

SBERBANK MAGYARORSZÁG ZRT.

**AUDITOR'S OPINION
AND ANNUAL FINANCIAL STATEMENT**

31. DECEMBER 2020.



INDEPENDENT AUDITOR'S REPORT
(Free translation)

To the shareholder of Sberbank Hungary Zrt.

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Sberbank Hungary Zrt. (the "Company") which comprise the Statement of financial position as of 31 December 2020 (in which the total assets is MHUF 511,066), the income statement, the statement of other comprehensive income (in which the total comprehensive income for the year is MHUF 1,305 loss), the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the financial statements comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and they have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Accounting Act") relevant for the financial statements prepared in accordance with IFRS as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee dated 29 April 2021.

Basis for opinion

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

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

The non-audit services that we have provided to the Company, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 6.8.9. to the financial statements.

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

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



Our audit approach

Overview

<i>Overall materiality</i>	Overall materiality applied was MHUF 453
<i>Key Audit Matters</i>	Impairment on loans and advances to customers

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

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

Materiality

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

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

<i>Materiality</i>	MHUF 453
<i>Determination</i>	1% of equity
<i>Rationale for the materiality benchmark applied</i>	We chose equity as the benchmark because, in our view, this is a balanced benchmark which reflects the interests of the owner and of the regulator and is a generally accepted benchmark. We chose 1% as quantitative materiality threshold.

Key audit matters

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



Key audit matter

How our audit addressed the key audit matter

Impairment on loans and advances to customers

The net amount of loans and advances to customers was MHUF 295,052 as at 31 December 2020, representing 58% of total assets. Impairment recognized in the balance sheet amounted to MHUF 15,617.

Management disclosed related assumptions, balances and estimates in section 6.4.2 of the notes to the financial statements on accounting policy, as well as in notes 6.5.4., 6.8.17 and 6.10.3.

Impairment recognized on expected credit losses is determined on the basis of subjective criteria and management is required to apply significant judgement when calculating individual and collective expected credit loss allowances especially when considering the current uncertain economic environment as a result of COVID-19 pandemic.

The first step in the expected credit loss calculation is to identify whether there was significant increase in credit risk. The selected indicators will determine whether a 12-month or a lifetime expected credit loss is calculated.

In the calculation of individual expected credit loss, the most significant uncertainty is involved in the estimation of expected future cash flows, and in probability weighting of cash-flow scenarios, where cash flows include recoveries both from collections of contractual cash flows and from collaterals.

The Company applies impairment models to calculate expected credit loss. These models quantify the probability of default, exposure at default and the loss at default as the primary parameters in the estimation of the recoverable amount, taking into account forward looking information – in line with the requirements of IFRS 9.

The modelling methodologies are developed using historical experience, which - in unprecedented economic conditions that

We gained an understanding of the lending process from disbursement to monitoring and to the calculation of impairment, identified the main control points, and tested their operational effectiveness, including management's approval. Thereby the focus was on adaptations of methods and processes introduced to capture the increased uncertainties of the present and future environment due to the COVID-19 pandemic in expected credit losses.

We performed credit review for individually significant loans on a sample basis. We checked the customer's rating by the Company based on credit application and monitoring documents as well as customer-related financial and non-financial information.

For a sample of individually impaired loans, we checked whether assumptions, estimations and scenario weightings applied in calculations of the recoverable amount are reasonable and whether the calculations are correct.

For collective expected credit loss, we assessed whether the methodology applied by the Company was compliant with IFRS 9 with the support of our internal modelling experts. We read the validation documents, recalculated, on a sample basis, selected model parameters and the expected credit loss allowances, and assessed the tool used by the Company to calculate expected credit loss allowances.

We checked input data for the expected credit loss allowance calculation (both historical and measurement data), indicators used to determine whether there was significant increase in credit risk and analyzed the development of credit losses.

To address increased estimation uncertainty related to Covid-19, we evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to loan support state programs. We also critically assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions, to identify significant increases in



currently vary across customer segments and industry sectors - can result in limitations in their reliability to appropriately estimate expected credit loss.

A further limitation is caused by the fact, that, to reduce the economic consequences of the COVID-19 pandemic, the Hungarian government has introduced loan support programs, including moratoria on loan repayment transactions available to and used by a majority of debtors. These programs complicate a timely reflection of a potential deterioration of the loan portfolio and result in artificially low observed default rates.

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

- Additional criteria to assess significant increase in credit risk for retail loans
- Adjustment of macroeconomic assumptions and the weighting of the applied scenarios

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

credit risk of single customers or customer groups.

We read section 6.4.2. and points 6.5.4., 6.8.17 and 6.10.3 of the notes to the financial statements to assess whether disclosures are in line with the applicable regulations.

Other information: the business report

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

In connection with our audit of the financial statements, our responsibility is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed, we conclude that the business report is materially misstated we are required to report this fact and the nature of the misstatement.



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

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

In our opinion, the 2020 business report of the Company is consistent with the 2020 financial statements in all material respects, and the business report has been prepared in accordance with the provisions of the Accounting Act. As there is no other regulation prescribing further requirements for the business report, we do not express an opinion in this respect.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:



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

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

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

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



Report on other legal and regulatory requirements

We were first appointed as auditors of the Company on 30 April 2020.

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

Budapest, 29 April 2021

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

Translation note:

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

SBERBANK HUNGARY
private company limited by shares

Financial Statements
31 December 2020

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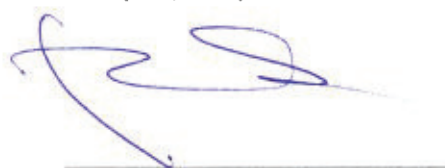
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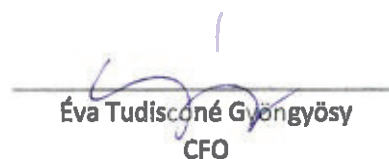
1. STATEMENT OF FINANCIAL POSITION

Assets	Note	31.12.2020 HUF million	31.12.2019 HUF million
Cash and cash equivalents	6.5.1	117 498	98 846
Derivative assets	6.5.10	793	228
Debt securities	6.5.2	38 719	31 016
Receivables from credit institutions	6.5.3	41 627	14 111
Loans and advances to customers	6.5.4	295 052	265 637
Fair value changes of hedged instruments in portfolio hedges	6.6.8	110	0
Plant, property and equipment	6.5.5	2 168	2 237
Right-of use assets	6.5.6	2 519	3 076
Intangible assets	6.5.7	6 848	5 577
Equity investments	6.5.8	842	767
Tax assets	6.5.9	0	25
Other assets	6.5.11	4 890	1 868
Non-current assets and disposal groups held for sale	6.5.12	0	13
Total Assets		511 066	423 401
Liabilities			
Liabilities due to banks	6.5.13	85 968	52 697
Liabilities due to customers	6.5.14	354 804	302 038
Derivative liabilities	6.5.10	891	1 255
Debt securities in issue	6.5.15	0	1 310
Subordinated liabilities	6.5.16	10 281	9 313
Provisions	6.5.17	1 136	1 232
Tax liabilities	6.5.9	19	21
Other liabilities	6.5.18	12 373	8 636
Total Liabilities		465 472	376 502
Equity			
Share capital	6.5.19	3 727	3 727
Share premium	6.5.20	94 416	94 416
Other reserves	6.5.21	421	421
Other comprehensive income	6.7	91	261
Retained earnings		-53 061	-51 926
Total Equity		45 594	46 899
Total Liabilities and equity		511 066	423 401

Budapest, 29 April 2021



Richard Szabó
Chairman - CEO



Éva Tudiszné Gyöngyösi
CFO

2. INCOME STATEMENT

	Note	2020 HUF million	2019 HUF million
Profit or loss for the year			
Interest and similar income		13 042	11 916
Interest income calculated using effective interest method	6.6.1	11 579	11 165
Other interest and similar income	6.6.1	1 463	751
Interest and similar expense		-2 372	-2 437
Interest expense calculated using effective interest method	6.6.2	-1 816	-1 874
Other interest and similar expense	6.6.2	-556	-563
Modification gain or loss	6.6.3	-811	0
Net provision charge for loan impairment	6.6.4	-3 183	-846
Net interest income minus risk provisions		6 676	8 633
Fee and commission income	6.6.5	9 351	9 206
Fee and commission expense	6.6.6	-1 651	-1 422
Net fee and commissions income		7 700	7 784
Net trading income	6.6.7	665	-118
Result on hedge accounting	6.6.8	-97	0
Net gain or loss on securities	6.6.9	282	-109
Fair value changes of loans other than trading	6.6.10	708	512
Changes in allowances for other risks	6.6.11	-686	-420
Other operating income	6.6.12	307	2 660
Other operating expenses		-16 224	-16 113
General administrative expenses	6.6.13	-3 966	-4 265
Personnel expenses	6.6.13	-5 761	-6 168
Depreciation and amortization	6.6.13	-1 959	-1 537
Other expenses	6.6.13	-4 538	-4 143
Result before tax		-669	2 829
Income tax	6.6.14	-466	-468
Profit or loss after tax		-1 135	2 361

Budapest, 29 April 2021



Richard Szabó
Chairman - CEO



Éva Tudiszné Gyöngyösi
CFO


3. STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	31.12.2020 HUF million	31.12.2019 HUF million
Profit or loss after tax		-1 135	2 361
Other comprehensive Income			
Other comprehensive results to be reclassified to profit or loss		-170	4
Changes in fair value of debt Instruments measured at FVOCI	6.7	-170	4
Changes in fair value of loans measured at FVOCI	6.7	0	0
Reclassification to profit or loss		0	0
Net gain or loss from sale of debt instruments measured at FVOCI		0	0
Other items		0	0
Related taxes		0	0
Total Other comprehensive income		-170	4
Total comprehensive Income		-1 305	2 365

Budapest, 29 April 2021



Richard Szabó
Chairman – CEO



Éva Tudisconé Gyöngyösi
CFO

4. STATEMENT OF CHANGES IN EQUITY

data in HUF million	Note	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total
Balance at 1. January 2019		3 727	94 416	185	257	-54 051	44 534
Profit or loss for the year		0	0	0	0	2 361	2 361
Other comprehensive Income for the year		0	0	0	4	0	4
Total comprehensive income for the year		0	0	0	4	2 361	2 365
Increase in general reserves		0	0	236	0	-236	0
Increase in share capital		0	0	0	0	0	0
Dividend payments		0	0	0	0	0	0
Total changes		0	0	236	4	2 125	2 365
Balance at 31. December 2019		3 727	94 416	421	261	-51 926	46 899
Profit or loss for the year	6.6	0	0	0	0	-1 135	-1 135
Other comprehensive Income for the year	6.7	0	0	0	-170	0	-170
Total comprehensive income for the year		0	0	0	-170	-1 135	-1 305
increase in general reserves	6.5.21	0	0	0	0	0	0
Increase in share capital		0	0	0	0	0	0
Dividend payments		0	0	0	0	0	0
Total changes		0	0	0	-170	-1 135	-1 305
Balance at 31. December 2020		3 727	94 416	421	91	-53 061	45 594

Budapest, 29 April 2021



Richard Szabó
Chairman - CEO



Éva Tudisconé Gyöngyösi
CFO

5. STATEMENT OF CASH FLOWS


Cash flows from operating activities	Note	2020	2019
		HUF million	HUF million
Interest received	6.6.1	12 976	12 779
Interest paid (without lease liabilities)	6.6.2	-2 431	-2 804
Fees and commissions received	6.6.5	9 477	9 215
Fees and commissions paid	6.6.6	-1 651	-1 422
Net gains realised on FVTPL securities	6.6.9	2	1
Net gains realised on derivatives	6.6.7	495	-250
Other operating income received	6.6.12	11 238	7 024
Operating expenses paid	6.6.13	-13 958	-14 560
Income tax paid	6.6.14	-466	-468
Net changes in trading securities (increase: -, decrease: +)	6.5.2	0	0
Net changes in securities designated at FVTPL (Increase: -, decrease: +)	6.5.2	0	10 000
Net changes in loans and advances to banks (Increase: -, decrease: +)	6.5.3	-27 528	8 363
Net changes in loans and advances to customers (Increase: -, decrease: +)	6.5.4	-42 932	-41 764
Net changes in other financial instruments (Increase: -, decrease: +)	6.5.11	-3 444	6
Net changes in other non-financial instruments (Increase: -, decrease: +)	6.5.11	-595	-1
Net changes in due to banks (Increase: +, decrease: -)	6.5.13	33 252	17 828
Net changes in due to customers (Increase: +, decrease: -)	6.5.14	52 942	36 540
Net changes in debt securities in issue (Increase: +, decrease: -)	6.5.15	-1 191	-2 129
Net changes in other financial liabilities (Increase: +, decrease: -)	6.5.18	4 253	-809
Net changes in other non-financial liabilities (increase: +, decrease: -)	6.5.18	58	52
Net changes in FVTPL financial assets (Increase: -, decrease: +)	6.5.10	-151	1 255
Net changes in FVTPL financial liabilities (Increase: +, decrease: -)	6.5.10	-1 163	-226
Paid interest on lease contracts	6.6.2	-110	-119
Cash flows from operating activities		29 145	38 511

	Note	2020 HUF million	2019 HUF million
Cash flows from investing activities			
Acquisition of investment securities	6.5.2	-54 180	-19 504
Proceeds from disposal and maturity of investment securities	6.5.1	46 879	21 791
Interest received on investment securities	6.6.1	617	580
Acquisition of plant, property and equipment and intangible assets	6.5.7	-2 857	-3 537
Proceeds from disposal of plant, property and equipment including insurance payments and intangible assets	6.6.12	0	4
Dividends received from subsidiaries	6.6.9	35	35
Cash flows from investing activities		-9 506	-631
Cash flows from financial activities			
Interest paid on subordinated debts	6.5.16	-299	-301
Principal repayment of lease liabilities	6.8.1	-688	-541
Cash flows from financial activities		-987	-842
Cash flows		18 652	37 038
Cash and cash equivalents at 1. January	6.5.1	98 846	61 808
Cash and cash equivalents at 31. December	6.5.1	117 498	98 846
Changes in Cash and cash equivalents		18 652	37 038

Budapest, 29 April 2021



Richard Szabó
Chairman - CEO



Éva Tudi
CFO

6. NOTES

The notes in this chapter form part of the financial statements.

6.1. General information

Sberbank Magyarország Zrt. (the Bank) started operations as Magyarországi Volksbank Ltd. on 27 August 1993. Its subscribed capital upon foundation was HUF 1,000 million and its sole owner was Österreichische Volksbanken AG (ÖVAG). Since 1996 the main shareholder of the Bank had been Volksbank International AG (VBI), a subsidiary of ÖVAG. On 15 February 2012 the full acquisition of VBI was completed and as a result a subsidiary of the Russian Sberbank became the majority shareholder of the Bank, which has been operating under the name of Sberbank Europe AG since 5 November 2012. The ultimate parent company of the Bank is Sberbank of Russia.

The new name of the Bank (Sberbank Magyarország Zártkörűen Működő Részvénytársaság) is effective from 1 November 2013.

General information on the Bank:

- Registered office: 1088 Budapest, Rákóczi út 1-3.
- Registration number: 01-10-041720
- Tax number: 10776999-2-44
- Statistical code: 10776999-6419-114-01
- Account number at MNB: 19017004-00201414
- Website: www.sberbank.hu

Sberbank Europe AG (Schwarzenberg Street 3. 1010 Vienna Austria) prepares consolidated financial statements in accordance with IFRS for the smallest unit of the Group which includes Sberbank Magyarország Ltd. as a subsidiary. Sberbank of Russia (Vavilova Street 19. 117997 Moscow, Russia), majority owned by the Russian state has 100% of the Sberbank Europe AG shares and prepares the consolidated financial statements for the largest unit of the Group.

The Bank provides a full range of commercial banking services through its nationwide network of 28 branches.

The annual financial statements of the Bank must be audited. Audit is performed by PricewaterhouseCoopers Könyvvizsgáló Kft. (1055 Budapest, Bajcsy-Zsilinszky út 78., Company registry number: 01-09-063022; Chamber of Hungarian Auditors registration number: 001464).

The (natural) person responsible for the audit: Árpád Balázs (CHA registration number: 006931).

Person responsible for the Bank's accounting records: Mrs. Éva Gyöngyösy Tudisco Finance Director. (CHA registration number: 005792).

Richard Szabó Chief Executive Officer and Mrs. Éva Gyöngyösy Tudisco Finance Director are authorised to sign jointly the financial statements of the Bank.

6.2. Senior executives

Senior executives of the Bank as at 31 December 2020:

Supervisory Board members	Function	Company
Alexander Witte	chairman	Sberbank Europe AG
Sonja Sarközi	deputy chairman	Sberbank Europe AG
Kornél Halmos	member	Sberbank Europe AG
Michael Oberhammer	member	Independent
dr. Zoltán Fényi	member	employee delegate

Members of the Board of Directors	Function
Richard Szabó	chairman
Éva Tudisconé Gyöngyösy	member
Bence Kalmár	member
Tamás Fodor	member

6.3. Statement of compliance

The Annual Report of the Bank was prepared in line with International Financial Reporting Standards (IFRS) as adopted by EU and in line with the interpretations of the IFRS Interpretations Committee (IFRS IC).

The Bank also prepares consolidated financial statements, in which it applies the same accounting policies as in the preparation of the stand-alone financial statements. The separate and the consolidated financial statements of the Bank are approved and published on the same day.

6.4. Accounting policies

Data in these financial statements are in Hungarian forints, which is the functional and bookkeeping currency of the Bank. Unless otherwise indicated, data disclosed in the financial statements are presented in Hungarian forints rounded to the nearest million.

The reporting date in the financial statements is 31. December 2020.

When preparing the financial statements and during bookkeeping the Bank assumes that the *going concern principle* is met, that is, the Bank intends and is able to maintain its operations for the foreseeable future, can continue its activity, and a closure of operations or any significant reduction therein is not expected.

Section 6.8.17 Impact of coronavirus epidemic contains analysis of the situation caused by the coronavirus.

As a conclusion it can be stated that Management of the Bank believes that going concern assumption does exist. Cessation of the operation or significant reduction thereof for whatsoever reason is not expected in the foreseeable future.

6.4.1. Significant accounting judgements and estimates

As a result of Inherent uncertainties in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available information and does not undermine the reliability of the financial statements.

The Bank applies accounting estimates when quantifying the following items:

- determining doubtful receivables, impairment and provisions;
- determining the fair value of financial instruments.

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error, thus the effect of the change shall be recognised in the period of the change and future periods (prospective recognition). Prospective recognition means that the change is applied to transactions and business events from the date of the change in estimate.

Estimating Impairment and provisions

Information relating to measuring and assessing credit risk are presented in Section 6.10.3 Credit risk and in Section 6.8.17 Impact of coronavirus epidemic.

Estimating the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price).

The inputs to valuation techniques used to measure fair value can be categorised into a fair value hierarchy which includes the following levels:

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Such as for example:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liabilities in markets that are not active
- other observable inputs:
 - interest rates and yield curves observable at commonly quoted intervals
 - implied volatilities
 - credit spreads
- market-corroborated inputs.

Level 3 inputs: Unobservable inputs. Unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Where possible, the Bank uses principal market prices to determine fair value. The Bank is a small institution with a small balance sheet compared to its competitors and a relatively low market share. The bank does not have any sizeable position in any financial market (foreign exchange, interbank interest rates, swaps, bonds, shares, options, etc.) that could have an endogenous effect on the market if it enters into buy and sell transactions, i.e. no transaction could distort the market. On the markets where the bank has presence, we are neither aware of any other market player that could have such impact, therefore the bank considers the observed prices as reliable and representative and it uses these inputs in the fair value calculation without any further adjustment or corrections.

The IFRS allow both call prices and bid prices to be used for valuations, so in line with the consolidated accounting policies of its owner the Bank

- uses bid prices for debt securities
- and mid prices in all other instances for valuations.

If there are no observable prices on the principal markets then to determine the fair value of receivables from customers and credit institutions with terms of more than 90 days the Bank uses the DCF (discounted cash flow) method to estimate fair value with due consideration of the following:

- The Bank adjusts future cash flows from the Core Banking System so they reflect estimates of future interest rates. This adjustment appears in the cash flows with the help of projected (forward and FRA) curves.
- When discounting the Bank uses money-market reference rates in line with the nature of the transaction (for example: BUBOR3M or LIBOR3M).
- The Bank takes liquidity costs into account too by adjusting the discount rate as appropriate. These are key parts of asset and liability pricing, and can be derived from market parameters under Level 1 inputs (for example: material asset swap spreads).
- When pricing assets (specifically in the case of loans), the price has to include compensation for expected losses stemming from any non-payment by the debtor. Alongside the cash flows the Bank adjusts the discount curve as well in line with the expected loss, so the fair value is not distorted.
- The Bank's internal rating system furnishes faithful information on credit risk premiums in relation to expected credit risks; the adjustment applied is calculated from the product of PD x LGD, where the LGD data comprises various collateral levels.

The fair value of receivables from credit institutions with terms of less than 90 days is determined based on the present value calculated in the Murex system.

If the carrying amount is a good approximation of the fair value (for example, current receivables and liabilities of no more than 90 days: sight deposits and short-term deposits), IFRS does not require any fair value measurement or calculation; in these cases the Bank considers the carrying amount to be the fair value.

Although the Baby loan product launched in 2019 based on the Government Decree on supporting child-bearing and child-raising is classified in 'hold' business model, because of the special conditions of the product (see below) the SPPI test provided the result that the contractual cash flows are not consistent with a basic lending arrangement. Therefore these loans are not allowed to be measured at amortised cost.

During SPPI test, the Bank detected the following critical contractual conditions:

- the reference interest rate published by the Hungarian State Treasury is calculated from the government yields of the previous 3 months and is applicable from the first day of the month after publication therefore it does not reflect the yields available on the date of disbursement, but it reflects an average from a significantly earlier time period

- in the formula for determining the interest rate of the deal the 130% of the reference rate shall be applied therefore the above mentioned effect is multiplied by 1,3 and so enhanced
- in the formula for determining the interest rate of the deal the margin rise significantly by 300 basis points independently of credit risk of the customer when no child is conceived within 5 years after the disbursement

The Bank uses the DCF (discounted cash flow) method to estimate fair value of Baby loans with the following amendments:

- future cash flows are determined as expected values based on the data from studies analysing fertility rates and actual birth data and published by the Hungarian Central Statistical Office (KSH).

During calculating future cash flows, the possible outcomes are classified into two scenarios as follows:

- the first cycle lasts until maturity or the conception of the second child, when the government grant for 30% of principal outstanding are drawn down
- the second cycle lasts from the conception of the second child until maturity or the conception of the third child, when the government grant for the whole remaining principal outstanding are drawn down
- the calculation model takes into account the repricing of the deal in every 5 year and derives the future reference interest rates on which the nominal interest rate of the deal is based from yield curves as forward/forward interest rates

Information relating to sensitivity of fair value of Baby loans are presented in Section 6.10.2 Market risk.

The Bank measures financial assets/liabilities on fair value which are: debt securities (Hungarian government bonds) designated at fair value under fair value option, and held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, loans and advances in the same business model, loans and advances which failed at SPPI test, other (not consolidated) equity investments and derivatives. The Bank uses the following inputs for the fair value calculation of these instruments:

1. Fair value hierarchy 1 (level 1)

The Bank calculates the fair value of the Hungarian government bonds using the directly observed composition of quotes of contributors on the active market.

2. Fair value hierarchy 2 (level 2)

The Bank deals with derivatives (swaps, forward, options) only on the OTC markets, meaning there is no directly observable market quotation in this case. However, the fair value calculation is made with using input data which are observable on active markets (yield curves, volatility surface) discounted cash flow method and option price models (Black-Scholes, Garman-Kolhaegen).

3. Fair value hierarchy 3 (level 3)

Only the fair value of Visa Inc. investment can be defined reliably from the other equity investments of the Bank: the Bank has 'A' and 'C' series convertible stocks, which can be converted to 'A' series common stocks on a specified rate. The Bank calculates the fair value of VISA stocks as the multiplication of the directly observable market price of the 'A' series common stocks and the fixed conversion rate.

The remaining other equity investments of the Bank are measured at fair value through other comprehensive income.

In calculation of the fair value for the non-performing loans which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets the general DCF method is not applicable as the past due days of receivables are more than 90 days and estimated cash flows are not reliable. The net carrying value of these loans equals the gross value of the loans reduced with accumulated impairment, as a directly non-observable input data, that Bank considers the realistic fair value of non-performing loans. The impairment movement and its causes for these loans are disclosed in the impairment movement table of chapter 6.5.4.

The classification in the fair value hierarchy may change on account of changing market conditions, modernised models and the sensitivity of input factors. If the market becomes inactive for instance, the input parameters previously observable on the market may become unobservable parameters. If a new fair value measurement model is applied that uses several input factors observable on the market, this can refine the fair value calculation. The impact of a used input parameter can become significant or insignificant.

This is why the Bank revises the fair value calculation methodology and hierarchical classification at the end of each reporting period.

6.4.2. Significant accounting policies

Basic measurement principles

In accordance with the *fair presentation principle*, the Bank presents its financial position, financial performance and cash flows fairly. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in IFRSs.

Assets and equity and liabilities are reported in the financial statements basically at cost or amortised cost, except for financial instruments held for trading, derivatives, assets falling into categories „sell” or „hold and sell” as well as financial assets failed at SPPI test, which are presented at fair value.

Revaluation of foreign currency assets and foreign currency liabilities

Foreign currency assets, liabilities, income and expenses are booked in the currency of the transaction, but are recognised in the financial statements in HUF.

Foreign currency assets and liabilities are converted to HUF on a daily basis at the middle rate published by the Bank.

Foreign currency assets and liabilities are measured in the financial statements at the exchange rate published by MNB and valid on the last day of the year.

Estimating depreciation

The Bank records depreciation on property, plant and equipment as well as amortisation on intangible assets from the first day after such are ready for use. The depreciation on property, plant and equipment and the amortisation on intangible assets are recognised on a straight-line basis, taking into account the expected duration of use and the residual value.

The Bank assumes that the commissioning date and the date assets become available for use is one and the same, given that the business model followed by the Bank means the commissioning of assets is not preceded by a lengthy stockpiling period.

Intangible assets always have definite useful lives. Straight-line rates used considering useful lives determined individually:

Intangible assets	
Rights and concessions	15%
Software	max. 25%
Other intellectual property	max. 25%

Straight-line rates used for property, plant and equipment:

Land and buildings	
Buildings, parts of buildings. held by own	2,00%
Investment of buildings held by own	depending on use, max 10,00%
Investment of buildings. rented	according to lease contracts
Plant and other machinery	
Office assets and equipment	14,50%
Copying machines and equipment	14,50%
Other office equipment	14,50%
Telecommunications equipment	14,50%
Administration and other (office) fittings	14,50%
Tools	14,50%
Computers and IT equipment	max. 20,00%
Security equipment	14,50%
Vehicles	
Vehicles	20,00%

The depreciation rates of right-of-use assets are determined according to the length of the related contracts.

Principles of presenting financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash, nostro accounts, the minimum reserve placed with MNB as well as overnight deposits placed with National Bank of Hungary (MNB) and other credit institutions and accrued interest thereof.

Cash and cash equivalents are measured at amortized cost.

Initial recognition

The Bank treats all contracts as financial instruments that give rise to a financial asset for one entity and to a financial liability or an equity instrument for another entity.

The Bank treats all contracts as equity instruments that evidence a residual interest for the Bank in the assets of an entity after deducting all of its liabilities.

The Bank only recognises financial instruments in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

Except for derivatives, the Bank recognises regular way purchase or sale of financial assets using settlement date accounting, while in the case of derivatives it accounts for the transactions on the trade date.

At initial recognition the Bank measures financial assets and financial liabilities at their fair value plus or minus, in the case of a financial asset or financial liability is not valued at FVTPL transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. An exception to this are trade receivables that do not have a significant financing component. These receivables are measured at their transaction price as defined in IFRS 15.

If the Bank originates a loan that bears an off-market interest rate, and receives an upfront fee as compensation, the Bank recognises the loan at its fair value, i.e. net of the fee it receives.

If it is determined that the fair value at initial recognition differs from the transaction price, the difference is accounted for as follows:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (Level 1 input) or based on a valuation technique that uses only data from observable markets (Level 2 input). The Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases the fair value at initial recognition shall be adjusted by the deferred amount of the difference between the fair value and the transaction price. After initial recognition, the Bank shall recognise the deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.

Classification and measurement - business model for managing the financial asset

Based on the business model for managing the financial asset, specified in a resolution by the Board of Directors, the Bank classifies financial assets upon initial recognition into one of the following models:

- a) business model whose objective is to hold financial assets to collect contractual cash flows;
- b) business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- c) other business models, of which one is a business model, in which the Bank manages the financial assets with the objective of realising cash flows through the sale of the assets.

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification but can be determined on a higher level of aggregation, and more than one business model can be used for managing financial instruments. The portfolio segmentation of the Bank is decided on by the Board of Directors.

When assessing its business model, the Bank considers all relevant information that is available at the date of the assessment, which includes, but is not limited to:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within the model), and particularly the method for managing these risks;
- how managers of the business are compensated.

The Bank classifies financial assets at initial recognition into the following categories based on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset:

- financial assets measured at amortised cost;
- assets measured at fair value through other comprehensive income;
- assets measured at fair value through profit or loss;
- purchased or originated credit-impaired financial assets.

Financial assets are measured by the Bank at amortised cost, if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured by the Bank at fair value through other comprehensive income, if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank examines whether the cash flows of a financial asset are solely payments of principal and interest on the principal amount outstanding by using a decision tree designed for this purpose (contractual cash flow test, SPPI test).

Based on the SPPI test, it can be decided whether contractual cash flows are consistent with basic lending arrangements.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with basic lending arrangements. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest; however, interest can also include consideration for other basic lending risks and costs, as well as a profit margin. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement give rise to contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. In this case the Bank measures the financial asset at fair value through profit or loss.

Of equity instruments, the Bank records interests in subsidiaries under IAS 27 at cost less impairment in its books, while other investments that do not qualify as related companies are measured at fair value through profit or loss. However, in case of strategic investments that are not held for trading or not expected to be sold in the foreseeable future the Bank elected to classify these investments as equity instruments at fair value through other comprehensive income.

According to the principals above the Bank evaluates its other equity investments as follows:

Equity investment	Valuation method
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt.	Fair value through Other Comprehensive Income
Garantiqa Hitelgarancia Zrt.	Fair value through Other Comprehensive Income
S.W.I.F.T.	Fair value through Other Comprehensive Income
Visa Inc.	Fair value through Profit or Loss

The Bank may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;

Calculation of amortised cost

Amortised cost is calculated using the effective interest method, which is also used to determine interest income.

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Bank shall estimate the expected cash flows by considering all the contractual terms of the financial instrument but shall not consider the expected credit losses.

The calculation includes all fees and commissions related to the creation of the deal and paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

During the calculation the Bank applies the effective interest rate to the gross carrying amount of the financial assets, except for:

- purchased or originated credit-impaired financial assets. For these assets the Bank applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- financial assets that are not purchased or originated credit-impaired financial assets, but subsequently became credit-impaired financial assets. For these financial assets the Bank applies the effective interest rate to the amortised cost of the financial assets in subsequent reporting periods.

By applying the effective interest method the Bank identifies the fees that are an integral part of the financial instrument's effective interest rate. Fees that are an integral part of the effective interest rate of a financial instrument include:

- origination fees received by the Bank relating to the creation or acquisition of a financial asset. Such fees include for example compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction;

- commitment fees received by the Bank to originate a loan when the loan commitment is not measured at fair value through profit or loss and it is probable that the Bank will enter into a specific lending arrangement. If the commitment expires without the Bank making the loan, the fee is recognised as income on expiry;
- origination fees paid on issuing financial liabilities measured at amortised cost.

These fees are an integral part of generating an involvement with the resulting financial instrument.

The Bank distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

When applying the effective interest method the Bank generally amortises any fees, points paid or received, transaction costs and other premiums or discounts that are included in the effective interest rate calculation over the expected life of the financial instrument.

For floating-rate financial assets and floating-rate financial liabilities, the periodic re-estimation of cash flows to reflect the movements in the market rate of interest alters the effective interest rate.

In some cases the financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is acquired at a deep discount. The Bank includes the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired at initial recognition.

For the Bank, the transactions that do not have a cash flow which can be reliably estimated in advance are not included in the amortised cost calculation, i.e. their effective interest rate is the same as the transaction rate, and the amortised cost is the same as the outstanding contractual amount. Such transactions include current accounts, current account overdrafts and revolving loans.

Financial liabilities

All financial liabilities shall be classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities include for example derivative instruments that shall be measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate. An issuer of such a contract shall subsequently measure it at the higher of the following two options:
 - the amount of the loss allowance;
 - the amount initially recognised less the cumulative amount of income.

The Bank may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;

- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel of the Bank.
- an embedded derivative should be separated and valued separately from the host contract, but this is not possible for some reason

Modification of contractual terms for financial Instruments

If a transaction is modified because of a customer request, and not because the customer is struggling with financial difficulties (performing customer), and the new conditions are measured at market price, then the modification is deemed market-driven.

In this case, if the impact of the modification is significant, the old instrument has to be derecognised and the renegotiated loan treated as a new instrument. If the net effect of the derecognition and the new recognition is not zero, this impact has to be recognised through profit and loss upon derecognition. The Bank recognises the impact of the derecognition under Other operating income.

Among other things, the Bank considers the following to be a significant modification of contract:

- change in debtor
- change in contract currency
- increase in loan amount, refinancing
- change in SPPI-critical condition
- significant change in term (at least 100%, but no less than 2 years)

If the modification does not count as significant, the instrument is not derecognised; the modification gain or loss is accounted for separately in the net interest income/expense, and it also adjusts the amortised cost of the instrument. This gain or loss is subsequently amortised over the life of the transaction using the effective interest method.

Derecognition

Financial instruments are derecognised when the contractual rights to receive cash flows from the financial instrument have expired or when the Bank has transferred substantially all risk and rewards of ownership to another party. The difference between consideration received at derecognition of the financial instrument and book value of the financial instrument is recognized in the profit and loss statement.

The Bank derecognises a financial liability from its books when it ceases to exist i.e. when contractual obligation was fulfilled, cancelled or expired.

Write-off of financial assets

The Bank writes off the amount of unrecoverable receivables against profit or loss.

A receivable is considered unrecoverable if,

- there is no collateral for it during enforcement;
- it was released in the framework of an agreement;
- there is no collateral for it according to the written statement issued by the liquidator;
- there is no collateral for it based on the proposal for the distribution of assets;
- the costs of collection are not in proportion to the amount of the receivable;
- the debtor cannot be located and this is "documented";
- it cannot be enforced in a court of law;
- it has expired.

Reclassification

Financial assets may be reclassified when, and only when, the Bank changes its business model for managing financial assets. A change in the business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations (e.g.: a business line). The following for example are not changes in business model: a change in intention related to particular financial assets or the temporary disappearance of a particular market for financial assets.

Reclassification shall be applied prospectively from the reclassification date. This means that any previously recognised gains, losses or interest shall not be restated.

Financial liabilities may not be reclassified.

Financial assets pledged as collateral

Under financial assets used as collateral, the Bank discloses collateral placed at other banks to cover losses from derivative transactions as well as securities and SME loans used to cover FGS refinancing sources.

The Bank retained all the risks and rewards related to ownership of the financial assets used as collateral, so these assets remain part of the Bank's balance sheet. Their presentation is based on the accounting policies of cash and securities.

Interest income and interest expense on derivative transactions

For derivative transactions the Bank presents the related interest income and interest expense broken down by the transaction objective:

- for derivatives in the trading book; the related interest income and interest expense are recognised in the Net trading income/expense;
- for transactions in the banking book, the related interest income and interest expense form part of the net interest income/expense.

Accounting for leases

The Bank applies the rules of IFRS 16 standard as follows:

- the Bank does not apply the standard to intangible assets
- the Bank does not apply the recognition and measurement requirements of the standard to right-of-use asset and lease liability to
 - leases with a lease term less than 12 months, and
 - leases for which the underlying asset is of low value. The Bank sets the threshold for low-value assets in the context of this standard at EUR 4,000.
- for short-term leases and leases for which the underlying asset is of low value, the Bank recognises the lease payments associated with the leases as an expense on a straight-line basis over the lease term.
- at the commencement date, the Bank recognises
 - a right-of-use asset at cost, which comprises
 - the amount of the initial measurement of the lease liability
 - any lease payments made at or before the commencement date, less any lease incentives received
 - any initial direct costs incurred by the lessee
 - an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset
 - a lease liability in the amount of the present value of the future lease payments
- the Bank applies a single discount rate to a portfolio of leases with similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment)
- for vehicle leases the Bank uses the interest rate implicit in the lease, while for property lease contracts, considering that determining the market value of leased parts of property would cause unnecessary costs and effort to the Bank, it uses the lessee's incremental borrowing rate
- the Bank does not consider non-reclaimable VAT part of the lease liability and the right-of-use asset
- the Bank determines the lease term as follows:
 - the non-cancellable period of a lease
 - increased by the periods by an option to extend the lease if the Bank is reasonably certain to exercise that option
 - decreased by the periods covered by an option to terminate the lease if the Bank is reasonably certain to exercise that option
- the Bank revises the lease term if there is a change in the non-cancellable period of lease (e.g. the Bank exercises an option not previously included in the determination of the lease term)
- after the commencement date, the Bank measures the right-of-use asset applying a cost model and determines its book value as follows:
 - cost of the asset
 - less any accumulated depreciation and any accumulated impairment losses
 - adjusted for any remeasurement of the lease liability
- to calculate the depreciation of the right-of-use assets the Bank applies the general rules of depreciation
- the Bank depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, however, if the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or if the Bank is reasonably certain to exercise a purchase option, the Bank depreciates the right-of-use asset until the end of the useful life of the underlying asset

- the Bank applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified
- after the commencement date, the Bank determines the book value of the lease liability as the sum of the followings:
 - lease liability at inception
 - increased by the amount of the interest on the lease liability
 - decreased by the lease payments made
 - modified by any remeasurement or lease modifications
- the Bank determines the interest on the lease liability as the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability
- during lease term, the Bank recognises the interest on the lease liability and variable lease payments not included in the measurement of the lease liability in profit or loss
- the Bank remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if there is a change either
 - in the lease term, or
 - in the assessment of an option to purchase the underlying asset
- the Bank remeasures the lease liability by discounting the revised lease payments, if there is a change either
 - in the amount expected to be payable under a residual value guarantee, or
 - in future lease payments resulting from a change in an index or a rate used to determine those payments

in this case, the Bank uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates
- the Bank recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset, however, if the carrying amount of the right-of-use asset is reduced to zero, the Bank recognises any remaining amount of the remeasurement in profit or loss
- the Bank accounts for a lease modification as a separate lease if both
 - the modification increases the scope of the lease by adding the right to use one or more underlying assets, and
 - the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract
- for a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Bank remeasures the lease liability by discounting the revised lease payments using a revised discount rate and makes a corresponding adjustment to the right-of-use asset for the lease modifications

The Bank does not lease out assets as part of its normal course of business.

Accounting for government grants

Government grants are transfers of resources to an entity in return for past or future compliance with certain conditions.

In accordance with IAS 20, the Bank recognises government grants only if there is reasonable assurance that it will comply with the conditions attaching to them and the grants will be received. Receipt of a grant does not of itself provide conclusive evidence, especially if compliance with the conditions is checked subsequently.

In accordance with the provisions of IAS 20, the Bank treats the benefit of a government loan at a below-market rate of interest as a government grant.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Bank recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet as deferred income and not by deducting the grant in arriving at the carrying amount of the asset.

Government grants related to income are presented in the same profit or loss category that includes the expenses for which the grants are intended to compensate.

The Bank accounts for government grants for the following items:

- MNB interest rate swaps conditional on lending activity (HIRS)
- Preferential deposits at the MNB related to HIRS transactions

There was no such transaction in the Bank's balance sheet neither at the end of 2019 nor at the end of 2020.

In contrast to the above, the Bank accounted for its HUF monetary policy interest rate swaps with the MNB (MIRS) under IFRS 9 using the practice that has developed in the Hungarian banking sector based on the opinion of the Chamber of Hungarian Auditors and as approved by the MNB as the supervisory authority; here the government grant was not separated during the presentation, and its impact on fair value is immediately recognised through profit or loss as the day-one gain or loss.

MIRS transactions listed in the balance sheet at the end of 2020 were concluded in 2018, hereby the day one gain effect was reflected in the profit of 2018.

Hedge accounting

The Bank started using hedge accounting in 2020 in order to reduce volatility due to fair valuation in case of derivative transactions concluded for hedging purposes. Volatility occurs because derivative transactions are measured at fair value, while hedged transactions often fall into the category measured at amortized cost. Hedge accounting provides opportunity to settle even the change in the fair value of hedged risk of such transactions in the profit and loss statement.

Hedge accounting covers interest rate swap deals (hedging instrument), BFGS (Bond Funding for Growth Scheme) bonds and consumer loans (hedged instrument).

The Bank only enters into fair value hedges and basically applies the rules of IFRS 9 for hedge accounting, but in case of fair value hedges of interest rate exposures in the portfolio of financial instruments the Bank applies the requirements of IAS 39 on hedge accounting instead of IFRS 9.

Fair value hedge is a hedge of an exposure to changes in the fair value of financial instrument that is applied to hedge interest rate risks.

In order to hedge interest rate risk of certain corporate bonds, the Bank concludes micro hedge interest rate swap deals. As long as hedging relationship prevails, the book value of the hedged item should be adjusted with the hedging gain or loss on the hedged item (bond) from the starting date of the hedging relationship. Should the hedging relationship be discontinued, the cumulative gain or loss on the hedging instrument is immediately accounted in the profit and loss statement in case the financial instrument is immediately derecognised (sale or expiry). Should the hedged item remain in the Bank's

books even after expiry of the hedging relationship, the cumulative gain or loss will be amortised until the financial instrument expires. The gain or loss on hedging instrument is displayed in the profit and loss statement.

The Bank concludes macro hedging interest swap deals to cover interest rate risk of its consumer loan's portfolio. The hedging gain or loss on the hedged deal is displayed under a separate row within the balance sheet directly following row displaying hedged items. The gain or loss realised on hedging relationship is displayed in the profit and loss statement.

The Bank prepares hedging documentation when entering into hedging relationship that includes description of the hedging instrument and hedged items, relationship between them, type of hedged risk, hedging strategy, and methodology and frequency of measuring hedging effectiveness.

Fair value option

Under IFRS 9 an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different bases. The application of the fair value option shall result in the financial statements providing reliable and more relevant information about the effects of transactions on the entity's financial position, financial performance and cash flows. The fair value option may be applied for example when an entity has financial assets that share a risk, such as interest rate risk, and that gives rise to opposite changes in fair value that tend to offset each other. In such cases the entity may measure the asset that otherwise is measured at amortised cost at fair value.

The Bank chose to apply the fair value option for measurement of Hungarian treasury bond portfolio (amounts to 10 billion HUF at face value) whose interest rate risk is hedged by interest rate swap transactions concluded in the frame of HIRS (MNB Market-Based Lending Scheme). The deal expired in 2019, so neither at the end of 2019 nor at the end of 2020 did the Bank's balance sheet include financial asset designated as at fair value on initial recognition.

Impairment of non-financial assets

In case of non-financial assets the Bank tests at least once a year whether there is objective evidence of impairment, whether impairment review is necessary. If necessary, the Bank assesses the recoverable value of the asset and examines whether book value of the asset is higher than this value, i.e. whether it is necessary to reduce book value by impairment.

Impairment is to be presented in the profit and loss statement.

Recoverable amount is the higher of the asset's fair value less cost to sell and its value in use.

Contingent liabilities

Contingent liability

- is a liability that arises from past events but existence thereof will be confirmed only after the occurrence or non-occurrence of one or more uncertain future events that are beyond the Bank's control
- existing liability deriving from a past event, but it is unlikely that its settlement would require the outflow of resources embodying economic benefits or the amount thereof can not be measured with sufficient reliability.

Due to its business activity, the Bank registers guarantees, liabilities related to lending activity and letter of credits as contingent liabilities.

These liabilities shall not appear in the Bank's balance sheet until they are not due or they are not settled.

Provisions

Provision is an existing liability (legal or constructive) the timing or amount thereof is uncertain. Should there be need for the outflow of resources embodying economic benefits to meet the obligation and the amount thereof can be estimated reliably, the provision is to be recognised in the balance sheet.

Provision for contingent liabilities related to lending activity is defined by the expected credit loss model.

In case of other provisions (litigations, other contingent liabilities), the amount displayed in the balance sheet is the best estimate for the expenditure required. If the temporal effect is important, the net present value of the best estimate should be recognized as provision.

Treatment of events after the reporting period

Events after the reporting period are events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

The amounts included in the financial statements shall be adjusted for events that provide evidence of conditions that existed at the reporting date.

Such events include for example the receipt of information after the reporting date indicating that an asset was impaired at the reporting date.

If after the reporting date the management of the Bank decides to liquidate the entity or to cease operations, or has no realistic alternative but to do so, the financial statements may not be prepared using the going concern basis of accounting. This fact must be disclosed in the notes to the financial statements.

The amounts recognised in the financial statements shall not be adjusted to reflect those events that are indicative of conditions that arose after the reporting date. However, additional disclosure may be necessary in the notes to the financial statements.

Such event is for example a decline in the market value of investments after the reporting date.

Dividends approved after the reporting period shall be treated as a non-adjusting event, thus these shall not be recognised as a liability at the reporting date. If dividends are declared before the financial statements are authorised for issue, this fact shall be disclosed in the notes.

Rules relating to corrections of accounting errors

The Bank considers an error material, if its aggregate amount together with any other errors exceeds 2% of the balance sheet total, or HUF 1 million, if such 2% of the balance sheet total does not reach HUF 1 million.

Current period errors discovered in that period are corrected in the current period.

Significant errors made in financial statements for previous years are corrected by retrospective restatement in the first set of financial statements after the discovery of the errors.

During retrospective restatement comparative amounts for the prior period(s) presented in which the error occurred shall be restated. If the error occurred before the earliest prior period presented, the opening balances for the earliest prior period presented shall be restated.

An exception to this is when retrospective restatement is impracticable; in this case opening balances shall be stated for the earliest period for which it is practicable (which may be the current period).

The effect of insignificant errors on assets, liabilities and equity shall be corrected in the current period. Opening balances are not restated. The effect of insignificant errors on prior-year profit or loss is accounted for through current-year profit or loss.

Changes in accounting policies

There were no changes in accounting policies in 2020.

Standards issued by IASB and adopted by the European Union not yet effective, and their expected effect

Standards, modifications and Interpretations that are effective:

The following new or amended IFRS standards were issued by the International Accounting Standards Board (IASB) or by the International Financial Reporting Interpretations Committee (IFRIC) with effect from 01. January 2020:

- Amendments to IFRS 3 due to business combination: revision of definition of business activity
- Amendments to IFRS 9, IAS 39 and IFRS 7 due to Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 due to definition of material
- Amendments to the Conceptual Framework for Financial Reporting

The above new standards and amendments do not affect the Company's result, financial position and disclosure obligation.

Standards, modifications and interpretations that are not effective yet, early practice thereof was not preferred by the Company:

- IAS 1 Presentation of Financial Statements: modification due to classification of liabilities as current or non-current (effective from 01. January 2022 or following business years; EU has not yet endorsed this modification)
- IFRS 3 Business Combinations (effective from 01. January 2022 or following business years; EU has not yet approved this modification)
- IAS 16 Property, plant and Equipment (effective from 01. January 2022 or following business years; EU has not yet approved this modification)
- IAS 37 Provisions, contingent liabilities and contingent assets (effective from 01. January 2022 or following business years; EU has not yet approved this modification)
- yearly corrections of IFRSs, 2018-2020 (effective from 01. January 2022 or following business years; EU has not yet approved this modification)
- IFRS 16 Lease, modification due to Lease concession related to Covid-19 (effective from 01. January 2022 or following business years; EU has not yet approved this modification)

- IFRS 4 modification due to Insurance contracts – deferral of IFRS 9 (effective from 01 January 2021 or following business years; EU has not yet approved this modification)
- IFRS 17 Insurance Contracts (effective from 01 January 2023 or following business years)
- modifications of IFRS 10 and IAS 28 (It was published on 11 September 2014 and it will be effective at a date determined by IASB or following business years). Asset sale between investor and associates or joint ventures.

As per Company's opinion there are no further new/amended standards or interpretations that are not yet effective and potential effect thereof could have a significant effect on Company's financial statements.

The Bank plans to apply the above amendments and modifications after they are adopted by the EU.

6.5. Notes to the Balance Sheet

6.5.1. Cash and cash equivalents

Cash and cash equivalents	31.12.2020	31.12.2019
Cash in hand	5 788	4 665
Current account with Central Bank	43 841	1 637
High grade	43 841	1 637
Impairment for current account with Central Bank	0	0
High grade	0	0
Deposits with Central Bank	51 000	84 453
High grade	51 000	84 453
Impairment for deposits with Central Bank	-2	-1
High grade	-2	-1
Nostro accounts and overnight loans	16 871	8 092
High grade	16 871	8 092
Impairment for nostro accounts and overnight loans	0	0
High grade	0	0
Total of cash and cash equivalents	117 498	98 846

The categories of credit risk rating are presented in chapter 6.10.3. Credit Risk.

The balance of the account held at the National Bank of Hungary (MNB) includes a minimum reserve of HUF 5 560 million, which the Bank does not use during its day-to-day operations.

The Bank has a higher volume of cash and cash equivalents at the end of 2020 than a year before, primarily due to the higher balance of nostro accounts.

At the end of 2020, no impairment is reported for the balance of current account including minimum reserves. Impairment for the balance of nostro accounts and overnight deposits at other banks, with a view of the partner banks' standard risk rating, did not reach the amount of HUF 1 million.

Changes in expected credit loss (ECL) during the year	31.12.2020			Total
	Current account with Central Bank	Deposits with Central Bank	Nostro accounts, overnight loans	
Opening balance	0	-1	0	-1
Allocation	0	-39	0	-39
Release	0	38	0	38
Closing balance	0	-2	0	-2

Changes in expected credit loss (ECL) during the year	31.12.2019			
	Current account with Central Bank	Deposits with Central Bank	Nostro accounts, overnight loans	Total
Opening balance	-7	0	-1	-8
Allocation	0	-1	0	-1
Release	7	0	1	8
Closing balance	0	-1	0	-1

6.5.2. Debt securities

In this section the Bank's portfolio of debt securities is presented. In this portfolio the Bank holds, on the one hand, government bonds and zero-coupon treasury bills issued by the Hungarian State, primarily for managing surplus liquidity but also for managing interest income and partially hedging interest risks.

On the other hand, the bank also holds corporate bonds in its portfolio of debt securities. The bonds were issued in the framework of the Bond Funding for Growth Scheme started on 1 July 2019 by the MNB. The Bond Funding for Growth Scheme launched and supported by the MNB – besides facilitates the development of the Hungarian corporate bond market – provides a lasting and stable lending opportunity towards large corporate clients with fix interest income for the Bank. Besides this, participating in the issuance of corporate bonds also strengthens the existing customer relationships.

Debt securities	31.12.2020	31.12.2019
Government bonds and zero-coupon treasury bills	31 007	27 156
Impairment of government bonds and zero-coupon treasury bills	-37	-49
Corporate bonds	7 785	3 953
Impairment of corporate bonds	-36	-44
Total of debt securities	38 719	31 016

The Bank had no securities held for trading at either the end of the reporting year or at the end of the comparative year, although there were small purchases during the year but these stocks were sold before the year-end.

At transition date to IFRS 9, on 01.01.2018 the Bank re-classified its securities held in available-for-sale category to category 'hold and sell'. Since Hungarian government bonds only pay capital and interest cash-flows to the holder, the Bank lists these in its books as financial assets at fair value through other comprehensive income after transition date.

The Bank purchased corporate bonds within the Bond Funding for Growth Scheme in 2019 and in 2020. The bonds all complied with the requirements of SPPI test, so the Bank recognizes the bonds held in 'hold' business model at amortised cost.. Bonds held in 'hold and sell' business model were mostly sold following the purchase, the remaining portfolio is recognized at fair value through other comprehensive income.

Book value of debt securities broken-down by valuation categories	31.12.2020	31.12.2019
Government bonds and zero-coupon treasury bills		
At fair value through other comprehensive income	30 970	27 107
At amortised cost	0	0
Corporate bonds		
At fair value through other comprehensive income	139	144
At amortised cost	7 610	3 765
Total debt securities	38 719	31 016

The following tables present the breakdown of Bank's debt securities by original maturity.

Book value of debt securities broken-down by original maturity categories	31.12.2020	31.12.2019
Government bonds and discount treasury bills		
Securities with original maturity within 1 year	4 998	3 692
Securities with original maturity over 1 year	25 972	23 415
of which due within 1 year	21 692	8 393
Total debt securities	30 970	27 107

Book value of debt securities broken-down by original maturity categories	31.12.2020	31.12.2019
Corporate bonds		
Securities with original maturity within 1 year	0	0
Securities with original maturity over 1 year	7 749	3 909
of which due within 1 year	0	0
Total debt securities	7 749	3 909

There are no overdue receivables related to any of the securities presented here within the Bank's balance sheet for the subject or previous year.

Debt securities at fair value through other comprehensive income

The following tables show the maximum credit risk exposure of the Bank's debt securities portfolio broken down according to the Bank's Internal credit rating system and end-of-year categories of expected credit losses.

31.12.2020				
Fair value of debt securities broken down by the categories of Internal credit rating system	12 month ECL	lifetime ECL	Impaired assets	Total
Government bonds and zero-coupon treasury bills				
High grade	30 970	0	0	30 970
Total	30 970	0	0	30 970
Corporate bonds				
High grade	139	0	0	139
Total	139	0	0	139
Debt securities total	31 109	0	0	31 109

31.12.2019				
Fair value of debt securities broken down by the categories of Internal credit rating system	12 month ECL	lifetime ECL	Impaired assets	Total
Government bonds and zero-coupon treasury bills				
High grade	27 107	0	0	27 107
Total	27 107	0	0	27 107
Corporate bonds				
High grade	144	0	0	144
Total	144	0	0	144
Debt securities total	27 251	0	0	27 251

The following tables show the changes in fair value of the Bank's debt securities portfolio broken down according to the Bank's internal credit rating system and end-of-year categories of expected credit losses.

31.12.2020				
Changes in fair value of debt securities without expected credit loss (ECL) broken down by the categories of ECL	12 month ECL	lifetime ECL	Impaired assets	Total
Government bonds and zero-coupon treasury bills				
Opening balance	27 156	0	0	27 156
Purchases during the year	49 187	0	0	49 187
Derecognised or matured (excluding write offs)	-45 409	0	0	-45 409
Other movements (foreign currency translation)	398	0	0	398
Closing balance	31 332	0	0	31 332
Changes in fair value	-325	0	0	-325
Closing balance without expected credit loss	31 007	0	0	31 007

Changes in fair value of debt securities without expected credit loss (ECL) broken down by the categories of ECL	31.12.2019			
	12 month ECL	lifetime ECL	Impaired assets	Total
Government bonds and zero-coupon treasury bills				
Opening balance	32 312	0	0	32 312
Purchases during the year	15 148	0	0	15 148
Derecognised or matured (excluding write offs)	-20 479	0	0	-20 479
Other movements (foreign currency translation)	480	0	0	480
Closing balance	27 461	0	0	27 461
Changes in fair value	-305	0	0	-305
Closing balance without expected credit loss	27 156	0	0	27 156

Changes in fair value of debt securities without expected credit loss (ECL) broken down by the categories of ECL	31.12.2020			
	12 month ECL	lifetime ECL	Impaired assets	Total
Corporate bonds				
Opening balance	149	0	0	149
Purchases during the year	1 318	0	0	1 318
Derecognised or matured (excluding write offs)	-1 318	0	0	-1 318
Other movements (foreign currency translation)	0	0	0	0
Closing balance	149	0	0	149
Change in fair value	-10	0	0	-10
Closing balance without expected credit loss	139	0	0	139

Changes in fair value of debt securities without expected credit loss (ECL) broken down by the categories of (ECL	31.12.2019			
	12 month ECL	lifetime ECL	Impaired assets	Total
Corporate bonds				
Opening balance	0	0	0	0
Purchases during the year	575	0	0	575
Derecognised or matured (excluding write offs)	-431	0	0	-431
Other movements (foreign currency translation)	0	0	0	0
Closing balance	144	0	0	144
Change in fair value	5	0	0	5
Closing balance without expected credit loss	149	0	0	149

The decline in the portfolio related to the derecognition of securities measured at fair value through other comprehensive income stems from maturity and sale. Because of the sales, HUF 2 million was transferred from other comprehensive income to the profit or loss.

The following table shows the reporting-year changes in expected credit loss. These movements reflect changes during the reporting year to the portfolio's fair value due to credit risks. These fair value changes were transferred from other comprehensive income to risk costs in the income statement.

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2020			
	12 month ECL	lifetime ECL	impaired assets	Total
Government bonds and zero-coupon treasury bills				
Opening balance	-49	0	0	-49
Purchases during the year	-56	0	0	-56
Derecognised or matured (excluding write offs)	7	0	0	7
Due to change in credit risk	61	0	0	61
Other movements (foreign currency translation, rounding)	0	0	0	0
Closing balance	-37	0	0	-37

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2019			
	12 month ECL	lifetime ECL	impaired assets	Total
Government bonds and zero-coupon treasury bills				
Opening balance	-78	0	0	78
Purchases during the year	-29	0	0	-29
Derecognised or matured (excluding write offs)	6	0	0	6
Due to change in credit risk	53	0	0	53
Other movements (foreign currency translation, rounding)	-1	0	0	-1
Closing balance	-49	0	0	-49

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2020			
	12 month ECL	lifetime ECL	impaired assets	Total
Corporate bonds				
Opening balance	-5	0	0	-5
Purchases during the year	0	0	0	0
Derecognised or matured (excluding write offs)	0	0	0	0
Due to change in credit risk	5	0	0	5
Other movements (foreign currency translation, rounding)	0	0	0	0
Closing balance	0	0	0	0

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2019			Total
	12 month ECL	lifetime ECL	impaired assets	
Corporate bonds				
Opening balance	0	0	0	0
Purchases during the year	-5	0	0	-5
Derecognised or matured (excluding write offs)	0	0	0	0
Due to change in credit risk	0	0	0	0
Other movements (foreign currency translation, rounding)	0	0	0	0
Closing balance	-5	0	0	-5

Debt securities at amortised costs

The following tables show the maximum credit risk exposure of the Bank's debt securities portfolio broken down according to the Bank's internal credit rating system and end-of-year categories of expected credit losses.

Gross value of debt securities broken down by the categories of internal credit rating system	31.12.2020			Total
	12 month ECL	lifetime ECL	impaired assets	
Corporate bonds				
High grade	7 646	0	0	7 646
Total	7 646	0	0	7 646

Fair value/gross value of debt securities broken down by the categories of internal credit rating system	31.12.2019			Total
	12 month ECL	lifetime ECL	impaired assets	
Corporate bonds				
High grade	3 804	0	0	3 804
Total	3 804	0	0	3 804

The following tables show the changes in gross value of the Bank's debt securities portfolio broken down according to the Bank's internal credit rating system and end-of-year categories of expected credit losses.

In 2020 the Bank did not keep government bonds at amortised costs.

Changes in gross value of debt securities broken down by the categories of expected credit loss (ECL)	31.12.2019			
	12 month ECL	lifetime ECL	impaired assets	Total
Government bonds and zero-coupon treasury bills				
Opening balance	1 022	0	0	1 022
Purchases during the year	0	0	0	0
Derecognised or matured (excluding write offs)	-1 059	0	0	-1 059
Other movements (FX translation, accrued interest)	37	0	0	37
Closing balance	0	0	0	0

Changes in gross value of debt securities broken down by the categories of expected credit loss (ECL)	31.12.2020			
	12 month ECL	lifetime ECL	impaired assets	Total
Corporate bonds				
Opening balance	3 804	0	0	3 804
Purchases during the year	3 676	0	0	3 676
Derecognised or matured (excluding write offs)	0	0	0	0
Fair value changes (hedge accounting)	85	0	0	85
Other movements (FX translation, accrued interest)	81	0	0	81
Closing balance	7 646	0	0	7 646

Changes in gross value of debt securities broken down by the categories of expected credit loss (ECL)	31.12.2019			
	12 month ECL	lifetime ECL	impaired assets	Total
Corporate bonds				
Opening balance	0	0	0	0
Purchases during the year	3 780	0	0	3 780
Derecognised or matured (excluding write offs)	0	0	0	0
Other movements (FX translation, accrued interest)	24	0	0	24
Closing balance	3 804	0	0	3 804

The year-end portfolio at amortized cost consists of corporate bonds issued under Bond Funding for Growth Scheme.

The following table shows the reporting-year changes in expected credit loss.

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2019			
	12 month ECL	lifetime ECL	impaird assets	Total
Government bonds and zero-coupon treasury bills				
Opening balance	-13	0	0	-13
Purchases during the year	0	0	0	0
Derecognised or matured (excluding write offs)	2	0	0	2
Due to change in credit risk	11	0	0	11
Other movements (FX translation, rounding)	0	0	0	0
Closing balance	0	0	0	0

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2020			
	12 month ECL	lifetime ECL	impaird assets	Total
Corporate bonds				
Opening balance	-39	0	0	-39
Purchases during the year	-19	0	0	-19
Derecognised or matured (excluding write offs)	0	0	0	0
Due to change in credit risk	22	0	0	22
Other movements (FX translation, rounding)	0	0	0	0
Closing balance	-36	0	0	-36

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2019			
	12 month ECL	lifetime ECL	impaird assets	Total
Government bonds and zero-coupon treasury bills				
Opening balance	0	0	0	0
Purchases during the year	-39	0	0	-39
Derecognised or matured (excluding write offs)	0	0	0	0
Due to change in credit risk	0	0	0	0
Other movements (FX translation, rounding)	0	0	0	0
Closing balance	-39	0	0	-39

6.5.3. Receivables from credit institutions

Changes to receivables from credit institutions:

Receivables from credit institutions	31.12.2020	31.12.2019
Receivables from Central Bank	16 773	1 319
Impairment for receivables from Central Bank	-6	-3
Receivables from credit Institutions	24 873	12 829
Impairment for receivables from credit Institutions	-13	-34
Total receivables from credit Institutions	41 627	14 111

The Bank classified all of its receivables from credit institutions in the 'hold' business model. In compliance with the SPPI tests performed, these receivables are recognised at amortised cost.

The table below shows the maximum credit risk exposure broken down according to the Bank's internal credit rating system and end-of-year categories of expected credit losses

Gross book value of receivables from credit institutions broken down by the categories of internal credit rating system	31.12.2020			Total
	12 month ECL	lifetime ECL	Impaired assets	
Performing receivables	41 646	0	0	41 646
High grade	41 646	0	0	41 646
Average grade	0	0	0	0
Total gross book value	41 646	0	0	41 646

Gross book value of receivables from credit institutions broken down by the categories of internal credit rating system	31.12.2019			Total
	12 month ECL	lifetime ECL	Impaired assets	
Performing receivables	14 148	0	0	14 148
High grade	13 845	0	0	13 845
Average grade	303	0	0	303
Total gross book value	14 148	0	0	14 148

The following tables illustrate the subject year change in gross book value of receivables from credit institutions broken down according to the end-of-year categories of expected credit losses.

Changes in gross value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2020			Total
	12 month ECL	lifetime ECL	Impaired assets	
Opening balance	14 148	0	0	14 148
Placements during the year	28 391	0	0	28 391
Derecognised or matured (excluding write offs)	-8 352	0	0	-8 352
Changes within the same ECL category (repayments, disbursements)	6 930	0	0	6 930
Other movements (FX translation)	529	0	0	529
Closing balance	41 646	0	0	41 646

Changes in gross value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2019			
	12 month ECL	lifetime ECL	impaired assets	Total
Opening balance	22 509	0	0	22 509
Placements during the year	3 614	0	0	3 614
Derecognised or matured (excluding write-offs)	-422	0	0	-422
Changes within the same ECL category (repayments, disbursements)	-11 958	0	0	-11 958
Other movements (FX translation)	405	0	0	405
Closing balance	14 148	0	0	14 148

The following tables illustrate the change in expected credit loss of receivables from credit institutions in subject year broken down according to the expected credit loss categories.

Changes in expected credit loss (ECL) during the year	31.12.2020			
	12 month ECL	lifetime ECL	impaired assets	Total
Opening balance	-37	0	0	-37
Placements during the year	-25	0	0	-25
Derecognised or matured (excluding write-offs)	49	0	0	49
Due to change in credit risk	-5	0	0	-5
Due to unwinding of discount	0	0	0	0
Reclassification to 12 month ECL category	0	0	0	0
Reclassification to lifetime ECL category	0	0	0	0
Reclassification to impaired category	0	0	0	0
Other movements (foreign currency translation)	-1	0	0	-1
Closing balance	-19	0	0	-19

Changes in expected credit loss (ECL) during the year	31.12.2019			
	12 month ECL	lifetime ECL	impaired assets	Total
Opening balance	-54	0	0	-54
Placements during the year	-88	0	0	-88
Derecognised or matured (excluding write-offs)	0	0	0	0
Due to change in credit risk	88	21	0	109
Due to unwinding of discount	-3	0	0	-3
Reclassification to 12 month ECL category	0	0	0	0
Reclassification to lifetime ECL category	21	-21	0	0
Reclassification to impaired category	0	0	0	0
Other movements (foreign currency translation)	-1	0	0	-1
Closing balance	-37	0	0	-37

Receivables from credit institutions by remaining maturity:

Receivables from credit institutions	on demand	31.12.2020					Total
		≤ 30 days	31-90 days	91 days -1 year	1-5 year	> 5 year	
Receivables from Central Bank	11 998	3 651	0	0	0	1 117	16 766
Receivables from credit institutions	821	18 332	139	0	0	5 569	24 861
Total receivables from credit institutions	12 819	21 983	139	0	0	6 686	41 627

Receivables from credit institutions	on demand	31.12.2019					Total
		≤ 30 days	31-90 days	91 days -1 year	1-5 year	> 5 year	
Receivables from Central Bank	1 316	0	0	0	0	0	1 316
Receivables from credit institutions	1 471	87	5 423	0	0	5 814	12 795
Total receivables from credit institutions	2 787	87	5 423	0	0	5 814	14 111

Receivables from credit institutions by geographic region:

Receivables from credit institutions	31.12.2020					Total
	Domestic	Russia	EU	Other		
Receivables from Central Bank	16 767	0	0	0		16 767
Receivables from credit institutions	701	5 793	18 246	120		24 860
Total receivables from credit institutions	17 468	5 793	18 246	120		41 627

Receivables from credit institutions	31.12.2019					Total
	Domestic	Russia	EU	Other		
Receivables from Central Bank	1 316	0	0	0		1 316
Receivables from credit institutions	1 461	6 035	4 996	303		12 795
Total receivables from credit institutions	2 777	6 035	4 996	303		14 111

6.5.4. Loans and advances to customers

This section presents receivables from customers broken down by following segments:

Loans and advances to customers	31.12.2020	31.12.2019
Corporate loans	184 383	175 819
Impairment for corporate loans	-9 352	-7 637
Private loans	126 286	102 344
Impairment for private loans	-6 265	-4 889
Total loans and advances to customers	295 052	265 637

Loans measured at fair value through profit and loss

The Bank measures only the Baby loan product launched in 2019 based on the Government Decree on supporting child-bearing and child-raising at fair value through profit or loss. While the Baby loan product is classified in 'hold' business model, the SPPI test provided the result that the contractual cash flows are not consistent with a basic lending arrangement due to the special conditions of the product. Therefore these loans are not allowed to be measured at amortised cost.

Loans and advances to customers	31.12.2020	31.12.2019
Corporate loans	0	0
Private loans	46 129	19 147
Total loans and advances to customers	46 129	19 147

The product was launched only in July 2019, but thanks to its popularity the Bank could build up a portfolio significant both in units and in value by the end of the year. Volume growth continued in 2020 as well.

The following table shows the changes to fair value of the portfolio in reporting year.

Changes in the fair value of the loans	2020.12.31	2019.12.31
Opening	19 147	0
Placements during the year	26 880	18 981
Derecognised or matured (excluding write-offs)	-823	-158
Changes in fair value	827	323
Modifications without derecognition	14	0
Other movements (interest accruals)	84	1
Closing balance	46 129	19 147

Loans measured at fair value through other comprehensive income

On transition to IFRS 9 the Bank classified a non-performing part of the portfolio into 'hold and sell' business model, for which it was known at the date of transition that it will be recovered by the revenue from the planned sale of receivables rather than by future cash flows of principal and interest.

These loans have been held in the FVOCI category since the date of transition.

Loans and advances to customers	31.12.2020	31.12.2019
Corporate loans	24	52
Private loans	1	0
Total loans and advances to customers	25	52

The volume of the portfolio and the number of transactions therein dropped significantly during the reporting year as a result of the intensive selling activity. Section 6.8.15 Realised profit from sale of loans contains detailed information of the selling activity.

The following table shows the maximum credit risk exposure of the Bank's portfolio measured at fair value through other comprehensive income, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Fair value broken down by the categories of internal credit rating system and impairment categories	31.12.2020					Total
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets	
Corporate loans	0	0	14	10	0	24
Non-performing	0	0	14	10	0	24
Impaired	0	0	14	10	0	24
Private loans	0	0	1	0	0	1
Non-performing	0	0	1	0	0	1
Impaired	0	0	1	0	0	1
Total fair value	0	0	15	10	0	25

Fair value broken down by the categories of internal credit rating system and impairment categories	31.12.2019					Total
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets	
Corporate loans	0	0	41	11	0	52
Non-performing	0	0	41	11	0	52
Impaired	0	0	41	11	0	52
Private loans	0	0	0	0	0	0
Non-performing	0	0	0	0	0	0
Impaired	0	0	0	0	0	0
Total fair value	0	0	41	11	0	52

The next tables show the changes to fair value of the portfolio in the reporting year.

The fair value of the portfolio during the reporting year was reduced by sale of receivables and by realisation of collaterals by HUF 292 million. The increased sales activity is expected to continue in the following years, and will ultimately lead to the complete elimination of the portfolio.

Changes in fair value of loans without expected credit loss (ECL) broken down by ECL categories	31.12.2020				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Corporate loans					
Opening balance	0	0	154	170	324
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	-135	-167	-302
Write-offs	0	0	-10	0	-10
Other movements (FX translation, interest accruals)	0	0	1	0	18
Closing balance	0	0	10	3	13
Changes in fair value	0	0	6	7	13
Closing balance without ECL	0	0	16	10	26

Changes in fair value of loans without expected credit loss (ECL) broken down by ECL categories	31.12.2019				
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	impaired assets individual	Total
Corporate loans					
Opening balance	0	0	193	162	84
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	-46	-1	-47
Write-offs	0	0	0	0	0
Other movements (FX translation, Interest accruals)	0	0	0	9	9
Closing balance	0	0	147	170	317
Changes in fair value	0	0	7	0	7
Closing balance without ECL	0	0	154	170	324

Changes in fair value of loans without expected credit loss broken down by ECL categories	31.12.2020				
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	impaired assets individual	Total
Private loans					
Opening balance	0	0	53	0	53
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	-24	0	-24
Write-offs	0	0	-29	0	-29
Other movements (FX translation, Interest accruals)	0	0	0	0	0
Closing balance	0	0	0	0	0
Changes in fair value	0	0	1	0	1
Closing balance without ECL	0	0	1	0	1

Changes in fair value of loans without expected credit loss (ECL) broken down by ECL categories	31.12.2019				
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	impaired assets individual	Total
Private loans					
Opening balance	0	0	257	0	257
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	-220	0	-220
Write-offs	0	0	0	0	0
Other movements (FX translation, Interest accruals)	0	0	6	0	6
Closing balance	0	0	43	0	43
Changes in fair value	0	0	10	0	10
Closing balance without ECL	0	0	53	0	53

The following tables show the reporting-year changes in portfolio fair value due to credit risks. These fair value changes were transferred from other comprehensive income to risk costs in the Income statement.

Changes in fair value of loans due to change in credit risk broken down by the expected credit loss (ECL) categories Corporate loans	31.12.2020				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Opening balance	0	0	-113	-159	-272
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	135	157	292
Write-offs	0	0	10	0	10
Due to change in credit risk	0	0	-29	9	-20
Due to unwinding of discount	0	0	-6	-7	-13
Other movements (FX translation, interest accruals)	0	0	1	0	1
Closing balance	0	0	-2	0	-2

Changes in fair value of loans due to change in credit risk broken down by the expected credit loss (ECL) categories Corporate loans	31.12.2019				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Opening balance	0	0	-120	-151	-271
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	14	0	14
Write-offs	0	0	0	0	0
Modifications without derecognition	0	0	0	1	1
Due to change in credit risk	0	0	-2	7	5
Due to unwinding of discount	0	0	-5	-7	-12
Other movements (FX translation, interest accruals)	0	0	0	-9	-9
Closing balance	0	0	-113	-159	-272

Changes in fair value of loans due to change in credit risk broken down by the expected credit loss (ECL) categories Private loans	31.12.2020				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Opening balance	0	0	-53	0	-53
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	24	0	24
Write-offs	0	0	29	0	29
Modifications without derecognition	0	0	0	0	0
Due to change in credit risk	0	0	2	0	2
Due to unwinding of discount	0	0	-3	0	-3
Other movements (FX translation, interest accruals)	0	0	1	0	1
Closing balance	0	0	0	0	0

Changes in fair value of loans due to change in credit risk broken down by the expected credit loss (ECL) categories	31.12.2019				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Private loans					
Opening balance	0	0	-214	0	-214
Placements during the year	0	0	0	0	0
Derecognised or matured (excluding write-offs)	0	0	177	0	177
Write-offs	0	0	0	0	0
Modifications without derecognition	0	0	0	0	0
Due to change in credit risk	0	0	-1	0	-1
Due to unwinding of discount	0	0	-9	0	-9
Other movements (FX translation, interest accruals)	0	0	-6	0	-6
Closing balance	0	0	-53	0	-53

The ageing of overdue receivables by the maximum days in default is presented below at the end of the reporting year.

Ageing of fair value of overdue loans broken down by the categories of internal credit rating system	31.12.2020						Total
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	
Corporate loans	0	0	0	0	0	24	24
Non-performing	0	0	0	0	0	24	24
Impaired	0	0	0	0	0	24	24
Private loans	0	0	0	0	0	1	1
Non-performing	0	0	0	0	0	1	1
Impaired	0	0	0	0	0	1	1
Total fair value	0	0	0	0	0	25	25

Ageing of fair value of overdue loans broken down by the categories of internal credit rating system	31.12.2019						Total
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	
Corporate loans	0	0	0	0	0	52	52
Non-performing	0	0	0	0	0	52	52
Impaired	0	0	0	0	0	52	52
Private loans	0	0	0	0	0	0	0
Non-performing	0	0	0	0	0	0	0
Impaired	0	0	0	0	0	0	0
Total fair value	0	0	0	0	0	52	52

Loans measured at amortised cost

The following table shows loans measured at amortised cost, broken down by business segments.

Loans and advances to customers	31.12.2020	31.12.2019
Corporate loans	184 359	175 767
Impairment for corporate loans	-9 352	-7 637
Private loans	80 156	83 197
Impairment for private loans	-6 265	-4 889
Total loans and advances to customers	248 898	246 438

The Bank's lending portfolio displayed stable growth over the last years, which continued also in 2020, although the rate of the growth was more moderate. The reduction of the non-performing loan portfolio and the decision to focus less on retail mortgage lending due to its low profitability played a significant role in the decrease in retail loan portfolio.

In the years presented in the present financial statement the Bank only has originated credit-impaired loans which were disbursed, it did not purchase such loans. The portfolio of originated credit impaired loans stems from the non-performing foreign currency loans converted into Hungarian forints during the 2015 debtor relief programme.

Corporate loans

The following tables show the maximum credit risk exposure of loans measured at amortised cost, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2020						Total
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	
Performing	134 654	42 318	0	0	0	0	176 972
High grade	10 980	403	0	0	0	0	11 383
Standard grade	87 273	14 222	0	0	0	0	101 495
Average grade	32 866	13 685	0	0	0	0	46 551
Below average grade	3 535	14 008	0	0	0	0	17 543
Non-performing	0	55	2 038	5 294	0	0	7 387
Standard grade	0	0	0	0	0	0	0
Average grade	0	48	1	0	0	0	49
Below average grade	0	7	52	0	0	0	59
Impaired	0	0	1 985	5 294	0	0	7 279
Total corporate loans	134 654	42 373	2 038	5 294	0	0	184 359

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2019						Total
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	
Performing	155 027	11 007	0	0	649	0	166 683
High grade	9 751	61	0	0	0	0	9 812
Standard grade	88 462	6 941	0	0	0	0	95 403
Average grade	50 646	2 814	0	0	649	0	54 109
Below average grade	6 168	1 191	0	0	0	0	7 359
Non-performing	0	0	2 197	6 887	0	0	9 084
Standard grade	0	0	25	0	0	0	25
Average grade	0	0	53	0	0	0	53
Below average grade	0	0	7	0	0	0	7
Impaired	0	0	2 112	6 887	0	0	8 999
Total corporate loans	155 027	11 007	2 197	6 887	649	0	175 767

The reporting-year changes in the gross carrying amounts of the loans measured at amortised cost are shown in the following tables broken down by the expected credit loss categories at the end of the reporting year.

Changes in gross book value broken down by the expected credit loss (ECL) categories	31.12.2020						Total
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	Impaired assets individual	POCI assets collective	POCI assets individual	
Opening balance	155 027	11 007	2 197	6 887	649	0	175 767
Placements during the year	49 604	2 017	0	0	0	0	51 621
Derecognised or matured (excluding write-offs)	-47 400	-4 418	-675	-10	-636	0	-53 139
Write-offs	0	-1	-64	0	0	0	-65
Changes within the same ECL category (repayments, disbursements)	6 888	-775	-944	-2 313	-13	0	2 843
Modifications without derecognition	-110	-60	454	-463	0	0	-179
Reclassification to 12 month ECL category	7 091	-7 090	-1	0	0	0	0
Reclassification to lifetime ECL category	-41 019	41 182	-163	0	0	0	0
Reclassification to impaired category	-999	-930	1 161	768	0	0	0
Other movements (FX translation, interest accruals)	5 572	1 441	73	425	0	0	7 511
Closing balance	134 654	42 373	2 038	5 294	0	0	184 359

Changes in gross book value broken down by the expected credit loss (ECL) categories	31.12.2019						Total
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	Impaired assets individual	POCI assets collective	POCI assets individual	
Opening balance	135 623	10 883	2 170	7 526	0	721	156 923
Placements during the year	45 271	187	1	522	0	0	45 981
Derecognised or matured (excluding write-offs)	-7 349	-646	-613	-1 871	0	0	-10 479
Write-offs	0	0	-120	-411	0	0	-531
Changes within the same ECL category (repayments, disbursements)	-14 289	-726	-607	-556	-71	0	-16 249
Modifications without derecognition	0	0	2	8	720	-721	9
Reclassification to 12 month ECL category	6 432	-6 427	-5	0	0	0	0
Reclassification to lifetime ECL category	-8 647	9 131	-484	0	0	0	0
Reclassification to impaired category	-246	-1 509	1 755	0	0	0	0
Other movements (FX translation, interest accruals)	-1 768	114	98	1 669	0	0	113
Closing balance	155 027	11 007	2 197	6 887	649	0	175 767

The following tables reveal the reporting-year changes in the expected credit loss of the loans measured at amortised cost, broken down by category of expected credit loss.

Changes in expected credit loss broken down by the expected credit loss (ECL) categories	31.12.2020						Total
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	
Opening balance	-1 042	-172	-1 250	-5 156	-17	0	-7 637
Placements during the year	-806	-147	-6	-1	0	0	-960
Derecognised or matured (excluding write-offs)	35	1	253	10	0	0	299
Write-offs	0	0	56	3	0	0	59
Modifications without derecognition	2	2	-147	149	0	2	8
Due to change in credit risk	-137	-1430	-38	1 056	17	-2	-534
Due to unwinding of discount	0	0	-59	-114	0	0	-173
Reclassification to 12 month ECL category	-232	232	0	0	0	0	0
Reclassification to lifetime ECL category	397	-427	30	0	0	0	0
Reclassification to impaired category	15	83	-83	-15	0	0	0
Other movements (FX translation, interest accruals)	-43	-20	-66	-285	0	0	-414
Closing balance	-1 811	-1 878	-1 310	-4 353	0	0	-9 352

Changes the expected credit loss broken down by the expected credit loss (ECL) categories	31.12.2019						Total
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	
Opening balance	-1 068	-113	-908	-5 575	0	-264	-7 928
Placements during the year	-381	-16	-1	-239	0	0	-637
Derecognised or matured (excluding write-offs)	426	76	789	1 213	14	0	2 518
Write-offs	0	0	144	394	0	0	538
Modifications without derecognition	0	0	-340	340	-264	264	0
Due to change in credit risk	-72	-71	-854	-990	240	0	-1 747
Due to unwinding of discount	0	0	-38	-116	-5	0	-159
Reclassification to 12 month ECL category	-42	41	1	0	0	0	0
Reclassification to lifetime ECL category	104	-138	34	0	0	0	0
Reclassification to impaired category	3	51	-51	-3	0	0	0
Other movements (FX translation, interest accruals)	-12	-2	-26	-180	-2	0	-222
Closing balance	-1 042	-172	-1 250	-5 156	-17	0	-7 637

Taking collateral into account may result in that while some or all of a receivable may be overdue, there is still no need to record impairment. At the end of 2020 the amount of such overdue receivables amounted to HUF 5 million and fell into category overdue over 1 year.

The ageing of overdue receivables by the maximum days in default is presented below at the end of the reporting year and in the previous year.

Ageing of gross value of overdue loans broken down by the categories of the internal credit rating system	31.12.2020						Total
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	
Performing	111	22	2	0	0	0	135
High grade	0	0	0	0	0	0	0
Standard grade	99	0	0	0	0	0	99
Average grade	7	17	0	0	0	0	24
Below average grade	5	5	2	0	0	0	12
Non-performing	1	3	78	94	249	3 211	3 637
Standard grade	0	0	0	0	0	0	0
Average grade	0	0	0	0	0	0	0
Below average grade	0	0	0	1	0	1	2
Impaired	1	3	79	93	249	3 210	3 635
Total corporate loans	112	25	81	94	249	3 211	3 772

Ageing of gross value of overdue loans broken down by the categories of the internal credit rating system	31.12.2019						Total
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	
Performing	257	46	5	0	0	0	308
High grade	7	0	0	0	0	0	7
Standard grade	94	0	0	0	0	0	94
Average grade	141	40	2	0	0	0	183
Below average grade	15	6	3	0	0	0	24
Non-performing	43	6	365	217	582	3 825	5 038
Standard grade	0	0	0	0	0	0	0
Average grade	0	0	0	0	0	1	1
Below average grade	0	0	0	1	0	3	4
Impaired	43	6	365	216	582	3 821	5 033
Total corporate loans	300	52	370	217	582	3 825	5 346

The decrease in long-term overdue receivables is the result of the portfolio clean-up process.

The ageing of the expected credit loss by the maximum days in default of the related overdue receivable is presented below at the end of the reporting year and in the previous year.

Ageing of expected credit loss broken down by the categories of the internal credit rating system	31.12.2020			
	overdue	≤1 year	> 1 year	Total
Performing	-33	-918	-2 738	-3 689
High grade	0	-25	-71	-96
Standard grade	-11	-264	-1 316	-1 591
Average grade	-10	-312	-933	-1 255
Below average grade	-12	-317	-418	-747
Non-performing	-3 261	-974	-1 428	-5 663
Standard grade	0	0	0	0
Average grade	-1	0	0	-1
Below average grade	-2	0	-10	-12
Impaired	-3 258	-974	-1 418	-5 650
Total impairment for corporate loans	-3 294	-1 892	-4 166	-9 352

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	31.12.2019			
	overdue	≤1 year	> 1 year	Total
Performing	-11	-394	-827	-1 232
High grade	0	-5	-8	-13
Standard grade	-1	-132	-394	-527
Average grade	-7	-218	-360	-585
Below average grade	-3	-39	-65	-107
Non-performing	-3 737	-1 562	-1 106	-6 405
Standard grade	0	0	-5	-5
Average grade	-1	-12	0	-13
Below average grade	-4	0	-1	-5
Impaired	-3 732	-1 550	-1 100	-6 382
Total impairment for corporate loans	-3 748	-1 956	-1 933	-7 637

Private loans

The following tables show the maximum credit risk exposure of loans measured at amortised cost, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2020					Total
	12 month ECL collective	lifetime ECL collective	Impaired assets	POCI assets collective	POCI assets Individual	
Performing	59 750	14 697	0	332	0	74 779
High grade	5 190	86	0	0	0	5 276
Standard grade	37 985	6 026	0	87	0	44 098
Average grade	15 354	5 968	0	159	0	21 481
Below average grade	1 221	2 617	0	86	0	3 924
Non-performing	0	92	3 397	1 783	105	5 377
Standard grade	0	35	3	0	0	38
Average grade	0	1	36	17	0	54
Below average grade	0	56	114	8	0	178
Impaired	0	0	3 244	1 758	105	5 107
Total private loans	59 750	14 789	3 397	2 115	105	80 156

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2019					Total
	12 month ECL collective	lifetime ECL collective	Impaired assets	POCI assets collective	POCI assets Individual	
Performing	74 061	2 703	0	281	0	77 045
High grade	0	0	0	0	0	0
Standard grade	50 580	498	0	149	0	51 227
Average grade	18 847	477	0	10	0	19 334
Below average grade	4 634	1 728	0	122	0	6 484
Non-performing	0	0	3 716	2 340	96	6 152
Standard grade	0	0	22	3	0	25
Average grade	0	0	43	0	0	43
Below average grade	0	0	132	35	0	167
Impaired	0	0	3 519	2 302	96	5 917
Total private loans	74 061	2 703	3 716	2 621	96	83 197

The reporting-year changes in gross carrying amount of loans measured at amortised cost are shown in the following tables broken down by the expected credit loss categories at the end of the reporting year.

Changes in gross book value broken down by the expected credit loss (ECL) categories	31.12.2020					
	12 month ECL collective	lifetime ECL collective	Impaired assets	POCI assets collective	POCI assets Individual	Total
Opening balance	74 061	2 703	3 716	2 621	96	83 197
Placements during the year	7 577	1 429	114	0	0	9 120
Derecognised or matured (excluding write-offs)	-6 288	-571	-959	-545	0	-8 363
Write-offs	0	0	-89	-60	0	-149
Changes within the same ECL category (repayments, disbursements)	-3 667	254	169	99	9	-3 136
Modifications without derecognition	-422	-179	-30	0	0	-631
Reclassification to 12 month ECL category	5 296	-5 066	-230	0	0	0
Reclassification to lifetime ECL category	-16 621	16 802	-181	0	0	0
Reclassification to impaired category	-278	-594	872	0	0	0
Other movements (FX translation, interest accruals)	92	11	15	0	0	118
Closing balance	59 750	14 789	3 397	2 115	105	80 156

Changes in gross book value broken down by the expected credit loss (ECL) categories	31.12.2019					
	12 month ECL collective	lifetime ECL collective	Impaired assets	POCI assets collective	POCI assets Individual	Total
Opening balance	69 697	2 817	5 960	9 139	475	88 088
Placements during the year	20 567	73	104	0	0	20 744
Derecognised or matured (excluding write-offs)	-5 990	-165	-5 352	-11 367	-722	-23 596
Write-offs	0	0	-105	213	0	108
Changes within the same ECL category (repayments, disbursements)	-9 126	-225	2 002	4 657	345	-2 347
Modifications without derecognition	0	0	4	-17	-2	-15
Reclassification to 12 month ECL category	5 381	-4 984	-397	0	0	0
Reclassification to lifetime ECL category	-6 158	6 912	-754	0	0	0
Reclassification to impaired category	-553	-1 747	2 300	0	0	0
Other movements (FX translation, interest accruals)	243	22	-46	-4	0	215
Closing balance	74 061	2 703	3 716	2 621	96	83 197

The following tables reveal the reporting-year changes in expected credit loss of loans measured at amortised cost, broken down by category of expected credit loss.

Changes in the expected credit loss broken down by the expected credit loss (ECL) categories	31.12.2020					
	12 month ECL collective	lifetime ECL collective	impaired assets collective	POCI assets collective	POCI assets individual	Total
Opening balance	-1 251	-400	-1 647	-1 545	-46	-4 889
Placements during the year	-165	-247	-67	0	0	-479
Derecognised or matured (excluding write-offs)	264	96	679	343	0	1 382
Write-offs	0	0	83	104	0	187
Modifications without derecognition	16	0	13	0	22	51
Due to change in credit risk	-587	-1 085	-386	-125	-28	-2 211
Due to unwinding of discount	0	0	-100	-192	-3	-295
Reclassification to 12 month ECL category	-418	335	83	0	0	0
Reclassification to lifetime ECL category	502	-575	73	0	0	0
Reclassification to impaired category	6	254	-260	0	0	0
Other movements (FX translation, interest accruals)	-1	-1	-10	0	1	-11
Closing balance	-1 634	-1 623	-1 539	-1 415	-54	-6 265

Changes in the expected credit loss broken down by the expected credit loss (ECL) categories	31.12.2019					
	12 month ECL collective	lifetime ECL collective	impaired assets collective	POCI assets collective	POCI assets individual	Total
Opening balance	-1 101	-382	-2 488	-4 374	-230	-8 575
Placements during the year	-430	-6	-76	0	0	-512
Derecognised or matured (excluding write-offs)	343	88	1 820	3 501	195	5 947
Write-offs	0	0	110	148	0	258
Modifications without derecognition	0	0	0	0	0	0
Due to change in credit risk	-30	-616	-419	-442	7	-1 500
Due to unwinding of discount	0	0	-109	-400	-19	-528
Reclassification to 12 month ECL category	-443	312	131	0	0	0
Reclassification to lifetime ECL category	396	-586	190	0	0	0
Reclassification to impaired category	10	791	-801	0	0	0
Other movements (FX translation, interest accruals)	4	-1	-5	22	1	21
Closing balance	-1 251	-400	-1 647	-1 545	-46	-4 889

Taking collateral into account may result in that while some or all of a receivable may be overdue, there is still no need to record impairment. At the end of 2020 the amount of such overdue receivables amounted to HUF 15 million and fell into category overdue over 1 year.

The ageing of overdue receivables by the maximum days in default is presented below at the end of the reporting year and in the previous year.

Ageing of the gross value of overdue loans broken down by the categories of the Internal credit rating system	31.12.2020						Total
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	
Performing	183	52	26	0	0	0	261
High grade	2	0	0	0	0	0	2
Standard grade	531	8	4	0	0	0	65
Average grade	777	17	9	0	0	0	103
Below average grade	51	27	13	0	0	0	91
Non-performing	11	10	16	64	62	2 062	2 225
Standard grade	0	0	0	1	1	1	3
Average grade	0	0	0	4	1	1	6
Below average grade	0	0	0	10	1	4	15
Impaired	11	10	16	49	59	2 056	2 201
Total private loans	194	62	42	64	62	2 062	2 486

Ageing of the gross value of overdue loans broken down by the categories of the Internal credit rating system	31.12.2019						Total
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	
Performing	1 424	25	12	0	0	0	1 461
High grade	0	0	0	0	0	0	0
Standard grade	1 059	4	2	0	0	0	1 065
Average grade	300	8	3	0	0	0	311
Below average grade	65	13	7	0	0	0	85
Non-performing	10	11	6	71	171	2 603	2 872
Standard grade	0	0	0	2	0	1	3
Average grade	0	0	0	4	0	2	6
Below average grade	0	0	0	4	1	8	13
Impaired	10	11	6	61	170	2 592	2 850
Total private loans	1 434	36	18	71	171	2 603	4 333

The ageing of the expected credit loss by the maximum days in default of the related overdue receivable is presented below at the end of the reporting year and in the previous year.

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	31.12.2020			
	overdue	<=1 year	> 1 year	Total
Performing	-107	-490	-2 672	-3 269
High grade	-3	-27	-120	-150
Standard grade	-46	-244	-1 244	-1 534
Average grade	-40	-166	-994	-1 200
Below average grade	-18	-53	-314	-385
Non-performing	-1 710	-200	-1 086	-2 996
Standard grade	-3	0	-5	-8
Average grade	-4	-4	-19	-27
Below average grade	-10	-10	-52	-72
Impaired	-1 693	-186	-1 010	-2 889
Total Impairment for private loans	-1 817	-690	-3 758	-6 265

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	31.12.2019			
	overdue	<=1 year	> 1 year	Total
Performing	-31	-299	-1 332	-1 662
High grade	0	0	0	0
Standard grade	-11	-156	-651	-818
Average grade	-10	-84	-389	-483
Below average grade	-10	-59	-292	-316
Non-performing	-1 933	-222	-1 072	-3 227
Standard grade	-2	-3	-11	-16
Average grade	-4	-6	-22	-32
Below average grade	-10	-7	-46	-63
Impaired	-1 917	-206	-993	-3 116
Total Impairment for private loans	-1 964	-521	-2 404	-4 889

6.5.5. Plant, property and equipment

The Bank measures its plant, property and equipment using the cost model.

Changes to plant, property and equipment:

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Acquisition cost						
Opening balance as at 01.01.2019	22	1 478	1 272	1 042	15	3 829
Addition	0	197	664	155	0	1 016
Disposal	0	-35	-12	-89	-15	-151
Closing balance as at 31.12.2019	22	1 640	1 924	1 108	0	4 694
Addition	0	18	242	88	0	348
Disposal	0	-32	-89	-114	0	-235
Closing balance as at 31.12.2020	22	1 626	2 077	1 082	0	4 807

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Accumulated depreciation						
Opening balance as at 01.01.2019	0	-660	-773	-885	-15	-2 333
Regular depreciation for the year	0	-92	-81	-56	0	-229
Disposal	0	30	8	79	15	132
Closing balance as at 31.12.2019	0	-722	-846	-862	0	-2 430
Regular depreciation for the year	0	-143	-202	-62	0	-407
Disposal	0	31	88	108	0	227
Closing balance as at 31.12.2020	0	-834	-960	-816	0	-2610

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Accumulated impairment						
Opening balance as at 01.01.2019	-5	-110	0	-3	0	-118
Addition	0	0	0	0	0	0
Release	0	91	0	0	0	91
Closing balance as at 31.12.2019	-5	-19	0	-3	0	-27
Addition	0	-3	0	0	0	-3
Release	1	0	0	0	0	1
Closing balance as at 31.12.2020	-4	-22	0	-3	0	-29

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Net book value						
01.01.2019	17	708	499	154	30	1 408
31.12.2019	17	899	1 078	243	0	2 237
31.12.2020	18	770	1 117	263	0	2 168

Plant, property and equipment decreased by HUF 69 million in net terms in 2020. Parallel with new IT investments obsolete IT assets have been sorted out. In addition to the modernization of the branch network and purchase of new furniture, the Bank has sorted out its old assets too.

The Bank spent for the development of IT assets HUF 240 million.

The contractual commitments for the acquisition of plant, property and equipment amounted to HUF 32 million at the end of 2020. All of these were completed and capitalised at the beginning of the following year. The Bank carried out renovation works and developments on properties in the amount of HUF 18 million in 2020.

The Bank received HUF 0.6 million in 2019 and HUF 0 in 2020 in the form of compensation related to damage from third parties.

The Bank does not have any plant, property and equipment that has temporarily been withdrawn from use.

Gross carrying amounts of property, plant and equipment still in use but completely written off:

	31.12.2020	31.12.2019
Buildings	81	87
Hardware	639	696
Equipments	671	722
Total	1 391	1 505

The market value of assets still in use but completely written off is not significant.

The fair value of property, plant and equipment measured using the cost model is the same as the net carrying amount..

6.5.6. Right-of-use assets

Book value of the right-of-use assets by the categories of the underlying assets:

	31.12.2020	31.12.2019
Acquisition cost		
Building	3 506	3 477
Vehicles	194	189
Total	3 700	3 666

	31.12.2020	31.12.2019
Accumulated depreciation		
Building	-1 100	-559
Vehicles	-81	-31
Total	-1 181	-590

	31.12.2020	31.12.2019
Net book value		
Buildings	2 406	2 918
Vehicles	113	158
Total	2 519	3 076

The value changes of the right-of-use assets in 2020:

	Opening balance	Initial recognition	Revaluation	Modification	Disposal	Closing balance
Right-of-use assets						
Buildings	3 477	70	-10	0	-31	3 506
Vehicles	189	0	5	0	0	194
Total	3 666	70	-5	0	-31	3 700

The value changes of the right-of-use assets in 2019:

	Opening balance	Initial recognition	Revaluation	Modification	Disposal	Closing balance
Right-of-use assets						
Buildings	3 451	265	-21	-204	-14	3 477
Vehicles	26	163	0	0	0	189
Total	3 477	428	-21	-204	-14	3 666

Modification in 2019 was necessary, since the Bank moved its Retek street branch to a new place, therefore the old lease contract was modified then terminated.

6.5.7. Intangible assets

The Bank measures its intangible assets using the cost model.

Changes to intangible assets:

	Purchased software	Internally generated software	Other intangibles	Total
Acquisition cost				
Opening balance as at 01.01.2019	9 138	0	14	9 152
Addition	2 417	75	0	2 492
Disposal	-1 461	0	-13	-1 474
Closing balance as at 31.12.2019	10 094	75	1	10 170
Addition	2 191	0	0	2 191
Disposal	-1	0	0	-1
Closing balance as at 31.12.2020	12 284	75	1	12 360

	Purchased software	Internally generated software	Other Intangibles	Total
Accumulated depreciation				
Opening balance as at 01.01.2019	-5 022	0	-14	-5 036
Regular depreciation for the year	-698	-5	0	-703
Disposal	1 180	0	13	1 193
Closing balance as at 31.12.2019	-4 540	-5	-1	-4 546
Regular depreciation for the year	-908	-11	0	-919
Disposal	0	0	0	0
Closing balance as at 31.12.2020	-5 448	-16	-1	-5 465

	Purchased software	Internally generated software	Other intangibles	Total
Accumulated Impairment				
Opening balance as at 01.01.2019	-47	0	0	-47
Addition	0	0	0	0
Release	0	0	0	0
Disposal	0	0	0	0
Closing balance as at 31.12.2019	-47	0	0	-47
Addition	0	0	0	0
Release	0	0	0	0
Disposal	0	0	0	0
Closing balance as at 31.12.2020	-47	0	0	-47

	Purchased software	Internally generated software	Other intangibles	Total
Net book value				
01.01.2019	4 069	0	0	4 069
31.12.2019	5 507	70	0	5 577
31.12.2020	6 789	59	0	6 848

In 2020 partly for normal business reasons, partly for legislative changes necessary software purchases, developments expansions caused significant increase in the intangible assets.

All purchase and increase in assets will result in economic benefits in the future. Activation was accomplished in line with IAS38 standard.

The Bank held the following main intangible assets in its books at the end of 2020:

- Data warehouse totalling HUF 1049 million
- Netbank totalling HUF 817 million
- Instant Payment System totalling HUF 716 million
- Core system totalling HUF 308 million

The contractual liabilities for the acquisition of intangible assets amounted to HUF 90 million at the end of 2020. All of these were completed and capitalised at the beginning of the following year.

Gross carrying amount of intangible assets still in use but completely written off:

	31.12.2020	31.12.2019
Software	559	567
Other Intangibles	0	0
Total	559	567

The market value of assets still in use but completely written off is not significant.

6.5.8. Equity Investments

Equity investments of the Bank:

Equity investment	Main activity	Participation (%)	
		31.12.2020	31.12.2019
Interests in subsidiaries			
V-DAT Kft. "v.a."	Purchase/sale of own properties	-	100,00%
East Site Kft.	Purchase/sale of own properties	100,00%	100,00%
Károlyi Ingatlan 2011 Kft.	Purchase/sale of own properties	100,00%	100,00%
Other Investments			
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt.	Other monetary mediation	1,39%	1,39%
Garantlqa Hitelgarancia Zrt.	Other financial services	0,13%	0,13%
S.W.I.F.T.	Financial services	0,01%	0,01%
Visa Inc.	Financial services	0,01%	0,01%

Data of subsidiaries:

Subsidiaries	Registered office	Share capital	
		31.12.2020	31.12.2019
V-DAT Kft. "v.a."	1088 Budapest, Rákóczi út 1-3.	-	3
East Site Kft.	1088 Budapest, Rákóczi út 1-3.	8	8
Károlyi Ingatlan 2011 Kft.	1088 Budapest, Rákóczi út 1-3.	4	4

In 2019 the Bank as owner decided to dissolve V-DAT Kft. through voluntary liquidation, therefore it classified this subsidiary into assets held for sale. The voluntary liquidation procedure was completed in 2020.

Carrying amount of the equity investments:

Equity investment	Valuation method	31.12.2020	31.12.2019
Interests in subsidiaries			
East Site Kft.	Cost less Impairment	15	17
Károlyi Ingatlan 2011 Kft.	Cost less Impairment	134	137
Other investments			
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt.	Fair value through Other Comprehensive Income	67	67
Garantiqa Hitelgarancia Zrt.	Fair value through Other Comprehensive Income	10	10
S.W.I.F.T.	Fair value through Other Comprehensive Income	0	0
Visa Inc.	Fair value through Profit or Loss	616	536
Total		842	767

The change in the value of Visa Inc. is due to changes in the market price and the exchange rate.

In 2016 the Bank received for the sale of its shares in VISA Europe, among others VISA Inc. shares that can be limited sold, but in case certain conditions are met, they can be converted into ordinary shares. In accordance with the sale and purchase agreement, some of the shares were converted into shares equivalent to ordinary shares free for sale in 2020. The change has not affected the value of the Bank's stake in VISA Inc.

Changes to impairment booked on equity investments:

	V-DAT Kft. „v.a.”	East Site Kft.	Károlyi Ingatlan 2011 Kft.	Total
Opening balance as at 01.01.2019	184	727	314	1 225
Addition	3	2	8	13
Release	0	0	0	0
Reclassification to Held for sale category	-187	0	0	-187
Closing balance as at 31.12.2019	0	729	322	1 051
Addition	0	2	4	6
Release	0	0	0	0
Reclassification to Held for sale category	0	0	0	0
Closing balance as at 31.12.2020	0	731	326	1 057

Dividends received on the equity investments:

	2020	2019
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt.	35	35
Visa Inc.	0	0
Total	35	35

6.5.9. Tax assets and liabilities

	31.12.2020	31.12.2019
Current tax assets		
Local business tax	0	25
Innovation contribution	0	0
Current tax assets total	0	25
Deferred tax assets	0	0
Tax assets total	0	25

	31.12.2020	31.12.2019
Current tax liabilities		
Local business tax	4	0
Innovation contribution	15	21
Current tax liabilities total	19	21
Deferred tax liabilities	0	0
Tax liabilities total	19	21

Since the profitable operation is uncertain in the near future, the Bank does not show deferred tax assets in its Statement of Financial Position.

The following tables presents temporary differences, unused tax losses and tax credits for which no deferred tax was recognised in the balance sheet.

31.12.2020	In Profit or loss	In Other comprehensive income
Losses carried forward, tax allowance regarding FX rescue program	63 805	0
Securities available for sale	0	0
Temporary differences in relation to discrepancies of HAS and IFRS	0	0
Tax base modifying items	0	0
Total	63 805	0

31.12.2019	in Profit or loss	In Other comprehensive income
Losses carried forward, tax allowance regarding FX rescue program	66 459	0
Securities available for sale	0	-141
Temporary differences in relation to discrepancies of HAS and IFRS	829	0
Tax base modifying items	0	0
Total	67 288	-141

The unused amount of tax allowance regarding FX rescue program by expiry:

	31.12.2020	31.12.2019	Changes	Tax effect (9%)
Amount of tax allowance without expiration	127	127	0	0
Total	127	127	0	0

The unused amount of losses carried forward from previous years by expiry:

	31.12.2020	31.12.2019	Changes	Tax effect (9%)
Deductible amount from tax base with expiration till 31.12.2030	58 207	58 207	0	0
Deductible amount from tax base with expiration till 31.12.2025	1 324	0	1 324	119
Deductible amount from tax base with expiration till 31.12.2021	4 146	4 146	0	0
Deductible amount from tax base with expiration till 31.12.2020	0	3 979	-3 979	-358
Total	63 677	66 332	-2 655	-239

The unused amount of temporary differences due to transition to IFRS by expiry:

	31.12.2020	31.12.2019	Changes	Tax effect (9%)
Deductible amount from tax base with expiration till 31.12.2020	0	687	-687	-62
Total	0	687	-687	-62

6.5.10. Derivatives

Derivatives by type:

	Nominal value /assets	Nominal value /liabilities	31.12.2020		
			Net position	Positive fair value	Negative fair value
Exchange traded deals	0	0	0	0	0
OTC deals					
Interest rate swaps (hedging)	18 285	-18 285	0	51	-46
Interest rate swaps (trading)	59 051	-59 051	0	288	-730
Interest rate options	3 743	-3 743	0	0	-1
FX swaps	39 096	-38 713	383	392	-14
FX forwards	7 536	-7 570	-34	62	-100
Total	127 711	-127 362	349	793	-891

	31.12.2019				
	Nominal value /assets	Nominal value /liabilities	Net position	Positive fair value	Negative fair value
Exchange traded deals	0	0	0	0	0
OTC deals					
Interest rate swaps (hedging)	0	0	0	0	0
Interest rate swaps (trading)	52 367	-52 367	0	179	-755
Interest rate options	3 389	-3 389	0	0	-2
FX swaps	77 597	-78 016	-419	18	-466
FX forwards	7 426	-7 443	-17	31	-32
Total	140 779	-141 215	-436	228	-1 255

Derivative assets broken down by maturity:

Nominal value	31.12.2020				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps (hedging)	0	0	7 700	10 585	18 285
Interest rate swaps (trading)	10 000	5 000	10 417	33 634	59 051
Interest rate options	0	0	3 743	0	3 743
FX swaps	39 096	0	0	0	39 096
FX forwards	5 699	1 700	137	0	7 536
Total	54 795	6 700	21 997	44 219	127 711

Nominal value	31.12.2019				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps (hedging)	0	0	0	0	0
Interest rate swaps (trading)	364	7 945	18 399	25 659	52 367
Interest rate options	0	0	3 389	0	3 389
FX swaps	74 355	3 242	0	0	77 597
FX forwards	3 865	3 561	0	0	7 426
Total	78 584	14 748	21 788	25 659	140 779

Derivative liabilities broken down by maturity:

Nominal value	31.12.2020				Total
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Interest rate swaps (hedging)	0	0	7 700	10 585	18 285
Interest rate swaps (trading)	10 000	5 000	10 417	33 634	59 051
Interest rate options	0	0	3 743	0	3 743
FX swaps	38 713	0	0	0	38 713
FX forwards	5 729	1 699	142	0	7 570
Total	54 442	6 699	22 002	44 219	127 362

Nominal value	31.12.2019				Total
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Interest rate swaps (hedging)	0	0	0	0	0
Interest rate swaps (trading)	364	7 945	18 399	25 659	52 367
Interest rate options	0	0	3 389	0	3 389
FX swaps	74 753	3 263	0	0	78 016
FX forwards	3 876	3 567	0	0	7 443
Total	78 993	14 775	21 788	25 659	141 215

6.5.11. Other assets

	31.12.2020	31.12.2019
Net book value		
Other financial assets	4 803	1 812
Other non-financial assets	87	56
Total	4 890	1 868

Composition of other financial assets:

	31.12.2020	31.12.2019
Gross book value of other financial assets		
Business support receivables	76	142
Receivables from the state	659	40
Receivables from deferred payments	4	0
Plastic cards settlements	89	144
Other settlements, items in transit	1 182	92
Advances	117	106
Initial fair value difference of FGS loans	2 814	514
Prepaid expenses and accrued income	803	788
Total	5 744	1 826

	31.12.2020	31.12.2019
Impairment on other financial assets		
Business support receivables	-2	-5
Receivables from the state	0	0
Receivables from deferred payments	0	0
Plastic cards settlements	-1	-5
Other settlements, Items in transit	-938	-4
Advances	0	0
Initial fair value difference of FGS loans	0	0
Prepaid expenses and accrued income	0	0
Total	-941	-14

Tax that was paid due to coronavirus pandemic in the amount of HUF 600 million in 2020 but can be deducted in future tax years is listed in line 'receivable from the state'. The tax already paid is recorded as advance payment due to its subsequent deductibility.

Other settlements show the Bank's receivables related to real estate taken over in exchange for matured loan transaction (HUF 1 152 million), as the settlement with the debtor was not completed by the end of 2020 and the real estate did not become the property of the Bank.

The significant increase in line 'Initial fair value difference of FGS loans' compared to last year is due to participation in FGS GoI program.

Composition of other non-financial assets:

	31.12.2020	31.12.2019
Other non-financial assets		
Raw materials and inventory	72	43
Collaterals taken into possession	13	0
Receivables on operating taxes	0	10
Other non-financial assets	2	3
Total	87	56

In 2018 the sale of plots of land in Szombathely which were previously pledged as collateral for loans, very probable, therefore they were reclassified into the held-for-sale category. The negotiations did not close with the potential buyer till the end of 2020, sale became uncertain, therefore plots were reclassified among assets. The Bank's management is still committed to the sale.

6.5.12. Non-current assets and disposal groups held for sale

Composition of assets held for sale:

	31.12.2020	31.12.2019
Land and buildings	0	13
Equity investments	0	0
Total	0	13

Changes in assets held for sale:

	Land and buildings	Equity investments	Total
Opening balance as at 01.01.2019	13	0	13
Reclassification into Held for sale category	0	0	0
Sale	0	0	0
Decrease due to voluntary liquidation	0	0	0
Closing balance as at 31.12.2019	13	0	13
Reclassification into Held for sale category	-13	0	-13
Sale	0	0	0
Decrease due to voluntary liquidation	0	0	0
Closing balance as at 31.12.2020	0	0	0

In 2018 the sale of plots of land in Szombathely which were previously pledged as collateral for loans, was very probable, therefore they were reclassified into the held-for-sale category. The negotiations with the potential buyer did not close till the end of 2020, therefore sale became uncertain and plots were reclassified among assets. The Bank's management is still committed to the sale.

In 2019 the Bank as owner decided to dissolve V-DAT Kft. through voluntary liquidation, therefore it classified this subsidiary into assets held for sale. The voluntary liquidation procedure was completed in 2020.

6.5.13. Liabilities to credit institutions

Liabilities to credit institutions are recorded initially at fair value and subsequently at amortised cost.

Balances of liabilities to credit institutions:

	31.12.2020	31.12.2019
Liabilities due to central banks	60 036	16 292
Up to 1 year	10	130
1 to 5 years	0	0
More than 5 years	60 026	16 162
Liabilities due to other credit institutions	25 932	36 405
Up to 1 year	10 939	11 111
1 to 5 years	0	19 141
More than 5 years	14 993	6 153
Total	85 968	52 697

6.5.14. Liabilities to customers

Liabilities to customers are recorded initially at fair value and subsequently at amortised cost.

Balances of liabilities to customers:

	31.12.2020	31.12.2019
Liabilities due to corporate customers	250 652	211 834
Up to 1 year	242 714	211 777
1 to 5 years	7 938	57
More than 5 years	0	0
Liabilities due to private customers	104 152	90 204
Up to 1 year	104 086	90 072
1 to 5 years	66	132
More than 5 years	0	0
Total	354 804	302 038

6.5.15. Debt securities in issue

Issued bonds are recorded initially at fair value and measured subsequently at amortised cost.

Liabilities due to issued bonds:

	31.12.2020	31.12.2019
Debt securities in Issue		
Up to 1 year	0	1 310
1 to 5 years	0	0
More than 5 years	0	0
Total	0	1 310

The Bank paid back the Victoria bonds issued in 2020 completely.

Bond	Start date	Maturity date	Nominal amount	Currency	Coupon*	Book value as at 31.12.2019
VICTORIA 5	2010.02.01	2020.02.01	261	EUR	40,00%	363
VICTORIA 6	2010.05.03	2020.05.01	327	EUR	25,00%	406
VICTORIA 7	2010.07.01	2020.07.01	275	EUR	35,00%	367
VICTORIA 8	2010.10.01	2020.10.01	132	EUR	35,00%	174
Total						1 310

* Interest rates relate to the whole term of the bonds, they are not annual interest rates.

The result realised from buying back own bonds was HUF -2 million in 2019 and in 2020 the amount has not reached HUF 1 million.

6.5.16. Subordinated liabilities

Subordinated debt is recorded initially at fair value and measured subsequently at amortised cost.

Composition of subordinated debt:

	31.12.2020	31.12.2019
Subordinated debt		
Up to 1 year	0	0
1 to 5 years	5 507	0
More than 5 years	4 774	9 313
Total	10 281	9 313

Information on the individual loans:

Lender	Start date	Maturity date	Nominal amount in currency	Currency	Interest rate	Book value as at 31.12.2020
Sberbank Europe AG	2015.07.27	2025.07.27	15 000 000	EUR	3M EURIBOR + 3,63%	5 507
Sberbank Europe AG	2016.04.11	2027.04.11	13 000 000	EUR	3M EURIBOR + 3,63%	4 774
Total						10 281

Lender	Start date	Maturity date	Nominal amount in currency	Currency	Interest rate	Book value as at 31.12.2019
Sberbank Europe AG	2015.07.27	2025.07.27	15 000 000	EUR	3M EURIBOR + 3,63%	4 986
Sberbank Europe AG	2016.04.11	2027.04.11	13 000 000	EUR	3M EURIBOR + 3,63%	4 327
Total						9 313

The change in balance sheet was mainly due to HUF weakening.

6.5.17. Provisions

Provisions for contingent liabilities and commitments related to off-balance sheet lending

As part of its universal banking activity and in addition to opening credit lines the Bank also offers its customers financial guarantees as well as letter of credit facilities. Financial guarantees means furnishing bank guarantees for various purposes, while letters of credit satisfy the needs of a special group of customers, so they are small in number but stable.

	31.12.2020	31.12.2019
Future and contingent liabilities		
Credit lines	74 602	56 916
Provisions for credit lines (-)	314	102
Credit lines (net)	74 288	56 814
Financial guarantees	38 294	29 721
Provisions for financial guarantees (-)	77	228
Financial guarantees (net)	38 217	29 493
Letter of credits	21 908	14 047
Provisions for letter of credits (-)	12	2
Letter of credits (net)	21 896	14 045
Total	134 401	100 352

The tables below present off-balance sheet maximum credit risk exposures broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Off-balance sheet exposures broken down by the Internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2020				
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	impaired assets Individual	Total
Credit lines	68 438	5 290	2	872	74 602
Performing	68 438	5 290	0	831	74 559
High grade	15 353	278	0	0	15 631
Standard grade	35 775	2 008	0	0	37 783
Average grade	15 597	2 705	0	0	18 302
Below average grade	1 713	299	0	831	2 843
Impaired	0	0	0	0	0
Non-performing	0	0	2	41	43
Impaired	0	0	2	41	43
Financial guarantees	36 048	2 221	0	25	38 294
Performing	36 048	2 221	0	0	38 269
High grade	12 096	0	0	0	12 096
Standard grade	12 471	1 570	0	0	14 041
Average grade	11 376	627	0	0	12 003
Below average grade	105	24	0	0	129
Non-performing	0	0	0	25	25
Impaired	0	0	0	25	25
Letter of credits	21 908	0	0	0	21 908
Performing	21 908	0	0	0	21 908
Standard grade	21 908	0	0	0	21 908
Non-performing	0	0	0	0	0
Total	126 394	7 511	2	897	134 804

Off-balance sheet exposures broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2019				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	Impaired assets Individual	Total
Credit lines	55 406	1 460	1	49	56 916
Performing	55 406	1 460	0	0	56 866
High grade	14 658	4	0	0	14 662
Standard grade	27 255	425	0	0	27 680
Average grade	12 374	910	0	0	13 284
Below average grade	1 119	121	0	0	1 240
Impaired	0	0	0	0	0
Non-performing	0	0	1	49	50
Impaired	0	0	1	49	50
Financial guarantees	28 228	1 227	0	266	29 721
Performing	28 228	1 227	0	0	29 455
High grade	13 318	0	0	0	13 318
Standard grade	9 048	596	0	0	9 644
Average grade	5 816	619	0	0	6 435
Below average grade	46	12	0	0	58
Non-performing	0	0	0	266	266
Impaired	0	0	0	266	266
Letter of credits	14 047	0	0	0	14 047
Performing	14 047	0	0	0	14 047
Standard grade	14 047	0	0	0	14 047
Non-performing	0	0	0	0	0
Total	97 681	2 687	1	315	100 684

The following tables reveal the reporting-year changes in off-balance sheet exposures relating to lending, broken down by category of expected credit loss at the end of the reporting year to credit lines, financial guarantees and letters of credit.

The main reason for the drop in credit lines was the use of such facilities, and only a smaller portion was credit lines expired without being used.

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories	31.12.2020				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	Impaired assets Individual	Total
Credit lines					
Opening balance	55 406	1 460	1	49	56 916
New exposures during the year	51 070	652	0	0	51 722
Derecognised as matured	-545	-230	0	0	-775
Derecognised as used	-32 942	-1 882	0	-9	-34 833
Reclassification to 12 month ECL category	1 655	-1 655	0	0	0
Reclassification to lifetime ECL category	-7 740	7 740	0	0	0
Reclassification to impaired category	-1	-832	1	832	0
Other movements (FX translation, rounding)	1 534	38	0	0	1 572
Closing balance	68 437	5 291	2	872	74 602

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories Credit lines	31.12.2019				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Opening balance	44 128	590	3	485	45 206
New exposures during the year	14 322	71	0	0	14 393
Derecognised as matured	0	-195	-2	-458	-655
Derecognised as used	-2 324	-36	0	0	-2 360
Reclassification to 12 month ECL category	7 740	-7 740	0	0	0
Reclassification to lifetime ECL category	-8 758	8 759	0	-1	0
Reclassification to impaired category	-23	0	0	23	0
Other movements (FX translation, rounding)	321	11	0	0	332
Closing balance	55 406	1 460	1	49	56 916

Due to one financial guarantee claiming the Bank lent an overdraft with an amount HUF 104 million in 2019, while there was not lent such overdraft in 2020. The deal is reported in Loans and advances to customers in the balance sheet.

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories Financial guarantees	31.12.2020				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Opening balance	28 228	1 227	0	266	29 721
New exposures during the year	26 261	108	0	0	26 369
Derecognised as matured	-17 976	-116	-3	-245	-18 340
Derecognised as used	0	0	0	0	0
Reclassification to 12 month ECL category	118	-118	0	0	0
Reclassification to lifetime ECL category	-1 115	1 115	0	0	0
Reclassification to impaired category	0	0	0	0	0
Other movements (FX translation, rounding)	532	5	3	4	544
Closing balance	36 048	2 221	0	25	38 294

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories Financial guarantees	31.12.2019				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Opening balance	33 937	50	0	539	34 526
New exposures during the year	0	0	0	0	0
Derecognised as matured	-4 682	-305	0	-280	-5 267
Derecognised as used	104	0	0	0	104
Reclassification to 12 month ECL category	482	-482	0	0	0
Reclassification to lifetime ECL category	-1 964	1 964	0	0	0
Reclassification to impaired category	0	0	0	0	0
Other movements (FX translation, rounding)	351	0	0	7	358
Closing balance	28 228	1 227	0	266	29 721

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories Letter of credits	12 month ECL collective	lifetime ECL collective	31.12.2020		Total
			Impaired assets collective	Impaired assets individual	
Opening balance	14 047	0	0	0	14 047
New exposures during the year	8 825	0	0	0	8 825
Derecognised as matured	-2 407	0	0	0	-2 407
Derecognised as used	0	0	0	0	0
Other movements (FX translation, rounding)	1 443	0	0	0	1 443
Closing balance	21 908	0	0	0	21 908

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories Letter of credits	12 month ECL collective	lifetime ECL collective	31.12.2019		Total
			impaired assets collective	Impaired assets individual	
Opening balance	34 077	0	0	0	34 077
New exposures during the year	136	0	0	0	136
Derecognised as matured	-21 114	0	0	0	-21 114
Derecognised as used	0	0	0	0	0
Other movements (FX translation, rounding)	948	0	0	0	948
Closing balance	14 047	0	0	0	14 047

The following tables show the provisions for off-balance sheet exposures related to lending, broken down according to the Bank's internal credit rating system and the expected credit loss categories.

Provisions for off-balance sheet broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2020				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	Impaired assets individual	Total
Credit lines	271	43	0	0	314
Performing	271	43	0	0	314
High grade	48	10	0	0	58
Standard grade	126	11	0	0	137
Average grade	89	20	0	0	109
Below average grade	8	2	0	0	10
Non-performing	0	0	0	0	0
Impaired	0	0	0	0	0
Financial guarantees	48	12	0	17	77
Performing	48	12	0	0	60
High grade	12	0	0	0	12
Standard grade	22	7	0	0	29
Average grade	13	5	0	0	18
Below average grade	1	0	0	0	1
Non-performing	0	0	0	17	17
Impaired	0	0	0	17	17
Letter of credits	12	0	0	0	12
Performing	12	0	0	0	12
Standard grade	12	0	0	0	12
Non-performing	0	0	0	0	0
Contingent liabilities and commitments total	331	55	0	17	403

Provisions for off-balance sheet broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2019				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Credit lines	90	12	0	0	102
Performing	90	12	0	0	102
High grade	10	0	0	0	10
Standard grade	42	7	0	0	49
Average grade	35	4	0	0	39
Below average grade	3	1	0	0	4
Non-performing	0	0	0	0	0
Impaired	0	0	0	0	0
Financial guarantees	37	12	0	179	228
Performing	37	12	0	0	49
High grade	5	0	0	0	5
Standard grade	14	3	0	0	17
Average grade	18	9	0	0	27
Below average grade	0	0	0	0	0
Non-performing	0	0	0	179	179
Impaired	0	0	0	179	179
Letter of credits	2	0	0	0	2
Performing	2	0	0	0	2
Standard grade	2	0	0	0	2
Non-performing	0	0	0	0	0
Contingent liabilities and commitments total	129	24	0	179	332

The following tables show the reporting-year changes in provisions for off-balance sheet exposures related to lending, broken down according to the Bank's internal credit rating system and the expected credit loss categories. In light of the low interest rates, the impact of discounting the provisions for long-term transactions is negligible and so this is not presented on a separate row and is not reclassified to interest expenses.

Changes in the provisions broken down by the expected credit loss (ECL) categories	31.12.2020				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
Credit lines					
Opening balance	90	12	0	0	102
New exposures during the year	321	40	0	3	364
Derecognised as matured	-108	-32	0	0	-140
Due to change in credit risk	-27	15	0	-3	-15
Reclassification to 12 month ECL category	0	0	0	0	0
Reclassification to lifetime ECL category	-6	6	0	0	0
Reclassification to impaired category	0	0	0	0	0
Other movements (FX translation, interest accruals)	1	2	0	0	3
Closing balance	271	43	0	0	314

Changes in the provisions broken down by the expected credit loss (ECL) categories	12 month ECL	lifetime ECL	31.12.2019		Total
			collective	impaired assets	
Credit lines					
Opening balance	108	2	0	58	168
New exposures during the year	174	6	0	1	181
Derecognised as matured	-120	-12	0	-1	-133
Due to change in credit risk	-73	17	0	-58	-114
Reclassification to 12 month ECL category	0	0	0	0	0
Reclassification to lifetime ECL category	1	-1	0	0	0
Reclassification to impaired category	0	0	0	0	0
Other movements (FX translation, interest accruals)	0	0	0	0	0
Closing balance	90	12	0	0	102

Changes in the provisions broken down by the expected credit loss (ECL) categories	12 month ECL	lifetime ECL	31.12.2020		Total
			collective	impaired assets	
Financial guarantees					
Opening balance	37	12	0	179	228
New exposures during the year	64	4	0	0	68
Derecognised as matured	0	0	0	0	0
Due to change in credit risk	-53	-4	0	-177	-234
Other movements (FX translation, interest accruals)	0	0	0	15	15
Closing balance	48	12	0	17	77

Changes in the provisions broken down by the expected credit loss (ECL) categories	12 month ECL	lifetime ECL	31.12.2019		Total
			collective	impaired assets	
Financial guarantees					
Opening balance	70	1	0	221	292
New exposures during the year	45	14	0	0	59
Derecognised as matured	-10	-3	0	0	-13
Due to change in credit risk	-68	0	0	-47	-115
Other movements (FX translation, interest accruals)	0	0	0	5	5
Closing balance	37	12	0	179	228

Changes in the provisions broken down by the expected credit loss (ECL) categories Letter of credits	31.12.2020				
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	Impaired assets individual	Total
Opening balance	2	0	0	0	2
New exposures during the year	0	0	0	0	0
Derecognised as matured	-2	0	0	0	-2
Due to change in credit risk	10	0	0	0	10
Other movements (FX translation, interest accruals)	2	0	0	0	2
Closing balance	12	0	0	0	12

Changes in the provisions broken down by the expected credit loss (ECL) categories Letter of credits	31.12.2019				
	12 month ECL collective	lifetime ECL collective	Impaired assets collective	Impaired assets individual	Total
Opening balance	28	0	0	0	28
New exposures during the year	1	0	0	0	1
Derecognised as matured	-3	0	0	0	-3
Due to change in credit risk	-24	0	0	0	-24
Other movements (FX translation, interest accruals)	0	0	0	0	0
Closing balance	2	0	0	0	2

Other provisions

The Bank records other provisions for expected liabilities stemming from legal and other contractual obligations if it has a present obligation from a past event making it probable that it will have to make a payment and the amount of said payment can be quantified.

Composition of other provisions:

	31.12.2020	31.12.2019
Other provisions		
Provisions for pending legal issues	185	150
Provisions for plastic card liabilities	33	8
Provisions for other liabilities	515	742
Total	733	900

Provisions for other expected liabilities include a provision in the amount of HUF 382 out of the HUF 708 million provision amount that was made for the non-performing private mortgage loans in 2019. The unused time proportionate reserve was released by the Bank. (The details on sale of receivables are presented in Section 6.8.15 Realised profit from sale.)

Legal disputes are initiated against the Bank as defendant mainly in the ordinary course of business. The maximum amount of the financial liability from these disputes was HUF 265 million at the end of 2020 and HUF 271 million one year earlier. In case of ongoing legal disputes the provision is calculated based on the best available estimate of the amount of potential financial losses.

Changes in other provisions:

	Provisions for pending legal issues	Provisions for plastic card liabilities	Provisions for other liabilities	Total
Opening balance as at 01.01.2020	150	8	742	900
Allocation	89	64	107	260
Release	-24	-17	-325	-366
Use	-30	-22	-9	-61
Closing balance as at 31.12.2020	185	33	515	733

	Provisions for pending legal issues	Provisions for plastic card liabilities	Provisions for other liabilities	Total
Opening balance as at 01.01.2019	223	4	34	261
Allocation	27	22	708	757
Release	-100	-11	0	-111
Use	0	-7	0	-7
Closing balance as at 31.12.2019	150	8	742	900

6.5.18. Other liabilities

	31.12.2020	31.12.2019
Net book value		
Other financial liabilities	11 574	7 892
Other non-financial liabilities	799	744
Total	12 373	8 636

Composition of other financial liabilities:

	31.12.2020	31.12.2019
Other financial liabilities		
Business support payables	490	620
Payables to the state	40	434
Plastic cards settlements	5	0
Other settlements, items in transit	3 054	1 266
Initial fair value difference of FGS loans	3 743	634
Lease obligations according	2 991	3 303
Accrued expenses and deferred income	1 251	1 635
Total	11 574	7 892

The significant increase on row 'Initial fair value difference of FGS loans' compared to last year is due to participation in FGS Gol program.

Composition of other non-financial liabilities:

	31.12.2020	31.12.2019
Other non-financial liabilities		
Operating tax payables	675	615
Other non-financial liabilities	124	129
Total	799	744

6.5.19. Share capital

The Bank's share capital only comprises "A" ordinary shares. The shares in the "A" series are printed, registered ordinary shares that come with voting rights. All "A" shares provide one vote at the Bank's general meeting.

Ownership structure and breakdown of shares:

	31.12.2020		31.12.2019	
	pieces	amount	pieces	amount
Sberbank Europe AG AT 1010 Wien Schwarzenbergplatz 3.	36 872	3 687	36 872	3 687
Türkiye Halk Bankası TU 06240 Ankara Eskişehir Yolu 2. Cadde No 63, Söğütözü	400	40	400	40
Total	37 272	3 727	37 272	3 727

In 2020 there was no change in the Bank's share capital.

6.5.20. Share premium

The share premium contains the contributions made by owners in relation to the capital increases.

Neither in 2019 nor in 2020 there was no change in share premium.

6.5.21. Other reserve

The other reserve only contains the general reserve.

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises prescribes that the Bank must transfer 10% of its reporting-year profit after tax from retained earnings into the general reserve. The general reserve may only be used to cover losses derived from operations. No dividends may be paid from the general reserve.

Due to negative result after tax in 2020 no general reserve was built.

6.6. Notes to the Income statement

6.6.1. Interest Income

Details of interest income:

	2020	2019
Interest receivable and similar income		
Interest income calculated using effective interest method		
Cash and cash equivalents	411	183
Receivables from credit institutions	185	464
Loans and advances to customers	10 366	9 938
Securities	617	580
Interest income calculated using effective interest method total	11 579	11 165
Other interest and similar income		
Receivables from customers	1 238	217
Securities	1	312
Derivatives	224	222
Other interest and similar income total	1 463	751
Total	13 042	11 916

The amount of government grant received in the interest of preferential deposit facilities is presented on row 'Receivables from credit institutions'.

Interest income on Baby loans measured at fair value through profit or loss is listed among Other interest and similar income.

Interest income rose by HUF 1 126 million (+9,4%) in 2020 owing to the robust growth in lending activity. The interest income on loans disbursed to customers rose by HUF 1 449 million (+14,3%), while the net interest income on securities fell by HUF 274 million.

This all corroborates the Bank's more efficient asset management strategy, which is primarily aimed at raising net interest income.

6.6.2. Interest expenses

Details of interest expenses:

	2020	2019
Interest payable and similar expense		
Interest expense calculated using effective interest method		
Liabilities to credit institutions	-858	-804
Liabilities to customers	-647	-671
Debt securities in issue	-14	-97
Subordinated liabilities	-297	-302
Interest expense calculated using effective interest method total	-1 816	-1 874
Other interest and similar expense		
Derivatives	-446	-444
Lease liabilities according to IFRS 16	-110	-119
Other interest and similar expense total	-556	-563
Total	-2 372	-2 437

In 2020 the amount of interest expenses decreased by HUF 65 million (-2,7%). The interest expense on issued securities fell by HUF 83 million. The reason of this is the maturity of the last Victoria issued bonds, which caused less interest expense. This decrease was partly compensated by the increase of liabilities to credit institutions, which rose by HUF 54 compared to last year. The interest on liabilities to customers slightly decreased compared to last year, due to the increasing weight of demand deposits and the decreasing weight of term deposits.

6.6.3. Result of contract modification

In order to mitigate the negative economic effects of COVID-19 epidemic that broke out in the first months of 2020, the Hungarian Government has announced a general payment moratorium from 19 March 2020 on capital, interest and fee payment of bank loans not due on that day first until 31 December 2020 (1st moratorium). For customers under effect of moratorium 1 further payment moratorium was granted in December 2020 with unchanged conditions (2nd moratorium). Regarding customers not affected by moratorium 1 prohibition of contractual termination was announced by the Government decree 47/2020. (III. 18.) and 62/2020. (III. 24.) and Act LVIII. and CVII. as of 2020.

Both moratoriums provide the same conditions for customers:

- entry to moratorium is automatically a consequence of application of law
- step out from moratorium is realised by the client's declaration (opt-out type payment moratorium)

Pursuant to law

- transaction interests and fees due to the Bank accrued during moratorium may not be capitalized and
- maturity of contracts are to be prolonged as follows:
- the amount of interests and fees accrued during moratorium are to be paid in equal instalments by the debtors after the end of moratorium in a way that
- the amount of the debtor's capital-, interest- and fee payment obligations after moratorium shall not exceed the amount of payment obligation due for one payment period prior moratorium,
- except for the increase in payment obligation that is resulted from the increase of interest rate as per original contract in case of variable rate transactions.

After having done the necessary calculations the Bank established that due to statutory contract modification the change in amortized cost did not exceed 15% in any case, hereby as per rules on derecognition of financial instruments, contract modifications due to moratorium did not lead to derecognition of contracts.

By discounting the cash-flow of contracts amended by the relevant laws with the effective interest rates prior contract amendment, the Bank has recognized the financial effects presented in the below table as loss:

	31.12.2020			Total
	Stage 1	Stage 2	Stage 3	
Modification gain or loss	-589	-185	-37	-811
Gross carrying amount before modifications	65 618	18 463	4 008	88 089
Gross carrying amount after modifications	65 029	18 278	3 971	87 278
Changes in loss allowances due to modifications	8	6	22	36
Loss allowances before modifications	-943	-624	-2 324	-3 891
Loss allowances after modifications	-935	-618	-2 302	-3 855
Gross carrying amount of modified assets, which moved to Stage 1 during the year	298	-298	0	0

The result of contract amendment has not reached HUF 1 million in 2019.

The recorded loss includes

- regarding moratorium 1 financial impacts that have been calculated and settled as per amended cash-flows pro contract as well as
- assessed financial impacts of moratorium 2.

In order to estimate the financial impacts of moratorium 2 the Bank has selected contracts on a random basis and found, that on average the provisions of moratorium 2 have additional financial impact equal to 2/3 of the amounts settled for moratorium 1.

Therefore the estimated financial impacts of moratorium 2 was settled by the Bank on contract level in the amount equal to 2/3 of the financial impact of moratorium 1.

The exact amount of financial impacts of moratorium 2 can only be calculated by the end of moratorium 2, that is after 30 June 2021. The difference between estimated and actual amount will be settled in books thereafter.

The exact amount of financial impacts of moratorium 1 could be calculated for 19 March 2020 (beginning of moratorium) only retroactively, at the end of 2020 due to interest rate changes during moratorium as well as due to step-in/outs to/from moratorium. For this reason the Bank could not separate the direct contract amendments due to moratorium 1 from the effects of contract amendments for whatsoever reason, although the latter was insignificant in 2020 due to general moratorium.

6.6.4. Net provision charge for loan impairment

Changes in loan loss allowance are detailed in Sections 6.5.1-6.5.4.

6.6.5. Fee and commission income

	2020	2019
Fee and commission income		
Lending business and guarantees issued	997	871
Cash and settlements	4 357	4 315
Transactions with securities	15	7
Plastic cards operations	1 101	1 086
Operations with foreign currencies	2 520	2 515
Others	361	412
Total	9 351	9 206

Non-recurring fees (disbursement commissions and contracting fees) related to lending activity are taken into account during the effective interest calculation and thus recognised under interest income. Lending business and guarantees issued row contains fees related to current accounts, overdrafts, issued guarantee fees and handling fees of government subsidies.

The primary reason for the increase in fee and commission income related to payment services is the growth in the payment services used by customers.

In 2020 commission income increased by HUF 145 million (+1,6%) mainly thanks to the growth in income from lending activity (+ HUF 126 million) realised primarily on Baby loan income.

6.6.6. Fee and commission expense

	2020	2019
Fee and commission expense		
Lending business and guarantees received	-505	-399
Cash and settlements	-147	-136
Transactions with securities	-2	0
Plastic cards operations	-880	-800
Operations with foreign currencies	-15	-18
Others	-102	-69
Total	-1 651	-1 422

Non-recurring fees (agent commissions, appraisal and notary fees) related to lending activity are taken into account during the effective interest calculation and thus recognised under interest income. Lending business and guarantees received row contains brokerage fees related to overdraft loans, paid guarantee fees and other administrative fees.

Commission expenses rose by HUF 229 million (+16,1%) owing to the increase in items related to lending (+ HUF 106 million), plastic card operations (+ HUF 80 million) and other activity related items (+ HUF 33 million).

6.6.7. Net trading income

	2020	2019
Net trading income		
Operations with foreign currencies	263	617
Derivatives	402	-735
Total	665	-118

6.6.8. Result on hedge accounting

The Bank started using hedge accounting in 2020 so that the effect of certain fixed rate exposures and interest rate swap deals on hedging thereof could offset each other.

	2020	2019
Result on hedge accounting		
Fair value changes of hedging deals	-292	0
Fair value changes of hedged deals	195	0
Total	-97	0

The main sources of ineffectiveness shown in the table are:

- differences in fair value calculation of the hedging deals and the hedged deals
- differences in timing of cash flows of the hedging deals and the hedged deals

The Bank only applies fair value hedge as follows:

- fixed rate FGS bonds are hedged on transaction level,
- fixed rate consumer loans are hedged on portfolio level with interest rate swap transactions.

The following table shows hedging interest rate swaps broken down by contractual maturity at the end of 2020:

	≤ 3 months	3 months - 1 year	1 year - 5 years	> 5 years	Total
Interest rate swaps hedging loans	0	0	-8 326	-2 007	-10 333
Interest rate swaps hedging bonds	-6	-90	-2 835	-5 839	-8 770
Total	-6	-90	-11 161	-7 846	-19 103

The following table shows the fair value changes of hedging interest rate swaps during 2020:

	Notional amount	Carrying amount (assets)	Carrying amount (liabilities)	Fair value changes
Interest rate swaps hedging loans	10 150	4	0	-95
Interest rate swaps hedging bonds	8 135	47	-47	-197

Hedging interest rate swaps are reported on line 'Derivative assets' or 'Derivative liabilities' in the Balance sheet.

The following table shows the fair value changes of hedged deals during 2020:

	Carrying amount (assets)	Fair value changes	Ineffectiveness
Hedged loans	9 052	110	15
Hedged bonds	7 646	85	-112

Hedged loans are reported on line 'Loans and advances to customers', while their fair value changes are reported on line 'Fair value changes of hedged instruments in portfolio hedges' in the Balance sheet.

Hedged bonds are reported on line 'Debt securities' in the Balance sheet.

6.6.9. Net gain or loss on securities

	2020	2019
Net gain or loss on securities		
Trading debt securities	2	1
Debt securities designated at fair value through profit or loss	0	-303
Debt securities at fair value through other comprehensive income	170	45
Debt securities at amortised cost	3	-26
Dividend income	35	35
Equity Investments	72	141
Buy back of own bonds	0	-2
Total	282	-109

The Bank has realised HUF +282 million profit on securities in 2020 that is a considerable improvement compared to HUF -109 million in 2019. The result on equity investments shows a significant drop primarily due to revaluation of VISA Inc shares. The increase shown on row Debt securities at fair value through other comprehensive income is realised from the sale of corporate bonds issued within the frame of FGS program.

6.6.10. Fair value changes of loans other than trading

	2020	2019
Fair value changes of loans other than trading		
Baby loans	708	512
Total	708	512

Changes in the fair value of Baby loans launched in 2019 pursuant to Government decree on Family support is presented here.

Detailed description of Baby loans can be found in chapter 6.5.4.

6.6.11. Changes in allowances for other risks

Changes in reserves for other risks are detailed in Section 6.5.17.

6.6.12. Other operating income

	2020	2019
Other operating income		
Sale of loans	162	2 458
Sale of tangible and intangible assets	-20	-234
Income from recharged items	4	23
Administration and success fees	76	247
Others	85	166
Total	307	2 660

In 2020 the intensive activity of selling receivables continued, during which the Bank successfully sold non-performing loans. Section 6.8.15 Realised profit from sale of loans contains detailed information.

The Sale of tangible and intangible assets row contains the profit from selling the not-in-use softwares in 2019 and 2020.

The Administration and success fees row contains fees received for the further administration of the previously sold non-performing loan package. Loans were de-registered from the Bank's books, as substantially all the benefits and risks have been transferred. The Bank performs only liaison duties with customers.

The decrease on Others row compared to 2019 amount is due to a compensation for an early repaid loan.

6.6.13. Other operating expenses

	2020	2019
Other operating expenses		
General administrative expenses	-3 966	-4 265
Other administrative expenses	-2 034	-2 270
Advertising and marketing costs	-460	-677
Consulting and assurance services	-544	-477
Telecommunication expenses	-446	-417
Repair and maintenance costs	-482	-424
Personnel expenses	-5 761	-6 168
Wages and salaries	-4 846	-5 088
Social Security costs	-918	-1 058
Changes in accrued expense on unused vacations	3	-22
Depreciation and amortization	-1 959	-1 537
Depreciation of tangible assets	-407	-228
Amortization of intangible assets	-919	-703
Depreciation of right-of-use assets	-633	-606
Other expenses	-4 538	-4 143
Other taxes	-4 512	-4 137
Others	-26	-6
Total	-16 224	-16 113

The average headcount in 2020 was 610 people and 606 people in 2019.

Expenses on materials and supplies fell by HUF 299 million (-7%) in 2020, which can be explained with the following reasons:

Regarding other administrative costs fuel costs decreased significantly in 2020 as a result of coronavirus related provision, it dropped from HUF 22 million to HUF 15 million. Vehicle lease costs also decreased, however IT costs have increased due to switch to digital platform.

Due to postponed events marketing costs have decreased in 2020 (cost of external events fell by ca. HUF 30 million). PR and direct marketing costs as well as advertising and media costs shrunk total by 32% compared to last year.

Compared to 2019 repair and maintenance costs increased by 14% in 2020 that is due to the enhanced purchase of cleaning supplies and extraordinary cleaning costs.

Despite the fact that staff slightly increased, the staff cost fell by 5% in 2020 due to the significant drop in performance wages. Beside the lower staff cost, decrease of social contribution tax rate played also a relevant role in the decrease of social contributions (HUF -140 million) compared to 2019.

Depreciation in 2020 rose by HUF 422 million compared to 2019. The increase is owing mainly to the depreciation of the hardwares and softwares activated in 2020.

In case of special tax on financial institutions the tax base rose, while the amount of transaction duty increased due to the higher volume of transactions compared to the last year. The combined effect of these items are shown on the line 'Other taxes'.

6.6.14. Tax payment liabilities

The Bank's current tax payment liability:

	2020	2019
Current income taxes		
Local business tax	-405	-406
Innovation contribution	-61	-62
Current income taxes total	-466	-468
Deferred income taxes	0	0
Total	-466	-468

The Bank generated a profit before tax in 2019, however it generated a loss before tax in 2020. Corporate tax base is also negative. The current tax payment liability comprises local taxes and innovation contribution.

The corporate tax rate in both years was 9%. The calculation of effective tax rate is presented below:

	2020	2019
Profit or loss before tax	-669	2 829
Tax rate	9%	9%
Calculated corporate income tax	60	-255
<i>Tax impact of modifying items</i>		
Disallowed items	-297	-254
Deductible items	252	227
Temporary differences due to transition to IFRS	62	62
Losses carried forward from previous years	0	110
<i>Tax reductions</i>		
Tax allowance regarding FX rescue program	0	110
Tax effect of negative tax base	-119	0
Deferred tax	0	0
Corporate income tax	0	0
Local business tax, innovation contribution	-466	-468
Current income tax expenses	-466	-468
Effective tax rate	-	16,56%

6.7. Notes to the Statement of Other comprehensive Income

2 million HUF was transferred from other comprehensive income to the reporting year profit or loss because the sale of securities measured at fair value through other comprehensive income.

	31.12.2020	31.12.2019
Changes in fair value of debt securities measured at fair value through Other comprehensive Income		
Changes in fair value	-153	28
Reclassification of changes due to credit risk changes to Profit and loss	-17	-24
Changes reported in Other Comprehensive Income	-170	4

	31.12.2020	31.12.2019
Changes in fair value of loans measured at fair value through Other comprehensive Income		
Changes in fair value	-68	-162
Reclassification of changes due to credit risk changes to Profit and loss	68	162
Changes reported in Other Comprehensive Income	0	0

6.8. Other notes

6.8.1. Leases

The Bank, as lessee, rents mainly the buildings of branches, head office, and the vehicle fleet. These assets appear in the right-of-use assets in the statement of financial positions. Besides, the Bank rents low value assets, in such cases lease payments are recognized as an expense on a straight-line basis over the lease term. For these deals, leased assets and lease liabilities are not recognised in the statement of financial positions.

Section 6.5.6. Right of use assets shows the book value of right-of-use assets.

Depreciation charge for right-of-use assets by class of underlying asset:

	2020	2019
Right-of-use assets		
Property	525	575
Vehicle	50	31
Total	575	606

Lease liabilities are reported within Other liabilities in the statement of financial positions.

Breakdown of contractual, not discounted amounts of lease liabilities by maturity:

	31.12.2020					Total
	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	More than 5 years	
Lease liabilities	229	551	1 395	641	440	3 256

	31.12.2019					Total
	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	More than 5 years	
Lease liabilities	204	499	1 351	919	672	3 645

Interest expenses on lease liabilities:

	2020	2019
Right-of-use assets		
Property	105	114
Vehicle	5	5
Total	110	119

Expenses relating to short-term leases:

	2020	2019
Underlying assets		
Property	2	1
Vehicle	2	20
Other assets	1	61
Total	5	82

Lease payments for short-term leases are recognized as an expense on a straight-line basis over the lease term among Other administrative expenses.

Expenses relating to leases of low-value assets other than short-term:

	2020	2019
Underlying assets		
Property	0	0
Vehicle	0	0
Other assets	46	3
Total	46	3

Lease payments for low-value assets other than short-term, the Bank recognizes as an expense on a straight-line basis over the lease term among Other administrative expenses.

The Bank did not disregard the expense relating to variable lease payments in the measurement of lease liabilities.

There was no sublease or leaseback transaction in 2020.

During the reporting period, there were no lease costs recognized in the carrying amount of another asset.

The total cash outflow of lease deals was HUF 790 million in 2020. Thereof the principal repayment (HUF 629 million) is reported in cash flow from financial activities, the interest payment (HUF 110) is reported in cash flow from operating activities in the Cash Flow Statement. The cash outflow from leases of low-value asset (HUF 46 million) and from short term leases (HUF 5 million) can be found in cash flow from operating activities.

Lease payments recognized as income:

	2020	2019
Rental of building	1	2
Total	1	2

Basically the Bank does not have rental activity. The income above comes from the rental of an empty office.

6.8.2. Offsetting of financial assets and liabilities

Some of the derivatives are subject of ISDA agreements, so these derivatives can be settled on net basis. However derivative assets and derivative liabilities subject to ISDA agreements are not offset in the balance sheet.

		31.12.2020			
	Note	Gross amount of financial assets	Gross amount of offsetting financial liabilities	Net amount of financial assets	Cash collateral
Derivative assets with netting agreement		649	318	331	106
Derivative assets without netting agreement		144	0	144	0
		Gross amount of offsetting financial assets	Gross amount of financial liabilities	Net amount of financial liabilities	Cash collateral
Derivative liabilities with netting agreement		0	23	23	0
Derivative liabilities without netting agreement		0	550	550	0
Total	6.5.10	793	891		106

		31.12.2019			
	Note	Gross amount of financial assets	Gross amount of offsetting financial liabilities	Net amount of financial assets	Cash collateral
Derivative assets with netting agreement		41	6	35	0
Derivative assets without netting agreement		86	0	86	0
		Gross amount of offsetting financial assets	Gross amount of financial liabilities	Net amount of financial liabilities	Cash collateral
Derivative liabilities with netting agreement		101	659	558	800
Derivative liabilities without netting agreement		0	590	590	0
Total	6.5.10	228	1 255		800

6.8.3. Transactions with related parties

The Bank considers those entities related parties which have – directly or indirectly – influence over the Bank, or which are under the influence of the Bank or under joint control with the Bank. Parent company, subsidiaries of the parent company, subsidiaries of the Bank and Management of the Bank belong here.

Parent company:

- Sberbank Europe AG
- Sberbank of Russia

Subsidiary:

- East Site Kft.
- Károlyi Ingatlan 2011 Kft.
- V-DAT Kft. „v.a.”

Other related parties mean the companies which are in the same consolidation scope and are not Owners or Investments.

Key management personnel are also considered related parties – transactions with them are presented in a separate table.

The Bank enters into transactions with related parties on an arm's length basis. Transfer pricing documentation are prepared to prove arm's length prices taking into consideration the requirements of local legislation and OECD guidelines in relation to determining the arm's length prices.

	31.12.2020			
	Parent companies	Subsidiaries	Other related parties	Total
Cash and cash equivalents	37 939	0	4 078	42 017
Derivative assets (nominal value)	4 350	0	0	4 350
Receivables from credit institutions	24 040	0	0	24 040
Loans and advances to customers	0	0	0	0
Equity Investments	0	149	0	149
Other assets	29	0	0	29
Liabilities due to banks	661	0	9 839	10 500
Liabilities due to customers	0	148	0	148
Derivative liabilities (nominal value)	0	0	0	0
Subordinated liabilities	10 281	0	0	10 281
Other liabilities	51	0	0	51

	31.12.2019			
	Parent companies	Subsidiaries	Other related parties	Total
Cash and cash equivalents	4 540	0	916	5 456
Derivative assets (nominal value)	1 309	0	0	1 309
Receivables from credit institutions	6 048	0	4 989	11 037
Loans and advances to customers	0	0	0	0
Equity Investments	0	154	0	154
Other assets	24	0	0	24
Liabilities due to banks	3 672	0	15 514	19 186
Liabilities due to customers	0	154	0	154
Derivative liabilities (nominal value)	6 727	0	0	6 727
Subordinated liabilities	9 313	0	0	9 313
Other liabilities	21	0	0	21

	2020			Total
	Parent companies	Subsidiaries	Other related parties	
Interest receivable and similar income	178	0	5	183
Interest payable and similar expense	-541	0	-65	-606
Modification gain or loss	0	0	0	0
Net provision charge for loan impairment	-10	0	2	-8
Net Interest Income minus risk provisions	-373	0	-58	-431
Fee and commission income	0	0	2	2
Fee and commission expense	-22	0	0	-22
Net fee and commissions income	-22	0	2	-20
Net trading Income	38	0	0	38
Net gain or loss on securities	0	-6	0	-6
Changes in allowances for other risks	0	0	0	0
Other operating income	149	0	0	149
Other operating expenses*	-363	0	0	-363
Materials and supplies	-363	0	0	-363
Result before tax	-571	-6	-56	-633
Income tax	0	0	0	0
Profit or loss after tax	-571	-6	-56	-633

* IT maintenance costs and licence fees.

	2019			Total
	Parent companies	Subsidiaries	Other related parties	
Interest receivable and similar income	306	0	31	337
Interest payable and similar expense	-379	0	-53	-432
Modification gain or loss	0	0	0	0
Net provision charge for loan impairment	0	0	0	0
Net interest Income minus risk provisions	-73	0	-22	-95
Fee and commission income	0	0	12	12
Fee and commission expense	-58	0	-1	-59
Net fee and commissions income	-58	0	11	-47
Net trading Income	-564	0	0	-564
Net gain or loss on securities	0	-13	0	-13
Changes in allowances for other risks	0	0	0	0
Other operating income	48	1	0	49
Other operating expenses*	-314	0	-2	-316
Materials and supplies	-314	0	-2	-316
Result before tax	-961	-12	-13	-986
Income tax	0	0	0	0
Profit or loss after tax	-961	-12	-13	-986

* IT maintenance costs and licence fees.

	31.12.2020			Total
	Parent companies	Subsidiaries	Other related parties	
Guarantees given	1 643	0	299	1 942
Provisions	0	0	0	0
Guarantees received	15 315	0	0	15 315

	31.12.2019			Total
	Parent companies	Subsidiaries	Other related parties	
Guarantees given	2 259	0	1 410	3 669
Provisions	-1	0	0	-1
Guarantees received	10 643	0	0	10 643

Compensation of key management personnel

The Bank considers the members of the Board of Directors and the Supervisory Board key management personnel.

	2020	2019
Compensation of key management personnel		
Short-term employee benefits	496	468
Post-employment benefits	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Others	0	0
Total	496	468

Loans granted to key management personnel:

	31.12.2020	31.12.2019
Loans granted to key management personnel		
Mortgage loans	86	63
Total	86	63

In 2020 the Bank realised HUF 2 million interest income on loans to key management personnel.

6.8.4. Currency balances

The Bank's assets and liabilities by currency:

Assets	31.12.2020					Total
	EUR	USD	CHF	HUF	Others	
Cash and cash equivalents	45 332	6 676	1 027	62 829	1 634	117 498
Derivative assets	3	0	0	789	1	793
Debt securities	0	0	0	38 719	0	38 719
Receivables from credit institutions	27 811	0	0	13 816	0	41 627
Loans and advances to customers	57 985	469	315	236 283	0	295 052
Fair value changes of hedged instruments in portfolio hedges	0	0	0	110	0	110
Plant, property and equipment	0	0	0	2 168	0	2 168
Right-of-use assets	0	0	0	2 519	0	2 519
Intangible assets	0	0	0	6 848	0	6 848
Equity investments	0	616	0	226	0	842
Tax assets	0	0	0	0	0	0
Other assets	105	4	0	4 776	5	4 890
Non-current assets and disposal groups held for sale	0	0	0	0	0	0
Total assets	131 236	7 765	1 342	369 083	1 640	511 066

Assets	31.12.2019					Total
	EUR	USD	CHF	HUF	Others	
Cash and cash equivalents	1 199	2 409	159	93 121	1 958	98 846
Debt securities	0	0	0	31 016	0	31 016
Receivables from credit institutions	12 121	0	0	1 990	0	14 111
Loans and advances to customers	67 423	881	1 641	195 692	0	265 637
Plant, property and equipment	0	0	0	2 237	0	2 237
Right-of-use assets	0	0	0	3 076	0	3 076
Intangible assets	0	0	0	5 577	0	5 577
Equity investments	0	536	0	231	0	767
Tax assets	0	0	0	25	0	25
Derivative assets	57	19	0	152	0	228
Other assets	99	18	0	1 746	5	1 868
Non-current assets and disposal groups held for sale	0	0	0	13	0	13
Total assets	80 899	3 863	1 800	334 876	1 963	423 401

Liabilities	31.12.2020					
	EUR	USD	CHF	HUF	Others	Total
Liabilities due to banks	16 279	151	0	69 538	0	85 968
Liabilities due to customers	96 674	45 696	1 435	209 010	1 989	354 804
Derivative liabilities	4	2	0	885	0	891
Debt securities in issue	0	0	0	0	0	0
Subordinated liabilities	10 281	0	0	0	0	10 281
Provisions	119	0	0	1 017	0	1 136
Tax liabilities	0	0	0	19	0	19
Other liabilities	5 017	445	0	6 742	169	12 373
Total liabilities	128 374	46 294	1 435	287 211	2 158	465 472

Liabilities	31.12.2019					
	EUR	USD	CHF	HUF	Others	Total
Liabilities due to banks	25 578	149	0	26 970	0	52 697
Liabilities due to customers	65 911	54 891	1 163	178 128	1 945	302 038
Debt securities in issue	1 310	0	0	0	0	1 310
Subordinated liabilities	9 313	0	0	0	0	9 313
Provisions	201	0	0	1 031	0	1 232
Tax liabilities	0	0	0	21	0	21
Derivative liabilities	283	389	0	577	6	1 255
Other liabilities	3 661	145	0	4 596	234	8 636
Total liabilities	106 257	55 574	1 163	211 323	2 185	376 502

6.8.5. Fair value hierarchy

Financial assets and financial liabilities by measurement category:

	31.12.2020				
	At fair value through profit and loss	At fair value through other comprehensive income	At amortised cost	Total book value	Fair value
Cash and cash equivalents	0	0	117 498	117 498	117 498
Debt securities	0	31 109	7 610	38 719	38 621
Receivables from credit institutions	0	0	41 627	41 627	41 631
Loans and advances to customers	46 129	26	248 897	295 052	297 377
Equity investments	616	77	149	842	842
Derivative assets	793	0	0	793	793
Other financial assets	0	0	4 803	4 803	4 803
Total financial assets	47 538	31 212	420 584	499 334	501 565

31.12.2019					
	At fair value through profit and loss	At fair value through other comprehensive income	At amortised cost	Total book value	Fair value
Cash and cash equivalents	0	0	98 846	98 846	98 846
Debt securities	0	27 252	3 764	31 016	31 051
Receivables from credit institutions	0	0	14 111	14 111	13 812
Loans and advances to customers	19 147	52	246 438	265 637	267 111
Equity Investments	536	77	154	767	767
Derivative assets	228	0	0	228	228
Other financial assets	0	0	1 812	1 812	1 812
Total financial assets	19 911	27 381	365 125	412 417	413 627

31.12.2020				
	At fair value through profit and loss	At amortised cost	Total book value	Fair value
Liabilities due to banks	0	85 968	85 968	89 862
Liabilities due to customers	0	354 804	354 804	354 653
Debt securities in issue	0	0	0	0
Subordinated liabilities	0	10 281	10 281	10 409
Derivative liabilities	891	0	891	891
Other financial liabilities	0	11 574	11 574	11 574
Total financial liabilities	891	462 627	463 518	467 389

31.12.2019				
	At fair value through profit and loss	At amortised cost	Total book value	Fair value
Liabilities due to banks	0	52 697	52 697	52 667
Liabilities due to customers	0	302 038	302 038	302 025
Debt securities in issue	0	1 310	1 310	1 298
Subordinated liabilities	0	9 313	9 313	9 310
Derivative liabilities	1 255	0	1 255	1 255
Other financial liabilities	0	7 892	7 892	7 892
Total financial liabilities	1 255	373 250	374 505	374 447

Fair value hierarchy of financial assets and financial liabilities measured at fair value:

31.12.2020					
	Note	Level 1	Level 2	Level 3	Total fair value
Debt securities	6.5.2				
At fair value through profit and loss		0	0	0	0
At fair value through other comprehensive income		31 109	0	0	31 109
Loans and advances to customers	6.5.4				
At fair value through profit and loss		0	0	46 129	46 129
At fair value through other comprehensive income		0	0	25	25
Equity investments	6.5.8				
At fair value through profit and loss		0	0	616	616
At fair value through other comprehensive income		0	0	77	77
Derivative assets	6.5.10				
At fair value through profit and loss		0	793	0	793
Financial assets measured at fair value		31 109	793	46 847	78 749

31.12.2020					
	Note	Level 1	Level 2	Level 3	Total fair value
Derivative obligations	6.5.10				
At fair value through profit and loss		0	891	0	891
Financial obligations measured at fair value		0	891	0	891

31.12.2019					
	Note	Level 1	Level 2	Level 3	Total fair value
Debt securities	6.5.2				
At fair value through profit and loss		0	0	0	0
At fair value through other comprehensive income		27 252	0	0	27 252
Loans and advances to customers	6.5.4				
At fair value through profit and loss		0	0	19 147	19 147
At fair value through other comprehensive income		0	0	52	52
Equity investments	6.5.8				
At fair value through profit and loss		0	0	536	536
At fair value through other comprehensive income		0	0	77	77
Derivative assets	6.5.10				
At fair value through profit and loss		0	228	0	228
Financial assets measured at fair value		27 252	228	19 812	47 292

31.12.2019					
	Note	Level 1	Level 2	Level 3	Total fair value
Derivative obligations	6.5.10				
At fair value through profit and loss		0	1 255	0	1 255
Financial obligations measured at fair value		0	1 255	0	1 255

Fair value hierarchy of financial assets and financial liabilities not measured at fair value:

31.12.2020						
	Note	Level 1	Level 2	Level 3	Total fair value	Book value
Cash and cash equivalents	6.5.1	5 788	111 710	0	117 498	117 498
Debt securities	6.5.2					
At amortised cost		4 835	0	2 677	7 512	7 610
Receivables from credit institutions	6.5.3	0	0	41 631	41 631	41 627
Loans and advances to customers	6.5.4					
At amortised cost		0	0	251 222	251 222	248 897
Equity investments	6.5.8					
At cost		0	0	149	149	149
Other financial assets	6.5.11	0	0	4 803	4 803	4 803
Financial assets measured at amortised cost		10 623	111 710	300 482	422 815	420 584

31.12.2019						
	Note	Level 1	Level 2	Level 3	Total fair value	Book value
Cash and cash equivalents	6.5.1	14 394	84 452	0	98 846	98 846
Securities	6.5.2					
At amortised cost		0	0	3 799	3 799	3 764
Receivables from credit institutions	6.5.3	0	5 815	7 997	13 812	14 111
Loans and advances to customers	6.5.4					
At amortised cost		0	0	247 912	247 912	246 438
Equity investments	6.5.8					
At cost		0	0	154	154	154
Other financial assets	6.5.11	0	0	1 812	1 812	1 812
Financial assets measured at amortised cost		14 394	90 267	261 674	366 335	365 125

31.12.2020						
	Note	Level 1	Level 2	Level 3	Total fair value	Book value
Liabilities due to banks	6.5.13	0	0	89 862	89 862	85 968
Liabilities due to customers	6.5.14	0	0	354 804	354 653	354 804
Debt securities in issue	6.5.15	0	0	0	0	0
Subordinated liabilities	6.5.16	0	0	10 409	10 409	10 281
Other financial liabilities	6.5.18	0	0	11 574	11 574	11 574
Financial liabilities measured at amortised cost		0	0	466 649	466 389	462 627

31.12.2019						
	Note	Level 1	Level 2	Level 3	Total fair value	Book value
Liabilities due to banks	6.6.13	0	4 385	48 282	52 667	52 697
Liabilities due to customers	6.6.14	0	0	302 025	302 025	302 038
Debt securities in issue	6.6.15	0	0	1 298	1 298	1 310
Subordinated liabilities	6.6.16	0	0	9 310	9 310	9 313
Other financial liabilities	6.6.18	0	0	7 892	7 892	7 892
Financial liabilities measured at amortised cost		0	4 385	368 807	373 192	373 250

Certain corporate bonds were listed on the Budapest Stock Exchange in 2020, therefore they were changed in the fair value hierarchy to category Level 1.

6.8.6. Fair value option

Under IFRS 9 an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different bases. The application of the fair value option shall result in the financial statements providing reliable and more relevant information about the effects of transactions on the entity's financial position, financial performance and cash flows. The fair value option may be applied for example when an entity has financial assets that share a risk, such as interest rate risk, and that gives rise to opposite changes in fair value that tend to offset each other. In such cases the entity may measure the asset that otherwise is measured at amortised cost at fair value.

The Bank chose to apply the fair value option to hedge for measurement of Hungarian treasury bond portfolio (amounts to 10 billion HUF at face value) whose interest rate risk is hedged by interest rate swap transactions concluded in the frame of HIRS (MNB Market-Based Lending Scheme).

The purchased government bond was classified in 'hold and sell' business category since the Bank intends to hold it in the long term and complied with SPPI tests, therefore it was classified to amortized cost category. But without applying the fair value option the recognition of the HIRS transaction and the transactions hedging its interest risk would have been inconsistent. The fact the Bank had the government bond designated at fair value meant the fair value changes of the transactions were universally recognised in profit or loss, thus providing a reliable and more relevant view of the aggregate impact of the transactions.

The deal expired in 2019, so neither at the end of 2019 nor at the end of 2020 did the Bank's balance sheet include financial asset designated as at fair value on initial recognition.

6.8.7. Government grants

In connection with its HIRS and preferential deposit transactions concluded with MNB the Bank accounted for the following amounts as government grants:

	Government grant			
	Amount		Nature	
	2020	2019	2020	2019
HIRS deals	0	257		Interest rate subsidy
Preferential deposits	0	105		Interest rate subsidy
Total	0	362		

In the case of HIRS transactions the interest payable on the transaction is lower than the market interest, while for preferential deposits the interest received is higher than the market interest.

In accordance with IAS 20, in both cases the Bank recognises the government grant only if there is reasonable assurance that the conditions attaching to the grant will be fulfilled and the Bank will receive the grant. Accordingly, there are no unfulfilled items or other contingent liabilities connected to the grants that have been accounted for.

No such deal was present in the Bank's balance sheet neither at the end of 2019 nor at the end of 2020.

6.8.8. Day-one profit or loss

The Bank measures financial assets and financial liabilities at fair value on initial recognition. If the fair value at initial recognition differs from the transaction price, the difference is accounted for depending on the level of the transaction within the fair value hierarchy:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (Level 1 input) or based on a valuation technique that uses only data from observable markets (Level 2 input). The Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases the fair value at initial recognition shall be adjusted by the deferred amount of the difference between the fair value and the transaction price. After initial recognition, the Bank shall recognise the deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.

In the case of the FGS funds drawn from the MNB and the FGS loans disbursed using these funds, the initial fair value difference is accrued because the Bank does not calculate the fair value using Level 1 or Level 2 inputs. The following tables show the accrued amounts not yet recognised in profit or loss:

	31.12.2020	31.12.2019
Initial fair value difference of FGS loans	-2 820	-907
Initial fair value difference of FGS funds	3 965	1 043
Total	1 145	136

The significant increase compared to last year can be attributed to FGS Go! programme, in which the Bank participates as well. The newest programme of FGS was launched by MNB in April 2020 in order to improve access to finance for small and medium-sized companies in Hungary.

Changes to initial fair value difference of FGS loans:

FGS loans	2020	2019
Opening balance	-907	-1 143
Initial fair value difference of new loans	-2 096	-81
Amortisation of initial fair value difference of loans	74	194
Disposal of the remaining initial fair value difference of sold, matured or repaid loans	109	123
Closing balance	-2 820	-907

Changes to initial fair value difference of FGS funds:

FGS funds	2020	2019
Opening balance	1 043	1 215
Initial fair value difference of new loans	2 921	148
Amortisation of initial fair value difference of loans	104	-200
Disposal of the remaining initial fair value difference of sold, matured or repaid loans	-103	-120
Closing balance	3 965	1 043

6.8.9. Fees to the auditor

	2020	2019
Fees to the auditor		
Audit of the annual financial statements	83	86
Other audit fees	15	31
Tax advisory services	0	14
Total	98	131

The audit fee for the financial statements includes the fee paid for the audit of the Bank's 2020 Annual Report. Other audit fees includes fees for the audit review of quarterly parent company reports.

6.8.10. Collaterals received

At full value:

	31.12.2020	31.12.2019
Collaterals received at full value		
Cash collaterals	21 507	12 169
Bank guarantees	18 567	11 117
State guarantees	116 480	72 064
Securities	986	1 868
Assigned receivables	648	614
Mortgage	162 023	154 659
Total	320 211	252 491

Up to the gross contractual receivable value:

	31.12.2020	31.12.2019
Collaterals received up to the gross contractual receivable value		
Cash collaterals	18 699	11 070
Bank guarantees	10 074	9 699
State guarantees	111 774	68 579
Securities	850	1 801
Assigned receivables	271	337
Mortgage	91 123	88 323
Total	232 791	179 809

6.8.11. Assets pledged as collateral

	31.12.2020	31.12.2019
Assets pledged as collateral		
Cash and cash equivalents	0	0
Securities	22 569	14 472
Receivables from credit institutions	1 935	2 787
Loans and advances to customers	52 947	16 884
Total	77 451	34 143

Under financial assets used as collateral, the Bank recognises collaterals placed at other banks to cover losses from derivative transactions as well as securities and SME loans used to cover FGS refinancing sources.

The Bank retained all the risks and rewards related to ownership of the financial assets used as collateral, so these assets remain part of the Bank's balance sheet.

6.8.12. Subsequent events after the reporting date

Retail sales of credit card product that was postponed due to coronavirus pandemic has started in February 2021.

6.8.13. Dividends paid

The Bank did not pay dividend to the shareholders in the previous years and will not pay dividend to the shareholders in 2020 either.

6.8.14. Equity correlation table

Equity correlation table required by Section 114/B (1) of the Act on Accounting:

31.12.2020								
Components of equity as per the Act on Accounting								
	Share capital as per IFRS	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit or loss after tax	Valuation reserve	Allocated reserve	Total
Share capital	3 727							3 727
Capital reserve			94 416					94 416
Retained earnings				-51 926	-1 135			-53 061
Other reserves							421	421
Revaluation reserve of available-for-sale financial assets, net of tax						91		91
Equity as per the Act on Accounting	3 727	0	94 416	-51 926	-1 135	91	421	45 594

31.12.2019								
Components of equity as per the Act on Accounting								
	Share capital as per IFRS	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit or loss after tax	Valuation reserve	Allocated reserve	Total
Share capital	3 727							3 727
Capital reserve			94 416					94 416
Retained earnings				-54 051	2 125			-51 926
Other reserves							421	421
Revaluation reserve of available-for-sale financial assets, net of tax						261		261
Equity as per the Act on Accounting	3 727	0	94 416	-54 051	2 125	261	421	46 899

Reconciliation of capital registered by the Court of Registration and the share capital as per IFRS:

	31.12.2020	31.12.2019
Capital registered by the Court of Registration	3 727	3 727
Instruments recognised as liabilities (-)	0	0
Share capital as per IFRS	3 727	3 727

Calculation of free retained earnings available for dividend payment:

	31.12.2020	31.12.2019
Retained earnings	-53 061	-51 926
Accumulated unrealised gain accounted for due to increase in the fair value of investment properties (-)	0	0
Accumulated amount of related Income tax accounted for based on IAS 12 Income taxes (+)	0	0
Adjusted retained earnings	-53 061	-51 926
Free retained earnings available for dividend payment	0	0

6.8.15. Realised profit from sale of loans

As in the previous years, the Bank continued to sale the non-performing loans also in 2020.

The realised profit from sale of loans is reported in Other operating income in the Income statement.

The following table shows the realised profit from sale of loans in 2020 broken down by measurement type of the sold loans:

2020	Loans measured at amortised cost	Loans measured at fair value through other comprehensive income	Total
Income	9 759	18	9 777
Book value of sold loans	-9 592	-23	-9 615
Direct costs relating to the sale			0
Realised profit from sale	167	-5	162

2019	Loans measured at amortised cost	Loans measured at fair value through other comprehensive income	Total
Income	6 010	77	6 087
Book value of sold loans	-3 418	-26	-3 444
Direct costs relating to the sale			-185
Realised profit from sale	2 592	51	2 458

In 2019, above its traditional quantity of sale, the Bank sold a pool of loans with a considerably higher volume of loans in it, including a substantial part of the non-performing private mortgage loans of the Bank. During the sale, approximately 800 non-performing loans were transferred. As substantially all the risks and rewards of the loans were transferred in the deal, the loans were derecognised from the Bank's books in their entirety.

The realised profit from the sale of this above mentioned deal:

2019	Loans measured at amortised cost	Loans measured at fair value through other comprehensive income	Total
Income	5 233	76	5 309
Book value of sold loans	-3 147	-26	-3 173
Direct costs relating to the sale			-185
Realised profit from sale	2 086	50	1 951

Under the transfer agreement the buyer may require the Bank to repurchase certain loans. This repurchase liability may only arise where subsequently is found that from a legal point of view the receivable in question had no existence at the date of transfer (e.g. the Bank has not become aware on time that the debtor died before the transfer) and shall not exceed 10% of the purchase price. The Bank allocated HUF 707 million provision for this repurchase liability at the end of 2019. The time proportionate unused reserve was released and it diminished to HUF 382 million at the end of the year.

6.8.16. Maturity of financial liabilities

Breakdown of contractual, not discounted amounts of financial liabilities by maturity:

	31.12.2020					Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	More than 3 years	
Liabilities due to banks	1 699	1 460	25 156	37 898	24 859	91 072
Liabilities due to customers	320 949	10 042	15 823	7 972	38	354 824
Debt securities in issue	0	0	0	0	0	0
Subordinated liabilities	74	0	218	586	10 986	11 864
Other financial liabilities	8 867	71	486	1 283	1 017	11 724
Deliverable derivatives (liability)	15	54	179	330	112	690
Non-deliverable derivatives (liability)	30	36	23	5	0	94
Financial guarantees	38 294	0	0	0	0	38 294
Total	369 928	11 663	41 885	48 074	37 012	508 562

	31.12.2019					Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	More than 3 years	
Liabilities due to banks	1 084	4 144	10 256	27 565	11 231	54 280
Liabilities due to customers	240 787	29 625	31 609	146	51	302 218
Debt securities in issue	0	366	1 047	0	0	1 413
Subordinated liabilities	50	0	210	576	10 377	11 213
Other financial liabilities	3 648	52	1 041	1 152	933	6 826
Deliverable derivatives (liability)	218	0	313	291	128	950
Non-deliverable derivatives (liability)	79	0	131	0	0	210
Financial guarantees	29 721	0	0	0	0	29 721
Total	275 587	34 187	44 607	29 730	22 720	406 832

6.8.17. Impact of coronavirus epidemic

Macroeconomic review for 2020

Global economic developments have been shaped by the outbreak of coronavirus epidemic in February-March 2020 and the political, economic and social responses to its prevention. Supportive monetary politics features the operation of central banks in the recent period.

In the third quarter of 2020, the domestic economy was 4,6% lower than in the same period of previous year. The gross domestic product in Hungary decreased and on annual basis it is close to the European average. Recovery from the epidemic crisis started in the third quarter that slowed down with the outbreak of the second wave. Further significant restrictive measures were launched to stop epidemic that could delay the recovery of economic growth.

The typical interest rates of the banking system changed within a narrow range during the year. The Central Bank base rate fell from 90 bps to 60 bps and remained unchanged until year-end.

The three-month BUBOR rate rose from 16 bps at the beginning of the year to 110 bps in April then it stabilized at around 60-70 bps partly due to base rate cut and closed the year at 75 bps. In case of BIRS fixings – it followed BUBOR risk within mid-term, 2-5 years segment- it can be stated that long-term interest rate expectations project a slightly rising but low interest rate environment.

Compared to 330 levels at the beginning of the year Forint weakened 11% against Euro at the outbreak of pandemic in the beginning of spring that was followed by double strengthening in summer close to level 345. We forecasted a closing exchange rate of 355 at the end of the year during rebudget, which proved to be a proper estimation until the end of the year, however Forint weakened above 364 against Euro in the last days.

Presentation of financial-business results, and peculiarities of business year

In the first quarter of business year, Sberbank Magyarország performed in line with the business plan in terms of both business volumes and profitability, maintaining the HUF 1,7 billion profit before tax targeted for year-end.

As a result of COVID-19 epidemic it became clear that the Bank will not be able to meet the budgeted profit primarily due to expected provision increase on loan portfolio, due to settlement of loss resulting from loan parameter modifications set by loan moratorium and due to the expected decrease of lending risk appetite.

Accordingly, upon the initiation of the Bank group and along with the framework set by the Bank group, Sberbank Magyarország revised its original plan in Spring and by considering the potential impacts of the epidemic, impacts of the economic recovery measures as well as by considering the impacts of the cost-cutting measures to compensate expected losses, it prepared a new, realistic plan which was prepared by strict consideration of capital adequacy- and liquidity aspects. The Bank continuously reviewed the validity of the revised plan, re-budget during monthly forecasts.

Development of bank loan-and deposit portfolio and related economy recovery measures

The lending activity of the Bank significantly declined in the second quarter of 2020 as a result of epidemic and the new placements did not exceed HUF 11 billion in this period. Due to temporary stricter lending conditions, lending activity shrank in all segments. Personal loan disbursement was low, however sale of Baby loan was further on successful. More than half of the new lending volume was realised from the sale of Baby loan in the second quarter.

Sberbank Magyarország also took part in economic boost programs in response to COVID-19 crisis: FGS Go! placement along with credit redemptions amounted to HUF 28 billion, Széchenyi Card Plus program participation amounted to HUF 17 billion. Within the frame of Bond Funding for Growth Scheme the Bank purchased corporate bonds in the amount of HUF 3,8 billion in business year.

Retail launch of new credit card product was postponed to 2021.

While the utilization of credit facilities increased only slightly, there was an increase in customer deposits -both corporate and retail- instead of deposit decrease.

Impact of COVID-19 epidemic on risk management and impairment

Year 2020 was marked by the global Covid-19 epidemic and its global impact. The impact thereof on the banking sector is significant even banks entered the crisis with the highest capital ratios ever.

In line with the parent company the Bank continuously assesses the impacts of COVID-19 on the financial activity and analyses macroeconomic changes. The appearance of coronavirus in Hungary in the first quarter of 2020 changed the valuation of Bank's loan portfolio, lending related processes and conditions of new risk taking. Uncertainty about future performance of the economy and uncertainty about the quality of the portfolio – mainly due to moratoriums effective for 15 months - is still significant when preparing the report.

At the end of the year 52% of retail customers, 49% of SME clients and 45% of corporate clients are opted for moratorium, which is basically in line with our presumptions made during the year.

The volume of non-performing loans has not changed significantly either in retail or in corporate segment during the moratorium. After expiry of the moratorium, the Bank will initiate, if necessary, to restructure the debts of insolvent clients.

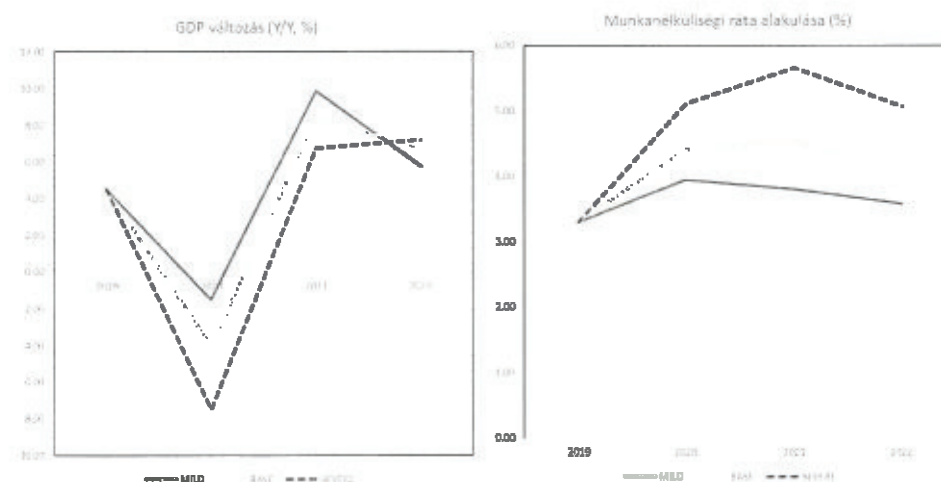
Impairment models have been improved so that effects of COVID-19 can be taken into account. A new method is applied for retail and micro behavior modelling, the purpose thereof is to calculate appropriate amount of impairment even in lack of information on default days. The DPDs have not change since the start of the moratoria on the eligible portfolio, which variable drives the LLP calculation of the Bank. The Bank introduced two behavioural models (both Private Individuals and Micro companies) to assess the risky clients and push them into Stage 2. These models mostly used transactional data from the clients current accounts which are managed at the Bank. In the SME, Corporate and Project segments the regular, quarterly monitoring was the base for the stage shift. This monitoring heavily uses the industry information and the COVID related industries were more deeply investigated. Hotels and tourism, Shopping and entertaining centers, Metals and Raw Materials and Automotive industries were more heavily hit by the pandemic and more heavily investigated by the Bank. The Bank also assessed geographical concentrations and risks during the early days of the pandemic.

On Sberbank-group level the impairment models are using the macro scenarios (GDP change, Unemployment) published quarterly by ECB. After transforming the macro data to country level, OLS regression model is used for modelling the systematic risk factor, where the variables are standardized macro data. By using the estimated systematic risk factor based on a given macro scenario, the empirical default rates in the original (TTC calibrated) matrix are converted to PIT matrices.

The ECB macro scenarios are localised by using the differences between year end and quarterly ECB data and the country level IMF projections. For the current model the ECB data used was published in June 2020. (source: Eurosystem staff macroeconomic projections for the euro area)

	2019	March 2020 projections			Mild scenario			June 2020 projections			Severe scenario		
		2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Real GDP	1.2	0.8	1.3	1.4	-6.9	6.8	2.2	-8.7	5.2	3.3	-12.8	3.3	3.8
HICP Inflation	1.2	1.1	1.4	1.6	0.4	1.1	1.7	0.3	0.8	1.3	0.2	0.4	0.8
Unemployment rate (% of labour force)	7.8	7.6	7.6	7.5	8.8	8.6	8.0	9.8	10.1	9.1	11.3	12.6	11.2

The following (localized) macro scenarios were used in September 2020:



Based on expert judgement the weighting the model used was 50% base and 50% severe. (The 2020 year end data already justified the expert's decision). Due to the change in the macro scenarios the Bank booked HUF 2,6 billion LLPs in 2020.

Presentation of capital adequacy and liquidity situation

Capital position of the Bank is stable. At the beginning of 2020 the Bank further optimized its capital position by further optimisation of risk-weighted assets, by strict control of Intangible investments and by incorporating 2019 result into capital.

Even under the new assumptions of the rebudget, liquidity was adequate during the year, no action was needed partly because there was no deposit outflow and partly because central bank sources to boost lending further increased liquidity.

6.9. Information related to capital management

Determining the bank's optimal capital level and its continuous monitoring is a basic process/task for every bank.

The level of capital is primarily determined by the Bank's risk appetite. Since high risks entail higher losses, it is crucial for the Bank to carefully take into account both the expected and unexpected losses related to its various business activities. The economic capital determines the required level of capital related to the actual risk profile while the level of the regulatory capital represents a mandatory minimum level below which the Bank may not go even when based on its own measurements its risk exposure would justify a lower level. The Bank's capital management covers both the Pillar 1 and the Pillar 2 view.

Primary goal of capital management is to:

- ensure the optimal level of capital for the Bank,
- ensure the capital requirement necessary for the Bank's operation,
- facilitate compliance with European and national regulations.

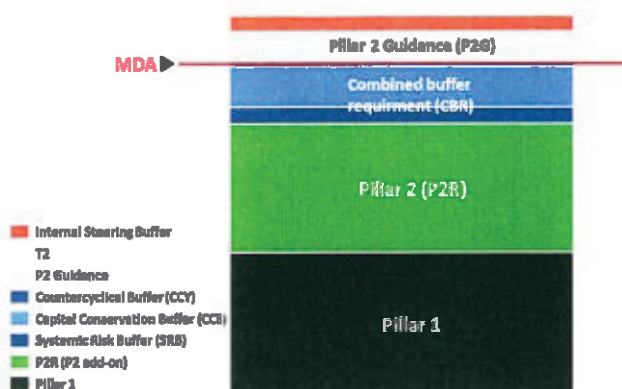
Regulation (EU) No 575/2013 (CRR), Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Hpt.) and Directive 2013/36/EU define uniform rules for the supervised institutions with respect to capital requirements. The Bank calculates its regulatory capital based on these rules with a monthly frequency and sends a quarterly report thereof to the Supervisory Authority (COREP, FINREP).

The Bank's ALM department regularly monitors capital adequacy (P1 and P2) and prepares a report for the ALCO and the parent bank at least monthly and also for the Supervisory Board quarterly. Based on its forecasts, whenever justified, it takes the necessary measures to ensure capital adequacy at all times, in line with its recovery plan.

During its planning process, the Bank regularly monitors regulatory changes and updates and calculates the required level of capital account taken of these changes.

The major business risks of the Bank are credit risk, liquidity risk, market risk (including interest and foreign exchange risk) and operational risk.

The following chart displays the structure of the Bank's potential capital requirement and capital recommendation.



The Bank's capital level always complied with the regulatory requirements, the shareholders ensured the required level of capital. No dividend was paid, the profit increases the level of CET1 capital.

The Bank's regulatory capital:

	31.12.2020	31.12.2019
Regulatory capital	47 256	47 998
Tier1 capital	38 664	38 898
Common Equity Tier 1 capital (CET1)	38 664	38 898
Additional Tier 1 capital (AT1)	0	0
Supplementary capital (Tier 2)	8 592	9 100

Development of capital requirement:

	31.12.2020	31.12.2019
Total Risk Exposure amount (RWA)	225 328	224 699
CET1 capital adequacy ratio	17,16%	17,31%
Tier 1 capital adequacy ratio	17,16%	17,31%
Capital adequacy ratio	20,97%	21,36%

6.10. Risk management policies

6.10.1. Liquidity risk

Liquidity risk is the risk of the institution not being able to comply with its obligations stemming from the expected and unexpected current and future cash flows without impacting its daily operation or its market position. These may include, among others:

- *Short-term liquidity risk* is the risk of the Bank not being able to meet all of its payment obligations or not being able to meet its payment obligations on time. This risk refers to a time horizon of 30-90 business days.
- *Long-term liquidity risk* is the risk of additional refinancing funds being accessible only at a higher market interest rate. This risk refers to a time horizon of at least 1 year.
- *Concentration risk* occurs when the Bank's exposure to a single depositor, a single deposit instrument, a single market segment or a single currency is extremely high primarily on the liability side. However, the concentration of an on-balance sheet or off-balance-sheet instrument which may significantly alter the level of expected cash flow may also cause concentration liquidity risk.

The Bank measures the liquidity risks using processes and various indicators and limits (e.g. LCR, NSFR, DMM, L/D, concentration indicators, Liquidity-at-Risk) in line with the international and Hungarian regulatory frameworks and the guidelines of the parent bank and manages these liquidity risks by maintaining a conservative liquidity buffer.

The Bank pays special attention to the LCR (Liquidity Coverage Ratio) indicator, to its reliable calculation. The Bank determined internal limit stricter than the regulator's, and manages its liquidity based on this indicator.

	Total weighted amount (average)			
	31.03.2020	30.06.2020	30.09.2020	31.12.2020
Number of observation periods taking into account in average calculation (months)	3	3	3	3
Liquidity buffer	76 390	61 867	59 698	67 809
Net liquidity outflow	44 884	25 615	20 388	18 947
Liquidity coverage ratio (%)	195%	245%	294%	358%

	Total weighted amount (average)			
	31.03.2019	30.06.2019	30.09.2019	31.12.2019
Number of observation periods taking into account in average calculation (months)	3	3	3	3
Liquidity buffer	41 915	38 690	49 821	73 530
Net liquidity outflow	26 618	23 862	26 348	54 235
Liquidity coverage ratio (%)	157%	162%	189%	136%

The internal liquidity stress test is also an integral part of the liquidity risk management framework, with which the Bank quantifies the impacts of predefined scenarios (idiosyncratic, market-wide, combined). It is a requirement of the parent bank that the Bank meets the minimum 1 month limit in terms of the stress survival horizon, and in addition, it has sufficient surplus reserves to meet internal buffer requirements as well. Last year the Bank complied with these requirements.

The Asset Liability Committee (ALCO) - of which the Board of Directors also a member - is the organizational unit responsible for the strategic management of liquidity risks. The members of ALCO are informed on a daily basis on the Bank's liquidity position. Asset-Liability Management (ALM) is responsible for tactical management within the approved guidelines, responsibilities and limits.

6.10.2. Market risk

Market risk is the risk that the value of the Bank's on-balance sheet and off-balance sheet positions changes as a result of the change in market prices (interest rates, equity prices, foreign exchange rates or commodity prices etc.) due to which the Bank's net income and capital position may deteriorate.

The Bank measures and limits its exposure to market risk using various methods depending on whether the given exposure qualifies as a trading or as a banking book exposure.

Market risk – trading book

Based on criteria defined by CRR, the Bank classifies as positions held with trading intent the positions intended to be resold short term, or positions intended to benefit from expected differences between buying and selling prices. The Bank performs the valuation of trading book positions at fair value at least daily.

Compared to its size the Bank's trading activity is not significant; it typically holds such positions in connection with client mandates (market execution) where clients want to hedge their risks stemming from their own operation.

Sberbank Group applies several methods for measuring and managing market risks, in line with the international risk management standards and regulatory recommendations.

On the basis of the risk appetite, the parent bank defines every year the maximum level of risk that the Bank can assume and defines, among others, open currency position (OCP), value at risk (VaR), interest rate sensitivity (BPV), and maximum loss (Stop Loss) limits.

Global Markets Trading and ALM departments are in charge of the operative management of market risk positions. In order to avoid conflict of interest ("Segregation of Duties"), risk exposures are monitored daily by an independent organizational unit, i.e. the Market Risk Management department that operates independently from the business areas.

The Bank's management (Board of Directors, ALCO) receives at least monthly information about the risk exposures, while the Supervisory Board receives reports quarterly.

Equity price risk

The Bank does not assume any commodity and equity risks in its trading book.

Foreign exchange risk

The primary foreign exchange risk stems from the different currency structure of the Bank's assets and liabilities (both on- and off-balance sheet). As a result of the changes in foreign exchange rates the Bank may realise gains or incur losses recognized directly in the income statement.

The Bank manages its foreign currency positions in the trading book, it holds no strategic open positions in the banking book.

Taking on non-linear risks is not part of the strategy, the Bank typically hedges its option positions back-to-back.

Market risk – banking book

The interest rate risk in the banking book represents the possibility that the income stemming from the positions in the banking book and/or the net present value of these positions change unfavorably due to the change in market interest rates.

Every on- and off-balance sheet position that does not belong to the trading book is to be considered a banking book position; that is, typically loan and deposit portfolios, the non-trading securities portfolio and interbank transactions, other receivables and liabilities and non-trading derivative transactions, etc.

The Bank considers re-pricing risk as its primary interest rate risk, which is the risk stemming from the timing difference of the re-pricing structure of receivables and liabilities and off-balance sheet items. Measurements cover the yield curve risk which is the risk stemming from the changes in the shape and the slope of the yield curve.

When quantifying the extent of the risk, the Bank applies the generally accepted risk measurement approaches in line with regulatory recommendations and quantifies both the short term (income related) and longer-term (change in the economic value of equity) impacts.

Risk exposures are presented separately for the relevant currencies in the balance sheet.

When quantifying interest rate risk, the Bank uses different scenarios representing various interest rate changes. The Bank assumes a +/-200 basis points, prompt, parallel yield curve shock as the basic stress scenario. In order to analyse interest rate sensitivity in more detail, in line with regulatory requirements, the Bank also analyses the impact of additional scenarios, which simulate the different changes in the slope and the shape of the yield curve.

The Bank applies internal limits in line with its risk appetite. The ALCO defines the limit proportionately to CET1 capital for the change in the value of the economic capital; and proportionately to the annual budgeted net interest income for net interest income change.

The Asset Liability Committee (ALCO) - of which the whole Board of Directors is also a member - is the organizational unit responsible for the strategic management of interest rate risks. Asset-Liability Management (ALM) is responsible for tactical management within the approved guidelines, responsibilities and limits. Market Risk department is responsible for calculating and monitoring the compliance with internal limits.

The Bank primarily manages its interest rate risks through the harmonization of the pricing parameters of its assets and liabilities (re-pricing period, maturity, interest base) and with the help of derivative hedging transactions (IRS, CIRS).

The Bank distributes the risks (including interest rate and liquidity risks) among the various business lines with the help of a market-based internal transfer pricing system (FTP) so the assumed risks are taken into account in profitability calculations of the various profit centres.

Composition of assets and equity and liabilities by currency

Open positions as at 31 December 2020:

	Net positions in the balance sheet	Total net positions
Net open long positions	2 994	492
Net open short positions	-39 362	-395
Net positions	-39 362	492

Open positions as at 31 December 2019:

	Net positions in the balance sheet	Total net positions
Net open long positions	1 070	545
Net open short positions	-75 940	-606
Net positions	-75 940	-606

Value at Risk (VaR)

The Bank also applies risk-sensitive indicators to measure foreign exchange risks. The Bank uses regulatory FX VaR model, which is a so-called historical variance-covariance model that assumes the normal distribution of yields of exchange rates with an expected value of zero.

The model results show the expected loss, assuming a 10-day holding period and taking account of the price fluctuations in the past 250 days at a 99% confidence level.

The regulatory capital requirement under Pillar 1 is calculated based on the standardised approach defined by CRR, while the Bank also uses a modified, more conservative version of the above methodology to calculate the capital requirement under Pillar 2, where the variance-covariance matrix is derived from a stressed period instead of the recent past 250 days.

Results of the FX VaR:

	31.12.2020	31.12.2019
60 day average of FX Var	70	93

Interest sensitivity

We measure the interest sensitivity of the trading book positions with the so-called BPV – Basis Point Value sensitivity, which shows the P&L impact of a 1-bp parallel shift in yields. We calculate both the net and gross exposure; in the latter case, we obviously disregard the mutual neutralisation effect of the long and short positions.

Compared to its size the Bank's trading activity is not significant; it typically holds such positions in connection with client mandates. Accordingly, the portfolio's interest sensitivity overall is very low.

Interest sensitivity of the trading book:

	31.12.2020	31.12.2019
Total BPV gross	7,04	5,13
Total BPV net	-0,01	0,16

In the case of the EVE (Economic Value of Equity) model used to measure the interest risks of the banking book, the yield curve shocks are immediate and have lasting impacts that are immediately priced with the net present value approach. The model is hypothetical since most of the positions (for example loans, deposits, interbank transactions) is recognised in the books at amortized cost, so in such cases, shifts in the yield curve has no direct impact on either capital or the income statement.

The interest risk sensitivity of the banking book remained within both the regulatory limit and the more stringent internal limit.

The results of the basic stress scenario according to the EVE model:

	31.12.2020	31.12.2019
Impact of 200 bp parallel shift (HUF million)	2 002	1 445
In percentage of CET1	5,16%	3,71%

The NII (Net Interest Income) model is an income-based approach. The model shows to what extent the Bank's net interest income would change during a one-year period, in the case of an immediate, 200-bp parallel yield curve shock, assuming a stable balance sheet structure.

Results of the basic stress scenario according to the NII model:

	31.12.2020	31.12.2019
HUF	290	197
EUR	278	190
CHF	11	7
USD	91	203
Total	670	597

Sensitivity of fair value of Baby loans – after eliminating the effect of changes in volume – depends primarily on the shape and location of the discount curve used to calculate the present value and estimated change in future cash flows.

In accordance with internationally accepted valuation methodologies, in calculating fair value, the Bank takes into account any significant risk factors that an investor would consider, depending on the nature of the investment, or that would affect the investor's return expectations for that investment.

The discount curve is thus the result of a risk-free yield curve representing the time value of money and various risk premiums. The points of the risk-free swap curve are inputs observable in the market. Points not observed in the market are derived by interpolation or extrapolation.

In the discount curve, the Bank takes into account the spreads on credit and liquidity risks of individual transactions and the fact that baby loans do not have an active market, i.e. to some extent they are illiquid compared to other traded instruments, for which a prospective investor would expect extra compensation.

The Bank estimated credit risk premium with PD and LGD parameters. The liquidity premium is generated using components observable in the market, while the illiquidity premium is generated using an expert estimate.

Estimation of future cash-flows consists of two elements. First of all, the Bank estimates the expected future interest rates using market observable data, to which the individual transactions will be repriced at the time of the interest rate change. Then by using statistical and expert estimates the Bank determines the extent of changes related to childbirth prepayments and moratoriums on future contractual cash-flows. When making estimations the bank relies on publicly available statistic data and also takes into account the portfolio's own characteristics.

The Bank determined the market interest rate sensitivity of Baby loans by parallel shifting the discount curve applied at year end and curve used to estimate future interest rates by 1 basis points. BPV: HUF -10,6 million

6.10.3. Credit risk

Overview

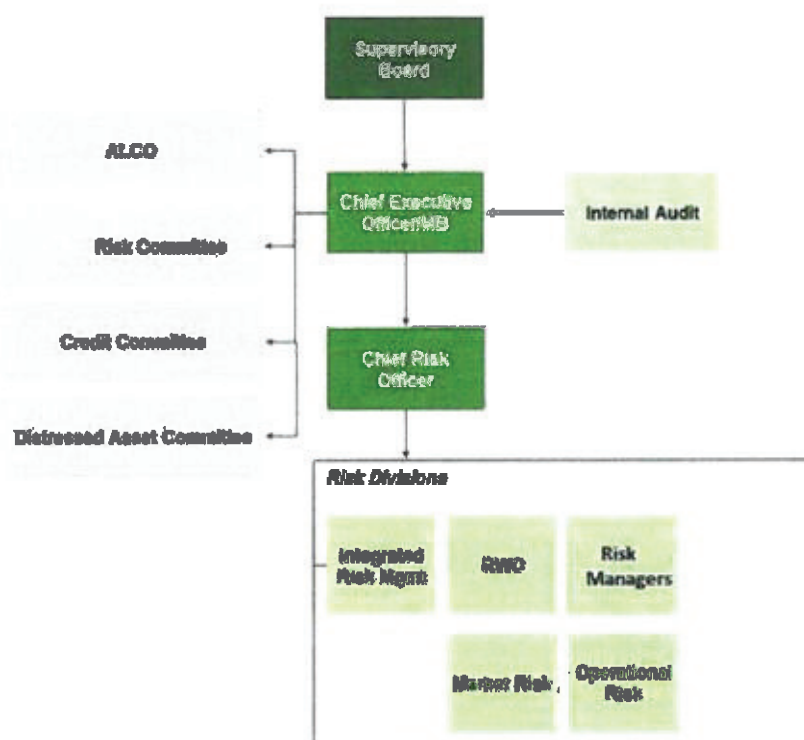
The Bank devotes significant resources to ensuring its risk management functions are comprehensive. In 2020 the risk management function was further enhanced.

The following major projects were conducted in 2020:

- Updates in the ICAAP models
- Continuation of projects aimed at development of risk-related IT infrastructure
- Improvement of credit risk models and model management
- NPL reduction strategy continued
- Responding to the crisis caused by COVID epidemic by redefining risk management conditions and processes

Risk management framework

Risk Management is in charge of the Bank's risk management function and is the second line of defence within the Bank. For certain risk types, the tasks of the second line of defence are carried out by organisational units outside of Risk Management, having the necessary competence and resources and who have an interest in lowering the risk levels accepted by the Bank to ensure compliance with risk tolerance objectives, limits and other limitations. The units outside of Risk Management are not part of risk management.



The Bank's Risk Management area performs its work based on EU legislation in force, the Bank's risk strategy, the resolutions, policies and guidelines of the Bank's governing bodies, and it represents the interests of the shareholders. Risk Management operations are integrated into the Bank's processes.

The head of the Bank's Risk Management area is the member of the board responsible for risk management (CRO), who reports to the CEO of the Bank. He supervises the work of the Risk Management units and is a member of the Bank's special risk management committees.

The head of Risk Management complies with the qualification and business reputation requirements defined by EU legislation and other rules (fit and proper approach).

Chief Risk Officer (CRO)

The CRO is an independent member of the Board of Directors responsible for risk management and for creating and operating a comprehensive risk management framework within the entire organisation.

The CRO is independent from the business areas and does not have any management or financial responsibility in terms of operative business lines or income-generating functions.

The CRO places particular emphasis on increasing the risk awareness of the Bank's employees and on strengthening risk culture at every level.

Executive bodies and committees

Supervisory Board

The Supervisory Board, representing the shareholders, is responsible for supervising the Board of Directors and provides assistance with governing the Bank, particularly with taking key decisions.

The Supervisory Board and its subcommittees supervise the risk management process and the current risk exposure based on regular reports and special information from the CRO. The Supervisory Board approves the risk management strategy and the risk appetite declaration proposed by the Bank.

Board of Directors

The Board of Directors coordinates the strategic objectives of the Bank with the Supervisory Board and regularly discusses the status of strategy implementation with the Supervisory Board. Management is based on the principles of good corporate governance as well as open debate between the Board of Directors, the Supervisory Board and members of the committees.

Risk management is the primary responsibility of the CRO, while the Board of Directors, as a collective body, has additional control tasks, including the supervision of risk management functions and approving relevant risk management policies.

Asset-Liability Committee (ALCO)

The Asset-Liability Committee (ALCO) is responsible for managing the balance sheet with a holistic approach, and as a key decision-making body it is also responsible for the existing and future interest and foreign exchange risks within the banking book. Moreover, its task is to optimise the Bank's risk/return profile to maintain proper liquidity and financing and to comply with regulatory capital management requirements.

ALCO closely monitors the evolution of risk-weighted assets, capital levels, P&L forecasts and the regulatory environment since these are key drivers of regulatory capital requirements.

Risk Committee

The Risk Committee (RiCo) is responsible for controlling the Bank's current and potential future risk exposures and for developing and implementing the risk strategy, which includes defining and controlling risk appetite. The Risk Committee deals with risk management, risk regulation, risk models and methodologies and the comprehensive risk management for the entire Bank within the framework of the ICAAP.

Credit Committee

The Credit Committee (CRC) is the central decision-making body responsible for collective credit decisions in terms of individual transactions/limits. It processes all the transactions at its level of authorisation. Within the Credit Committee, the chairman of the CRC (the CRO, board member responsible for risk management) is entitled to reject proposals irrespective of voting results ("veto right").

Distressed Asset Committee (DAC)

The DAC is the body responsible for drafting strategies pertaining to non-performing transactions and special transactions exhibiting a high risk of non-performance.

The main topics/responsibilities of the DAC are contained in its own rules of procedure; these include, among others, the acceptance of strategies and restructuring plans, the assessment of recovery indicators and the review of reports on implementing the action plans.

Risk Strategy

The Board of Directors evaluates and defines the risk strategy for the entire Bank, reflecting the current business model, while the Supervisory Board approves this risk strategy.

The purpose of the Bank's Risk Strategy is to define the general framework for the continuous and prudent management of risks related to the Bank's business model. It describes the basic principles that ensure the Bank's overall capital and liquidity adequacy as well as the appropriate defence approach by integrating risk management into the business activity, performing the strategic planning for the entire organisation and developing it in line with business risks. The Strategy takes the ICAAP principles and results into account.

The Bank's risk strategy is efficiently incorporated into daily operations through the following four pillars:



The risk management function has a homogeneous structure within the Bank with the usual roles and responsibilities. Every activity covered by risk management is documented in the Bank's regulations. The Bank defines the accepted structure of various risks based on its risk appetite and risk profile. The central part of the risk management function is an efficient governance model independent from business areas. All of these components ensure that the Bank efficiently applies the risk strategy throughout the organisation. The continuous improvement of the methods used for measuring and managing risks is integrated into the risk strategy during the annual update process.

Regulatory requirements

Compliance with regulatory requirements relies on three pillars in line with the Basel III rules:

Pillar 1: SBHU's minimum capital requirement

Under Pillar 1, the Bank uses the following methods to define the minimum capital requirement.

- Credit risk: Standardized Approach;
- Settlement risk: Standardized Approach;
- Market risk: Standardized Approach;
- Operational risk: Standardized Approach.

Pillar 2: Internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP)

ICAAP is one of the key components of the risk management and control activity covering the entire Bank, including all risk types and risk portfolios, primarily focusing on the implementation of risk management and risk control from the perspective of Pillar 2. The main objective of the ICAAP framework is to ensure alignment with the legislative (regulatory) and internal expectations and requirements with the ultimate objective of developing and applying appropriate risk and capital management, thereby assuring the sustainable development of the Bank and ensuring capital adequacy in line with its operations to cover all material and relevant risks. ILAAP supplements the ICAAP process from the perspective of the Bank having appropriate liquidity and being eligible for financing.

Pillar 3: Disclosure requirements

Every year the Bank complies with the disclosure requirements defined based on the CRR. The document is accessible at www.sberbank.hu.

ICAAP framework

The Bank's general risk tolerance is defined based on the requirements described under Pillar 2 and the internal capital defined based on Pillar 2. The risk coverage capital is defined with appropriate, risk sensitive measurement methods and by aggregating all of the relevant risk types. This forms the basis of risk management as part of an appropriate limit system.

The process developed by the Bank for managing its risk tolerance must be suitable for determining, quantifying, managing and monitoring all material risks. Moreover, using the process developed for managing risk tolerance, the capital suitable for hedging the assumed risk can be properly estimated based on two approaches: going concern and gone concern. This process ensures that the internal capital requirement and the Bank's regulatory capital are covered by the available capital at all times.

Risk tolerance is closely related to the Bank's strategic business goals, its risk appetite and risk profile as well as its capital adequacy, and ensures multidirectional interaction among these components.

The process includes the following mutually interrelated phases/components:



Identification of risks and assessment of materiality

Based on the comprehensive risk assessments performed each year, the Bank determines the risks that are present within the Bank's banking operations and defines their significance and potential threat. This process includes both a quantitative assessment of the various risk types and an assessment of the methods and systems used to monitor and manage existing risks (qualitative assessment). So this risk assessment concept provides a comprehensive overview of SBHU's risk profile.

Based on the results of the risk materiality assessment, material risks are managed based on the policies, procedures and guidelines approved by the governing body or the committees concerned on the basis of the periodic assessment and/or general supervisory process.

The assessment methodology used for measuring significant risks can be determined on a case-by-case basis depending on the nature of the risk. The Bank applies both quantitative and qualitative methods for fundamental risks (including stress tests) which are documented in dedicated methods and manuals.

Quantitative definition of risks as per the ICAAP

Risk quantification is an integral part of the management process of individual risks. Quantification helps to define the size of the risk capital requirement needed to jointly cover expected and unexpected risks.

When defining the capital requirement the Bank applies the gone concern approach.

According to the risk strategy and the risk identification rules, the level of refinement and the comprehensive nature of the calculation must follow the best market practice, taking into account the volume, volatility and materiality of the underlying risk. The Bank applies Value-at-Risk-type models for credit risk (IRB approach) and for operational and market risks. The Standardised Approach is used in the case of the trading book since the exposure is insignificant based on its share of the general risk exposure. This approach is regularly validated against the banks' internal VaR model.

Credit risk

The internal ratings-based approach is one of the standard VaR models proposed under Pillar 1 (single factor model) by the regulator. Accordingly, it defines the internal capital required to cover credit risk as a credit loss, where the actual loss will most likely not be any higher. The internal ratings-based model focuses on losses stemming from non-performance, and it is based on the estimated values of the PD, LGD and EaD parameters.

The internal ratings-based model does not cover certain semi-credit risks; for more information on this, please refer to the detailed internal policies. For portfolios where the Bank does not have the necessary data (PD or LGD) to apply the internal ratings-based model, the Standardised Approach is used. Whenever possible, however, the Bank applies the internal ratings-based approach.

The value at risk of loans is calculated at a 99,9% confidence level.

Market risk

Market risk is the risk that the actual asset value of the Bank's on-balance sheet and off-balance sheet positions changes as a result of market price changes (interest rates, equity prices, foreign exchange rates or commodity prices, etc.), which may lower the Bank's profit and capital.

Market risk – trading book

The Bank classifies as positions held with trading intent the positions intended to be resold short term, or positions intended to benefit from expected differences between buying and selling prices. The Bank's trading activity is not significant compared to its size, but it applies a complex system to measure and manage market risks in line with international risk management standards.

Market risk – banking book

When quantifying the extent of the risk, the Bank applies the generally accepted risk measurement approaches in line with regulatory recommendations and quantifies both the short term (income related) and longer-term impacts (appearing in the change of the economic value of the capital). When quantifying interest rate risk, the Bank uses scenarios representing various interest rate changes. From among these, we assume a +/-200 basis points, prompt, parallel yield curve shock as the basic stress scenario. In order to analyse interest rate sensitivity in more detail, based on the guidance of EBA, the Bank also analyses the impact of additional scenarios which simulate the different changes in the slope and the shape of the yield curve.

Operational risk

The Bank defines the capital requirement to be allocated to operational risks using the Standardised Approach under both pillars.

Liquidity risk

Liquidity risk is the risk of the institution not being able to comply with its obligations stemming from the expected and unexpected current and future cash flows and collaterals without impacting its daily operation or its market position. These may include, among others. The Bank measures the liquidity risks using processes and various indicators and limits in line with the international and Hungarian regulatory frameworks and the guidelines of the parent bank, and manages these liquidity risks by maintaining a conservative liquidity buffer.

Other risks

The Bank allocates an additional risk capital requirement to other risks on top of the internal capital requirement already estimated. It defines the amount allocated to other risks based on the amount of previously identified losses (if available) and the expert opinion on the imminent adverse impact of risks, also using the results of the stress test.

Risk aggregation

During the risk quantification phase of the process developed to manage risk tolerance, the Bank assesses the amount of internal capital needed to cover individual material risks. This is followed by the risk aggregation phase during which the internal capital needed to cover all of the Bank's material risks can be estimated.

The Bank's total capital requirement (total internal capital) can be estimated by aggregating the internal capital requirement of the different material risks (including the capital buffer). When aggregating internal capital requirements we assume that the losses stemming from the different risks are in perfect correlation. The assumption is conservative, but for the time being the Bank does not have sufficient experience or enough data to make a reliable assessment of the advantages of diversification. The Bank continuously collects data so that it can define these potential advantages later on.

The entire internal capital requirement is compared with the risk coverage capital. The capital available for the Bank must be higher than both of these.

Stress tests

The Bank performs stress tests as one of the basic tools for managing material risks. Stress tests are carried out separately for each material risk. The purpose of stress tests is to determine the Bank's vulnerability in the case of extreme adverse circumstances, to formulate corrective measures and to ensure the long-term stability of the Bank. Stress tests are also used to determine the Bank's sensitivity to factors that are not part of the quantification of internal capital. Moreover, for risks where the VaR model is not applied, the results of the stress tests may also form the basis for assessing internal capital. However, as a general rule, stress test results do not define the level of internal capital since they model extreme conditions.

The Bank performs at least one stress test every year. In the case of sudden market changes the Bank analyses the potential impacts of the change on its economic position and decides based on the obtained results whether stress tests need to be performed more frequently.

Capital allocation

The targeted risk profile of the Bank is achieved by allocating the risk coverage capital, which takes place as part of the risk tolerance model. The Bank allocates capital to cover every basic risk as well as the other risks that have been classified as material during the identification and assessment of risks. The allocation ensures that the Bank's risk coverage capital provides appropriate protection in the event of adverse circumstances.

Credit risk

The credit risk of Sberbank in Hungary stems primarily from credit type products, although it has some other on-balance sheet and off-balance sheet commitments.

Credit risk management devotes considerable effort every year to identifying and measuring credit risks as accurately as possible, introducing appropriate controls and optimising lending processes from the perspective of risk management.

In the course of 2020 the following significant progress was made:

Corporate and SME

In 2020 the following main developments and projects were launched to revise and develop current lending processes and risk management methods with the objective of improving efficiency:

- Responding to the crisis caused by COVID epidemic by redefining risk management conditions and processes
- Launch of new, state subsidized loan products (FGS Go!, Széchenyi Plus loan program)
- Renewal of monitoring processes

Retail

- Responding to the crisis caused by COVID epidemic by redefining risk management conditions and processes
- Launch of new, state subsidized products (FGS Go!, Széchenyi Plus loan program)
- Elaboration of new behavioral models instead of risk models lacking data during moratorium

Risk measurement

To quantify the credit risk of SBHU's loan transactions the Bank has implemented bank-level risk models. One of the key risk indicators is the PD (Probability of Default), which defines the probability of the client's default within 12 months based on qualitative and quantitative performance indicators. The LGD (Loss Given Default), the CCF (Credit Conversion Factor) and the EAD (Exposure at default) depend on transaction specific characteristics.

SBHU has its own PD models, which can be applied to credit applicants where the Banking Group is present. The Bank uses a generic model for cross-border transactions and for clients for whom there is no country-specific model.

Considering the fact that retail behavior model is not applicable due to overdue days frozen by the moratorium, a temporary model has been developed locally (for both Private individuals and Micro segments) to help identify presumably high-risk customers to be classified in Stage-2 during impairment calculation. The models mainly use the information from the client's current accounts which is managed by the Bank. The models also relied on the utilization of the overdraft facilities. The models were calibrated with PIT approach for crises central tendency, which was observed and calculated based on the data of the previous crisis (2008).

Risk measurement components

Debtors' credit risk has two components – Expected Loss (EL) covered by provisions, and Unexpected Loss (UL) covered by capital. EL is the loss expected from the given transaction within 12 months. UL comes from the variance around the expected loss. Expected loss can be broken down into the following three components:

$$EL = PD \times LGD \times EAD$$

These three components are defined as follows:

- PD (Probability of Default) is the probability of a client defaulting within one year. Probabilities of default are classified into rating classes with the help of the SBHU master-scale.
- LGD (Loss given Default) represents the estimated amount of the expected loss on a non-performing loan at the time the default occurs, projected to the expected exposure at default.

The Bank never assumes that 100% of the outstanding debt can be recovered by selling the collateral or through other means; instead, a lower value is realistically expected. When defining the LGD rate, the costs incurred during the collection, when selling collateral as well as other economic losses are also taken into account. The LGD is determined based on the collateral type and other transaction-specific characteristics. The risk models determining the LGD rate have been developed based on the results of the completed collection procedures of non-performing clients.

- EAD (Exposure at Default) is the exposure that the Bank expects when the default occurs. It is defined by transaction-specific rates such as the expected drawdown rate or the expected market price of derivative transactions.

Rating process

During the client/transaction rating process only the models approved by SBHU board members (previously by SBEU) can be used. The PD value defined by the Rating “master-scale” is used for the second pillar capital calculation, risk pricing and to select the lending process. At SBEU, the rating is based on the annual PD, which disregards the total cycle price of the loan. Therefore SBHU uses the same 12-month expected loss approach.

Breakdown of the Bank's credit risk rating grades by PD range:

Lower border	Average PD	Higher border	Risk classes	Risk category
0,00%	0,02%	0,03%	1	high grade
0,03%	0,04%	0,04%	2	high grade
0,04%	0,05%	0,06%	3	high grade
0,06%	0,07%	0,08%	4	high grade
0,08%	0,10%	0,11%	5	high grade
0,11%	0,13%	0,16%	6	high grade
0,16%	0,18%	0,22%	7	high grade
0,22%	0,25%	0,30%	8	high grade
0,30%	0,35%	0,41%	9	high grade
0,41%	0,48%	0,56%	10	standard grade
0,56%	0,66%	0,78%	11	standard grade
0,78%	0,91%	1,07%	12	standard grade
1,07%	1,25%	1,47%	13	standard grade
1,47%	1,73%	2,02%	14	standard grade
2,02%	2,38%	2,79%	15	average grade
2,79%	3,27%	3,84%	16	average grade
3,84%	4,51%	5,29%	17	average grade
5,29%	6,20%	7,28%	18	average grade
7,28%	8,54%	10,03%	19	average grade
10,03%	11,77%	13,81%	20	below average grade
13,81%	16,20%	19,01%	21	below average grade
19,01%	22,31%	26,19%	22	below average grade
26,19%	30,73%	36,06%	23	below average grade
36,06%	42,32%	49,66%	24	below average grade
49,66%	58,28%	100,00%	25	below average grade
100,00%	100,00%	100,00%	26	impaired

In the present Financial Statements the Bank does not use the detailed breakdown of the first and third PD ranges defined by lower and upper limits of the above table when presenting its financial assets (6.5.1 – 6.5.5) for size reasons, but the last, comprehensive set of PD ranges.

The Bank's management believes that distribution of credit risk of certain financial asset groups, portfolio components can be seen even in these larger, more comprehensive categories and by using comparative data changes of these risks can be tracked. A more detailed breakdown would not provide additional information for the readers of the present Financial Statement.

Corporate and SME credit risk monitoring and governance

SBHU regularly monitors its receivables in line with the approved processes. Based on the predefined early warning signs the process identifies clients with low creditworthiness, and with the help of appropriate evaluation it detects the critical characteristics that may lead to changes in the commitment and the client's risk profile. Depending on the risk level, receivables with performance problems are forwarded to the designated areas as restructuring and workout cases for further management. During the process the Bank monitors the quality of the credit exposure within a specific period, and performs measurements if differences are observed.

Lending process

The Bank applies uniform lending processes by client segment based on a standard methodology and approach, and performs an independent risk rating while clearly segregating risk and business objectives, using uniform standards and principles, and applies standardised credit application and risk management tools that support risk analysis and decision-making in line with the predefined conditions.

The partner risk category, the level of exposure and the underlying transaction are the main processing parameters in the course of evaluating transactions and taking decisions.

The methodology used during the lending process is standardised in the system. Given the high degree of complexity of the credit decision process and as a result of the incomplete system support at present, in particular with respect to the active business activities with a low risk profile, the back-testing points were incorporated into the process to support efficiency.

The purpose of the method is to reduce manual work and further operational risks.

Reducing risk concentration

Credit risks are managed by numerous control points and processes. The overall risk assumption process is developed and fine-tuned on a regular basis, reflecting the evolution of credit risks identified within the Bank. Control points have been incorporated into internal policies and they also function in practice. The Risk Committee and the management of the Bank are regularly informed about developments related to credit risks, and they are able to manage and control processes based on relevant reports.

Back-testing is carried out based on reports that have been developed to measure and quantify specific risks. Portfolio level limits were set up to reduce risk concentration.

A high level of concentration risk is taken into account for the portfolio due to the significant aggregate exposure of the client groups. The Bank is striving to diversify the portfolio in the SME segment in the course of product-based lending. The implemented Credit Policy also pays attention to the problems caused by portfolio concentration and attempts to reduce them by regulating regular monitoring and limits.

Although the overall credit risk is considered high compared to the Bank's other risk components based on both quantitative and qualitative assessments, due chiefly to the main distribution of credit risks affecting the entire portfolio, the overall portfolio quality has continuously improved thanks to prudent controls. The economic environment is positive and the centrally managed lending programmes facilitate the development of the credit market. Thanks to the workout activity of past years the credit portfolio has continued to stabilise following a thorough consolidation of the portfolio.

Direct consequences of economic fall back caused by COVID epidemic on the portfolio were eliminated by moratorium in 2020 (or postponed to latter years). The new subsidized credit programs and additional moratorium on vulnerable customers may mitigate the consequences of the COVID related economic fall back in the future too.

Country and transfer risks

Business is clearly focused on areas where either SBHU or the parent bank is present on the market with their own activities. The country limit methodology framework has been implemented, which is based on the strategy of cross-border risk appetite. Every operation is performed via sub limits allocated from the total limit at bank level. Monitoring, allocation and review processes take place centrally under SBHU's responsibility.

Retail credit risk management and monitoring

Lending process

In 2020 lending processed were adapted to address the increased risks caused by COVID pandemic. Instead of standardised decision making, focus was put on individual risk analysis that can also handle uncertainties arisen in emergency situation.

Risk Monitoring

We comprehensively analyse retail and micro-business product groups on a monthly basis and share the results at the GRC meeting held in Hungary and with the headquarters in Vienna by sending them the regular PQR/Vintage report.

Portfolio overview - credit risks

Risk controlling uses the fair value of the assets for calculating the relevant exposure. From an accounting perspective, exposures are recorded based on the carrying amount.

In the course of 2020 total exposures related to the Bank's credit risks did not change significantly, but there was significant restructuring from off-balance sheet assets to on-balance sheet assets, and also among the various segments.

Forbearance

To comply with Sberbank principles, internal credit policies contain special requirements and standards related to restructuring.

We have reviewed and updated the current internal policies related to restructuring so that they fully comply with the requirements of the EBA and of Article 99 (4) of Regulation (EU) No. 575/2013 pertaining to reports on restructuring and non-performing exposures.

A **forborne exposure**¹ is a receivable originating from a transaction² for which the Bank gave a discount/concession in view of the debtor's financial difficulties. This can happen if the following two criteria are met:

- The debtor experiences or might experience difficulties in meeting their financial obligations (they have “financial difficulties”), and
- The Bank and the debtor mutually agree on some discount/concession, which may be one of the following options:
 - The previous contractual terms are modified
 - The Bank or SBEU Group partly or completely refinances the outstanding transaction: the original contract is replaced (either in full or in part) by a contract structured in such a way that it can handle the risk more securely within the SBEU Group as the debtor was unable to fulfil the original conditions.
 - Activation of conditions previously laid down in the contract (“integrated forbearance clauses”) based on the Bank's approval, which modify the contractual terms.

Based on the above, the purpose of granting discounts/concessions for clients is to enable them to return to a sustainable servicing of debt.

We classify restructured transactions into the following categories:

- performing restructured (including transactions during their probationary period and those cured from their non-performing status)
- non-performing restructured.

The following transactions are classified as performing:

- the exposure was performing prior to the restructuring, and
- the granted concession does not reclassify the transaction as non-performing.

An exposure previously classified as restructured has to meet the following conditions to be removed from the restructured status:

- **It should be classified as “performing”:** the exposure must be considered as “performing” (including reclassification from “non-performing”)
- **Minimum two-year probationary period must have elapsed:** at least 2 years have passed since the exposure last (in the case of multiple ratings) received the “performing forborne” or “forborne upgraded to performing” rating.
- **Debtor regularly paid repayment instalment during last year:** since the start of the second half of the probationary period (at the latest) the debtor has regularly paid a substantial part of the interest and principal debt.
- **Debtor has no arrears beyond 30 days:** none of the debtor's exposures is past due by more than 30 days at the end of the probationary period.

All of the conditions described above must be fulfilled simultaneously to terminate the restructured status of any exposure. Even if just one of the conditions is not met, the probationary period must be extended until the end of the next quarter. The restructured status of a non-performing exposure cannot be terminated.

¹ Restructured receivable according to Decree 39/2016 (X.11) of MNB

² According to Decree 39/2016 (X.11) of MNB the receivable: loans containing concession, provided to the obligor at the request of the debtor or obligor (hereinafter collectively: obligor) or the Institution, purchased receivables and receivables stemming from other transactions considered cash loans or from other financial services, as well as commitments related to lending that may become a receivable based on the customer's decision (hereinafter collectively: receivable)

The following table presents SBHU's exposures classified as restructured as at 31 December 2020:

31.12.2020	Performing forbore exposures	Non-performing forbore exposures	Total forbore exposures
Loans and other commitments (excluding hft)	7 817	1 067	8 884
Loan promissory notes	4	0	4
Total	7 821	1 067	8 888

The following table presents SBHU's exposures classified as restructured as at 31 December 2019:

31.12.2019	Performing forbore exposures	Non-performing forbore exposures	Total forbore exposures
Loans and other commitments (excluding hft)	8 187	970	9 157
Loan promissory notes	1	0	1
Total	8 188	970	9 158

Non-performing loan portfolio (NPL)

The quality of the loan portfolio is protected by regular reviews and the continuous monitoring of credit exposure.

The purpose of the monitoring process is to:

- identify symptoms and threats
- carry out preventive activities to preserve the quality of the loan portfolio
- maximise recovery of the Bank's assets

The early recognition of risks is a key part of risk management and is aimed at avoiding or mitigating the Bank's expected credit loss. The sooner negative developments are identified and the more consistent the implemented solutions are, the more adequate the restructuring options will be and the more likely they will be successful.

If the monitoring process reveals signs about the borrower suggesting that the borrower may not be able to meet their contractual obligations and repay their loan, the transaction is forwarded to the Restructuring and Workout (RWO) Department.

According to SBHU's internal policies, default occurs when the Bank observes one of the following events at the client:

Default events (non-retail clients)	
1	Days past due – A significant obligation of the borrower is past due for more than 90 days.
2	Bankruptcy – The Debtor, the Court or a third-party files for/Initiates bankruptcy or a debt settlement procedure against the Debtor.
3	Enforcement – Enforcement proceedings are in progress against the Debtor.
4	Liquidation – The debtor is the subject of liquidation proceedings. The client is given a rating of 26.
5	Non-performing restructuring – If restructuring is due to the fact that the debtor is unable to meet their contractual financial obligations.
6	Write-off – The client's debts have been written off in part or in full.
7	Sale – The receivable had to be sold at a loss (with a significant credit-related economic loss).
8	Impairment – Impairment or general risk provision had to be recognised due to a deterioration in the loan quality.
9	Default of money market transactions – Decision to close an open position prematurely.
10	Cross-default (bank group) – The client's default vis-à-vis another member of the SBEU Group (SBAG and subsidiaries).
11	Payment difficulties, expected cash flow problems – The obligors will probably not be able to meet their payment obligations in view of their cash flow problems, resulting in a client default.
12	Cross-default (client group) – Default of a debtor group member.
13	The debtor will probably not be able to meet their financial obligations in the future (Unlikelihood to pay – UTP) – This category indicates some financial difficulties of the debtor and some "other" deterioration of the loan quality not covered by the other default categories.

Default events (retail clients)	
1	Days past due – A significant obligation of the borrower is past due for more than 90 days (according to Section 11.2.1.1. of the policy).
2	Write-off – The client's debts have been written off (with a significant, credit-related economic loss) according to Section 11.2.1.2.
3	Sale – The receivable had to be sold at a loss according to Section 11.2.1.3.
4	Fraud – Fraud committed by the client – confirmed by Compliance or the Fraud Committee as a fraud – resulting in a client default.
5	Impairment – Individual or collective impairment or risk provision had to be recognised (for first time or repeatedly) due to a deterioration in the loan quality according to Section 11.2.1.8.
6	Non-performing restructuring – If restructuring is due to the fact that the debtor is unable to meet their contractual financial obligations.
7	Probable cash flow problems – The obligors will probably not be able to meet their payment obligations in view of cash flow problems, resulting in a client default.
8	The debtor will probably not be able to meet their financial obligations in the future (Unlikelihood to pay – UTP) – This category indicates some financial difficulties of the debtor and some "other" deterioration of the loan quality not covered by the other default categories.
9	Cross default due to joint and several obligation – The reason for the default is the default of the joint and several obligation. (Joint and several obligation: an exposure where two or more obligors have the joint and several liability to repay the loan (joint and several debtor) not including guarantees and guarantors.)

In case of the above mentioned events, the receivable is presented in stage 3.

The recovery from default starts, when there are no more default causer factors, meaning the customer does not breach any non-performing status trigger, 3 consecutive months before the start of the recovery. At the end of the recovery period, the receivable can be transferred from stage 3 to stage 2.

During the recovery period, it must be measured whether the customer can perform its liabilities or not.

The length of the recovery period for any of the default events depends on the frequency of the exposure's repayment:

Frequency of repayment	Recovery period
Monthly	6 months
Quarterly	9 months
Half year	12 months
Yearly	24 months

If a customer has more deals with different payment schedules, the longest recovery period will be the standard.

In case of non-performing restructuring the followings must be fulfilled to reach recovery:

- the recovery starts when the restructuring takes action (refinancing concluded)
- the recovery period cannot be shorter than 12 month, counting from the last existing factor:
 - o from the moment of the restructuring,
 - o from the moment that the exposure was graded or become non-performing
 - o if the restructuring contains grace period, the expiry of it.
 - o in addition, the recovery period cannot be shorter, than that period during the debtor performs payment in a significant amount. A significant payment is the amount of a defaulted debt or a written off amount, if the debt was not default. Or the period, when the debtor performed the repayment of the restructuring obligation.

The table below shows the evolution of the non-performing loan portfolio for the financial years 2019 and 2020:

Client exposures	31.12.2020	31.12.2019
NPL volume	12 424	14 915
NPL ratio	4,00%	5,36%

Impairment

The Bank's credit risk is the risk that the debtor of the loan causes a financial loss for the Bank by not meeting some of their credit-related obligations. To cover these losses, the Bank recognises impairment in line with the provisions of IFRS 9.

Also in line with the provisions of the standard, the Bank applies the expected loss model to determine the required amount of impairment and provisions, i.e. it takes into account the loss events that occurred after the initial recognition or that are expected to occur during the life of the exposure.

At the end of each month the Bank examines whether there is any objective evidence that a financial asset or group of financial assets may be impaired.

The following events may serve as objective evidence:

- Significant financial difficulty of the debtor
- The recovery of the loan is only probable by claiming the collateral securing the loan
- The debtor's obligations are past due for more than 90 days
- The loan had to be restructured, for example due to substantial changes in conditions, interest rate decreases, etc. (with the exception of changes driven by the market or due to technical reasons)
- The collateral value has substantially decreased and no other cash flows are available for the loan repayment
- The client is unwilling to cooperate, despite prevailing payment difficulties
- It is likely that bankruptcy proceedings or some other financial reorganisation will be initiated against the borrower
- The client has no regular monthly income
- The client's rating has deteriorated to default or pre-default rating categories, etc.

Every credit exposure, on-balance sheet and off-balance sheet items must be taken into account when recognising impairment and provisions, irrespective of their credit ratings. This means the Bank not only rates the transactions where a significant deterioration in credit quality can be observed, or where the credit risk itself is high. The valuation covers every financial asset with the exception of assets measured at fair value through profit or loss.

Off-balance sheet exposures should be taken into account for calculating impairment and provisions depending on the likelihood of their drawdown. The Bank applies the CCF values permitted by the regulator based on the CRR to quantify this amount.

The Bank classifies its exposures into one of the stages defined by IFRS 9 (Stage 1, Stage 2, Stage 3 and POCI), taking account of their deterioration compared with the credit quality upon initial recognition, which also defines the method for recording impairment and provisions.

Significant increase in credit risk (SICR)

If a significant increase in credit risk is observed compared with the initial recognition of the financial asset, then the financial asset will be categorised into the Stage 2 category in line with the provisions of IFRS 9.

The Bank determines a significant increase in credit risk after considering several parameters together, during which it takes into account, among other things, the classification of the given transaction during regular monitoring, its current default and any restructuring, if applicable.

Signs observed when classifying exposures into Stage 2:

Classification criteria	Retail segment	Non-Retail segment
Monitoring status: red or black, or clients on watch list	Stage 2 (if data is available)	Stage 2
Rating 25	Stage 2	Stage 2
Forbearance flag	Stage 2	Stage 2
DPD > 30 days	Stage 2	Stage 2
SICR indicator: Significant Increase In credit risk	Stage 2 (if reliable rating data is available)	Stage 2
Collective assessment (based on extraordinary decision supported by the Risk Committee and approved by the Board of Directors)	Stage 2 (at portfolio level, based on expert evaluation)	Stage 2 (at portfolio level, based on expert evaluation)

If both initial and current client rating information is available when evaluating a significant increase in credit risk, the deterioration of the rating by at least 7 notches in absolute terms is also taken into account as a factor indicating the significant increase in credit risk (SICR indicator).

For transactions without a rating an average rating was determined based on the data of the performing portfolio with a rating, and this value is reviewed at least on an annual basis.

We indicate low risk portfolios with internal rating grades 1 to 8. In their case, the SICR Indicator is not taken into account when classifying them into stages. However, the Bank always examines the other criteria of Stage 2 classification for these transactions as well.

Transactions for which the Bank has already determined a significant increase in credit risk once can only be reclassified back from Stage 2 to Stage 1 if not a single factor indicating the significant increase in credit risk or indicating default exists with respect to the current cycle or the previous reporting cycle.

The Bank determines the need to recognise impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not significant individually. A threshold has been determined to differentiate exposures that are individually significant and not significant, which is based on the client's total exposure to the Bank. For recording impairment and provisions the Bank considers receivables to be individually significant where the total value of the client's on-balance sheet and off-balance-sheet exposures exceeds HUF 100 million. In addition, individual assessment is also performed for contingent liabilities due to litigated receivables and equity investments, as these are also managed individually. Moreover, irrespective of the above significance threshold, the Bank may classify any client/client group into the category to be assessed individually.

For individually significant exposures, the Bank uses the discounted cash flow (DCF) method to determine the required level of impairment and provisions. Accordingly, if objective evidence exists, the impairment loss is equivalent to the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. When calculating the present value of estimated future cash flows, the cash flows originating from any regular future income and cash flows that can be expected from enforcing collateral must always be included (reduced by the cost of acquiring and selling the collateral) depending on whether the Bank assumes a going concern or liquidation of the debtor.

In the going concern approach we assume that the client will repay the principal and the interest, so the debtor's economic difficulties are only temporary and they will be able to repay the exposure from the future cash flows of their core activities. By contrast, in the gone concern approach we assume that we can only collect the debt by enforcing the collateral.

When calculating collective impairment – contrary to the method described for recognising individual impairment – we estimate cash flows at portfolio level. In such cases, assets with similar credit risk characteristics are grouped into a given portfolio. Accordingly, cash flows can mostly be assessed in the given portfolio based on past experiences, taking account of their future evolution based on the lifetime component of the applied impairment models. Determining the appropriate risk parameters used for the calculation is crucially important when calculating collective impairment.

When determining future expected cash flows, some macroeconomic factors are also considered (for example: unemployment rate, net average wages, industrial output, GDP, etc.).

We estimate the difference between the carrying amount and future cash flows not only for the next 12 months but also with the LECL approach, meaning we quantify the expected loss resulting from a default event occurring during the lifetime of the financial instrument in the cases where the standard requires us to do so.

For exposures classified in Stage 1 the Bank uses the 12-month expected loss approach, while for exposures classified in Stage 2 and Stage 3 it uses the lifetime expected loss approach.

We calculate the amount of impairment and provisions to be assessed collectively at the end of each month, and we recalculate it if any of the applied parameters changes significantly.

Sberbank Group has a uniform process for developing, verifying, approving and back-testing risk models in accordance with IFRS 9. The applied methodology and the assumptions are reviewed on an annual basis to reduce any possible difference between the losses recognised based on the assessment and the losses actually incurred.

In the year 2020 the effect of the crises was incorporated in the budget of SBHU. Where the risk parameters were estimated using the relationship of the parameter and the macro variables, which was done by SBEU modelling. As a result most of the crisis related LLP allocation happened in the year 2020 in stage 2, which will be used during the following years.

Residual risk (Collateral management, collateral valuation)

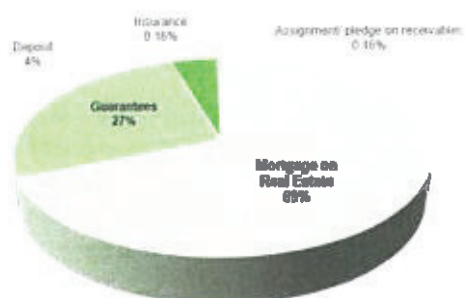
The Bank considers the following types of collateral in the calculation of impairment:

- real estate collateral,
- guarantees (institutional or state),
- cash collateral,
- securities.

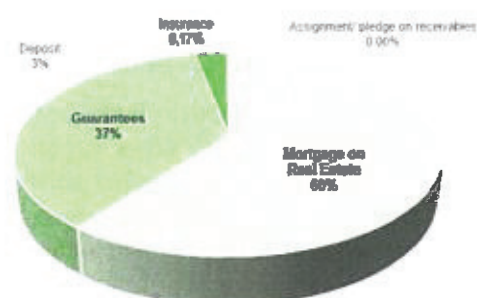
During the impairment calculation, in addition to the Basel eligible collateral, other similar types of collateral are also acceptable, for which they have an accepted collateral value according to our Bank's collateral valuation policy.

The value of collaterals and the amount of collaterals allocated to exposures are displayed in the end result analytics. Collaterals are allocated by DWH.

Total collateral at allocated market value



Basel eligible collateral at allocated market value



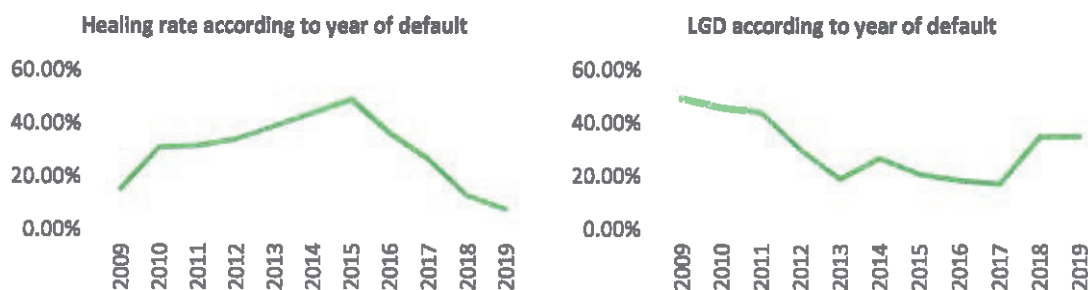
	Basel Y	Basel N	Total
Mortgage	189 587	137 599	327 186
Guarantee	114 750	11 356	126 106
Deposit	8 690	11 817	20 507
Insurance	547	237	784
Assignment / pledge on receivables	0	744	744
Total	313 574	161 753	475 327

The Bank measures its returns on closed non-performing transactions annually, the amount of which is quantified for the entire portfolio using models.

The table below shows the latest reversal of the Bank's returns by segments. The two charts illustrate the evolution of returns and recovery over time.

	Piece	EAD (HUF million)	Healing rate	LGD (Recovery)
Corporate	3	2 799	66,67%	19,57%
Micro	2 142	22 699	14,80%	28,97%
Mortgage FX	3 951	56 912	44,75%	29,27%
Mortgage HUF	481	2 686	45,11%	20,03%
Personal loan	1 757	2 729	13,60%	47,94%
Other private	672	555	13,10%	61,44%
Project	80	42 746	23,75%	51,83%
SME	135	16 040	19,26%	36,49%
Total	3	2 799	66,67%	19,57%

Based on the table below, it can be stated that the hedging ratios of residential real estate include a sufficiently conservative discount.



Concentration risk

Concentration risks of receivables from customers in the balance sheet and memorandum accounts shown in the following tables are grouped by the risk factors listed as follows:

- customers' geographical region
- composition according to main currencies
- customers' industrial classification

The following tables show the on-balance and off-balance gross exposures broken-down by categories above.

Geographical concentration

Concentration of on-balance exposures from customers broken down by geographical region	31.12.2020				
	Domestic	Russia	EU	outside EU	Total
High grade	19 391	9	38	4	19 442
Standard grade	150 888	147	7 857	273	159 165
Average grade	97 292	41	316	136	97 785
Below average grade	21 781	0	43	28	21 852
Impaired	11 723	1	690	11	12 425
Total	301 075	198	8 944	452	310 669

Concentration of on-balance exposures from customers broken down by geographical region	31.12.2019				
	Domestic	Russia	EU	outside EU	Total
High grade	9 171	0	641	0	9 812
Standard grade	140 848	175	12 183	4 189	157 395
Average grade	80 818	16	196	816	81 846
Below average grade	14 079	0	31	33	14 143
Impaired	14 301	1	652	13	14 967
Total	259 217	192	13 703	5 051	278 163

Concentration of off-balance exposures from customers broken down by geographical region	31.12.2020				
	Domestic	Russia	EU	outside EU	Total
High grade	25 581	1 139	1 001	6	27 727
Standard grade	68 251	3	5 478	0	73 732
Average grade	30 301	1	2	1	30 305
Below average grade	2 972	0	0	0	2 972
Impaired	68	0	0	0	68
Total	127 173	1 143	6 481	7	134 804

Concentration of off-balance exposures from customers broken down by geographical region	31.12.2019				
	Domestic	Russia	EU	outside EU	Total
High grade	21 000	2 259	4 715	6	27 980
Standard grade	51 351	2	1	18	51 372
Average grade	19 712	2	2	2	19 718
Below average grade	1 298	0	0	0	1 298
Impaired	316	0	0	0	316
Total	93 677	2 263	4 718	26	100 684

Off-balance sheet exposures by geographical region	31.12.2020				
	Domestic	Russia	EU	Other	Total
Credit lines	69 116	4	5 481	1	74 602
Financial guarantees	36 149	1 139	1 000	6	38 294
Letter of credits	21 908	0	0	0	21 908
Total	127 173	1 143	6 481	7	134 804

Off-balance sheet exposures by geographical region	31.12.2019				
	Domestic	Russia	EU	Other	Total
Credit lines	53 584	4	3 308	20	56 916
Financial guarantees	26 046	2 259	1 410	6	29 721
Letter of credits	14 047	0	0	0	14 047
Total	93 677	2 263	4 718	26	100 684

The Bank's activity focuses mainly on domestic customers, which has not changed in recent years. The vast majority of EU transactions consist of deals realized together with other members of the Group in the EU. Based on the fundamentals of the ownership of the Group, the risks to Russia also appear as part of the banking strategy, typically in the form of trade finance transactions.

Currency concentration

Concentration of on-balance exposures from customers broken down by currencies	31.12.2020					
	HUF	EUR	CHF	USD	Other	Total
High grade	17 363	2 064	15	0	0	19 442
Standard grade	115 619	43 131	116	299	0	159 165
Average grade	91 078	6 499	42	166	0	97 785
Below average grade	14 676	7 131	44	1	0	21 852
Impaired	8 633	1 473	2 299	20	0	12 425
Total	247 369	60 298	2 516	486	0	310 669

Concentration of on-balance exposures from customers broken down by currencies	31.12.2019					
	HUF	EUR	CHF	USD	Other	Total
High grade	7 331	2 481	0	0	0	9 812
Standard grade	103 059	52 459	1 027	851	0	157 396
Average grade	69 576	12 107	146	16	0	81 845
Below average grade	13 815	179	128	22	0	14 144
Impaired	9 877	1 821	3 261	6	1	14 966
Total	203 658	69 047	4 562	895	1	278 163

Concentration of off-balance exposures from customers broken down by currencies	31.12.2020					
	HUF	EUR	CHF	USD	Other	Total
High grade	22 916	4 805	0	6	0	27 727
Standard grade	38 935	34 762	0	0	35	73 732
Average grade	28 047	2 258	0	0	0	30 305
Below average grade	2 884	88	0	0	0	2 972
Impaired	68	0	0	0	0	68
Total	92 850	41 913	0	6	35	134 804

Concentration of off-balance exposures from customers broken down by currencies	31.12.2019					
	HUF	EUR	CHF	USD	Other	Total
High grade	19 962	8 012	0	6	0	27 980
Standard grade	23 996	27 376	0	0	0	51 372
Average grade	15 942	3 738	0	38	0	19 718
Below average grade	1 298	0	0	0	0	1 298
Impaired	75	241	0	0	0	316
Total	61 273	39 367	0	44	0	100 684

The majority of the Bank's exposure to customers is denominated in HUF or EUR; there is a lesser degree of USD-based risk-taking; CHF exposures are remnants of old, gradually decreasing risk takings. The Bank strives to ensure the presence of the appropriate natural hedge in its foreign currency transactions and does not provide speculative foreign currency loans.

Industry concentration

Concentration of on-balance exposures from customers broken down industry	31.12.2020					
	high grade	standard grade	average grade	below average grade	impaired	Total
Agriculture, forestry and fishing	134	2 451	3 133	828	70	6 616
Mining and quarrying	0	35	0	0	0	35
Manufacturing	1 620	13 500	5 723	8 862	1 758	31 463
Electricity, gas, steam and air condition supply	0	8 458	691	139	8	9 296
Water supply	0	6	203	256	4	469
Construction	1 557	5 718	1 565	1 512	959	11 311
Wholesale and retail trade	4 634	18 802	11 582	1 258	1 570	37 846
Transport and storage	262	1 804	4 293	1 052	174	7 585
Accommodation and food service activities	367	571	4 895	210	131	6 174
Information and communication	206	698	4 456	64	24	5 448
Financial and insurance activities	82	3 778	90	185	19	4 154
Real estate activities	225	40 904	5 959	1 701	2 111	50 900
Professional, scientific and tech. activities	64	1 463	1 829	674	125	4 155
Administrative and support service activities	154	1 587	699	98	168	2 706
Public administration and defence, compulsory	715	0	28	0	0	743
Education	26	764	213	211	14	1 228
Human health services and social work act.	1 007	687	301	25	36	2 056
Arts, entertainment and recreation	329	8	252	25	70	684
Other services	2	261	688	502	61	1 514
Individuals	8 059	57 670	51 185	4 250	5 122	126 286
Total	19 443	159 165	97 785	21 852	12 424	310 669

Concentration of on-balance exposures from customers broken down industry	31.12.2019					
	high grade	standard grade	average grade	below average grade	Impaired	Total
Agriculture, forestry and fishing	157	1 822	3 034	672	124	5 809
Mining and quarrying	35	0	0	0	0	35
Manufacturing	541	16 589	7 731	466	1 851	27 178
Electricity, gas, steam and air condition supply	0	6 611	498	146	63	7 318
Water supply	0	29	388	22	17	456
Construction	739	1 796	3 284	254	1 290	7 363
Wholesale and retail trade	3 632	12 777	12 369	1 100	1 300	31 178
Transport and storage	153	1 180	3 507	1 245	161	6 246
Accommodation and food service activities	135	1 208	2 889	274	115	4 621
Information and communication	146	13 203	2 259	104	38	15 750
Financial and insurance activities	472	1 578	1 607	129	19	3 805
Real estate activities	80	24 353	12 431	789	3 039	40 692
Professional, scientific and tech. activities	189	473	2 289	541	151	3 643
Administrative and support service activities	110	1 215	868	104	198	2 495
Public administration and defence, compulsory	1 314	1 139	0	0	0	2 453
Education	755	411	398	14	15	1 593
Human health services and social work act.	665	216	547	84	41	1 553
Arts, entertainment and recreation	334	9	151	140	63	697
Other services	353	53	370	168	31	975
Individuals	0	71 735	28 226	7 890	6 452	114 303
Total	9 810	156 397	82 846	14 142	14 968	278 163

31.12.2020						
Concentration of off-balance exposures from customers broken down industry	high grade	standard grade	average grade	below average grade	impaired	Total
Agriculture, forestry and fishing	75	781	647	167	1	1 671
Mining and quarrying	0	5	0	0	0	5
Manufacturing	3 678	4 632	1 017	846	66	10 239
Electricity, gas, steam and air condition supply	0	2 063	986	252	0	3 301
Water supply	0	13	30	21	0	64
Construction	13 600	16 721	6 062	64	0	36 447
Wholesale and retail trade	4 263	29 416	7 594	233	0	41 506
Transport and storage	345	6 742	2 061	120	0	9 268
Accommodation and food service activities	214	234	545	6	0	999
Information and communication	402	542	659	28	0	1 631
Financial and insurance activities	2 232	594	7 275	0	0	10 101
Real estate activities	355	7 520	1 099	1 098	0	10 072
Professional, scientific and tech. activities	1 399	2 534	1 343	39	0	5 315
Administrative and support service activities	666	303	419	3	0	1 391
Public administration and defence, compulsory	100	0	27	0	0	127
Education	0	34	26	0	0	60
Human health services and social work act.	64	319	47	0	0	430
Arts, entertainment and recreation	0	0	47	5	0	52
Other services	0	63	47	0	0	110
Foreign organizations, bodies	6	0	0	0	0	6
Individuals	328	1 216	374	90	1	2 009
Total	27 727	73 732	30 305	2 972	68	134 804

Concentration of off-balance exposures from customers broken down industry	31.12.2019					
	high grade	standard grade	average grade	below average grade	impaired	Total
Agriculture, forestry and fishing	100	280	1 117	215	1	1 713
Mining and quarrying	1	0	0	0	0	1
Manufacturing	809	6 825	1 432	74	74	9 214
Electricity, gas, steam and air condition supply	0	0	2 726	5	0	2 731
Water supply	0	31	36	0	0	67
Construction	11 069	12 393	4 928	111	241	28 742
Wholesale and retail trade	7 089	17 384	3 731	196	0	28 400
Transport and storage	3 489	411	1 457	42	0	5 399
Accommodation and food service activities	57	700	187	57	0	1 001
Information and communication	207	515	352	155	0	1 229
Financial and insurance activities	4 068	830	7	0	0	4 905
Real estate activities	80	8 748	310	286	0	9 424
Professional, scientific and tech. activities	644	1 242	2 064	78	0	4 028
Administrative and support service activities	121	680	455	15	0	1 271
Public administration and defence, compulsory	100	0	0	0	0	100
Education	0	2	46	0	0	48
Human health services and social work act.	72	40	127	4	0	243
Arts, entertainment and recreation	5	0	46	8	0	59
Other services	4	36	55	1	0	96
Foreign organizations, bodies	6	0	0	0	0	6
Individuals	60	1 252	645	50	0	2 007
Total	27 981	51 369	19 721	1 297	316	100 684

The sectoral distribution of the Bank's risk exposures corresponds to the market average; mainly finances sectors with typically high need for financing (real estate, trade, manufacturing) with loans; off-balance sheet transactions are dominating in trade sectors (trade finance) and in the real estate market (guarantee schemes).

6.10.4. Operational risk

The risk of incurring losses due to errors or non-compliance of internal procedures (processes), staff or systems and the risk of incurring losses due to external events are considered operational risks. The Sberbank Europe Group and so Sberbank Hungary as well use the standardised measurement method based on gross business line revenues to determine the capital requirement for operational risk.

Within the Sberbank Europe Group, risk management comprises the following processes In general: risk identification; measurement and evaluation of risk exposures; ensuring appropriate capital monitoring and planning; taking appropriate measures to control and mitigate risks. Operational risks are measured both quantitatively and qualitatively (for example: collection of loss data, monitoring external loss events, risk self-assessments, monitoring risk-mitigating measures).

The most important component of the 3-layer defence line is the operational risk manager (Business Line Operational Risk Managers (BLORMs)). The main methodology components are (also) determined centrally with the involvement of the parent bank, but the identification of risks and problems within the various areas is decentralised through the BLORMs and they are also responsible for checking the implementation of risk-mitigating measures.

In 2020 the Bank mainly fine-tuned its risk measurement methods (in particular, the methods used for risk evaluation) and improved the quality of internal loss data collection, it regularly monitored the operation of internal controls and developed its capital calculation procedure under Pillar II (ICAAP).

In the future, operational risk management will focus on the following activities:

- continuous development of risk evaluation methodology
- continuous development of internal controls
- development of outsourcing processes
- monitoring of internal capital requirement
- improving the quality of loss data and developing data collection practices

A monthly report is prepared and submitted to the Risk Committee about operational risk losses, risk evaluation results and the implementation of internal controls, as well as about the utilisation of internal limits determined with respect to operational risk appetite.

Operational risk losses can be classified into one of the following main categories:

- Internal fraud: an intentional action where at least one internal party was involved.
- External fraud: losses stemming from the intentional activity of a third party alone, aimed at fraud, misappropriation or the evasion of legal regulations
- Employer practice and occupational safety: losses incurred due to the violation of employer, healthcare or occupational safety requirements; losses stemming from individual litigated claims related to labour law; losses caused by social or cultural discrimination
- Client, business practice, marketing and product policy: losses resulting from unintentional or negligent breach of professional obligations vis-à-vis clients (including confidence or professional requirements) or losses stemming from product features or product design
- Losses affecting tangible assets: depreciation caused by natural disasters or other events
- Business disruption and system failures: losses stemming from business disruption or the shutdown or failure of production systems
- Execution, performance and process management: damage caused by the incorrect processing of transactions or the management of processes related to commercial clients and suppliers

Budapest, 29 April 2021



Richard Szabó
Chairman - CEO



Éva Tudi
CFO