BUDAPEST HITEL ÉS FEJLESZTÉSI BANK LTD

UNDER THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTED BY THE EUROPEAN UNION

CONSOLIDATED ANNUAL FINANCIAL STATEMENT

31 DECEMBER 2021

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

data in HUF M

Description	Comments	31.12.2021	31.12.2020
Cash and cash equivalents	4.1	294 821	291 821
Derivative financial assets	4.2	41 247	4 704
Securities	4.3	567 807	623 286
Loans and advances to banks	4.4	387 137	170 081
Loans and advances to customers	4.5 & 3.1	1 210 899	1 048 761
Fair value change of portfolio hedge on interest rate risk		(25 542)	2 489
Property, plant and equipment	4.7	22 696	24 734
Intangible assets	4.7	19 891	19 734
Actual income tax receivables	4.8	194	451
Deferred tax receivables	4.8	414	203
Other assets	4.9	14 232	11 344
TOTAL ASSETS		**2 533 796**	**2 197 608**
Derivative financial liabilities	4.2	18 016	9 036
Deposits from banks	4.10	712 515	609 301
Deposits from customers	4.11	1 601 226	1 389 591
Provisions	4.12 & 3.1	3 333	3 804
Actual income tax liabilities	4.8	463	273
Deferred tax liabilities	4.8	-	75
Other liabilities	4.13	23 864	17 322
Total liabilities		2 359 417	2 029 402
Share capital	4.14	19 396	19 396
Reserves	4.15	154 983	148 810
Total equity		174 379	168 206
TOTAL EQUITY AND LIABILITIES		**2 533 796**	**2 197 608**

Budapest, 23 March 2022

Dr. Koppány Lélfai
Chairman of BoD & Chief Executive Officer

Antal Martzy
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT

data in HUF M

	Comments	2021	2020
Interest income		67 997	50 567
- of which lease interest not accounted for with effective interest rate method		*10 353*	*9 729*
Interest expense		(8 848)	(4 515)
Net interest income	5.1	**59 149**	**46 052**
Dividend income		-	-
Fee and commission income		49 406	47 025
Fee and commission expense		(9 694)	(6 670)
Net fee and commission income	5.2	**39 712**	**40 355**
Net gains/(losses) arising from derecognition of financial assets (valued at not FVTPL)	5.3	1 273	6 392
Net trading income/(losses)	5.4	602	(918)
Net income/(loss) from (non-trading) financial instruments valued at FVTPL	5.5	(2 435)	1 000
Net foreign exchange gain/(loss)		7 028	1 758
Other operating income	5.6	4 923	10 361
Other operating expenses	5.6	(12 035)	(27 057)
Personnel expenses	5.7	(31 207)	(28 215)
Other administrative expenses	5.7	(34 838)	(14 714)
Depreciation and amortisation	5.8	(9 722)	(8 428)
Modification of financial assets gain/(loss)		(624)	(6 065)
Net (impairment loss)/ reversal of impairment loss on financial assets & provision	5.9	(7 994)	(14 631)
Profit before income tax		**13 832**	**5 890**
Income tax expense	5.10	(3 001)	(2 268)
PROFIT FOR THE YEAR		**10 831**	**3 622**

Budapest, 23 March 2022

Dr. Koppány Lélfai
Chairman of BoD & Chief Executive Officer

Antal Martzy
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

data in HUF M

	2021	2020
PROFIT FOR THE YEAR	**10 831**	**3 622**
Other comprehensive income to be reclassified to profit/loss	**(5 119)**	**(283)**
Change in net fair value of securities valued at fair value through other comprehensive income	(4 946)	1 772
Net amount reclassified to profit/loss of securities valued at fair value through other comprehensive income	(173)	(2 055)
Income tax related to items to be reclassified to profit or loss	**461**	**26**
OTHER COMPREHENSIVE INCOME. NET OF TAX	**(4 658)**	**(257)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6 173**	**3 365**
OF WHICH: - Attributable to non-controlling interest		-
- Attributable to the owners of the Bank	6 173	3 365

Budapest, 23 March 2022

Dr. Koppány Lélfai
Chairman of BoD & Chief Executive Officer

Antal Martzy
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

data in HUF M

	SHARE CAPITAL	RESERVES breakdown			RESERVES	TOTAL EQUITY
		Valuation reserve	Retained earnings	Statutory reserves		
Balance as at 1 January 2020	**19 396**	**2 349**	**136 534**	**6 562**	**145 445**	**164 841**
Total comprehensive income						
Profit for the year	-	-	3 622	-	3 622	3 622
Other comprehensive income	-	(257)	-	-	(257)	(257)
Total comprehensive income	**-**	**(257)**	**3 622**	**-**	**3 365**	**3 365**
Transactions with equity holders						
Share issuance	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-
Total transactions with equity holders	**-**	**-**	**-**	**-**	**-**	**-**
Other transactions						
Transfer of retained earnings to statutory reserve	-	-	(434)	434	-	-
Total other transactions	**-**	**-**	**(434)**	**434**	**-**	**-**
Balance as at 31 December 2020	**19 396**	**2 092**	**139 722**	**6 996**	**148 810**	**168 206**
Balance as at 1 January 2021	**19 396**	**2 092**	**139 722**	**6 996**	**148 810**	**168 206**
Total comprehensive income						
Profit for the year	-	-	10 831	-	10 831	10 831
Other comprehensive income	-	(4 658)	-	-	(4 658)	(4 658)
Total comprehensive income	**-**	**(4 658)**	**10 831**	**-**	**6 173**	**6 173**
Transactions with equity holders						
Share issuance	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-
Total transactions with equity holders	**-**	**-**	**-**	**-**	**-**	**-**
Other transactions						
Transfer of retained earnings to statutory reserve	-	-	(964)	(964)	-	-
Total other transactions	**-**	**-**	**(964)**	**(964)**	**-**	**-**
Balance as at 31 December 2021	**19 396**	**(2 566)**	**149 589**	**6 032**	**154 983**	**174 379**

There are no non-controlling interests in the Bank or in its subsidiaries.

Budapest, 23 March 2022

Dr. Koppány Lélfai
Chairman of BoD & Chief Executive Officer

Antal Martzy
Chief Financial Officer

⟹ Consolidated Financial Statements

CONSOLIDATED CASH FLOW STATEMENT

data in HUF M

	2021	2020
Operating cash flow		
Profit before income tax	13 832	5 890
Adjustments		
Depreciation (+). Amortisation (+)	9 722	8 428
Modification of financial assets gain/loss (+/-)	624	6 065
Release of impairments & provision loss (+)	7 994	14 631
Non-realised foreign exchange gains/losses (+/-)	(717)	(1 758)
Deferred tax	174	(88)
Fair value changes of securities (+/-)	247	137
Net interest income (-)	(59 149)	(46 052)
Dividend income (-)	-	-
Change in derivative financial assets (- increase. + decrease)	(36 543)	(1 568)
Change in portfolio of FVTPL securities (- increase. + decrease)	3 912	143
Change in loans and advances to banks (- increase. + decrease)	(214 904)	(158 557)
Change in loans and advances to customers (- increase. + decrease)	(161 846)	(111 514)
Change in other assets (- increase. + decrease)	24 999	10 970
	-	-
Change in deposits from banks. non-refinancing	28 109	210 777
Change in deposits from customers (+ increase. - decrease)	200 289	249 290
Change in derivative financial liabilities (+ increase. - decrease)	8 980	(721)
Change in other liabilities (+ increase. - decrease)	5 879	(5 166)
	-	-
Interest received (+)	61 952	41 273
Interest paid (-)	(7 933)	(4 229)
Dividends received from subsidiaries (+)	-	-
Corporate tax paid	(2 555)	(2 526)
Net cash flows from operating activities	**(116 934)**	**215 425**
Investment cash flow		
Investments in subsidiaries. joint ventures and associates	-	-
Investments in other enterprises	-	1
Acquisitions of property. plant and equipment	(3 044)	(5 065)
Proceeds from sale of property. plant and equipment. other derecognitions	78	225
Acquisitions of intangible assets	(6 294)	(8 152)
Proceeds from sale of intangible assets. other derecognitions	1 419	33
Purchase of non-FVTPL securities	(180 688)	(987 274)
Disposal of non-FVTPL securities	228 570	704 111
Dividends received from investments	-	-
Net cash flows used in investing activities	**40 041**	**(296 121)**
Financing cash flow		
Dividends paid	-	-
Increase of deposits from banks. refinancing	411 766	255 109
Decrease of deposits from banks. refinancing	(358 416)	(80 366)
Recieved subordinated loan capital	20 000	-
Repaid subordinated loan capital	-	-
Payments to shareholders other than dividends	-	-
Net cash flows from financing activities	**73 350**	**174 743**
Net change in cash and equivalents	**(3 543)**	**94 047**
Foreign currency revaluation on cash and equivalents	6 543	5 715
Cash and equivalents at the beginning of year	291 821	192 059
Cash and equivalents at the end of period	**294 821**	**291 821**

Budapest, 23 March 2022

Dr. Koppány Lélfai
Chairman of BoD & Chief Executive Officer

Antal Martzy
Chief Financial Officer

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1 GENERAL INTRODUCTION

1.1 Introduction of Budapest Bank

Budapest Hitel és Fejlesztési Bank Zrt (hereinafter referred to as "Budapest Bank" or "Bank" or “Company” seat address: 1138 Budapest, Váci út 193, http://www.budapestbank.hu/)) was founded on 1 January 1987, at the time of the establishment of the two-tier banking system, as a joint venture of the Hungarian State, state-owned companies, private individuals and cooperatives. The Bank was privatised in December 1995 with the involvement of General Electric Capital, EBRD and ÁPV Rt. With step by step acquisitions, General Electric Capital became the Bank’s majority owner, in 2012 it squeezed out the remaining minority stake. As a result, it became the Bank’s 100% owner.

On 13 February 2015 GE Capital signed an agreement with the Hungarian State on the sale of the Bank. The purchase price was financially settled on 29 June 2015. Corvinus Nemzetközi Befektetési Zrt (seat address: 1027 Budapest, Kapás utca 6-12 2nd floor; www.corvinus.hu) proceeding on behalf of the State became the 100% owner, whose owner’s rights were exercised by the Minister without Portfolio for the Management of National Assets in 2019. Budapest Bank Group (hereinafter referred to as the “Bank” or “Bank Group” or “Company”) is fully consolidated into the consolidated report of Corvinus Nemzetközi Befektetési Zrt. On 15th December 2020 the operation of Magyar Bankholding Zrt. (Hungarian Bank Holding) (1122 Budapest, Pethényi köz 10; www.magyarbankholding.hu) started after the approval of the Hungarian National Bank the majority shareholders of Budapest Bank Zrt, MKB Bank Zrt. and MTB Zrt. have contributed their shares to the holding company. The second largest bank of Hungary was created, where the ownership of the Hungarian state through Corvinus Nemzetközi Befektetési Zrt is 30,35 %, the previous owners of MKB have 31,96 %, the owners of MTB 37,69%.
The financial holding company has strategic decision rights, prudential control, and management right after the contribution, also responsible to plan and manage the fusion project aiming to optimise the operation. The detailed fusion plan, the strategy and the synergies from the common operation will be developed in 2021.

On 15 December 2021, the main bodies of Magyar Takarék Bankholding Zrt, which owns MKB Bank, Budapest Bank and Takarék Group, approved the first steps in the merger schedule of Budapest Bank, MKB Bank and Takarék Group. Accordingly, the two member banks of the banking group, Budapest Bank and MKB Bank, are planned to merge on March 31, 2022, while the Takarék Group will join the merged bank by the end of the second quarter of 2023. In January 2022, the National Bank of Hungary (NBH) approved the merger of Budapest Bank Zrt and Magyar Takarék Bankholding Zrt, which owns the Takarék Group, into MKB Bank Plc. The merged bank will temporalily operate under the name MKB Bank Plc. The merger does not mean a change in the ownership structure of the banking group, Magyar Bankholding Zrt will continue to be dominant owner of the banks participating in the merger process. The extent of the expected divided payment to the owner is currently unknown.

In 2012, the General Meeting changed the Bank’s legal form into a private company limited by shares, at present, the Bank issues no securities. On 31 December 2021, the Company’s share capital amounted to HUF 19,396 million. The Bank Group’s branch network is currently comprised of 93 bank branches and the Operations Centre located in Békéscsaba, in addition to the Budapest head office.
Bank Group’s average statistical staff: 2,939 in 2020, 2,908 in 2021.

The Bank is licensed to engage in comprehensive credit institution activities both in HUF and in foreign currencies. The part of the Annual Financial Statement “Consolidated Business and Non-Financial Report” contains a detailed introduction of Budapest Bank’s business strategy.

Based on Section 155 of the Accounting Act, statutory audits are mandatory for the Company. Company's auditor: KPMG Hungária Kft., (address of KPMG: 1134 Budapest, Váci út 31), István Henye (card number: 005674). The Company accounted for an audit fee of HUF 105.998.080 + VAT (HUF 94.002.000 + VAT in 2020) and other fees of HUF 5.998.050 + VAT (HUF 11.906.600 + VAT in 2020) for the audit of the 2020 financial statement.

The Bank Group's 2021 financial statement is signed by Chairman of BoD & Chief Executive Officer dr. Koppány Lélfai (1082 Budapest, Baross utca 21. 4. em. 1) and Chief Financial Officer Antal Martzy (2016 Leányfalu, Sólyom utca 5.).

The person responsible for supervision of the accounting and financial reporting services: Zoltán Szűcs (name at birth: Zoltán Szűcs, mother's name at birth: Terézia Deli, registration number: MK178499, official card number: 6937, areas of specialisation for registration: IFRS and finance in the register of the chartered accountants kept by the Ministry of Finance).

The Company will also publish this financial statement and the attached business report on its Internet website at www.budapestbank.hu/info/irattar/.

1.2 Introduction of subsidiaries of Budapest Bank Group

Budapest Bank provides some of its services through specialised, legally separate subsidiaries forming part of the Bank Group in which it directly holds 100% stakes.

Budapest Alapkezelő Zrt

The Bank established Budapest Alapkezelő Zrt in 1992; this subsidiary is responsible for managing the assets of investment funds and pension funds. Investment units are traded primarily in Hungary, via the branch network of Budapest Bank; however, the foreign trading of investment units – in the Czech Republic – also accounts for a material proportion of the Company's total annual sales volume. The total assets of pension funds reached HUF 130 billion, while the assets of investment funds amounted to HUF 359 billion on 31 December 2021. Within the framework of asset management, the provision of services for investment funds and pension funds is also a primary focus of the Company.

The Company is permitted to invest in the newly launched funds to facilitate the initial phases of their operation; however, it disposes any such funds within a short time of their initial operation. Accordingly, the assets managed by the Company are not consolidated into the books of Budapest Alapkezelő Zrt. The Company generates most of its revenues based on pre-fixed price levels set in fund regulations or in management contracts.

Risk management policy and activities of Budapest Alapkezelő are established together with the Bank, based on group principles. The Company constitutes a single corporate income tax group together with other members of the Bank Group.

In accordance with the Bank's liquidity and capital strategy, the Company usually distributes its annual profits to the owner in the form of dividends. Average statistical staff of Alapkezelő in 2021: 17 persons.

Alapkezelő Zrt's 2021 year-end total assets amounted to HUF 3.277 million; its share capital to HUF 500 million; its equity to HUF 3.029 million.

Seat address of Alapkezelő: 1138 Budapest, Váci út 193

Budapest Lízing Zrt.

The most important activities of Budapest Lízing Zrt, established by the Bank in 1992, are the purchase and lease of long-term tangible production assets. It is primarily engaged in providing finance leases for heavy utility vehicles, production and agricultural machinery, equipment, buses and other assets, and eventually automobiles and small utility vehicles.

According to the legislation currently in force, in addition to finance lease – both HUF and currency based; closed-end and open-end –, the Company is allowed to provide loans and advances solely for corporate customers only.

Risk policy and financing activities of Budapest Lízing Zrt are established together with the Bank, based on group principles. The Company constitutes a single VAT and corporate income tax group together with other members of the Bank Group.

The Company's lending activities are essentially financed by Budapest Bank, and few special projects refinanced by other banks are also managed.

Company's average statistical staff in 2021: 21 persons. The company's 2021 year-end total assets amounted to HUF 126.421 million; its share capital to HUF 62 million; its equity to HUF 7.405 million.

Seat address of Lízing: 1138 Budapest, Váci út 193

Budapest Eszközfinanszírozó Zrt

Budapest Eszközfinanszírozó Kft was established by the Bank in 1991. Budapest Eszközfinanszírozó Zrt was created in 2013 by renaming of SBB Zrt, where Budapest Flotta Zrt and Budapest Eszközfinanszírozó Kft were merged.

Budapest Eszközfinanszírozó Zrt as a member of Budapest Bank Group is engaged in the financing of automobiles, small utility vehicles, heavy utility vehicles, production machinery, equipment and other instruments in operating lease arrangements. The company is under joint operation with Budapest Lízing Zrt.

The Company's activities can be divided into two different divisions: the production asset financing division is now engaged in the activities formerly pursued by Budapest Eszközfinanszírozó Kft, while the fleet management division – whose business portfolio terminated in 2015 – is now only responsible for the management of Budapest Bank Group's automobile fleet taken over from the legal predecessor Budapest Flotta Zrt.
The National Bank of Hungary approved on 23rd June 2020, that the company can perfom payment services defined in 3 § (1) d) as payment services , in 6 § (1) 87 g) as payment initiation services and in 6 § (1) 87 h) as information service sas per the Act 237 of 2013 on Credit Institutions and Financial Enterprises.

Risk management policy and financing activities of Budapest Eszközfinanszírozó Zrt are established together with the Bank, based on group principles. The Company constitutes a single VAT and corporate income tax group together with other members of the Bank Group.

The Company's lending activities are financed almost solely by Budapest Bank.

Company's average statistical staff in 2021: 14 persons. The company's 2021 year-end total assets amounted to HUF 2.665 million; its share capital to HUF 15 million; its equity to HUF 1.244 million.

Seat address of Eszközfinanszírozó: 1138 Budapest, Váci út 193

2 ACCOUNTING POLICY

The general accounting principles applied by the Bank are laid down in detail in an internal policy prescribed for financial institutions on a mandatory basis, in the Accounting Policy, which was approved by the Bank's management and reviewed by the Bank's auditor. The Bank's Accounting Policy was prepared in accordance with the IFRS standards; consequently, the fundamental principles, laid down in the IFRS Framework principles, the IAS 1 "Presentation of Financial Statements" and the IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", constitute its basis.

The policy entitled "A Budapest Bank Zrt. és Leányvállalatainak IFRS számviteli politikája és értékelési szabályzata" *[IFRS Accounting Policy and Valuation Rules of Budapest Bank and its Subsidiaries]* is summarised in the following breakdown:

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- A. Applied accounting standards
- B. Consolidation
- C. Foreign currency valuation

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2.3.1.1 General accounting principles

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⟹ **Consolidated Notes to the Financial Statements – Accounting Policy**

2.1 General Accounting Principles

A. Basis of preparation

The Bank Group prepared its consolidated financial statements in accordance with the standards (IFRS) of the International Accounting Standards Board ("IASB") adopted by the EU.

In relation to areas not regulated by the IFRS, the Bank Group applies the following important legislative acts; fundamentally not with respect to valuations, but in respect of disclosure and administration:

- Act 100 of 2000 on Accounting (hereinafter referred to as the "Accounting Act" or "AA")
- Act 237 of 2013 on Credit Institutions and Financial Enterprises
- Government Decree No. 250/2000. (XII.24.) on the specificities of the annual reporting and bookkeeping obligations of credit institutions and financial enterprises ("Government Decree")
- Decree No. 39/2016. (X.11.) of the National Bank of Hungary on the prudential requirements relating to non-performing exposures and restructured receivables
- Decree No. 40/2016. (X.11.) of the National Bank of Hungary on the prudential requirements relating customer and partner rating and collateral valuation.

The Bank Group publishes its full annual financial statement approved by the Board of Directors, which also contains an auditor's report, in accordance with the provisions of Chapter IX of AA, and thereby meets its statutory obligation of publication.

The Bank Group compiled these consolidated financial statements based on going concern principles.

In the consolidated financial statements (balance sheet), assets and liabilities are valued at cost value, except financial assets and liabilities valued at fair value through profit or loss and financial instruments valued at fair value through other comprehensive income.

The Bank Group's business year coincides with the calendar year (1 January – 31 December), while the last day of the reporting period (effective date) is 31 December. The Bank Group prepares the financial statements once annually, for the statement of financial position effective date, in which the comparative information is the preceding year of the current reporting period.

As part of the financial statements, the Bank and its Subsidiaries prepare the following statements:

- Statement of Financial Position (Balance Sheet)
- Net income statement (Statement of profit and loss and other comprehensive income)
- Statement of changes in equity
- Cash flow statement
- Footnotes

The Business Report and Non-Financial Reports under AA are also prepared, which form part of this consolidated annual financial statement.

International Accounting Standards Board (IASB) issues new standards continuously which, depending on their status, may have a significant impact on the Bank Group's consolidated financial statements. According to the status of their entry into force, new standards can be:

- issued by the IASB and adopted by the EU effective as of 1 January 2021
- issued by the IASB and adopted by the EU, but not yet in effect
- issued by the IASB, but not yet adopted by the EU

Standards and interpretations issued by the IASB and adopted by the EU that are effective for annual periods beginning on and after 1 January 2021.
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform, ,,Phase 2"- changes
Amendments to IFRS 16 ,,Leases" Covid 19- Related Rent Concessions beyond 30 June 2021.
These amendments, new standards and interpretations are not expected to have a material impact on the financial statements.
Standards and Interpretations issued by the IASB and adopted by the EU that have not yet entered into force:
IFRS 17 "Insurance Contracts" standard including amendments to IFRS 17 adopted by the EU from 3 November 2021 (entry into force on 1 January 2023 and the subsequent reporting periods).
IFRS 3 „Business Combinations"; IAS 16 ,,Property, Plant and Equipment"; IAS 37 ,,Provisions, Contingent Liabilities and Contingent Assets" amendments to standards – Annual enhancements – adopted by the EU from 2 July 2021 (are effective for annual periods beginning on and after 1 January 2022)
These amendments, new standards and interpretations are not expected to have a material impact on the financial statements.

Standards and interpretations that have been issued by the IASB and endorsed by the EU, and have not been come into force:

Additions to IAS1 ,,Presentation of Financial Statement" classification of short-term and long-term liabilities (come into force on 1 January 2023, and in the following reporting periods).
Additions to IAS 8 ,,Accounting policies, Changes in Accounting Estimates and Errors" amendments to standards – Definition of Accounting Estimates - (come into force on 1 January 2023, and in the following reporting periods),
IAS 12 "Income taxes" standard amendments – deferred tax on assets and liabilities arising from a single transaction (effective for annual periods beginning on and after 1 January 2023).

IFRS 9 "Financial instruments"; IFRS 17 " Insurance contracts" amendments to standards – The first-time adoption of the standards is effective for annual periods beginning on and after 1 January 2023).

Amendments to IFRS 10 ,,Consolidated Financial Statements" and IAS 28 28 ,,Investments in Associates and Joint Ventures" amendments to standards – Sale and transfer of assets between the investor and its associate or jointly controlled business (effective date has been postponed indefinitely until the research project concludes on the equity method).

These amendents, new standards and interpretations are not expected to have a material impact on the financial statements.

B. Consolidation

Based on the provisions of IFRS 10, the Bank prepares consolidated financial statements because as a parent company it controls multiple business units. The Bank itself established all its current subsidiaries in full, and therefore states no goodwill in its books. At present, the Bank states no non-controlling interests in the consolidated equity because it owns 100% of the business units involved in consolidation. Only the Bank's subsidiaries are consolidated currently; the Bank has no jointly managed companies or associated businesses.

C. Foreign currency valuation

The functional currency of the financial statements is the Hungarian forint. Data in the financial statements are rounded up or down to million forints (HUF M or HUF million). The Bank Group pursues business activities almost exclusively in Hungary, and the majority of its transactions originally come into being in forints. Therefore, the functional currency used in the Bank Group's accounting systems is the Hungarian forint (HUF). The Bank Group values any non-HUF foreign currency items at the foreign exchange rate quoted by the National Bank of Hungary. The Bank Group accounts for currency revaluation difference only in case of monetary asset and liability items denominated in foreign currency. Monetary items are all cash and equivalents as well as those assets and liabilities which can only be settled with cash. Any non-monetary asset items originally denominated in foreign currencies are not revalued. These include intangible assets, real estate, machinery, equipment and inventories which are stated in the statement of financial position at cost value. Any impairments and provisions arisen in foreign currencies are revalued if the underlying transaction itself is also denominated in a foreign currency.

The Bank Group records any foreign cash, as well as bank accounts, receivables, financial instruments, securities and liabilities denominated in foreign currencies in the original currencies, which are revalued daily at the official foreign exchange rate quoted by the National Bank of Hungary. Any revaluation difference is recorded in the "Net foreign exchange gains or losses" line of the income statement.

Any foreign currency items purchased for forints are recorded in the forint equivalent amounts, and the exchange rate is determined on the basis of the amount of forints actually paid. Any cross-currency conversion items are entered in the books based on the actual cross-currency rates and are then revalued at the official exchange rate quoted by the National Bank of Hungary.

2.2 Accounting principles for the income statement items

D. Interest income and expense

Financial assets and financial liabilities

The Bank recognises interest income and expense for financial instruments by using the effective interest rate method, excluding any interest accounted for trading financial instruments and instrument valued at FVTPL. The effective interest rate is the rate which discounts the cash payments or cash receipts through the expected life of a financial instrument exactly to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. The Bank estimates any future cash flows by taking into consideration all revenues and expenditures of the individual transactions as specified in the relevant contracts. The following items have an impact on the calculation of the effective interest rate (EIR):

- Revenues from contract conclusion and amendment fees
- Revenues from loan disbursement fees + loan commitment fees + loan assessment fees
- Revenues from prepayment option and life term amendment fees
- Appraiser and notarial fees expenditures
- Agent’s commissions expenditures
- Agent’s commissions revenues
- Built-in insurance premiums

The Bank recognises the above so-called “amortisable items” as interest and amortises them i) either in line with the calculated effective interest ii) or linearly during the term of the financial instrument.

The Bank Group carries out the EIR method during the term in case of the following financial instruments:

- Closed-end loans to customers or banks (including LOC-type credit card receivables)
- Loans from banks (refinancing)
- Financial lease
- Securities

The effective interest rate is determined upon the initial recognition of financial assets and liabilities, and is not altered thereafter unless:

- a new type of amortisable item arises (procedure is the same as applied at the beginning of the term, the item is amortised during the remaining term)
- re-pricing occurs in case of variable interest instruments (loans, securities).

For the financial instrument categorised into Stage 1 and Stage 2 for expected credit loss (see definitions in Comment 2.4.1), the Bank Group calculates the interest income by applying the EIR to the gross book value. In case of Stage 3 financial instruments (see definition in Comment 2.4.1), for the calculation of interest incomes the Bank Group applies the EIR to the gross book value minus impairment.

The Bank Group accounts for interest expenses in relation to financial liabilities by applying the EIR to the amortised cost of financial liabilities.

Finance lease transactions

In case of finance lease transactions the Bank Group accounts for interest revenues by applying the implicit interest rate of the lease to the net investment in the lease.

The implicit interest rate of the lease is the discount rate at the beginning of the lease which represents the present value of the minimum lease payments and the non-guaranteed residual value equalling the total of the fair value of the leased asset and the initial direct costs incurred by the Bank Group.

The Bank Group recognises finance lease interest revenues separately in the interest income line of net income statement.

E. Commissions

All revenues and expenditures arising from financial services provided by the Bank, which are not interest and are not considered in the determination of the cost value of assets and liabilities, are classified as fee and commission. These mainly include paid or received fees and commissions related to services in respect of money transfers, securities, fund management, lending, insurance and currency transactions (including currency conversion fees).

Fee and commission revenues are accounted for in two ways:

- the fees of services provided over a given period are accrued during the term of the service period. These fees include, inter alia, guarantee fees,
- “point in time” revenues charged for the provision of services (e.g. transaction charges).

Fee revenues arising from asset management
In its fund/asset management contracts, the Bank Group assumes a contractual obligation to manage the assets of a given fund. Fund/asset management contracts do not include any other services (other contractual obligations on the Group’s part). In the contracts:

- fixed commissions laid down in the Fund Management Rules are billed,
- term regarding payment is typically prompt payment, there is no financing component,
- purchase agreements do not include reimbursement obligations,
- the Bank cannot alter the amounts or timing of the revenues specified in the customer contracts.

The Bank Group’s fund management contracts only stipulate fixed fees proportionate to the net asset value.

The asset management fee income from funds and pension funds managed by the Bank Group are recorded on this line. In case of each investment and pension funds managed by the Bank Group, a fixed commission level is calculated according to the individual Fund Management Rules. Calculation of the commission is based on the daily net asset values of the funds, multiplied by the fee percentage laid down in the Fund Management Rules. Fees are billed to funds once monthly.

The Bank Group identifies the individual funds as the customers of its asset management contracts. The Bank Group accounts for all its asset management fee revenues during the given period.

É. Net gains/(losses) arising from derecognition of financial assets (valued at not FVTPL)

The Bank Group recognises here to any net profit or loss realised on financial instruments not valued at fair value through profit or loss (profit or loss on sale of loans; profit or loss on derecognition of loans in consequence of material contract amendments provided for customers, i.e. the difference of the book value of the derecognised loan and the fair value of the new loan). The Bank Group recognises the net realised gain or loss on the sale of securities not valued at fair value through profit or loss as referred to in paragraphs 2.3.1.2 and 2.3.1.4.

F. Net income /(loss) from financial instruments valued at FVTPL

The line "Net income /(loss) from financial instruments valued at FVTPL" includes all net realised profits or losses arising from the purchase or sale of financial assets valued at fair value through profit or loss and any non-realised fair value changes. It does not include the gains or losses of financial instruments valued at fair value through other comprehensive income.

The Bank Group classifies instruments into this category if it eliminates or significantly reduces any valuation or presentation inconsistency (referred to as accounting mismatch) which would have arisen if assets or liabilities are valued and the related gain or loss recognised on a different basis.
These financial instruments can be designated as trading or non-trading, but to be valued at fair value through profit or loss on a mandatory basis or determined such as at the Bank's discretion. An instrument is trading if it is purchased for the purpose of resale within a short time. Chapter 2.3.1 discloses the detailed criteria of classification, while Chapter 2.4.2 describes the fair valuation methods.

After purchase, these instruments are to be valued at fair value; in case of interest-bearing instruments, the change in the difference of the fair value and the amortised cost value is accounted for in the net income statement in the Net income /(loss) from financial instruments valued at FVTPL line. Interest revenues are accounted for in the same profit/loss line together with the fair value valuation. The Bank Group carries out fair value valuations monthly for all its instruments valued at fair value.

G. Other operating income and expenses

All costs which are not closely related to the costs of banking operations are presented in the income statement as "Other operating expenses", while all revenues which cannot be regarded as revenues derived from banking operations are presented as "Other operating income" on a gross basis.

The following material items are included here:

- Since 2010 financial enterprises in Hungary have been obliged to pay a so-called bank tax. As the bank tax is not based on the current-year net revenue values, it cannot be regarded as an income tax under IFRS, and therefore the Bank Group recognises it as other operating expenses.

  In case of the Group's parent company, the base of the bank tax is the total assets stated in the financial statement of the second year preceding the current year, adjusted by the balances arising from certain interbank transactions. The rate of the bank tax is 0.15% up to HUF 50 billion, and 0.2% for the part above that limit.

  Consequently, the bank tax amounts stated in these consolidated financial statements were calculated in relation to tax bases in accordance with the Hungarian accounting standards.

- The purpose of the Investor and Deposit Protection Funds is to provide partial compensation for any financial losses sustained by investors and deposit holders due to the possible insolvency of investment service providers and banks. Members pay the funds annual fees, which the Bank accounts for in the year of the financial statement.

- A The Insolvency Fund set up in 2014 is financed by credit institutions and investment enterprises to ensure that the costs of any insolvency problems emerging in the financial sector are covered by the sector itself. The fund is covered from the annual fees paid by members. The Bank accounts for the fee payable to the fund in the reporting year. The Bank additionally pays mandatory statutory membership fees to several agencies proceeding as authorities, primarily to the National Bank of Hungary.

- For VAT purposes, incoming invoices can be arranged into three groups: i) the VAT on purchases solely for services subject to VAT can be deducted in full, ii) the VAT on purchases solely for services exempt from VAT cannot be deducted at all, iii) in case of purchases which cannot be clearly assigned to activities that are all subject to VAT or are all exempt from VAT, the VAT can be deducted pro rata. In this ratio the numerator is the value subject to VAT of the revenues of the VAT group created by the Bank, while the denominator is the total of revenues subject to VAT and exempt from VAT. All VAT that cannot be deducted or can only be deducted pro rata is accounted for as other operating expense.

- The Bank Group presents the derecognition gain/loss of inventories given on a lease, the net profit/loss of the disposal of real properties, machinery, equipment and intangible assets and any related impairment release in this profit/loss category.

- Initial fair value on refinancing liabilities and financial assets (see section 5.6).

- The Bank only presents state grants if there is sufficient evidence that it meets the attached conditions and will be awarded such grants.

H. Income tax

The Bank Group treats corporate income tax and local taxes as income taxes.

Local taxes form part of the profits tax in the consolidated income statement since they are not value added-based. Local taxes include the local business tax and the innovation tax.

The Bank presents in the statement of financial position deferred tax receivables and liabilities on all deductible and taxable temporary differences in accordance with the IAS 12 standard. Any changes therein are presented in the profit/loss as tax expenditures if they are related to transactions to be accounted for in the profit/loss, or as other comprehensive income if they are related to transactions to be accounted for in other comprehensive income. Deferred tax receivables are accounted for on any deductible temporary differences, but only if sufficient taxable profits are likely to be generated against which they can be offset. The Bank Group fundamentally relies on its business plans for supporting future taxable profits. See deferred tax in detail in Chapter CC.

In Hungary the tax authority can inspect accounting records and adjust the tax levied at any time within six years of the end of any given fiscal year. Accordingly, in the event of an inspection by the tax authority, tax adjustments may occur at the Bank Group level as well. The tax authority inspected and closed the Bank's tax returns up to 2015. There was no comprehensive inspection at subsidiaries regarding the years not yet affected by the period of the statute of limitations. The Bank Group is not aware of any material tax liability in arrears which could emerge in connection with the years not yet audited by the tax authority.

The representative of the group corporate taxpayer (17100119-6-44) represented by Budapest Bank is the members of Budapest Bank Zrt, Budapest Alpakezelő Zrt, Budapest Lízing Zrt, Budapest Eszközfinanszírozó Zrt and Magyar Takarék Bankholding Zrt joined the group as a member when it was founded.
The representative of the group VAT group (17780584-5-44) represented by Budapest Bank, the representative is Budapest Bank and the members are: Budapest Lízing Zrt and Budapest Eszközfinanszírozó Zrt.
In the case of all groups - according to legislation – the group representative fulfills the payment obligations and reclaims and reimbursement obligation to NAV as a representative in all tax matters concerning the group.

2.3 Accounting principles for the statement of financial position items

2.3.1 Financial instruments

2.3.1.1 General accounting principles

a.) Initial recognition and valuation

Upon initial recognition, the Bank Group values financial assets and financial liabilities at fair value, plus or minus – if the financial assets or financial liabilities are not valued at fair value through profit or loss – the transaction charges which can be attributed directly to the issuance or acquisition of the financial assets or financial liabilities.

The Bank Group recognises in its books all financial instruments purchased or sold on the value date of the transaction as balance sheet items. Derivative financial instruments are recognised on the transaction day.

i.) Upon initial recognition, the transaction price is the best proof of fair value, meaning the fair value of the consideration given or received.

ii) If the Bank Group decides that the fair value at the time of initial recognition is different from the transaction value and the fair value cannot be proved with a price quoted on an active market for the same asset or liability, and neither is it based on a valuation technique which only uses data derived from observable markets, then the financial instrument must be valued at fair value at the time of its initial recognition, adjusting it in such a way that the difference of the fair value at the time of initial recognition and the transaction value is deferred. After initial recognition, the difference is accounted for in the profit or loss on a proportional basis during the lifespan of the instrument, but no later than when the valuation becomes fully supported with observable market data or when the transaction is closed.

iii.) If the fair value can be supported with a price quoted on an active market for the same asset or liability, or it is based on a valuation technique which only uses data derived from observable markets, the Bank Group accounts for the difference of the transaction price and the fair value in the profit or loss at the time of the initial recognition of the instrument.

b.) Classification

Upon initial recognition, the Bank Group classifies financial assets as valued at amortised cost value, at fair value through other comprehensive income or at fair value through profit or loss.

c.) Follow-up valuation

The Bank Group values its financial instruments at amortised cost value if i) the sole purpose of the business model related to the portfolio of the instrument is the collection of contractual cash flows, and ii) the contractual cash flows solely extend to principal and the interest due on the outstanding principal where principal means the fair value of the disbursed amount, while interest reflects the credit risk, funding cost, profit margin and the time value of money.

The amortised cost value according to the provisions of IFRS 9 is the initial value of the instrument, minus principal repayments, adjusted by the interest based on the effective interest rate method, and minus any impairment. The Bank Group accounts for and enters in its books interest revenues and interest expenses on the basis of the effective interest rate method defined in the chapter "Interest income and expense" in relation to the profit/loss, and determines the amortised cost value or book value of the instrument. In case of non-defaulting financial assets (stages 1 and 2), the interest revenue accounted for with the effective interest rate method and is calculated on the basis of the gross book value, while in case of impaired (defaulting – stage 3) transactions, it is calculated on the basis of the gross amortised cost value minus impairment. The impairment is updated monthly.

d-i.) Derecognition – financial assets

The Bank Group derecognises a financial asset if
- claims relating to the cash flows arising from the financial asset expire, or
- it transfers the contractual rights relating to the receipt of the cash flows arising from the financial asset in a transaction in which effectively all risks and rewards related to ownership of the financial asset are transferred.

Upon the derecognition of a financial asset, the difference between the book value of the asset (or the book value assigned to the derecognised part of the asset) and the consideration received is recognised in the profit/loss.

If the contractual terms of financial assets are modified, the Bank Group assesses whether the cash flows (eg. at least 10% change in value, special transactions as a loan repayment moratorium) arising from the modified financial assets are materially different. If the cash flows are materially different, the contractual rights relating to the cash flows arising from the original financial assets ceased to exist. Any such modifications must be accounted for as derecognition of the original financial asset and the recognition of a new financial asset. In every instance the Bank Group regards a contract amendment as extinguishment if the currency of the financial asset is modified.
Contract modifications or other expected cash flow changes (eg early prepayment), which are higher than 10% upvaluation or devaluation required, in other words the present value of the new fututre cash flows discounted at the original effective interest rate is higher or lower than the current gross book value and the difference exceeds 10% and based on the individual judment the bank's right to the cash flows of the original contract has expired therefore derecognition is required – recognition.

If the cash flows arising from a modified financial asset valued at amortised cost value are not materially different from the pre-modification contractual cash flows, the modification will not result in the derecognition of the original financial asset. In this case, the Bank Group re-calculates the gross book value of the financial asset (as the present value of the post-modification cash flows calculated at the original effective interest rate) and recognises the difference between the new and the pre-modification gross book values in the income statement as a gain or loss due to modification.

d-ii.) Derecognition – financial liabilities

The Bank Group derecognises in the books a financial liability when it has been extinguished – when the obligations defined in the contract have been redeemed –, has been cancelled or has expired.

The Bank Group also regards an instance as extinguishment if the contractual terms of a financial liability have been modified and the cash flows arising from the modified financial liability are materially (by minimum 10%) different from the pre-modification cash flows. If this condition is not met, the Bank Group still regards the contract amendment as extinguishment if the currency of the liability is modified.

In this case, the Bank Group recognises the new financial liability corresponding to the modified terms at fair value. The Bank Group recognises the difference between the book value of the extinguished financial liability and the book value of the new, modified financial liability in the profit/loss.

If the cash flows arising from the financial liability are not materially different from the pre-modification contractual cash flows, the modification will not result in the derecognition of the original financial liability. In this case, the Bank Group re-calculates the amortised cost value of the financial liability (as the present value of the post-modification cash flows calculated at the original effective interest rate) and recognises the difference between the new and the pre-modification gross book values in the income statement as gain or loss due to modification. Any fees or charges of the modification modify the effective interest rate and the amortised cost value of the financial liabilities and are amortised in the profit/loss during the remaining term.

e-i.) Impairment

At each effective reporting date, the Bank Group assesses whether its financial assets valued at amortised cost value are impaired. A financial asset qualifies as impaired if one or multiple events have occurred which have a negative impact on the estimated future cash flows of the financial asset. See detailed description of methodology of impairment in paragraph 2.4.1.

The Bank Group recognises a loss accounted for in relation to the expected credit losses of the following financial assets not valued at fair value through profit or loss:

- receivables from finance leases,
- loans and advances to customers,
- issued financial guarantee contracts, and
- issued loan commitments.

The Bank Group accounts for a 12-month expected credit loss as of the date of initial recognition in relation to financial assets in case of transactions where credit risks have not significantly increased since initial recognition (Stage 1 or Phase 1 – performing transactions). If credit risks have significantly increased since initial recognition (Stage 2 or Phase 2 – underperforming loans) or the transaction becomes impaired (Stage 3 or Phase 3 – impaired, non-performing transactions), a lifetime expected credit loss is accounted for.

Lifetime expected credit loss: The expected credit loss arising from possible non-performance events during the expected life of the financial instrument.

12-month expected credit loss: part of the lifetime expected credit loss; the expected credit loss which may arise from possible non-performance events related to the financial instrument within 12 months of the effective date of the financial statement.

The Bank Group applies this valuation principle to receivables from finance leases and loans and advances to customers.

In case of loans and advances to customers and finance leases, the Bank Group does not avail itself of the option, under IFRS9 5.5.10, of regarding certain financial instruments as low-credit-risk financial instruments.

e-ii.) Valuation of expected credit loss

Expected credit losses are determined as follows:

- *Financial assets which are not impaired at the effective date of the financial statement*: the Bank values the expected credit losses on a combined basis with the aid of different models
- *Financial assets impaired at the effective date of the financial statement*: difference of the gross book value and the present value of the estimated future cash flows
- *Undrawn loan commitments*: present value of the difference between the contractual cash flows due to the Bank Group if the loan commitment holder draws on the loan and the cash flows expected by the Bank Group in the event of the drawing of the loan
- *Financial guarantee contracts*: the amount expected to be paid to the holder for reimbursing its credit loss, minus the amounts which the Bank Group expects to receive from the holder, the debtor or any other third party.

e-iii.) Recognition of expected credit losses in the statement of financial position

The Bank recognises expected credit losses as:

- impairment decreasing the gross book value in case of financial assets valued at amortised cost value
- provisions in case of financial guarantee contracts and loan commitments

e-iv.) Write-off

Loans and debt instruments are written off (partly or fully) if the Bank Group does not reasonably expect the recovery of the entirety or a part of the financial asset. This is generally the situation if the Bank concludes that the debtor does not have sufficient revenues to generate a cash flow to repay the amount to be written off. At the same time, the financial assets to be written off may also constitute the subject-matter of liquidation processes.

Financial instruments are presented in the financial statements in the following categories and according to the following valuation principles:

2.3.1.2 Amortised cost (AC)

The Bank values instruments falling into the following categories at amortised cost value:

I. Debt investment securities

Based on a business model, the Bank classifies securities into this category if the goal is to collect contractual cash flows. The Bank typically holds these securities until maturity in every instance. Contractual cash flows only extend to principal and interest. These securities can be both fixed and both variable interest. Prepayment and the alteration of the term are not typical occurrences, and in the event of payment deferral there is no interest-free period. The discount or premium are treated as not part of the accumulated interest when securities are purchased below or above face value.

J. Loans and advances to customers

Based on the Bank Group's principal activity, loans provided for retail, corporate and credit institution customers are classified into this category. The purpose of the business model of instruments classified into this category is to collect contractual interest and the disbursed principal. The Bank Group classifies a credit product into the amortised cost valuation category if the interest on the loan only covers the time value of money, the associated credit risk and a profit margin. See also Section "S" for the FVTPL classification of loans.

K. Loans and advances to banks

Loans and advances represent items related to activities with other credit institutions such as time deposits placed with other banks.

L. Financial liabilities classified into amortised cost valuation category

This category includes deposits from customers, deposits from banks and from the central bank (loro accounts, loans received, refinancing funding), and supplier payables.

M. Cash and cash equivalents

In this category the Bank recognises highly-liquid securities with a maturity of less than three months (or with a remaining term of less than three months at the time of purchase) which can therefore be converted into cash within a short time. This category also includes cash in hand, bank accounts held at other banks (nostro accounts) and overnight deposits.

N. Equity

The Bank recognises as equity the principal placed by the owners at the Bank's disposal and the after-tax profits left with the Bank. The equity consists of the share capital, capital reserve, retained earnings, accumulated other comprehensive income, and statutory reserves.
The Bank recognises the components of the equity in the statement of financial position at book value. The Bank has no repurchased own shares and has not adjusted its share capital or issued shares

recently. Any transaction charges, net of tax effects, attributable to equity transactions (e.g. issuance of own shares) would directly decrease the equity.

Dividend cannot be paid from the *capital reserve*. The current-year after-tax profit is included in the *retained earnings*. The Bank accounts for any dividends payable to the owners as a reduction in the retained earnings. It is accounted for in the period when the dividend is approved, i.e. the owner earns the right to dividends. In the *accumulated other comprehensive income,* the Bank recognises those net income items which have not yet been realised and therefore cannot be recognised as part of the annual profit. At present, it only includes the cumulative balance of the fair valuation differences of liquidity purpose securities valued at fair value through comprehensive profit or loss. In the *statutory reserves*, the Bank states the general reserves transferred from the retained earnings as regulated by the relevant statutory legislation. The Bank creates no further reserves beyond the mandatory, statutory reserves amounting to 10% of the after-tax profit.

2.3.1.3 Fair Value through Profit or Loss (FVTPL)

If according to the business model the goal is not to collect contractual cash flows, but to earn a profit or gains from sale or trading, or the contractual terms result in future cash flows which are not exclusively payments of principal and the interest due on the outstanding principal amount, then in every instance the financial instrument must be valued at fair value through profit or loss. No impairment is accounted for in case of financial assets classified into this category. The Bank Group carries out fair value valuations monthly in respect of all its instruments valued at fair value. The fair value valuation difference is recognised as a net sum in a separate income statement line in the current-year income statement. The fundamental principles of fair valuation are introduced in Chapter 2.4.2.

The Bank values the instruments in the following categories at fair value through profit or loss:

<u>O. Trading debt-securities</u>

Securities purchased for trading purposes to realise profits in the short term are classified into this category. Securities purchased on behalf of customer orders and sold on to customers are also classified into this category.

<u>P. Derivative transactions</u>

The Bank primarily concludes derivative transactions for hedging purposes. Occasionally, the Bank also may conclude trading derivative transactions to realise short-term profit. The notional amounts of the derivative transactions are recorded as off-balance-sheet items at the time of their inception.

Derivative financial instruments are accounted for at fair value on the deal day and are subsequently also revalued at fair value.

Any change in the fair value of derivative financial instruments is accounted for in the income statement. The difference between the fair value and cost value of each derivative transaction is stated as an asset or liability, depending on its nature.

Derivative transactions which are made to hedge the positions of the Bank's risk management positions, but do not qualify as hedge accounting transactions under the IFRS 9 standard are classified for trading derivatives. They are therefore presented at fair value, and any non-realised profit or loss is stated directly in the income statement. The details of hedge accounting are introduced in Chapter 2.4.3.

The Bank is engaged in the following derivative transaction types: forward, currency rate swap (CRS), interest rate swap (IRS), cross-currency interest rate swap (CIRS). The Bank Group has no embedded derivative products.

Q. Financial liabilities classified into fair value valuation category

The Bank designates a financial liability as a liability to be valued at fair value through profit or loss if this improves consistency and helps to avoid any accounting mismatch. Currently, there are no such instruments.

R. Securities valued at fair value through profit or loss on a mandatory basis

Instruments of this type are e.g. shares listed on a stock exchange.

S. Loans and advances to customers

The Bank Group classifies loans provided for customers into the AC or FVTPL valuation categories on the basis of the business model test and the so-called Solely Payments of Principal & Interest (SPPI) test which is carried out individually for each loan product group. The Bank Group classifies a loan product into the amortised cost valuation category if the interest on the loan solely covers the time value of money, credit risk and a profit margin, and the loan principal represent the fair value of the disbursed principal. The loans are classified into the FVTPL category if the following criteria are not met:

- The purpose of lending is the collection of contractual cash flows.
- The contractual cash flows solely represent principal and interest.
- The business purpose of the loans is not future sale, despite the fact that the Bank Group regularly sells bad credit portfolios as part of its collections activities.
- In the event of prepayment, modification of the maturity date and restructuring, the prepayment fees are not material (typically 2-3%).
- In the event of variable interest, the interest rate moves parallel, with the change in the designated reference interest rate, into the same direction and the frequency of the fixing of the interest rate coincides with the interest periods.
- The Bank Group records any unpaid principal and interest as overdue receivables.
- In the event of deferred payment, there is no interest-free period, or it is not significant.

At present, those loans are classified into the FVTPL category where the interest does not solely include time value, credit risks and a profit margin and this is also confirmed by an SPPI test (e.g. family housing benefit-subsidised “CSOK” loans or Baby Expecting loans).

2.3.1.4 Fair value through other comprehensive income (FVTOCI)

If according to the business model the business purpose is the collection of contractual cash flows and, in given circumstances the sale of the asset, and the contractual cash flows only cover principal and

the interest thereon, then the financial instrument must be valued at fair value through other comprehensive income. The instruments classified into this category based on the business model serve two functions: on one hand, the collection of contractual cash flows, and on the other, the management of daily liquidity. The securities classified into this category can be sold at any time to maintain liquidity. The individual securities are classified into business models based on the expected frequency and volume of sales for liquidity reasons.
The interest relating to financial instruments falling into this category is accounted for with the effective interest method.
In case of debt-instruments, the Bank Group transfers the amount of valuations accounted for in other comprehensive income to the current-year profit/loss (typically in case of sale).

The impairment rules also apply to financial instruments classified into this category if their credit risks are not negligible. Any credit impairment is accounted for in the valuation reserve (OCI) against the impairment loss.

The Bank Group fair values the following instruments through other comprehensive income (FVTOCI):

T. Debt-securities for liquidity purposes

Contractual cash flows only extend to principal and interest. Prepayment and maturity modifications are not typical. These may be securities bearing both fixed and variable interest. In case of variable interest, the interest rate moves parallel with the change of the designated reference interest rate, in the same direction.

U. Shares for investment purposes

In case of shares for investment purposes, the Bank Group did not elect the option to designate any such instruments for valuation through other comprehensive income.

2.3.2 Non-financial instruments

V. Leases

The Bank Group as lessor

The Bank Group presents finance lease receivables in "Loans and advances to customers" valued at amortised cost value in the statement of financial position.

The Bank Group as lessor classifies those agreements as lease receivables, when the lessor transfers the rewards of an asset to the lessee against the payment of a fixed amount and for a fixed term. Lease transactions can be finance or operating lease transactions.

If substantially all risks and rewards of ownership are transferred through the transaction as set forth in the IFRS 16 standard, the Bank Group treats the transaction as a finance lease.

In case of a finance lease transaction, at the beginning of the lease, the Bank Group as lessor recognises lease receivables in the amount of the net lease payments. The net lease payments are the present value of the total of future minimum lease payments and the guaranteed and non-guaranteed residual value, discounted by the implicit interest rate of the lease (see definition in Chapter 2.2. D). Any costs at the beginning of the lease transaction which are directly attributable to the agreement, such as agent's commissions, contract conclusion and amendment fees and appraisal fees, adjust the cost value of the lease receivables and are accounted for during the term.

After the initial recognition of finance lease receivables, the principal part of the lease fees paid reduces the amount of the lease receivables, while the interest part is accounted for as interest income (see Chapter 2.2. D). Any impairment accounted for during the period decreases the book value of lease receivables.
The Bank Group applies the same rules to the impairment of lease receivables as for other financial assets (see more detail in paragraph 2.4.1).

Leases where substantially all risks and rewards of ownership remain with the Bank Group are classified as operating leases. The asset leased continues to remain in the Bank Group's books. The lease fees received are accounted for linearly in the profit/loss during the relevant period.

At present, the Bank Group does not pursue operating lease transactions under the criteria of the IFRS 16 standard.

The Bank Group as lessee

Based on IFRS 16, in case of leases where substantially all risks and rewards of ownership remain with the lessor and are not transferred to the Bank Group (earlier operating lease), at the beginning of the lease transaction the Bank and its Subsidiaries recognise right-of-use assets which they present in the balance sheet line where the underlying assets would belong, and they state in the Comments which balance sheet lines also contain right-of-use assets. At the end of 2020, in the statement of financial position, such assets are only featured in the "Property, Plant and Equipment" line (rented real estate). The cost value of a right-of-use asset is the initial value of the relevant lease liability, the value of any already paid lease fees and any other direct ancillary costs. As the non-deductible VAT part of the payable lease fees emerges in several instalments during the term (e.g. monthly), it is not capitalised. After recognition, all right-of-use assets are valued at cost value decreased by any accumulated depreciation and any recognised accumulated impairment loss.

In case of lease transactions with short terms and the lease of low-value underlying assets and of intangible assets as underlying assets, the Bank and its Subsidiaries do not apply the relevant rules of IFRS 16.

W. Property, plant and equipment

The Bank recognises an incurred expense as a tangible asset if the purchased asset serves the Bank's activities directly or indirectly for a term of more than one year, the economic benefits associated with the item will probably flow to the Group and the cost can be measured reliably.

The Bank records tangible assets in its books at cost value. The cost value includes the purchase price, plus any non-deductible VAT, customs duties and official charges, minus any discounts; costs necessary for bringing an asset to working condition for its intended use, and expected costs of dismantling of the asset if any. The Bank does not regard bank funding related to the acquisition because lending forms part of its credit institutions activities, and therefore the interest thereon is not capitalised.

The Bank recognises office equipment below the limit of HUF 15,000 as other material expenses at the time of acquisition. All individually purchased assets with a cost value of less than HUF 200,000 are entered in the fixed assets register and are depreciated in one sum immediately after recognition. The Bank and its subsidiaries can purchase low-value assets of the same type in group and capitalise and depreciate them in group during their useful life.

Following capitalisation, the Bank values all its tangible assets according to the cost value model. Based on this, the book value of assets is the cost value, minus the accumulated depreciation and accumulated impairment accounted for, to be adjusted on a mandatory basis by any costs capitalised subsequently if the value of the cost to be capitalised exceeds 25% of the cost value of the asset. Property, plant and equipment cannot be revalued due to this valuation model.
During depreciation, the Bank writes off the cost of an asset monthly during its useful life, pro rata for each day, with the straight-line method, as operating expense. The Bank determines the useful life of each asset group which is reviewed and adjusted if necessary, annually. In case of refurbished assets, if the value of the refurbishment exceeds 25% of the cost value of the refurbished asset, the useful life is reviewed (in particular, for investments carried out in rented properties). Investments made in rented properties are written off based on the expiry of the rent agreement.
The Bank recognises the following asset groups and depreciation rates based on the typical expected useful life as follows:

Description	**Life**
Buildings	50 years
Land	n/a
Networks (computer, telecommunications)	12,5 years
Investments in rented properties	as per rental agreement
Furnishings	7 years
Security equipment	7 years
Bank and office equipment	7 years
Personal computers	3 years
Other computer equipment	3 years
Mobile telephones	2 years
Automobiles	5 years

Based on experiences, for most of the Bank's tangible assets, the residual value is not material. Therefore, the Bank only determines residual value for these assets if their expected value is above HUF 1 million. For automobiles, a residual value is always determined based on the future value quoted at the time of purchase.

The Bank derecognises a tangible asset or intangible asset from its book if it disposes the asset or no longer expects any further benefit from the use of the assets. The profit/loss effect of disposal is recognised in the profit/loss as net operating income or expense, which is the difference of the proceeds of the sale and of the book value of the disposed assets.

X. Intangible assets

The Bank recognises those incurred expenses as intangible assets which relate to the purchase or production of an identifiable, non-tangible asset over which the Bank has a controlling right, which is expected to generate economic benefits, and whose cost value can be determined reliably. An intangible asset is identifiable if it can be sold independently or arises from contractual or legal rights. The cost of the acquired assets is the acquisition cost which is determined based on the initial valuation rules applicable to Property, plant and equipment, with the difference that dismantling costs are never capitalised in the cost value of intangible assets. The Bank regards only in-house designed software as internally developed intangible assets. The cost value of self-developed software products includes all costs which incurred directly in the interest of their development during the development phase, such as the costs of materials and services, wage costs and incidental contributions, expert fees (e.g. project management costs), consulting fees and licensing costs.

Z. Inventories

Upon acquisition, inventories are recorded at cost value which includes the purchase price, any non-deductible VAT, import customs duties and transportation costs. Any foreign currency difference at financial settlement does not adjust the purchase price. The repossessed collaterals the Bank holds with the purpose of resale and carries it at the value of which the Bank excepted as the offset for its receivable. Upon the repossession of a leased asset, the Bank records the asset in the inventories at a forced sale market price as determined by an appraiser. If the cost value of an inventory is not expected to be recovered (because of damage or obsolescence), the Bank writes down the inventory to the net realisable value.

AA. Other assets and liabilities

Other assets and liabilities not qualifying as financial instruments are recorded at transaction price. The transaction price is the amount stated in the relevant contract, invoice or any other accounting certificate.
The Bank recognises among these items receivables due from employees, liabilities due to the State Budget (taxes and social security liabilities), non-interest-type accruals and various active and passive accounts.

Customer contracts typically relate to sales of leased assets at the end of the term, in case of which:

- the leased asset is transferred to the buyer directly by the lessee (typically within the framework of a repurchase agreement with the supplier),
- the term of payment is in general prompt payment and there is no financing component,
- the purchase agreements typically do not stipulate returning or reimbursement obligations,
- the sale is based on a guaranteed repurchase agreement concluded with the original supplier of the leased asset.

The Bank Group does not make decisions in connection with customer contracts to modify the amount and timing of the contract revenues.

BB. Contingent liabilities and provisions

The Bank recognises provisions in its statement of financial position if, in consequence of an event in the past, it has an obligation of an uncertain amount whose value can be reliably estimated and the fulfilment of the obligation is probable to result in an outflow of resources. The Bank regards the obligation as probable if the probability exceeds 50%.

Provisions are made for:

- Guarantees provided as part of lending activities
- Credit lines provided as part of lending activities
- Pensions and severance pay
- Pending litigation
- Restructuring events
- Other provisions

An obligation is recognised as a contingent liability if it is

(a) *a possible obligation* which arises from events in the past and whose existence will only be confirmed by the occurrence or non-occurrence of one or several uncertain future events not entirely under the Bank's control; or

(b)*an existing obligation* which arises from events in the past, but where

(i) the settlement of the liability is not likely (with a probability of less than 50%) to result in an outflow of resources; or

(ii) the amount of the obligation cannot be reliably measured.

The Bank Group does not recognise contingent liabilities in the balance sheet; however, the following contingent liabilities are stated in the books separately:

- Financial guarantees provided to customers
- Credit line liabilities
- Contingent liabilities related to pending litigations

All guarantees provided are accounted for as contingent liabilities. The received guarantee fees are stated as the initial balance sheet values of the financial guarantees provided. The value of expected losses arising from guarantees is stated as provisions in subsequent valuations.

The amounts of undrawn credit lines which exist based on customer contracts are also stated as contingent liabilities. The Bank determines the initial balance sheet value of credit lines as zero, while the value of expected losses as a follow-up value. For contingent liabilities related to loans falling into the performing (stage 1) and underperforming (stage 2) portfolios the Bank accumulates provisions with regard to a credit conversion factor estimated with statistical methods. The Bank applies a 100% drawdown probability rate to contingent liabilities related to non-performing (impaired) loans (stage 3). Similar to the impairment of loans, the Bank estimates the expected cash flows, calculates the present value and accounts for the provisions as the difference between the value of the contingent liabilities and the present value of the recoveries.

Provisions made for pending litigations are determined individually for each case based on a legal expert opinion as the most likely amount the Bank is expected to be required to pay on the basis of the probability of losing the lawsuit and the value of litigation.

Provisions determined for early-retirement pensions and severance pay should cover the amounts to be paid in the future due to staff reductions approved and communicated during the business year.

Provisions made for guarantees and credit liabilities are presented in compliance with IAS 37 standard.

CC. Deferred tax

A taxable temporary difference is recognised in respect of an asset or liability if the related tax is not payable during the current period, but in the future. In case of a deductible temporary difference, the tax payable in the current period becomes deductible in the future.
The Bank prepares its balance sheets for financial reporting and tax purpose monthly, and the differences between the two balance sheets are classified into the classes of permanent and temporary difference on an itemised basis. A permanent difference has no deferred tax implication, while temporary differences are designated as taxable or deductible.

A temporary difference may typically arise in the following cases:

- Depreciation charge of assets (due to difference between the tax and accounting depreciation rates)
- Impairments of certain assets (due to deductibility/non-deductibility from income tax)
- Certain provisions (due to deductibility/non-deductibility from income tax)

The following may additionally result in deferred tax receivables:

- Accrued loss (unused negative tax base)
- Unused tax credit

The Bank offsets its current period tax receivables and tax liabilities against one another. If based on the available business plans no future taxable income will be available against which the deferred tax receivables could be offset, tax receivables will be recognised only to the extent that tax benefit can be realised.

The tax balance sheet necessary for determining any deferred tax is prepared in accordance with the tax regulations in force at the balance sheet date. Deferred tax receivables and liabilities are determined all times at the corporate tax rate in force or published. The Bank does not apply an average tax rate, because pursuant to the corporate tax law in force, the corporate tax rate is flat which is not likely to change in the future.

DD. Employee benefits

If an employee is entitled to a benefit payable in the future which is likely to be paid, the Bank recognises an employee benefit liability, and the relevant cost will be accounted for in respect of the period when the employee completed the service.
Accruals for short-term benefits are only recognised in the statement of financial position if they relate to the current period, but payment is only expected to take place during the following period. Those provisions created for benefit elements are recognised as long-term benefits which are expected to be paid beyond a period of 12 months following the completion of service.

As part of this, the Bank recognises accrual- or provisions-type liabilities in the following cases:

- salaries, premiums, bonuses, other benefits and contributions provided as short-term benefits if they are paid after the current period (accrual),
- salaries and contributions due for unused, accumulated vacation provided as a short-term benefit if they are likely to be paid or used after the current period (accrual),
- the percentage of loyalty bonuses provided as long-term benefits (jubilee bonus) which is likely to be payable in the future (provisions),

- the percentage of deferred remuneration provided as a long-term benefit (business plan-performance-driven bonuses) which is likely to be payable in the future (accrual),
- expected severance pay (provisions).

The Bank states its employee benefit liabilities to be recognised in the statement of financial position at the value which the Bank is expected to pay in connection with the settlement thereof. The estimation of liabilities relating to unpaid leave assumes that the entire unused leave will be taken or paid for during the following period. The Bank recognises service time as part of the loyalty bonus programme. The Bank rewards 5, 10, 15, 20, 25 and 30 years of service. The Bank calculates its future payment liability according to an actuarial calculation method, with regard to fluctuation, age and service time, on the basis of historical data, for each employee, and then discounts this value.
The Bank's shares are not listed on any stock exchange and have no market price. For the purposes of compensatory performance measurement, the Bank calculates a theoretical share price. The performance-driven remuneration of management is determined based on the calculated share price. 50% of the performance-linked remuneration is long-term, deferred remuneration. The deferral period used by the Bank is 3 years during which the deferred part is paid in instalments of 33%-33.5%-33.5%. The rate of the reward actually payable in each year is subject to the employee's current-year evaluation and to the Bank's performance.
Severance pay is recorded when its future payment is obliged and communicated with the persons concerned.

2.4 Material estimates applied by Bank Group

2.4.1 Impairment

According to the provisions of IFRS 9, the Bank accounts for impairments on the basis of changes in the expected credit risks in respect of financial assets valued at amortised cost value (loans, bank deposits, securities) and financial assets valued at fair value through comprehensive profit or loss (securities). The Bank applies different methods for determining impairments on loans, bank deposits and securities.

Based on the expected credit losses and the extent of credit risks, in accordance with IFRS 9, the Bank distinguishes three stages. In case of Stage 1 – performing – assets, a twelve-month credit loss is accounted for since the initial recognition. If the expected loss significantly increases after initial recognition (stage 2 – underperforming assets) or there is objective evidence suggesting non-performance (stage 3 – non-performing assets), an expected lifetime credit loss is accounted for.

Criteria relating to a significant rise in credit risks since initial recognition can be the following:

- extent of delay – at the worst from 30 days,
- transfer to watch list – in case of corporate loans
- a significant deterioration in rating/probability of default compared with the initial rating/probability of default (1.5% increase in PD or a four-notch rating deterioration)
- In case of retail loans, there was a significant increase in risk in the transaction compered to the risk of disbursement. This trigger may vary by product, the value of the Bank regularly reviews and, if necessary, applies correction. Currently, this trigger is set at 25% for personal and merchandise credit and 50% for other products.

- Participation in the moratorium is also an indicator for increased credit risk. If there was a unfavourable information about the client, we keep in Stage 2 after exiting the moratorium for the time expected in the NBH's circular (six months for individuals, two years for corporates)

PD: probability of default; notch: risk rating category

Indicators showing an increase in the above credit risks determine the stage 2 classification of financial instruments and also the accounting for expected lifetime losses, instead of expected losses for a period of 12 months. If the conditions of a stage 2 classification do not exist, the instrument can be transferred back to stage 1 category.

The Bank does not avail itself of the option under IFRS9 5.5.10; this would allow the Bank to regard certain financial instruments as low-credit-risk instruments.

If, during valuation at the reporting date, default is identified for an individual transaction based on objective evidence, the transaction is transferred to stage 3.

A loan is regarded as non-performing and transferred to stage 3 category (and regarded as impaired) if the following criteria are met at the valuation date:

- there is a legal procedure under way against the customer or any member of the company group (liquidation, bankruptcy, forced deregistration, etc.)
- the Bank declared a transaction of the customer or any member of the customer group as successful fraud
- the customer or customer group has a terminated deal,
- the customer or any member of the customer group is under collections management the number of days in delay:
    - exceeds 30 days in case of corporate customers,
    - exceeds 60 days in case of micro-customers,
    - exceeds 90 days in case of automobile financing customers,
    - exceeds 90 days in case of mortgage and unsecured retail transactions
- individual factors in case of retail loans: private bankruptcy, deceased customers, successful fraud, revoked execution proceedings in case of mortgage transactions affected by void related litigations
- Participation in the moratorium 3 is stage 3 criteria, expect for the ”stowaway” (we consider stowaway those consumers who have only occured in the moratorium 3 because of having children but have no income reduction or are not retirees.

Individual impairments are only calculated for corporate non-performing loans if there is objective evidence. This, irrespective of the limit, covers the portfolio of the corporate division (not including automobile financing) and managed by the Bank's collections unit.
In determining individual impairments, the Bank estimates the expected future cash flows related to the given instrument which also includes the expected recovery from the available collateral, with regard to an optimistic and a pessimistic scenario. Weighting the scenarios with different probabilities of occurrence, the credit loss is the difference of the present value of the gross book value and the estimated future cash flow, discounted by the original effective interest rate.
For corporate clients who are only considered stage 3 because of the the moratorium 3, there is no individual impairement is counted by the bank, rather it forms an impairment on model basis, PD is considered 1 using this formula: PD*LGD*EA.

Impairment losses are recognised in respect of securities and interbank receivables based on individual deliberation.

For all other financial instruments the Bank values the expected credit loss on a collective basis with different models.
Instruments are grouped on a product basis, breaking down the portfolio into sub-segments for each product group so that instruments with similar characteristics are placed into a single group.

The Bank divides its portfolio into the following products/sub-segments:

- mortgages
- automobile loans:
  - retail
  - corporate
- credit cards
- current accounts
- personal loans and sales finance
- corporate loans:
  - revolving
  - closed-end
  - micro-loans
- leases

For retail products, there is further segmentation into delay categories, currency at disbursement and portfolios with a delay of more than 90 days in case of forced HUF conversion of currency loans.
For the corporate portfolio, the Bank creates different pools based on risk ratings (OR, Obligor Rating).

Expected loss = PD (probability of default) * LGD (loss given default) * EAD (exposure at default)

PDs are point-in-time estimates, measured on the basis of 12-month default rates with time windows of 2 to 4 years; in case of retail portfolios transition matrices, while of corporate portfolios survival-type models are used.
In case of retail transition probabilities, the Bank estimates the probability that a costumer will not be late, more than thirty days late, defaulted or closed within one year. To do this, it uses static (Debt to income, Loan to Value), dynamic (limit usage information for credit cards and overdrafts) and determinated (macroeconomic expectations) variables.

The Bank also takes forward-looking information into account when estimating expected losses. The Bank has identified certain key economic variables that correlate with developments in credit risk and expected losses. In case of corporate portfolios, the strongest variable is the development of GDP, and in case of retail portfolios is the unemployment rate.
The Bank uses three different scenarios for expected loss, baseline, stress and optimistic in the proportion of 80-10-10%. The Bank uses the NBH's macro expectations of the NBH published to the financial intitutions.
The Bank incorporates forward-looking macroeconomic information into the PD estimate.
In the case of retail loans, the Bank uses the estimated transition probabilities for each product to calculate the lifetime PD values. In the case of mortgages, the forecast is for 10-year period, in the case of credit cards, current accounts and car loans the forecast is for 6-year period and in the case of personal loan the forecast is for a period of 4 years.

The Bank also analyzed the impact of changes in macroeconomic indicators on the expected loss.
In the case of population segment, the sensitivity analysis examined the impact of the GDP's -20 and the unemployment rate's -13 decrease, which increased the expected loss by 1%. If for example, GDP will fall from 7,6% to 7,41% and the unemployment rate will rise from 2,9% to 3,03% than it means HUF 0,3 billion extra impairment on the corporate portfolio. At a 100% stress scenario, there is an increase of about 6% and at a 100% optmistic scenario, there is a decrease in impairement of about 4%.
In the case of corporate portfolio, the GDP change -73 basispoint, the unemployment rate was examined in the case of a -13 basispoint displacement, which is resulted in a 10% increase in the expected loss. For example, if the GDP will fall from 9,9% to 9,17% and the unemployment rate will rise from 2,9% to 3,03% than it means HUF 0.9 billion additional impairment on the retail portfolio. At a 100% stress scenario, there is an increase of about 34% and at a 100% optimistic scenario, there is a decrease in impairement of about 32%.
The sensitivity test is prepared for stage 1 loans for 1 year, for stage 2 loans for the product-specific periods described for lifetime PDs.

For corporate loans, the lifetime PD estimation calculates the probability of default for the entire life of the transaction based on 1-4-year-old cumulative PD curves measured by different pools, taking in consideration the full economic life of the transaction.

For retail loans, the lifetime PD estimation is calculated by scaling the matrixes used to measure 12-month PDs.

Loss ratio is the LGD used in equity models, excluding the downturn factor and indirect costs.

The exposure at default, the EAD, is calculated as the sum of the on-balance sheet exposures and the off-balance sheet exposure multiplied by the credit conversion factor. Based on measured experience numbers, the credit conversion factor shows how much of the off-balance sheet items are drawn (basically quantified for revolving and credit card products).

The Bank does not apply a separate model to the portfolios of restructured loans, but classifies mortgage restructured loans in stage 2, for the other products, the classification into stage 2 is considered through the relative deterioration test. A significant portion of corporate restructurings take place on collection managed portrfolio based on individual impairment.

The NBH's circular on the management of the exposures of customers who entered the payment moratorium on 1 November 2021 and on the accounting of minimum impairment levels and portfolio-level overlay in view of changed circumstances, certain expectations regarding the identification of the risks inherent in the portfolio in the moratorium in view of the changed circumstances due to the corona virus pandemic.
It provides for the moratorium to be taken into account when determining the growth of default in restructuring and credit risk.

Based on the expectation of the circular, in view of the many computational and methodological uncertainties due to the corona virus pandemic, the Bank maintained the avarage impairment loss for the second quarter of 2021 as a stage as a minimum impairment level.
Also using the possibilities provided by the circular, the bank also applied so-called overlays for portfolio-level management adjustments.
In the case of the retail portfolio, the bank reported a loss impairment as an overlay loss if customers were only entering the moratorium due to having child and not because of income reduction.

Customer transaction income was also investigated at a specific level by the bank and the proportion to the entire portfolio to form the plus loss of impairment if the income information was available.
By examining the event (subsequent event) after the balance sheet date for customers leaving the moratorium, the bank imagined an additional impairment for both corporate and retail clients. We assumed that transactions with 1-2 days of delays are much larger in default status than what banking models say.
The difference between the 2021-12-31 to be trained ECL and the group Stage 3 ECL

i. 25%- if the material delayed day number is under 5 days
ii. 50%- if the material delayed day number is between 5-30 days
iii. 100%- if the material delayed day is over 30 days

Both the moratorium 3 stowaways, the moratorium 2 turn-up event test and the minimum impairment losses for the maintenance of the minimum impairment levels were calculated as the Bank's Overlay and distributed it proportionally to Stage 2-3 stocks.

Impairments of securities and loans to banks

The Bank classifies all its securities and loans to banks serving liquidity (FVOCI) and investment (AC) purposes into the stage 1 category, and keeps this rating as long as, based on the issuer's credit rating, the securities can be regarded as investment-grade (i.e. the Bank regards these securities as low-credit-risk securities). This is determined based on the credit ratings published by credit rating institutions (S&P, Fitch, Moody's) with respect to issuers in cases where such ratings are available. The Bank regards the securities as investment-grade if the issuer's credit rating is BBB or Baa3 or better.

If external credit ratings are not available, the Bank's internal credit rating is used for determining whether a given security is investment-grade or not.

If at the reporting date a security cannot be regarded as investment-grade, the Bank transfers the security to the stage 2 or stage 3 category and the impairment is made based on partner rating information and the extent of the delay. In stage 2 and stage 3 the Bank determines a lifetime expected loss.

For quantifying the impairment, the amortised cost value is multiplied by the PD percentage driven by the customer rating of the issuer of the security and a currency-dependant LGD percentage.

Securities and loans to banks are transferred to the stage 2 category when the instrument is in arrears for more than 30 days, while the issuer of the instrument is rated by external credit rating agencies better than "CCC+", "Caa1", or if the issuer is rated lower and the delay is less than 30 days. An instrument is transferred to the stage 3 category if the instrument is in arrears for more than 90 days, or if the instrument is in arrears for between 30 and 90 days, and the issuer of the instrument is rated for "CCC+", "Caa1" or lower.

2.4.2 Fair valuation

The Bank values the financial instruments listed in paragraphs 2.3.1.3 and 2.3.1.4 at fair value. These can be effectively *securities, derivative transactions and loans to customers.* Additionally, the Bank carries out fair valuation for disclosure purposes.

Fair value per definition is the cash received upon the sale of an asset or paid upon the settlement of a liability on the basis of a transaction concluded between a market player and the Bank under the usual market terms and conditions at the time of valuation. The data and valuation procedures used for fair valuation determine which level of the fair value hierarchy the applied method belongs to. If valuation is carried out solely based on observable data, it is level 1 of the hierarchy. If observable data is available indirectly, it is level 2 of the hierarchy. If material non-observable data can be used during fair value assessment, it is level 3 fair valuation.

Level 1 data is the price of the asset or liability quoted on its active market. An active market is a market where transactions relating to the asset or liability are carried out with sufficient frequency and in sufficient numbers in order for the market to supply continuous pricing information.
Level 2 data is the price of a similar asset quoted on the asset's active or non-active market, or any other observable data of the asset (e.g. yield curves, interest rates, credit spreads). Data derived from active market data, too, qualifies as level 2 data.
Level 3 data is determined, in every instance, to a significant degree based on assumptions, but must reflect pricing and risks on the market.

The Bank values *securities* by using active market prices, meaning level 1 and 2 input data. The Bank purchases securities at market price, and so there is no initial fair value difference. In case of government bonds, the market price used in the follow-up valuation is the buy rate published by Államadósság Kezelő Központ Zrt (ÁKK) every day in the afternoon. In case of debt-securities issued by other financial institutions, the order of prices used, are: selling price, closing price, theoretical price. In case of non-liquid bonds, the Bank uses the prices available from the Varitron, Bloomberg and Reuters systems, or theoretical prices. In case of treasury bills, the Bank regards the daily average rate of the Budapest Stock Exchange as the market price; in the absence of such a rate the Bank uses a theoretical price. Theoretical prices are calculated and yield curves are estimated from ÁKK data with the spline method.
The fair value difference is recorded for the securities portfolio in the profit/loss monthly on a gross basis.

In case of *investment fund units,* the Company regards the net asset value of one unit published daily by investment funds multiplied by the number of investment units at Alapkezelő as the fair value of a given investment fund. As all the investment funds from which the Company purchases investment units are open-end funds traded continuously, on a daily basis, the Company regards the published net asset value as the quoted market price (level 1 input of fair valuation).

For the fair valuation of *derivative transactions,* the Bank uses both market data and adjusted market data. In case of these transactions, the price applied for valuation is the price which the Bank would use if it were to close the given transaction at the moment of valuation, i.e. the deal price of a reverse transaction relating to the remaining life of the transaction to be valued. Upon valuation the Bank estimates the price at which it would be able to close the given transaction on the market and compares it with the deal price of the original transaction. In case of forwards and foreign exchange swaps, the Bank generates this closing price by adding the swap points to the price of the day (which is determined by the interest difference of the two currencies of the derivative), thereby creating a market futures price. The current-day fair value is the difference of the deal price and the market forward price of the transaction – calculated from the total of the current-day foreign exchange closing rate and the current-day closing FX swap points –, multiplied by the face value of the transaction. The profit/loss effect of multiple forward transactions concluded with individual customers is hedged by a large amount of single forward transaction. The Bank uses one-to-one hedge for high value customer forward deals by concluding reverse transactions with the same maturities and amounts as the given customer transactions. In case of these related transactions, the Bank does not use hedge accounting and does not prepare hedging documentation, consequently, it does not link together the customer and the offsetting transactions in the accounting records.

The fair value of interest swaps is calculated through the discounting of future cash flows, using the appropriate yield curve. The valuation system estimates the unknown cash flows of the variable leg of IRSs and CIRSs with the help of the yield curves which is used both to calculate the forward interest rates and for discounting.

Certain interest-subsidised loans are valued at fair value based on the SPPI test described in paragraph 2.3.1.3 S. The fair value is valued in two steps. First, all future cash flows are discounted at a market reference interest rate, and then this value is adjusted by the change in the fair value attributable to credit risks.

For disclosure purposes the Bank Group determines the fair value as the present value of the estimated future contractual cash flows of financial instruments where the discount rate is an interest rate compiled from observable market interest rates adjusted by the risk of default.

2.4.3 Hedging transactions

The Bank offsets the fluctuating net income effects of the fair value and the cash flow changes of certain financial instruments through hedge transactions and related hedge accounting.

The Bank establishes a hedge relationship on the basis of the provisions of IFRS 9 if i) every leg of the hedge pair is a transaction identifiable and matched against one another, except for the so-called portfolio-based macro-hedges, ii) the hedging efficiency requirements are met and iii) hedge documentation is available and up-to-date. The Bank terminates an existing hedge if any of the three criteria is not satisfied or the hedge expires. At present, the Bank hedges only receivables with fixed interest (macro-hedge).
Only derivative transactions are designated as hedge instruments. The Bank does not designate option-type derivative transactions as hedge items. If forward contracts are selected as hedge instruments, the entirety of the forward transactions is involved in the hedging transaction. The Bank can involve both entire financial instruments and a pro-rata part into a hedge relationship to match the maturity dates of the hedge and hedged transactions as close as possible. The Bank can designate individual items or a group of items as hedged items.
The Bank prepares hedging documentation for the day of the establishment of the hedge relationship. The documentation contains the purpose of the hedge relationship, the ID codes, the terms and conditions of the hedged and hedge transactions, the risk intended to be hedged and the method for measuring hedging efficiency. The Bank assesses hedging efficiency on the day of the creation of the hedge pair and monthly thereafter, at the end of the month. Assessment methods used: dollar-offset and scenario analysis (changing the interest rates of the transactions under the terms and conditions by +/-50 basis points). The Bank regards a hedge relationship as effective if there is an economic relationship between the hedged and the hedge items (interest rates or foreign exchange rates move between the hedging transaction and the underlying transaction in the same way in the opposite directions) and the hedge effectiveness is at a pre-fixed required level.

The Bank macro-hedges the changes in the fair value of multiple products valued at amortised cost (at present: mortgage, corporate loans, automobile loans and leases with fixed interest) through interest rate swaps (pay-fixed receive-variable IRS). In each product type, the reference interest rate of the credit products bearing variable interest is the BUBOR, while in the long term the BUBOR also affect

the pricing of products bearing fixed interest. Therefore, the Bank pulls into group and hedges only those assets which share the same risk exposure, i.e. homogeneous from the respect of the risk hedged.
The fair value of the loans included in the hedging is measured by discounting the cash flows of the transactions. For the calculation of this value the Bank uses a so-called hypothetical transaction; each parameter of this transaction is identical to that of the original loan, except the interest rate, instead of which it uses the fixed rate of the IRS. Upon the valuation at fair value of the instruments included in the hedge relationship, the Bank only considers the impacts attributable to interest risk, while excluding the effect of credit risk of customers.
In accordance with the IAS 39 carve-out rules, the Bank measures efficiency both retrospectively and prospectively. For portfolio hedging, there is effectiveness between the hedging and the underlying transactions if, according to the scenario analysis, upon shifting the interest curve in either direction the relative percentage of changes in the fair values of the hedged and hedging transactions falls between 80 and 125%.

Changes in the fair value of derivatives classified as a hedge, which, according to the definition of the hedging transaction, are effective accounted for on the Net income/(loss) from (non-trading) financial instruments valued at FVTPL income statement line together with the fair value adjusment accounted for the underlying transaction. This is also valid even if the covered item is otherwise evaluated at amortized cost. The ineffective part of the hedging transaction is directly evaluated in the profit and loss account forNet income/(loss) from (non-trading) financial instruments valued at FVTPL income statement line.

3 RISK MANAGEMENT

Banking activities are exposed to numerous risks. The Bank regards risks as a fundamental feature of its banking service and treats them inherent to its business activities. The Bank operates a system which precisely measures, appropriately manages and limits risks. The most significant risks affecting the Bank are as follows:

3.1 Credit risk

Credit risk is the possibility of a loss which the Bank may sustain if the borrower becomes insolvent or fails to meet its payment obligations on time. The Bank pursues credit risk management on the basis of an underwriting, monitoring and collateral management process.

Underwriting

Upon underwriting, the Bank rates all its retail and corporate customers based on statistical or expert assessment models. The Bank Group applies multiple authorisation levels for proper risk management. As a general rule, the customer's rating, the risk appetite and the value of the collateral determine the appropriate decision-making level.

Monitoring

The Bank operates a transaction-level and portfolio-level monitoring mechanism in order to be able to operate a loan rating system which complies with the statutory regulations, and to promptly identify any exposures and customers who are unable or are likely to become unable to meet their contractual obligations in the future.

Collateral – credit risk mitigation

The Bank primarily expects the repayment of loans from revenues derived as part of the customer's normal course of business, but to cover the risks of non-repayment, the Bank requests customers to supply collateral. The range of collateral items that the Bank accepts may vary from segment as well as for each process and product type, but the fundamental principle is that the collateral must be enforceable and realisable. In case of property and tangible collateral, assets are valued based on expert appraisals, analytical records are kept of all collateral items and these must be insured during the entire term of the loan.

Expected credit loss, impairment

Relying on the above processes, the Bank accounts for impairments in respect of expected credit losses in accordance with the provisions of IFRS 9 and the methodology defined by Budapest Bank (see in Chapter 2.4.1) on a monthly basis.

3.1.1 Loans and advances to customers by ratings and non-performing portfolio

The Bank accounted for the following impairment amounts in respect of the rating stages defined in IFRS 9 and its non-performing portfolio:

data in HUF M

	Stage 1	Stage 2	Stage 3	FVTPL loans*	Other receivables	Total
2021 closing balance						
Gross balance of loans and advances to customers	890 293	270 174	44 565	57 172	2 595	1 264 799
Of which non-performing portfolio	-	-	*44 565*	-	-	*44 565*
Impairment of loans and advances to customers	6 836	19 201	27 863			53 900
Net balance of loans and advances to customers	**883 457**	**250 973**	**16 702**	**57 172**	**2 595**	**1 210 899**
2020 closing balance						
Gross balance of loans and advances to customers	872 387	147 141	34 899	41 521	4 011	1 099 959
Of which non-performing portfolio	-	-	*34 899*	-	-	*34 899*
Impairment of loans and advances to customers	11 405	13 772	26 021	-	-	51 198
Net balance of loans and advances to customers	**860 982**	**133 369**	**8 878**	**41 521**	**4 011**	**1 048 761**

FVTPL* means loans valued at fair value.
See definitions of Stages 1, 2, 3 (and States 1, 2, 3) in paragraph 2.4.1.
Nonperforming mortages at the statutory forint conversion in 2015, but have improved since then, were reclassified by the bank from Stage 3 to Stage 2 in 2019 and therefore the Stage 3 portfolio is the same as the non-performing portfolio.

In the opening balance, the non-performing portfolio accounts for 3,2% of the total portfolio. In the closing balance this percentage fell to 3,5%.

At the Bank Group the portfolio of restructured receivables amounted to HUF 141.611 million on 31 December 2021, and to HUF 41.888 million on 31 December 2020, respectively.

⟹ Consolidated Notes to the Financial Statements – Statement of Financial Position

3.1.2 Movements of allowances made for impaired loans and advances to customers

In 2021 the following impairment allowance movements occurred between the different rating stages which include not only possible reclassifications, but also movements arising from new loans and the cessation loans:

data in HUF M

Description	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	**11 405**	**13 772**	**26 021**	**51 198**
Growth from formation and purchase	3 262	1 655	1 225	6 142
Decrease from derecognition	(912)	(931)	(3 299)	(5 142)
Change from change in credit risk (net)	-	-	-	-
- Classification did not change	(4 594)	(176)	(2 555)	(7 325)
- Reclassification from Stage 1	(2 584)	9 105	5 139	11 660
- Reclassification from Stage 2	259	(4 253)	5 355	1 361
- Reclassification from Stage 3	1	30	(520)	(489)
Change from modification not resulting in derecognition	-	-	-	-
Decrease from write-offs and cancellations	-	-	(3 505)	(3 505)
Balance as at the end of reporting period	**6 837**	**19 202**	**27 861**	**53 900**

* There is no POCI loan in the bank, and the impairment loss of loans disbursed in 2021 are presented in this line.

The reclassifications between stages in the table above show not only the effect of reclassification, but also the changes in impairments in consequence of the reclassifications.

	data in HUF M
Impairment change in the balance sheet for customer receivables:	2 702
Gross value derecognition for write-offs in impairment result	3 312
Impairement net gains/losses arising from derecognition of financial assets (valued at not FVTPL)	2 172
Currency exchange rate	- 87
Net (impairment loss)/ reversal of impairment loss on financial assets & provision for receivables from consumers	- 8 099

⟹ **Consolidated Notes to the Financial Statements – Statement of Financial Position**

3.1.3 Changes to Provisions

Similar to loans and advances to customers, the Bank makes provisions for off-balance-sheet credit risks and other contingent liabilities pursuant to the rules of IFRS 9 and IAS 37:

31.12.2021 data in HUF M

Contingent liabilities	Gross	Provisions details				Total provisions
		Stage 1	Stage 2	Stage 3	IAS 37	
Undrawn lines of credit and guarantees	400 601	901	1 173	143	-	*2 217*
Other contingent liabilities (including lawsuits)	1 504	-	-	-	1 116	*1 116*
Total contingent liabilities	**402 105**	**901**	**1 173**	**143**	**1 116**	***3 333***

31.12.2020 data in HUF M

Contingent liabilities	Gross	Provisions details				Total provisions
		Stage 1	Stage 2	Stage 3	IAS 37	
Undrawn lines of credit and guarantees	373 366	1 304	935	345	-	*2 584*
Other contingent liabilities (including lawsuits)	1 604	-	-	-	1 220	*1 220*
Total contingent liabilities	**374 970**	**1 304**	**935**	**345**	**1 220**	***3 804***

In the table above, the amount stated as "gross" represents the maximum available credit line or the maximum amount payable by the Group in connection with financial guarantee contracts. In case of other contingent liabilities, the "gross" amount is the estimated maximum amount payable by the Group.

⟹ **Consolidated Notes to the Financial Statements – Statement of Financial Position**

The table below shows the movements of provisions in 2021:

Movements of provisions

31.12.2021 data in HUF M

Description	Lines of credit and guarantees	Litigations	Other provisions	Total
Opening balance	**2 584**	**478**	**742**	**3 804**
Increase	1 431	217	6 016	7 664
Use				-
Release	(1 798)		(6 337)	(8 135)
Closing balance	**2 217**	**695**	**421**	**3 333**

31.12.2020 data in HUF M

Description	Lines of credit and guarantees	Litigations	Other provisions	Total
Opening balance	**1 056**	**482**	**661**	**2 199**
Increase	2 087	8	134	2 229
Use	-	(12)	-	(12)
Release	(559)	-	(53)	(612)
Closing balance	**2 584**	**478**	**742**	**3 804**

⟹ Consolidated Notes to the Financial Statements – Statement of Financial Position

3.1.4 Types of loans and advances to customers and related collateral

Most of the loans and advances to customers which are secured with collateral are presented in the schedule at collateral value, the unsecured loans presented on face value:

31.12.2021 data in HUF M

Description	Gross credit portfolio	Collateral					Total collateral
		Assignment	Guarantee and suretyship	Mortgage	Assets	Security deposit	
Unsecured retail loans	118 696						-
Secured retail loans	385 777	1 572	810	375 828	78 402	-	456 612
Corporate loans and leases	700 621	6 416	196 446	180 031	119 266	26 672	528 831
Other receivables	2 674						-
Receivables valued at AC	**1 207 768**	**7 988**	**197 256**	**555 859**	**197 668**	**26 672**	**985 443**
Loans valued at fair value	57 172		31 156	15 669			46 825
Total	**1 264 940**	**7 988**	**228 412**	**571 528**	**197 668**	**26 672**	**1 032 268**

[redacted]

31.12.2020 data in HUF M

Megnevezés	Gross credit portfolio	Collateral					Total collateral
		Assignment	Guarantee and suretyship	Mortage	Assets	Security deposit	
Unsecured retail loans	107 153	-	-	-	-	-	-
Secured retail loans	345 965	1 737	898	316 037	77 999	-	396 671
Corporate loans and leases	601 309	5 142	115 353	183 876	116 608	18 547	439 526
Other receivables	4 011	-	-	-	-	-	-
Receivables valued at AC	**1 058 438**	**6 879**	**116 251**	**499 913**	**194 607**	**18 547**	**836 197**
Loans valued at fair value	41 521		31 256	10 559			41 815
Total	**1 099 959**	**6 879**	**147 507**	**510 472**	**194 607**	**18 547**	**878 012**

3.1.5 Concentration of loans and advances to corporate customers by sectors

The Bank's credit portfolio is properly concentrated by sectors at the end of each reporting period:

Period	Agriculture	Processing	Construction	Trade	Transport	Other
31.12.2021	9%	26%	10%	24%	10%	22%
31.12.2020	9%	26%	9%	22%	8%	26%

3.1.6 Impairment of cash and equivalents, securities and loans and advances to banks

data in HUF M

	Total	Stage 1 FVTOCI	Stage 1 AC
Impairment of liquid assets			
Opening balance	(12)	-	(12)
Increase from origination and purchase	(14)	-	(14)
Decrease from maturity and sale	12	-	12
Change in impairment for Stage 1 liquid assets	-	-	-
Effect of change in foreign currency rate	-	-	-
Closing balance	(14)	-	(14)
Impairment of securities			
Opening balance	(112)	(13)	(99)
Increase from origination and purchase	(185)	(5)	(180)
Decrease from maturity and sale	13	10	3
Change in impairment for Stage 1 securities	(64)	-	(64)
Effect of change in foreign currency rate	-	-	-
Closing balance	(348)	(8)	(340)
Loans and advances to banks valued at amortised cost value			
Opening balance	(4)	-	(4)
Increase from origination and purchase	(8)	-	(8)
Decrease from maturity and sale	4	-	4
Change in impairment for Stage 1 receivables	-	-	-
Effect of change in foreign currency rate	-	-	-
Closing balance	(8)	-	(8)

See definitions of Stage 1, Stage 2 and Stage 3 in paragraph 2.4.1.

Abbreviations:
AC: amortised cost value
FVTOCI: valued at fair value through other comprehensive income..

3.2 Liquidity risk

Liquidity risks are managed by the Bank Group centrally through applying standard rules. The purpose of liquidity risk management is to provide access to sufficient funding with which the Bank Group is able to meet its business goals and financial obligations, at reasonable costs, both in normal and critical operating environments. The risk management framework system was developed partly based on legal regulations and partly on the guidelines defined by the Management.

The Bank Group defines its liquidity risk appetite through prime liquidity indicators and limits assigned thereto:

- In case of short-term liquidity stress tests, meeting the minimum 30-calendar-day survival period requirement
- Reaching the minimum level (100%) of the European Union's Liquidity Coverage Ratio (LCR)
- Reaching the minimum level (100%) of the net stable funding ratio (NSFR)

In case of certain assets, the Bank Group uses thresholds, exceeding the thresholds result in an early warning. In addition to its liquidity limit system, the Bank Group also operates a variety of monitoring mechanisms. These mechanisms support the tracking of liquidity risks, draw attention to negative trends, and enable the Bank Group to better comply with its liquidity risk profile.

Liquidity buffers provide the Bank Group with available liquidity with which it is able to cover its short-term liquidity needs which may arise in critical situations. The Bank Group carries out regular as well as case-to-case stress tests to assess the development of the Bank Group's liquidity in different scenarios.

The Bank Group seeks to develop a financial structure which is as independent as possible and is based to a significant extent on the collection of customer deposits. Various refinancing from banks also constitute a major part of the Bank Group's funding.

The table below shows the future maturities of financial receivables and liabilities as well as of derivative transactions on the basis of contractual maturities, or where not applicable, on the basis of the so-called deposit maturity model in relation to 31 December 2022 and 2021:

data in HUF M

Breakdown by maturity - 31 December 2021	Perpetual/ Matured/Sight	within 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	beyond 5 years	Total
Cash and cash equivalents	35 486	259 335	-	-	-	-	**294 821**
Securities	624	415	477	13 742	400 056	203 990	**619 304**
Loans and advances to banks	206	350 031	-	-	36 900	-	**387 137**
Loans and advances to customers	69 750	28 941	70 053	281 673	622 224	380 237	**1 452 878**
Total	**106 066**	**638 722**	**70 530**	**295 415**	**1 059 180**	**584 227**	**2 754 140**
Deposits from banks	42 369	7 079	19 377	103 218	522 099	117 052	**811 194**
Deposits from customers	27 140	845 793	23 405	95 641	607 502	3 362	**1 602 843**
- of which finance lease liabilities	*-*	*-*	*592*	*1 866*	*7 269*	*3 362*	***13 089***
Total	**69 509**	**852 872**	**42 782**	**198 859**	**1 129 601**	**120 414**	**2 414 037**
Derivative financial assets	-	40 205	14 985	25 713	59 333	21 232	**161 468**
Derivative financial liabilities	-	(40 115)	(15 138)	(22 019)	(41 493)	(15 198)	**(133 963)**
Total	**-**	**90**	**(153)**	**3 694**	**17 840**	**6 034**	**27 505**
Undrawn lines of credit and guarantees	400 601						**400 601**

data in HUF M

Breakdown by maturity - 31 December 2020	Perpetual/ Matured/Sight	within 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	beyond 5 years	Total
Cash and cash equivalents	42 820	249 001	-	-	-	-	**291 821**
Securities	3 127	1 905	823	204 504	351 071	90 868	**652 298**
Loans and advances to banks	5 992	164 089	-	-	-	-	**170 081**
Loans and advances to customers	70 171	33 083	52 786	257 033	503 319	352 324	**1 268 716**
Total	**122 102**	**448 078**	**53 609**	**461 537**	**854 390**	**443 192**	**2 382 916**
Deposits from banks	12	3 455	11 969	79 415	420 672	125 600	**641 123**
Deposits from customers	27 968	779 066	14 018	62 164	503 990	4 225	**1 391 431**
- of which finance lease liabilities	*-*	*-*	*634*	*1 965*	*8 841*	*4 225*	***15 665***
Total	**27 980**	**782 521**	**25 987**	**141 579**	**924 662**	**129 825**	**2 032 554**
Derivative financial assets	-	38 789	17 665	18 242	21 089	9 790	**105 575**
Derivative financial liabilities	-	38 537	21 419	18 491	21 723	9 727	**109 897**
Total	**-**	**252**	**(3 754)**	**(249)**	**(634)**	**63**	**(4 322)**
Undrawn lines of credit and guarantees	64 529	21 436	37 150	146 470	80 301	23 480	**373 366**

3.3 Banki könyvi kamatkockázat

An interest rate risk is a risk where the value of financial instruments changes in response to the fluctuations of market interest rates. The Bank attempts to match assets with liabilities with similar interest and amortisation terms to minimise interest risks in relation to the Bank Group's entire statement of financial position. The Bank develops the composition of its interest-bearing assets and liabilities in a way as to ensure that short-term assets are in harmony with short-term liabilities, and that the interest changes of long-term assets and the related long-term liabilities vary parallel.

While complying with the conservatively defined risk limits, the Asset-Liability Management may undertake a tactical open position if opening a non-neutral position verifiably supports the Bank's profitability goals best and interest trends are considered long-lasting.

Based on standard yield curve stress scenarios, the Bank Group defines its acceptable interest rate risk tolerance level in line with the acceptable relative change of interest income and principal.

The table below summarises the Bank's open positions arising from interest repricing in the maturity structure of assets and liabilities:

⟹ Consolidated Notes to the Financial Statements – Statement of Financial Position

31.12.2021 data in HUF M

Repricing gap table Banking book	**0 - 1 month**	**1 - 3 months**	**3 - 6 months**	**6 months - 1 year**	**1 - 2 years**	**2 - 3 years**	**3 - 4 years**	**4 - 5 years**	**beyond 5 years**
Cash and cash equivalents	294 821	-	-	-	-	-	-	-	-
Securities	61 348	49 702	2 000	-	40 637	77 968	189 297	65 064	81 791
Loans and advances to banks	387 137	-	-	-	-	-	-	-	-
Loans and advances to customers	275 829	161 889	83 026	102 061	157 282	108 971	72 428	56 363	193 050
	1 019 135	**211 591**	**85 026**	**102 061**	**197 919**	**186 939**	**261 725**	**121 427**	**274 841**
Deposits from banks	(9 806)	(16 441)	(22 767)	(68 725)	(111 487)	(46 912)	(276 333)	(48 799)	(111 245)
Deposits from customers	(897 318)	(105 326)	(45 348)	(43 156)	(73 912)	(95 531)	(85 007)	(255 628)	-
	(907 124)	**(121 767)**	**(68 115)**	**(111 881)**	**(185 399)**	**(142 443)**	**(361 340)**	**(304 427)**	**(111 245)**
Off-balance-sheet receivables	84 781	142 557	273 319	32 665	65 596	16 278	65 987	442	32 256
Off-balance-sheet liabilities	(48 719)	(33 009)	(183 493)	(33 631)	(88 723)	(101 832)	(42 481)	(30 333)	(152 611)
	36 062	**109 548**	**89 826**	**(966)**	**(23 127)**	**(85 554)**	**23 506**	**(29 891)**	**(120 355)**
Discrete gap	**148 073**	**199 372**	**106 737**	**(10 786)**	**(10 607)**	**(41 058)**	**(76 109)**	**(212 891)**	**43 241**

31.12.2020 data in HUF M

Repricing gap table Banking book	**0 - 1 month**	**1 - 3 months**	**3 - 6 months**	**6 months - 1 year**	**1 - 2 years**	**2 - 3 years**	**3 - 4 years**	**4 - 5 years**	**beyond 5 years**
Cash and cash equivalents	291 321	500	-	-	-	-	-	-	-
Securities	31 605	700	97 399	99 304	-	48 151	68 275	189 595	88 257
Loans and advances to banks	170 081	-	-	-	-	-	-	-	-
Loans and advances to customers	289 924	162 754	62 382	77 198	109 426	86 620	67 957	53 421	139 079
	782 931	**163 954**	**159 781**	**176 502**	**109 426**	**134 771**	**136 232**	**243 016**	**227 336**
Deposits from banks	(11 407)	(20 262)	(37 587)	(39 017)	(66 311)	(58 318)	(31 471)	(254 422)	(90 506)
Deposits from customers	(758 350)	(90 296)	(52 380)	(44 417)	(64 020)	(82 591)	(73 448)	(224 089)	-
	(769 757)	**(110 558)**	**(89 967)**	**(83 434)**	**(130 331)**	**(140 909)**	**(104 919)**	**(478 511)**	**(90 506)**
Off-balance-sheet receivables	65 082	132 434	245 601	7 411	41 216	62 891	15 483	63 398	31 066
Off-balance-sheet liabilities	(52 910)	(58 681)	(180 628)	(33 450)	(45 456)	(73 983)	(87 038)	(20 472)	(113 056)
	12 172	**73 753**	**64 973**	**(26 039)**	**(4 240)**	**(11 092)**	**(71 555)**	**42 926**	**(81 990)**
Discrete gap	**25 346**	**127 149**	**134 787**	**67 029**	**(25 145)**	**(17 230)**	**(40 242)**	**(192 569)**	**54 840**

The Bank measures interest risks by conducting scenario analyses, as well as using stress tests. These also form part of the Bank's capital requirement calculation models under Pillar 2. The table below summarises the possible effects of financial instruments on profits/losses and capital, assuming a shift in the yield curve by 200 basis points.

data in HUF M

Sensitivity (EBA floor)	**Capital sensitivity**		**Profit sensitivity**	
	+200 bp	***-200 bp***	***+200 bp***	***-200 bp***
31.12.2021				
HUF	299	(6 882)	3 999	(6 158)
EUR	(1 718)	212	234	(658)
Other currencies	178	(358)	128	(45)

There is a fundamental global reform under way regarding the main reference interest rates with the aim of replacing (or reforming) the IBOR with alternative, near risk-free reference rates. In respect of the Group's financial instruments, there are no major exposures to interbank reference rates (interbank offer rates, IBOR) that would be replaced or reformed as a consequence of this market-level initiative. According to the Group's expectations, the IBOR reform will not cause significant operating, risk management or accounting effects in its operations.

3.4 Foreign currency risk

The Bank's goal is to minimise any non-intended end-of-day open foreign currency positions and to effectively manage intra-day position with regard to profitability criteria as well.

The Bank defines its currency risk tolerance level through limits applicable to open foreign currency positions. The Bank Group operates intra-day position and stop-loss limits as well as overnight position limits to ensure that open trading foreign currency positions do not exceed the fixed reasonable limits.

During daily banking operations, Treasury manages foreign currency positions generated by customer transactions as well as positions opened for trading purposes by not exceeding open position risk limits.

The Bank's open positions by currencies were as follows on 31 December 2021:

31.12.2021 data in HUF M

Currency	Balance sheet net open positions	Spot positions	Net futures positions	Net open positions by currencies
USD	208	290	(491)	7
CHF	(3 226)	(11)	3 230	(7)
CAD	11	(8)	-	3
GBP	(1 731)	(27)	1 760	2
DKK	(3)	4	-	1
SEK	(8)	8	-	-
NOK	5	-	-	5
AUD	3	-	-	3
JPY	87	-	(88)	(1)
RON	102	(31)	(71)	-
EUR	(21 524)	121	21 695	292
CZK	(4)	4	-	-
PLN	(109)	12	100	3

In light of the Bank's minimal open foreign exchange positions, even in the event of a material foreign currency rate fluctuation the Bank would face a low net income change.

On 31 December 2020, the Bank's open positions by currencies represented minimal risks, too:

31.12.2020 data in HUF M

Currency	Balance sheet net open positions	Spot positions	Net futures positions	Net open positions by currencies
USD	360	36	(445)	(49)
CHF	(401)	(2)	405	2
CAD	3	-	-	3
GBP	163	20	(183)	-
DKK	1	1	-	2
SEK	(1)	-	-	(1)
NOK	10	-	-	10
AUD	(1)	-	-	(1)
JPY	26	-	(29)	(3)
RON	464	-	(433)	31
EUR	(28 857)	1 755	27 688	586
CZK	(2)	-	-	(2)
PLN	37	3	(37)	3

3.5 Market risk in trading book

A market risk represents the risk that the fair value of a financial instrument will fluctuate in response to changes in market prices. From among market risks, the Bank exposes itself to foreign currency and interest rate risks in the trading book portfolio; however, the authorised extent of risks is restricted by stringent limits.

For the measurement of market risks the Bank employs the Value-at-Risk (VaR) method which serves to estimate the maximum expected loss for an assumed period and at an assumed confidence level. During the daily measurement of market risks, the Bank uses a 10-day, 99% VaR which indicates that the potential loss that could be sustained over a period of 10 days will not exceed the value of VaR with a 99% probability rate. An advantage of the VaR-based market risk measurement methodology is that it takes account of the volatility observed on the market as well as the diversification and correlation effects between risk types. The Bank quantifies the value of VaR with daily regularity on the basis of a variance-covariance approach, and also carries out a stressed VaR-based calculation, as part of which the covariance and correlation matrix is determined for measuring VaR on the basis of the development of prices during an earlier historical stress period.
The Bank quantifies the VaR value by risk types (foreign currency exchange rate and interest rate risks) as well as for the entire trading book portfolio. The VaR of the entire trading book portfolio is below the sum of VaR values determined by risk types due to diversification effects.
The Bank checks the reliability of the VaR models monthly, as part of which the results of the daily VaR measurements are compared with the actual changes in the value of the portfolio exposed to market

risks. Based on these control measurements, the Bank reviews its measurement methodology if necessary.
In addition to VaR-based market risk measurements, the Bank also monitors market risks in the trading book with other measurements. The Bank carries out daily sensitivity tests by risk types in respect of the trading book portfolio, and furthermore the trading book portfolio stress tested regularly to assess how the trading book portfolio would respond to market shocks.

Treasury has been authorised to hold intended overnight FX positions since March 2018, while the holding of securities positions for trading purposes has been permitted since December 2018.

The VaR relating to the trading portfolio can be summed up as follows (in HUF million):

data in HUF M

Parametric VaR (99%. 10 days) - daily average		
Risk type	**2021**	**2020**
Foreign exchange	4,40	4,28
Interest rate	52,43	27,33
Total trading book VaR	54,69	26,70
Diversification	2,14	4,92

3.6 Capital management and capital requirements

The Bank prepares its capital requirement calculations in accordance with Basel III/CRR (Regulation 575/2013/EU). The purpose of the Basel III global directives identified within the EU's regulatory framework system is to create security for financial systems, to maintain appropriate capital reserve and liquidity levels whilst ensuring equal opportunities for market players, to develop appropriate risk management capabilities adjusted to each player's activities, and to cover any losses that may emerge during their operations. In Hungary the Capital Requirements Regulation (CRR) is directly in effect.

Basel III rests on three pillars: minimum capital requirements, supervisory review and market disclosure (discipline). Basel III offers three approaches, representing different levels of approach, for the calculation of credit risk capital requirements under Pillar 1. Budapest Bank calculates its capital requirement according to the standardised approach which requires banks to use external credit ratings for determining the risk weights applied to rated counterparties, classifies other counterparties into broad categories, and applies standardised risk weights to these categories. Basel III prescribes a capital requirement for operational risks.
The Bank Group identifies an operational risk tolerance limit for the assessment of internal loss data. This determines the level of financial losses arising from operational risk events which is acceptable for the Bank Group on an annual level. The Bank operates an integrated risk management system to explore, analyse and improve the risks and controls built into its processes. At present, for the calculation of capital requirements, the Bank employs the AMA method to determine the capital requirements related to operational risks.

Pillar 2 of Basel III (supervisory review and assessment) assesses the additional capital requirement of risks not or only partly covered under Pillar 1 with a so-called advanced measurement approach, with the involvement of supervisory regulatory agencies. The Bank Group's lead regulatory agency, the National Bank of Hungary determines and reviews capital requirements for the entire group.

Pillar 3 of Basel III relates to market discipline, and its purpose is to enhance the transparency of companies by obliging them to disclose specific, pre-defined details of their risks as well as of their capital and risk management procedures under Basel III.

According to the capital adequacy regulations, the consolidated capital adequacy ratio are as follows:

data in HUF M

Basel III capital adequacy	2021	2020
Equity		
Share capital	19 396	19 396
Reserves	157 552	146 707
Accumulated other comprehensive income	(889)	2 101
Intangible assets	(19 891)	(19 734)
AVA prudent valuation	(258)	(288)
Deductible deferred tax receivables	(36)	(169)
Uncovered part of defaulted exposures	(73)	
Tier 1 capital	155 801	148 013
		-
Tier 2 supplementary capital elements	20 000	-
Regulatory capital	175 801	148 013
Risk weighted assets (RWA)	922 965	897 340
Operational risk (OR)	98 696	98 832
Market risk (MR)	178	566
Credit valuation adjustment	15 466	6 699
Total risk weighted assets	1 037 305	1 003 437
Capital adequacy ratio	16,95%	14,75%

The Bank immediately recognised the effects of IFRS 9 impairment in its Tier 1 capital determined for regulatory purposes, not availing itself of the option of recognising the effects of IFRS 9 impairment in the Tier 1 capital over a period of several years.

4 FOOTNOTES TO STATEMENT TO FINANCIAL POSITION

4.1 Cash and cash equivalents

data in HUF M

	31.12.2021	31.12.2020
1-day interbank deposits	-	3 103
1-day deposits NBH	259 349	245 909
Interbank money transport		-
Bank accounts	5 366	4 667
Securities with a term of less than 3 months upon recognition		
Settlements with central bank (NBH single account)	5 316	9 833
Loans from associates		
Cash	18 242	20 377
Nostro	6 562	7 944
Impairment (stage1)	(14)	(12)
Total	**294 821**	**291 821**

4.2 Származékos pénzügyi instrumentumok

The Bank only concludes OTC derivative transactions, which are valued compulsory at FVTPL. The Bank's open derivative transactions were as follows on 31 December 2021:

31.12.2021 data in HUF M

Type of derivative transaction	Face value asset side	Face value liability side	Asset FMV	Liability FMV	Net position	Derivative financial assets	Derivative financial liabilities	Remaining term (years) weighted with face value
Interest rate swap	649 462	(649 462)	631 447	(607 017)	24 430	40 930	(16 500)	3,8
-of which covered	*230 174*	*(230 174)*	*229 619*	*(206 308)*	*23 311*	*23 324*	*(13)*	*5,1*
CIRS	4 521	(5 403)	4 325	(5 480)	(1 155)	-	(1 155)	6,9
Foreign exchange forward	18 716	(18 846)	18 780	(18 815)	(35)	184	(219)	0,2
Foreign exchange swap	41 182	(41 121)	41 157	(41 166)	(9)	133	(142)	0,1
Total	713 881	(714 832)	695 709	(672 478)	23 231	41 247	(18 016)	

⟹ Consolidated Notes to the Financial Statements – Statement of Financial Position

The Bank's open derivative transactions were as follows on 31 December 2020:

31.12.2020 data in HUF M

Type of derivative transaction	Face value asset side	Face value liability side	Asset FMV	Liability FMV	Net position	Derivative financial assets	Derivative financial liabilities	Remaining term (years) weighted with face value
Interest rate swap	591 505	(591 505)	596 008	(599 335)	(3 327)	4 416	(7 743)	4,1
CIRS	6 288	(7 423)	6 380	(7 436)	(1 056)	-	(1 056)	5,9
Foreign exchange forward	26 231	(26 361)	26 256	(26 370)	(114)	119	(233)	0,3
Foreign exchange swap	40 558	(40 385)	40 542	(40 377)	165	169	(4)	0,3
Total	664 582	(665 674)	669 186	(673 518)	(4 332)	4 704	(9 036)	

4.3 Securities

data in HUF M

	Rating	Valuation hierarchy	31.12.2021
Trading securities			
Government bonds	Baa2	Level1	35
Treasury bills			
Securities valued at fair value through profit or loss on a mandatory basis*			
Funds			
Stock exchange shares	N/A	Level1	593
Compensation warrants	Baa2	Level2	31
Securities valued at fair value through other comprehensive income			
Government bonds	Baa2	Level1	144 384
Mortgage debentures	Baa2	Level2	9 457
Treasury bills	Baa2	Level2	1 969
Corporate bonds			
Credit institution bonds	Baa2	Level2	11 137
Compensation warrants			
Securities valued at amortised cost value			
Government bonds	Baa2	Level1	361 542
Mortgage debentures			
Treasury bills			
Corporate bonds	Baa3 /Ba2 / B3 / B1	Level2	36 648
Credit institution bonds	Baa2	Level2	2 011
			567 807

The interest revenue of the FVTPL Securities accounted for on Net income/(loss) from (non-trading) financial instruments valued at FVTPL in the income statement.

The bank did not enter into a repo transaction in 2020 and 2021.

data in HUF M

	Rating	Valuation hierarchy	31.12.2020
Trading securities			
Government bonds	Baa3	Level1	1 324
Treasury bills			
Securities valued at fair value through profit or loss on a mandatory basis*			
Funds		Level1	2 256
Stock exchange shares		Level1	835
Compensation warrants	Baa3	Level2	36
Securities valued at fair value through other comprehensive income			
Government bonds	Baa3	Level1	62 784
Mortgage debentures	Baa2	Level2	37 558
Treasury bills	Baa3	Level1	125 863
Corporate bonds			
Compensation warrants			
Securities valued at amortised cost value			
Government bonds	Baa3	Level1	347 855
Mortgage debentures			
Treasury bills			
Corporate bonds	Ba2 / Ba3 / B1	Level2	9 897
Credit institution bonds	Baa3	Level2	34 878
			623 286

The Group regards securities with a term of less than 3 months at the time of their purchase as cash and cash equivalents, and therefore recognises them in the cash and cash equivalents balance sheet line. On 31. 12. 2021 we did not have such a stock.

4.4 Loans and advances to banks

data in HUF M

Breakdown of loans and advances to banks	**31.12.2021**	**31.12.2020**
NBH 2 week deposit	350 031	160 000
Loans to credit insitutions	36 900	-
Margin coverage	30	5 979
Interbank placements	-	3 925
NBH separated deposits	6	6
Other	170	171
Loans and advances to banks	**387 137**	**170 081**

4.5 Loans and advances to customers

31.12.2021 data in HUF M

Description	Gross portfolio	Impairment Allowance	Net portfolio
Unsecured retail loans	118 696	16 793	101 903
Secured retail loans	385 777	14 390	371 387
Corporate loans and leases	700 621	22 717	677 904
Other receivables	2 533	-	2 533
Receivables valued at amortised cost value	**1 207 627**	**53 900**	**1 153 727**
Loans valued at fair value through profit or loss on a mandatory ba	57 172	-	57 172
Total loans and advances to customers	**1 264 799**	**53 900**	**1 210 899**

31.12.2020 data in HUF M

Description	Gross portfolio	Impairment Allowance	Net portfolio
Unsecured retail loans	107 153	11 352	95 801
Secured retail loans	345 965	15 234	330 731
Corporate loans and leases	601 309	24 612	576 697
Other receivables	4 011	-	4 011
Receivables valued at amortised cost value	**1 058 438**	**51 198**	**1 007 240**
Loans valued at fair value through profit or loss on a mandatory ba	41 521	-	41 521
Total loans and advances to customers	**1 099 959**	**51 198**	**1 048 761**

The Group recognises the loans denominated in HUF and EUR and provided for small and medium-sized enterprises (SMEs) as part of the Growth Credit Programme (GCP) among loans and advances to customers. The interest on loans provided for SMEs as part of GCP is fixed, maximum 2.5%. At the disbursement of the loans, this interest rate was more favourable than market interest rates, and therefore a difference arose between the face and the fair value of the loans upon recognition. The Group has immediately accounted for this difference in the net income (2.3.1.1 a) since 2019. See further information on loans and impairment in Chapter 3.1 Credit risk. The recognized initial fair value difference is amortized over the term of the loan using the effective interest method.

Loans valued at fair value

Loans valued at fair value were only recognised according to the IFRS 9 rules in 2018; statements under AA from periods before 2018 did not include credit portfolios valued at fair value. Fair value hierarchy of the loans is Level 3. The interest income of these loans and any other changes in fair value are accounted for in the line “Net income /(loss) from financial instruments valued at FVTPL” (see paragraph 5.5). For further information on the valuation of loans at fair value see paragraphs 2.3.1.3 “S”, 5.5 and 6.7. Changes in the fair value of loans measured at fair value are recognized at profit or loss.

Loans valued at fair value through profit or loss changed as follows during 2021:

data in HUF M

Description	Level 3
Gross portfolio Opening	41 521
Of which fair value difference	*57*
Change in fair value difference of gross portfolio	(251)
Gross portfolio disbursement	18 012
Gross portfolio interest income	2 108
Gross portfolio repayment	(4 218)
Gross portfolio derecognition profit/loss	-
Reclassification to gross portfolio	-
Reclassification from gross portfolio	-
Gross portfolio Closing	**57 172**
Of which fair value difference	*(194)*

<u>*Macro-hedged loans*</u>

The Bank reduces the interest risk of fixed-interest loans with interest swaps. At the end of 2020, a fixed-interest credit portfolio and an interest swap portfolio worth HUF 165,5 billion were matched in hedging relationships. Fair value differences of the hedging interest swaps are stated in the balance sheet line “Derivatives” (see paragraph 4.2).

data in HUF M

	Face value of interest rate swaps in hedge	Fair value difference of IRSs in hedge relationships
Assets	226 974	23 324
Liabilities	3 200	(13)
	230 174	**23 311**

In 2021, HUF 26.1 billion profit was reported by the bank's hedge interest swaps during the hedging relationship. Fixed-rate loans that are reported on the " Loans and advances to customers " balance sheet line. A loss of HUF 28 billion for the change in interest rate risk was ccounted for these loans during the hedge relationship in 2021. From the closed hedge relationships another 25 542 million HUF unamortized amount is included, „Fair value change of portfolio hedge on interest rate risk” on balance sheet.

⟹ Consolidated Notes to the Financial Statements – Statement of Financial Position

data in HUF M

	Fix-interest loans	Interest rate swaps	Net profit/loss
Positive fair value change	1 050	27 569	28 619
Negative fair value change	(29 081)	(1 483)	(30 564)
	(28 031)	26 086	(1 945)

See net profit/loss effect in paragraph 5.5.

data in HUF M

	2021	2020
Loans and receivables to customers included in hedge	230 174	165 451
Changes in the fair value of interest rate risk hedge - at balance sheet date	(25 542)	2 489
Changes in the fair value of interest rate risk hedge- over the year	(28 031)	(360)

data in HUF M

	Interest rate risk portfolio hedged IRS and loan			
	within 1 month	1 - 5 years	beyond 5 years	Total
Expiration 31.12.2021	24 850	96 176	109 148	230 174
IRS interest rate weighted with nominal value	1,04%	1,79%	2,19%	
Expiration 31.12.2020	19 300	72 750	73 401	165 451
IRS interest rate weighted with nominal value	0,78%	1,14%	1,73%	

Details of lease receivables

data in HUF M

	31.12.2021	31.12.2020
Gross lease receivables		
Within 1 year	83 398	82 466
Within 1-5 years	163 790	155 804
Beyond 5 years	6 963	9 211
Total	**254 151**	**247 481**
Present value of minimum lease payment		
Within 1 year	75 312	73 762
Within 1-5 years	152 881	144 631
Beyond 5 years	6 680	8 771
Total	**234 873**	**227 164**
Unearned revenues	19 278	20 317
Non-guaranteed residual value	25 022	21 091

The Group as lessor only has finance leases, though from a legal point of view it is engaged in both operating and finance lease activities (open-end and closed-end finance leases).

- Closed-end finance lease: During the term, ownership of the asset remains with the Lessor. At the end of the term, upon the payment of the last lease fee, the Lessee automatically acquires title to the leased asset.
- Open-end finance lease: During the term, ownership of the asset remains with the Lessor; however, at the end of the term the Lessee is free to decide whether to exercise its pre-emptive right and to acquire title to the leased asset through the payment of the residual value, or to exercise the right of appointing a buyer and the leased asset is sold at the residual value directly to a third party, or to return the leased asset to the Lessor.

Lease transactions are denominated in HUF and EUR. The term of the portfolio ranges 10 years; average term: 59 months.

The Company's lease agreements do not include lease (rental) fees that are subject to performance indicators on the lessee's part.

4.6 Investments in subsidiaries, joint ventures and associates

At present, the Bank has investments in the following three subsidiaries which constitute the Bank Group together with the Bank. See detailed introduction of subsidiaries in Chapter 1.2.

data in HUF M

Name	Cost value	Vote %	Equity	Share capital	Current year comprehensive income	Total assets
Budapest Lízing Zrt	6 380	100%	7 405	62	1 000	126 421
Budapest Alapkezelő Zrt	10	100%	3 029	500	2 374	3 277
Budapest Eszközfinanszírozó Zrt	2 006	100%	1 244	15	(260)	2 665

4.7 Property, plant, equipment and intangible assets

The gross value and amortisation of the Bank's tangible assets were as follows during 2020 and 2021:

data in HUF M

Changes during 2021	Properties	Right-of-use assets (properties)	IT equipment	Other	Total
Cost value					
Opening balance on 1 January 2021	**11 213**	**16 973**	**8 362**	**9 208**	**45 756**
Purchase and self-construction	466	443	694	1 441	3 044
Reclassification	-	-	-	-	-
Sales, derecognitions	-	(5)	(741)	(245)	(991)
Balance on 31.12.2021	**11 679**	**17 411**	**8 315**	**10 404**	**47 809**
Opening balance on 1 January 2021	**5 835**	**4 051**	**6 086**	**5 050**	**21 022**
Depreciation	501	2 190	1 106	1 207	5 004
Sales, derecognitions	-	(2)	(731)	(180)	(913)
Reclassification	-	-	-	-	-
Balance on 31.12.2021	**6 336**	**6 239**	**6 461**	**6 077**	**25 113**
Net opening balance on 1 January 2021	**5 378**	**12 922**	**2 276**	**4 158**	**24 734**
Net balance on 31.12.2021	**5 343**	**11 172**	**1 854**	**4 327**	**22 696**

Changes during 2020	Properties	Right-of-use assets (properties)	IT equipment	Other	Total
Cost value					
Opening balance on 1 January 2020	**10 753**	**15 705**	**7 403**	**7 583**	**41 444**
Purchase and self-construction	550	1 431	1 208	1 875	5 064
Reclassification	-	-	-	-	-
Sales, derecognitions	(90)	(163)	(249)	(250)	(752)
Balance on 31.12.2020	**11 213**	**16 973**	**8 362**	**9 208**	**45 756**
Opening balance on 1 January 2020	**5 503**	**1 963**	**5 253**	**4 529**	**17 248**
Depreciation	407	2 114	1 079	700	4 300
Sales, derecognitions	(75)	(26)	(246)	(179)	(526)
Reclassification	-	-	-	-	-
Balance on 31.12.2020	**5 835**	**4 051**	**6 086**	**5 050**	**21 022**
Net opening balance on 1 January 2020	**5 250**	**13 742**	**2 150**	**3 054**	**24 196**
Net balance on 31.12.2020	**5 378**	**12 922**	**2 276**	**4 158**	**24 734**

Bank does produse fixed assets os rela. At the end of 2021, the bank had a contractual obligation for HUF 359 million to obtain real estate, machinery and equipment.

⟹ **Consolidated Notes to the Financial Statements – Statement of Financial Position**

Intangible assets include software and rights representing assets.

31.12.2021 data in HUF M

	Software	Rights representing assets	Total
Gross	51 885	155	52 040
Accumulated amortisation	(31 996)	(153)	(32 149)
	19 889	**2**	**19 891**

31.12.2020 data in HUF M

	Software	Rights representing assets	Total
Gross	47 013	155	47 168
Accumulated amortisation	(27 282)	(152)	(27 434)
	19 731	**3**	**19 734**

During 2020 and 2021 the bank did not report expenses for research and development purposes. At the end of 2021, the Bank had a contractual obligation to acquire software for HUF 1.334 million. The bank's real estate, machine, equipment and intangible property do not have a pledge.

4.8 Tax receivables and tax liabilities

Some subsidiaries of the Bank closed their financial years at the individual income as tax claim or tax liability. These positions were not netted in the financial situation statement. The net tax position is formed according to the following motion table.

data in HUF M

	31.12.2021	31.12.2020
Development of deferred tax portfolio		
Deferred tax receivables(+) / liabilities(-) portfolio		
Opening	335	246
Current-year change	(175)	89
Closing	160	335
Deferred tax from securities valued at fair value through OCI		
Opening	(207)	(231)
Current-year change	461	24
Reclassification to current-year profit/loss	-	-
Closing	254	(207)
Total deferred tax	**414**	**128**
Deferred tax receivables(+) / liabilities(-)	414	128
Actual income tax receivables(+) / liabilities(-)	(269)	178
Balance sheet net tax receivables	**145**	**306**
Balance sheet tax receivables(+)	608	654
Balance sheet tax liabilities(-)	(463)	(348)
Balance sheet net tax receivables	**145**	**306**

⟹ **Consolidated Notes to the Financial Statements – Statement of Financial Position**

data in HUF M

Deferred tax breakdown by temporary differences	**31.12.2021**	**31.12.2020**
Opening		
On provisions	87	82
On tangible assets, intangible assets	45	79
On impairment	6	2
On accrued loss	197	83
	335	**246**
Current-year change		
On provisions	13	5
On tangible assets, intangible assets	(23)	(34)
On impairment	(3)	4
On accrued loss	(162)	114
	(175)	**89**
Closing		
On provisions	100	87
On tangible assets, intangible assets	22	45
On impairment	3	6
On accrued loss	35	197
	160	**335**

4.9 Other assets

data in HUF M

	31.12.2021	**31.12.2020**
Tax and tax-type items	1 499	3 180
Deferral of revenues	2 959	1 539
Deferral of costs and expenditures	1 080	1 084
Euronet settlement account	22	6
Card settlement accounts	1 466	1 011
Inventories*	20	224
Impairment of inventories	(4)	(40)
Clearing accounts	353	12
Settlement account related to retail housing loans	706	465
Finance lease settlement accounts	1 185	1 342
Other assets	5 269	2 712
Other impairment	(521)	(389)
Investments in other enterprises	198	198
	14 232	**11 344**

*Assets repossessed from lease contracts, primarily buses and agricultural machinery, their sale is in progress.

⟹ **Consolidated Notes to the Financial Statements – Statement of Financial Position**

Repossessed assets – primarily in connection with lease activities – are carried in the inventories:

data in HUF M

	31.12.2021	31.12.2020
Gross value of repossessed assets*	17	149
Impairment of repossessed assets	(4)	(40)
Gross value of other inventories	3	75
Impairment of other inventories	-	-
	16	**184**

Impairment accounted for in respect of assets repossessed in 202	(4)
Impairment accounted for in respect of assets repossessed in 202	(29)

*Assets repossessed from lease contracts, primarily buses and agricultural machinery, their sale is in progress.

Investments in other enterprises on 31 December 2021:

data in HUF M

Name of enterprise	Head office	Cost value	Voting %
Garantiqa Hitelgarancia Zrt	1082 Budapest, Kisfaludy utca 32.	190	2,42%
Swift	Avenue Adele 1 B 1310 La Hulpe Belgium	8	0,00%

4.10 Deposits from banks

data in HUF M

	31.12.2021	31.12.2020
Long term loan - NBH	255 046	232 270
Refinancing funding - NBH	198 407	178 189
Refinancing funding - other banks	129 976	94 217
Refinancing funding - mortgage banks	86 513	89 033
Margin coverage	22 329	-
Subordinated loan capital	20 000	-
Interbank funding	204	502
Deposits from MFB	-	15 079
Deposits from other banks	40	11
	712 515	**609 301**

Pledged assets supplied by the Bank as collateral amounted to HUF 470.253 million of securities and HUF 170.921 million of receivables on 31 December 2021.

The Company recognises the refinancing funding received from the NBH with 0% interest as part of the Growth Credit Programme (GCP) in deposits from banks.

4.11 Deposits from customers

data in HUF M

	31.12.2021	31.12.2020
Retail deposits	423 336	370 106
Corporate deposits	1 086 641	930 332
Deposits from investment funds	45 178	37 876
Investment services settlement accounts	26 735	27 600
Suppliers	4 919	6 783
Financial lease liability	12 548	14 300
Other customers	1 869	2 594
	1 601 226	**1 389 591**

*Effects of IFRS 16 conversion (see Section 2.1)

4.12 Provisions

The following provisions were accounted for the off-balance-sheet contingent liabilities:

31.12.2021 data in HUF M

Contingent liabilities	Gross	Provisions
Undrawn lines of credit and guarantees	400 601	2 217
Other contingent liabilities (including lawsuits)	1 504	1 116
Total contingent liabilities	**402 105**	**3 333**

31.12.2020 data in HUF M

Contingent liabilities	Gross	Provisions
Undrawn lines of credit and guarantees	373 366	2 584
Other contingent liabilities (including lawsuits)	1 604	1 220
Total contingent liabilities	**374 970**	**3 804**

Amounts stated as “gross” represent the maximum available credit line or the maximum amount payable by the Group in connection with financial guarantee contracts. In case of other contingent liabilities, the “gross” amount is the estimated maximum amount payable by the Group.

The Bank rates and creates provisions for its few litigations of significant amounts individually. The Bank makes provisions in the amount of the expected loss for litigations where the likelihood of a negative outcome is more than 50%. Litigations take typically several years to conclude.

4.13 Other liabilities

data in HUF M

Breakdown of other liabilities	31.12.2021	31.12.2020
Monthly accruals of costs	7 828	5 120
Credit card overpayments	1 029	2 564
Clearing accounts	4 079	2 409
Tax and tax-type items	2 344	2 528
Card settlement accounts	2 341	1 714
Other	6 243	2 987
	23 864	**17 322**

4.14 Share capital

There was no change in the share capital in 2021.

Description	Face value (HUF)	Number of shares	Value (HUF M)
Opening balance 01.01.2021	1 000	19 395 945	19 396
Current-year change	-	-	-
Closing balance 31.12.2021	1 000	19 395 945	19 396

The Bank's issued capital consists of ordinary registered shares each with face value of HUF 1,000, 100% of which are held by Magyar Bankholding Zrt. (see Chapter 1.1).

Description	Share type	Face value (HUF)	Number of shares	Value (HUF M)
Ordinary shares	registered	1 000	19 395 945	19 396

4.15 Reserves

In 2021 accumulated other comprehensive income was generated in relation to securities:

data in HUF M

Opening valuation difference of securities valued at fair value through other comprehensive income	2 089
Effect of interim purchases and exchange rate changes	(4 781)
Derecognition due to maturity	(165)
Net amount transferred to profit/loss due to sale	(173)
Effect of deferred tax	461
Accumulated other comprehensive income closing	**(2 569)**

5 FOOTNOTES TO INCOME STATEMENT

5.1 Net interest income

Interest income	**2021**	**2020**
Cash and cash equivalents	5 415	108
Fair value of "new baby" loans and mortages*	2 105	-
Securities valued at fair value through comprehensive income	2 229	2 877
Securities valued at amortised cost value	6 127	3 363
Loans and advances to banks valued at amortised cost value	3 281	1 319
Loans and advances to customers valued at amortised cost value	45 374	42 085
- of which lease interest not accounted for with effective interest rate method	*10 339*	*9 692*
Default interest income	3 466	815
- of which lease interest not accounted for with effective interest rate method	*14*	*37*
Interest income	**67 997**	**50 567**

Interest expense	**2021.**	**2020.**
Deposits from banks valued at amortised cost value	(6 721)	(3 098)
Deposits from customers valued at amortised cost value	(2 127)	(1 417)
Interest expense	**(8 848)**	**(4 515)**
Net interest income	**59 149**	**46 052**

The above interest income and expenses were accounted for with the effective interest rate method, see paragraph 2.2 D.

Interest income on loans valued at FVTPL before 2021 was recognized in profit or loss on (non commercial) financial instruments at fair value through profit or loss but since 2021 consistently with the other banks of the Holding was recognized in interest.
Apart form the FVTPL loans, for the other FVTPL financial assets, interest income and expenses are not recognized in interest income or expenses, but in profit or loss in financial instruments at fair value through profit or loss.

⟹ Consolidated Notes to the Financial Statements – Income Statement

5.2 Net fee and commission income

data in HUF M

Fee and commission income	2021	2020
Fee and commission income related to funds	5 321	4 400
Insurance commission income	3 810	1 775
Fee and commission income from current account and savings products	26 445	29 999
Fee and commission income from credit products	13 830	5 288
Customer conversion income (trade income)	-	5 563
Fee and commission income	**49 406**	**47 025**
Fee and commission expense	**2021.**	**2020.**
Trading and other commissions	(1 612)	(549)
Bank card and credit card commissions	(2 322)	(4 803)
Commissions related to account keeping and loans	(5 760)	(1 318)
Fee and commission expense	**(9 694)**	**(6 670)**
Net fee and commission income	**39 712**	**40 355**

From 2021, the conversion income is recognized in the net foreign exchange gain or loss line in the customer conversion result. (trade income).

5.3 Net gains/(losses) arising from derecognition of financial assets (valued at not FVTPL)

data in HUF M

Description	2021	2020
Credit institutions FVTOCI - gains/losses	(248)	960
Government bonds FVTOCI - gains/losses upon derecognition	414	797
Government bonds AC - gains/losses upon derecognition	-	1 890
Corporate bonds FVTOCI - gains/losses	-	298
Sale of own receivables	1 107	2 447
Net gains/(losses) arising from derecognition of financial assets (valued at not FVTPL)	1 273	6 392

See definitions and contents of the abbreviations in paragraphs 2.3.1-3. Upon derecognition (typically in the event of sale), in every instance the Bank transfers the fair value differences accounted for in other comprehensive income to the current-year profit/loss in this line.

Sale of receivable represents the net profit/loss of default loans sold on the collections market.

⟹ **Consolidated Notes to the Financial Statements – Income Statement**

5.4 Net trading income/(losses)

data in HUF M

Megnevezés	2021	2020
Interest rate swap	840	(17)
CIRS	(281)	(762)
Foreign exchange swap	(250)	(1 778)
Foreign exchange forward	(484)	25
Government securities	233	695
Corporate bonds	544	919
Total	**602**	**(918)**

The bank enters into over-the-counter derivatives, which are required to be measured as FVTPL.

5.5 Net income /(loss) from financial instruments valued at FVTPL

data in HUF M

Description	2021	2020
Interest of non-trading financial assets valued at fair value through profit or loss on a mandatory basis		1 337
Fair value of non-trading financial assets valued at fair value through profit or loss on a mandatory basis	(490)	244
Net profit/loss of hedging transactions	(1 945)	(581)
Total	**(2 435)**	**1 000**

* From 2021, the bank shows as interest income the interest of Baby expecting loans and the CSOK loans in the amount of HUF 2105 million.
See further information on credit-related hedging transactions in Chapters 4.5 and 2.4.3.

⟹ Consolidated Notes to the Financial Statements – Income Statement

5.6 Other operating income and expenses

data in HUF M

Breakdown of other operating income	2021	2020
Other	1 190	1 197
Adjustments from previous year	56	2 124
Initial fair value on refinancing liabilities*	2 381	5 407
Intermediary activities	1 263	973
Recharges	33	660
Other operating income	**4 923**	**10 361**

Breakdown of other operating expenses	2021	2020
Bank tax	(1 230)	(2 345)
Other	(5 166)	(1 600)
Damages, fines	(33)	(50)
Mandatory membership fees	(641)	(2 226)
Initial fair value on loans*	(2 511)	(5 385)
Non-deductible VAT	(2 454)	(1 833)
Transaction duty	-	(13 618)
Other operating expenses	**(12 035)**	**(27 057)**
Net other profit/loss	**(7 111)**	**(16 696)**

* In conjunction with the NBH Growth Credit Programme Fixed, from 2019 the Bank recognises initial fair value in respect of loans and leases provided as part of the programme, and disbursed refinancing liabilities.

** Previous year's adjustments are items from the previous year for tax purposes.

***From 2021, the Bank Group classified the transaction fee and the part of the bank tax not recognized as a subsidy under Other administrative expenses. In 2021, a transaction fee of HUF 14,454 million and a bank tax of HUF 1,598 million were recorded under Other administrative expenses.

⟹ Consolidated Notes to the Financial Statements – Income Statement

5.7 Administrative expenses

data in HUF M

Personnel expenses	2021	2020
Salaries	(24 787)	(22 134)
Salary taxes / contribution	(4 610)	(4 543)
Other personnel expense	(1 810)	(1 538)
Personnel expenses	**(31 207)**	**(28 215)**

Other administrative expenses	2021	2020
Facility management expenses	(3 536)	(3 044)
IT expenses	(5 227)	(4 861)
Holding Management fee	(3 184)	
Marketing expenses	(1 490)	(1 514)
Communication expenses	(1 124)	(1 124)
Professional fees	(1 197)	(1 230)
Expenses of services used	(1 080)	(1 072)
Other administrative expenses	(14 454)	
Other administrative expenses	(1 598)	
	(1 948)	(1 869)
Administrative expenses	**(34 838)**	**(14 714)**
	(66 045)	**(42 929)**
Staff (number of persons)	2 908	2 939

*In 2013, a financial transaction tax was introduced for certain types of transactions (cash transactions and transfers). The scope of the tax extends to those who provide financial services with their registered office in Hungary. The financial transaction tax is recognized as an administrative expense when related economic event occurs, until 2020 it has been recognized under other expenses. The obligation to pay the fee for transactions with a bank card is otherwise accounted for in a single amount at the beginning of the year and the fee based on the payment transactions of the previous calendar year. Similarly, before 2021, the special bank tax was recoginzed in other expenses, but in 2021 other administrative expenses will be presented on a consistent basis with the other banks of the Holding.

5.8 Depreciation and amortisation

data in HUF M

Breakdown of depreciation of properties, plant and equipment	2021	2020
Properties	(501)	(407)
IT equipment	(1 106)	(1 079)
Right-of-use asset*	(2 190)	(700)
Other	(1 207)	(2 114)
Depreciation of properties, plant and equipment	**(5 004)**	**(4 300)**

Breakdown of depreciation of intangible assets	2021	2020
Intangible assets	(4 718)	(4 128)
Depreciation of intangible assets	**(4 718)**	**(4 128)**
Depreciation and amortisation	**(9 722)**	**(8 428)**

*From 1 January 2019, based on the IFRS 16 standard, the Bank capitalises long-term lease agreements as right-of-use assets and recognises depreciation in respect thereof.

5.9 Net (impairment loss)/reversal of impairment loss on financial assets & provisions

data in HUF M

Description	2021	2020
Impairment (loss) / release related to lending	8 292	13 146
Net effect of cancellations and write-offs of loans	(193)	(181)
Provisions (made) / released	(478)	1 588
Impairment for other financial instruments	373	78
Total	**7 994**	**14 631**

⟹ Consolidated Notes to the Financial Statements – Income Statement

5.10 Income tax expesnses

data in HUF M

	2021	2020
Actual tax expenditures		
corporate income tax	102	127
local business tax	2 374	2 063
innovation contribution	356	309
	2 832	**2 499**
Adjustments accounted for actual tax expenditures of earlier periods		
corporate income tax	-	29
local business tax	(6)	(150)
innovation contribution	-	(22)
	(6)	**(143)**
Deferred tax expenditures(+) / revenues(-)		
current-year	175	(88)
adjustments of earlier periods	-	-
	175	**(88)**
Deferred tax write-off(+) / reversal(-)		
write-off	-	-
reversal	-	-
	-	**-**
Deferred tax on accrued losses not recognised earlier	**-**	**-**
Income tax expense	**3 001**	**2 268**

⟹ Consolidated Notes to the Financial Statements – Income Statement

Analysis of effective tax rate

data in HUF M

	2021	2020
Profit before income tax (a)	13 832	5 890
Tax expected on the basis of profit before income tax [a*9%]	1 245	530
local business tax effect (current-year and previous year's)	2 368	1 913
innovation contribution effect (current-year and previous year's)	356	287
previous year's corporate tax effect	-	29
previous year's deferred tax effect	-	-
effect of permanent differences	(558)	(785)
effect of deferred tax write-off, reversal	-	-
effect of accrued loss not recognised as deferred tax	(252)	-
tax relief effect	(366)	(63)
other effects	33	99
effect of consolidation	175	258
Income tax expense	**3 001**	**2 268**
Income tax expense recognised in profit and loss account (b)	**3 001**	**2 268**
Effective tax rate (on total income tax) [b/a]	**21,70%**	**38,51%**

6 OTHER INFORMATION

6.1 Financial indicators

		Year 2021	Year 2020
Profitability ratios:			
Profit margin	Profit for the year / Total revenues[1]	10 831 / 122 326 = 8,85%	3 622 / 107 953 = 3,36%
ROA	Profit for the year / Closing assets	10 831 / 2 533 796 = 0,43%	3 622 / 2 197 608 = 0,16%
ROE (1)	Profit for the year / Equity	10 831 / 174 379 = 6,21%	3 622 / 168 206 = 2,15%
ROE (2)	Profit for the year / Share capital	10 831 / 19 396 = 55,84%	3 622 / 19 396 = 18,67%
Capitalisation ratio:			
Capital leverage ratio	Total assets / Equity	2 533 796 / 174 379 = 14,53	2 197 608 / 168 206 = 13,06
Coverage ratio:			
Credit in % of deposits	Total loans and leases / Total deposits	1 598 036 / 2 313 741 = 69,07%	1 218 842 / 1 998 892 = 60,98%
Efficiency ratios:			
Income per capita	Profit for the year / Average staff	10 831 / 2 908 = 3,72	3 622 / 2 939 = 1,23
Costs/net revenues ratio	Costs[2] / Net revenues[3]	66 045 / 98 861 = 66,81%	42 929 / 86 407 = 49,68%

The values used for the calculation of indicators are stated in HUF million.

Comments:
- Total revenue: interest income, dividend income, fee and commission income, other operating income.
- Costs: personnel expenses, other administrative expenses.
- Net revenues: net interest income, net fee and commission income.

6.2 Payments to members of Board of Directors and Supervisory Board for 2021 business year

Description	ersons receiving remuneratio (persons)	mount of remuneration (HUF M)
Board of Directors	5	33
Supervisory Board	6	22
Total	**11**	**55**

6.3 Loans provided for members of Board of Directors, Management and Supervisory Board

data in HUF M

Description	Disbursement	Amortisation	Outstanding debt on 31 December 2021	Material terms and conditions
1. Interest-free employer loans				long-term loan,
- Board of Directors	-	-	-	mortgage on property
- Supervisory Board	-	-	-	property collateral
1. Total:	**-**	**-**	**-**	
2. Preferential housing loans				long-term loan,
- Board of Directors	-	-	-	mortgage on property
- Supervisory Board	7,00	5,72	1,28	property collateral
2. Total:	**7**	**6**	**1**	
3. Mortgage loans				long-term loan,
- Board of Directors	225,00	10,48	214,52	mortgage on property
- Supervisory Board	-	-	-	property collateral
3. Total:	**225**	**10**	**215**	
4. Personal loans				
- Board of Directors	-	-	-	long-term loan,
- Supervisory Board	-	-	-	no collateral
4. Total:	**-**	**-**	**-**	
Grand total:	**232**	**16**	**216**	

Members of the Board of Directors and the Supervisory Board have total overdraft facilities worth of HUF 1.010.000 and credit card lines worth of HUF 3.000.000 to which the Bank's standard contractual terms and conditions apply.

6.4 Severance pay of executives in key positions

The following benefits were paid to executives in key positions following the termination of their employment:

data in HUF M

	2021	2020
Severance pay	164	68

6.5 Terms and conditions of loans provided for subsidiaries

Company	Currency	Term	Interest rate 2021
Budapest Lízing Zrt	HUF-EUR-USD	1-8 years	0,01% - 1,93%
Budapest Eszközfinanszírozási Zrt	HUF-EUR-USD	3-4 years	0,027% - 1,79%

Company	Currency	Term	Interest rate 2020
Budapest Lízing Zrt	HUF-EUR-USD	1-9 years	0,01% - 1,65%
Budapest Eszközfinanszírozási Zrt	HUF-EUR-USD	1-5 years	0,13% - 1,38%

⟹ Consolidated Notes to the Financial Statements – Other Information

6.6 Related parties

data in HUF M

Related party	Type of transaction	Balance 31.12.2020	Balance 31.12.2019
CORVINUS ZRT	Deposits	(1 370)	(2 350)
EXIMBANK RT	Refinancing loans	(93 944)	(51 289)
EXIMBANK RT	Credit lines received (off balance sheet)	7 440	4 925
EXIMBANK RT	Guarantees received (off balance sheet)	1 546	1 555
MFB ZRT	Purchased securities	34 880	32 975
MFB ZRT	Market value of foreign exchange swap transactions	-	21
MFB ZRT	Inter-bank deposit	2 974	-
MFB ZRT	Interbank loans received	(15 653)	(16 241)
MFB ZRT	Credit lines received (off balance sheet)	799	625
MFB ZRT	Guarantees received (off balance sheet)	43	32 039
VOLÁN Companies	Leasing receivable	17 993	24 391
VOLÁN Companies	Deposits	(18 100)	-
VOLÁN Companies	Other loan (off balance sheet)	12 568	-
Other government entities	Loan	507	547
Other government entities	Deposits	(20 700)	(3 845)
Other government entities	Received credit facilities and guarantee (off balance sheet)	1 704	473

data in HUF M

Related party	Type of transaction	Balance 31.12.2021
Magyar Bankholding Zrt.	Receviable and accruals	0
Magyar Bankholding Zrt.	Other liabilities and accruals	470
Magyar Bankholding Zrt.	Administrative and managerial expenses	3203
MBH Leányvállalatai	Receviable and accrual	314
MBH Leányvállalatai	Securities settlements	35
MBH Leányvállalatai	Interbank deposit	36 930
MBH Leányvállalatai	Bond	9 457
MBH Leányvállalatai	Payables and accruals	300
MBH Leányvállalatai	Refinancing loans	85 812
MBH Leányvállalatai	Swap fair value	109
MBH Leányvállalatai	Interest income	635
MBH Leányvállalatai	Interest expense	1 816
MBH Leányvállalatai	Fee income	184
MBH Leányvállalatai	Fee expense	389
MBH Leányvállalatai	Other operating income	8
MBH Leányvállalatai	Other operating expense	6
MBH Leányvállalatai	Derivatives	169 077

The Bank as a state-owned company conducted the above significant transactions with related parties.

6.7 Fair value hierarchy of financial instruments valued not at fair value

In the table below the fair value of financial assets is included, in case of which the Management concluded that the book value is a good approximation of the fair value.

Financial instruments	Reasoning
Cash and cash equivalents	Quick turnover, low risk of change in fair value
Loans and advances to banks	Short term, variable interest
Deposits from customers	Mainly short term, includes settlements with suppliers
Other financial assets	Short term
Other financial liabilities	Short term

data in HUF M

Description	31.12.2021			31.12.2020		
	Book value	Fair value	Level	Book value	Fair value	Level
Securities, of which:	400 201	367 125		392 630	395 189	
Securities valued at L1	*361 542*	*326 545*	L1	*347 855*	*349 947*	L1
Securities valued at L2	*38 659*	*40 580*	L2	*44 775*	*45 242*	L2
Loans and advances to customers	1 210 899	1 205 966	L3	1 048 761	1 052 437	L3
Deposits from banks	712 515	666 692	L3	609 301	603 533	L3

In case of securities, values are based on fair market prices for transactions with an active market.

The Bank uses the technique of discounted cash flow calculation for determining the fair value of loans and advances to customers. Exceptions to this rule are sight receivables where the fair value equals to the book value, as well as non-performing transactions where the fair value is the net book value.

6.8 Dividends

The dividend payable to the owner is not known yet. The subsidiaries typically pay out fully their annual profits to the Bank as dividend.
Budapest Alapkezelő will pay HUF 1,900,000,000 and Budapest Lízing HUF 1,000,180,000 dividend to Budpest Bank, respevtively.

6.9 Covid-19 effect on Budapest Bank Group operation

An important external effect in the operating environment of the Budapest Bank Group in 2020 and in 2021 was the spread of the COVID 19 virus, which brought significant economic and social (customer behavior) changes both in Hungary and abroad. The supervisory and regulatory measures taken for this purpose have also had a significant impact on the Bank's operations in the recent period.

The changes had a fundamental negative impact on the Bank's operating environment, which is reflected in the temporary deterioration of the Bank's financial indicators. At the same time, the Bank continues to operate stably and continues to operate on a full scale in the changed environment. The Bank operated profitably during 2021, so the Bank is expected to meet regulatory expectations in terms of capital adequacy and liquidity ratios in 2021 and the first half of 2022 as well.

The most important direct effects on the Bank's operations are:

a) Introduction of a loan repayment moratorium, both in the retail and corporate segments, and its effects on both the credit risk monitoring processes and the losses arising from the forthcoming contract modification
b) Consumer credit pricing measures
c) Rising unemployment, increasing impairment due to deteriorating economic outlook
d) Introduction of a new bank tax
e) Recommendation on the suspension of dividend payments

a) In view of the coronavirus crisis situation, the Hungarian State has issued Decree regulating Bank lending - "Government Decree" 47/2020. (III. 18.) - issued with effect from 18 March 2020, which was confirmed by Act LVIII of 2020. According to the Government Decree, during the existence of an emergency, the debtor receives a deferral of payment (payment moratorium) for the fulfillment of his capital, interest and fee payment obligations arising from a loan and credit agreement or a financial leasing agreement provided by the Bank. The moratorium on payments lasts until 31 December 2020, which was extended by the Hungarian State by moratorium 2 until the end of June 2021, later it was extended until 31 of October 2021. The entire moratorium period covers 19 months. Government extended to specific social groups until 2022.06.30, the exact terms of the entitlement are subject to 637/2020. (XII.22) Government. Article 5 of the Regulation. The deadline for fulfilling the contractual / moratorium. Banks will not be able to charge interest on unpaid interest during the moratorium period, but will account for higher interest income overall due to the extension of the term.

   Based on IFRS9, the changed cash flow of the transactions involved in the moratorium can be discounted by the original effective interest rate, from which a non-realized modification loss was generated by the Bank. For these transactions the Bank estimated and recorded a nearly HUF 6 billion loss for the modification of financial assets in 2020. In 2021, for the extension of of the „moratorium 2" was recorded a loss of HUF 0,5 billion.

   The Bank does not consider the extension of the moratorium 2 to be a significant contractual amendment on either a quantitative or qualitative basis, as the amendment does not result from a deteriorating credit risk due to restructuring or debt waiver for customer but from a government action plan effecting the entire banking sector. During the Bank's calculations, the cash flow changes concerned did not exceed 10%, resulting in a non-exiting amendment of loan contracts that matches the market practice.

b) The Government Decree of Nr. 537/2021. (IX. 15.) ordered the banks recalculate the interest of credit card loans and of current account loans by using the average interest of personal loans in February 2020. For the period of the Moratorium, the Bank calculated an interest difference of HUF 4 billion which was reimbursed in cash to the customers according to the Government Decree and recorded as a reduction in interest income. The Bank does not consider this interest capping as material contract amendment as the Bank's accounting policy enable not to view a difference exceeding 10% betwen the discounted cash flow of an amended loan contract and the net book value of the loan. In addition the amendment does not result from a deteriorating credit risk due to restructuring or debt waiver for customer but from a government action plan effecting the entire banking sector.

c) According to the Government Decree 782/2021. (XII. 24.) and in line with Law of CLXII of 2009 on consumer loans applied in crisis environment, the interest rates applied in the first half of 2022, may not be higher than the reference rate on 27 October 2021. Due to this, the Bank accounted for a loss of HUF 0.7 billion in the loss from the modification of financial assets in 2021.

d) The Hungarian National Bank issued a Management Letter to banks about the minimum credit loss expectation, portfolio level management corrections and the staging treatment on the exposure of those customers entered into Moratorium at 1 November 2021. Participation in Moratoriom 3 indicates a stage 3 status, except those customers who particapate not because of financial difficulties (no loss of income reported) but merely to use out the benefit of the scheme. Former Moratorium customers, discontinuing the scheme, who provide negative financial information, are kept in Stage2 (comsumer customers for 6 month, corporate customers for 2 years).
The Bank uses three different scenarios basic, stress and optimistic in credit models for the calculation of the expected credit loss, in ratios of 80-10-10%, respectively. The Bank used in its credit model those macro economic expectations which the NBH recommended for the financial institutions.
In view of the extended effects of the pandemic situation, the bank continued to make additonal allowance for impairment in 2021, especially for customers who have participated further in the moratorium as the Bank assumes the willingness of these customers to repay their debts has decreased significantly. Since Octber, for those customers who were no longer eligible for the moratorium or exited the moratorium, the Bank specifically examined if due payment installments were made or not.

The bank classifies retail customers, participating in the moratorium, to be non-performing who have decleared to enter moratorium 3 with one of the following options:

i) the income of the customer's household has permanently decreased, the customer has been unemployed or has been looking for a job for at least 30 days and currently considered to be an unemployed or jobseeker for at least 30 days,

ii) customer has been in a public employment relationship at the time of making the declaration or with a relative in a public employment relationship living in the same household as the customer at the time of making the declaration

iii) those customers who resume the moratorium with the option to receive a retirement or raise a child are not considered to be non-performing, only underperforming and the Bank expects them to be impaired with a higher probability

For corporate customers above a certain limit and participating in the moratorium, individual examination was made about the non-performing status and impairment was made on a discounted cash flow basis. Under this limit, all moratorium cusomers were considered as non-performing and impairment was made on PD * LGD (pd = 1) basis. Customers who exited moratorium, credit loss was determined with a higher probability of default.

Following the National Bank's Management Letter, for exposures of customers exiting the moratorrium after 31 October the Bank applied in both segments portfolio-level management corrections, so-called overlays.

In case of retail customers who only indicated that they raise a child and would therefore continue the moratorium, the bank examined the impact of hidden default and estimated an extra impairment requirement for the entire portfolio.

For both portfolios, the bank assessed the probability of default based on subsequent events data after the balance sheet date, ie the delays at the end of December were used to project additional impairment.

In view of the number of computing and methodological uncertainty due to the corona virus pandemic, the Bank maintained the avarage impairment coverage at the end of the second quarter of 2021 by segment and stage categories based on the expectations of the National Bank's Management Letter. The level of overlay's amounted to HUF 7 billion.

e) After the 2021 result, the owner of Budapest Bank did not approve dividend payment.

6.10 Statement of financial position after the balance sheet date

Merger

On 15 December 2021, the main bodies of Budapest Bank, MKB Bank and Magyar Takarék Bankholding, which owns Takarék Bank Group, approved the first step in the merger schedule of MKB Bank, Budapest Bank and Takarék Bank Group. Accordingly, it is planned that on March 31, 2022, the two member banks of the banking group, Budapest Bank and MKB Bank will join to a merged bank, while Takarék Bank Group will join by the end of the second quarter of 2023. In January 2022, the NBH approved that Budapest Bank Zrt and the Magyar Takarék Bankholding Zrt, which owns Takarék Bank Group, will merge into MKB Bank on March 31, 2022. The merged bank will temporarily operate under the name MKB Bank. The merger did not change in the ownership structure of the banking group. The main owner of the banks participating in the merger will continue to be the Magyar Bankholding Zrt. The extent of the expected dividend payment to the owner is currently unknown.

Russian-Ukrainian war

After the close of 2021, the conflict between Russia and Ukraina resulted in a dramatic turn in the world wide economy. Geopolitical changes undermined the expected economical growth in the first two months of 2022. The projected inflation trends were increased by the war. The sanctions against Russia and Belorussia, as a consequence of the war, affected adversely strategic industrial segments. Shortage of raw materials inflated wider circle of products as expected before the war.

Central banks have responded to high inflation (inflation in the euro area rose 5.8% yoy in February after 5.1% in January. Domestic price pressures rose to 8.3% yoy in February from 7.9% in January). The European Central Bank (ECB) kept its policy rates unchanged in March. At the same time, the ECB accelerated tapering of its traditional asset purchase program (APP), which could end as early as June 2022, with interest rate hikes not likely to be earlier than June 2022.

In response to developments since the end of February, Hungarian National Bank raised the upper level of the interest rate corridor by 100 basis points to 6.4% on 8th March, while the base rate and the interest rate on the overnight deposit remained unchanged. MNB announced its one-week deposit tender at 5.85% on 10th March, which represents an effective interest rate increase of 50 basis points compared to the previous week (raised the interest rate on one-week deposits by 75 basis points to 5.35% on 3rd March). On 22 March, the prime rate was increased by 100 basis point to 4,4%. High inflation could dampen strong economic growth this year for both the domestic and European economies.

After the closing of Q4 2021, Russia-Ukraine conflict meant an important change in the economic environment in late February 2022 and the uncertainty created continues at the date of issue of these consolidated financial statements. Geopolitical conflicts contribute to the uncertainty of growth prospects. The favourable economic outlook had already given way to gloomier growth prospects and rising inflationary pressures, and these trends have been exacerbated by the war. The conflict, and the sanctions imposed upon Russia and Belarus, in response to it, are affecting strategically important industries, which have increased demand-supply frictions that have been going on for months. The process is leading to the persistence of intense inflationary pressures, with shortages of raw materials and price pressures on a wider range of products than before.

The Ukrainian-Russian war has not caused any significant direct economic loss for the Group nor for the other members of Magyar Bankholding incouding Budapest Bank. Both the Bank's capital situation and its liquidity position are stable, and it has sufficient reserves. There is at this time no known material direct banking risk in either the retail or the corporate customer portfolios. Interbank money market limits towards the countries concerned were immediately closed (there was no exposure). The hedge monitoring of customer positions has been confirmed (there is no customer positions below the hedging limit).

None of the members of the Bankholding had any material open FX positions and recent volatile movements in FX rates did not result in any significant direct losses.

The Strategic Analysis Centre of Magyar Bankholding continuously monitors and analyses the relevant changes in the money and capital markets. The price volatility of the Hungarian forint has increased in line with regional currencies. Despite this, the Bank has not observed any significant retail demand for foreign currency exchange or foreign exchange compared to normal business. Any changes in asset prices (including financial assets and properties held as collateral) are also a focus of the monitoring.

All members of Bankholding comply with EU and US sanctions bans lists, including the requirements for exclusion of a number of commercial banks in Russia and Belarus from the SWIFT system. This increases the likelihood for more difficult trade and money transfer relationship for Hungarian companies involved in Russian or Belarus relations.

In connection with the Ukrainian-Russian war, the Bank continues to monitor for clients who may be directly or indirectly affected, and their follow-up is carried out by members of the Bankholding on the basis of the Hungarian Bankholding guidelines. The risks associated with each customer are ranked according to their severity based upon the nature of the exposure, the related country, the member of Bankholding exposures and other available information.

Evaluating the corporate exposure of Budapest Bank can be sated the no significant credit loss is expected due to the crisis. Loan monitoring steps are implemented to identify risk arisen due to the war crisis and to determine credit loss if any.

7 BUSINESS REPORT OF THE MANAGEMENT

7.1 General introduction

Budapest Bank Group

Budapest Bank was established in 1987 as one of the very first domestic commercial banks. It is a key player of the Hungarian banking market, one of the eight domestic large banks. On 29 June 2015, the Bank Group was transferred to state ownership: Corvinus Nemzetközi Befektetési Zrt purchased a 100 per cent stake in Budapest Bank Zrt from GE Capital.

In 2020 there was a change of owners at Budapest Bank. Corvinus Nemzetközi Befektetési Zrt proceeding on behalf of the State, contributed its 100% ownership of the Bank together with MKB Bank Nyrt. and MTB Zrt. into a joint holding company. The new 100% owner of the Budapest Bank became Magyar Bankholding Zrt., where the ownership of the Hungarian state through Corvinus Nemzetközi Befektetési Zrt is 30,35 %, the previous owners of MKB have 31,96 %, the owners of MTB have 37,69%.

The Magyar Bankholding performs strategical, prudential control and group management functions on behalf of the three banking groups and conducts the planned merger process which will optimize the operation of the banks.

On 15 December 2021, the main bodies of Budapest Bank, MKB Bank and Magyar Takarék Bankholding, which owns Takarék Bank Group, approved the first step in the merger schedule of MKB Bank, Budapest Bank and Takarék Bank Group. Accordingly, it is planned that on March 31, 2022, the two member banks of the banking group, Budapest Bank and MKB Bank will join to a merged bank, while Takarék Bank Group will join by the end of the second quarter of 2023. In January 2022, the NBH approved that Budapest Bank Zrt and the Magyar Takarék Bankholding Zrt, which owns Takarék Bank Group, will merge into MKB Bank on March 31, 2022. The merged bank will temporarily operate under the name MKB Bank. The merger did not change in the ownership structure of the banking group. The main owner of the banks participating in the merger will continue to be the Magyar Bankholding Zrt.

Managers of Budapest Bank

On November 3, 2021, the Magyar Bankholding approved the introduction of the MBH's unified management concept (Triple Hatting) in accordance with its fusion plans. According to the organizational structure defined in the single management concept, the position of Budapest Bank's Chief Executive and Executive Director of 16 November 2021 ceased and MBH's Chief Executive Officer and Executive Directors provide professional and labor law management within a plural employment contract or secondment.

Original leader	„Tripple Hatting" leader	Organisational unit	Position
Dr. Koppány Lélfai	Dr. Koppány Lélfai	Office of the Chief Executive	Chief Executive Officer and Chairman of the Board
Béla Csáki	Levente Szabó Ildikó Ginzer	Office of the Chief Executive	Deputy Chief Executive Officer for Corporate and Retail Sale
András Puskás	Roland Pecsenye	Operation	Deputy Chief Executive for Operations, Risk, and IT
Dr. Krisztián Németh	Dr. Ákos Tisza Papp	Legal and Compliance	Head of Legal and Compliance
Dr. Kornél Barna	Dr. Ilona Török	Office of the Chief Executive	Head of Chief Executive's Cabinet, Marketing Communications
Ferenc Alföldi	Roland Pecsenye	IT	Head of IT
Anita Kovács	Miklós Kádas	Operations	Head of Operations and Quality
Péter Polgár	Dr. Csaba Szomolai	Risk Management	Head of Risk Management
Ákos Almási	Csilla Ludvigh	Internal Audit	Head of Internal Audit
Dr. Csaba Sándor	Kitti Dobi	HR and Communications	Head of HR and Communications
Keresztyénné Katalin Deák	Antal Martzy	Finance	Chief Financial Officer
	András Puskás	Office of the Chief Executive	Deputy Chief Executive Officer for Priorities and Communications
	Dr. Beatrix Mészáros	Office of the Chief Executive	Deputy Chief Executive Officer for Subsidiaries

	Ádám Egerszegi	Office of the Chief Executive	Deputy Chief Executive Officer for Transformation
László Somodi	Zsolt Kisvárdai	Bank Security and Facility Management	Head of Bank Security and Facility Management

Bank's auditor: KPMG Hungária Kft and István Henye as registered chartered auditor. In addition to the half-yearly and annual audits, KPMG performed the following audit jobs during the course of 2021: mandatory compliance audit of mortgage loans offered for refinancing.

7.2 Results of 2021 business year

Budapest Bank Group continued its self financing business model in 2021. At the end of 2021, the deposit portfolio accounted for 63% of the Bank Group's total funding, while refinancing funding (including deposits from banks) accounted for 28%. Total assets increased 15%, deposits increased by 15%, and refinancing funding by 14%.

Customer deposits account for 93% of total deposits. Other deposits are comprised of the Fund management deposit portfolios, the Investment services settlement accounts and NFA deposits (NFA: National Land Fund Management Organisation, which provides deposits temporarily for the Bank). Finance lease liabilities (amount of capitalised real estate rental fees) capitalised under the IFRS 16 standard are also classified as other deposits. Within corporate deposits the percentage of sight deposits slightly increased (from 85% to 83%).

Also the composition of refinancing funding has changed. The NBH's long-term loan appeared in 2020 as a new item, within refinancing sources, it decreased from 38% to 37%.
The weight of the Growth Credit Programme ("NHP") the weight of funding source and the weight of mortage financing also decreased by 1,5 and 2 percentage points. At the same time, the share of interbank and other funding sources increased from 7% to 22%.

In 2021, the Bank Group's retail credit portfolio increased dynamically: based on the gross credit portfolio, there was a 15% year-on-year increase. Within this growth, the mortgage loans increased by 19%, the baby expecting loan increased by 34%, unsecured loans by 11%, the auto finance portfolio was 2% higher than the December 2020 closing portfolio. At the same time, the Bank continued loan sales and portfolio cleaning activities, which achieved significant results in 2021.

In 2021, due the family protection measures and the reduction of the epidemic crisis the number of property sales increased significantly and reached a 10-year record level in the Real Estate Market. This spread on the mortgage loan market as well. In addition to the 20-year fixed-rate real estate loan, which was introduced in November 2020, Budapest Bank also introduced an interest-subsidized home renewal loan for home renovation on 1 March 2021. With the competitive pricing strategy of the Bank Group, the bank held its market share in the growing housing loan market, and the cumulated market share of 2021 was 5.8% (6.10% with free mortgage loans). The combined loan disbursement of 2021 was 56% higher than in the previous year.

The so called „New-Baby" loan was not in a sales focus in the first half of 2021. However, in the second half of the year, the monthly sales volume increased by 28% compared to the monthly average of the first half of the year. The cumulative market share of 2021 was 2.13%.

An important part of the retail strategy is the long-term third-party cooperation, such as our contract with Tesco Global Store Zrt. and with Media Markt Kft. The new volume of personal loan increased by 13% compared to the previous year. This product was strongly affected by the epidemic crisis. On 25 January 2021, the Bank started the sale of qualified consumer-friendly personal credit on the market, and since middle of April, for premium loans and qualified consumer-friendly personal loans, there was a possibility to apply online. Market recovery launched spectacularly in the month of May-June, paralelly the Bank's new loan disbursement was also revitalized, but not to the extent to the market, so market share decreased during the summer. The cumulative market share of 2021 was 5%.

The new volume of car loans grew by 2% compared to the previous year. For the car market, the environment is extremely turbulent due to pandemic issues, partly due to the serious problems of CO2 regulations and the electromobility transition, so we can experience great fluctuations. Our market position in 2021 in Q1 brought the peak level in 2020 with a serious strength in the car market. As part of the Bankholding, from November 2021, new corporate car loans were alreadyoffered by MKB Euroleasing.

In 2016, a new strategic initiative was launched to ensure that the Budapest Bank Group is involved in the state land sales program coordinated by the National Earth Fund Management Organization (NFA). The Bank Group provides two market-based banking services: it receives the collateral from the farmers wishing to bid as a custodian and later receives and disburses the land loan application provided by the MFB as an intermediary for the winners. The Contracting section of the MFB-NHP land purchase loan program was successfully closed by the Bank Group in March 2017. In 2021, the Bank Group realized HUF 184 million commission income related to the NFA program.

For the Budapest Bank's corporate business, the trust of the SME sector remain unbroken, the Bank acquired more than 4500 companies as customers. Only last year, there was another 400 company manager selected the Bank as their financial partner, which remains the second largest in the market.

Among the economic recovery programs, the company's hit product of the last period was the NHP go! After its July termination, we introduced the Széchenyi Card Go! product family. In the second half of the year, the products of the Széchenyi Card Program offered 65 billion forints for companies, which is also a particularly great achievement because its maximum loan amount is merely one-twentieth of the growth loan.

We disbursed more than 9 billion forints interest-free restart quick loan at the MFB points for domestic SMEs, with which we achieved a 10% market share.

In the various programs of Eximbank, the Bank and Budapest Leasing provided a total of HUF 68 billion export incentives to applicants. Thanks to the outstanding achievements for many years, the Bank's leasing company deserved the EXIM year's leasing company recognition, which is a unique series in the history of the award.

Budapest Leasing achieved HUF 130 billion leasing portfolio level, significantly exceeding its lending and revenue plans contributing to the group-level plans with HUF 1 billion after tax profit. As a result, we could increase the corporate loan by 13% and the leasing portfolio by 1% compared to the previous year.

The Bank Group continues to make emphasis on technological innovations.
Following the launch of the Budapest Financial Assistant in 2020, in December 2021 the BUPA blog was launched, which provided relevant content and its own Facebook site to small entrepreneurs. In the „Bank of the year" competititon of Mastercard, the BUPA (Budapest Financial Assistant) online platform was placed first in the category of Corporate Product and Services Innovation. The Budapest Bank acquired the third place in the year's card design category as well.

The Bank continues focuses on the quality of the customer experience related to the services provided, this way positively differentiating itself in the market.

The cash transfer policy of the European Union (PSD2) created the opportunity to introduce a number of innovative digital services simpler and safer. Based on these, it is possible to replace strict customer identification by an intelligent, innovative system which frequently monitors repetitive Internet bank card purchases. In this way, trustworthy traders already identified, will no more be required for repeated strict customer authentication. All this makes the online credit card payment process more comfortable.

At the end of last year, Budapest Bank Group's network consisted of 92 branches. The branches located in the territory of Budapest qualify as establishments, while the branches operating outside of Budapest qualify as branch offices.
In accordance with the statutory regulations, a Works Council is operational at the Bank Group. Employment policy decisions are always made in agreement with the Works Council.

7.3 Asset quality and portfolio

In 2021 the Bank Group's total assets increased significantly, from HUF 2,198 billion to HUF 2,537 billion. Cash, low risk government securities and loans to banks amounted to HUF 1292 billion on 31 December 2021, representing 50% of the total assets.

The net portfolio of loans provided for customers (lending) increased significantly and amounted to HUF 1 210 billion by the end of 2021. During 2021 the Bank Group continued to place the main business emphasis on the portfolio of small and medium-sized enterprises. Similarly to prior year, the Bank achieved second place among large banks in the number of newly opened SME accounts, by taking advantage of the cross selling opportunities offered by MFB points. The Bank's corporate credit portfolio placed with small and medium sized enterprises, calculated without impairment and including leases, amounted to HUF 701 billion which demonstrates the key role of this segment in the Bank's strategy.

Also the Bank's retail credit portfolio reached HUF 561 billion, excluding impairment.

During 2021, the amount of loan impairments increased slightly, from HUF 52 billion to HUF 54 billion mostly due to the loan moratory. On the whole, it represented a 4,2% allowance / gross receivables coverage ratio at the end of 2021.

The Bank made all the required impairment allowances and provisions.

7.4 Asset-liability structure and liquidity

The Bank's foreign currency based assets and liabilities decreased significantly in 2015 due to the mandatory statutory forint conversion of mortgage and automobile loans.

16% of the total assets are denominated in foreign currency (15% in 2020); the majority of foreign currency assets are denominated in EUR, USD and CHF.

17% of the total liabilities (16% in 2019) are denominated in foreign exchange; the majority of foreign liabilities, too, are denominated in EUR, USD and CHF.

Due to the Bank's risk averse business policy, foreign exchange fluctuations can affect the Bank only to a moderate degree in the absence of material open foreign exchange positions. The Bank did not have material open foreign exchange positions at the end of the year.

The Bank continues to have an outstandingly highly liquid asset portfolio, and as a result, it is in a long term interbank lending position on the Hungarian money market. Cash and equivalents, loans to banks and securities account for more than 51% of the total assets. Its total assets maturing within a year amounted to HUF 1110 billion; by contrast, liabilities maturing within a year amounted to HUF 1164 billion which represents a HUF 54 billion positive net asset surplus position in this segment.

By using a risk avoiding pricing and portfolio management, the Bank managed interest rate risks, arising from the different repricing of assets and liabilities, at a predefined level. The Bank continuously monitors interest rate risks on a transactional level for the entire balance sheet and assesses them with stress tests. Since 2016, in order to reduce the interest rate risks of the increasing portfolio of fixed interest assets (both securities and individual loans), the Bank has concluded interest rate swap transactions.

Overall, Budapest Bank maintained a strong liquidity, cash flow and interest rate management practice throughout the year.

7.5 Capital position

In 2020 there was a change of owners at Budapest Bank. Corvinus Nemzetközi Befektetési Zrt proceeding on behalf of the State, contributed its 100% ownership of the Bank together with MKB Bank Nyrt. and MTB Zrt. into a joint holding company called Magyar Bankholding Zrt. The change of owners did not affect the Bank Group's stable capital position; its issued capital amounted to HUF 19,396 million. At the end of 2021, the Bank Group's equity amounted to HUF 177,438 million.

The Bank has created a general reserve of HUF 7,960 million from its profits as required by the Hungarian legistlation in recent years. In 2020 and 2021 the Bank did not pay dividends to its owner which helped the Bank's strong capital position and business growth potential.

The Bank Group's capital adequacy ratio is 16,96%, which is above the 12,86% required by the central bank as a mandatory requirement.

The capital I. ratio is 15.17%. The minimum level of equity capital is 10.36%. In 2021, the Basel III IFRS-based capital in accordance with supervisory rules was HUF 175 801 million (HUF 148 027 million in 2020). The change in the regulatory capital (+ 27 775 million HUF) is due to the increase in reserve growth (+7 842 million HUF), an increase in the deduction of intangible assets (-HUF 157million), the use of subordinated loan capital (+20 000 million HUF) and the changes in assessment correction (+ 90 million). The Group continues to monitor the development of each capital items in an ongoing capital management process.

The risk-weighted assets, including operational and market risk, increased with 3,37% from HUF 1 003 451 million to HUF 1 037 305 million at the end of 2020. The increase in risk-weighted assets was primarily caused by credit risk (+25 866 million forints) and the increase in CVA (+HUF 8 767 million) driven by growing lending activity and market interest rates, respectively. Despite its non material amount, exposures from currency position risk (- HUF 388 million) and operational risk (HUF -137 million) are dropped.

7.6 Profitability

In 2021, the Bank Group also achieved an outstanding profit rate, above its business plan, despite of the moratorium. The Bank Group's profit after tax for the year is HUF 10.8 billion which is a HUF 7.2 billion increase compared to the year before. The income statement below was made according to IFRS accounting rules for both 2021 and 2020 years.

data in HUF M

Income statement	2021	2020	Delta	%
Net interest income	59 149	46 052	13 097	28,4%
Net fee and commission income	39 712	40 355	(643)	-1,6%
Profit/loss of financial instruments	6 468	8 232	(1 764)	-21,4%
Other revenues/expenditures, net	(7 112)	(16 696)	9 584	-57,4%
Operating expenses	(75 767)	(51 357)	(24 410)	47,5%
Impairment	(7 994)	(14 631)	6 637	-45,4%
Income (profits) tax	(3 001)	(2 268)	(733)	32,3%
Profit for the year	**10 831**	**3 622**	**7 209**	**199,0%**

Primarily the following items were responsible for changes in the profit/loss lines:

- The net interest income of the banking group improved by HUF 13.1 billion compared to the previous year, due to the higher prime rate in the market, dynamically increasing lending volume and the favourable cost of economic recovery programs.

- If accounting reclassifcation are eliminated from the HUF 643 million decrease, net commission fee increased by HUF 5.7 billion, mainly due to 30% rise of the commission and fee income recognized on the higher volume of loans, current accounts and time deposits.

- The HUF 1.7 billion decrease of financial instruments is mainly due to the valuation difference driven by IRS rate curve change and a HUF 600 million accounting reclass. Further negative effects are from derecognition loss of financial instruments and the lower volume of debt sale.

- The HUF 9.5 billion saving in other expenditures, net is a result of reclassification of transaction tax and bank tax into operating expenses. Additionally, a negative effect of HUF 1.7 billion is from the sale of intangible and other non-financial assets.

- The increase of HUF 24.4 billion in the operating costs was in the reality only HUF 9.6 billion. This additional costs is associated with integration, the operation of the new POS system, higher depreciation, higher transaction and bank tax. The other (HUF 14.8 billion) are from the reclassifications indicated above.

- The Bank recorded already in 2020 for most of its credit cost due to Covid crisis required in 2021, only a small addition was applied in 2021. increase took place because of this, but it was on a smaller scale. In 2021, significant economy aids measures were launched for both the customers and corporate sectors, which also contributed to the fact that the loss of impairment was established at a lower level compared to the previous year.

In 2021, the Bank Group achieved HUF 10,831 billion profit after tax . Overall, not only the entire bank group operated profitably in 2021, but also the majority of individual subsidiaries. Budapest Lízing generated HUF 1000 million, Budapest Alapkezeő HUF 2 393 million profit after tax, while Budapest Eszközfinanszírozó made a loss of HUF 260 million.

8 NON-FINANCIAL REPORT

8.1 Business model

The Bank provides comprehensive financial services for its retail and corporate customers. A description of the products – account products, bank cards, savings, loans, insurance – and services can be found on the Bank's website at www.budapestbank.hu.

Budapest Bank plays an important role in the effective realisation of the government's economic policy goals, such as SME lending or the channelling to Hungarian families of the housing grants.

Plans

Magyar Bankholding Zrt – Hungary's second largest bank group – was formed on 15 December 2020 with the participation of Budapest Bank, MKB Bank, and Takarékbank. This day marked the beginning of a new common process of strategy formulation, shared management, and shared control, and also marked the beginning of the largest strategic project in banking in the history of Hungary to date. The five-year strategy of Magyar Bankholding Zrt was announced in March 2021.

The creation of a standard organisational management structure both in Magyar Bankholding and in the member banks began on 16 November 2021. The Bankholding's deputy chief executives and managing directors oversee the management of operations and exercise the employer's rights in the member banks, including Budapest Bank.

- The Bank's business and risk plan covers the period between 2021 and 2026. This plan formulates a common MBH strategy based on the tenet of separate operations.
- The plan is based on the IFRS financial reporting standards (in harmony with the fact that from 1 January 2018, bookkeeping changed over to the IFRS 9 financial reporting standards in accordance with the relevant statutory regulations).
- According to plans, operations will merge from 2022. On 1 April 2022, Budapest Bank Zrt will merge with MKB Nyrt.

Business priorities:

Within the framework of Magyar Bankholding Zrt, to contribute to creating the most effective, most innovative and most customer-centred bank:

- Unchanged, universal banking strategy
- A branch network offering nationwide coverage
- Stable liquidity

- Corporate loans (gross): a dynamic growth rate during the period covered by the strategic plan in harmony with the growth of the market
- Retail loans (gross): a dynamic growth rate during the period covered by the strategic plan in harmony with the growth of the market

As part of MBH, Budapest Bank's strategy identifies the following focal points:

- Profitable growth
- Customer experience
- Digital breakthrough
- Stabile operations
- Owner synergies

IN THE SHORT TERM:

- Close cooperation with the Holding and member banks, active involvement in the Fusion Programme
- Quality and timely delivery of the project portfolio serving digital development
- Parallel profitable operation of traditional (branch network, third-party sales channels, mobile application, Internet banking) and non-traditional (online loan process and account opening, fintech partner relations, human chat, social media) channels, development of standard measuring. Enhancement of digital presence and sales volume
- Increasing ROE and after-tax profit, improved cost efficiency
- Ensuring stable capital and liquidity

The following main activities support the attainment of the strategic goals and dynamic growth:

- Organisational reform in harmony with strategy (branch, Money + network)
- Marketing campaigns, increasing online channels ratio
- Continued risk management process optimisation
- Receivables sales strategy

And intensive innovation:

- Exploitation of new card system opportunities

  The aim is to introduce new, innovative card packages, loyalty programmes, online account opening.

- Implementation of complete online loan process

  As a first step, development of online sales finance followed by personal loans

- Introduction of a digital ecosystem

  To be developed as part of the digital strategy for the micro-customers, offering a major customer potential.

- Modernisation of support systems

8.2 Corporate social responsibility

Corporate social responsibility is observed at every level of Budapest Bank Group's activities. Our Corporate Social Responsibility ("CSR") strategy focuses on responsible practices and operations in our entire operating environment, and commitment to our customers, staff members and civil society in general. Its key elements concentrate on the development of financial culture and awareness, commitment to communal values, voluntariness, equal opportunities, and environmental protection.

As a responsible company, we strive to play an active role in the life of civil society and to help with the management of social problems. In addition to making donations, we operate a complex support system: through our own foundations and in cooperation with recognised civil society organisations we take part in the improvement of financial awareness among members of the public, and support culture, intellectual life, education, and the socially disadvantaged. We encourage our staff members, too, to take part as volunteers in activities which serve to promote the development of communities. Our colleagues themselves identify some of the causes to be supported. We publish CSR newsletters via our internal communication channels several times a year, and we regularly publish articles related to corporate social responsibility on our internal communication channel (intranet) called Bázis *(Base)*.

The implementation of Budapest Bank's corporate social responsibility programmes is integrated into the Bank's operations and is overseen by the Bank's Management and the management member responsible for marketing communications. The Bank's Communication Department oversees the coordinated implementation of the various programmes.

Development of financial culture

We were the first among domestic financial institutions to engage in the development of financial culture, and as a result we have accumulated more than 30 years of experience in this field. Our goal is to help members of the public to make informed and thoroughly considered financial decisions, and to contribute to enhanced financial awareness. To this end, we have launched several initiatives which help members of the public in large numbers with acquiring the financial skills they require. The tender funds of our Foundation "Budapest Bank for Education and Hungarian Financial Culture" have contributed to financial and economics training programmes in Hungary and beyond the borders since 1991.

⟹ Consolidated Business and Non-Financial Report

The competence enhancement training programmes and club events of our project "Springboard, Budapest Bank –Finances for Women" *(Dobbantó)* launched in 2010 have helped more than 2,000 female entrepreneurs to acquire the financial and entrepreneurial skills necessary for operating a successful business.

Hungary joined the initiative European Money Week, in which almost 30 countries participate, in 2015, and the volunteers of our Bank take part in the events of the programme. Our staff members regularly deliver lectures on topics related to finance in educational institutions also beyond the framework of the programme. In 2019, the Hungarian Banking Association granted Budapest Bank the "Ambassador of Financial Culture" Award in recognition of its involvement in the Money Week *(Pénz7)* financial awareness culture development programme.

<u>For community values</u>

In 1991, we established the Foundation "Budapest Bank for Budapest" for the purpose of contributing to the development of civil society in the capital, to the preservation and enhancement of its intellectual and cultural values, and to the preservation of the city's built-up and natural features.

In 2006, our Békéscsaba Service Centre started its operation with only 30 staff members, while today 700 people are employed at the Centre. As a result, we have become one of Békés County's largest employers. Right from the beginning we have played an active role in the life of the city and supported local communities. Since 2006 we have supported local educational institutions, local athletes (handball, volleyball, football, gymnastics, etc.) and the city's most prestigious events with grants worth more than HUF 300 million. For years we have supported the most important local events, including the Sausage Festival and the Békéscsaba-Arad-Békéscsaba Super Marathon. Since 2013 we have also helped civil society organisations seeking to promote the development of the city with calls for proposals. The Municipality of the County Ranked City of Békéscsaba acts as our partner in the implementation of this programme: both in defining the topics of the calls as before each round we jointly select the areas where we believe grants would be particularly useful, and in raising the funds for the calls for proposals. During the programme, we cooperate closely with the county newspaper Békés Megyei Hírlap as media partner. In 2021, we implemented a round of calls for proposals, as part of which 15 awarded organisations received non-repayable grants worth HUF 8 million in total. 427 applications have been received in response to the twelve calls for proposals conducted so far; from among the applicants, 146 non-profit organisations have been awarded grants worth HUF 70 million in total.

<u>Volunteer work</u>

Volunteer work has almost two decades of tradition in our corporate culture. We organise our volunteer campaign Day of Care twice annually: in the spring and in the autumn. As part of the programme, our staff members – often also with the involvement of family members − contribute to the refurbishment of child, youth, educational, and health care institutions with volunteer work. Not only the staff members of our two centres, but equally the staff members of our bank branches throughout the country take part in the initiative to establish closer ties with local communities and to jointly contribute to the improvement of local institutions. Every year hundreds of staff members provide help with around 2,600 hours of volunteer work.

Additionally, our colleagues regularly organise the collection of monetary and other charitable donations, charitable cake fairs – the proceeds are donated to civil-society organisations supporting children's welfare – and quarterly blood donations at our Budapest and Békéscsaba centres. In 2021, we also joined the GOOD DEED BANK programme launched at the initiative of the Board of the Hungarian Banking Association as a sector-wide collaboration scheme: our colleagues participated in the blood donation programme held in September at both our centres.

8.3 Environmental protection

At Budapest Bank we make every effort to minimise the impact of our activities as a company on the environment. We pay particular attention to saving energy and significantly reducing our CO2 emissions causing greenhouse effects.

- In 2019, as part of a voluntary undertaking, we set the target of reducing the ecological footprint of our headquarters buildings and bank branches by 25 per cent by 2025. Our environmental efforts are supported by WWF Hungary as a partner. In 2021, **we took a number of steps** towards reducing our carbon emissions: we covered the consumption of our buildings from renewable energy sources, modernised our heating and air-conditioning systems, added 5 electric cars to our vehicle fleet, procured new environmentally aware engineering equipment during the refurbishment of our branches, installed 10 solar panels for some of our self-owned properties, banished plastic cups from our Budapest headquarters, set up a sustainable environment fund, broadened our services with "eco-friendly products", in some of our products we reduced the number of documents, our "green car" financing programme is working successfully, and our automobile loans application process is paper-free, online-based.

Considering our commitment to environmental protection and following the long-standing tradition of volunteering, we entered the 1st Tisza Lake PET Cup for the first time in 2019. At the time, we pledged to become regulars at the PET cups. After our victory at the 1st Bodrog PET Cup in 2020, in 2021 at the 2nd Tisza Lake Cup we won the special prize "Hero of Tisza Lake" awarded to the most diligent team, the team that gathers the most litter per person.

From among our self-organising groups, the staff initiative "Green Office" is concerned with promoting the development and improvement of an environmentally aware workplace culture and environment. It is coordinated by the property management unit. Additionally, we draw attention to the importance of protecting our environment through internal communication.

Our environment-friendly measures:

- a contracted partner recycles the shredded materials removed from our premises,
- we collect PET bottles,
- we use environment-friendly salt to counter road slipperiness in winter,
- we seek to minimise the impact on the environment of heating and air-conditioning equipment by carrying out the inspections required under the relevant regulations in a timely manner.

Environmental compliance

Budapest Bank ensures that the level of emitted pollutants complies with the statutory limits by fully observing the legal rules relating to the point source air pollution and diffuse source air pollution of equipment operated by the Bank.

Energy consumption

Protecting our environment and using our resources in an optimal manner are tasks we must accomplish together, as is the task of making sure that our development is sustainable. The Bank is committed to raising its staff members' energy awareness. The purpose of our energy-related activities is to minimise energy consumption and energy costs by using as little of the resources of our environment as we can whilst still maintaining the same level of comfort for our staff members and customers. We also seek to enhance our employees' energy awareness through regular communication. Property Management deals with energy issues within the Bank. This unit employs a full-time energetics expert.

Act 57 of 2015 on Energy Efficiency requires Budapest Bank as a large company to carry out energy audits every four years, and to employ a legally independent energy consultant. The energy consultant prepares monthly and annual reports on our energy consumption based on the data we supply and takes part in the development of a more energy-conscious approach for our company.

The Bank’s average statistical staff in 2021: 2,908 persons.

8.4 Employment policy

The Bank has an average statistical staff of 2,908 persons; 33 per cent work in the nationwide branch network, while the others work at the Budapest headquarters and the Békéscsaba Service Centre.

We established Békéscsaba Service Centre in 2006, almost 700 people work there at present, and in consequence Budapest Bank is one of Békés County’s largest employers.

Our highly qualified staff members who are also motivated on a long-term basis play a key role in our success, and we therefore pay particular attention to creating a supportive, family-friendly working environment as well as to maintaining a healthy balance between work and private life. We introduced atypical forms of employment in 2002 which our staff members take advantage of primarily at times when changes occur in their circumstances (e.g., upon the birth of a child, a change in their state of health). In the call for proposals of the ‘Three Princes, Three Princesses Movement’ we were awarded the title ‘Family-Friendly Business’ in 2021, too.

We keep track of our staff members’ activities, monitor, and recognise their individual development, and assist their careers with a variety of professional training programmes and courses. We adjust our pay system to individual performance levels.

The Collective Agreement regulates any items with a significant impact on employees. Changing these items is subject to the consent of the trade union.

Percentage of employees covered by the Collective Agreement: 100%.

We operate a Works Council and consult with the trade union on issues concerning employees. We implement any changes in cooperation with them, ensuring maximum representation for staff members. In the context of any planned changes, we take account of the feedback received from interest representations. All aspects of our operations are fully documented; these documents are accessible to all employees and can be electronically retrieved in the directory of regulatory documents. Any changes planned to be made in our instructions and guidelines are preceded by a comprehensive review process involving interest representations (these consultations are also fully documented), and they can only enter into force following the approval of those involved in the review process. All staff members are informed of changes, and new regulations can only enter into force following due notification. In the case of any concern, employees may contact the ombudsmen, even anonymously, if they are reluctant to inform their senior or line managers of their problems. The trade union and the Works Council, too, investigate employee concerns. Should the need arise – and if necessary, with the involvement of the senior management – they may propose new procedural regulations to avoid the given operation/procedure/decision-making process giving rise to concern. Regular senior management meetings facilitate the identification and management of cross-effects where the senior HR manager identifies the expected impacts on employees and updates HR managers in the interest of receiving more direct feedback. The HR report on corporate events, including results and plans, forms a regular part of the senior management forum. It serves to provide general information and to identify potential risks in light thereof the final concept may be subject to change.

Whenever there is a statutory obligation regarding the notification of employees concerning major changes with an impact on them, we fully observe any such obligation. The Collective Agreement prescribes minimum notification times in respect of certain issues:

Notification by employee: - drawing on paid time off work

Notification by employer: - working arrangements and changes therein – issuance of leave

As a general practice, the Management does not introduce changes with retroactive effect. Depending on the issue – regarding the recommendations of interest representations, if the given change affects a larger group of employees – employees are typically informed of any anticipated major changes 2 to 4 weeks before.

We employ some 190 interns annually. Interns working for our Bank are given responsible assignments; our rotation programme ensures that they acquire comprehensive experience. We have always laid a great deal of emphasis on succession training and education. One of the milestones of this effort was the creation of the Interns Cooperation Programme *(Gyakornoki Összefogás Program, GYÖP)*.

We started our initiative Hello BB to acquaint young people who are interested in the banking sector and are motivated to improve themselves professionally with our choice of internship and early career programmes by resorting to the use of new methods. As part of this, we created the programme's continuously updated microsite (which can be accessed at www.hellobb.hu as of 2017), and Facebook page (https://www.facebook.com/hellobudapestbank/). Additionally, our staff members regularly attend university and college events and job fairs, and we also organise internal programmes for interns and prospective interns.

Our Bank supports groups organised spontaneously by staff members based on their interests, the Friends of Animals Team, the Working Parents Team, the Health Team, the Charity Team, the Women for Women Team, and the Green Office Team.

8.5 Social policy

Health and safety at workplace

We play an active role in the preservation of our staff members' health and create an optimal environment for the performance of their work. The purpose of our health programme is to encourage our staff members and their family members to pay more attention to health preservation. As part of this, we provide help for our colleagues by offering them the discount use of sports facilities, organising regular screening tests, health preservation programmes and workshops that are designed to promote exercise, stress management, mental health, and resilience. In 2021, we kept our health programme alive via online platforms; in a dedicated private Facebook group, we provided various live exercise classes (which were later made available online for subsequent viewing) and organised programmes supporting mental welfare for our colleagues.

Budapest Bank Group is committed to providing optimal personal, physical, and organisational conditions for the safe performance of work in a way which does not pose a threat to health, in the interest of protecting our employees' health and working capacity and humanising their working conditions, thereby preventing work-related accidents and employment-related illnesses. The Bank provides for the prevention of fire incidents that may pose a threat to life and property and makes available the fundamental conditions necessary for firefighting and the enforcement of the fire protection regulations, standards, and official requirements to be observed during the installation and use of the relevant equipment by regulating and making available the relevant personal, physical, and material conditions. The system of labour and fire protection is organised within the "Bank Security – Physical Security" organisational unit. The responsibilities emerging in the work-related health care segment of labour protection are fulfilled under the auspices of the employment health care service. The interests of employees regarding labour protection are represented by a labour protection representative. A comprehensive audit extending to every member of the branch network as well as to the Budapest and Békéscsaba centres is carried out minimum once every calendar year which is documented in an illustrated report with photographs, with a fixed deadline. The report is sent to the managers concerned, the head of bank security, and property management, the head of physical security, the head of property management, the regional project staff members, the operations staff members, the labour protection representatives, and the physician specialising in employment-related health care delegated by the employment health care service provider. Any work-related accidents are recorded in accordance with the protocol of the given regulatory environment, i.e., in minutes of work-related accidents, regional records of work-related accidents and aggregated records of work-related accidents.

Training and education of employees

At Budapest Bank we provide opportunities for professional and personal development for all our employees. Our manifold training system allows them to broaden their knowledge, while those with a managerial aptitude are assisted with becoming managers. We organise an orientation programme for newly hired staff members. We provide our new colleagues joining our branch network with a two-month intensive induction programme. For freshly graduated staff members we operate manager training programmes in five different areas. These are typically two-year programmes and are based on skills and experience that can be obtained in rotation. At the Békéscsaba Service Centre employees are required to attend 80 to 160 hours of training in the first year after their hiring, depending on the area they work in, while those working in call centres attend a 6- to 8-week theoretical and mentoring programme.

Regarding employee training, the Bank's strategic approach is based on the premise of continuously maintaining and further building a development-centred culture. We provide professional and skills development solutions for our staff members which support their individual development, organisational efficiency, and the attainment of their career goals. We ensure the maintenance of their expertise by continuously raising the level of their qualifications and adjusting them to the ever-higher market and regulatory expectations. By doing so, we motivate our staff members and enhance their commitment which also promotes work force retention. We find during interviews that prospective staff members see our training system as a significantly positive feature. General skills development and manager training programmes are organised under the supervision of the HR Organisation Development and Training Unit, while area-specific training programmes are organised by the given units by concentrating on the implementation of the technical requirements of the day and new technical and professional solutions. Additionally, in the case of the retail division, a dedicated training team is responsible for the training of newly hired sales staff members and the efficiency of their development by specifically focusing on this area.

8.6 Human rights

Diversity and equal opportunities

One of the focus areas of our CSR strategy is equal opportunities. Inclusiveness at the workplace is one of the defining elements of our corporate culture, and therefore we provide equal opportunities for everyone so that they can find advancement according to their performance. We are a founding and active member of the Employers' Forum on Equal Opportunities established in 2010. We also joined the Integrom Program launched by Boston Consulting Group and Autonomia Foundation in 2014, and the HRom project of Autonomia Foundation in 2016, whose mission is to enable young Roma in the largest possible numbers to work in white-collar positions at the country's large companies. Also, at present we employ colleagues with disabilities, and we are making further efforts to increase their number. Regarding the integration of staff members with disabilities, we have several cooperating partners, including the Salva Vita Foundation which supports the employment of people with disabilities.

Equal remuneration

We have no benefits only provided for full-time employees. All benefits are due to every employee in employment with us for minimum three months under the same conditions. Our cafeteria benefit is a favourable benefit option for those in the lower income brackets, including part-time employees, as in the case of benefits which are comprised of a fixed part and a part dependent on the income, the fixed part is independent both of the income and of the working hours.

Our HR Manual contains detailed rules relating to remuneration. The manual is freely available to all employees who are informed of any changes therein, with a summary of amendments, immediately. 100% of our job positions are equally available to both genders, and typically there are both men and women in most positions. We determine the income components and characteristics for each position, regardless of the gender of the person occupying the given position and independently of any other personal characteristics. We annually monitor and adjust them in light of any market changes. Bearing in mind the principles of equal treatment, we examine annually whether there is any significant difference between the salaries of men and women holding the same positions.

Anti-discrimination measures

We believe that our staff members play a key part in the success of our business. At Budapest Bank we are aware that committed and highly qualified staff members who are also motivated on the long-term constitute the basis of our successful operation. The maintenance of an inclusive workplace approach is a defining element of our corporate culture. We offer equal opportunities to everyone so that they find advancement according to their personal performance.

• We adopt any decisions concerning employment based on merit and performance, including education, professional experience, skills, abilities, attitude, and performance.

• Decisions cannot be influenced by considerations regarding the individual's origin, skin colour, religion, national or ethnic affiliation, gender (including pregnancy), sexual orientation, sexual identity, age, disabilities, or other attributes protected by law.

• No one may refuse to work together or cooperate with any staff members on account of the above attributes.

• We pay particular attention to creating a supportive workplace environment where there can be no harassment, intimidation, or humiliation on account of any of the attributes protected by law.

• We fully respect human rights.

Protection of personal data

The protection of personal data is the responsibility of the internal data protection officer who is our legal counsel. Our data protection regulations constitute the framework for data protection, while detailed provisions can be found in the Business Rules, General Terms of Contract, internal regulations, and instructions. We carry out internal audits according to the internal audit unit's audit plans, while external audits are conducted as part of the audit of the National Bank of Hungary.

8.7 Anti-corruption measures

Budapest Bank's business activities are based – beyond the stringent statutory and regulatory environment applicable to our operations – on the Bank's Code of Ethics which regulates every area of our operations, including Bank management, lending, and communication with customers. The Bank expects every one of its employees to comply with the Code of Ethics, and additionally some of the regulations are also incorporated into the supplier and subcontractor agreements. This value code prescribes full compliance with the legal rules applicable to our business activities and the manifestation of honest, fair, reliable, and ethical practices. We are convinced that there is only one kind of success we can preserve our reputation with and earn our customers' trust; namely success achieved through the manifestation of ethical practices. To this end our staff members make every effort to meet the most stringent expectations in the field of ethical business practices.

The first item of Budapest Bank's Code of Ethics is the prohibition of corruption. In business communication of any nature, the offering or acceptance of bribes is strictly forbidden, and the very appearance of bribery of any kind must be avoided. Every employee must take care to avoid even the impression of giving or accepting incentives the purpose of which is the unethical gaining of business advantages, whether in official authorisation procedures conducted by the authorities, in any information or offers provided for customers/partners or during credit assessment, etc.

• No one can promise or offer others monetary or any other incentive representing monies' worth with the purpose of unethical gaining of business advantages.

• The same applies to the acceptance of presents and entertainment: it is forbidden to accept any incentive with the evident purpose of unethical gaining of business advantages.

• We conduct stringent checks for the purpose of preventing and uncovering any act of bribery. These stringent checks also extend to the appointment and management of third parties proceeding for and on behalf of the Bank Group in business transactions.

• We keep accurate accounting and other records to ensure that they appropriately reflect the actual nature of all transactions.

• Employees must take care to avoid commissions which appear to be disproportionately high compared with the service rendered.

8.8 Risks related to Bank's activities, statutory compliance, and non-financial performance indicators

The Bank's activities, business relations, products and services convey several minor or major risks as regards the issues of statutory compliance, environmental protection, social and employment policy, corruption, the fight against bribery, and human rights.

As Budapest Bank is not engaged in production activities, but is a provider of financial services, environmental risks are lower. These primarily require compliance with Act 57 of 2015 on Energy Efficiency.

Budapest Bank employs 3,297 persons, therefore employment policy risks are a particular priority. In addition to general compliance with the Labour Code, this means the fulfilment of the expectations of the Works Council, successful labour audits and compliance with the health and safety regulations relating to the workplace.

⟹ Consolidated Business and Non-Financial Report

Due to the Bank's activities as a financial institution, the fight against risks arising from corruption and bribery is another major priority. Therefore, Budapest Bank has operated a compliance unit since 2000, with the aim to meet the needs and expectations of our customers, in addition to statutory compliance. The compliance unit takes part in all processes related to products, from product design through product pricing to monitoring, including customer and marketing communications. The number one priority is that the products and services are transparent and practical, and only offer customers what they genuinely need. The compliance unit plays a crucial role: it takes part in almost every phase of product development, from sales all the way to the drafting of customer information documents. The bank also does a great deal for developing financial culture in Hungary to enable customers themselves to assess their own financial situation. Responsible lending and banking, the offering of transparent products and easy-to-understand communication together with developing financial culture are treated as priorities. Responsible thinking beyond mere compliance with regulations is a very strong element of our corporate business culture.

The bank pays particular attention to enabling customers to select the banking product or service that is best suited to their needs and financial situation. The information brochures draw customers' attention to both the specificities of products and to potential risks. Advisors make every effort to ensure that customers understand all relevant information, and also inform customers of all the parameters of the products they wish to procure. Responsible banking standards have been applied since 2009, which contribute to enabling customers to make informed decisions about their finances. One of the most important elements of these standards is the system of post-sales calls which help to assess whether customers received all necessary product information. Particular attention is paid to clear and easy-to-understand communication in the case of loan products when it is necessary to consider not only the needs, but also the possibilities of customers. Staff members are prepared for providing accurate information for customers, and additionally all consumer protection information is made available on the website, which may be helpful before the adoption of a financial decision (e.g., consumer protection information pages, calculators).

The Bank has introduced several non-financial performance indicators for the assessment of the above risks and measures them on a regular basis. These are the following, among others:

- Mandatory health screening tests,
- Mandatory training records statistics,
- Ombudsman statistics,
- Monitoring of compliance with workplace safety regulations (e.g., fire alert, clean desk),
- Customer complaints office, complaint registration and statistics, money laundering reporting.

Budapest, 23 March 2022

Dr. Lélfai Koppány Chairman of BoD & Chief Executive Officer	Antal Martzy Chief Financial Officer