Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság

CONSOLIDATED ANNUAL REPORT

31 December 2020

CONTENT

Statement of the Issuer

K&H Bank Zrt., as the Issuer (represented by David Moucheron, CEO and Attila Gombás, CFO) hereby declare that the Year 2020 Annual Report and the Year 2020 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 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 30 2021

David Moucheron
Chief Executive Officer

Attila Gombás
Chief Financial Officer

KERESKEDELMI ÉS HITELBANK ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG

**CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION**

FOR THE YEAR ENDED 31 DECEMBER 2020

WITH THE REPORT OF INDEPENDENT AUDITOR

INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the shareholder of K&H Bank Zrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of K&H Bank Zrt. (the "Company") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position of 31 December 2020 (in which the consolidated total assets is MHUF 4,384,252), the consolidated income statement, the consolidated statement of comprehensive income (in which the total comprehensive income for the year is MHUF 40,882 profit), the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("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 consolidated 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 20 April 2021.

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 consolidated financial statements" section of our report.

We are independent of the Group 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 Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 42 to the financial statements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group 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

Overall group materiality	Overall group materiality applied was MHUF 2,778
Group Scoping	We included one subsidiary in our audit which together with the parent accounts for 95% of the consolidated total assets and 98% of the consolidated net profit.
Key Audit Matters	Impairment on loans and advances measured at amortised cost

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated 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 consolidated financial statements as a whole.

Materiality	MHUF 2,778
Determination	5% of the average consolidated profit before tax of the last 3 years including this current year.
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark.

	We believe that the three-year average of consolidated profit before tax is less fluctuating and therefore results in more stable materiality compared to the consideration of consolidated current year profit only. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Group audit scope

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

We have identified one subsidiary, which, in our view, required an audit of their significant account balances, due to their financial significance to the Group.
For the remaining components we performed analytical review on Group level. This together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Key audit matters

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

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 1,600,796 as at 31 December 2020, representing 37% of the balance sheet total. Impairment recognised in the balance sheet amounted to MHUF 49,599. The management disclosed the related assumptions, balances and estimates in point 2.3.3 of the notes to the financial statements on accounting policy, as well as in notes 17., 22.,25 and 45.4-45.5. Impairment recognised on expected credit losses is determined on the basis of subjective	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) and checked the customer's rating by the Bank based on credit application and/or monitoring documents as well as customer-related financial and non-financial information.

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 unprecedented economic conditions that currently vary across customer segments and industry sectors - can result in limitations in their reliability to appropriately estimate ECL.

A further limitation is caused by the fact, that, to reduce the economic consequences of the COVID-19 pandemic, the Hungarian government has introduced loan payment support programs, including moratoria on loan repayment transactions available to and used by a significant portion of 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:

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 and 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., 17, 22., 25. and 45.4-45.5 of the notes to the financial statements to assess whether disclosures are in line with applicable regulations.

• 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 consolidated business report

Other information comprises the consolidated business report report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the consolidated financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the consolidated business report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and, in doing so, consider whether the consolidated business report is materially inconsistent with the consolidated 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 consolidated 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 consolidated business report to consider whether the consolidated 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 consolidated business report is consistent with the consolidated financial statements.

Because the transferable securities of K&H Jelzálogbank Zrt. (a subsidiary of the Company) are admitted to trading on a regulated market of a Member State of the European Economic Area, our opinion on the business report of K&H Jelzálogbank Zrt. shall cover the information prepared under Paragraphs e) of Subsection (2) of Section 95/B, and state whether the information referred to in Paragraphs a)-d), g) and h) of Subsection (2) of Section 95/B of the Accounting Act has been provided. In terms of the consolidated business report we do not make any statements relating to these requirements.

As the Company is a public interest entity preparing consolidated financial statements and the conditions in Paragraph a) and b) of Subsection (5) of Section 134 of the Accounting Act are met at the balance sheet date, the Company shall publish a non-financial statement required by Section 95/C in it's consolidated business report relating to the companies included in the consolidation. In this respect, we shall state whether the consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

In our opinion, the 2020 consolidated business report of the Group, is consistent with the 2020 consolidated financial statements in all material respects, and the consolidated 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 consolidated 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 consolidated business report, therefore we have nothing to report in this respect.

The consolidated business report includes the non-financial statement required by Section 95/C, and Subsection (5) of Section 134 of the Accounting Act.

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

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and to prepare the consolidated financial statements in accordance with the supplementary requirements of the Accounting Act relevant for the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the consolidated 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 consolidated 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 Group on 28 April 2016. Our appointment has been renewed annually by shareholder resolutions representing a total period of uninterrupted engagement appointment of 5 years.

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

Budapest, 20 April 2021

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.

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	2020 MHUF	Reclassified 2019 MHUF
Interest and similar income		115 783	100 341
Interest income calculated using the effective interest method	6	99 426	84 679
Other similar income	6	16 357	15 662
Interest and similar expense	6	(25 766)	(19 226)
Net interest and similar income		90 017	81 115
Fee and commission income		88 209	87 991
Fee and commission expense		(22 884)	(22 620)
Net fee and commission income	7	65 325	65 371
Net gains / (losses) from financial instruments at fair value through profit or loss	8	(13 465)	3 894
Foreign exchange differences		32 582	15 749
Net realised gains / (losses) from financial assets at fair value through other comprehensive income	9	215	219
Dividend income	10	15	16
Gains on the disposal of assets at amortised cost	11	2 685	1 694
Other income	12	2 664	1 905
Other expense	12	(1 089)	(1 040)
Total income		178 970	168 923
Operating expenses excluding impairment losses		(106 908)	(107 414)
Staff expenses	15;41	(32 578)	(34 664)
General administrative expenses	13	(55 349)	(55 824)
Depreciation and amortisation of tangible and intangible assets	31;32	(13 190)	(11 289)
Bank tax	14	(5 791)	(5 637)
Impairment on assets:		(28 010)	(1 857)
At amortised cost	25	(23 306)	(1 393)
At fair value through other comprehensive income	24	(11)	24
Other	25	(4 693)	(488)
Modification losses on financial assets at amortized cost	3	(4 400)	-
Gain on divestment	4	11 429	-
Profit / (loss) before tax		51 081	59 652
Income tax expense	16	(8 937)	(8 775)
Profit / (loss) after tax		42 144	50 877

Approved by the Board of Directors on 20 April 2021.

David Moucheron *Chief Executive Officer* *Member of the Board*	*Attila Gombás* *Chief Financial Officer* *Member of the Board*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2020 MHUF	2019 MHUF
Profit after tax		42 144	50 877
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		(464)	2 521
Deferred tax impact on fair value changes	29	50	(272)
Transfer from revaluation reserve to net profit:			
(Losses)/gains on impairment	24	11	(24)
(Losses)/ gains on disposal	9	(215)	(219)
Deferred income tax	29	22	26
Cash flow hedge			
Net gain / (loss) from fair value changes	8	(1 398)	4 652
Deferred tax impact on fair value changes	29	126	(419)
Transfer from cash flow hedge reserve to net profit:			
Ineffective part	8;26	115	154
Gross amount	8;26	(385)	(529)
Deferred income tax	29	24	34
Items that will not be reclassified to the profit or loss			
Revaluation reserve of equity instruments			
Net gain / (loss) from fair value changes		811	853
Deferred tax impact on fair value changes	29	43	(92)
Actuarial result on defined benefit plans	41	(2)	8
Deferred income tax	29	-	(1)
Total other comprehensive income / (loss)		(1 262)	6 692
Total comprehensive income		40 882	57 569

Approved by the Board of Directors on 20 April 2021.

David Moucheron *Chief Executive Officer* *Member of the Board*	*Attila Gombás* *Chief Financial Officer* *Member of the Board*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2020	Reclassified 2019
		MHUF	MHUF
ASSETS			
Cash and cash balances with central banks and other demand deposits with credit institutions		391 045	413 803
Cash		71 154	54 227
Cash balances with central banks	17;20;22	184 099	272 000
Other demand deposit with credit institutions	17;20;22	135 792	87 576
Financial assets		3 853 318	2 984 190
Held for trading	17;20;22;26	67 198	77 021
of which assets pledged as collateral	*17*	*1 802*	*-*
Mandatorily at fair value through profit or loss	17;20-22	139 570	67 016
At fair value through other comprehensive income	17;20;22	111 896	92 830
of which assets pledged as collateral	*17*	*24 226*	*21 599*
At amortised cost	17;20;22	3 509 189	2 717 816
of which assets pledged as collateral	*17*	*429 086*	*276 072*
Hedging derivatives	20;22;26	25 465	29 507
Fair value changes of hedged item under portfolio hedge of interest rate risk	26	17 841	19 042
Tax assets		3 119	2 638
Current tax assets		3 074	2 595
Deferred tax assets	29	45	43
Investment property	30	1 540	1 874
Property, plant and equipment	31	46 729	49 827
Intangible assets	32	46 442	30 424
Non-current assets held for sale and disposal groups	27	1 474	-
Other assets	28	22 744	20 356
Total assets		4 384 252	3 522 154
LIABILITIES AND EQUITY			
Financial liabilities		3 924 958	3 105 358
Held for trading	17;20;22	64 168	61 193
Designated at fair value through profit or loss	17;20-22	33 051	52 614
Measured at amortised cost	17;20;22	3 803 374	2 966 530
Hedging derivatives	17;20;22;26	24 365	25 021
Fair value changes of hedged item under portfolio hedge of interest rate risk	26	14 614	15 827
Tax liabilities		2 014	1 127
Current tax liabilities		1 921	406
Deferred tax liabilities	29	93	721
Provisions for risks and charges and credit commitments	25;33	2 839	1 843
Other liabilities	34	39 158	38 212
Total liabilities		3 983 583	3 162 367
Share capital	35	140 978	140 978
Share premium		48 775	48 775
Accumulated profit		168 864	128 791
Other reserves		42 052	41 243
Total equity	36;46	400 669	359 787
Total liabilities and equity		4 384 252	3 522 154

Approved by the Board of Directors on 20 April 2021.

David Moucheron
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital MHUF	Share premium MHUF	Statutory risk reserve MHUF	Revaluation reserve of securities MHUF	Cash flow reserve MHUF	Other revalu-ation reserves MHUF	Retained earnings MHUF	Total equity MHUF
2019								
Balance at the beginning of the period	140 978	48 775	23 359	3 914	2 156	59	85 977	305 218
Net profit for the year	-	-	-	-	-	-	50 877	50 877
Other comprehensive income for the period (Note 9)	-	-	-	2 793	3 892	7	-	6 692
Total comprehensive income	-	-	-	2 793	3 892	7	50 877	57 569
Dividend paid	-	-	-	-	-	-	(3 000)	(3 000)
Transfer from retained earnings to statutory risk reserve (Note 46)	-	-	5 063	-	-	-	(5 063)	-
Total change	-	-	5 063	2 793	3 892	7	42 814	54 569
Balance at the end of the period	140 978	48 775	28 422	6 707	6 048	66	128 791	359 787
of which revaluation reserve for shares (Note 17)	-	-	-	*1 416*	-	-	-	*1 416*
of which revaluation reserve for bonds (Note 17)	-	-	-	*5 291*	-	-	-	*5 291*
2020								
Balance at the beginning of the period	140 978	48 775	28 422	6 707	6 048	66	128 791	359 787
Net profit for the year	-	-	-	-	-	-	42 144	42 144
Other comprehensive income for the period (Note 9)	-	-	-	258	(1 518)	(2)	-	(1 262)
Total comprehensive income	-	-	-	258	(1 518)	(2)	42 144	40 882
VISA conversion (Note 9)	-	-	-	(1 209)	-	-	1 209	-
Transfer from retained earnings to statutory risk reserve (Note 46)	-	-	3 280	-	-	-	(3 280)	-
Total change	-	-	3 280	(951)	(1 518)	(2)	40 073	40 882
Balance at the end of the period	140 978	48 775	31 702	5 756	4 530	64	168 864	400 669
of which revaluation reserve for shares (Note 17)	-	-	-	*1 062*	-	-	-	*1 062*
of which revaluation reserve for bonds (Note 17)	-	-	-	*4 694*	-	-	-	*4 694*

Other revaluation reserves include own credit risk adjustments and the actuarial result on defined benefit plans. No dividend was paid on ordinary shares in 2020 (HUF 3 000 million dividend - 0.021280 HUF/share - was paid in 2019). See Note 46 for dividend proposed on ordinary shares in 2020.

Approved by the Board of Directors on 20 April 2021.

David Moucheron
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2020 MHUF	Reclassified 2019 MHUF
OPERATING ACTIVITIES			
Profit / (loss) before tax		51 081	59 652
Adjustments for:			
Interest and similar income	6	(115 783)	(100 341)
Interest and similar expense	6	25 766	19 226
Net transfer from revaluation reserve of securities	9	204	243
Net transfer from cash flow hedge reserve	8	270	375
Depreciation and impairment of property, plant and equipment, intangible assets, financial assets at fair value through other comprehensive income and other assets	31;32	17 883	11 778
(Profit)/Loss on the disposal of property and equipment	11	(153)	(139)
(Profit)/Loss on the disposal of investment property	11	(403)	(352)
Change of modification result on financial assets at amortized cost	4	4 400	-
Change in impairment on financial assets valued at amortised cost*	25	23 306	1 381
Change in other provisions	33	1 061	383
Unrealised valuation differences	8	(3 861)	2 500
Cash flows from operating profit / (loss) before tax and before changes in operating assets and liabilities		3 770	(5 294)
Changes in financial assets held for trading		15 521	(16 454)
Changes in financial assets mandatorily valued at fair value through profit or loss		(66 123)	(48 008)
Changes in financial assets valued at fair value through other comprehensive income		(19 551)	6 070
Changes in financial assets valued at amortised cost		109 481	(165 832)
Changes in other assets		4 235	(4 061)
Changes in operating assets		43 563	(228 285)
Changes in financial liabilities held for trading		(6 478)	9 035
Changes in financial liabilities designated at fair value through profit or loss		(18 665)	(22 925)
Changes in financial liabilities measured at amortised cost		684 347	304 365
Changes in other liabilities		1 437	(25 278)
Changes in operating liabilities		660 641	265 197
Income taxes paid		(9 301)	(8 304)
Interest received		98 299	103 625
Interest paid		(26 066)	(20 840)
Net cash from/(used in) operating activities		770 906	106 100

* Including impairments on loan commitments.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2020 MHUF	2019 MHUF
INVESTING ACTIVITIES			
Purchase of securities at amortised cost		(253 300)	(252 787)
Proceeds from the repayment at maturity of securities at amortised cost		58 609	68 778
Dividends received from associated companies		15	16
Purchase of intangible assets	32	(24 294)	(14 943)
Purchase of property, plant and equipment	31	(9 461)	(21 587)
Proceeds from the sale of property, plant and equipment	31	396	210
Purchase of investment property	30	(376)	(804)
Proceeds from the sale of investment property	30	1 353	1 012
Net cash from/(used in) investing activities		(227 058)	(220 105)
FINANCING ACTIVITIES			
Proceeds from issuance of mortgage bonds		(5 000)	-
Repayment of principal of lease liabilities		(2 827)	(1 699)
Dividend paid		-	(3 000)
Net cash from/(used in) financing activities		(7 827)	(4 699)
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase/(decrease) in cash and cash equivalents		536 021	(118 703)
Net foreign exchange difference		642	(4 957)
Cash and cash equivalents at beginning of the period		295 735	419 395
Cash and cash equivalents at end of the period		832 398	295 735

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2020 MHUF	2019 MHUF
OPERATING CASH FLOWS FROM DIVIDENDS			
Dividends received	10	15	16
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions		391 045	413 803
Loans and advances to banks repayable on demand and term loans to banks < 3 months	17	721 305	1 639
Deposits from banks repayable on demand and redeemable at notice	17	(279 952)	(119 707)
Total cash and cash equivalents		832 398	295 735

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

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

Approved by the Board of Directors on 20 April 2021.

David Moucheron *Chief Executive Officer* *Member of the Board*	*Attila Gombás* *Chief Financial Officer* *Member of the Board*

NOTE 1 – GENERAL

Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság (“K&H Bank Zrt.” or “the Bank”) is a limited liability company incorporated in Hungary. K&H Bank Zrt. and its subsidiaries (“the Group”) provide a full range of banking services through a nation-wide network of 204 branches. As at 31 December 2020 K&H Bank Zrt.’s registered office was at Lechner Ödön fasor 9, Budapest. Website: www.kh.hu.

The parent company of K&H Bank Zrt. is KBC Bank N.V. The ultimate parent is KBC Group N.V.

David Moucheron Chief Executive Officer (Budapest) and Attila Gombás Chief Financial Officer (Budapest) are obliged to sign these consolidated 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 consolidated 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 Group maintains its accounting records and prepares its statutory accounts in accordance with commercial banking and fiscal regulations prevailing in Hungary. The Group entities’ 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 years.

2.1.1 Statement of compliance

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

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU.

On 1 January 2017 K&H Bank implemented IFRSs for statutory purposes instead of Hungarian Accounting Standards. The accounting principles applied in the Bank’s stand-alone financial statements do not differ from those used in the Group’s financial statements.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.1.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and all entities it controlled as at 31 December 2020. The Bank and the entities which it controls are referred to collectively as “the Group”. Control is presumed to exist if all of the following conditions are met:

- the Bank has power over the entity;
- the Bank has exposure, or rights, to variable returns from its involvement with the investee;
- the Bank has the ability to use its power over the investee to affect the amount of the investor’s returns.

In case of the Bank’s exclusive control the effects of all material intercompany balances and transactions are eliminated.

An investment in an associate is one in which the Bank holds, directly or indirectly, more than 20% of the voting rights and over which the Group exercises significant influence but which it does not control. Associates are accounted for under the equity method of accounting, and the pro-rata share of their income (loss) is included in the consolidated income statement. The Group's interest in an associate is carried in the consolidated statement of financial position at an amount that reflects its share of the net assets of the associate.

A list of subsidiary and associated companies is provided in Note 43.

2.2 Significant accounting judgements and estimates

In the process of applying the Groups’ accounting policies, Management has used its judgements and made estimates in determining the amounts recognized in the consolidated 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 between market participants 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.

Where the fair values of financial assets and financial liabilities recorded on the consolidated 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 20 and Note 45.3.

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

The impairment allowances of loans and advances and loss allowances of 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 Group applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments.

NOTE 2 – ACCOUNTING POLICIES (continued)

The Group regularly reviews its loans and advances, contingent liabilities and its commitments to assess impairment and provision. The Group 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 Group 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 Group. 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 25 for further details.

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 consolidated financial statements. Refer to Note 33 for further details.

2.3 Significant accounting policies

2.3.1 Foreign currency translation

The functional and presentational currency of the Group is HUF. Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary as at the date of the consolidated 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 National Bank of Hungary as at the date of the consolidated 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 Group 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.

2.3.2.1 Financial assets – recognition and derecognition

2.3.2.1.1 Recognition

Financial assets and liabilities are recognised in the consolidated statement in financial position when the Group 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group 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 Group derecognises a financial asset when the contractual cash flows from the asset expire or the Group 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 Group 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 Group 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 Group could be required to repay.

Repo and reverse repo agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated 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 consolidated statement of financial position, as the Group 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.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated 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 consolidated 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.

When during the term of a financial asset there is a change in the terms and conditions, then the Group 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 Group assesses that the terms are not substantially different than the transaction is accounted for as financial asset modification.

NOTE 2 – ACCOUNTING POLICIES (continued)

Renegotiated loans

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

The Group 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 with a view to avoiding default 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 Group evaluates whether:

- The borrower has changed;
- The loan has been partially written off because the Group 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 Group 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 Group, 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 Group (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.

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 Group 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

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' gross carrying amount. The effect of contract modification on gross carrying amount is presented in the profit or loss on line of modification losses on financial assets at amortized cost (see Note 3).

Derecognition of renegotiated loans

For derecognition of the renegotiated loans the Group 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 Group 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 Group 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 Group 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 Group 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 Group.

2.3.2.2.1 Classification and measurement – debt instruments

When the Group 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)

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.

NOTE 2 – ACCOUNTING POLICIES (continued)

Further, the Group 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 Group 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 Group'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 Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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 Group changes its business model for managing financial assets which could occur when the Group begins or ceases to perform an activity that is significant to its operations (e.g.: when the Group 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); or

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 Group 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 Group 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 Group 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 Group 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'.

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".

NOTE 2 – ACCOUNTING POLICIES (continued)

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 Group 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 Group 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 Group on a regular basis.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.3 Financial assets - Impairment

2.3.3.1 Definition of default

The Group 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 Group 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 Group 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 Group applies this practical expedient for trade receivables.

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

NOTE 2 – ACCOUNTING POLICIES (continued)

Financial assets that are measured at amortised cost are presented on the consolidated 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 consolidated 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.

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 Group 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 Group uses the low credit risk exception for bonds which are graded as investment grade.
- 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group uses specific IFRS 9 models for PD, EAD and LGD to calculate ECL. To the extent possible the Group uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. Having said that, the Group ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:
- the Group removes the conservatism which is required by the regulator for Basel models
- the Group 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 Group applies forward looking macroeconomic information in the models.

The Group also considers three different forward looking macro-economic scenarios with different weights in the calculation of ECL. The base case macro-economic scenario represents the Group’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 Group 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 National Bank of Hungary (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 Group 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 Group; or
- the Group 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 Group 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 Group can also derecognise the financial liability and recognise a new one when there is an exchange between the Group 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 Group 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 Group 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 Group 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 Group for the following reasons:

- the Group 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 Group 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 Group 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 Group 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.

2.3.5.3 Financial liability – financial guarantee contract

A financial guarantee contract is a contract that requires the Group 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.6 Offsetting

The Group offsets and presents only a net amount in the consolidated 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 Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method 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 Group 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 Group 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.

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.

NOTE 2 – ACCOUNTING POLICIES (continued)

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 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.

2.3.8.1 The Group, as a lessee

On initial recognition the Group 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 Group'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 Group recognises a financial cost on the lease. The cost represents the unwinding of the discount rate of the lease. The Group 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 Group 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 reassessments. The lease liability shall be remeasured using an unchanged discount rate when there are change in index or rate affecting payments.

The Group opts to apply the following practical expedients foreseen in the standard: the Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics ('portfolio approach'). The Group applies the recognition exemption for both leases with a low value (< 5.000 EUR) and short-term leases (< 12 months). The Group 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.8.2 The Group, 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 Group's statement of financial position as claims from customers at an amount equal to the Group'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 must be applied.

Assets subject to operating leases are included in premises and equipment in the statement of financial position and lease payments received are presented as income in the income statement. When the Group 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 Group 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.

2.3.9 Equity (Reserves)

Reserves in the consolidated financial statements of the Group 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 Group
  - 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 Group over the par value of its shares at the time of capital increase.

2.3.10 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 Group.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.11 Share based payment transactions

A number of employees of the Group 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.

2.3.12 Investment property

Investment property is defined as a real estate property either built, purchased or acquired under a finance lease by the Group, which is held to earn rentals or capital appreciations rather than used by the Group for the supply of services or for administrative purposes.
The Group 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.

2.3.13 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 Group 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.

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 Group 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

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

Buildings	10-50 years
Leasehold rights	10-50 years
Leasehold improvements	3-20 years
Right-of-use assets (leases)	3-20 years
Furniture, fixtures and equipment	3-7 years
System software	5 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 Group prepares reassessment for the useful lives and the residual values at least on a yearly basis.

2.3.14 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 Group 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 Group does not intend to dispose the intangible assets before their economic useful lives.

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

2.3.15 Impairment of non-financial assets

When the Group prepares consolidated 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 Group reviews at least annually whether there are any indicators of impairment.

NOTE 2 – ACCOUNTING POLICIES (continued)

When an impairment indicator is present, or the impairment test of an asset must be prepared, the Group 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.

2.3.16 Contingent liabilities

In the ordinary course of its business, the Group 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 consolidated 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 Group treats them in the same way as financial guarantees.

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

2.3.17 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. 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.

2.3.18 Revenue recognition

2.3.18.1 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.18.2 Net fee and commission income

The Group 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 Group 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 Group 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 Group 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 Group provides series of distinct services which is consumed by the customer simultaneously when the benefits are provided. The Group 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 Group recognises these revenues at that point in time or over time.

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 Group 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 Group 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 Group 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.

2.3.19 Employee benefits

2.3.19.1 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.

2.3.19.2 Post-employment benefits

A number of employees of the Group 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 consolidated 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3.20 Government grants

Government grants are assistance by government in the form of transfers of resources to the Group 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 Group 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 Group applies the deferred income (gross) presentation method.

2.3.21 Levies

Public authorities could impose different levies on the Group. The amount of the levies can be dependent on the amount of revenue (mainly interest) generated by the Group, 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 Group have to be recognised at one point, which occurs mainly at the beginning of the financial year. The Group recognises the levies as part of Operating Expenses (See Note 2.5).

2.3.22 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 Group has a legally enforceable right to set off, and the Group intend to settle them on a net basis or to realize the assets and settle the liabilities simultaneously

2.3.23 Non-current assets held-for-sale and liabilities associated with disposal groups

Non-current assets or group of assets and liabilities held for sale are those for which the Group 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 Group 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

The Group 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 consolidated 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 Group 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.

2.3.24 Fiduciary assets

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

2.3.25 Operating segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

Segment information is disclosed only in the consolidated financial statements. Detailed disclosures are in Note 5.

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 consolidated 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 statement of financial position and performance of the current year.
The impact and consequences of the non-adjusting events are disclosed in the notes of the consolidated financial statements.

2.4 Changes in accounting policies
2.4.1 Adoption of new or revised standards and interpretations

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

- IAS 39, IFRS 9 and IFRS 7 Amendment of IBOR reform
- Definition of a business – Amendments to IFRS 3
- Definition of materiality – Amendments to IAS 1 and IAS 8
- Amendments to the Conceptual Framework for Financial Reporting
- COVID-19-Related Rent Concessions Amendment to IFRS 16

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4.2 New accounting pronouncements

The Group 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 Group will apply these standards when they become mandatory.

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 (Insurance contracts), which will become effective on 1 January 2023. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.

As the Group does not provide insurance services, no major impact was identified.

Other changes

The IASB published several limited amendments to existing pronouncements. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

The list of amendments:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
  Effective from: to be determined by the IASB

- Classification of liabilities as current or non-current – Amendments to IAS 1
  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
  Effective from: 1 January 2023

- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
  Effective from: 1 January 2021

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 14). 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 Group’s Consolidated 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.

NOTE 2 – ACCOUNTING POLICIES (continued)

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 Group's Consolidated 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 Group records the total annual fee at the beginning of the period.

2.6 Change in estimate

The Group fine-tuned some of the valuation methods used for valuation of the assets and liabilities but the change has no significant effect on the consolidated financial statement in 2020.

2.7 Reclassifications

Some of the notes in the Consolidated 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:

- Consolidated income statement
- Consolidated statement of financial position
- Consolidated statement of cash flows
- Note 6 – Net interest and similar income
- Note 7 – Net fee and commission income
- Note 27 - Non-current assets held for sale and disposal groups
- Note 31 - Property, plant and equipment
- Note 45.2 – Risk management – Liquidity and funding management

Loan related prepayment fees were reclassified from net fee and commission income to net interest and similar income due to their amortised characteristics. The related notes were changed accordingly.

The Group reclassified non-current assets held for sale and disposal groups as at 31 December 2019, as the necessary classification criteria have not met in 2019. In these financial statements the assets were reclassified to property, plant and equipment in 2019 and presented as non-current assets held for sale and disposal groups in 2020 again. The related notes were changed accordingly.

NOTE 2 – ACCOUNTING POLICIES (continued)

The reclassifications caused the following changes in the Consolidated Income Statement in 2019.

	Before reclassification 2019 MHUF	Reclassifi-cation MHUF	After reclassification 2019 MHUF
Consolidated income statement			
Net interest and similar income	80 204	911	81 115
Net fee and commission income	66 282	(911)	65 371

	Before reclassification 2019 MHUF	Reclassifi-cation MHUF	After reclassification 2019 MHUF
Consolidated statement of financial position			
Property, plant and equipment	48 107	1 720	49 827
Non-current assets held for sale and disposal groups	1 720	(1 720)	-

NOTE 3 – COVID-19 RELATED FINANCIAL MORATORIUM

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the world, causing disruptions to businesses and economic activity.

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).

On 22 December 2020 the government announced the decree of 637/2020 about the introduction of the financial moratorium's special rules related to the Covid-19 crises. This decree prolongs the duration of the first moratorium according to which the financial moratorium is available for another half year until 30 June 2021.

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. According to preliminary estimations, the loss will amount to approximately HUF 4 400 million which amount was calculated based on the number of eligible debtors taking into account the opt-out rate of the clients. The estimated negative impact is recognized as a modification to the gross carrying amount of the related loans in the Group's consolidated statement of financial position and as modification losses on financial assets at amortized cost in the Group's consolidated income statement in 2020.

The Financial Stability Board of the Magyar Nemzeti Bank (MNB) adopted on March 19 a comprehensive package of measures to mitigate the effects of the Covid-19 crises on the financial intermediation sector. Among them the MNB called on banks and their shareholders not to approve or pay dividends until the end of September 2020 and prolonged this period with another 1 year later on in 2020.

In April MNB launched the latest scheme of the Funding for Growth Programme in order to support access to finance for SMEs. The scheme makes financial funds available to micro-, small and medium-sized businesses from April 20 through credit institutions and financial businesses at a fixed interest rate of a maximum 2.5%, available on a wider scale than before, helping SMEs to overcome the economic effects of the coronavirus.

In addition, based on Government decree of 1170/2020. (IV.21.) for the mitigation of the negative effects of the Covid-19 crises to SMEs and corporates, Garantiqa Hitelgarancia Zrt. launched a loan guarantee program with specific conditions giving a maximum 90% guarantee which quickens the application of loans for the companies.

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

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

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

*The table includes the net carrying amount of loans and advances mandatorily at fair value through profit or loss and at amortised cost.

Moratorium related significant judgements – effect on expected credit loss

The continuing public health crisis around the world has distressed financial markets amid concerns that the global economy, and the EU's economies in particular, were significantly affected in 2020. The Coronavirus pandemic has triggered a chain of events in the markets that has led to a sharp increase in volatility. The significant deterioration in the economic outlook has brought about an unprecedented monetary policy response from central banks and governments around the world.

Expected Credit Loss (ECL) models were not able to adequately reflect all the specifics of the Covid-19 crisis or the various government measures implemented in the different countries to support households, SMEs and Corporates through this crisis. Therefore, an expert-based calculation at portfolio level is required via a management overlay. The overlay calculation includes all segments of the group including Corporate SME and retail as well, and is based on the latest macroeconomic forecasts.

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

Until now, only minor PD shifts have been observed in our 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. For the 31 December performing portfolio, the following 3-step approach was applied to estimate the additional Covid-19 impact:

- The methodology used for this purpose starts from the updated macroeconomic forecast for end December 2020 (see Note 45). The base scenario was translated to expert-based stress migration matrices per segment. The portfolio was transformed using this migration matrix, whereby a certain portion moved to inferior PD rating classes or default, a certain portion remained unchanged and a minor portion improved. After this transformation, the ECL was calculated again based on the new portfolio structure, including staging. The estimate of Covid-19 base-case ECL impact was then determined as the difference between the ECL calculated on the portfolio before and after applying the stressed migration matrix.
- In a second step, a sectoral effect was incorporated in the calculation to refine the Covid-19 ECL. The purpose of this step is to reflect the fact that some sectors will be more heavily affected than others, something which is not yet captured by the migration matrices. All exposures in the SME and Corporate portfolio were classified as high, medium or low risk based on the expected impact of the Covid-19 crisis on the sector affected (for Mortgages and Consumer Finance, no sectoral stress was applied). Based on this classification, the following expert-based weights were applied to the ECL impact as determined in the first step described above: 150% for high risk sectors, 100% for medium risk sectors and 50% for low risk sectors. This resulted in a “sector-driven” Covid-19 base-case ECL following the base-case scenario.

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

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

	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 KBC Group's base-case, optimistic and pessimistic scenarios and attributed weights. An expert-based scaling factor was applied on the estimated sector-driven Covid-19 base-case ECL from the previous step to determine the collective Covid-19 impact under an optimistic and pessimistic scenario. The final overlay was then determined by weighting the resulting Covid-19 ECL under the three scenarios with the following weights: 55% for the base-case, 10% for the optimistic and 35% for the pessimistic scenario.

For the non-performing portfolio, an additional impact assessment was performed on a portfolio basis for the stage 3 collective exposures based on expert judgement of the local credit risk management departments. Additional impairments due to Covid-19 on individually assessed stage 3 loans are already reflected in the specific allowance of the exposure (hence already included in P&L impairments) and thus not included in the management overlay.

The total Covid-19 management overlay in 2020 amounts to HUF 19 730 million. The management overlay is fully presented as stage 2.

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

Economic scenarios

The Group 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:

- Virus spread and impact more quickly under control thanks to earlier than expected large-scale availability of vaccines, allowing social distancing measures and other precautionary measures to be lifted sooner
- Steep and steady recovery from the first half of 2021 onwards, with a fast return to pre-Covid-19 levels of activity
- Sharp, short V-pattern

Base scenario:

- Start of vaccination process and wider testing and tracing will allow only a very moderate easing of precautionary measures in H1 2021. From mid-2021 on, the normalisation of socio-economic interactions will be helped by the mass rollout of effective vaccines. However, as the vaccination process will take time, socio-economic interactions will not return to normal before 2022
- The recovery will be gradual. It will take until the second half of 2021 for the mass rollout of vaccines to reinforce the recovery to pre-Covid-19 levels of activity by the end of 2023
- U-pattern

Pessimistic scenario:

- The virus reappears and continues to weigh on society and the economy, because of setbacks in the vaccination process (e.g., logistical problems, disappointing immunity results, etc.)
- Another (series of) shock(s) takes place, leading to an interrupted and unsteady path to recovery
- More L-like pattern, with right leg only slowly increasing

For more information about the key indicators (GDP growth, unemployment rate) of the three scenarios see Note 45.4.

NOTE 4 – GAIN ON DIVESTMENT

In July 2020 the Group sold its fund management activity within the KBC Group.

The Group realised a HUF 11 429 million gain on the disposal and derecognised an asset of HUF 21 million. The tax impact of the transaction amounted to HUF 1 029 million loss. The net result of the transaction is presented separately in the consolidated income statement in 2020.

NOTE 5 – SEGMENT INFORMATION

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment.
Definitions of customer segments:

Retail: private individuals, entrepreneurs and companies with an annual turnover of less than HUF 2 000 million. Services provided: loans and financing products, deposits and other savings products, transactional services, lease services, etc.

Corporate: companies with an annual turnover of higher than HUF 2 000 million, municipalities and related companies, structured and project financing, and institutions in the financial sector. Services: loans and other credit facilities, deposits and transactional services, lease services, etc.

Markets: market making.

General Management: consists of items which are not directly attributable to the business activity of the above defined segments (these include e.g. result of strategic investments and fair value changes recognised under IFRS on derivatives used for hedging purposes that do not qualify for hedge accounting, non-current assets held for sale and disposal group and the result of tax and commercial litigations).

The Group only operates in Hungary (therefore the geographical breakdown of revenues from external customers is less relevant).

All investments in associates, deferred tax assets, property, plant and equipment and intangible assets (including capital expenditures) are shown in “General management” segment.

NOTE 5 – SEGMENT INFORMATION (continued)

Segment reporting information by customer segments for 2020:

	Retail	Corporate	Markets	General management	Total
	MHUF	MHUF	MHUF	MHUF	MHUF
Net interest income / (expense)	54 915	24 124	(1 088)	12 066	90 017
Net interest income calculated using the effective interest method	52 179	23 235	(1 186)	11 190	85 418
Net other similar income / (expense)	2 736	889	98	876	4 599
Net fee and commission income / (expense)	50 740	12 834	1 086	665	65 325
Brokerage services	1 362	17	1 086	(5)	2 460
Trust and fiduciary activities	5 463	525	-	864	6 852
Credit and guarantee fee income	5 237	2 144	-	47	7 428
Structured Finance	1	38	-	(1)	38
Payment services	36 652	13 862	-	584	51 098
Card services	15 820	109	-	1	15 930
Other	4 325	73	-	5	4 403
Fee and commission income	68 860	16 768	1 086	1 495	88 209
Brokerage services	(784)	(29)	-	(188)	(1 001)
Credit and guarantee fee expense	(1 616)	(1 335)	-	(107)	(3 058)
Commissions to agents	(687)	(5)	-	-	(692)
Structured Finance	-	(21)	-	-	(21)
Payment services	(2 494)	(2 461)	-	(512)	(5 467)
Card services	(8 354)	(20)	-	(11)	(8 385)
Insurance services	(3 633)	(76)	-	-	(3 709)
Other	(552)	13	-	(12)	(551)
Fee and commission expense	(18 120)	(3 934)	-	(830)	(22 884)
Net gains from financial instruments at fair value through profit or loss and Foreign exchange differences	8 190	6 312	6 666	(2 051)	19 117
Net realised gains / (losses) from available-for-sale assets	-	-	-	-	-
Net realised gains / (losses) from financial assets at fair value through other comprehensive income	4	239	-	(28)	215
Dividend income	-	-	-	15	15
Other net income / (expense)	88	16	-	1 492	1 596
Gain on the disposal of debt instruments at amortised cost	1 495	1 190	-	0	2 685
Total income / (expense)	115 432	44 715	6 664	12 159	178 970
Operating expenses	(84 673)	(18 174)	(1 189)	(2 872)	(106 908)
Impairment	(8 539)	(14 586)	-	(4 885)	(28 010)
Modification losses on financial assets at amortized cost	(3 909)	(491)	-	-	(4 400)
Gain on investment	-	-	-	11 429	11 429
Profit / (loss) before tax	18 311	11 464	5 475	15 831	51 081
Income tax benefit / (expense)	(3 975)	(1 848)	(624)	(2 490)	(8 937)
Segment profit / (loss)	14 336	9 616	4 851	13 341	42 144
Total assets	1 023 054	946 695	784 853	1 629 650	4 384 252
Total liabilities and equity	2 270 369	1 286 304	9 513	818 066	4 384 252

NOTE 5 – SEGMENT INFORMATION (continued)

Segment reporting information by customer segments for 2019:

	Reclassified Retail MHUF	Reclassified Corporate MHUF	Reclassified Markets MHUF	Reclassified General management MHUF	Reclassified Total MHUF
Net interest income / (expense)	50 523	21 214	(21)	9 399	81 115
Net interest income /(expense) calculated using the effective interest method	49 481	20 936	(283)	5 660	75 794
Net other similar income / (expense)	1 042	278	262	3 739	5 321
Net fee and commission income / (expense)	49 770	12 855	458	2 288	65 371
Brokerage services	1 260	16	457	0	1 733
Trust and fiduciary activities	10 714	520	1	668	11 903
Credit and guarantee fee income	1 947	1 978	-	104	4 029
Structured Finance	-	120	-	-	120
Payment services	36 637	13 382	-	588	50 607
Card services	9 611	92	-	6 429	16 132
Other	3 436	4	-	27	3 467
Fee and commission income	63 605	16 112	458	7 816	87 991
Brokerage services	(1 134)	(77)	-	(85)	(1 296)
Credit and guarantee fee expense	(1 779)	(675)	-	(163)	(2 617)
Commissions to agents	(434)	(31)	-	(1)	(466)
Structured Finance	-	(36)	-	-	(36)
Payment services	(2 384)	(2 396)	-	(516)	(5 296)
Card services	(4 162)	(18)	-	(4 747)	(8 927)
Insurance services	(3 530)	(23)	-	(48)	(3 601)
Other	(412)	(1)	-	32	(381)
Fee and commission expense	(13 835)	(3 257)	-	(5 528)	(22 620)
Net gains from financial instruments at fair value through profit or loss and Foreign exchange differences	8 438	6 441	3 192	1 572	19 643
Net realised gains / (losses) from financial assets at fair value through other comprehensive income	0	226	-	(7)	219
Dividend income	-	-	-	16	16
Other net income / (expense)	(35)	43	-	857	865
Gain on the disposal of assets at amortised cost	1 722	(27)	-	(1)	1 694
Total income / (expense)	110 257	41 114	3 628	13 924	168 923
Operating expenses	(83 842)	(18 665)	(1 314)	(3 593)	(107 414)
Impairment	1 888	(3 390)	-	(355)	(1 857)
Profit / (loss) before tax	28 464	18 697	2 315	10 176	59 652
Income tax benefit / (expense)	(4 736)	(2 484)	(285)	(1 270)	(8 775)
Segment profit / (loss)	23 728	16 214	2 028	8 907	50 877
Total assets	872 004	794 739	336 095	1 519 316	3 522 154
Total liabilities and equity	1 937 020	1 007 276	9 189	568 669	3 522 154

The number of transactions between segments were insignificant in 2020 (and in 2019).

For the details of reclassifications in 2019 see Note 2.7.

NOTE 6 – NET INTEREST AND SIMILAR INCOME

	2020 MHUF	Reclassified 2019 MHUF
Financial assets at amortised cost	94 713	81 989
Financial assets at fair value through other comprehensive income	2 944	2 387
Positive interest on financial liabilities	1 769	303
Interest income calculated using the effective interest method	99 426	84 679
Financial assets held for trading	98	262
Financial assets mandatorily fair value through profit or loss other than held for trading	3 625	1 320
Asset/liability management derivatives	1 329	2 180
Hedging derivatives	11 305	11 900
Other similar income	16 357	15 662
Total interest and similar income	115 783	100 341
Financial liabilities measured at amortised cost	(12 451)	(7 005)
Other	(130)	(152)
Negative interest on financial assets	(1 427)	(1 728)
Interest expense calculated using the effective interest method	(14 008)	(8 885)
Asset/liability management derivatives	(1 271)	(1 386)
Hedging derivatives	(9 092)	(7 322)
Other financial liabilities at fair value through profit or loss	(1 388)	(1 622)
Interest and similar expense of defined benefit plans	(7)	(11)
Other similar expense	(11 758)	(10 341)
Total interest and similar expense	(25 766)	(19 226)
Net interest and similar income	90 017	81 115

The Group recorded HUF 98 million interest income (unwinding discount effect) on impaired assets in 2020 (HUF 187 million in 2019).

NOTE 7 – NET FEE AND COMMISSION INCOME

	2020	Reclassified 2019
	MHUF	MHUF
Credit and guarantee fee income	7 428	4 029
Structured finance	38	120
Total fee income related to financial instruments not at fair value through profit or loss	7 466	4 149
Brokerage services	2 460	1 733
Trust and fiduciary activities	6 852	11 903
Payment services	51 098	50 607
Card services	15 930	16 132
Other	4 403	3 467
Fee and commission income	88 209	87 991
Brokerage services	(1 001)	(1 296)
Credit and guarantee fee expense	(3 058)	(2 617)
Commissions to agents	(692)	(466)
Structured finance	(21)	(36)
Payment transactions	(5 467)	(5 296)
Card services	(8 385)	(8 927)
Insurance commissions	(3 709)	(3 601)
Other	(551)	(381)
Fee and commission expense	(22 884)	(22 620)
Net fee and commission income	65 325	65 371

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

NOTE 8 – NET GAINS / (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 MHUF	2019 MHUF
Trading securities	143	28
Interest rate derivatives (including interest and fair value changes in trading derivatives)	(1 102)	1 773
Other financial liabilities designated at fair value through profit or loss	793	301
Mandatorily at fair value through profit or loss other than held for trading	5 269	1 523
Foreign exchange trading (including interest and fair value changes in trading foreign exchange derivatives)	(18 838)	(106)
Fair value adjustments in hedge accounting*	270	375
Net gains / (losses) from financial instruments at fair value through profit or loss	(13 465)	3 894

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 13 744 million gain in 2020 (HUF 15 643 million gain in 2019).

*Results of cash flow hedge derivatives transferred from Consolidated other comprehensive income to the Consolidated income statement amounted to HUF 385 million gain in 2020 (HUF 529 million gain in 2019) and HUF 115 million loss was recorded as the unrealised revaluation of the ineffective cash flow hedge transactions (HUF 154 million loss in 2019).

The total of HUF 5 269 million gain presented as mandatorily at fair value through profit or loss other than held for trading in 2020 in the table above includes a gain of HUF 1 349 million which results from changing the fair value calculation of loans described in Note 20.

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 184 million gain in 2020 (HUF 170 million gain in 2019).

NOTE 9 – NET REALISED GAINS FROM SECURITIES AT FAIR VAUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 MHUF	2019 MHUF
Fixed-income assets	215	219
Net realised gains from fixed income asset	215	219

The Group converted a part of its Visa Inc. C series preferred shares into A series since Visa Inc. plan to revoke the C series. Due to the conversion a gain of HUF 1 209 million was transferred from revaluation reserve of equity instruments to accumulated profit in 2020 (see consolidated statement of changes in equity).

NOTE 10 – DIVIDEND INCOME

The Group recognised HUF 15 million dividend income in 2020 (HUF 16 million in 2019). The dividend was paid by Visa Inc..

NOTE 11 – GAINS ON THE DISPOSAL OF ASSETS AT AMORTISED COST

	2020 MHUF	2019 MHUF
Gain on the disposal of loans and advances	2 685	1 694
Gain on the disposal of assets at amortised cost	2 685	1 694

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

NOTE 12 – OTHER INCOME AND EXPENSE

	2020 MHUF	2019 MHUF
Gain on property, plant and equipment	573	496
Gain on sale of goods	237	276
Gain on other services	909	406
Recoveries related to operational risks	472	459
Other income - other	473	264
Gain on the sale of associated companies	-	4
Other income	2 664	1 905

The income of HUF 909 million reported as revenue on other services in 2020 (HUF 406 million 2019) results from finance and accounting, business management, technical, logistics and bank security services granted by the Group to other KBC Group entities operating in Hungary, but not included in the consolidation.

	2020 MHUF	2019 MHUF
Losses on property, plant and equipment	(17)	(5)
Losses due to operational risks	(293)	(561)
Other expense - other	(758)	(474)
Other expense	(1 068)	(1 040)

NOTE 13 – GENERAL ADMINISTRATIVE EXPENSES

	2020 MHUF	2019 MHUF
IT expenses	(13 114)	(11 212)
Rental expenses	334	235
Repair and maintenance	(2 368)	(1 917)
Marketing expenses	(1 110)	(1 706)
Professional fees	(2 387)	(3 317)
Other facilities expenses	(3 482)	(4 229)
Communication expenses	(26)	(347)
Travel expenses	(22)	(128)
Training expenses	(167)	(542)
Personnel related expenses	(267)	(391)
Financial transaction levy	(26 206)	(26 954)
Other administrative expenses	(6 064)	(5 137)
Other provision	(470)	(179)
Total general administrative expenses	(55 349)	(55 824)

NOTE 14 – BANK TAX

The Group paid a bank tax of HUF 5 791 million in 2020 (HUF 5 637 million in 2019). The basis and the tax rate of the tax payable by financial institutions can differ per group members, dependent on their activities.

The tables below present the details of the bank tax paid by the group members in 2020 and 2019.

2020	Activity	Tax base MHUF	Tax rate* %	Tax MHUF
Group members:				
K&H Bank Zrt.	Credit institution	2 886 471	0.198	5 707
K&H Befektetési Alapkezelő Zrt.	Asset management	224 235	0.013	29
K&H Faktor Zrt.	Other financial services	568	6.514	37
K&H Ingatlanlízing Zrt.	Finance lease	170	6.471	11
K&H Jelzálogbank Zrt.	Other financial services	4 348	0.161	7
Total		3 115 792	0.186	5 791

2019	Activity	Tax base MHUF	Tax rate %	Tax MHUF
Group members:				
K&H Bank Zrt.	Credit institution	2 776 788	0.199*	5 529
K&H Befektetési Alapkezelő Zrt.	Asset management	545 490	0.012*	64
K&H Faktor Zrt.	Other financial services	968	3.143	30
K&H Ingatlanlízing Zrt.	Finance lease	175	6.500	11
K&H Jelzálogbank Zrt.	Other financial services	1 669	0.150	3
Total		3 325 090	0.170	5 637

*Effective rate

The bank tax payable by the Group members for the year 2020 is calculated as follows.

For credit institutions the tax base includes the total asset value as at 31 December 2018, less:

NOTE 14 – BANK TAX (continued)

- 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 2019 the tax base of credit institutions was the total asset value as at 31 December 2017 adjusted by the above mentioned decreasing items.

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 2020 (0.15% and 0.20% in 2019).

In case of asset management companies the base of the tax is the quarterly calculated average value (sum of daily net asset values divided by the number of days in the quarter) of the distributed fund units kept on the client accounts by the distributor (excluding the shares held by a fund of fund). The applied tax rate is 0.05% per year.

K&H Faktor Zrt. pays a bank tax of 6.5% calculated on total net interest and fee income presented in the annual financial statements prepared for the second financial year preceding the tax year.

The bank tax for the Group is expected to be HUF 6 377 million in 2021. The increase of the bank tax expected in 2020 is caused by the change of the total asset value. In 2021 the tax base of credit institutions is the total asset value as at 31 December 2019 adjusted by the above mentioned decreasing items.

For the Bank the liability of HUF 6 377 million is established on January 1, 2021.

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 5 351 million in 2020 which is not recorded as tax expense in the consolidated income statement since banks are allowed to deduct it from their bank tax in the upcoming 5 years.

NOTE 15 – AVERAGE NUMBER OF PERSONNEL AND STAFF EXPENSES

	2020	2019
White-collar staff	3 295	3 438
Blue-collar staff	23	23
Management	41	38
Total average number of persons employed	3 359	3 499

	2020 MHUF	2019 MHUF
Wages and salaries	24 164	25 295
Social security charges	5 606	6 518
Defined benefit plan	(25)	(30)
Share based payments	47	73
Other staff expenses	2 786	2 808
Total staff expenses	32 578	34 664

NOTE 16 – INCOME TAXES

The components of income tax expense for the year ended 31 December 2020 and 2019 are:

	Notes	2020 MHUF	2019 MHUF
Statutory income tax expense		(4 496)	(4 257)
Statutory income tax from self-revision of prior years		(83)	456
Local business tax expense		(4 722)	(4 503)
Deferred taxes on income	29	364	(471)
Income tax (expense) / benefit		(8 937)	(8 775)

Statutory income tax expense

In 2020 and 2019 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 Group 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, except for 2015 year. 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:

	2020 MHUF	2019 MHUF
Profit / (loss) before tax	51 081	59 652
Income tax rate	9,00%	9,00%
Income tax calculated	(4 597)	(5 369)
Plus/minus tax effects attributable to:		
Tax base decreasing items	695	628
Adjustments related to prior years	(83)	456
Local taxes and investment services tax	(4 722)	(4 503)
Tax base increasing items	(349)	(124)
Other	119	137
Total tax effects	(4 340)	(3 406)
Income tax expense (income tax calculated + total tax effects)	(8 937)	(8 775)

The effective income tax rate for 2020 is 17.50 % (2019: 14.71 %).

NOTE 17 – 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 2020						
Securities	564	-	111 896	987 120	-	1 099 580
Loans and advances	-	139 570	-	2 841 960	-	2 981 530
Derivatives	66 634	-	-	-	25 465	92 099
Total	67 198	139 570	111 896	3 829 080	25 465	4 173 209

	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 2019						
Securities	11 806	-	92 830	796 685	-	901 321
Loans and advances	-	67 016	-	2 280 707	-	2 347 723
Derivatives	65 215	-	-	-	29 507	94 722
Total	77 021	67 016	92 830	3 077 392	29 507	3 343 766

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

NOTE 17 – 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*	-	-	-	132 564	132 564
Deposits from customers and debt certificates	-	33 051	-	3 406 120	3 439 171
Deposits from customers	-	29 513	-	3 212 499	3 242 012
Demand deposits	-	-	-	2 740 034	2 740 034
Time deposits	-	29 513	-	148 393	177 906
Savings deposits	-	-	-	324 072	324 072
Debt certificates	-	3 538	-	193 621	197 159
- Certificates of deposits	-	-	-	232	232
Non-convertible bonds	-	3 538	-	147 039	150 577
Non-convertible subordinated liabilities	-	-	-	46 350	46 350
Derivatives	64 168	-	24 365	-	88 533
Other	-	-	-	17 492	17 492
Total carrying value	64 168	33 051	24 365	3 803 374	3 924 958

*Of which HUF 28 978 million is deposits from banks repayable on demand.

Deposits from credit institutions and investment firms includes repo transactions of HUF 12 063 million.

NOTE 17 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Other includes a HUF 16 952 million financial lease liability (HUF 14 595 million in 2019) (see Note 39).

	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 2019					
Deposits from central banks	-	-	-	95 408	95 408
Deposits from credit institutions and investment firms*	-	-	-	110 453	110 453
Deposits from customers and debt certificates	-	52 614	-	2 745 254	2 797 868
Deposits from customers	-	46 727	-	2 560 824	2 607 551
Demand deposits	-	-	-	2 107 862	2 107 862
Time deposits	-	46 727	-	163 672	210 399
Savings deposits	-	-	-	289 290	289 290
Debt certificates	-	5 887	-	184 430	190 317
Certificates of deposits	-	-	-	233	233
Non-convertible bonds	-	5 887	-	142 244	148 131
Non-convertible subordinated liabilities	-	-	-	41 953	41 953
Derivatives	61 193	-	25 021	-	86 214
Other	-	-	-	15 415	15 415
Total carrying value	61 193	52 614	25 021	2 966 530	3 105 358

*Of which HUF 24 298 million is deposits from banks repayable on demand.

Deposits from credit institutions and investment firms includes repo transactions of HUF 19 936 million.

NOTE 17 – 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.

	2020 MHUF	2019 MHUF
Held for trading		
Hungarian Treasury bills	20	11 555
Hungarian government bonds issued in HUF	544	251
Total held for trading securities	564	11 806

Securities at fair value through other comprehensive income are presented in the table below.

	2020 MHUF		2019 MHUF	
	Gross carrying amount MHUF	Impairment MHUF	Gross carrying amount MHUF	Impairment MHUF
Fair value through other comprehensive income				
Hungarian government bonds issued in HUF	107 593	(58)	88 818	(48)
Listed equity instrument	3 231	-	2 423	-
Unlisted equity instruments	646	-	645	(1)
Bond issued by non-financial corporations in HUF	485	(1)	993	-
Total fair value through other comprehensive income	111 955	(59)	92 879	(49)

NOTE 17 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

FVOCI equity instruments contain as at 31 December 2020 unlisted equity instruments in a value of HUF 645 million (HUF 645 million at the end of 2019) 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 Group's investment in Visa Inc. is presented as listed equity instrument in the table above.

These FVOCI investments contain long term investments in companies where the Group does not have significant influence. These participations are not consolidated as either a subsidiary or through equity consolidation.

FVOCI investments disclosed on their net carrying amount are:

	2020 MHUF	2019 MHUF
Garantiqa Hitelgarancia Zrt.	640	640
SWIFT S.C.	5	5
	645	645

The Group recorded HUF 414 million gain after tax in other comprehensive income as a result of the fair value revaluation of FVOCI debt securities in 2020 (HUF 2 249 million loss after tax in 2019).

The unrealised result of FVOCI debt securities is cumulatively HUF 4 694 million gain after tax as at 31 December 2020 (HUF 5 291 million gain as at 31 December 2019).

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

	2020 MHUF		2019 MHUF	
	Gross carrying amount MHUF	Impair-ment MHUF	Gross carrying amount MHUF	Impair-ment MHUF
At amortised cost				
Government bonds issued in HUF	899 070	(568)	749 323	(433)
Government bonds issued in foreign currency	67 749	-	31 874	(14)
Bonds issued by municipality issued in HUF	260	-	422	-
Bonds issued by financial corporations in HUF	8 950	(5)	9 832	-
Bond issued by non-financial corporations in HUF	11 695	(30)	5 686	(5)
Total at amortised cost	987 724	(603)	797 137	(452)

NOTE 17 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Bonds issued by financial corporations include bonds issued by the Investor Protection Fund and the National Deposit Insurance Fund of Hungary.

The Group participated in the Bond Funding for Growth Scheme (BGS) launched by MNB (National Bank of Hungary) 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, MNB purchases bonds in both the primary and secondary markets.

Assets pledged as collateral for liabilities and contingent liabilities

	2020	2019
	MHUF	MHUF
Assets pledged for:		
Repo liabilities	11 961	17 970
Funding for Growth Scheme launched by the National Bank of Hungary	231 303	98 154
Derivative transactions	31 625	21 389
Clearing transactions	-	708
Issued mortgage bonds	180 225	159 450
Total assets pledged as collateral	455 114	297 671

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

The following table presents the breakdown of cash balances with central banks and other demand deposits to credit institutions, 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	1 158 688	(41)	1 158 647
General government	34	-	34	82 935	(418)	82 517
Corporate	1 746	-	1 746	952 731	(27 534)	925 197
of which: Small and Medium enterprises	36	-	36	548 031	(13 907)	534 124
Households	133 869	(111)	133 758	697 664	(22 065)	675 599
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	565 779	(17 905)	547 874
Term loan	-	-	-	23 203	(438)	22 765
Total	139 681	(111)	139 570	2 892 018	(50 058)	2 841 960

For details of the valuation method of loans and advances mandatorily at fair value through profit or loss see Note 20.

NOTE 17 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

The following table presents the breakdown of cash balances with central banks and other demand deposits to credit institutions and loans and advances by portfolio and product as at 31 December 2019.

	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 2019						
Central bank and credit institutions*	1 553	-	1 553	812 037	(49)	811 988
General government	61	-	61	54 057	(372)	53 685
Corporate	3 356	-	3 356	812 550	(14 245)	798 305
of which: Small and Medium enterprises	100	-	100	506 769	(10 838)	495 931
Households	62 349	(303)	62 046	637 190	(20 461)	616 729
Consumer credit	40 422	(2)	40 420	70 014	(1 997)	68 017
Credit card	-	-	-	5 934	(139)	5 795
Current account	-	-	-	11 784	(973)	10 811
Finance lease	-	-	-	2 934	(21)	2 913
Mortgage loan	21 927	(301)	21 626	523 128	(17 219)	505 909
Term loan	-	-	-	23 396	(112)	23 284
Total	67 319	(303)	67 016	2 315 834	(35 127)	2 280 707

*From the total balance of loans and advances to Central bank and credit institutions HUF 601 191 million is either repayable on demand or is maturing in less than 90 days (HUF 361 159 million in 2019). Reverse repo transactions amounted to HUF 25 399 million in 2019 (HUF 6 716 million in 2019).

NOTE 17 – 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 Zrt., 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 National Bank of Hungary (NBH) 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 NBH 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 2020 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 2020, Management believes that the Bank is in compliance with all covenants. Refinancing credits are presented as financial liabilities at amortised cost in the consolidated statement of financial position.

	2020 MHUF	2019 MHUF
Refinancing credits in the frame of the Funding for Growth Scheme	247 198	95 408
Other refinancing credits	87 448	65 370
Total refinancing credits	334 646	160 778

Non-convertible bonds

In 2020 the Group issued a nominal of HUF 45 000 million mortgage bonds (HUF 40 000 million in 2019), which were purchased by KBC Group entities (for further details see Note 40). The mortgage bond portfolio consists fix payer bonds with a nominal of HUF 100 000 million - with a maturity of 5 years -, and variable payer bonds with a nominal of HUF 46 500 million. The bonds are recorded as financial liabilities at amortised cost in the consolidated statement of financial position.

The following table presents the notional amount of the issued mortgage bonds held at the end of the year by the date of issuance.

	2020 MHUF	2019 MHUF
Issued in 2017	1 500	1 500
Issued in 2018	100 000	100 000
Issued in 2019	-	40 000
Issued in 2020	45 000	-
Total nominal amount of mortgage bond portfolio	146 500	141 500

NOTE 17 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES, BREAKDOWN BY PORTFOLIO AND PRODUCT (continued)

Non-convertible subordinated liabilities

	2020 MHUF	2019 MHUF
Subordinated loan from KBC Group	46 350	41 953
	46 350	41 953

In June 2006, the Group borrowed EUR 60 million (HUF 21 908 million in 2020 and HUF 19 831 million in 2019) 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.

In September 2015 the Group agreed on an additional subordinated debt of EUR 30 million (HUF 10 954 million in 2020 and HUF 9 916 million in 2019) 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 Group and KBC Bank N.V. was made in December 2017. KBC Bank N.V. granted an additional EUR 37 million (HUF 13 510 million in 2020 and HUF 12 229 million in 2019) loan to the Group 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 consolidated statement of financial position.

NOTE 18 – TRANSFERRED FINANCIAL ASSETS

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

	2020		2019	
	Carrying amount of transferred asset MHUF	Carrying amount of associated liability MHUF	Carrying amount of transferred asset MHUF	Carrying amount of associated liability MHUF
Held-for-trading debt instruments	1 802	1 833	-	-
Debt securities at amortised cost	6 608	6 706	17 235	12 541
Debt securities at fair value through other comprehensive income	3 551	3 524	735	735
Total transferred assets and associated liabilities	11 961	12 063	17 970	13 276

NOTE 18 – TRANSFERRED FINANCIAL ASSETS (continued)

Repo and reverse repo agreements

Under reverse repo transactions, the Group 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 consolidated statement of financial position. The Group recorded a HUF 25 399 million reverse repo transaction as at 31 December 2020 (HUF 6 555 in 2019).

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

NOTE 19 – 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 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	92 099	-	92 099	67 866	1 920	-	22 313
Reverse repurchase agreements	25 399	-	25 399	-	-	25 291	108
Total financial assets subject to offsetting or master netting agreements	117 498	-	117 498	67 866	1 920	25 291	22 421

	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	12 063	-	12 063	-	-	11 961	102
Total financial liabilities subject to offsetting or master netting agreements	100 596	-	100 596	67 866	19 568	11 977	1 185

NOTE 19 – 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 2019:

	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	94 722	-	94 722	80 169	4 280	-	10 273
Reverse repurchase agreements	6 716	-	6 716	-	-	6 555	161
Total financial assets subject to offsetting or master netting agreements	101 438	-	101 438	80 169	4 280	6 555	10 434

	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	86 214	-	86 214	80 169	3 032	14	2 999
Repurchase agreements	19 936	-	19 936	-	-	17 970	1 966
Total financial liabilities subject to offsetting or master netting agreements	106 150	-	106 150	80 169	3 032	17 984	4 965

NOTE 19 – 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 consolidated statement of financial position, since the Group has no intention to settle these instruments on a net basis in the normal course of business.

Given cash collaterals are recognised in the amortised cost 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 17).

NOTE 20 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	Fair value							
	Quoted market price (level 1) MHUF	Valuation techniques - observable inputs (level 2) MHUF	Valuation techniques - un-observable inputs (level 3) MHUF	Total fair value MHUF	Total carrying amount MHUF	Accumulated difference between FV and carrying amount not recognised in PL or equity MHUF	Recognised in other comprehensive income: unobservable input MHUF	Recognised in profit or loss un-observable inputs* 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	1 141 749	972 678	1 807 367	3 921 794	3 853 318	68 476	373	6 014
Held for trading	13	61 491	5 694	67 198	67 198	-	-	4 512
Fair value through other comprehensive income	109 321	486	2 095	111 902	111 896	6	373	-
Measured at amortised cost	1 032 415	881 204	1 664 040	3 577 659	3 509 189	68 470	-	-
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	1 212 903	1 292 569	1 807 367	4 312 839	4 244 363	68 476	373	6 014
Financial liabilities								
Held for trading	16	58 489	5 662	64 167	64 168	1	-	(4 480)
Fair value option	-	33 051	-	33 051	33 051	-	-	-
Measured at amortised cost	-	289 047	3 516 499	3 805 546	3 803 374	(2 172)	-	-
Hedging derivatives	-	24 365	-	24 365	24 365	-	-	-
Total financial liabilities	16	404 952	3 522 161	3 927 129	3 924 958	(2 171)	-	(4 480)

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

NOTE 20 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The table below presents information concerning the fair value of financial assets and liabilities for year 2019:

	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: unobservable 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	54 227	359 576	-	413 803	413 803	-	-	-
Financial assets	933 298	590 872	1 536 765	3 060 935	2 984 190	76 745	852	3 419
Held for trading	246	72 428	4 347	77 021	77 021	-	-	3 231
Fair value through other comprehensive income	88 769	992	3 069	92 830	92 830	-	852	-
Measured at amortised cost	844 283	486 392	1 463 886	2 794 561	2 717 816	76 745	-	-
Mandatorily at fair value through profit or loss other than held for trading	-	1 553	65 463	67 016	67 016	-	-	188
Hedging derivatives	-	29 507	-	29 507	29 507	-	-	-
Total financial assets and cash and cash balances with central banks and other demand deposits with credit institutions	987 525	950 448	1 536 765	3 474 738	3 397 993	76 745	852	3 419
Financial liabilities								
Held for trading	14	56 822	4 357	61 193	61 193	-	-	(3 248)
Fair value option	-	52 614	-	52 614	52 614	-	-	-
Measured at amortised cost	-	267 601	2 700 227	2 967 828	2 966 530	(1 298)	-	-
Hedging derivatives	-	25 021	-	25 021	25 021	-	-	-
Total financial liabilities	14	402 058	2 704 584	3 106 656	3 105 358	(1 298)	-	(3 248)

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

NOTE 20 – 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 2020 debt instruments in an amount of HUF 3 million were transferred from Quoted market price to Valuation techniques-market observable inputs category due to this change in valuation (no transfer in 2019).

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 at fair value through profit or loss	At fair value through 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

NOTE 20 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets	**Held-for trading-derivatives**	**Mandatorily at fair value through profit or loss**	**At fair value through other comprehensive income**	**Total**
	MHUF	**MHUF**	**MHUF**	**MHUF**
Balance as at 31 December 2018	4 296	20 066	1 571	25 933
Net gains / (losses)				
In profit or loss	(59)	188	-	129
In other comprehensive income	-	-	852	852
Acquisitions	3 290	49 285	-	52 575
Settlement	(3 180)	(4 690)	-	(7 870)
Other	-	614	-	614
Balance as at 31 December 2019	4 347	65 463	2 423	72 233

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

NOTE 20 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities	Held-for-trading derivatives
	MHUF
Balance as at 31 December 2018	4 272
Net (gains) / losses	
In profit or loss	(51)
Acquisitions	3 299
Settlement	(3 163)
Balance as at 31 December 2019	4 357

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

NOTE 20 – 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 Group 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. Management believes that changing the measure of illiquidity gap (as the only level 3 component of the fair value calculation) would not change the calculated fair value intrinsically.

For determination of the fair value of loan portfolios which failed the IFRS9 SPPI test the Group 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 Group determines the fair value as the present value of the expected cash-flows to incorporate time value and addition factors - not yet captured by cash-flow estimation - into the valuation model, such as impact of market rates, liquidity risk, credit risk, cost of capital, operational costs.

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 2020 and 2019.

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 2020 equity instruments in a value of HUF 645 million (HUF 645 million at the end of 2019) 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 17).

Underlying the definition of fair value is the presumption that the Group 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 consolidated statement of financial position. Since the Government grants the repurchase of the bonds at an exit price of 98% the Group 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.

NOTE 20 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

This optionality corresponds to a sold, deferred premium, American type multicurrency differential swaption from the Group'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.

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 Group 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 Group to arrive at the estimated market yield curve of the asset.

The Group 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 21 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 MHUF	2019 MHUF
Financial assets mandatorily at fair value through profit or loss		
Loans to customers	139 570	67 016
	139 570	67 016

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 state subsidized loan (prenatal baby support loan).

	2020 MHUF	2019 MHUF
Financial liabilities designated at fair value through profit or loss		
Term deposits:		
- retail	126	188
- corporate	2 187	2 190
- investment funds	27 200	44 349
Other issued bonds	3 538	5 887
	33 051	52 614

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 Group'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.

The amount that the Group would contractually be required to pay at maturity is HUF 628 million lower than the fair value of the deposits and issued bonds (HUF 1 million lower in 2019).

NOTE 22 – FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND GEOGRAPHIC LOCATION

The Group'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 deposit 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	28 588	-	135 518	108 659	3 141 930	45	3 598 996
EMU countries	110 282	38 092	-	4 042	6	365 125	23 540	541 087
East-European countries	4 021	1	-	-	-	1 833	-	5 855
Russia	455	-	-	-	-	13	-	468
Other European countries	2 040	517	-	-	-	211	1 880	4 648
Non-European countries	18 837	-	-	10	3 231	77	-	22 155
Total	319 891	67 198	-	139 570	111 896	3 509 189	25 465	4 173 209
Financial liabilities								
Hungary	-	6 679	33 051	-	-	3 680 724	449	3 720 903
EMU countries	-	57 172	-	-	-	100 673	23 683	181 528
East-European countries	-	68	-	-	-	8 934	-	9 002
Russia	-	-	-	-	-	1 406	-	1 406
Other European countries	-	249	-	-	-	6 057	233	6 539
Non-European countries	-	-	-	-	-	5 580	-	5 580
Total	0	64 168	33 051	0	0	3 803 374	24 365	3 924 958

NOTE 22 – FINANCIAL ASSETS AND LIABILITIES, BREAKDOWN BY PORTFOLIO AND GEOGRAPHIC LOCATION (continued)

The geographical breakdown of financial assets and financial liabilities as at 31 December 2019 is presented below:

	Cash balances with central banks and other demand deposit 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	280 634	26 848	-	65 463	90 402	2 290 781	51	2 754 179
EMU countries	70 973	49 356	-	1 553	5	420 426	26 471	568 784
East-European countries	4 030	12	-	-	-	1 014	-	5 056
Russia	471	-	-	-	-	1 126	-	1 597
Other European countries	684	805	-	-	-	4 410	2 985	8 884
Non-European countries	2 784	-	-	-	2 423	59	-	5 266
Total	359 576	77 021	-	67 016	92 830	2 717 816	29 507	3 343 766
Financial liabilities								
Hungary	-	6 494	52 614	-	-	2 841 867	746	2 901 721
EMU countries	-	54 421	-	-	-	103 504	23 817	181 742
East-European countries	-	17	-	-	-	7 927	-	7 944
Russia	-	-	-	-	-	1 845	-	1 845
Other European countries	-	261	-	-	-	5 605	458	6 324
Non-European countries	-	-	-	-	-	5 782	-	5 782
Total	-	61 193	52 614	-	-	2 966 530	25 021	3 105 358

NOTE 23 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY

Credit quality per class of financial assets

The tables 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 23 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	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 2019				
Central bank and credit institutions	1 553	-	-	1 553
General government	61	-	-	61
Corporate	3 356	-	-	3 356
of which: Small and Medium enterprises	100	-	-	100
Households	61 936	413	(303)	62 046
Consumer credit	40 412	10	(2)	40 420
Credit card	-	-	-	-
Current account	-	-	-	-
Finance lease	-	-		-
Mortgage loan	21 524	403	(301)	21 626
Term loan	-	-	-	-
Trade receivables	-	-	-	-
Total	66 906	413	(303)	67 016

NOTE 23 – 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	1 158 683	5	1 158 688	(41)		(41)
General government	82 556	379	82 935	(43)	(375)	(418)
Corporate	934 122	18 609	952 731	(18 651)	(8 883)	(27 534)
of which: Small and Medium enterprises	539 561	8 470	548 031	(9 580)	(4 327)	(13 907)
Households	675 122	22 542	697 664	(10 607)	(11 458)	(22 065)
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	0	3 470	(36)	0	(36)
Mortgage loan	545 020	20 759	565 779	(7 258)	(10 647)	(17 905)
Term loan	23 153	50	23 203	(417)	(21)	(438)
Trade receivables						
Total	2 850 483	41 535	2 892 018	(29 342)	(20 716)	(50 058)

*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 23 – 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 2019						
Central bank and credit institutions	812 017	20	812 037	(49)	-	(49)
General government	53 714	343	54 057	(33)	(339)	(372)
Corporate	793 555	18 995	812 550	(3 077)	(11 168)	(14 245)
of which: Small and Medium enterprises	492 816	13 953	506 769	(1 974)	(8 864)	(10 838)
Households	605 710	31 480	637 190	(4 272)	(16 189)	(20 461)
Consumer credit	69 355	659	70 014	(1 507)	(490)	(1 997)
Credit card	5 879	55	5 934	(103)	(36)	(139)
Current account	10 437	1 347	11 784	(342)	(631)	(973)
Finance lease	2 934	-	2 934	(21)	-	(21)
Mortgage loan	493 775	29 353	523 128	(2 229)	(14 990)	(17 219)
Term loan	23 330	66	23 396	(70)	(42)	(112)
Trade receivables						
	2 264 996	50 838	2 315 834	(7 431)	(27 696)	(35 127)
Total	812 017	20	812 037	(49)	-	(49)

*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 23 – 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 2020								
Central bank and credit institutions	1 162 666	8	-	-	5	-	-	1 162 679
General government	80 786	1 761	-	-	-	-	4	82 551
Corporate	913 971	2 739	427	80	8 149	164	1 413	926 943
of which: Small and Medium enterprises	528 926	590	426	75	2 659	159	1 325	534 160
Households	780 315	15 479	1 967	380	2 871	522	7 823	809 357
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	558 786	11 520	1 663	155	2 146	505	7 550	582 325
Term loan	22 574	161	1	-	13	-	16	22 765
Trade receivables	-	-	-	-	-	-	-	-
Total	2 937 738	19 987	2 394	460	11 025	686	9 240	2 981 530

*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.
Past due assets include those that are past due even by one day. The financial moratorium does not increase the number of days in delay.
The Covid-19 moratorium does not affect the past due days.

NOTE 23 – LOANS AND ADVANCES, BREAKDOWN BY PORTFOLIO AND QUALITY (continued)

	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 2019								
Central bank and credit institutions	813 521	-	-	-	20	-	-	813 541
General government	52 198	1 544	-	-	-	-	4	53 746
Corporate	781 952	11 698	122	62	6 035	514	1 278	801 661
of which: Small and Medium enterprises	482 859	7 902	121	60	3 341	514	1 234	496 031
Households	643 380	17 943	2 029	22	2 747	626	12 028	678 775
Consumer credit	106 182	1 820	258	-	10	2	165	108 437
Credit card	5 595	170	11	-	4	1	14	5 795
Current account	7 943	2 068	67	17	593	9	114	10 811
Finance lease	2 913	-	-	-	-	-	-	2 913
Mortgage loan	497 618	13 772	1 676	4	2 138	614	11 713	527 535
Term loan	23 129	113	17	1	2	-	22	23 284
Trade receivables	-	-	-	-	-	-	-	-
Total	2 291 051	31 185	2 151	84	8 802	1 140	13 310	2 347 723

*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 23 – 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 consolidated 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.

	2020	2019
	MHUF	MHUF
Debt instruments	1 095 703	898 253
Loans and advances	3 052 684	2 401 950
Derivatives	92 099	94 722
Other assets	22 744	20 356
Total assets	4 263 230	3 415 281
Commitments to extend credit	656 509	592 754
Guarantees	287 102	270 294
Letters of credit	12 016	9 768
Total commitments and contingent liabilities	955 627	872 816
Total credit exposure	5 218 857	4 288 097

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 45.4.

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 2020 was HUF 65 241 million (HUF 59 408 million as of 31 December 2019) before taking account of any collateral or other credit enhancements.

NOTE 23 – 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*							
General government	-	-	-	-	-	-	-
Corporate	69 986	6 060	4 982	23	2 857	5	83 913
of which: Small and Medium enterprises	30 597	5 885	195	22	170	5	36 874
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
Trade receivables	-	-	-	-	-	-	-
Total	83 424	30 626	6 871	2 648	3 987	99	127 655
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 23 – 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 2019*							
General government	1 122	-	-	-	-	-	1 122
Corporate	24 791	11 871	123	187	7 094	47	44 113
of which: Small and Medium enterprises	16 477	7 546	122	187	2 613	46	26 991
Households	16 867	34 772	1 699	2 102	409	37	55 886
Consumer credit	1 530	653	174	26	186	3	2 572
Credit card	148	141	15	3	19	1	327
Current account	711	685	58	16	30	4	1 504
Finance lease	91	198	-	-	-	-	289
Mortgage loan	14 106	32 678	1 446	2 057	174	29	50 490
Term loan	282	417	6	-	-	-	705
Trade receivables	-	-	-	-	-	-	-
Total	42 780	46 643	1 822	2 289	7 503	84	101 121
Loan commitments	7 455	79 739	39	4	615	4	87 856
Financial guarantees	17 037	10 404	27	-	150	-	27 618
Other commitments	429	-	-	-	-	-	429
Total	24 921	90 143	66	4	765	4	115 903

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

The table shows year-to-year stage transfers.

NOTE 24 – IMPAIRMENT ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group recorded an additional impairment of HUF 11 million on debt securities at fair value through other comprehensive income in 2020 (reversed an impairment of HUF 24 million in 2019).

NOTE 25 – 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 2020												
Debt securities												
General government	447	164	(44)	-	-	-	-	-	-	1	-	568
Corporate	5	30	-	-	-	-	-	-	-	-	-	35
Total impairment on debt securities	452	194	(44)	-	-	-	-	-	-	1	-	603
Loans and advances*												
Central bank and credit institutions	45	14	(281)	(4)	-	-	-	-	-	265	-	39
General government	15	12	(8)	7	-	-	-	-	-	4	-	30
Corporate	2 034	1 111	(182)	704	(269)	181	4	-	(32)	(42)	114	3 623
of which: Small and Medium enterprises	1 326	687	-	202	(87)	177	4	-	(2)	(240)	66	2 133
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)	(6)	-	38
Finance lease	7	3	-	(6)	-	(1)	-	-	-	3	-	6
Mortgage loan	134	25	2	113	(8)	67	-	(47)	-	(27)	-	259
Term loan	53	-	-	-	-	-	-	-	-	-	-	53
Total impairment on loans and advances	3 279	1 697	(541)	385	(324)	341	4	(48)	(34)	137	114	5 010

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

NOTE 25 – 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 2020												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	4	-	-	-	-	-	-	-	-	(2)	-	2
General government	18	-	11	-	-	-	-	-	-	(16)	-	13
Corporate	1 043	493	57	7 009	7 677	(329)	6	45	-	(1 821)	848	15 028
of which: Small and Medium enterprises	648	399	-	5 033	4 167	(169)	6	9	-	(2 935)	289	7 447
Households	3 087	356	(163)	4 585	1 701	(1 136)	425	(232)	(22)	679	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	17	-	-	-	-	-	-	-	-	347	-	364
Total impairment on loans and advances	4 152	849	(95)	11 594	9 378	(1 465)	431	(187)	(22)	(1 160)	857	24 332

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

NOTE 25 – 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 3 at 31 December 2020												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
General government	339	-	-	-	-	-	-	-	-	-	36	375
Corporate	11 168	185	(723)	(389)	764	1 343	(13)	-	(4 099)	300	347	8 883
of which: Small and Medium enterprises	8 864	171	-	(656)	28	50	(13)	-	(4)	(4 235)	122	4 327
Households	16 189	88	(465)	(201)	318	559	(554)	317	(5 294)	443	58	11 458
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)	(250)	297	378	(287)	277	(4 941)	468	58	10 647
Term loan	42	-	-	-	-	-	-	-	-	(21)	-	21
Total impairment on loans and advances	27 696	273	(1 188)	(590)	1 082	1 902	(567)	317	(9 393)	743	441	20 716

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

NOTE 25 – 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 2019												
Debt securities	572	156	(276)	-	-	-	-	-	-	-	-	452
Loans and advances*												
Central bank and credit institutions	15	10	(5)	32	-	-	-	-	-	(7)	-	45
General government	16	8	(6)	(4)	-	-	-	-	-	1	-	15
Corporate	1 384	771	(143)	71	(19)	13	2	-	(27)	(33)	15	2 034
of which: Small and Medium enterprises	1 094	329	(53)	1	(15)	4	2	-	(22)	(27)	13	1 326
Households	850	773	(94)	(360)	(44)	(11)	-	(7)	(9)	87	-	1 185
of which: POCI	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	591	727	(87)	(317)	(28)	13	-	-	2	3	-	904
Credit card	50	7	(3)	(3)	(2)	1	-	-	-	(5)	-	45
Current account	45	1	(1)	12	(4)	-	-	-	(10)	(1)	-	42
Finance lease	9	4	-	(6)	(1)	-	-	-	-	1	-	7
Mortgage loan	124	34	(3)	(46)	(9)	(25)	-	(7)	(1)	67	-	134
Term loan	31	0	-	-	-	-	-	-	-	22	-	53
Total impairment on loans and advances	2 265	1 562	(248)	(261)	(63)	2	2	(7)	(36)	48	15	3 279

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

NOTE 25 – 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 2019												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	7	-	-	-	-	-	-	-	-	(3)	-	4
General government	-	-	-	-	-	-	-	-	-	18	-	18
Corporate	1 261	79	(322)	(193)	407	(149)	-	-	-	(49)	9	1 043
of which: Small and Medium enterprises	858	69	(224)	(193)	228	(128)	-	-	-	37	1	648
Households	4 053	471	(319)	(431)	597	(1 375)	235	(25)	(57)	(63)	1	3 087
of which: POCI	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	365	355	(173)	(41)	151	(164)	4	-	(29)	135	-	603
Credit card	79	8	(7)	(1)	25	(34)	1	-	(3)	(10)	-	58
Current account	286	27	(41)	63	78	(60)	3	-	(25)	(31)	-	300
Finance lease	8	10	-	-	2	(6)	-	-	-	-	-	14
Mortgage loan	3 302	71	(98)	(452)	341	(1 111)	227	(25)	-	(161)	1	2 095
Term loan	13	-	-	-	-	-	-	-	-	4	-	17
Total impairment on loans and advances	5 321	550	(641)	(624)	1 004	(1 524)	235	(25)	(57)	(97)	10	4 152

*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 25 – 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 3 at 31 December 2019												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances*												
Central bank and credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
General government	364	-	(7)	(26)	-	-	-	-	-	(1)	9	339
Corporate	11 024	627	(691)	367	783	65	(79)	2 479	(2 764)	(741)	98	11 168
of which: Small and Medium enterprises	9 822	627	(686)	381	446	64	(79)	941	(2 087)	(614)	49	8 864
Households	22 274	301	(1 450)	(664)	231	784	(1 192)	35	(5 661)	1 484	47	16 189
of which: POCI	10 581	14	(718)	(695)	-	256	(592)	32	(2 716)	1 621	-	7 783
Consumer credit	603	102	(860)	(622)	127	117	(25)	-	(175)	1 221	2	490
Credit card	39	1	(6)	(5)	13	10	(4)	-	(13)	1	-	36
Current account	700	152	(161)	91	21	42	(18)	-	(200)	1	3	631
Finance lease	105	-	-	-	-	-	-	-	-	(105)	-	-
Mortgage loan	20 790	46	(423)	(128)	70	615	(1 145)	35	(5 273)	361	42	14 990
Term loan	37	-	-	-	-	-	-	-	-	5	-	42
Total impairment on loans and advances	33 662	928	(2 148)	(323)	1 014	849	(1 271)	2 514	(8 425)	742	154	27 696

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

NOTE 25 – IMPAIRMENT ON FINANCIAL ASSETS AT AMORTISED COST AND PROVISION FOR CREDIT COMMITMENTS (continued)

The gross carrying amount of loans and advances which were sold by the Group amounted to HUF 15 978 million in 2020 (HUF 13 384 million in 2019). The Group recorded a HUF 8 104 million income on the disposals (HUF 6 477 million in 2019). The gross carrying amount of loans written-off instead of selling them amounted to HUF 963 million in 2020 (HUF 3 359 million in 2019).

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 in 2020 is presented below.

	Stage 1	Stage 2	Stage 3	Total
	MHUF	MHUF	MHUF	MHUF
Impairment on financial assets at amortised cost at 31 December 2020				
Debt securities				
General government	(120)			(120)
Corporate	(30)			(30)
Total impairment on debt securities	(150)			(150)
Loans and advances*				
Central bank and credit institutions	271	-	-	271
General government	(11)	(11)	-	(22)
Corporate	(1 549)	(14 958)	(1 167)	(17 674)
of which: Small and Medium enterprises	(983)	(9 445)	420	(10 008)
Households	(225)	(5 536)	(62)	(5 823)
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)	(72)	(4 774)
Term loan	-	-	-	-
Total	(1 664)	(20 505)	(1 229)	(23 398)

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

NOTE 25 – 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 2019				
Debt securities	120	-	-	120
Loans and advances*				
Central bank and credit institutions	(37)	-	-	(37)
General government	2	-	33	35
Corporate	(695)	178	(3 551)	(4 068)
of which: Small and Medium enterprises	(268)	248	(1 694)	(1 714)
Households	(257)	847	1 955	2 545
of which: POCI	-	-	1 703	1 703
Consumer credit	(308)	(132)	1 161	721
Credit card	-	8	(9)	(1)
Current account	(8)	(70)	(127)	(205)
Finance lease	3	(6)	-	(3)
Mortgage loan	56	1 047	930	2 033
Term loan	-	-	-	-
Total	(867)	1 025	(1 563)	(1 405)

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

NOTE 25 – 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	273	377	(66)	19	(6)	4	-	-	-	10	-	611
Financial guarantees	31	113	(19)	27	-	1	-	-	-	-	-	153
Other commitments	2	34	(2)	-	-	-	-	-	-	1	-	35
Total	306	524	(87)	46	(6)	5	-	-	-	11	-	799
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)	-	-	-	9	-	220

NOTE 25 – 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 3 at 31 December 2020												
Loan commitments	53	86	-	(18)	-	-	-	-	-	(4)	-	117
Financial guarantees	708	13	(640)	7	-	21	-	-	-	13	-	122
Other commitments	-	-	-	-	-	-	-	-	-	-	-	-
Total	761	99	(640)	(11)	-	21	-	-	-	9	-	239

NOTE 25 – 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 2019												
Loan commitments	243	74	(53)	9	(6)	6	-	-	-	-	-	273
Financial guarantees	9	23	(37)	36	-	-	-	-	-	-	-	31
Other commitments	1	1	(1)	1	-	-	-	-	-	-	-	2
Total	253	98	(91)	46	(6)	6	-	-	-	-	-	306
Impairment on loan commitments and guarantees classified as stage 2 at 31 December 2019												
Loan commitments	168	339	(44)	27	81	(44)	-	-	-	(327)	-	200
Financial guarantees	13	27	(4)	4	11	(1)	-	-	-	-	-	50
Other commitments	-	1	-	-	4	-	-	-	-	-	-	5
Total	181	367	(48)	31	96	(45)	-	-	-	(327)	-	255

NOTE 25 – 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 2019												
Loan commitments	110	206	(110)	-	-	-	-	-	-	(153)	-	53
Financial guarantees	1 035	11	(377)	(128)	-	-	-	-	-	167	-	708
Other commitments	68	-	(68)	-	-	-	-	-	-	-	-	-
Total	1 213	217	(555)	(128)	-	-	-	-	-	14	-	761

NOTE 25 – 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 2020 is presented below.

	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loan commitments	(328)	12	(68)	(384)
Financial guarantees	(122)	27	599	504
Other commitments	(32)	4	-	(28)
Total	(482)	43	531	92

The breakdown of provision on loan commitments and guarantees recorded in the income statement in 2019 is presented below.

	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loan commitments	(30)	(359)	(96)	(485)
Financial guarantees	(22)	(37)	494	435
Other commitments	(1)	(5)	68	62
Total	(53)	(401)	466	12

	2020 MHUF	2019 MHUF
Impairment on other		
Intangible assets	(2 469)	(305)
Investment property	(2)	(1)
Property, plant and equipment	(2 267)	(181)
Other	45	(1)
Total impairment on other	(4 693)	(488)

The Group 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 Group has changed its intention concerning the usage of the headquarter building, which led to the write-down of the right of use asset.

NOTE 26 – DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2020				Year ended 31 December 2019			
Derivatives held for trading	**Notional amount Assets MHUF**	**Notional amount Liabilities MHUF**	**Positive fair value Assets MHUF**	**Negative fair value Liabilities MHUF**	**Notional amount Assets MHUF**	**Notional amount Liabilities MHUF**	**Positive fair value Assets MHUF**	**Negative fair value Liabilities MHUF**
Foreign exchange derivatives								
Currency forwards	115 994	115 213	1 773	(919)	100 690	100 725	638	(555)
Currency futures	44 327	44 508	13	(16)	40 337	40 488	14	(14)
Currency swaps	1 034 894	1 035 692	10 148	(12 707)	975 277	975 190	4 964	(5 067)
Currency options	215 583	215 583	7 768	(7 761)	322 244	322 244	4 589	(4 596)
Total foreign exchange derivatives	1 410 798	1 410 996	19 702	(21 403)	1 438 548	1 438 647	10 205	(10 232)
Interest rate derivatives								
Interest rate swaps	2 280 726	2 280 727	44 998	(40 487)	2 253 695	2 253 695	54 022	(45 248)
Cross currency interest rate swaps	53 941	54 137	1 192	(1 718)	183 037	187 008	78	(5 311)
Interest rate options	14 438	14 438	244	(244)	12 802	12 802	80	(80)
Forward rate agreements	-	-	-	-	-	-	-	-
Total interest rate derivatives	2 349 105	2 349 302	46 434	(42 449)	2 449 534	2 453 505	54 180	(50 639)
Equity options	-	-	-	-	-	-	-	-
Commodity swaps	1 587	1 587	39	(39)	1 005	1 005	23	(23)
Commodity options	4 302	4 302	459	(277)	6 174	6 174	807	(299)
Total derivatives held for trading	3 765 792	3 766 187	66 634	(64 168)	3 895 261	3 899 331	65 215	(61 193)
Derivatives designated as micro fair value cash								
Interest rate swaps	20 815	20 815	-	(1 253)	20 632	20 632	0	(737)
Derivatives designated as portfolio fair value hedges								
Interest rate swaps	1 321 714	1 321 713	19 106	(21 138)	953 648	953 648	21 111	(22 979)
Derivatives designated as cash flow hedges								
Interest rate swaps	363 818	363 818	6 258	(264)	314 969	314 969	8 396	(618)
Cross currency interest rate swaps	48 496	50 630	101	(1 710)	25 300	26 026	0	(687)
Total derivatives held for hedging	1 754 843	1 756 976	25 465	(24 365)	1 314 549	1 315 275	29 507	(25 021)
Total derivative financial instruments	5 520 635	5 523 163	92 099	(88 533)	5 209 810	5 214 606	94 722	(86 214)

NOTE 26 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Options

Although options are not accounted for as hedges, the Group 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 Group 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 Group 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 Consolidated income statement at the same time.

The Group recorded a HUF 1 398 million loss (HUF 4 652 million gain in 2019) in the consolidated other comprehensive income in 2020 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 the consolidated other comprehensive income. In 2020 the Group transferred HUF 115 million loss to the net profit due to ineffectiveness (HUF 154 million loss in 2019) recorded as Cash flow hedge – Ineffective part in the consolidated 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 consolidated income statement (see Note 8).

The Group recognised HUF 4 925 million gain in other comprehensive income as the effective portion at 31 December 2020 (HUF 6 003 million gain in 2019). Other comprehensive income includes HUF 52 million gain reserve on discontinued cash flow hedges in 2020 (HUF 644 million gain in 2019).

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

	2020		2019	
	Expected cash flows		Expected cash flows	
	Inflow	Outflow	Inflow	Outflow
	MHUF	MHUF	MHUF	MHUF
< 3 months	1 044	(354)	307	(58)
3-6 months	459	(325)	666	(126)
6 months - 1 year	625	(518)	2 065	(222)
1-2 years	3 358	(1 196)	2 814	(842)
2-5 years	34 636	(31 255)	6 017	(4 032)
> 5 years	18 251	(19 743)	3 243	(3 854)
Total	58 373	(53 391)	15 112	(9 134)

NOTE 26 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forecast transactions for which hedge accounting had previously been used but which is no longer expected to occur amounted to HUF 36 million as at 31 December 2020 (HUF 43 million as at 31 December 2019). The related transfer was presented as Cash flow hedges – Gross amount in the consolidated other comprehensive income.

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 consolidated statement of financial position and amounted to HUF 14 614 million loss and HUF 17 841 million gain in 2020 (HUF 15 827 million loss and HUF 19 042 million gain in 2019). 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 consolidated income statement.

Fair value hedge of fixed rate FVOCI bonds

The Group 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 consolidated income statement and the unhedged credit spread of the bonds remains in the consolidated other comprehensive income. The change in the fair value of the hedged instrument amounted to a loss of HUF 1 029 million in 2020 (a gain of HUF 971 million in 2019).

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	14 533
Deposits at amortised cost	- -	-	857 915	15 191
Total hedged liabilities	-	-	857 915	15 191

NOTE 26 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents information related to the hedged items under fair value hedge in 2019. 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	-	-	72 717	1 806
Debt securities at amortised cost	-	-	254 164	14 376
Loans and advances at amortised cost	21 519	580	238 479	2 736
Total hedged assets	21 519	580	565 360	18 918
Deposits at amortised cost	-	-	470 475	15 827
Total hedged liabilities	-	-	470 475	15 827

There is no remaining fair value adjustment recognised on any hedged item in case of discontinued hedges in the consolidated financial position in 2020 (nor in 2019).

NOTE 27 – NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

Non-current assets held for sale and disposal groups include IT equipments. In 2020 the Group decided to sell the equipments in a short term and reclassified it from property, plant and equipment to non-current assets held for sale and disposal groups.

The assets are measured at the carrying amount since it is lower than its fair value less costs to sell.

NOTE 28 – OTHER ASSETS

	2020 MHUF	2019 MHUF
Prepayments	5 484	632
Trade receivables	1 554	1 208
Receivables from employees	4	6
Receivables from bankcard service	6 449	7 785
Items in transit due to payment services	424	710
Receivables from compensation	-	169
Items in transit due to trading in securities	29	49
Income accruals and cost prepayments	5 558	5 710
Inventories	414	718
Other receivables	2 828	3 369
	22 744	20 356

Prepayments include HUF 5 351 million extra tax prepayment, further details in Note 14.

NOTE 28 – OTHER ASSETS (continued)

Trade receivables and receivables from bankcard and payment services are performing short term receivables without any delay. Other receivables include a HUF 214 million non-performing other claim due to retail clients (HUF 227 million in 2019) for which a HUF 214 million impairment charge is recorded in the consolidated income statement (HUF 227 million in 2019).

NOTE 29 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

For the period ended 31 December 2020:

	Assets MHUF	Liabilities MHUF	Income statement MHUF	Equity MHUF
Employee benefits	-	6	1	-
Losses carry forward	-	-	-	-
Tangibles and intangibles assets	(3)	(878)	275	-
Other provisions for risk and charges and credit commitments	1	(178)	91	-
Impairment for losses on loans and advances	47	-	1	-
Financial instruments at fair value	-	-	-	-
Fair value adjustments FVOCI	-	699	(1)	115
Cash flow hedge	-	448	-	150
Transition to IFRS	-	-	-	-
Other	-	(4)	(3)	-
Total	45	93	364	265

For the period ended 31 December 2019:

	Assets MHUF	Liabilities MHUF	Income statement MHUF	Equity MHUF
Employee benefits	-	7	-	(1)
Tangibles and intangibles assets	(4)	(604)	55	-
Other provisions for risk and charges and credit commitments	1	(87)	35	-
Impairment for losses on loans and advances	46	-	(22)	-
Financial instruments at fair value	-	-	-	-
Fair value adjustments FVOCI	-	813	-	(338)
Cash flow hedge	-	598	-	(385)
Transition to IFRS	-	-	(538)	-
Transition to IFRS 9				
Other	-	(6)	(1)	-
Total	43	721	(471)	(724)

NOTE 29 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

In 2020 and 2019 income taxes were calculated on all temporary differences under the asset and liability method using a tax rate of 9 % or 1.82 % (9% corporate income tax and 1.82% local business tax).
Deferred income tax for tax losses carried forward is calculated to the extent that realisation of the related tax benefit is assessed as probable. The tax benefit resulting from losses arising before 1 January 2015 can be realised for 10 years after the financial period they arose in. Losses carry forward from financial periods beginning on or after 1 January 2015 can be utilized for 5 years.

From the total of HUF 818 million tax losses carried forward as at 31 December 2020 (HUF 731 million at 31 December 2019), HUF 818 million (HUF 731 million at 31 December 2019) has been assessed as not being probable, and therefore was not included in the base of the deferred tax calculation. The Group did not recognise any tax asset for tax loss carried forward as at 31 December 2020 and 2019.

NOTE 30 – INVESTMENT PROPERTIES

	Investment properties MHUF
At 31 December 2018	
Cost	1 804
Accumulated depreciation	(115)
Net book value	1 689
Movements in 2019	
Additions	804
Disposals - net	(594)
Impairment charge	(1)
Depreciation charge	(24)
At 31 December 2019	
Cost	2 009
Accumulated depreciation	(135)
Net book value	1 874
Movements in 2020	
Additions	376
Disposals - net	(708)
Impairment charge	(2)
Depreciation charge	-
At 31 December 2020	
Cost	1 649
Accumulated depreciation	(109)
Net book value	1 540

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

NOTE 30 – INVESTMENT PROPERTIES (continued)

The following table presents the results related to investment properties.

	2020 MHUF	2019 MHUF
Impairment on Investment property		
Additions	(2)	(3)
Reversals	-	2
Total impairment	(2)	(1)
Expenses from investment properties		
Acquisition cost	(95)	(107)
Maintenance expenses	(171)	(182)
Sale related cost	(51)	(39)
Total	(317)	(328)

Expenses recorded in 2020 (and 2019) were not recognised as asset in the consolidated statement of financial position.

The difference between the fair value and the carrying amount of the assets is immaterial as at 31 December 2020 (and as at 31 December 2019).

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

NOTE 31 – PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Reclassified IT equipment	Office equipment	Right of use assets	Other	Reclassified Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
At 31 December 2018						
Cost	47 520	13 947	8 798	-	2 522	72 787
Accumulated depreciation	(20 832)	(8 180)	(7 479)	-	(733)	(37 224)
Net book value	26 688	5 767	1 319	-	1 789	35 563
Movements in 2019						
First time application impact of IFRS16	-	-	-	16 809	-	16 809
Additions (acquired separately)	1 659	2 005	926	-	188	4 778
Disposals - net	(25)	-	-	4	(52)	(73)
Transfers	-	-	-	-	-	-
Impairment charge	(116)	(8)	(16)	(37)	(6)	(183)
Depreciation charge	(1 868)	(1 937)	(381)	(2 520)	(361)	(7 067)
At 31 December 2019						
Cost	48 683	15 366	9 293	16 772	2 607	92 721
Accumulated depreciation	(22 345)	(9 539)	(7 445)	(2 516)	(1 049)	(42 894)
Net book value	26 338	5 827	1 848	14 256	1 558	49 827

NOTE 31 – PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	IT equipment	Office equipment	Right of use assets	Other	Total
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Movements in 2020						
Additions (acquired separately)	2 661	997	708	4 363	732	9 461
Disposals - net	(1 568)	(30)	-	322	(157)	(1 433)
Transfers	-	(1 474)	-	-	-	(1 474)
Impairment charge	(746)	(2)	(15)	(1 499)	(7)	(2 269)
Depreciation charge	(1 969)	(1 976)	(384)	(2 627)	(427)	(7 383)
At 31 December 2020						
Cost	50 318	12 662	9 725	19 636	2 975	95 316
Accumulated depreciation	(25 602)	(9 320)	(7 568)	(4 821)	(1 276)	(48 587)
Net book value	24 716	3 342	2 157	14 815	1 699	46 729

NOTE 31 – PROPERTY, PLANT AND EQUPMENT (continued)

The reclassification of IT equipments as Non-current assets held for sale and disposal groups is presented as transfer in the table above (see Note 27).

Expenditure on items in the course of construction amounted to HUF 27 796 million as at 31 December 2020 (HUF 18 084 million as at 31 December 2019).

Fully amortised tangible assets which were still in use amounted to HUF 18 468 million as at 31 December 2020 (HUF 17 560 million as at 31 December 2019).

NOTE 32 – INTANGIBLE ASSETS

	Software MHUF	Other intangible assets MHUF	Total MHUF
At 31 December 2018			
Cost	55 186	42	55 228
Accumulated depreciation	(35 178)	(42)	(35 220)
Net book value	20 008	-	20 008
		-	
Movements in 2019		-	
Additions (acquired separately)	14 943	-	14 943
Impairment charge	(305)	-	(305)
Depreciation charge	(4 222)	-	(4 222)
Other	-	-	-
At 31 December 2019			
Cost	70 092	42	70 134
Accumulated depreciation	(39 668)	(42)	(39 710)
Net book value	30 424	-	30 424
Movements in 2020			
Additions (acquired separately)	24 294	-	24 294
Impairment charge	(2 469)	-	(2 469)
Depreciation charge	(5 807)	-	(5 807)
Other	-	-	-
At 31 December 2020			
Cost	93 566	42	93 608
Accumulated depreciation	(47 124)	(42)	(47 166)
Net book value	46 442	-	46 442

Fully amortised intangible assets which were still in use amounted to HUF 32 060 million as at 31 December 2020 (HUF 29 617 million as at 31 December 2019).

NOTE 33 – 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 2018	-	70	68	138
Amounts allocated	149	117	180	446
Unused amounts reversed	-	(58)	(5)	(63)
Balance as at 31 December 2019	149	129	243	521
Amounts allocated	386	51	789	1 226
Amouints used	(149)	-	-	(149)
Unused amounts reversed	-	(11)	(6)	(17)
Balance as at 31 December 2020	386	169	1 026	1 581

The Group is party to litigation and claims arising in the normal course of business, the provision of HUF 166 million from the total provision for losses from tax litigation and pending legal disputes at 31 December 2020 relates to these litigations (HUF 129 million at 31 December 2019). Management considers the provision raised for the still pending cases adequate to cover any remaining potential losses.

Provisions on credit commitments of HUF 1 258 million as at 31 December 2020 (HUF 1 322 million as at 31 December 2019) is presented in Note 25 and Note 38. The sum of HUF 1 581 million provision for risk and charges and HUF 1 258 million provisions for credit commitments amounts to HUF 2 839 million (HUF 1 843 million in 2019).

NOTE 34 – OTHER LIABILITIES

	2020 MHUF	2019 MHUF
Trade creditors	6 581	6 537
Lease liabilities	489	493
Items in transit due to payment services	10 765	7 060
Items in transit due to lending activity	773	819
Items in transit due to trading securities	1	1 343
Liabilities from bankcard service	3 880	4 023
Other	16 669	17 937
Total other liabilities	39 158	38 212

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 40) and other accrued charges and deferred income arising from the normal course of business recorded as general administrative expenses in the consolidated income statement.

NOTE 35 – SHARE CAPITAL

	2020 MHUF	2019 MHUF
Ordinary shares issued and outstanding	140 978	140 978

The nominal value of the ordinary shares issued and outstanding at 31 December 2020 is HUF 1 per share (31 December 2019: HUF 1).

Shareholders of the Bank:

	2020 Shareholding %	2019 Shareholding %
KBC Bank N. V.	100.00	100.00
	100.00	100.00

NOTE 36 – EARNINGS PER SHARE

Earnings per share is the profit attributable to shareholders of the Group divided by the weighted average number of shares outstanding during the period, excluding treasury shares. There were no other potentially dilutive securities in existence at 31 December 2020 and 2019. The following amounts were used in the calculation of earnings per share:

	2020 number	2019 number
Net profit attributable to shareholders (MHUF)	42 144	50 877
Weighted average shares outstanding (in millions)	140 978	140 978
Earnings / (loss) per share in HUF (basic)	0.29894	0.36089

The figures of earnings per share calculated for basic and diluted shares do not differ.

NOTE 37 – ADDITIONAL INFORMATION TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	2020 MHUF	2019 MHUF
Cash and cash equivalents		832 398	295 735
Subordinated liabilities	17	(46 350)	(41 953)
Borrowing – repayable within 1 year	17	(10 063)	(16 371)
Borrowing – repayable after 1 year	17	(324 583)	(144 407)
Net debt		451 402	93 004

NOTE 37 – ADDITIONAL INFORMATION TO THE CONSOLIDATED 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	54 227	272 000	87 576	1 639	(119 707)	(41 953)	(16 371)	(144 407)	93 004
Cash flows	16 927	(88 428)	43 371	712 999	(160 073)	3 117	6 308	(169 466)	364 755
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	(279 952)	(46 350)	(10 063)	(324 583)	451 402

NOTE 37 – ADDITIONAL INFORMATION TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

The components of net debt changed as follows in 2019.

	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 2018	42 834	361 464	76 350	51 290	(112 543)	(40 802)	(10 687)	(159 160)	208 746
Cash flows	11 393	(98 157)	9 717	(44 585)	(7 891)	1 053	(5 740)	19 495	(114 715)
Foreign exchange adjustments	-	-	1 475	(844)	736	(1 147)	-	(1 737)	(1 517)
Other non-cash movements	-	8 693	34	(4 222)	(9)	(1 057)	56	(3 005)	490
Net debt as at 31 December 2019	54 227	272 000	87 576	1 639	(119 707)	(41 953)	(16 371)	(144 407)	93 004

NOTE 38 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

In the normal course of business, the Group is a party to credit related financial instruments with off-statement of financial position risk. 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 consolidated 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 Group uses the same credit policies in making commitments and conditional obligations as it does for financial instruments in the consolidated 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 Group 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 Group 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 Group 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 38 – COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

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

	2020	2019
	MHUF	MHUF
Credit commitments – undrawn amount		
Received	19 894	12 011
Given		
Irrevocable	383 172	321 926
Revocable	274 263	293 559
Total given	657 435	615 485
Collaterals		
Given	287 398	271 082
Guarantees received/collateral		
For impaired and past due assets		
Non-financial assets	45 921	55 476
Financial assets	3 318	4 096
For assets that are not impaired or past due		
Non-financial assets	2 049 057	1 622 274
Financial assets	304 048	302 991
Total guarantees received/collateral	2 402 344	1 984 837
Other commitments given – irrevocable	12 052	9 775

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

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

NOTE 38 – 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 MHUF	Stage 2 MHUF	Stage 3 MHUF	Stage 1 MHUF	Stage 2 MHUF	Stage 3 MHUF	Total MHUF
Loan commitments	591 036	65 278	1 121	(612)	(197)	(117)	656 509
Financial guarantees	268 537	18 326	535	(153)	(22)	(121)	287 102
Other commitments	11 925	127	0	(35)	(1)	0	12 016
Total	871 498	83 731	1 656	(800)	(220)	(238)	955 627

For evaluation of provision on commitments and contingent liabilities in 2020 see Note 25.

NOTE 38 – 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 2019.

	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	555 988	35 863	1 430	(274)	(200)	(53)	592 754
Financial guarantees	242 573	27 466	1 043	(31)	(50)	(707)	270 294
Other commitments	9 052	723	-	(2)	(5)	-	9 768
Total	807 613	64 052	2 473	(307)	(255)	(760)	872 816

For evaluation of provision on commitments and contingent liabilities in 2019 see Note 25.

NOTE 38 – 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 Group has an established protocol of dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end the Group had several unresolved legal claims in the amount of HUF 1 386 million (HUF 1 365 million as at 31 December 2019) where the Group 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 consolidated financial statements.

NOTE 39 – FINANCE AND OPERATING LEASES

Lessor position

The Group 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 Group. The products are handled in the Group’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 RV policy, RV 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 Group are predominantly cars and trucks. In finance lease, the lessee selects an asset and the Group purchases that asset and gives it to the lessee. In this way the Group 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 Group 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 39 – FINANCE AND OPERATING LEASES (continued)

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

	2020 MHUF	2019 MHUF
Finance lease receivables		
Total of gross investment in the lease, receivable:		
less than one year	28 200	27 974
one to five years	59 842	51 626
more than five years	3 474	3 991
	91 516	83 591
The present value of minimum lease payments receivables*:		
less than one year	25 550	25 874
one to five years	55 288	49 267
more than five years	3 237	3 832
	84 075	78 973
Unearned finance income	7 441	4 621
Non-guaranteed residual values	14 699	15 117

*Net of impairment.

The total impairment recorded on finance lease receivables amounted to HUF 3 067 million as at 31 December 2020 (HUF 462million as at 31 December 2019).

NOTE 39 – FINANCE AND OPERATING LEASES (continued)

Lessee position

The Group has entered into property lease agreements. According to IFRS 16 these contracts are presented as lease liabilities and right-of-use assets.

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

	2020 MHUF	2019 MHUF
< 1 year	70	53
1-5 years	10 895	2 272
5 years	5 987	12 270
Total financial lease liabilities	16 952	14 595

	2020 MHUF	2019 MHUF
General government	1 040	1 400
Corporate	14 689	13 195
of which small and medium enterprises	1 223	1 270
Total financial lease liabilities	16 952	14 595

Expenses relating to short-term leases and low-value lease are included in general administration expenses and amounted to HUF 180 million in 2020 (HUF 272 million in 2019).

Following table shows the total cash outflow for leases.

	2020 MHUF	2019 MHUF
Interest expense	128	154
Principal repayment	2 827	2 513
Total cash outflow	2 955	2 667

NOTE 40 – 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 (2019: 100.00%). The ultimate parent of the Group is KBC Group N.V.

Subsidiaries:

See list of subsidiaries in Note 43.

Associates:

See list of associates in Note 43.

Members of KBC Group 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 Credit Investments N.V.
KBC Fund Management Limited
KBC Groep N.V.
KBC Securities N.V.
K&H Biztosító Zrt.
Patria Finance a.s.
Omnia N.V.
K&H Pénzforgalmi Szolgáltató Kft.

Other related parties through key management

If the Group'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 40 - RELATED PARTY TRANSACTIONS (continued)

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

	Parent	Other related parties (KBC Group)	Other related parties (through key management)	Total
	MHUF	MHUF	MHUF	MHUF
As at 31 December 2020				
Assets				
Other demand deposit	123 193	1 107	-	124 300
Loans and advances	79 680	281 151	2 420	363 251
Current accounts	-	1	264	265
Term loans	79 680	281 150	2 156	362 986
Finance leases	-	-	-	-
Derivatives	61 363	228	-	61 591
Held fog trading	37 892	228	-	38 120
Hedging	23 471	-	-	23 471
Other receivables	(36)	2 760	-	2 724
Total assets	264 200	285 246	2 420	551 866
Liabilities				
Deposits	10 838	48 052	2 446	61 336
Current accounts	10 838	47 986	2 446	61 270
Term deposits (with agreed maturity)	-	66	-	66
Subordinated liabilities	46 350	-	-	46 350
Non-convertible bonds	71 761	1 501	-	73 262
Derivatives	80 505	412	-	80 917
Held fog trading	57 061	412	-	57 473
Hedging	23 444	-	-	23 444
Other liabilities	115	605	-	720
Total liabilities	209 569	50 570	2 446	262 585
Income statement				
Net interest and similar income	(1 637)	(906)	52	(2 491)
Interest and similar income	1 608	20	54	1 682
Interest and similar expense	(3 245)	(926)	(2)	(4 173)
Net fee and commission income	(307)	6 328	38	6 059
Fee and commission income	580	7 438	39	8 057
Fee and commission expense	(887)	(1 110)	(1)	(1 998)
Other income	-	1 673	-	1 673
Other expense	(887)	(4 289)	-	(5 176)
Total income statement	(2 831)	2 806	90	65
Off-statement of financial position items				
Commitments and contingent liabilities	193 972	4 799	2 060	200 831
Guarantees received	637	7 238	-	7 875
Notional amount of derivatives	4 327 165	55 499	-	4 382 664

NOTE 40 - RELATED PARTY TRANSACTIONS (continued)

	Parent MHUF	Other related parties (KBC Group) MHUF	Other related parties (through key management) MHUF	Total MHUF
As at 31 December 2019				
Assets				
Other demand deposit	70 959	3 573	-	74 532
Loans and advances	143 402	271 066	2 755	417 223
Current accounts	-	-	34	34
Term loans	143 402	271 066	2 721	417 189
Finance leases	-	-	-	-
Derivatives	74 953	210	-	75 163
Held fog trading	48 913	210	-	49 123
Hedging	26 040	-	-	26 040
Other receivables	6	791	-	797
Total assets	289 320	275 640	2 755	567 715
Liabilities				
Deposits	27 218	37 742	1 028	65 988
Current accounts	-	-	1 028	1 028
Term deposits (with agreed maturity)	27 218	37 742	-	64 960
Subordinated liabilities	41 953	-	-	41 953
Non-convertible bonds	89 444	1 500	-	90 944
Derivatives	77 810	335	-	78 145
Held fog trading	54 331	335	-	54 666
Hedging	23 479	-	-	23 479
Other liabilities	200	1 311	-	1 511
Total liabilities	236 625	40 888	1 028	278 541
Income statement				
Net interest and similar income	(1 093)	(962)	57	(1 998)
Interest and similar income	1 858	55	57	1 970
Interest and similar expense	(2 951)	(1 017)	-	(3 968)
Net fee and commission income	109	2 144	43	2 296
Fee and commission income	514	3 662	45	4 221
Fee and commission expense	(405)	(1 518)	(2)	(1 925)
Other income	23	531	-	554
Other expense	(439)	(3 035)	-	(3 474)
Total income statement	(1 400)	(1 322)	100	(2 622)
Off-statement of financial position items				
Commitments and contingent liabilities	120 816	4 475	666	125 957
Guarantees received	2 454	7 359	-	9 813
Notional amount of derivatives	4 049 596	47 691	-	4 097 287

NOTE 40 - RELATED PARTY TRANSACTIONS (continued)

The interest rate of other demand deposits and loans and advances from related parties varied in a range of -0.47 and 2.51 percent in 2020 (-0.46 and 2.51 percent in 2019). Deposits due to related parties bear a minimum interest rates of 0 and a maximum interest rate of 2.7 percent in 2020 (0 and 2.7 in 2019). For interest rate conditions of subordinated liabilities see Note 17.

Transactions with key management

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

Loans

In accordance with the Group's internal policy, all employees of the Group, 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 643 million outstanding amount of loans of key management at 31 December 2020 was housing loan (HUF 397 million at 31 December 2019), with the long-term maturity obligations ranging from 15-20 years.

Deposits

In accordance with the Group's internal policy, all the employees of the Group, 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 2020 the outstanding amount of deposits was HUF 759 million (HUF 486 million at 31 December 2019). In 2020 the Bank didn't pay interest on these deposits (nor in 2019).

Staff expenses

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

Type of benefit	**2020**	**2019**
	MHUF	**MHUF**
Short-term employee benefits	2 410	2 102
Other long-term benefits	21	18
Termination benefits	-	32
Share based payment (cash settled)	62	54
Total benefits	2 493	2 206

The liability of HUF 142 million (HUF 155 million in 2019) resulting from the carrying amount of share based payment is recorded as other liability in the consolidated statement of financial position.

NOTE 40 - RELATED PARTY TRANSACTIONS (continued)

Share based payment

The Group 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 Group; major shortcomings in risk management; significant changes in the economic or regulatory capital base of the Group).

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 2020 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	(40% of award)		(60% 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 2022		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 40 - RELATED PARTY TRANSACTIONS (continued)

	2020		2019	
	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	6 416	21 629	5 917	21 170
Granted	3 351	20 902	3 318	19 301
Exercised	(2 968)	19 188	(2 819)	17 160
Transferred**	(380)	19 188	-	17 160
Outstanding as at the end of the period	6 419	22 839	6 416	21 629

*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 Group. 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 2020 based on the year-end closing price of KBC shares was 18 898 HUF/share (21 454 HUF/share as at 31 December 2019).

There were no shares exercisable as at 31 December 2020 (and as at 31 December 2019).

The weighted average share price of shares converted to cash as at the date of the exercise was 20 902 HUF/share in 2020 (19 301 HUF/share in 2019).

The weighted average remaining contractual life of phantom shares outstanding as at 31 December 2020 is 18 months (19 months as at 31 December 2019).

The Group applied the share based payment plan for the 2020 performance as well.

As at 31 December 2020 the information related to the number of phantom shares for the 2020 performance is not available, since the first grant date is in April 2021.

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

NOTE 41 – DEFINED BENEFIT PLAN

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.

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

	2020 MHUF	2019 MHUF
Defined benefit obligations at the beginning of the period	318	365
Current service cost	-	-
Interest cost	7	11
Actuarial gains and losses arising from changes in financial assumptions	2	(8)
Benefits paid	(16)	(21)
Past service cost, including gains and losses arising from settlements	(25)	(29)
Defined benefit obligation at end of the period	286	318

Interest cost on defined retirement benefit plans are recorded as interest and similar expense in the consolidated income statement (see Note 6). Current service cost includes the effect of the renegotiation of defined benefit plans. Current service costs, benefits paid and past service costs are recorded as staff expenses in the consolidated income statement (see Note 15). Actuarial gains and losses arising from changes in financial assumptions are accounted directly in other comprehensive income.

NOTE 42 – AUDITOR'S REMUNERATION

	2020 MHUF	2019 MHUF
Fees for the statutory audit services	277	200
Fees related to permitted non-audit services provided by the statutory auditor	11	30
Total fees paid to audit firms	288	230

The amounts in the table above include VAT.

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

Non-audit services provided by the statutory auditor includes supporting services related to mortgage lending and audit of licences.

NOTE 43 – SUBSIDIARIES

Fully consolidated subsidiaries	Address of headquarter	Principal activities	Capital 2020	Effective Shareholding 2020	Effective Shareholding 2019
			MHUF	%	%
K&H Jelzálogbank Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Other credit granting services	3 200	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 Tanácsadó Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Business and management consultancy	850	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 Értékpapír Zrt.	1095 Budapest, Lechner Ödön fasor 9.	Security and commodity contracts brokerage	301	100	100

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

NOTE 44 – SUBSEQUENT EVENTS

There were no subsequent events to be reported till the approval of the Consolidated Financial Statements.

NOTE 45 – RISK MANAGEMENT

45.1 General

The Group 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 Group cover a wide range including the retail, corporate and the professional money market segments. In its role as a financial intermediary, the Group 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 Group 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 Group 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 Group has Recovery Plan prepared according to the guidelines set out by KBC Group and the local supervisor. The Recovery Plan of the Group 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 Group’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), Trading Risk Councils (TRC), 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 Group and on the adequacy of the risk management structure.

NOTE 45 – 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 statement of financial position of the Group. 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 Group 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 Group 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 Group:
  - 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 Group’s risk limits.

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

45.2 Liquidity risk and funding management

Liquidity is the ability of the Group 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 45 – 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 Group, and in considering liquidity shocks to guarantee the availability of sufficient cash flow to meet all of the Group's financial commitments:

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

The Group 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 Group. The Group maintains adequate liquidity resources at all times, both as to amount, maturity and quality, to ensure that the Group 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 Group'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 Group maintains adequate balances on its accounts with the National Bank of Hungary and foreign correspondents to continuously meet its obligations.

NOTE 45 – 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	17 100	16 861	-	67 198
Mandatorily at fair value through profit or loss	11 702	27 037	100 831	-	139 570
Fair value through other comprehensive income	58 905	49 114	-	3 877	111 896
Amortised cost	1 948 718	1 012 818	547 653	-	3 509 189
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	2 462 701	1 118 046	677 580	3 877	4 262 204

	<=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	1 739	3 144	19 482	-	24 365
Measured at amortised cost	3 329 721	395 692	77 961	-	3 803 374
Fair value changes of hedged item under portfolio hedge of interest rate risk	14 614	-	-	-	14 614
Total financial liabilities	3 393 465	436 615	109 492	-	3 939 572
Commitments and contingent liabilities	956 885	-	-	-	956 885
Total financial liabilities, commitments and contingent liabilities	4 350 350	436 615	109 492	-	4 896 457

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

NOTE 45 – RISK MANAGEMENT (continued)

The following table shows a breakdown of the financial assets and financial liabilities by expected maturity at 31 December 2019:

	<=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	413 803	-	-	-	413 803
Held for trading	26 578	32 275	18 168	-	77 021
Mandatorily at fair value through profit or loss	5 553	15 984	45 479	-	67 016
Fair value through other comprehensive income	36 619	53 142	-	3 069	92 830
Amortised cost	1 417 311	842 729	457 776	-	2 717 816
Fair value changes of hedged item under portfolio hedge of interest rate risk	19 042	-	-	-	19 042
Hedging derivatives	1 195	11 557	16 755	-	29 507
Total financial assets and cash balances with central banks and other demand deposits with credit institutions	1 920 101	955 687	538 178	3 069	3 417 035

	<=1 year MHUF	1-5 year MHUF	>5 year MHUF	Without maturity MHUF	Total MHUF
Financial liabilities					
Held for trading	16 813	30 828	13 552	-	61 193
Designated at fair value through profit or loss	21 774	30 840	-	-	52 614
Hedging derivatives	470	5 749	18 802	-	25 021
Measured at amortised cost	2 619 157	278 554	68 819	-	2 966 530
Fair value changes of hedged item under portfolio hedge of interest rate risk	15 827	-	-	-	15 827
Total financial liabilities	2 674 041	345 971	101 173	-	3 121 185
Commitments and contingent liabilities	874 138	-	-	-	874 138
Total financial liabilities, commitments and contingent liabilities	3 548 179	345 971	101 173	-	3 995 323

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

NOTE 45 – RISK MANAGEMENT (continued)

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

	< 1 year MHUF	> 1 year MHUF	Total MHUF
Tax assets	3 074	45	3 119
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	94 756	122 048
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 2019 is presented in the table below.

	Reclassified < 1 year MHUF	> 1 year MHUF	Reclassified Total MHUF
Tax assets	2 595	43	2 638
Investment property	-	1 874	1 874
Property, plant and equipment	-	49 827	49 827
Intangible assets	-	30 424	30 424
Other assets	20 356	-	20 356
Total assets	24 671	80 448	105 119
Tax liabilities	721	406	1 127
Provisions for risks and charges	1 827	16	1 843
Other liabilities	38 212	-	38 212
Total liabilities	40 760	422	41 182

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

NOTE 45 – 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 2020. For held-for-trading derivatives fair 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	319 892	572 722	3 668	6 386	910 112	422 464	2 235 244
More than three months but not more than one year	-	1 143 829	3 579	17 093	255 911	295 161	1 715 573
More than one but not more than five years	-	1 438 405	27 600	54 847	1 061 826	822 031	3 404 709
More than five years	-	425 104	101 635	28 791	1 277 271	317 245	2 150 046
Total	319 892	3 580 060	136 482	107 117	3 505 120	1 856 901	9 505 572

	Held for trading derivatives	Designated at 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	3 199 420	424 173	4 203 851
More than three months but not more than one year	1 143 466	21 066	141 735	295 537	1 601 804
More than one but not more than five years	1 438 194	2 232	284 836	822 399	2 547 661
More than five years	425 104	-	185 642	317 416	928 162
Total	3 579 390	30 930	3 811 633	1 859 525	9 281 478

NOTE 45 – 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	657 435	287 398	12 052	956 885
More than three months but not more than one year	-	-	-	-
More than one but not more than five years	-	-	-	-
More than five years	-	-	-	-
Total	657 435	287 398	12 052	956 885

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 2019. For held-for-trading derivatives fair 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	359 556	483 477	2 900	6 024	507 999	308 942	1 668 898
More than three months but not more than one year	-	850 298	2 890	-	334 365	614 666	1 802 219
More than one but not more than five years	-	2 129 834	15 984	51 539	864 843	358 374	3 420 574
More than five years	-	459 534	45 479	21 330	1 005 165	186 290	1 717 798
Total	359 556	3 923 143	67 253	78 893	2 712 372	1 468 272	8 609 489

NOTE 45 – RISK MANAGEMENT (continued)

	Held for trading derivatives	Designated at 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	475 214	4 166	2 497 844	309 839	3 287 063
More than three months but not more than one year	855 171	15 801	75 126	619 902	1 566 000
More than one but not more than five years	2 121 605	28 577	323 510	357 091	2 830 783
More than five years	459 534	-	73 080	186 290	718 904
Total	3 911 524	48 544	2 969 560	1 473 122	8 402 750

	Commitments to extend credit	Guarantees	Letters of credit	Total
	MHUF	MHUF	MHUF	MHUF
Commitments and contingent liabilities				
On demand and less than three months	593 281	271 082	9 775	874 138
More than three months but not more than one year	-	-	-	-
More than one but not more than five years	-	-	-	-
More than five years	-	-	-	-
Total	593 281	271 082	9 775	874 138

The Group'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 Group 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 Group is also analysing liquidity stress test results.

NOTE 45 – 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 National Bank of Hungary eligible collaterals. The Group had sufficient liquidity gap surplus in 2020 and 2019, having increasing reliance on sight deposits.

Liquidity stress tests

Contingency liquidity risk is assessed in the Group on the basis of several liquidity stress scenarios. The aim of the stress tests is to measure how the liquidity buffer of the Group 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 Group 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 Group's LCR ratio stood at 222% at the end of 2020 and at 160% at the end of 2019 meeting all time the regulatory minimum requirement. NSFR's 100% regulatory compliance is postponed from beginning of 2019, but that does not restraint the Group from monitoring it. The Group stood at 171% at the end of 2020 and at 159% at the end of 2019.

45.3 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 Group classifies exposures to market risk into either trading or non-trading portfolios.

Market risk – trading

The Group is exposed to market risk via the trading books of the Bank's dealing room and via the FX exposure of the subsidiaries. The Group has set limits on the level of market risk that may be accepted. The Group 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 Group 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 Group has chosen to use the historical VaR methodology to measure and manage market risks in the trading book.

NOTE 45 – 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.

Beside the hVaR calculations and stress-test risk concentrations are also monitored via secondary limit: FX concentration limits to limit FX risk stemming from a particular foreign currency position.

hVaR results can be presented as follows:

	Foreign exchange	Interest rate	Total VAR
	MHUF	MHUF	MHUF
2020 – 31 December	8	-	8
2020 – Average daily	10	7	12
2020 – Highest	51	25	51
2020 – Lowest	1	1	1
2019 – 31 December	11	2	12
2019 – Average daily	11	3	12
2019 – Highest	23	7	23
2019 – Lowest	3	2	4

From 2020, the Group switched to the calculation methodology based on 1-day holding period from the previously used 10-days holding period to measure VaR.

The Group'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 Group 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 the Group 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 MNB 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.

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.

NOTE 45 – RISK MANAGEMENT (continued)

Majority of the Group'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 Group 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 2020 and 2019. 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 45 – 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		(591)	235	(356)
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		(24 034)	4 579	(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		2 058	(236)	1 823
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		14 649	(2 876)	11 773
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	(4 846)	24 319

NOTE 45 – RISK MANAGEMENT (continued)

UP Scenarios, 31 December 2019	denomination	Sensitivity of equity MHUF	Sensitivity of profit or loss MHUF	Total sensitivity MHUF
10 bp parallel up				
	EUR	(112)	103	(9)
	HUF	(1 052)	257	(795)
	USD	-	(3)	(3)
10 bp parallel up total		(1 164)	357	(807)
100 bp parallel up				
	EUR	(1 095)	1 125	30
	HUF	(9 548)	2 157	(7 391)
	USD	-	(44)	(44)
100 bp parallel up total		(10 643)	3 238	(7 405)
200 bp parallel up				
	EUR	(2 128)	1 989	(139)
	HUF	(18 595)	4 927	(13 668)
	USD	-	(65)	(65)
200 bp parallel up total		(20 723)	6 851	(13 872)

DOWN Scenarios, 31 December 2019	denomination	Sensitivity of equity MHUF	Sensitivity of profit or loss MHUF	Total sensitivity MHUF
10 bp parallel down				
	EUR	113	(103)	10
	HUF	936	(258)	678
	USD	-	3	3
10 bp parallel down Total		1 049	(358)	691
100 bp parallel down				
	EUR	1 161	(910)	251
	HUF	10 366	(3 104)	7 262
	USD	-	21	21
100 bp parallel down total		11 527	(3 993)	7 534
200 bp parallel down				
	EUR	2 396	(2 133)	263
	HUF	21 320	(5 391)	15 929
	USD	-	68	68
200 bp parallel down total		23 716	(7 456)	16 260

NOTE 45 – RISK MANAGEMENT (continued)

Currency risk

Currency or foreign exchange (FX) risk basically arises from mismatches in the currency structure of the Group's assets and liabilities. Positions are monitored on a daily basis and the hedging strategy of the Group 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 Group. 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 Group'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.

45.4 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 consolidated statement of financial position. The Group makes available to its customers guarantees which may require that the Group makes payment on their behalf. Such payments are collected from customers based on the terms of the credit contracts. They expose the Group 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 consolidated loan portfolio, monitoring limit discipline and the specific portfolio management function.

NOTE 45 – RISK MANAGEMENT (continued)

Expected credit loss (ECL)

Expected credit losses are modelled over 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.

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

NOTE 45 – RISK MANAGEMENT (continued)

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.

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 Group 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 consolidated 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 Group 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 Group therefore only recognises the cumulative changes in lifetime expected credit losses.

The Group 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 Group performs an assessment on an individual basis for non-retail clients above HUF 300mln exposure. The Group 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.

NOTE 45 – RISK MANAGEMENT (continued)

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 Group 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.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group 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 Group 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 Group'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 Group 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 45 – 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 Group 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 Group'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 Group'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 Group 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 Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Group 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 Group 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 9 354 million at year-end 2020 (HUF 11 578 million in 2019), shows that the base scenario results in an ECL of HUF 38 667 million (HUF 22 341 million in 2019), which is HUF 3 027 million lower than the "down"-scenario and HUF 926 million higher than the "up"-scenario (HUF 941 million lower and HUF 946 million higher in 2019). The collectively calculated weighted ECL results (which was booked) amounts to HUF 39 633 million (HUF 22 575 million in 2019). Note that these amounts take into account the Covid-19 related management overlay (per scenario) at the end of 2020 (see Note 3).

NOTE 45 – RISK MANAGEMENT (continued)

The Group 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:

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%

31 December 2019

Variable	Scenario	Assigned weight	Assumption for: 2020	2021	2022	2023	2024
Unemployment rate	Base	60%	3.55%	3.70%	3.68%	3.60%	3.67%
	Upside	20%	2.50%	2.20%	1.27%	0.65%	1.21%
	Downside	20%	4.80%	5.00%	4.90%	4.90%	4.75%
Real GDP Growth rate	Base	60%	3.30%	2.78%	3.00%	3.00%	2.78%
	Upside	20%	4.46%	4.43%	4.89%	4.88%	4.35%
	Downside	20%	2.12%	1.06%	1.11%	1.07%	1.18%

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 2020

NOTE 45 – RISK MANAGEMENT (continued)

The industry breakdown of loans and advances is presented in the table below:

	2020	2019
	MHUF	MHUF
Industry sector		
Agriculture, forestry and fishing	102 000	84 703
Mining and quarrying	898	951
Manufacturing	231 173	214 413
Electricity, gas, steam and air conditioning supply	66 329	39 404
Water supply	14 506	13 512
Construction	26 597	23 607
Wholesale and retail trade	139 906	121 379
Transport and storage	73 779	77 406
Accommodation and food service activities	18 807	12 464
Information and communication	8 091	5 167
Financial and insurance activities	59 886	49 166
Real estate activities	161 124	122 987
Professional, scientific and technical activities	30 923	34 584
Administrative and support service activities	12 543	10 631
Public administration and defence, compulsory social security	50	66
Education	1 381	1 382
Human health services and social work activities	1 938	2 025
Arts, entertainment and recreation	559	624
Central bank	624 118	272 001
Individuals	831 535	699 538
Central governments	61 207	33 468
Municipalities	21 762	20 650
Credit institutions	538 603	541 590
Other services	3 985	1 435
Gross loans and advances	3 031 700	2 383 153
Total impairment on loans and advances (see Note 25)	(50 170)	(35 430)
Total loans and advances	2 981 530	2 347 723

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 45 – RISK MANAGEMENT (continued)

Collateral and other credit enhancements

In compliance with its business policy the Group 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 Group.

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 Group 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 Group by taking possession during 2020 amounted to HUF 375 million (HUF 803 million in 2019).

The Group 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 45 – 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	-	-	1 121 550	1 162 679	39 963
General government	46 213	38 889	3 291	3 291	33 047	82 551	42 180
Corporate	662 762	318 601	92 570	92 570	171 611	926 943	411 171
of which: Small and Medium enterprises	415 884	203 443	71 994	71 994	46 282	534 160	275 437
Households	101 873	86 703	607 751	607 751	99 733	809 357	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	1 482	582 325	574 231
Term loan	11 963	5 577	9 443	9 443	1 359	22 765	15 020
Trade receivables	-	-	-	-	-	-	-
Total	851 977	484 156	703 612	703 612	1 425 941	2 981 530	1 187 768
Loan commitments and guarantees at 31 December 2020							
Loan commitments	181 947	73 078	6 019	6 019	469 469	657 435	79 097
Financial guarantees	160 456	85 163	173	173	126 769	287 398	85 336
Other commitments	3 081	992	9	9	8 962	12 052	1 001
Total	345 484	159 233	6 201	6 201	605 200	956 885	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 45 – 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 2019							
Central bank and credit institutions	29 544	28 767	4 961	4 961	779 036	813 541	33 728
General government	44 436	40 320	73	73	9 237	53 741	40 393
Corporate	578 216	288 548	88 010	88 010	135 435	801 661	376 558
of which: Small and Medium enterprises	389 428	198 817	66 978	66 978	39 625	496 031	265 795
Households	54 542	41 498	494 242	494 242	129 991	678 775	535 740
Consumer credit	18 396	18 352	23 138	23 138	66 903	108 437	41 490
Credit card	-	-	-	-	5 795	5 795	-
Current account	2 967	1 648	536	536	7 308	10 811	2 184
Finance lease	545	541	2 255	2 255	113	2 913	2 796
Mortgage loan	21 120	15 594	458 031	458 031	48 384	527 535	473 625
Term loan	11 514	5 363	10 282	10 282	1 488	23 284	15 645
Trade receivables	-	-	-	-	-	-	-
Total	706 738	399 133	587 286	587 286	1 053 699	2 347 723	986 419
Loan commitments and guarantees at 31 December 2019							
Loan commitments	182 161	77 704	3 181	3 181	407 939	593 281	80 885
Financial guarantees	146 610	79 340	157	157	124 315	271 082	79 497
Other commitments	4 275	1 071	9	9	5 491	9 775	1 080
Total	333 046	158 115	3 347	3 347	537 745	874 138	161 462

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 45 – 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 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	-	1 339 874	-	1 425 940	-
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	1 684 119	242 034	2 981 529	1 187 768

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 45 – 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 2019										
Central bank and credit institutions	-	-	-	-	-	-	34 505	33 728	34 505	33 728
General government	-	-	5 222	1 698	-	-	39 287	38 695	44 509	40 393
Corporate	-	-	431 431	228 506	7 309	6 168	227 486	141 884	666 226	376 558
of which: Small and Medium enterprises	-	-	311 485	171 757	7 011	5 925	137 910	88 113	456 406	265 795
Households	520 333	514 763	10 421	5 814	748	717	17 282	14 446	548 784	535 740
Consumer credit	41 209	41 165	-	-	325	325	-	-	41 534	41 490
Credit card	-	-	-	-	-	-	-	-	-	-
Current account	-	-	2 173	1 444	3	3	1 327	737	3 503	2 184
Finance lease	-	-	-	-	-	-	2 800	2 796	2 800	2 796
Mortgage loan	479 124	473 598	-	-	27	27	-	-	479 151	473 625
Term loan	-	-	8 248	4 370	393	362	13 155	10 913	21 796	15 645
Trade receivables	-	-	-	-	-	-	-	-	-	-
Total	520 333	514 763	447 074	236 018	8 057	6 885	318 560	228 753	1 294 024	986 419
Unsecured exposures	115 406	-	958	-	-	-	937 335	-	1 053 699	-
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)	635 739	514 763	448 032	236 018	8 057	6 885	1 255 895	228 753	2 347 723	986 419

*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 34 348 million as at 31 December 2020 (HUF 60 433 million as at 31 December 2019). The amount of the collaterals includes the indexed or reviewed collateral value limited to the carrying amount of the related asset.

NOTE 45 – RISK MANAGEMENT (continued)

The following tables present the quality of loans and advances by stage categories.

	Loans and advances at amortised cost						
	Gross carrying amount			Accumulated impairment			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total net carrying amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances* at 31 December 2020							
Central bank and credit institutions	1 158 542	141	5	(39)	(2)	-	1 158 647
General government	81 624	932	379	(30)	(13)	(375)	82 517
Corporate	804 755	129 367	18 609	(3 623)	(15 028)	(8 883)	925 197
of which: Small and Medium enterprises	477 663	61 898	8 470	(2 133)	(7 447)	(4 327)	534 124
Households	599 988	75 134	22 542	(1 318)	(9 289)	(11 458)	675 599
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	0	(6)	(30)	-	3 434
Mortgage loan	481 482	63 538	20 759	(259)	(6 999)	(10 647)	547 874
Term loan	19 951	3 202	50	(53)	(364)	(21)	22 765
Trade receivables	-	-	-	-	-	-	-
Total	2 644 909	205 574	41 535	(5 010)	(24 332)	(20 716)	2 841 960

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

NOTE 45 – RISK MANAGEMENT (continued)

The following tables present the quality of loans and advances by stage categories.

	Loans and advances at amortised cost						
	Gross carrying amount			Accumulated impairment			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total net carrying amount
	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF	MHUF
Loans and advances* at 31 December 2019							
Central bank and credit institutions	811 948	69	20	(45)	(4)	-	811 988
General government	51 221	2 493	343	(15)	(18)	(339)	53 685
Corporate	726 926	66 629	18 995	(2 034)	(1 043)	(11 168)	798 305
of which: Small and Medium enterprises	449 903	42 913	13 953	(1 326)	(648)	(8 864)	495 931
Households	507 860	97 850	31 480	(1 185)	(3 087)	(16 189)	616 729
of which: purchased or originated credit impaired	-	3 623	18 072	-	-	(7 783)	13 912
Consumer credit	65 602	3 753	659	(904)	(603)	(490)	68 017
Credit card	5 542	337	55	(45)	(58)	(36)	5 795
Current account	7 401	3 036	1 347	(42)	(300)	(631)	10 811
Finance lease	2 733	201	-	(7)	(14)	-	2 913
Mortgage loan	406 901	86 874	29 353	(134)	(2 095)	(14 990)	505 909
Term loan	19 681	3 649	66	(53)	(17)	(42)	23 284
Trade receivables	-	-	-	-	-	-	-
Total	2 097 955	167 041	50 838	(3 279)	(4 152)	(27 696)	2 280 707

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

NOTE 45 – 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* 2020	Average unsecured share of exposure 2020	Total 2020 MHUF	Average unsecured share of exposure 2019	Total 2019 MHUF
PD 1-2	0.0000	0.7501	331 308	0.7859	350 615
PD 3-4	0.0007	0.5795	989 290	0.6196	863 993
PD 5-9	0.0462	0.5631	1 151 116	0.5574	971 362
PD 10-12	1.0000	0.3563	37 964	0.4024	57 804
Total			2 509 678		2 243 773

*Impaired (PD10-12) portfolio per credit grades compared to last year's total non-impaired portfolio.

NOTE 45 – RISK MANAGEMENT (continued)

The following tables present the distribution of the loan portfolio according to the internal ratings.

	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

NOTE 45 – RISK MANAGEMENT (continued)

The following tables present the distribution of the loan portfolio according to the internal ratings.

	PD1	PD2	PD3	PD4	PD5	PD6	PD7	PD8	PD9	PD10	PD11	PD12	Total
	%	%	%	%	%	%	%	%	%	%	%	%	%
Loans and advances* at 31 December 2019													
Central bank and credit institutions	16.7	25.0	0.6	21.3	-	-	-	-	-	-	-	-	63.6
General government	-	0.5	2.9	-	-	-	-	0.1	-	-	-	-	3.5
Corporate	-	4.8	2.3	4.1	4.9	2.4	0.8	0.5	0.1	0.4	-	0.4	20.7
of which: Small and Medium enterprises	-	2.9	0.6	0.8	2.3	1.3	0.7	0.1	0.1	-	-	0.4	9.2
Households	-	-	0.2	2.5	0.7	1.0	5.3	0.2	0.3	0.2	0.2	1.6	12.2
Consumer credit	-	-	-	2.3	0.4	0.3	5.1	0.1	0.1	-	-	-	8.3
Credit card	-	-	-	-	0.2	0.1	-	-	-	-	-	-	0.3
Current account	-	-	-	0.1	-	0.1	-	-	0.1	-	-	-	0.3
Finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage loan	-	-	-	-	-	-	0.1	0.1	0.1	0.2	0.2	1.6	2.3
Term loan	-	-	0.2	0.1	0.1	0.5	0.1	-	-	-	-	-	1.0
Trade receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	16.7	30.3	6.0	27.9	5.6	3.4	6.1	0.8	0.4	0.6	0.2	2.0	100.0

NOTE 45 – RISK MANAGEMENT (continued)

45.5 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 National Bank of Hungary.

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 he 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 Group 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 45 – 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)	4 840
Consumer credit	-	-	-	63	(45)	18
Credit card	-	-	-	-	-	-
Current account	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-
Mortgage loan	5	(1)	4	7 713	(2 895)	4 822
Term loan	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-
Total	5	(1)	4	12 627	(6 287)	6 344

Forborne loans mandatorily measured at fair value through profit or loss are non-performing loans.

NOTE 45 – 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 2019						
Central bank and credit institutions	-	-	-	-	-	-
General government	-	-	-	343	(339)	4
Corporate	-	-	-	9 806	(6 003)	3 803
of which: Small and Medium enterprises	-	-	-	6 141	(4 526)	1 615
Households	-	-	-	14 232	(3 757)	10 475
Consumer credit	-	-	-	33	(13)	20
Credit card	-	-	-	-	-	-
Current account	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-
Mortgage loan	-	-	-	14 199	(3 744)	10 455
Term loan	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-
Total	-	-	-	24 381	(10 099)	14 282

Forborne loans mandatorily measured at fair value through profit or loss are non-performing loans.

NOTE 45 – RISK MANAGEMENT (continued)

There were no forborne commitments and guarantees in 2020 and 2019.

The following table explains the change of forborne loans.

	2020	2019
	MHUF	MHUF
Balance as at the beginning of the period	14 282	20 098
Loans which have become forborne	1 590	3 039
Loans which are no longer considered to be forborne	(6 873)	(2 165)
Repayments	(12 714)	(7 085)
Change in the impairment of forborne loans	1 106	(2 328)
Other	8 953	2 723
Balance as at the end of the period	6 344	14 282

The Group recorded HUF 526 million interest income on forborne loans in the consolidated income statement in 2020 (HUF 819 million in 2019).

NOTE 45 – 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 45 – RISK MANAGEMENT (continued)

Aging analysis quality of forborne loans and advances as at 31 December 2019 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 2019								
Central bank and credit institutions	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	4	4
Corporate	296	37	-	-	3 220	-	250	3 803
of which: Small and Medium enterprises	296	37	-	-	1 032	-	250	1 615
Households	3 022	785	-	-	2 090	594	3 984	10 475
Consumer credit	11	1	-	-	6	1	1	20
Credit card	-	-	-	-	-	-	-	-
Current account	-	-	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-	-	-
Mortgage loan	3 011	784	-	-	2 084	593	3 983	10 455
Term loan	-	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-	-	-
Total	3 318	822	-	-	5 310	594	4 238	14 282

*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 45 – 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 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	6 426	-	(72)	(2 868)	4 840
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	6 379	-	(71)	(2 824)	4 822
Term loan	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-	-
Total	-	1 877	10 754	-	(157)	(6 130)	6 344

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

NOTE 45 – 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 2019							
Central bank and credit institutions	-	-	-	-	-	-	-
General government	-	-	343	-	-	(339)	4
Corporate	232	104	9 470	(1)	(2)	(6 000)	3 803
of which: Small and Medium enterprises	232	104	5 805	(1)	(2)	(4 523)	1 615
Households	-	3 888	10 344	-	(81)	(3 676)	10 475
of which: purchased or originated credit impaired	-	2 762	6 880	-	-	(1 729)	7 913
Consumer credit	-	12	21	-	-	(13)	20
Credit card	-	-	-	-	-	-	-
Current account	-	-	-	-	-	-	-
Finance lease	-	-	-	-	-	-	-
Mortgage loan	-	3 876	10 323	-	(81)	(3 663)	10 455
Term loan	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-	-
Total	232	3 992	20 157	(1)	(83)	(10 015)	14 282

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

NOTE 45 – RISK MANAGEMENT (continued)

The industrial breakdown of forborne loans is included in the table below.

	2020 MHUF	2019 MHUF
Industry sector		
Manufacturing	2 377	7 766
Electricity, gas, steam and air conditioning supply	-	107
Wholesale and retail trade	-	76
Transport and storage	298	-
Accommodation and food service activities	171	-
Real estate activities	1 575	1 792
Professional, scientific and technical activities	51	65
Individuals	7 781	14 232
Non-credit institutions	379	343
Credit institutions	-	-
Forborne loans and advances - gross	12 632	24 381
Accumulated impairment	(6 287)	(10 099)
Accumulated negative changes in fair value due to credit risk	(1)	-
Total forborne loans to customers	6 344	14 282

All forborne loans are granted to domestic clients in 2020 and 2019.

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 45 – RISK MANAGEMENT (continued)

45.6 Operational risk

In line with KBC Group, the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 46 – SOLVENCY AND CAPITAL

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 Group must have a minimum capital in place. The Group reports its level of capital adequacy situation to the Hungarian National Bank (MNB) on a quarterly basis and also forecasts are prepared to the Capital and Risk Oversight Committee (CROC) of the Group on a regular basis. When needed, the Group'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.).

	2020 MHUF	2019 MHUF
Tier 1 capital elements	368 191	321 089
Adjustments due to prudential filters	(4 845)	(6 262)
Other transitional adjustments	-	-
Tier 1 total	363 345	314 827
Tier 2 capital elements	54 079	41 976
Other transitional adjustments	-	-
Tier 2 total	54 079	41 976
Own funds	417 425	356 803

The Group fulfilled the capital requirements set by MNB continuously during years 2020 (and 2019) and at 31 December 2020 (and at 31 December 2019).

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 2020 was HUF 31 702 million (HUF 28 422 million as at 31 December 2019).

The Bank had distributable reserves of HUF 156 362 million as at 31 December 2020 (HUF 125 945 million as at 31 December 2019).

No dividend is proposed for 2020 (nor for 2019).

Approved by the Board of Directors on 20 April 2021.

David Moucheron
Chief Executive Officer
Member of the Board

Attila Gombás
Chief Financial Officer
Member of the Board

K&H Bank Zrt.

Management report (consolidated)

31 December 2020

On 31 December 2020, the consolidated total assets of K&H Bank Group (hereunder “the Group”) stood at 4,384 bln, 24% higher than a year ago. As a financial institution which offers banking and insurance products alike and has a nation-wide branch network of 204 branches, the Group offers the full range of financial services to its clients.

1. Economic environment

The fast spreading of Covid-19 virus in the world has caused a serious shock for the Hungarian economy as well. The growth dynamics experienced during the previous years continued at the beginning of 2020, but the lockdown measures pushed the economy into deep recession. Following the 13.6% yoy drop of GDP in the second quarter, the economy has started to present some signs of life in the second half of the year supported by the government’s and the central bank’s programs. Nevertheless, huge differences can be observed in the speed of the recovery among the sectors: while industrial production showed a fast rebound, some areas of the service sector has faced serious difficulties and also the investment willingness has moderated considerably due to the uncertain economic outlook.
Although the volume of both export and import activities decreased, the surplus of the trade balance improved in 2020, which stopped the trend of deteriorating current account balance for several years. The financing capability of the country has remained in positive territory, also thanks to the EU funds inflow. The government maintained a relative – under the given circumstances – tight fiscal policy in the first half of the year, but introduced significant fiscal stimulus in the second half of 2020. It pushed the general state budget deficit to around 9 percent of GDP and the gross public debt to over 80 percent of GDP, so decreasing trend since 2011 has stopped in 2020. Nevertheless, the country’s risk assessment was generally favorable and the rating agencies did not change Hungary’s debt rating.

	2019 actual	2020 preliminary
GDP growth	+4.6%	-5.1%
CPI (average)	3.4%	3.3%
Households’ consumption	+4.2%	-2.6%
Investments	+11.9%	-3.8%
Unemployment rate	3.2%	4.1%
Budget deficit (ESA) (in % of GDP)	-2.1%	-9.0%
Debt/GDP rate	65.4%	80.6%
Balance of payments (in % of GDP)	-0.5%	0.1%

Source: MNB, KSH, K&H

Similarly to the world's leading central banks, the National Bank of Hungary (MNB) has introduced a number of measures to support the stability of the banking system and the economic recovery. Regarding financial stability, next to the financial moratorium for debt repayment introduced by the government (see more details and its expected impact on K&H Bank on page 5) more flexible forebearance and NPL rules were announced by MNB, while the capital buffer requirements were also eased for the banks. MNB reduced the base rate from 0.9 percent to 0.6 percent in two steps. A new monetary policy tool was launched (1 week deposit) with the aim of supporting the short-end of the yield curve (and as a consequence the forint exchange rate), and several new tools (for instance more accommodative repo collateral rules) were introduced to boost the banking sector’s liquidity position. In order to support the government bond market, the MNB provided secured loans to the banks, and it became a more active market participant directly also via auction system and secondary market purchases, thus helping to finance the general government deficit and to stabilize the bond market. Also a new Funding for Growth program was announced (NHP Hajrá) for corporates and the conditions of the existing Bond Funding for Growth Scheme were adjusted, additionally the size of both programs has been increased during the year. Despite the fact that both the consumer price index and the core inflation filtered from indirect taxes remained in the upper half of the central bank's target band for most of the year, the Hungarian economy was surrounded by an accommodative monetary environment.

2. The Strategic Objectives of the Group

K&H Bank Group is a universal bank-insurer, providing banking, leasing, asset management and insurance services for individuals and corporate (focusing on SME and Mid-cap) customers with a strong emphasis on introducing innovative solutions.

In order to fulfil our mandate by our shareholder and our clients:
- we put the client at the centre of all our activities
- we provide our clients with easy & smooth access
- we strive to maintain long-term relationship by making the difference through superior service and personal bond
- we combine the best international practice with sound local knowledge.

We want to be the reference in bank-insurance.

<u>Customer strategy:</u>

We help our clients realise their dreams and protect them.

Retail: customers are served based on the different segments' special needs providing convenient banking and insurance services and superior client experience.

Corporate clients: as a stable and independent advisor, building on personal relationship management and deep customer knowledge, we deliver tailor made and convenient financial solutions that best suit our clients' needs.

<u>Product strategy:</u>

Retail:
- Innovative saving products and advisory services to keep up our market leader status.
- Growth in lending, based on a good understanding of real client needs and credit risk.
- Strong focus on convenient daily banking services and primary banking relationships.
- Fast and simple processes.

Small and medium-sized enterprises (SME):
- Reliable and convenient transactional banking services.
- More standard products fitting client needs with simple, easy to access services.
- Fast and simple lending process to support financing SME businesses.

Corporate:
- Full service provider, emphasis on advisory to provide tailored solutions to our clients.

<u>Strategy on distribution channels:</u>

Omni-channel distribution approach – best fit combination of:
- e-bank, mobile bank
- extensive branch network with high level of cash automation and focus on advisory
- TeleCenter, remote advisory
- tied agents and brokers.

<u>Key differentiators of the Bank Group:</u>
- being close to our clients: easy access both physically (via our large branch network) and digitally (via remote channels)
- K&H Group acts as a full service provider for our clients in banking and insurance (universal financial institution)
- expertise and advice in the whole spectrum of financial services
- innovation: we continuously adopt to the changes in client behaviour and in the environment, aiming at being the best innovator in the market.

During 2019, the Bank reviewed its strategy and decided that we continue to pursue our strategic aims while also speed up digital transformation in each business line. Therefore, we speed up activities aiming at developing our mobile banking app so that it will be capable not just to manage accounts and bankcards, but also to fulfil sales functions. As a first sign of that, and also as a sign of our continuous and close cooperation with K&H Insurance, we are the first and only bank in the Hungarian market to introduce the sale of certain insurance products in the mobile banking application. Also as a unique service in the market, we enable our clients to by e-tickets to the public transport system of 70 cities in the mobile banking app.

3. The Group's consolidated activities

3.1 Balance sheet

Total assets of the Group amounted to 4,384 bln on 31 Dec 2020 (24.5% growth in 2020 compared to 31 Dec 2019).

HUF Bln	31 Dec 2019	31 Dec 2020	Variance
Total assets	3,522	4,384	+24.5%
Central Banks and credit institutions	814	1,163	+42.9%
Loans and advances to customers	1,534	1,819	+18.6%
Deposits from customers	2,608	3,242	+24.3%
Equity	360	401	+11.4%

The most important elements of the evolution of the consolidated balance sheet are as follows:

- *Loans and advances to customers* increased by 19% in 2020 (whereof appr. 2% is attributable to the 9 pct weakening of HUF): the growth rate of both corporate and retail loan portfolio exceeded that of the market and as a consequence K&H has strengthened its market share in both segments. Under these special circumstances digital solutions gaining more and more attention in retail lending: the share of E2E cash loan service in mobile bank & e-bank continuously increased in K&H Bank (from 39% of the new production in 2019, to 60% in 2020) and contributed to the market share improvement in cash loans new production (10.3% in FY 2020 vs 8.0% in FY 2019). Next to the cash loans, K&H's market share increased also in mortgages new production (14.0% in FY 2020 vs 11.0% in FY 2019) and the state subsidized prenatal baby support loan products new production (9.5% in FY 2020 vs 8.8% in FY 2019). K&H contracted a total amount of 173 bln for the Funding for Growth Hajrá! scheme by 31 December, representing a market share of 11% in outstanding.

- *Deposits from customers* increased by 24%: the Bank's market share improved further in corporate deposits and remained unchanged in retail savings (deposits + funds) in 2020.

- *Shareholders' equity* increased by 41 bln (+11%) in 2020. Main elements of the change: profit of 2020 (+42.1 bln) and lower cash flow reserve (-1.5 bln).
  Based on a shareholders' resolution there is no dividend payment from the net result of 2020. The capital adequacy ratio was 19.2% at 31 December 2020 which fulfilled the capital requirements set by MNB.

	31 Dec 2019	31 Dec 2020
Guarantee capital (bln HUF)	357	417
Capital adequacy ratio (%)	18.7	19.2

3.2 Profit & loss

HUF Bln	31 Dec 2019	31 Dec 2020
Profit after taxation	50.9	42.1

The Group's profit for 2020 was negatively impacted by the one-off impacts of Covid19 pandemic:

- Modification loss from the moratorium: -4.4 bln[1]
- 19.7 bln Covid19 related IFRS9 based collective impairments for expected future credit losses, consisting of two components:
  - 1.9 bln impact was calculated by the ECL models through the updated macroeconomic variables
  - 17.8 bln management overlay (calculated from an expert-based stress migration matrix).

A pre-tax gain of HUF 11.4 bln was accounted for in 2020 (reported as gain on divestment) related to the transfer of activities/operations of K&H Fund Management (K&H Tanácsadó Zrt., previously K&H Alapkezelő Zrt.) to the Hungarian Branch of KBC Asset Management on 1 July 2020. This operation will be delivering synergies for the KBC Group while clients will continue to enjoy the same high standard of services as before.

The evolution of the main P&L items:

- In comparison with the previous year *net interest income* increased by 11% (2020: 90.0 bln, 2019: 81.1 bln) as the growing loan and deposit volumes overcompensated the negative impact of the lower interest environment and the reducing commercial margins (among others temporary regulatory cap was introduced for the new cash loan production in 2020).
- *Net fee and commission income* remained at the level of last year (2020: 65.3 bln, 2019: 65.4 bln):
  - as a consequence of the above mentioned business transfer (K&H Fund Management) and adverse economic environment *investment services fees* on mutual funds were lagging behind the corresponding fee income in 2019
  - income from *transactional fees* did not change compared to 2019
  - income from *bankinsurance* shows significant increase partially due to the technical impact of retrospective fee settlement with K&H Insurance.
- *Net gains from financial instruments at fair value & foreign exchange differences* went down (2020: 19.1 bln, 2019: 19.6 bln) primarily due to the technical loss in the credit, market and funding value adjustments related to the derivatives and lower customer derivative sales volume.
- *Operating expenses* amounted to 106.9 bln in 2020 (2019: 107.4 bln), excluding banktax and financial transaction levy there is a 0.8% decrease compared to the previous year (as a response to the economic crisis stricter cost containment measures were implemented to provide room for the accelerated transformation and digitalization investments).

[1] With the aim of mitigating the economic impact of the coronavirus, on 18 March 2020 a 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). The moratorium does 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 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 unpaid interest and fee as well next to the due capital shall not exceed the instalment determined in the original payment schedule. The payment moratorium is automatic for all eligible debtors and loans (but the debtor has the right to opt-out from the payment moratorium).
Although the debtors shall redeem all deferred payment obligations accumulated during the moratorium, as no interest can be charged on the deferred interest the Group shall recognize a negative P&L impact arising from the time value of the payment deferral.
On 22 December 2020 the government released the decree of 637/2020 prolonging the duration of the existing moratorium until 30 June 2021. According to estimations, the combined loss of the moratorium and its extension will amount to approximately HUF 4 400 million at 31 December 2020. The estimated negative impact is recognized as a modification to the gross carrying amount of the related loans in the Group's consolidated statement of financial position. At the end of 2020, in consequence of the voluntary opt-out choice, only 38% of the eligible retail and 36% of eligible corporate portfolio participated in the moratorium. Detailed description on the Covid19 related financial moratorium is included in the consolidated financial statements (Note 3).

- There was a 23.3 bln negative P&L impact of *impairment* on financial assets at amortised cost of which 19.7 bln was connected to the estimated Covid-19 impact (see above). Otherwise portfolio quality remained stable in all segments.

Non-performing loans	31 Dec 2019	31 Dec 2020
Retail	6.8%	3.9%
Corporate	2.0%	1.7%
Total	**4.1%**	**2.7%**

Detailed description on financial instruments' valuation is included in the consolidated financial statements (in the following notes: 17-23 and 26), while Note 45 in the consolidated financial statements is about risk management.

The business performance of the Group is illustrated by the following figures:

	2019	**2020**	**variance**
Cost / income	63.6%	59.7%	-3.9%
Cost / income *	60.3%	56.5%	-3.8%
Non-interest type income / total income	52.0%	49.7%	-2.3%
Fee and commission income / total income	38.7%	36.5%	-2.2%
Operating income / average headcount	48.3	53.3	+10.4%
Operating costs * / average headcount	29.1	30.1	+3.5%
Operating profit * / average headcount	19.2	23.2	+20.8%
Credit cost ratio	0.0%	1.1%	+1.1%
Non-performing loans	4.1%	2.7%	-1.4%
Loan / deposit ratio	61.9%	58.7%	-3.2%
Capital **/ total liabilities	11.4%	10.2%	-1.2%
Capital adequacy ratio (consolidated)	18.7%	19.2%	+0.5%
LCR	160%	222%	+62%
NSFR	159%	171%	+11%
ROE (based on average balance of equity)	15.2%	11.2%	-4.0%
ROE (based on average balance of equity) ***	15.2%	14.3%	-0.9%
ROA (based on average balance sheet total)	1.5%	1.1%	-0.4%
ROA (based on average balance sheet total) ***	1.5%	1.4%	-0.2%

* excluding bank tax
** in addition to equity it also includes subordinated debt capital
*** excluding Asset Management business transfer, modification losses on financial assets at amortized cost and Covid-19 related IFRS9 based collective impairments

Due to the additional collective impairments related to Covid19 all profitability indicators linked to net result shows considerable decrease compared to 2019. Disregarding that, most of the efficiency ratios continued to improve in 2020 and also in terms of risk, liquidity and capital adequacy ratios K&H Bank (as the 2nd largest bank based on total assets and customer–deposit volumes) is considered as one of the banks with the most favourable financial position in the banking sector.

4. Introduction of strategically important subsidiaries[2]

Leasing operation

At the end of December 2020, the Leasing operation consisted of two legal entities next to the leasing operations performed by the bank (three entities were merged with K&H Bank Zrt. in previous years).

Name	Main profile
K&H Autópark Kft.	Operative leasing, fleet management
K&H Ingatlanlízing Zrt.	Financial leasing (real-estate)

On 31 December 2020 the **Group's leasing** portfolio stood at 87 bln, which represents a 9% increase compared to the end of the previous year (related to the truck, real estate, machinery & equipment and fleet portfolio).

K&H Tanácsadó Zrt.

K&H Tanácsadó Zrt. (previously K&H Alapkezelő Zrt.) is fully owned by K&H Bank Zrt. By the decision of KBC Group, the business of K&H Alapkezelő Zrt. was transferred into KBC Asset Management NV Hungary Branch from 1 July 2020. Following that the company pursues only the remaining administrate tasks and expected to be liquidated during 2021.

K&H Csoportszolgáltató Kft. (K&H Shared Service Center Kft.)

In 2005 K&H Group decided to set up a group services centre under the management of K&H Bank, which is the 100% owner of K&H Csoportszolgáltató Kft. (KHCSK). The purpose of this unit was the centralization and efficient organization of supplementary service activities closely linked to the core activities of individual group members. Comprehensive service activities performed for the group include the management of the real estate portfolio, logistical and bank security tasks, operative business responsibilities (the booking of trade receivables and payables, fixed assets, tax accounting and payroll management) and support of business activities.

The company takes out service level agreements and contracts with individual group members for each individual services.

As part of the K&H group strategy, K&H+ app started in September 2020. This application provides digital solutions and offers beyond banking services through K&H Mobil bank application, which operation is managed in close cooperation with K&H Bank.

K&H Faktor Zrt. (K&H Factoring)

The K&H Faktor Zrt's main activity is factoring (purchase of receivables, financing, discounting). The company's business activities have started in 2010, factoring turnover has been continuously increasing since then (2020: 163 bln, +3% yoy). The amount of trade receivables towards debtors was 17 bln on 31 December 2020.

K&H Jelzálogbank Zrt. (K&H Mortgage Bank)

As from April 1st 2017 MNB implemented a new indicator (Mortgage Financing Adequacy Ratio) to constrain the banking sector level systemic risk of maturity transformation related to the long term HUF retail mortgage loan portfolio. According to the current rules, at least 25% of the retail HUF mortgage loan portfolio is to be financed by long-term sources with maturity of at least 3 years (be it mortgage bonds or refinancing loans taken out from mortgage credit institutions).
K&H Mortgage Bank was established in 2016. The core business activity of the Mortgage Bank is refinancing of retail mortgage loan portfolios of K&H Bank Zrt. and mortgage bond issuance, started in Q1 2017.

[2] Note 43 in the consolidated financial statements provides a comprehensive overview on all subsidiaries.

There were several mortgage bond issues at K&H Mortgage Bank since 2017. In the beginning the Mortgage Bank issued privately, later publicly placed mortgage bonds. The current outstanding mortgage bond volume is 147 bln on 31 December 2020, from which 145 bln fixed interest rate bond issued at the stock exchange platform.

5. Non-financial statement

K&H sustainability strategy

Sustainability is organically embedded in the four pillars of the 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.

The core of the K&H Group sustainability strategy

5.1

K&H follows strict policies for our activities regarding business ethics, socially sensitive issues, human rights, and reducing our environmental and ecological footprint.

Related policies at K&H

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 (§ 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 domain

Our financial education programme & contest for primary school children entitled "K&H Ready, Steady, Money!" was organised for the tenth time in the 2019-2020 school year to encourage children to learn the basics of everyday household finance, thus helping them make smart financial decisions later. The online competition platform was introduced in 2019 in order to digitize the semi-finals. Under the special conditions of the coronavirus pandemic, the finale was also held online in 2020. 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. Over the past decade, approximately 55 thousand elementary and secondary schoolchildren, i.e. teams from over 1700 schools from almost 800 settlements, submitted their applications for the „K&H Ready, Steady, Money" financial quiz.

Environmental responsibility domain 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 the society and contribute to the ability of the members of the society to live a full life today as well as tomorrow. We are engaged to build a sustainable agriculture supporting young agricultural scientists, who design new procedures and may thus change both our future and the general image of the profession. The award is intended to financially support those students in pursuing their studies and research who at the same time wish to focus on the long-term, healthy and sustainable development of the agricultural sector. Results: 303 participants, 45 awards, from 18 universities.
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.
Completed in 2011, K&H's head office was the first office building in Central Europe to earn LEED Gold environmental protection certification for the entire project. K&H Group reduced its per-capita carbon emissions by 60% compared to 2015. In addition, the Group now uses 33% less drinking water, 21% less energy annually, and it produces 11% less waste ending up in landfills and incinerators than in 2015.
We started selective waste collection in the branch network in 2019 (11 branches) and in 2020 we continued with further 10 branches, compared to the base year of 2015 our paper consumption was 40% less, we generated 102.000 kWh electricity with solar panels (63% more than in the previous year). The large increase in the production of renewable electricity was caused by the fact that a solar park installed on our BCP building started its operation in 2020, and we also installed solar panels in two more of our bank branches. Exceeding the 25% CO2 emission cut undertaken by 2020, the group has actually halved its emission. This is partly attributable to 25 branches across the country that emit no carbon-dioxide directly. Meanwhile, water usage and the production of communal waste have also been lowered by 50%. The headquarters of K&H are cooled and heated with 170 solar panels and three geothermal wells, and new branches opened from this year (will) use so-called green power generated with heat pumps.
K&H has 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. The accolades are attributable to K&H's decreasing ecological footprint and the launch of digital services that utilise modern technology bringing largely paperless transactions and bank branches.

Stimulating entrepreneurship domain

In Hungary, about 70% of the companies are family-owned small and medium enterprises which produce more than half of the country's GDP and provide jobs to half of the Hungarian employees.

1. K&H Family-Owned Business (FOB) Excellence Award provides substantial media coverage for the winners in order to promote and recognize their family-owned businesses' contribution to the Hungarian economy and employer market as well as commitment to the local society. The five award periods concluded 105 applications.
2. K&H Family-Owned Business events: we organize these to reach family-owned businesses' owners and succeeding family members to help them in the future growth and sustainability of the company.
3. FOB Clubs: events for customers structured to inspire and facilitate peer networking (22 events were organized with 900-1000 participating clients).
4. Next Generation (NextGen) roundtables are organized to inspire and provide insight into business management.

Start it @K&H:

- leading corporate incubator programme currently at 2 locations, in Budapest and in Győr
- since its launch in 2017, start-ups participated in 78 programmes

- 6-18 month long incubation period
- since the launch of the programme, our teams won a total of 15 Hungarian and international awards, and attracted a combined capital investment of more than 5.5 million EUR
- community office in downtown Budapest and Győr
- experienced professional mentoring team, with more than 35 mentors representing different industries

Health domain

Research shows that the Hungarian society deems healthcare as one of the most important areas in the country needing support beyond state financing. Our 16-year-old K&H MediMagic programme has been a committed supporter of child healthcare. We purchase paediatric equipment for hospitals from funding by K&H. Our long-term commitment is demonstrated by the fact that over the past 16 years, on 477 occasions, we have made a total contribution of 686 million HUF to help children recover fast and return to a full life in health.
Thanks to K&H's CSR program, two objectives were achieved as part of its 2020 donation campaign: the support of the healing and research work at key epidemiological hospitals, and the prevention of the spread of the epidemic through digital banking.
During the one-month donation campaign, through K&H foundations' supplementary contributions we supported the National Korányi Pulmonology Institute and the South Pest Central Hospital with a total of HUF 50 million, helping the healing and research work of employees at these healthcare institutions. With this HUF 50 million donation K&H contributed toward the purchase of 10,000 m2 of special antiviral flooring material and to research into immunotherapies supporting the fight against viral infections. We motivated our retail and SME customers by media campaigns and PR activities. We underlined the importance of digital solutions with press releases, social media "Bank digitally and help" posts, and television commercials. After each online credit card payment and/or transfer by our retail and SME customers, we donated HUF 10 to flagship epidemiological hospitals.
In addition to the specific goals and implementation of our donation program, K&H Bank and Insurance adapted and digitalized their services to match the requirements of the pandemic. During the pandemic as well, we helped our customers to manage their finances quickly and securely through mobile banking, we issued bankcard e-PIN codes via video calls, the services provided by 3,000 employees working from their home, digitalized loan disbursements and account discounts. We provided financial security to our customers, by offering package fee discount to half or zero fee for more than 400,000 retail customers between April and June. When applying for a home loan, only a single visit to a bank branch was required. K&H Insurance paid compensation for loss events and damages caused by the pandemic by diverting from the relevant contractual terms and conditions in favour of our customers, and we have also reduced the health-related and financial losses caused by the virus by assuming loan repayments in case of death, hospital stay, inability to work, or unemployment related to the pandemic.

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.

Social responsibility

One of the country's leading consulting companies, surveyed Hungarian job choice preferences for the fourth time in 2020, aiming at mapping the needs of the entire Labour Market in addition to young people starting their careers. K&H Bank received the accolade in the Financial Category of the Most Attractive Workplace Award for its fixed predictable benefits, flexible work schedule and working hours, the possibility of teleworking and job security.

K&H - as a Family Friendly Corporate Mentor Organisation – is setting an example in family friendliness, helping its employees strike a healthy balance between private life and work while giving them an opportunity to build a fulfilling career. K&H also contributes to spreading family-friendly workplace practices. The Bank runs an HR project dedicated to atypical employment in an effort to put even more emphasis on part-time work and flexible hours. Flexible hours allow employees to adjust their working days to their family obligations, providing more room for family life. Currently, some 600 employees work in such arrangements in accordance with their employment contracts.
In 2020, the pandemic had a significant impact on our operations, the way we worked and we served our clients:

- we saw a substantial increase in the number of digitally active clients during the year supported by a continuously growing number of our banking services available via e-bank/mobile-bank applications (see also initiatives listed under „health domain”) and we also put emphasis on encouraging the use of these digital applications via communication campaigns about digitalisation and innovation,
- as our branches remained open even during the period of strict lock-down measures all banking services were continuously available in our branch network enabled by extra health safety and precautionary measures (like regular intense cleansing and disinfecting of branches, strict maintenance of social distancing rules underpinned also by smaller branch refurbishments, etc.),
- we worked extensively on a technological and policy background to allow employees – to the extent the nature of their jobs permitted – to work fully or at least partially from home. We aim to provide our employees with more extensive teleworking opportunities even after lifting the coronavirus pandemic-induced emergency responses. To that end we carried out a major infrastructure development project, as working from home requires secure IT channels, and provided an opportunity for all of our colleagues to replace their desktop PCs with laptops. In addition, we provide all our colleagues with a smartphone.

In 2019, we joined the campaign „Common Interest" launched by the "WeAreOpen" non-profit organisation and Elle, in which female and male leaders stand up together supporting equal employment opportunities for women and men. The related K&H MeNŐK mentoring programme, launched in November 2019, aims to provide women with a key opportunity for development and advancement, as well as to support competent female leaders in preparing for senior management roles. We also support participants with personal mentoring and interactive workshops. In February 2020, we expanded our programme with a career school.

Digitalisation offers many opportunities to provide our colleagues with a workplace where they are given the full potential for continuous professional development and fulfilment. With this in mind, last year we spent over 205 million on training our staff in both traditional and digital formats.

Besides helping out in difficult welfare situations, subsidising loan repayments, topping up salaries lost due to illness and paying for certain expenses, Our Bank Group provides social assistance to our employees and pensioners in need. In 2020, we have spent HUF 45 million on social benefits.

Our "Welcome back" program is helping women to reintegrate into the labour market – from our 4000 employees, we have 2000 female colleagues in the age group where they might be planning for a new family or more children in the near future. We believe it is important to keep them informed about recent events at K&H Group and also wish to help them return to work in increasing numbers after child-care leave. 86% of mothers return to work, 50% of them do so part-time; this is an exceptionally high proportion under Hungarian employment conditions.

Budapest, 28 April 2021

David Moucheron	Attila Gombás
Chief Executive Officer	Chief Financial Officer