	320 490	170 641	6 054	4 977	161 334	99 819	487 878	275 437
Households	682 197	674 755	11 337	5 505	269	257	15 821	13 937	709 624	694 454
Consumer credit	101 354	100 524	-	-	1	1	-	-	101 355	100 525
Credit card	-	-	-	-	-	-	-	-	-	-
Current account	-	-	1 625	782	-	-	1 071	606	2 696	1 388
Finance lease	-	-	-	-	-	-	3 324	3 290	3 324	3 290
Mortgage loan	580 843	574 231	-	-	-	-	-	-	580 843	574 231
Term loan	-	-	9 712	4 723	268	256	11 426	10 041	21 406	15 020
Trade receivables	-	-	-	-	-	-	-	-	-	-
Total	682 197	674 755	522 374	265 309	6 773	5 670	344 245	242 034	1 555 589	1 187 768
Unsecured exposures	85 436	-	626	-	4	-	1 358 868	-	1 444 934	-
Total carrying value loans and advances to customers at amortised cost (amount representing exposure to credit risk for each class of loans at amortised cost)	767 633	674 755	523 000	265 309	6 777	5 670	1 703 113	242 034	3 000 523	1 187 768

*The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

Collaterals behind non performing or past due financial assets amounted to HUF 49 767 million as at 31 December 2021 (HUF 34 348 million as at 31 December 2020). The amount of the collaterals includes the indexed or reviewed collateral value limited to the carrying amount of the related asset.

NOTE 43 – RISK MANAGEMENT (continued)

The following table presents the quality of loans and advances by stage categories.

	Loans and advances at amortised cost						
	Gross carrying amount			Accumulated impairment			Total net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances* at 31 December 2021							
Central bank and credit institutions	1 837 389	50	35	(51)	-	-	1 837 423
General government	39 228	11 035	1	(20)	(648)	-	49 596
Corporate	879 966	144 339	20 420	(1 731)	(9 796)	(7 919)	1 025 279
of which: Small and Medium enterprises	589 016	60 736	11 212	(1 087)	(4 151)	(5 837)	649 889
Households	649 027	87 381	31 876	(1 088)	(7 189)	(11 051)	748 956
of which: purchased or originated credit impaired		3 412	7 241			(1 097)	9 556
Consumer credit	90 595	10 143	6 698	(919)	(1 452)	(3 548)	101 517
Credit card	5 619	565	176	(39)	(119)	(98)	6 104
Current account	6 652	2 276	1 868	(35)	(468)	(842)	9 451
Finance lease	2 632	384	-	(3)	(25)	-	2 988
Mortgage loan	526 289	69 274	23 099	(55)	(4 835)	(6 550)	607 222
Term loan	17 240	4 739	35	(37)	(290)	(13)	21 674
Trade receivables							
Total	3 405 610	242 805	52 332	(2 890)	(17 633)	(18 970)	3 661 254

*Including cash balance with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

The following table presents the quality of loans and advances by stage categories.

	Loans and advances at amortised cost						
	Gross carrying amount			Accumulated impairment			Total net carrying amount
	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	MHUF
Loans and advances* at 31 December 2020							
Central bank and credit institutions	1 158 543	-	5	(39)	-	-	1 158 509
General government	81 624	-	379	(30)	-	(375)	81 598
Corporate	842 795	111 612	18 514	(3 637)	(14 779)	(8 882)	945 623
of which: Small and Medium enterprises	514 837	57 540	8 376	(2 145)	(7 385)	(4 326)	566 897
Households	599 605	75 134	22 543	(1 318)	(9 289)	(11 452)	675 223
of which: purchased or originated credit impaired	-	4 787	11 341	-	-	(5 265)	10 863
Consumer credit	82 323	5 400	750	(929)	(994)	(535)	86 015
Credit card	5 628	219	33	(33)	(63)	(21)	5 763
Current account	7 402	2 507	950	(38)	(839)	(234)	9 748
Finance lease	3 202	268	-	(6)	(30)	-	3 434
Mortgage loan	481 480	63 538	20 760	(260)	(6 999)	(10 641)	547 878
Term loan	19 570	3 202	50	(52)	(364)	(21)	22 385
Trade receivables	-	-	-	-	-	-	-
Total	2 682 567	186 746	41 441	(5 024)	(24 068)	(20 709)	2 860 953

*Including cash balance with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Credit risk exposure for each internal risk rating

The table below includes outstanding exposure of loans and loan commitments to customers and banks (without any money market position). Past due assets are distributed to the internal risk rating classes.

	Historical default rates* 2021	Average unsecured share of exposure 2021	Total 2021 MHUF	Average unsecured share of exposure 2020	Total 2020 MHUF
PD 1-2	0.0000	0.7524	446 241	0.7501	331 308
PD 3-4	0.0085	0.5672	1 181 439	0.5795	989 290
PD 5-9	0.0588	0.5813	1 201 629	0.5631	1 151 116
PD 10-12	1.0000	0.5613	46 462	0.3563	37 964
Total			2 875 771		2 509 678

* Impaired (PD10-12) portfolio per credit grades compared to last year's total non-impaired portfolio.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the distribution of the loan portfolio according to the internal ratings.

	Performing (Stage1 + Stage2)									Non-performing (Stage3)			
	PD1	**PD2**	**PD3**	**PD4**	**PD5**	**PD6**	**PD7**	**PD8**	**PD9**	**PD10**	**PD11**	**PD12**	**Total**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Loans and advances* at 31 December 2021													
Central bank and credit institutions	13.8	33.4	0.5	-	-	0.2	-	-	-	-	-	-	47.9
General government	-	0.3	0.7	0.3	-	-	-	-	-	-	-	-	1.3
Corporate	0.3	2.6	2.5	4.8	8.3	5.7	1.1	0.6	0.3	0.3	-	-	26.5
of which: Small and Medium enterprises	0.3	1.7	1.8	2.6	5.7	3.1	0.8	0.4	0.2	0.1	-	-	16.7
Households	-	0.6	9.0	6.0	4.4	1.2	2.2	0.1	0.3	0.4	-	0.1	24.3
Consumer credit	-	-	-	3.6	0.3	0.4	1.7	-	0.1	0.1	-	-	6.2
Credit card	-	-	-	0.1	0.1	-	-	-	-	-	-	-	0.2
Current account	-	-	-	0.1	0.1	-	-	-	-	-	-	-	0.2
Finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage loan	-	0.6	8.9	2.1	3.8	0.7	0.4	0.1	0.2	0.3	-	0.1	17.2
---Term loan	-	-	0.1	0.1	0.1	0.1	0.1	-	-	-	-	-	0.5
Trade receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	14.1	36.9	12.7	11.1	12.7	7.1	3.3	0.7	0.6	0.7	-	0.1	10-

The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

The following tables present the distribution of the loan portfolio according to the internal ratings.

	Performing (Stage1 + Stage2)									Non-performing (Stage3)			
	PD1	**PD2**	**PD3**	**PD4**	**PD5**	**PD6**	**PD7**	**PD8**	**PD9**	**PD10**	**PD11**	**PD12**	**Total**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Loans and advances* at 31 December 2020													
Central bank and credit institutions	6.8	22.5	-	9.4	-	-	-	-	-	-	-	-	38.7
General government	-	0.9	1.6	0.2	0.1	-	-	-	-	-	-	-	2.8
Corporate	0.3	1.7	2.3	5.3	9.9	7.3	2.2	1.2	0.4	0.4	0.1	0.2	31.3
of which: Small and Medium enterprises	0.3	0.5	1.8	3.0	5.9	3.8	1.8	0.6	0.2	0.1	0.1	0.1	18.2
Households	-	0.6	9.6	6.0	5.2	1.6	2.6	0.3	0.5	0.1	0.1	0.6	27.2
Consumer credit	-	-	-	3.1	0.4	0.5	2.0	-	0.1	-	-	-	6.1
Credit card	-	-	-	0.1	0.1	-	-	-	-	-	-	-	0.2
Current account	-	-	-	0.1	0.1	-	-	-	-	-	-	-	0.2
Finance lease	-	-	-	0.1	-	-	-	-	-	-	-	-	0.1
Mortgage loan	-	0.6	9.5	2.4	4.4	0.9	0.5	0.3	0.4	0.1	0.1	0.6	19.8
Term loan	-	-	0.1	0.2	0.2	0.2	0.1	-	-	-	-	-	0.8
Trade receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	7.1	25.7	13.5	20.9	15.2	8.9	4.8	1.5	0.9	0.5	0.2	0.8	100.00

The table includes the net carrying amount of loans and advances in the loans and receivables portfolio, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

43.5 Credit risk – forborne loans

The policy on forbearance is based on the directive of the European Banking Authorities (EBA) harmonizing the definitions of forbearance and non-performing loans within the EU from 30/09/2014 on and on Regulation 39/2016 issued by the Hungarian National Bank.

Forbearance is similar to distressed renegotiations, whereby the bank agrees to renegotiate the existing contracts and obligations for a borrower with financial difficulties in order to avoid default (e.g. in order to avoid overdue interest, rent, capital and/or fees). Please note that the moratorium instated by the Hungarian government is not an automatic trigger for forbearance.

Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

A concession refers to either of the following actions:

a) a modification of the terms and conditions of an existing contract because the debtor is considered unable to comply with the terms and conditions of the contract due to its financial difficulties and whereby the modification in principle would not have been granted in case the debtor would not have been in financial difficulties;
b) a total or partial refinancing of a troubled debt contract because the debtor is considered unable to comply with the terms and conditions of the troubled debt due to its financial difficulties and whereby the partial refinancing in principle would not have been granted in case the debtor would not have been in financial difficulties.

The above means that an exposure should be perceived as forborne in case that two conditions are met:

a) The bank granted concessions towards the borrower
b) due to the fact that the borrower has financial difficulties.

The forbearance classification is discontinued when all the following conditions are met:

- a minimum 2 year probation period has passed from the date the forborne exposure was considered as performing;
- the contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period;
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

A non-performing exposure for which forbearance measurement has been applied cannot be considered as performing for at least one year after the forbearance measurement.

The rating category of the debtor does not improve due to the forbearance measurement. The Bank classifies borrowers with forborne exposures to at least PD9. In the following cases forborne borrowers are classified to a default status (i.e. at least PD 10):

- a second forbearance during the probation period;
- in case of 30 days past due for an amount exceeding the default materiality threshold of 2% of the exposure or HUF 250 000 during the probation period;
- partial and/or full debt forgiveness.

Forbearance measurement is applied on facility level (not on entire exposure).

NOTE 43 – RISK MANAGEMENT (continued)

The following table presents forborne loans, loan commitments and guarantees.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2021						
Central bank and credit institutions	-	-	-	-	-	-
General government	-	-	-	-	-	-
Corporate	-	-	-	30 983	(6 493)	24 490
of which: Small and Medium enterprises	-	-	-	11 288	(3 723)	7 565
Households	4 549	(250)	4 299	44 601	(8 046)	36 555
Consumer credit	2 462	(161)	2 301	8 292	(2 419)	5 873
Credit card	-	-	-	197	(65)	132
Current account	-	-	-	488	(194)	294
Finance lease	-	-	-	2	-	2
Mortgage loan	2 087	(89)	1 998	35 125	(5 336)	29 789
Term loan	-	-	-	497	(32)	465
Trade receivables	-	-	-	-	-	-
Total	4 549	(250)	4 299	75 584	(14 539)	61 045

Forborne loans mandatorily measured at fair value through profit or loss are non-performing loans.

NOTE 43 – RISK MANAGEMENT (continued)

The following table presents forborne loans, loan commitments and guarantees.

	Mandatorily at fair value through profit or loss			At amortised cost		
	Gross carrying amount	Accumulated negative changes in fair value due to credit risk	Total	Gross carrying amount	Accumulated impairment	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2020						
Central bank and credit institutions	-	-	-	-	-	-
General government	-	-	-	379	(375)	4
Corporate	-	-	-	4 472	(2 972)	1 500
of which: Small and Medium enterprises	-	-	-	2 365	(871)	1 494
Households	5	(1)	4	7 776	(2 940)	4 836
Consumer credit	-	-	-	63	(45)	18
Credit card	-	-	-	-	-	-
Current account	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-
Mortgage loan	5	(1)	4	7 713	(2 895)	4 818
Term loan	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-
Total	5	(1)	4	12 627	(6 287)	6 340

Forborne loans mandatorily measured at fair value through profit or loss are non-performing loans.

NOTE 43 – RISK MANAGEMENT (continued)

The significant increase in the forborne loans and advances is caused by the credit risk measures reflecting the changes of moratorium in 2021.

As a conservative measure deals were classified as high risk forborne if any risk signals were identified based on transactional data, client declaration or PD model information. Clients where no risk signals were identified were classified as performing forborne/Stage2. It should be noted that based on PD model analysis the expectation is that a significant portion of these clients will cure in the long run. In addition to the above mentioned retail impact, non-retail clients were also flagged as forborne, linked to the moratorium, but based on an individual assessment.

There were no forborne commitments and guarantees in 2021 and 2020.

The following table explains the change of forborne loans.

	2021 MHUF	2020 MHUF
Balance as at the beginning of the period	6 344	14 282
Loans which have become forborne	61 939	1 590
Loans which are no longer considered to be forborne	-	(6 873)
Repayments	(3 731)	(12 714)
Change in the impairment of forborne loans	(248)	1 106
Other	1 040	8 953
Balance as at the end of the period	65 344	6 344

The Bank recorded HUF 2 082 million interest income on forborne loans in the income statement in 2021 (HUF 526 million in 2020).

NOTE 43 – RISK MANAGEMENT (continued)

Aging analysis quality of forborne loans and advances as at 31 December 2021 is as follows:

	Loans and advances*							
	Performing				Non-performing			
	Not past due MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Past due <= 30 days MHUF	Past due > 30 days <= 90 days MHUF	Past due > 90 days MHUF	Total MHUF
Loans and advances at 31 December 2021								
Central bank and credit institutions	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-
Corporate	13 404	213	87	12	10 025	171	578	24 490
of which: Small and Medium enterprises	3 545	213	87	12	2 959	171	578	7 565
Households	24 427	1 610	299	25	12 198	889	1 406	40 854
Consumer credit	4 841	234	34	-	2 865	159	41	8 174
Credit card	78	4	-	-	48	1	1	132
Current account	163	24	9	3	80	2	13	294
Finance lease	2	-	-	-	-	-	-	2
Mortgage loan	18 891	1 345	249	22	9 205	727	1 348	31 787
Term loan	452	3	7	-	-	-	3	465
Trade receivables	-	-	-	-	-	-	-	-
Total	37 831	1 823	386	37	22 223	1 060	1 984	65 344

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Aging analysis quality of forborne loans and advances as at 31 December 2020 is as follows:

	Loans and advances*							
	Performing				Non-performing			
	Not past due	Past due <= 30 days	Past due > 30 days <= 90 days	Past due > 90 days	Past due <= 30 days	Past due > 30 days <= 90 days	Past due > 90 days	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances at 31 December 2020								
Central bank and credit institutions	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	4	4
Corporate	436	2	-	-	1 045	-	17	1 500
of which: Small and Medium enterprises	436	2	-	-	1 045	-	11	1 494
Households	833	378	71	-	1 017	263	2 278	4 840
Consumer credit	14	1	-	-	2	-	1	18
Credit card	-	-	-	-	-	-	-	-
Current account	-	-	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-	-	-
Mortgage loan	819	377	71	-	1 015	263	2 277	4 822
Term loan	-	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-	-	-
Total	1 269	380	71	-	2 062	263	2 299	6 344

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Staging of forborne loans and advances are presented as follows.

	Loans and advances at amortised cost*						
	Gross carrying amount			Accumulated impairment			
	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loans and advances* at 31 December 2021							
---Central bank and credit institutions	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-
Corporate	-	14 876	16 107	-	(1 160)	(5 333)	24 490
of which: Small and Medium enterprises	-	4 281	7 007	-	(424)	(3 299)	7 565
Households	-	24 525	20 076	-	(1 524)	(6 522)	36 555
of which: purchased or originated credit impaired	-	657	2 489	-	-	(96)	3 050
Consumer credit	-	3 504	4 788	-	(86)	(2 333)	5 873
Credit card	-	90	107	-	(8)	(57)	132
Current account	-	239	249	-	(40)	(154)	294
Finance lease	-	2	-	-	-	-	2
Mortgage loan	-	20 198	14 927	-	(1 360)	(3 976)	29 789
Term loan	-	492	5	-	(30)	(2)	465
Trade receivables	-	-	-	-	-	-	-
Total	-	39 401	36 183	-	(2 684)	(11 855)	61 045

Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

Staging of forborne loans and advances are presented as follows.

	Loans and advances at amortised cost*						
	Gross carrying amount			Accumulated impairment			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances* at 31 December 2020							
Central bank and credit institutions	-	-	-	-	-	-	-
General government	-	-	379	-	-	(375)	4
Corporate	-	523	3 949	-	(85)	(2 887)	1 500
of which: Small and Medium enterprises	-	523	1 842	-	(85)	(786)	1 494
Households	-	1 354	6 422	-	(72)	(2 868)	4 836
of which: purchased or originated credit impaired	-	923	3 438	-	-	(1 203)	3 158
Consumer credit	-	16	47	-	(1)	(44)	18
Credit card	-	-	-	-	-	-	-
Current account	-	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-	-
Mortgage loan	-	1 338	6 375	-	(71)	(2 824)	4 818
Term loan	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-	-
Total	-	1 877	10 750	-	(157)	(6 130)	6 340

Also including Cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

The industrial breakdown of forborne loans is included in the table below.

	2021	2020
	MHUF	MHUF
Industry sector		
Agriculture, forestry and fishing	285	-
Manufacturing	13 381	2 377
Construction	115	-
Wholesale and retail trade	785	-
Transport and storage	9 516	298
Accommodation and food service activities	2 681	-
Information and communication	93	-
Financial and insurance activities	2	-
Administrative and support service activities	395	171
Real estate activities	601	1 575
Professional, scientific and technical activities	427	51
Education	18	-
Human health services and social work activities	36	-
Arts, entertainment and recreation	12	-
Other	2 637	-
Individuals	49 149	7 781
Non-credit institutions	-	379
Credit institutions	-	-
Forborne loans and advances - gross	80 133	12 632
Accumulated impairment	(14 539)	(6 287)
Accumulated negative changes in fair value due to credit risk	(250)	(1)
Total forborne loans to customers	65 344	6 344

All forborne loans are granted to domestic clients in 2021 and 2020.

The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost, cash and cash balances with central banks and other demand deposits to credit institutions.

NOTE 43 – RISK MANAGEMENT (continued)

43.6 Operational risk

In line with KBC Group, the Bank applies the official Basel definition of Operational Risk and Operational Risk Management. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems and from external events. It includes legal and tax risks, but excludes strategic and systemic risks. The Bank takes reputation risk into account to a certain level. When controls fail to adequately perform, operational risks can result in financial loss, damage to reputation, have legal or regulatory consequences. The operational risks cannot be completely eliminated; but using sound control framework these risks can be mitigated to an acceptable level.

Processes and risk event types together are used as common and universal/uniform framework of reference for reporting purposes. The Bank implemented the use of a uniform set of processes, risk event types, risk mitigating/measuring processes and a toolkit for operational risk management.

The first element of the toolkit is the use of *Group-wide Control requirements (Group Key Controls)* which are the key controls, defined by a centre of competence intended to control or mitigate major inherent risks. All KBC Group entities must implement these Key Controls. The compliance with the Group Key Controls is monitored via a benchmarking (assessment) exercise, assessments which are used to determine the gap between the group-wide requirements and the local practice. The derived action plans are continuously monitored and reported to the Capital and Risk Oversight Committee and Operational Risk Councils. The Local line management is responsible for translating the Group Key Controls into local procedures as well as for the timely and proper implementation of action plans.

Risk Self-Assessments aim to identify and assess the operational risk inherent in all material products, activities, processes and systems by the line management with the involvement of other concerned parties.

A '*Case Study Assessment'* is the process of testing the level of the protection of the current control environment against severe operational risk events that have actually happened in the banking and insurance industry by detecting gaps in subsequent control layers.

In line with the guidelines of KBC, the Bank collects the *operational loss events* in a unified and integrated database which is also used for analysis and reporting purposes.

The method and framework of *Key Risk Indicators* were implemented in 2009. These are measurable metrics or indicators which help the organization with monitoring the inherent and / or residual exposure to certain key risks, and combine the measurement of risk with the actual management of risk. Changes in the risk exposure versus the risk tolerance of the Bank are measured by warning and alert thresholds that are set for each Key risk indicator.

Risk scans for operational, and business and reputation risks were performed there by the main business lines, Information security and ICT (Information and Communication Technology), to assess the most important non-financial risks using a top-down approach.

In order to assure the continuity of its critical business services, the Bank has an extensive business continuity framework in place, that includes business continuity plans for material activities, the testing of such plans in order to be prepared for potential crisis situations.

NOTE 44 – SOLVENCY AND CAPITAL

Based on the Hungarian Law (Act C of 2000, no. 114 / B. §)

	2021 MHUF	2020 MHUF
Share capital in accordance with IFRS	140 978	140 978
Capital reserve	48 775	48 775
Tied-up reserve	40 060	31 621
Revaluation reserve	(25 358)	10 357
Accumulated profit	148 141	123 909
Profit for the year	84 407	32 453
Total equity	437 003	388 093
from this		
Registered capital by the Registry Court	140 978	140 978
Distributable reserves available for dividend payment	232 532	156 362

In accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (banking law) and the EU Regulation No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), the Bank must have a minimum capital in place. The Bank reports its level of capital adequacy situation to the Hungarian National Bank on a quarterly basis and also forecasts are prepared to the Capital and Risk Oversight Committee (CROC) of the Bank on a regular basis. When needed, the Bank's Executive Committee decides and proposes to KBC Group any necessary steps that the Committee believes need to be taken (such as capital increase, subordinated debt increase, dividend payment etc.).

	2021 MHUF	2020 MHUF
Tier 1 capital elements	338 927	355 613
Adjustments due to prudential filters	24 261	(4 845)
Tier 1 total	363 188	350 768
Tier 2 capital elements	44 046	54 300
Tier 2 total	44 046	54 300
Own funds	407 234	405 068

The Bank fulfilled the capital requirements set by Hungarian National Bank continuously during years 2021 (and 2020) and at 31 December 2021 (and at 31 December 2020). The Bank is required to set aside 10% of its profit calculated as a statutory reserve for use against future losses. The balance of this reserve as at 31 December 2021 was HUF 40 060 million (HUF 31 621 million as at 31 December 2020). The Bank had distributable reserves of HUF 232 546 million as at 31 December 2021 (HUF 156 362 million as at 31 December 2020).

Proposed dividend on ordinary shares for 2021 is HUF 54 400 million (no dividend payment for 2020).

Approved by the Board of Directors on 20 April 2022.

Guy Libot
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

K&H Bank Zrt.

Management Report

31 December 2021

Below we summarise the business operations, the operating conditions and the financial results of K&H Bank Zrt. (hereunder “Bank”) in 2021.

1. Economic environment

Following a robust GDP growth of 7.1% in 2021 the performance of the Hungarian economy managed to exceed that of the pre-covid level by the year-end, although throughout the year the growth was more and more constrained by supply constraints (mainly vehicle and electronics production were hampered by disruptions in the global supply chain). Domestic demand – investments and households’ consumption – was the main driver of economic growth in 2021 supported by a generous, pro-cyclical fiscal policy. Unemployment has been steadily declining and labor shortages have been emerging in more and more areas, with the labor market showing nearly similar tightness by the end of the year as in 2019, leading to a rapid rise in wages.
Prices rising above the central banks’ inflation target became a global phenomenon of the economic recovery. In Hungary both external (energy prices, commodities, etc.) and domestic (loose fiscal and monetary policy) factors contributed to the increasing inflation in the second half of the year.
The country’s current account deficit has widened further, in part due to high energy and commodity prices, but weakening industry and lagging foreign tourism compared to previous years worsened the balance as well. Despite the loose fiscal policy, level of indebtedness has declined thanks to the favourable performance of the economy and high inflation rate. Overall, the country's risk assessment remained favorable and credit rating agencies kept Hungary's debt rating in the investment grade category with a stable outlook.

	2020 actual	2021 preliminary
GDP growth	-4.7%	+7.1%
CPI (average)	+3.3%	+5.1%
Households’ consumption	-2.0%	+4.2%
Investments	-6.9%	+8.7%
Unemployment rate	4.1%	3.7%
Budget deficit (ESA) (in % of GDP)	-8.1%	-7.5%
Debt/GDP rate	80.0%	78.2%
Balance of payments (in % of GDP)	-1.6%	-2.5%

Source: MNB, KSH, K&H

Among the first central banks worldwide, the Hungarian National Bank (MNB) has tightened its tone in the second quarter and launched a cycle of monetary tightening. As a first step it raised the one-week deposit rate from 0.75 per cent to 0.9 per cent in June. During the autumn, due to the rapidly rising inflation and the tightening of regional central banks, the MNB accelerated its tightening cycle, raising the one-week deposit rate to 4 per cent. As inflation has continued to accelerate in early 2022, MNB continued its tightening cycle and is expected to end its interest rate hike cycle in the second quarter. Following the expiry of the Funding for Growth Scheme (NHP Hajrá), several new government loan and guarantee programs were introduced in the first half of 2021 to support the reopening of the economy (restructured Széchenyi Card program, EXIM’s new investment program etc.). The corporate bond issuance program was completed by the end of the year, and a green loan program was introduced for the households during the autumn.

2. Key balance sheet and performance data

2.1. Balance sheet

HUF Bln	31 Dec 2020	31 Dec 2021	Variance
Total assets	4,417	5,248	+18.8%
Central Banks and credit institutions	1,163	1,841	+58.4%
Loans and advances to customers	1,838	2,026	+10.2%
Deposits from customers	3,247	3,609	+11.2%
Equity	388	437	+12.6%

Total assets of K&H Bank amounted to 5,248 bln on 31 Dec 2021 (+18.8% growth in 2021).

- *Loans and advances to customers* increased by 10% in 2021, the main categories are: corporate, retail, sme and general government. The 10% yoy increase in corporate loans was driven by the bank's successful participation in state subsidizied loan programmes (NHP Hajrá!, Exim's Compensation Loan Programme, MNB's Bonds for Growth Programme). In retail segment the value of new disbursements went up by 27% compared to 2020, exceeding the 23% growth rate of the market, primarily due to baby boom loans.

- *Deposits from customers* increased by 11% during the year: double digit growth both in retail and corporate segment. The Bank's market share improved further in retail savings during 2021.

- *Shareholders' equity* increased by 49 bln (+13%) compared to 31 Dec 2020. Main elements of the change: profit of 2021 (+84.4 bln), lower cash flow hedge reserve (-29.2 bln) and revaluation reserve of securities (-6.5 bln).
  The capital adequacy ratio was 17.7% at 31 December 2021.

2.2. Profit

HUF bln	2020	2021
Profit after taxation	32.5	84.4

The Bank Group's profit was impacted by several one-off items in both 2020 and 2021:

- Modification loss (financial moratorium): -0.7 bln in 2021 (-4.4 bln in 2020).[1]
- Updated assessment of the impact of Covid-19 resulted in a related IFRS9 based collective impairments release of 6.2 bln in 2021 mainly due to update of the macro scenario probabilities and change in sector stress applied on vulnerable sectors (whereas 2020 included 19.7 bln estimated expected credit loss on Covid-19 accounted for in IFRS9 as collective impairments).
- Pre-tax loss of 2.3 bln was accounted for in 2021 as the impact of estimation of the interest stop regulation (in case of mortgages with variable rates, benchmark rates for interest rate setting were maximized at the level as of 27 Oct 2021 for the period between 1 Jan and 30 June 2022).
- Pre-tax loss of 0.7 bln was accounted for in 2021 for retrospective interest adjustment during the moratorium on overdraft and credit cards.

[1] With the aim of mitigating the economic impact of the coronavirus, on 18 March 2020 an opt-out financial moratorium was announced by the government for the retail and corporate debtors for principal, interest and fee payments which would become due until 31 December 2020 (Government decree of 47/2020 and 62/2020). In the subsequent period, the duration of the financial moratorium with the original conditions was prolonged in more steps until 31 October 2021, and after that it was transformed to a new scheme on an opt-in basis with more limited eligibility criteria effective until 30 June 2022. Detailed description on the Covid19 related financial moratorium is included in the 2021 standalone financial statements (Note 3).

The evolution of the main P&L items:

- In comparison with the previous year, *net interest income* increased by 19% (2021: 105.0 bln, 2020: 88.4 bln) related to the increasing loan and deposit volumes and higher yield environment.
- *Net fee and commission income* increased by 10% compared to 2020 (2021: 70.5 bln, 2020: 64.0 bln) mainly driven by higher transactional income and income from investments.
- *Net gains from financial instruments at fair value & foreign exchange differences* remained at the level of last year (2021: 19.3 bln, 2020: 19.2 bln).
- K&H Bank accounted for an 11.7 bln dividend income in 2021 (2020: 2.5 bln). The significant increase compared to 2020 is primarily related to the dividend received from K&H Tanácsadó Zrt. (previously K&H Befektetési Alapkezelő Zrt.) deriving from the gain on transferring of the fund management activity to the Hungarian Branch of KBC Asset Managament in 2020.
- *Operating expenses* amounted to 114.0 bln in 2021 (2020: 105.7 bln), disregarding banktax and financial transaction levy there is a 6.5% growth compared to the previous year (driven by higher ICT expenditure due to investment in digitalization and higher other regulatory fees).
- There was a 3.6 bln positive P&L impact of *impairment* on financial assets at amortised cost of which 6.2 bln was due to the partial release of the significant (19.7 bln) Covid-19 related IFRS9 based collective impairment created in 2020 and the impact of sale of NPL portfolios (3 bln). Portfolio quality remained stable in all segments.

3. Risk Management

Banks are exposed to several types of risks due to their operations. K&H Bank has a system in place for the measurement and appropriate management and limitation of these risks. The system has been aligned with the risk management system of the shareholder KBC Group both in terms of methodology and organisational set-up.

3.1 Risk management governance model

The risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organisations ensuring the sound management of value creation and all the associated risks to which the banking and insurance businesses are exposed. The Group’s risk governance model is organised in three tiers:

- Overarching company and risk committees are the Board of Directors (BoD), the Risk and Compliance Committee (RCC), the Audit Board (AB), the Supervisory Board (SB), the Executive Committee (ExCo), the Country Team (CT) and the Capital and Risk Oversight Committee (CROC). These committees concentrate on overarching risk management and on monitoring value creation.
- Specialised risk councils (Credit Risk Council (CRC), Operational Risk Councils (ORC)) concentrate on implementing a group-wide framework for one particular type of risk and monitoring the associated risk management process. The risk councils are composed of representatives from line management and Value and Risk Management Division.
- Line management and activity-specific committees have primary responsibility for value and risk management on the operational level. Value and Risk Management Division measures risks, economic capital and value creation for all relevant business entities and reports its findings directly to line management and the relevant activity-specific committees.
- Within Risk Management Division the Integrated Value and Risk Department is dedicated to overarch the three existing risk centers of competence (Credit Risk, Market and Liquidity Risk and Non-financial Risks), enhance coordination and report to senior management.

The Board of Directors and the Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Risk and Compliance Committee – amongst others the quarterly risk reports, annual review of remuneration and risk based pricing policies – ensures that there is an ample flow of information to the members of the Board over the course of the year. Moreover, through the involvement of the Board in the annual round of approvals of risk appetite and risk-tolerance limits, the Board is able to take informed decisions on the degree of risk it finds acceptable for the Group and on the adequacy of the risk management structure.

3.2 Risk types

- **Credit risk** means the potential loss sustained by the bank if a customer becomes insolvent or cannot perform their payment obligations in due time. Credit risks are managed by risk mitigating techniques approved by the management of the Bank. Regulations cover the entirety of the lending process. The bank continuously monitors the credit portfolio and prepares reports on the findings to the senior management of the Bank. The Bank uses IRB Advanced methodology for regulatory capital calculation.

  As a response to the evolving covid crisis situation, management reports were redesigned to focus on the impact analysis, identification and monitoring of the vulnerable portfolios (necessitated also by the fact that usual risk metrics were not useable in the same way as in the past, for example days past due data lost its information value during the moratorium).
  Looking at the figures of 2020 and 2021 no perceptible worsening in the portfolio quality (such as PD migrations or other risk metrics) was observed that can be linked to the crisis. The effects of the crisis will most likely be shifted to a later period partially due to the extensions of the moratorium and also because some time needs to pass before any changes in the portfolio can be observed.
  The Bank instated numerous restriction in acceptance and underwriting criteria in order to minimize risk. These restrictions are being reviewed regularly as portfolio evolutions require it. The Bank prepared simulations and stress tests which try to quantify the possible effects of the crisis on ECL (Expected Credit Loss) and capital (the impact of these calculations are reflected in the Bank's consolidated financial position and updated on a quarterly basis).

  The main conclusions for the FY 2021 are:
  - The performance of the corporate and SME portfolio remained stable during 2021. Although some deterioration can be observed in some more vulnerable sectors, no trendlike worsening can be seen at this time. The bank continuously evaluates the evolution of the portfolio and if necessary makes the needed risk decisions/advises to mitigate credit risk be they new limits, or other restrictions.
  - Retail portfolio remained stable. NPL volume continues to decrease mainly due to debt sale activity, while quality of new production remains good, with very low entries into default. The bank creates an RWA and TTC EL add-on to the retail PD model due to the technical improvement of retail PDs caused by the moratorium (increasing savings, frozen late days). As with the corporate, the monitoring of retail portfolio is continuous.
  - In 2021, a conservative decision was made by the Bank to classify vulnerable clients who chose to opt-in in the new moratorium as high risk forborne and shift them to stage 3 category. Vulnerability was assessed based on client declaration (eg client declared unemployment as the reason for opt-in), transactional data or behavioral PD information. If no indicators of vulnerability were found then the client was flagged as performing Forborne and shifted to stage 2.

  It is expected that the current Russian-Ukraine crisis situation will have an impact on the portfolio, but it is too early to make any substantial long-term predictions. The Bank's large risk portfolio is stable, no significant change can be observed in 2021. The largest client with large risk is at 49.5% of the large risk limit, and the total volume of clients with large risk is at 12.6% of the total legal lending limit. Evolution of large risk is monitored monthly, and the internal processes of the Bank are created in a way so that no breach of the legal lending limit can be made. K&H Bank did not have large risk exposure (10% of Tier 1 capital) towards other banks/bank groups as of 31 December 2021.

- **Market risk** means the potential loss suffered by the Bank upon a change in the value of foreign currency and interest positions. Both the asset-liability management and market risk management are based on the methodology applied by the shareholder KBC Group. Accordingly, the Capital and Risk Oversight Committee continuously monitors banking and trading book risks and controls them by setting limits (in compliance with the limit policy of KBC). Interest risks are measured and controlled by the joint application of various methods and limits (gap analysis, interest sensitivity, duration, BPV, NII, stress tests). There is also sovereign exposure monitoring in place.

The banking book is characterized by stable interest rate risk taking, at partial sovereign limit utilization. KBC group level Internal Capital Calculation Method was underpinned by the regulatory 200bp stress test result and HNB benchmark model throughout the year to prove its conservative stance.

Trading risk taking was stable at around 30% of the available VaR limit. There was no limit overrun in the examined period. In 2018 trading positions were migrated to KBC (phase 1: interest rate positions), in 2021 FX positions were migrated also (phase 2).

From 2020 Q2, K&H Bank reports its trading risk capital requirement applying CRR. Art.94 – Derogation of Small Trading Book (STB), as a result of compliance with regulatory requirements. National Bank of Hungary (MNB) accepted that K&H Bank was going to use STB. Position risk' capital requirement is henceforth calculated under the credit risk framework, thus the trading risk capital requirement decreased significantly. There is continues daily monitoring and strong control environment in place which was accepted by MNB to provide STB compliance and regulatory requirements.

- **Liquidity risk** means the risk of the inability of an institution to comply with net financing requirements. Liquidity risk may be caused by disturbances on the market, credit downgrading, which may result in the constant cessation of certain financing sources. On process level the bank is managing interest rate risk as part of the ILAAP framework through the cooperation of the affected departments. Management seeks to diversify the financing sources and manages assets with due regard to liquidity requirements, maintaining a healthy balance between cash, liquid funds and promptly marketable securities. Short term liquidity risk is measured by the operational liquidity limit which establishes whether there is sufficient coverage for the 30-day cumulative liquidity gap. Structural liquidity is monitored through Basel III liquidity ratios (LCR, NSFR) as well as FFAR (DMM) indicator and by liquidity stress tests and liquidity early warning signals. The department prepares regular reports to the K&H Bank Capital and Risk Oversight Committee on the various liquidity indicators and limits. NSFR regulatory limit from 2021 June on is 100%

	31 Dec 2020	31 Dec 2021	Regulatory requirement
NSFR (%)	171	171	100
LCR (%)	222	263	100
FFAR* (DMM) (%)	179	283	100

* Foreign exchange funding adequacy ratio

- K&H Bank group manages **operational risks** (the potential loss that may arise as a result of inappropriately operating systems, processes, human errors or external events) based on uniform principles and methodology. The methodology includes various techniques of risk identification and risk analysis such as self-assessments (top-down and bottom-up), root cause analysis of incurred losses and the assessment of key risks and implementation of key control objectives defined by KBC group. The risk mitigation measures (or risk acceptance) are decided according to the uniform accountability rules (decision-making authority).
  The identified exposures and the management of these risks are followed up by the Capital and Risk Oversight Committee and analyzed in details by the Operational Risk Councils that cover the entire organization. K&H Bank group applies the standardized method to calculate the Pillar I. capital requirement for operational risk. Additionally, K&H also calculates the Pillar I. capital requirement according to the new SMA method, which will be introduced in the near future.

4. Operating Conditions of the Bank

Capital investments in the branch network:

- During the year of 2021 the set-up, full or partial reconstruction of 19 branches was started or completed.
- Digi Zone concept (customer area refurbishing) were installed in 69 branches.

The number of branches at year end 2021 was 198.

The most important IT development projects in 2021 were the followings:
- Several project size developments were initiated or completed to align with legal regulations (such as: Regulatory Reporting, PSD2, HitReg, Pandemic loan moratorium, SRD2 legislation, Keler upgrade, MIFID 2, MNB Green Loan, New Collateral Management System, HUMA project).
- Planning and further developments for the paperless and tellerless branch operation were important activity this year
- Széchényi Card: first go lives were done in connection with loan and leasing products.
- Within the Digitalization programme the following major developments were in progress or delivered:
  - Multibank Liquidity Portal
  - Onboarding Mobile journey (online account opening)
  - Digital Customer data management: by modifying the mobile banking application, we allow existing customers to modify their own data
  - Google Pay / Garmin Pay
  - Digital PIN delivery & Instant Digi Card: enhancement of Digital card function was finished and launched.

5. Non-financial statement

<u>K&H sustainability strategy</u>

Sustainability is organically embedded in the four pillars of our corporate reference strategy (bank-insurance, sustainable profitable growth, client centricity, corporate social responsibility) and our day-to-day business activities. Sustainability is only possible if we also succeed in maintaining the trust of the society in which we operate.

We aim to achieve this by acting as a responsible company: being aware at all times of the impact of our operations on society, and responding to society's needs and expectations in a balanced, relevant and transparent way.

<u>The core of K&H Group's sustainability strategy</u>

5.1

K&H follows strict policies regarding business ethics, socially sensitive issues, human rights, and in reducing our environmental and ecological footprint.

<u>Related policies at K&H</u>

Business ethics:
K&H Bank Code of Conduct - Code of Ethics

Socially sensitive issues:
Retail Credit Risk regulations
Personal bankruptcy
Corporate Credit Policy (part of Corporate Decisions regulations)
Accessibility Policy based on Equal access strategy in client relationships

Human Rights:
Collective Agreement (Sections 6A and 6B)

Environment:
Environmental Policy for the K&H Group and KBC Group affiliates in Hungary
Energy Policy for the K&H Group and KBC Group affiliates in Hungary

5.2

We strive to increase our positive impact on the society, which includes four focus domains close to our core business: financial literacy, environmental responsibility, stimulating entrepreneurship and health.

Financial literacy and cyber security

Our financial education programme and contest for primary school children entitled “K&H Ready, Steady, Money!” was organised for the eleventh time in the 2020-2021 school year to encourage children to learn the basics of everyday household finances, helping them make smart financial decisions later. Whereas holding the semi-finals and the final online had a novelty in 2020, the first-round tasks were also completed online in 2021. All rounds (4 in total) will be held online in the 2021-22 school year. These digitalization innovations play an important role in arousing children’s interest in competitions for many years to come, while they also provide up-to-date knowledge to the generation growing up now. In the past eleven years, approximately 63 thousand elementary and secondary schoolchildren submitted their applications for the „K&H Ready, Steady, Money” financial quiz.
The information security threat landscape was closely monitored by K&H throughout the year. The control environment was continuously fine-tuned to be effective against emerging threats. Although no significant cyber security incident happened in 2021, extra attention was paid to data and voice-based phishing campaigns against our customers. K&H handles these campaigns with the help of our market-leading cybercrime detection and disruption service provider, but we consider user awareness and the knowledge that leads to appropriate security behavior as the key to avoid cyber-attacks. Emphasizing the importance of educating customers, our central homepage was extended with a continuously updated standalone page, where all necessary information can be found on how to recognize and avoid different voice and data-phishing attacks. In 2021 K&H also utilized push notification messages, an existing digital marketing channel to notify customers about significant malicious cyber campaigns, along with the already used notification channels (mobilebank, e-bank and homepage).
Our cyber security team’s achievements in effectively fighting against phishing campaigns was recognized on the local market, the team won the best Information Security Incident Management team of the Year Award by ITBN in Hungary.

Environmental responsibility and K&H ecological footprint

Besides helping our clients make smart decisions, we are also responsible for the community and the environment in which we, our retail and business clients as well as our colleagues operate. Through our financial intermediary role we have a great influence on the environment our society lives in. Hence, we aim to respond to the environmental needs of society and contribute to the ability of the members of society to live a full life today as well as tomorrow.
Besides its financial activities, K&H Group lays special emphasis on improving the efficiency of its energy use as part of its sustainable operations. At the end of 2016 K&H Group successfully obtained certification for its integrated environmental and energy management system, becoming the first Hungarian financial institution to operate audited and certified ISO 14001 and ISO 50001 systems.
K&H was among the first in the Hungarian banking sector to achieve carbon neutrality, which it did for year 2021. This means that it now completely neutralizes the emissions resulting from its own operations. However, responsible behaviour does not stop here: the Bank will also reduce its CO2 emissions by a drastic 80 per cent by 2030 compared to 2015 (which currently stand at 74 per cent decrease). Amongst other actions, this means, that it will modernize the energy usage of its branch network and its car fleet, which already includes more than 200 hybrid cars.
We have reduced the Bank Group's per capita carbon dioxide emissions by approximately 70% since 2015. In 2021 we consumed 65% less water, 20% less total energy, and sent 12% less waste to landfill sites and incinerators. We extended our selective waste collection programme to an additional 9 sales points in 2021. We consumed 61% less paper than in the benchmark year of 2015, and our solar panels generated 105,767 kWh of electricity. The cooling and heating system of our LEED

GOLD-certified head office building is fuelled by 170 solar panels and 3 industrial wells. Wherever possible, we have been deploying green electricity in the form of heat pump technology at our new sales points established since 2020.

K&H believes that responsible behaviour for the protection of environmental and societal values goes beyond the regulation of our own operations. K&H – as a member of the KBC Group – also participates in 2 leading financial industry initiatives for sustainability: Principles for Responsible Banking and Collective Commitment to Climate Action. This means, that not only our own operations, but also our way of doing business is more and more shaped by sustainability aspects. We have already taken the first steps in this journey. We identified the most polluting portfolios in our lending books and we are in the process to define the sustainability baseline of these portfolios, and to work out targets to make them more sustainable. This also means, that relevant credit policy adjustments were already released. For example, in 2021 K&H stopped funding projects for the exploitation of new oil and gas fields and the modernization of existing ones, while taking on an ever greater role in supporting sustainable investment. K&H is already one of the market leaders in financing renewable energy production: it extended approximately HUF 120 billion in loans to implement such projects in 2021.

In the field of investments, K&H also put sustainability in focus. Close to 20% of investment fund sales went into Socially Responsible Investment Funds (SRI) in 2021. SRI investments were quadrupled and reached HUF 60 billion and 8% of assets under management were in SRI funds.
We are engaged in building a sustainable agriculture supporting young agricultural scientists who design new procedures that may change both our future and the general image of the profession. The award is intended to financially support students in pursuing their studies and research focusing on the long-term, healthy and sustainable development of the agricultural sector. Results so far: 336 participants from 18 universities, 53 awards.
K&H received a "Green Bank/financial institution" award from the National Bank of Hungary for exemplary efforts at environmentally sustainable growth in the financial sector in 2019. In 2020, K&H received Mastercard's "The Sustainable Bank of the Year" award.

Stimulating entrepreneurship

In Hungary, about 70% of all companies are family-owned small and medium-size enterprises, which produce more than half of the country's GDP and provide jobs to more than half of all Hungarian employees.

1. The K&H Family-Owned Business (FOB) Excellence Award provides substantial media coverage for the winners in order to promote and recognize the contribution of these family-owned businesses to the Hungarian economy and labour market and their commitment to local society. So far, six award periods have attracted 124 applications.
2. Our K&H Family-Owned Business events are organized for owners of family-owned businesses and the family members succeeding them, in order to help them with the future growth and sustainability of the company.
3. FOB Clubs: events for customers structured to inspire and facilitate peer networking (26 events were organized, with 1000-1100 clients participating).
4. Next Generation (NextGen) roundtables are organized to inspire and to provide insight into business management.

Start it @K&H:

- the number one corporate incubator programme, currently at 2 locations (Budapest and Győr)
- 78 startups have participated in the programme since its launch in 2017
- incubation period of 6-12 months
- our teams have won 15 Hungarian and international awards and attracted equity investments of more than EUR 6.5 million since the launch
- community office in downtown Budapest and in Győr
- experienced professional mentoring team, with more than 20 mentors representing different industries

Health

In just a month and a half, 2.8 million “beeps” representing HUF 28 million in donations were collected in K&H’s fundraising scheme. The aim of this digital campaign was to encourage virus-proof payments by mobile or smartwatch, with K&H donating HUF 10 to the National Ambulance Service for each purchase made by a customer using a smart device. In addition to customer contributions, the K&H Foundation for a Healthy Society also participated in the fundraising campaign and nearly doubled the funds raised. The sum of almost HUF 50 million raised by K&H financed new and innovative life-saving devices for the ambulance services. K&H’s donation of HUF 50 million helped acquire 400 paediatric ventilators for ambulance vehicles, which will benefit all ambulance stations and improve the healthcare coverage of residents in thousands of localities.
The K&H MediMagic programme has been a committed supporter of Hungarian paediatric healthcare for 18 years. On 501 occasions so far, nearly HUF 805 million worth of new equipment has been provided to child healthcare institutions to help children recover as easily and quickly as possible and live a healthy and full life again. In 2021, 11 further institutions (8 hospitals and 3 general practitioner surgeries) received a total of HUF 20 million to purchase instruments, mainly devices used in the intensive care of young patients.

5.3.

Actions against corruption and bribery; respect for human rights

The Bank Group’s Anti-Corruption Programme focuses on the following two main objectives:

- defining the criteria and principles that enable the Group’s employees and associated persons to avoid conflicts of interest
- developing a group-wide solution for compliance with all the legal requirements arising from regulations

The Programme is managed and coordinated by the Group’s Compliance Directorate. Local implementation and compliance are the shared responsibility of all stakeholders.
Regarding respect for human rights, our company’s internal rules contain the general provisions.

Responsibility towards employees

K&H Bank has made creating an attractive workplace and ensuring work-life balance for its employees a priority of its business strategy and its social environment strategy. In recent years, this has been recognized by several forums. In 2013, in a field of 153 companies nationwide, we were selected by the MTD Consulting Group as one of the TOP10 Diverse and Family-Friendly Workplaces. In 2014 and 2016 the Bank was awarded a prize in the Large Corporate category in the Government's Family-Friendly Workplace competition. Supplemented with our own funds, the HUF 200,000 grant received with the latter award was used to furnish a Child-Friendly Office that was unique at the time. Since the opening of the Office, more than 220 parents and their children have regularly visited the Family-Friendly Office. With 5 workstations installed in a 100 m2 room, the Office provides a temporary solution for employees who cannot arrange supervision for their children for a few hours or 1-2 days. This is particularly the case during school holidays, when parents can work here while their children have fun in the play area. As a winner of the Government's 2014 Family-Friendly Workplace competition, the prize of HUF 200,000 and about HUF 500,000 in the Bank’s own funds were used to buy toys, books, creative and art supplies, DVD players, TV and DVD films, all of which are used extensively by the children. Before creating similar rooms, representatives of several companies (K&H’s own Family Business clients and partner banks within the banking sector) had visited the Bank’s original Child-Friendly Workplace Office in 2019.

In 2015, K&H Bank was named the “Most Popular Workplace to Welcome You Back” in JÓL-LÉT Foundation's competition for the most active workplaces committed to the reintegration of new mothers into the workplace. This award is very special for us because the success of our WelcomeBack Maternity Programme was acknowledged when K&H Bank received the highest number of nominations for this award from mothers returning to work nationwide.

Also in 2015, we were awarded 1st place in the Large Corporate category of the Three Princes and Three Princesses Movement's Family-Friendly Company competition, and the Movement signed a Strategic Partnership Cooperation Agreement with our Bank at its 17 May 2016 conference, in recognition of our family-friendly measures and efforts to promote a family-friendly workplace culture.

We believe that an employer acts in the best interest of its employees when it manages the balance and scheduling of workdays and leisure time/private life with as much flexibility as possible. After all, the freedom enjoyed by employees contributes not only to greater employee satisfaction, but also to a potentially happier private life. In this context, our Bank has paid particular attention for years to the creation of conditions for atypical employment (part-time and flexible work). Flexible working hours give our employees the freedom to schedule their own working hours to fit in with their family commitments and to organize their family life more freely. In addition, employees may request their manager exercising employer rights to establish a work schedule different from the standard business hours. We currently have around 600 employees who, under the terms of their contract, work under flexible hours. Where the nature of the job has allowed it, in recent years we have invested significant sums in providing the technical conditions (laptops, secure data transfer) and the regulatory framework necessary for working from home some of the time. We carried out a major infrastructure upgrade in 2020-2021, increasing the number of secure IT channels for working from home from 2,000 to 4,000 workstations. We also offered all our staff the opportunity to swap their desktop computers for laptops. In 2020 and 2021 an additional 1,220 staff members took advantage of this offer, greatly increasing the possibility of home-based and more flexible work. At the beginning of 2020, we purchased the latest state-of-the-art mobile phones on the market for all our 3,700 active staff and provided them with free internet access up to 5MB of data and unlimited calls, with software suitable for both private and work use. This has enabled all employees to carry out their work duties remotely, and the measures implemented created the conditions for working from home during the COVID-19 pandemic.

As we must ensure uninterrupted customer service throughout the branch network, especially since the banking sector qualifies as a key sector of the national economy in serving the population, working from home has not been feasible in our branches in general; nevertheless, some 140 network employees were able to work from home and look after their children throughout the period when early childhood centres, kindergartens and schools were closed.
In 2020-2021 we spent around HUF 380 million on protecting our staff and customers in the COVID-19 emergency. We purchased 210,000 masks, 162,000 rubber gloves, 4,850 litres of antiseptic soap, 3,800 litres of surface disinfectant and 5,800 litres of hand sanitizer. A total of 1408 plexiglass panels were installed at all customer service points to prevent the transmission of the virus; whenever cases of infection were suspected, we ordered a deep cleaning.

In 2020-2021, we continuously monitored employee needs and the organizational and work scheduling options that provide a framework for the further expansion of atypical employment. As much as 30% of mothers absent on maternity leave and wishing return to work would prefer and are now able to opt for part-time employment. A new record was set in 2021: as many as 245 employees are now working part-time, which is particularly popular with staff returning after a long absence tied to childcare and those approaching, or working after, retirement.

The WelcomeBack programme for women's reintegration into the labour market – Of our 4,000-strong staff, 2,000 are in the age group where they may plan to start a family or have more children in the near future. We believe it is important to keep them informed about the current developments at K&H Group and we also wish to assist them in returning to work after their maternity leave. Around 2,450 employees have participated in the Welcome Back programme in the 16 years since it was launched on 1 January 2005.

The Bank also offers a range of family-friendly measures to support families: parents may apply for schooling and social subsidies, part-time and flexible forms of work and working hours are increasingly used, work from home is being authorised, all of which help to achieve a work-life balance and to reconcile the interests of the employer and the employees. 35% of returning mothers come back to work part-time, which is an exceptionally high rate in the context of the Hungarian labour market.

The specialists at the Élettükör Mental Health Workshop have been providing online personal mental health consultations to the employees of K&H Bank and Insurance since 2 April 2020. The service is available free of charge to all employees, who can log in by phone or online video (most often via Skype). This is a preventive service offered by the mental health professionals, focusing on preserving mental wellbeing. They help employees to learn new skills and strategies and support them in dealing with specific problems in their lives. The professionals try to help everyone to find their own answers.
In the last year and a half, some 150 consultations have taken place, as employees have been able to contact the experts with any question or problem, whether related to their work or to their private life.

The professionals are bound by strict confidentiality and do not provide the employer with any information on the content of the discussions.

Budapest, 29 April 2022

Guy Libot	Attila Gombás
Chief Executive Officer	Chief Financial Officer