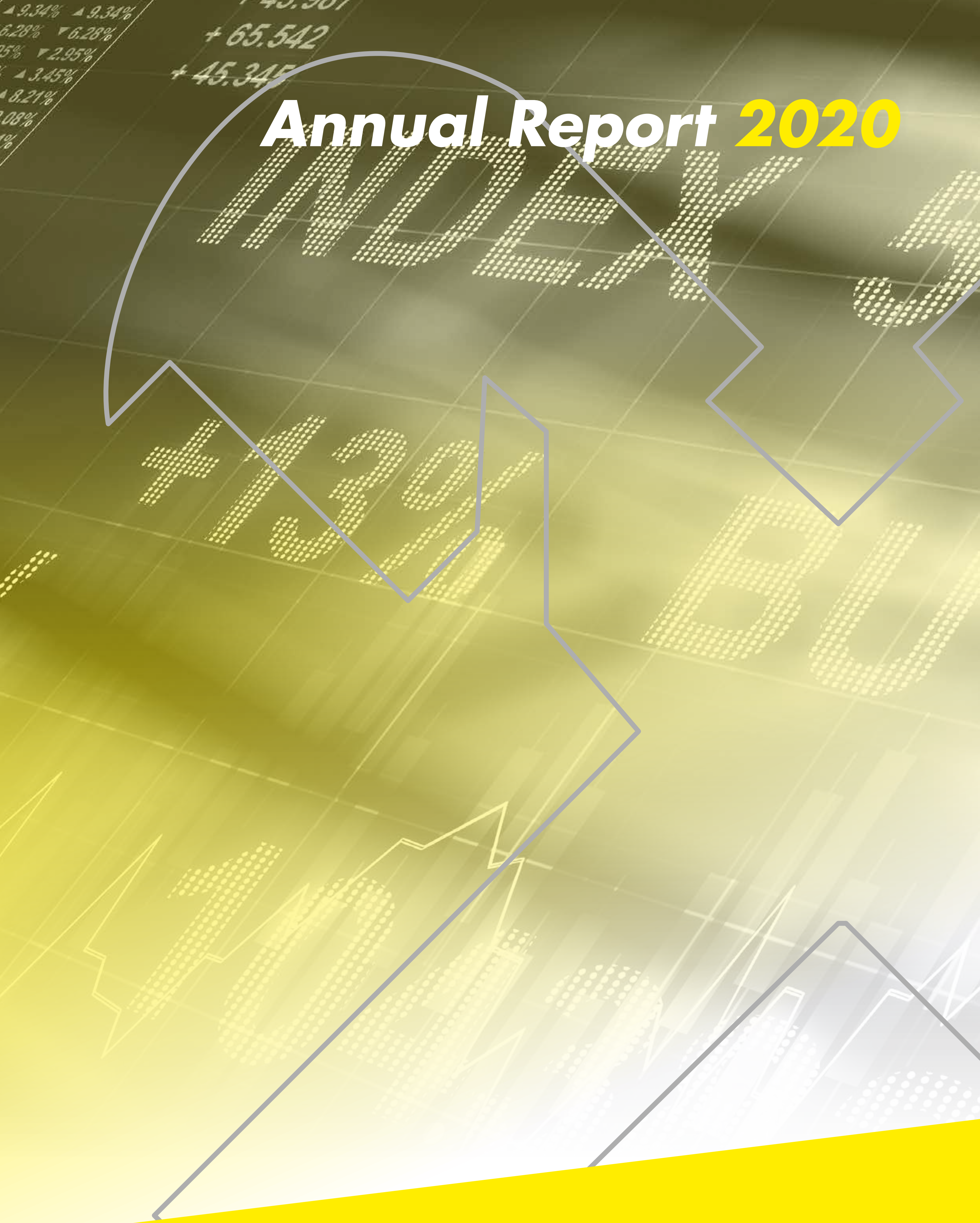
Annual Report 2020



Raiffeisen BANK

Annual Report 2020

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Consolidated key data of Raiffeisen Bank Zrt.

CONSOLIDATED KEY DATA	12.31.2020	Change	12.31.2019
Statement of profit or loss			
Net interest income	150	18%	127
Net fee and commission income	141	-8%	153
Net trading income and fair value result	8	-4510%	0
General administrative expenses	-153	-5%	-161
Profit/loss before tax from continuing operations	49	-36%	77
Profit/loss after tax from continuing operations	37	-43%	64
Statement of Financial Position			
Placements with banks	1,300	77%	733
Loans and advances to clients	2,939	1%	2,904
Deposits from banks	744	-13%	853
Deposits from customers	5,007	5%	4,753
Equity (incl. minorities and profit)	678	-7%	726
Balance sheet total	8,802	12%	7,862
Resources			
Average statistical number of staff	2,552	4%	2,448
Banking outlets on balance-sheet day	70	0%	70

The above figures have not been audited in Euro and are not part of the Financial Statements.
The average exchange rate applied in 2020 was 352,24 HUF/EUR, in 2019 was 325,38 HUF/EUR.
The closing rate applied at 31.12.2020 was 363,89 HUF/EUR, at 31.12.2019 330,53 HUF/EUR.

Contents

Report of the Supervisory Board

Ladies and Gentlemen,

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at Raiffeisen Bank Hungary. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity, as well as on the direction of the bank's business and risk strategies. The Supervisory Board also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies. In course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives from supervisory authorities on topical issues.

Moreover, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Supervisory Board maintained close contact with the Chairman and members of the Management Board. The Management Board was available when required for bilateral or multilateral discussions with members of the Supervisory Board, where applicable with the involvement of experts on matters being addressed.

The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Supervisory Board passed resolutions after fully considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction.

Considering what can honestly be described as an unprecedented year due to the challenges resulting from the COVID-19 pandemic, I would like to take this opportunity to sincerely thank the Management Board and all employees of Raiffeisen Bank Hungary for their unwavering efforts, and also our customers for their continued trust during these exceptional times.

On behalf of the Supervisory Board

Andreas Gschwenter
Chairman of the Supervisory Board

CEO's foreword

I am pleased to report that Raiffeisen Bank Zrt. has closed the 2020 business year with a consolidated profit of nearly HUF 13 billion.

The banking group's balance sheet grew by 23% in 2020, and at the same time, the group's market share has also increased. The growth trend of recent years continued in 2020, leading to a major expansion in both customer assets and customer liabilities. Total net interest income also increased significantly.

Lending activity increased in both the retail and the corporate segments, resulting in a substantial expansion in volumes. The increase in the volume of products combined with loans designed for the state-supported childbirth programme is also reflected in the banking group's new-loan volumes.

The year 2020 presented numerous unprecedented challenges to the world, the banking sector included. Under pressure of very tight deadlines it was necessary to not only ensure operations were maintained in a radically altered environment, but also to comply with numerous new regulatory requirements and, in terms of customer service, to significantly enhance the services and capacities of the online sales channels. All this added up to a task of considerable magnitude for the domestic banking sector.

In 2020, Raiffeisen Bank strengthened its business operations and market position through a number of new innovations and developments. We successfully participated in the launch of the Immediate Payment System, which was launched at the national level in the spring 2020. We rolled out many new digital services for our customers: payment transactions, QR code payment and the payment application service all became available through mobile phones, and the Bank's mobile app was expanded to include several new functions. The video banker service is available to ensure simpler administration, and it is now possible to apply for certain banking products online.

Raiffeisen Bank has been operating at its new headquarters since the summer of 2020. Based on our experience so far, the initial high expectations have been more than borne out; collaboration between staff has become more effective, and the working environment has become more pleasant and inspiring. I remain confident that the new headquarters building, which operates on a sustainable basis, will also be one of the keys to our success in the years to come.

Best regards,

György Zolnai

Overview of the 2020 business year

1. The macroeconomic environment in 2020

Developed and developing economies all suffered from the consequences of the coronavirus pandemic in 2020, and consequently, in most cases, an unprecedented decline was observed in GDP growth rate. The European Union's economic performance was already showing a decline in 2020 Q1 relative to 2019 year-end (-3.3%), but the drop truly gained momentum in Q2 during the closures in spring, when quarterly GDP fell by additional 11.4%, setting a negative record. This was followed by an – also unprecedented – 11.5% rebound in Q3, however, a slight stagnation followed in the final three months of the year (-0.4%) due to autumn restrictions. Based on annual data, the low point was clearly in the second quarter (-13.9%), in April to be exact, compared to which most Member States managed to more or less recover by the second half of the year, although services sectors showed another drop in the final months, on account of additional – albeit more subdued than in spring – restrictions. In 2020 Q4, annual lag in performance of the economy was 4.8% for the whole of the European Union, and 5% for the euro area. In comparison, the quarterly growth rate of US GDP was -9% in Q2 but 1% in Q4. Using the Eurostat methodology, the latter represents an annual GDP of -2.5%.

As far as the whole of the year is concerned, output dropped by 6.4% in the European Union and by 6.8% in the euro area. Among larger Western European economies, Spain produced the greatest quarterly drop in 2020 Q2 with GDP data of -17.9%, however, the halt in most Southern European economies driven by tourism was typically not far behind. With a growth rate of 18.5%, France led the way in the Q3 rebound. Year-on-year, the largest lag relative to 2020 Q4 was again produced by Spain (-9.1%). As a result of the sudden halt in internal demand, the collapse of energy prices and the temporary tax cuts, inflation dropped from 1.6% at 2019 year-end to 0.3% at the end of 2020 in the whole of the European Union, and from 1.3% to -0.3% in the euro area.

Unemployment rate rose from 6.5% to 7.5% in the EU, and from 7.4% to 8.3% in the euro area. On account of disregarding the increased number of passive jobseekers, statistics are underestimating actual unemployment.

Industrial output in the average of the 27 Member States showed an 18.4% annual decline as at the low point in April. This rose back to 1.2% by the end of the year. The lag of the construction industry over the same period in the preceding year was reduced to 3.3% from 14.3% at the start of Q2. Industry, and the majority of manufacturing sectors within industry were considerably more prepared for the autumn closures and restrictions. The same was not true for the services sector, especially tourism, which suffered the greatest losses in 2020. Air traffic within the EU and the number of guest nights dropped by 91.2% and 95.1%, respectively, at the start of Q2 compared to the same period in the preceding year as a result of restriction on travel. Figures improved substantially – albeit temporarily – after the summer opening, but again started deteriorating drastically given the autumn restrictions. In December for instance, air traffic still showed a lag of 66.9% compared to 2019.

Outlooks stabilised overall by the end of 2020, stating that the European Union can make up for the economic decline suffered as a result of the pandemic by the end of 2022 at the earliest. The fiscal (Member State and Supranational) incentives of unprecedented scale and the monetary policy incentive measures announced during the year proved to be an essential contributing factor. Based on long-term outlooks, inflationary risks continue to demand a highly adaptive interest-rate policy in Western Europe and non-euro area EU Member States and, in addition, no change in direction can be expected for bond purchase and credit programmes either until the full recovery of economies.

1.1. The Hungarian economy

The negative impacts of the coronavirus pandemic also surfaced in the Hungarian economy to an extraordinary degree. According to data adjusted for the calendar effect and seasonality, GDP in Q2 dropped by 14.6% relative to the previous quarter and by 13.7% year-on-year. As a result of the opening, in Q3 the quarterly growth rate jumped to 11.4%, followed by a modest 1.1% additional growth in Q4, meaning that in contradiction of market expectations, there was no further decline, however, the annual index still reflected a 4.3% lag relative to the end of 2019. For the whole of the year, GDP volume fell 5.1% short of the preceding year's level. This data proved to be better than market and government expectations.

At the time of the April low-point, the output of industry showed a 36.8% drop year-on-year, disappearing completely by August and exceeding the December 2019 level by 1.1% in December. With a 38.4% slump in April (where the 79.7% drop in vehicle manufacturing was the primary contributing factor along with the global halt of supply chains), the output of manufacturing industry dropped by 6% during the year, although volume in December was up 6.7% year-on-year thanks to the regeneration of external demand. Nevertheless, in respect of the whole of 2020, the performance of industry, the manufacturing industry and vehicle manufacturing shrank by 5.8%, 6% and 11.2%, respectively. The construction industry felt this shock and subsequently recovered at a slightly different pace, after bringing the 21% annual decline in July back up to 0.3% by December, which meant that the double-digit growth rate of previous years was replaced by a 9.1% drop in 2020. The contract portfolio changed in interesting fashion, as the number of new contracts in the year dropped by 1.5%, however, the portfolio's value – as a result of the continued rise in material prices and labour fees in the construction industry – exceeded the level from the preceding year. As far as tourism is concerned, in respect of contribution to GDP growth it does not carry the same weight in Hungary as it does in certain South European countries but regardless, it was still one of the biggest, if not the biggest loser of the pandemic in Hungary. The number of guest nights in February exceeded the previous year's figures by 9%, however, in March and April it already fell short of this level by 65% and 97%, respectively. This lag shrank to only 33.2% by the summer, however, by December this relief lasting a few months evaporated once again (-92.7%). Beyond the above, the recovery of external demand (particularly from North America and South East Asia) for vehicle manufacturing and electronics – which have extremely widescale export capacities – could to some degree also serve as an explanation for the GDP drop 1.3 percentage points lower than the EU average, but we should not forget the government's crisis management measures or the central bank's incentives which – directly or indirectly – also had a significant role in mitigating the negative economic effects of the pandemic.

As regards inflation, the rising trend characteristic of 2018-2019 was reversed in 2020, the rate of price increases decelerated, and inflationary core indicators – that prior to the arrival of the pandemic in Europe made the decision-makers of the National Bank of Hungary (MNB) feel uncomfortable – gradually returned to the 3 + / - 1 percentage point tolerance band over the past year. The consumer price index, which in January of last year stood at 4.7% (a peak unseen since 2012) plummeted back to 2.2% by mid-Q2 (to a 26-month minimum), then jumping to 3.9% by mid-Q3, only to consolidate at 2.7% by November-December. The core inflation indicator adjusted for indirect taxes – a governing indicator for the MNB's monetary policy – started the year at 3.7% to finish at 3.4%, while also surpassing the 4% regulatory pain threshold during the summer. While in the recent past headline inflation was essentially jerked around – as everywhere else – by the hectic fluctuation of world market energy prices, the movement of underlying inflation was less disruptive the long-term rising trend the market is increasingly considering worrisome, and which until now the regulator was overall able to manage in order to uphold the low interest rate environment, but in the future of this could represent an even greater challenge.

The central bank base rate dropping from 0.9% to 0.6% (another historical low point) put even greater pressure on the forint – that was already suffering on account of the increasing pandemic-related risk avoidance – in 2020, as a result of which the EUR/HUF rate jumped to at around 370 during both the spring and autumn restrictions. The HUF 32 rise observed in the course of one year in the exchange rate of the EUR represented a depreciation of more than 9% for the forint. By the end of 2020, market expectations relating to the interest rate environment and the change in the HUF exchange rate stabilised, with some room for reversal expected in respect of interests and the EUR/HUF rate as part of the 2021-2022 economic recovery, although for the latter, not fully to the degree it changed as a result of the economic crisis stemming from the pandemic.

In general, expectations are for the growth rate of the economy to recover swiftly, in an ideal case from as early as the second quarter of 2021, which would mean that the output of Hungarian economy – similarly to most Western European economies – could climb back to pre-crisis levels by the end of 2022. This is accompanied by inflationary outlooks lined with upward risks in the medium term according to most baseline scenarios, which could tie up substantial capacities for central bankers in the micromanagement of the short and long-term interest rates of the interbank market.

1.2. The banking sector

The banking sector posted an HUF 390 billion* after-tax profit in 2020, according to consolidated MNB data, which is 44% lower than the previous year's earnings. Interest income exceeded 2019 year-end levels by 10%, while fee and commission income showed a slighter increase at 1%.

Operating costs were 6% (HUF 93 billion) higher than at last year's end. Net impairment and risk provisioning was close to three times as high as a year before, contributing substantially the drop in the sector's profit.

In 2020, the sector reported a balance sheet total of HUF 60,609 billion, a 23% increase based on preliminary data. Net loan volume increased significantly compared to the previous years, and was 23% higher than last year. Both the volume of loans granted to companies and loans to households were up by 11% in 2020. The portfolio of customer deposits grew by 25% in 2020.

The return on equity (RoE) at the sector level was 6.5% in 2020, which is significantly lower than the previous year's 13.1%. Return on assets (RoA) also decreased, from 1.4% to 0.6%.

The cost-to-income ratio (CIR) was 63% in 2020, slightly more favourable than the previous year's 64.6%. Portfolio quality continued to improve in 2020, with the ratio of non-performing loans dropping from 4.1% to 3.6%. The sector reports a satisfactory liquidity situation and capital adequacy.

(*This data is also available on the https://www.mnb.hu/felugyelet/idosorok/i-penz-es-hitelpiaci-szervezetek/hitelintezetek webpage published by the MNB)

2. Performance of the various business divisions

2.1. Corporate and Investment Banking

The Group's Corporate and Investment Banking Division maintained its dominant position in the commercial banking market in 2020 and increased its loan portfolio by 19%, and with its 9-10% market share, it is one of the key banking participants in the medium-sized and large corporate segment, and is also among the leading banks in the field of export finance and treasury services.

The Group achieved outstanding portfolio growth in the Project Finance and Syndication Division in this business year as well. In 2020, the expansion of the asset portfolio was induced primarily by the non-real estate project and structured finance activity. Additionally, the Group closed, selectively, several commercial property finance transactions that were 'landmark'. The expansion in the loan portfolio was achieved alongside a conservative business policy and approach to risk assumption.

The Group's Trade, Export and Agricultural Financing area achieved significant results in 2020. As Eximbank's largest commercial banking partner, we reinforced our position as market leaders in the field of interest-subsidised loans refinanced by Eximbank, and we concluded contracts for new loans in a value of close to HUF 100 billion in the Agrobusiness sector.

The Group also did outstandingly well in the year in the documentary areas well, the basis for which was the close to 30% growth in guarantee and LC portfolios.

Within the corporate segment, the Group's factoring area accomplished the greatest growth in 2020, increasing its year-on-year revenue by 33% and its annual factoring turnover by 170%.

During their successful operation, all three areas took advantage of the opportunities offered by new economic stimulus programmes introduced as a result of the COVID-19 situation, and were able to adapt well to market demands changing due to the pandemic.

An integral part of the Group's service model is the financing of municipalities, municipally-owned business organisations, non-profit companies, associations, condominiums and other communities, as well as the provision of comprehensive, advanced financial services to the clientele. A significant part of our services is the provision of investment and project loans to municipalities, associations, partnerships, and condominiums. The use of banking services provided to customers is supported by the continuous development of digital channels, the operation of the instant payment system and by setting up QR code payment options. Our digital developments ensure efficient service provision to municipal customers and promote the municipal use of ASP services.

In 2020, the Financial Institutions department continued to increase the number of its active customers, and its custody volume and asset volume both increased.

The Group's Markets Division – based on statistics released by the National Bank of Hungary – was the one with the highest foreign exchange turnover in Hungary in 2020 as well, and was once again the largest operator in the derivatives section of the Budapest Stock Exchange. Additionally, in 2020 the Group won the Investment Service Provider under the Bond for Growth Scheme prize of the Best of BSE Awards, having been the bank to organise bond issuances in the largest aggregate value in the framework of the Bond for Growth Scheme launched by the MNB.

2.2. Retail customers

In 2020, the Retail and Premium Banking segments focused primarily on new customer acquisition, lending and investment products.

The Group supported lending and acquisition objectives with successful marketing campaigns in the first quarter, which led to outstanding business results. In the second quarter of 2020, the state of danger caused by the coronavirus essentially overwrote previous priorities, meaning that the Group primarily focus on establishing and improving processes that ensure the servicing of customers without the need for in-person presence, as well as the management of processes and tasks relating to the loan moratorium. By the middle of the year, however, focus shifted back to core business activities.

During the year, in addition to core business activities, great emphasis was placed on maintaining the high service standards for existing customers, the results of which are well reflected by favourable customer satisfaction indicators (Net Promoter Score) across all segments.

The Group's market share of retail liabilities was 6.8% at the end of 2020. Resulting from the coronavirus situation, keeping liquidity goals in mind, retail customers held a greater part of their savings than before on their current accounts. Investment appetite among our customers started to return only at the end of April. Government securities continue to be strongly dominant, with the government securities portfolio showing continuous growth during the year in the Premium Banking segment. The second half of the year also saw investment funds gain increasing popularity.

The Group was prepared and ready to join to the Instant Payment System by the original statutory deadline.

At the end of June, the Premium segment introduced a new video channel, the RaiConnect service, through which customers can reach their dedicated Premium adviser via a video channel.

Reacting to the pandemic situation, the Group also launched its Videobank service, where it provides retail and corporate customers an opportunity for remote administration.

The Group carried out a portfolio cleaning in respect of its retail account packages, in the context of which numerous, no longer marketed account packages were phased out, and customers were given the chance to choose from currently available packages.

Large-scale developments supporting the digitalisation of servicing retail customers continued in 2020, as part of which additional functions went live in the myRaiffeisen mobile application, contributing to a rise in the number of customers using the app. As an additional element of digital developments, the Group made mobile payment options available to its customers. In 2020, the Group renewed its entire bank card portfolio, expanding the range of services linked to bank cards available to customers.

The Group supported the accomplishment of new customer acquisition objectives with numerous successful promotions and campaigns, which in turn contributed to the opening of new accounts through multiple channels, promoting active and digital account use.

In the interest of mitigating the unfavourable impact of the coronavirus pandemic on customers, the Group implemented numerous easing measures relating to processes and terms/conditions.

The business line continued its successful business activity in retail lending in 2020 despite the difficulties caused by the coronavirus. Demand for retail mortgage loans and the childbirth incentive loan were stable, while the Group relaunched the sales of personal loans in April after a temporary suspension due to legal amendments in March. Demand for the product declined substantially, in line with the drop in retail consumption.

The maximum servicing of customer needs continues to be a priority objective in mortgage lending, the key aspects being safety and predictability.

Overall, the image of new loan placements is mixed and we expect to be able to return to the pre-pandemic business environment only gradually.

The Group's market share of retail loans slightly, but increased, and thus at the end of 2020 it stood 5.2%.

2.3. Private Banking Customers

The objective of Friedrich Wilhelm Raiffeisen Private Banking is to preserve and increase the family wealth of our clients and ensure that it can be passed down safely from generation to generation. The Group's experienced advisers use their expertise to serve their customers with security, convenience, discretion, and made-to-measure solutions.

Friedrich Wilhelm Raiffeisen Private Banking closed a highly successful year in 2020. Thanks to the valued trust of its customers, the assets entrusted to its care exceeded HUF 685 billion by the end of the year, which represents a 10% increase in one year. This growth further strengthens the Group's market position.

Earning and maintaining the satisfaction of our preferred private customers would be inconceivable without tailored solutions and the highest standard of service. Accordingly, in 2020 the Friedrich Wilhelm Private Banking continued to invest considerable sums in the interest of launching new products and services and developing IT systems and the knowledge base of its banking advisors. The COVID-19 pandemic highlighted the significance of digitalisation, as a result of which customers were able to manage their finances without interruption even during the social distancing period, but staff members were also available to customers in all matters during the closures.

The Friedrich Wilhelm Raiffeisen Private Banking service model rests on four main pillars: offering long-term financial solutions with active investment advice; availability of dedicated, highly qualified advisors to customers; support for the work of the investment advisors with state-of-the-art IT tools; and accomplishing asset allocation based on yield and risk optimisation.

Besides customer feedback, our service quality is recognised by prestigious international organisations, as well. In 2020, a prestigious financial journal, the EMEA Finance magazine once again chose Raiffeisen Bank's private banking service in Hungary as the best.

2.4. Financial Institutions

Financial-institution customers are strategically important to the Group. The asset portfolio continued to expand in 2020. The segment continues to be characterised by an asset portfolio and capital requirement weighted with moderate risk, as well as commission-heavy revenue, a dependable liabilities portfolio and stable, long-term customer relationships. The risk expense and costs of the segment are low.

A key target group of the division consists of domestic insurance companies, investment fund managers, funds, and domestic and international financial institutions and investment service providers, which are helped by new innovative solutions and products in providing high-quality, swift and secure cash management and payment turnover services to customers. Beyond the above, Hungarian and international bank relationships are also in focus, along with international payment providers and the contracted exchange intermediaries of Raiffeisen Bank Zrt., with the consideration of the Group's strategy and the enforcement of strict compliance principles.

In 2020, the areas of securities and investment services, and custody services grew dynamically and closed a successful year. At the Bank Group's headquarters in Vienna, with the support of the strengthened group-level management, it offers a unique custody solution for the custodianship and settlement of customers' investments in Central and Eastern Europe.

In an environment of low interest rates, institutional investor customers continue to show strong demand for individually structured investment instruments, and for the investment products offered by the Markets Division. The Group assumes a leading role in a number of internal projects and other projects affecting the entire Hungarian capital market. The unequivocally positive feedback both from customers and from the profession prove that Raiffeisen Bank is one of the strongest brands in the regional money and equity markets.

3. Corporate Governance Statement

Responsible corporate governance is essential for attaining the Bank Group's prime objectives, and a prerequisite for creating value in the long term. The purpose of corporate governance is to establish a healthy balance, and appropriate operating procedures, between owners, customers, employees, business partners, and the general public. Raiffeisen Group's operation complies fully with the relevant statutory regulations, the provisions and recommendations of the National Bank of Hungary. The Bank Group's structure and the terms of its operation are specified in the Deed of Foundation and Organisational and Operational Regulations approved by the sole Shareholder. The Group continuously reviews and develops its corporate governance practices.

4. Utilisation of financial instruments

In accordance with the requirements of the IFRS and the Accounting Act, starting from 2018 the Bank Group – in line with IFRS 9 – must classify its financial instruments as valued at amortised cost, at fair value against other comprehensive income or fair value against earnings, based on:

- the business model used by the Group for managing financial instruments; and
- the cash flow characteristics of the financial instrument arising from contract.

The financial instrument must be valued at amortised cost if both of the following conditions are met:

- the financial instrument is held on the basis of a business model whose goal is to keep financial instruments for collecting contractual cash flows; and
- the contractual terms of the financial instrument generate certain cash flows at certain times that are exclusively principal and interest payments on outstanding principal.

The financial instrument must be valued at fair value against other comprehensive income if both of the following conditions are met:

- the financial instrument is held on the basis of a business model which achieves its goal by collecting contractual cash flows and selling the financial instruments; and
- the contractual terms of the financial instrument generate certain cash flows at certain times that are exclusively principal and interest payments on outstanding principal.

exclusively principal and interest payments on outstanding principal.

The financial instrument must be valued at fair value against earnings, except if it is valued, based on the above, at amortised cost or fair value against other comprehensive income.

Upon initial disclosure, the Bank Group may irrevocably decide to report among other comprehensive income any subsequent changes of the fair value of investment in certain capital instruments otherwise valued at fair value against earnings.

Upon initial disclosure, the Group may irrevocably indicate a financial instrument as valued at fair value against earnings if it terminates or essentially decreases certain valuation or disclosure inconsistencies (also called accounting mismatch), which would have occurred otherwise because assets or liabilities are valued or any profit or loss generated by them are disclosed on different bases.

The Bank Group must classify all financial liabilities at amortised cost, except for the cases described in detail in the standard where they must be handled as financial liabilities valued at fair value against earnings.

The Group's accounting policy and numerous disclosure obligations require the determination of the fair value of financial assets and liabilities. For valuation and/or disclosure reasons, the fair value is determined using the methods described in the following.

The initial recognition of all financial instruments takes place at the fair value increased by the directly related transaction costs (except in the case of financial instruments valued at fair value against profit or loss, where the transaction costs are accounted for directly in the profit or loss). Fair value is the price the Group would receive if selling the asset, or pay when transferring a liability, to the party assuming the liability as part of a standard transaction with a market player on the day of valuation.

Following initial recognition, the basis for determining the fair value of financial instruments listed in active markets is the purchase price in the case of assets, and the sale price in the case of liabilities. If an observable price is not available, determination of the fair value takes place using a valuation technique that relies on observable market data. The method may be comparison with similar instruments for which observable market price quotes are available, discounted cash flow analysis, option pricing models, and other valuation techniques that are generally applied by participants in the market. The fair value of financial instruments may also be determined with a technique that is fully or partially based on assumptions that are not supported by current market transactions or observable market data.

The Bank Group has established the following methodology for determination of the fair value:

a) derivative transactions:

- The fair value of FX forward and futures contracts is the discounted value of the difference between the forward price as at the time of valuation – referenced to the transaction's maturity date – and its strike price, between the maturity date and the date of the valuation.
- The fair value of FX swap contracts is the discounted value of the difference between the forward leg at the time of valuation – referenced to the transaction's maturity date – and its strike price, between the maturity date and the date of valuation. For the valuation yield curve, we take into account the prevailing market interest spread.
- The fair value of interest rate swap transactions and forward rate agreements (FRA) is the discounted net present value of the future cash flow expected from the transactions as at the time of the valuation.
- Determination of the fair value of plain vanilla and exotic FX options takes place with a modified version of the Black-Scholes model. In the case of exotic options for which there is no closed formula, the values are determined using an iterative procedure.
- The fair value of dual currency interest rate swap transactions is the discounted net present value of the future cash flow expected from the transactions as at the time of the valuation, where the

basis swap spread typical of the market for such transactions (also embodying the country risk premium) is built into the valuation yield curve.

- We determine the fair value of stock exchange forward stock and index transactions on the basis of the difference between the traded price and the strike price.

b) securities:

The fair value of securities valued at fair value against earnings or against other comprehensive income is determined on the basis of market prices available in the Bloomberg information system. In the case of securities for which this is available: the stock exchange closing price. With respect to securities for which a stock-exchange price is not available, the fair value is the discounted net present value of the future cash flow expected from the security as at the time of the valuation.

c) credits

Credits were reported essentially at amortised cost, which is equal to the value of the financial instrument determined upon initial disclosure, less principal payments, adding or deducting the accumulated amortisation of the difference between value determined upon initial disclosure and value at maturity, calculated with the effective interest rate method, amended by any recorded amount of expected lending loss.

For the hedging of the fair value of certain fixed-interest loan transactions, the Group concluded interest rate swap transactions. Such loans secured by IRS transactions are reported in the statements at amortised cost modified by fair value changes attributable to the hedged risk.

d) deposits

The Group reports its deposits at amortised cost. Certain structured deposits contain embedded derivatives, which the Group records separately from deposits. The Group values the embedded derivatives at fair value, and discloses its changes in the income statement.

The Group includes certain fixed-interest deposits in hedge accounting. The fair assessment of these deposits is determined by defining the discounted net present value of the future cash flows as at the balance sheet date.

e) issued bonds

Non-structured bonds issued by us are reported at amortised cost; therefore they are not revalued, except for the cases where the bonds are included in hedge accounting. In this case, only the interest risk is hedged, but not the lending risk.

Of the securities issued by us that are included in hedge accounting, the fair value of the fixed-interest ones is determined by the present value of future cash-flows, while in the case of structured instruments, the Group values the embedded derivative which it separates from the underlying contract.

Hedge accounting

The Bank Group has designated certain derivative transactions with a risk management purpose as hedge transactions for the purpose of hedge accounting. At the start of the hedging relationship, the Group formally documents the relationship between the hedge transaction(s) and the hedged transaction(s), the risk-management objectives and strategy being pursued with the transaction, and the method used for measuring the effectiveness of the hedging relationship. The Group, both at the beginning of the hedging relationship and continuously thereafter, assesses whether the hedge transaction is likely to be very effective in compensating the changes in the fair value of the hedged that attributable to the hedged risk for the full duration of the transaction, and whether the actual results fall into the 80-125 percent range.

5. Principles of the risk management and hedge transaction policy

The Bank Group has an independent risk management unit that is fully separated from the business units, and which operates under the supervision of the Chief Risk Officer. The analysis and management of the credit risk of customers is the responsibility of the Credit Risk Division and the Retail and SME Risk Management Division; the analysis of market, operational and fraud risk, compliance with the Basel III regulations, capital measurement, and development of portfolio-level risk models is the responsibility of the Integrated Risk Analysis Division.

5.1 Management of Credit Risk

The risk assessment and credit appraisal of non-retail customers is based on an individual analysis and rating, usually accompanied by quarterly financial monitoring and an annual limit review. In retail and micro-enterprise lending automated, scorecard-based appraisals are used.

The boundaries of lending are determined by the balance of business and risk considerations deemed desirable by the Group's owner and management, within the constraints of the Credit Institutions Act and other statutory provisions, as well as the Bank's Lending Policy Guidelines.

The Group responded to customers' payment difficulties caused by the economic crisis with loan restructuring solutions, the introduction of default early warning processes, and a strengthening of collection and receivables management, and in the course of 2016-2020 significantly reduced the volume and number of non-performing customers, both in Retail and Corporate lending. The coronavirus-related economic crisis caused no substantial increase in the portfolio of non-performing loans in 2020, thanks to the general lending moratorium in force. In line with the applicable position of the EBA, participation in the payment moratorium in 2020 does not automatically mean non-performance or financial difficulties, and as such the Bank continues to pay priority attention to identifying debtors that can be assumed to have payment difficulties during the moratorium period.

The Group's risk management processes operate in compliance with the requirements of Basel III and IFRS9. The core data necessary for the sophisticated measurement of risks are stored in structured form in a modern data warehouse. From May 2012, the capital requirement for the entire bank portfolio (corporate, retail and SME) is quantified by the Group on the basis of an advanced, internal rating-based (IRB) approach. In 2017, the standard methodology was reinstated for the municipalities portfolio. The Group started the same transformation in 2018 in respect of lending to the highest segment of private individuals, which transformation concluded in the final quarter of 2019.

The capital requirements of the childbirth incentive loan and, on the retail side, products in the Micro-segment related to crisis guarantees, are calculated according to standard methodology.

The measurement and reporting of risks takes place on a monthly and quarterly basis in keeping with Group and regulatory requirements. The Group comprehensively uses the results of risk models for the purposes of determining pricing, lending decisions and strategic directions, thereby ensuring long-term capital adequacy, the establishment of a profitable portfolio that also offers stability in terms of risks, and the effective deployment of the capital at its disposal.

In the extraordinary situation caused by the coronavirus, the Group introduced separate monitoring in the large corporate risk management area for the priority tracking of industries impacted by the coronavirus-induced crisis and the customers in these industries. The Group also modified and expanded the early warning system accordingly, and now clearly identifies the industries and customers concerned. The monitoring process is reviewed with high frequency. In justified cases, the Group commences the examination of the necessity and possibility of restructuring along its regular processes. The Group also reacted to coronavirus-related changes within its lending policy: in addition to greater granularity, short-term effects and the rate/probability of expected medium-term recovery both play a priority role in determining the riskiness of various industries. Lending activity is aimed at customers in industries with better features and stronger resilience, while a more cautious approach is justified for the more vulnerable part of the portfolio.

On the retail side, in March 2020 the Group identified the increased risks based on the industry classification of customers' employers, categorising for high/medium/low risk based on expected economic decline. Moreover, by taking the „Executive Circular on using macroeconomic information and the factors indicating a significant increase in credit risk under the IFRS 9 standard" issued by the MNB into account, in November 2020 the Group decided on the application of so-called overlays, i.e. portfolio-level management adjustments. Accordingly, it recognised additional impairment for the riskiest customers involved in the moratorium.

5.2 Management of Operational Risk

All organisational units (division, region, subsidiary) actively participate in the management of operating risk and, where necessary, in reducing the level of risk. The Group makes concerted efforts to develop the risk management function and raise levels of risk awareness, which encompasses the identification, gathering, evaluation, reporting, monitoring and management of all operational risks that may jeopardise achievement of the Group's business objectives. The main tools used for identifying risks are loss-data gathering, risk indicators, scenario analyses and risk self-assessments. As part of this work, the root causes of all known operational risk events were discovered and used in process improvement decisions.

In the interest of further strengthening operational risk management activity, the Group has implemented standards that also comply with the requirements applicable under the advanced measurement approach.

The Group continues to efficiently operate the operational risk framework called AMA (Advanced Measurement Approach), introduced in 2016, so that it can ensure smooth transition to SMA in the medium term.

5.3 Management of Market Risk

The management of market risk takes place at several levels within the Group, using advanced methods and infrastructure, with the monitoring performed independently of the business departments. The measurement and reporting of risks takes place on a daily/weekly/monthly and quarterly basis in keeping with Group and regulatory requirements. The grouping, measurement and management of risks, and the generation of economic capital, takes place in the framework of the Group's ICAAP processes.

The measurement and controlling of the risks is achieved with complex position, risk, stop loss and VaR limit systems, the methodology of which is in harmony with the expectations of the parent bank and regulators. Management of the market risk related to banking activity extends to the following sub-areas: trading-book and banking-book interest-rate risk; risk of the bank's liquidity based on the going concern principle and on a stress-based approach; risk arising from potentially illiquid market positions; stock price risk; exchange rate risk; risks associated with option trading; counterparty risk of OTC derivative transactions. Additionally, this department of the Group ensures independent pricing of various financial instruments, in line with the regulations required by the Parent Bank and IFRS 9. Additionally, the Market Risk department is responsible also for checking the market conformity of Capital and Money Market dealings.

These risks are also quantified in the sections entitled 6.3 Market Risk and 6.4 Liquidity Risk of the report.

5.4 Management of Fraud Risk

Fraud risk is a major component of operational risk. To increase the effectiveness of fraud risk management, in 2014 the Group centralised lending fraud management operations within the Integrated Risk Analysis Division, in the current Fraud Risk Controlling Group. As a continuation of the integration process, between Q3 2015 and Q3 2017, non-lending fraud management was also performed by the Integrated Risk Analysis Division, but after Q3 2017 non-lending fraud management was moved to the newly established Bank Security Division. From Q3 2019, the non-credit fraud management area also includes the bank card fraud management and charge back administration tasks, and since Q4 2019 the area has also been responsible for managing and supervising the Group's fraud transaction monitoring system. The credit fraud management area pays special attention to all lending fraud events, the conclusions of which are always incorporated into the basic or monitoring processes of the lending activity and into training materials.

6. Environmental protection

The Bank and its subsidiaries do not possess any equipment of outstanding importance from the perspective of environmental protection. At the same time, 9% of the Banking Group's pool cars are purely electrically powered, to minimise capital city and metropolitan local air pollution and, furthermore, outdated diesel-powered vehicles were replaced by modern-petrol-powered cars as part of fleet replacement. As part of the continuous lighting technology and power supply upgrades, the replacement of uninterruptible power supplies was completed across the entire branch network, the renovation of the air conditioning and lighting systems of several branches is in progress, and we also implemented numerous energy efficiency-improving HVAC investments in the branch network. In the second half of the year, the Bank took possession of its 18,000 m² new head office constructed in the Agora Budapest Office Park (with BREEM and WELL certifications), which is equipped with energy-efficient heating and state-of-the-art LED lighting systems.

As a result of these measures, we are expecting an additional, approximately 5-10% decrease in electricity consumption.

Closely related to a topic of environmental protection, the Banking Group is placing increased emphasis on establishing Sustainability, the formulation of the detailed framework is in progress, for the coordination of which the Bank is setting up a Sustainability Council.

7. Employment policy

Raiffeisen Group is one of the leading employers in the financial sector: Employee headcount was 2838 persons at the end of December 2020. The Group considers it a clear priority to conduct its activity as a fair and honest employer, not only fully observing and complying with the provisions of the Hungarian Labour Code, but also ensuring that its employees enjoy favourable working conditions and career opportunities as well as ongoing professional advancement.

Recruitment and selection are performed centrally by the Human Resources Division, with attention paid to the principles of inclusive culture and care taken to ensure that no discrimination finds its way into the daily practice of selection. The Bank Group's selection procedures target skilled and qualified staff, but also provide an opportunity for graduates at the beginning of their careers for an intensive professional improvement.

The Group pays attention and seeks to ensure that its employees enjoy an equitable and competitive income by the standards of the Hungarian labour market. Fringe benefits within the Cafeteria system offer choices for employees to select the fringe benefits that are best suited to their personal needs.

All employees fall within the scope of the performance management process operated by the Bank

Group, which provides a framework for the setting of clear objectives, the giving of constructive feedback and sound performance assessments. The performance-based financial and moral incentives encourage staff to strive for excellence.

The Group engages in complex training and development activity, focusing not only on professional expertise and skills, but also on personal, leadership, language and information technology skills development programmes. Annually, the Group's employees spend an average of 4 days attending training and development events and programmes. The Group runs community-building and employee welfare programmes to support staff in responding as successfully and effectively as possible to the everyday performance challenges and stress situations that they face.

The Bank Group operates a comprehensive and focused succession planning practice, with the purpose of retaining staff in management and key expert positions, and of planning and developing succession.

The Workplace Council, operating within the Group's organisational framework, ensures the representation of employees' interests.

From the start of the pandemic situation, from the spring of 2020, we set up the Korona Team with the involvement of banking areas to formulate the guidelines, frameworks and rules relating to the pandemic and to ensure secure daily operation. With the exception of the network and business critical areas, we organised work by employees/staff from home office. We made the use of facemasks mandatory in jointly-used work areas, with the continuous disinfection of all spaces.

We introduced part-time work for a three-month period in order to protect jobs. In the case of staff members working under a performance scheme, we paid a crisis supplement for April and May, when the decline in business volumes was most substantial.

8. Compliance activity

In keeping with the applicable laws and MNB requirements, the Bank Group operates an independent organisational unit – as part of the internal lines of defence – for identifying and managing compliance risks, which performs the following functions:

•Monitoring compliance with ethical rules, issuing guidelines in respect thereof, conducting the investigations of reports that are made.

•Ensuring and controlling compliance with the laws on conflicts of interest

•Organisation and implementation, within the Group, of anti-corruption measures.

•Organisation, management and coordination, within the Group, of efforts to combat money laundering and international terrorist financing, and of compliance with measures related to international sanctions, operation of the related monitoring system; operation of a reporting and control system, liaison with the relevant authorities

•Ensuring and controlling compliance with the laws relating to the separation of financial and investment services, the restriction of information flow, the prohibition of insider dealing and market distortion, and the conclusion of transactions by employees, liaisoning with the relevant authorities

•Ensuring and controlling compliance with the laws relating to investment service provision (e.g. Bszt.)

The organisational position and activities of the compliance function fully comply with applicable legal regulations, and the MNB recommendation on lines of defence and the underlying EBA (GL44) recommendation.

9. Research and development

The Bank performs R&D activities in the course of application developments relating to financial services, and during the implementation of business and risk management modelling.

Shareholder

Raiffeisen-RBHU Holding GmbH 100%

Board of Directors

Chairman

Andreas Gschwenter
Raiffeisen Bank International AG

Members

Daniel Rath
Raiffeisen Bank International AG

Kovács Gábor (until 31.07.2021)
Raiffeisen Bank International AG

Iryna Arzner (from 01.08.2021)
Raiffeisen Bank International AG

Michael Höllerer
Raiffeisen Bank International AG

Peter Jacenko
Raiffeisen Bank International AG

Valerie Brunner
Raiffeisen Bank International AG

Kementzey Ferenc
Raiffeisen Bank Zrt.

Zolnai György
Raiffeisen Bank Zrt.

Audit Comittee

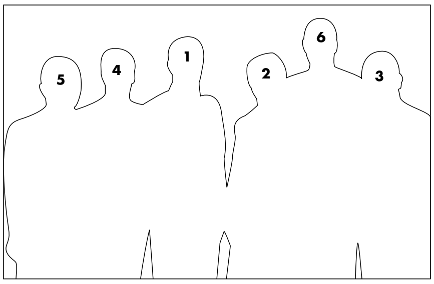
Chairman

Georg Feldscher
Raiffeisen Bank International AG

Members

Igaz Katalin
dr. Tóthné dr. Szabó Mercedes
Raiffeisen Bank Zrt.

Management of Raiffeisen Bank Zrt.



1 Zolnai György
Chief Executive Officer

2 Tölgyes Ágnes
Member of the Management Board

3 Kementzey Ferenc
Member of the Management Board

4 Ralf Cymanek
Member of the Management Board

5 Bányai Ervin
Member of the Management Board

6 Radovan Dunajsky
Member of the Management Board

Raiffeisen Bank International at a glance

RBI regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 13 markets across the region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, around 45,000 RBI employees serve 17.2 million customers from more than 1,800 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2020, RBI's total assets stood at around Đ 166 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

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Independent Auditors' Report

To the shareholder of Raiffeisen Bank Zrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 2020 consolidated financial statements of Raiffeisen Bank Zrt. and its subsidiaries (collectively, hereinafter referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, which shows total assets of MHUF 3,202,846, the consolidated statement of profit or loss , which shows profit for the year of MHUF 12,939, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter referred to as "EU IFRSs") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group for the purposes of our audit of the consolidated financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these Rules, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Raiffeisen Bank Zrt. - K30 - 2020.12.31.

Key Audit Matters

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

Credit losses on loans and advances to clients, loan commitments and financial guarantees

As at 31 December 2020, loss allowance for loans and advances to clients: HUF 51.256 million, provision for loan commitments and financial guarantees: HUF 5.456 million, and

For the year then ended, impairment charge: HUF 7.944 million

See note 6.2 and note 11

Key audit matter	*Our response*
Impairment allowances for loans and advances to clients and provision of the loan commitments and financial guarantees (collectively, "loans", "exposures") represent the Group's best estimate of expected credit losses ("ECLs") associated with these exposures at the reporting date. Measurement thereof requires the Group to make complex and subjective judgements over the amounts of any such impairment. Impairment losses on individually significant non-performing loans are based on the Group's estimates of the present value of expected future cash flows, which are inherently uncertain. The present value of such expected future cash flows is often influenced by, among others, the applied discount factor on the value of collateral, the length of the recovery process and the cost of liquidation or sale process. Collective impairment, applied to performing exposures (classified as Stage 1 and Stage 2 exposures in the IFRS 9 hierarchy), as well as to retail Stage 3 (non-performing) exposures, is determined by modelling techniques relying on key parameters such as the client rating, probability of default ("PD") and loss given default ("LGD"). These modelling techniques also consider historical experience, identification of exposures with a significant increase in credit risk ("SICR"), forward looking information and other areas of judgement. In addition, during 2020, a number of measures were taken by the government to alleviate the	Our audit procedures in the area, performed, where applicable, with the assistance from our own financial risk management, information technology (IT) and property valuation specialists, included the following, among other things: — We inspected the Group's ECL methods and models and assessed their compliance with the relevant requirements of the financial reporting standards. As part of the above, we challenged the Group on whether the level of the methodology's sophistication is appropriate based on an assessment of entity-level factors; — We tested the design, implementation and operating effectiveness of selected controls over impairment calculations, client ratings, and monitoring. We also tested selected IT-based controls over the days past due calculation, default and forborne flag settings; — We assessed the completeness and accuracy of data used for ECL estimates and evaluated its relevance and reliability; — We assessed whether the definition of default and the relevant standards' staging criteria were consistently applied, and in accordance with the requirements of the relevant standards; — We evaluated whether in its loan staging and ECL measurement the Group appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic. As part of the procedure, we assessed the monitoring processes related to clients under moratorium

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effects of the COVID-19 pandemic, including repayment moratoriums. As days-past-due parameter may no longer be an appropriate indicator of changes in credit risk for borrowers benefiting from the moratorium, the Group applied alternative staging indicators based on qualitative factors. Identification of exposures at default in the current economic environment is also associated with increased estimation uncertainty.
 	
In the wake of the above factors and complexities, we considered impairment of loans and advances to clients and provision for loan commitments and financial guarantees to be associated with a significant risk of material misstatement in the consolidated financial statements which required our increased attention in the audit and as such was determined to be a key audit matter.
	and the appropriateness of alternative factors used to measure the significant increase in credit risk;
	
	For expected credit losses calculated individually, for a risk-based sample, we:
	
	— inspected the borrower's loan files, including correspondence with the borrower and its latest available debt service and financial information, loss allowance estimates by credit risk officers, collateral appraisals, problem loan committee minutes, and also considered the resolution period estimated for the credit impaired loans;
	— challenged the key assumptions within the Group's estimates of the present value of expected future cash flows from the borrower, as follows:
	  — future debt recovery scenarios – by reference to problem loan committee analysis and decisions, with different elements and assumptions challenged by reference to the history of the exposure and our experience with the industry and current economic conditions;
	  — collateral values – by reference to asset valuations by experts engaged by the Group, whose experience, competence and objectivity we independently assessed. We also independently challenged the experts' appraisals, on a sample basis;
	
	For expected credit losses calculated collectively, we:
	
	— assessed the underlying model set-up and reperformed the calculation of the model output based on the Group's data and assumptions.
	— obtained the relevant forward-looking information and macroeconomic projections used in the Group's ECL assessment. We independently assessed the information by means of corroborating inquiries of management's experts and inspecting publicly available information;
	— challenged the collective LGD and PD parameters used by the Group, by reference to its historical loan experience, including historical

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	realized losses on defaults, and also considering any required adjustments to reflect expected changes in circumstances; — assessed the appropriateness of any post-model adjustments made to account for risks and uncertainties not captured by the Group's ECL models, including those resulting from the COVID-19 outbreak and related moratorium. As part of the procedure, we also tested the underlying data used for calculation, For expected credit loss related disclosures, we: — examined whether the Group's loan impairment and credit risk-related disclosures in the consolidated financial statements appropriately describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Information

The other information comprises the 2020 consolidated business report of the Group, which we obtained prior to the date of this auditors' report, and its 2020 annual report, which is expected to be made available to us after that date. Management is responsible for the other information, including the preparation of the consolidated business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the consolidated financial statements expressed in the Opinion section of our report does not cover the other information. We will not express any form of assurance conclusion on the annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and, in doing so, consider whether the consolidated business report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Act on Accounting, we are also responsible for assessing whether the consolidated business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements and expressing an opinion on this and whether the consolidated business report is consistent with the consolidated financial statements.

With respect to the consolidated business report, based on the Act on Accounting, we are also responsible for checking that the information referred to in Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In our opinion the 2020 consolidated business report of the Group is consistent, in all material respects, with the 2020 consolidated financial statements of the Group and the applicable provisions of the Act on Accounting.

There are no other legal requirements that are applicable to the consolidated business report of the Group, therefore, we do not express an opinion in this respect.

We confirm that the information referred to in Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated business report, and if so, the nature of such misstatement. We have nothing to report in this regard.

In connection with our audit of the consolidated financial statements, our responsibility is also to read the annual report identified above when it becomes available and, in doing so, consider whether the annual report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with EU IFRSs and for the preparation of the financial statements in accordance with provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of the Act on Accounting and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Hungarian National Standards on Auditing and applicable laws and regulations in Hungary will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 appointed by the shareholder on 31 May 2017 to audit the consolidated financial statements of the Group for the financial year ended 31 December 2020. Our total uninterrupted period of engagement is 27 years, covering the periods ending 31 December 1994 to 31 December 2020.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Group dated 7 April 2021;

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• we have not provided to the Group the prohibited non-audit services (NASs) as set out by Article 5(1) of EU Regulation (EU) No 537/2014 and in terms of the member state derogations by the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors in force in Hungary. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is the signatory of this report.

Budapest, 23 April 2021

KPMG Hungária Kft.

Registration number: 000202

Digitally signed
by Agócs Gábor
Date: 2021.04.23
15:55:16 +02'00'

Gábor Agócs
Partner, Professional Accountant
Registration number: 005600

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Raiffeisen Bank Zrt. - K30 - 2020.12.31.

I. Primary financial statements

A.Consolidated statement of profit or loss

(HUF million)	Notes	2020	2019
Interest income calculated with the effective interest method	(7, 11)	53,207	47,757
Other interest income	(7, 11)	21,010	26,892
Interest expenses	(7, 11, 25)	-21,546	-33,243
Net interest income	(7, 11)	**52,671**	**41,406**
Dividend income		346	12
Fee and commission income	(8)	67,565	71,525
Fee and commission expenses	(8)	-17,793	-21,594
Net fee and commission income	(8)	**49,772**	**49,931**
Net trading income and fair value result	(9, 11)	2,960	-62
Net gains/losses from hedge accounting	(10, 11)	-101	18
Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss	(11)	574	597
Other operating income	(12)	1,946	1,672
Other operating expenses	(12)	-17,550	-17,948
Staff expenses	(15)	-26,362	-26,779
Other administrative expenses	(16)	-17,075	-18,078
Depreciation and amortisation	(24)	-10,441	-7,650
Other result	(13, 14)	-5,176	-302
Levies and special governmental measures	(17)	-6,072	-5,442
Impairment losses on financial assets	(6, 11)	-8,214	7,584
Profit before tax from continuing operations		17,278	24,959
Tax expense or (-) income related to profit or loss from continuing operations	(18)	-4,339	-4,128
Profit after tax from continuing operations		**12,939**	**20,831**
Profit for the year		**12,939**	**20,831**

B. Consolidated statement of profit or loss and other comprehensive income

(HUF million)	Notes	2020	2019
Profit for the year		**12,939**	**20,831**
Other comprehensive income	(38)	-3,796	5,091
Items that will not be reclassified to profit or loss	(38)	-586	297
Fair value changes of equity instruments measured at fair value through other comprehensive income	(38)	-577	329
Income tax relating to items that will not be reclassified to profit or loss	(18, 38)	-9	-32
Items that may be reclassified to profit or loss	(38)	-3,210	4,794
Foreign currency translation		52	91
Cash flow hedges (effective portion)	(10, 38)	17	944
Valuation gains or (-) losses taken to equity	(10, 38)	-71	790
Transferred to profit or loss	(10, 38)	88	154
Debt instruments at fair value through other comprehensive income	(38)	-3,602	4,224
Valuation gains or (-) losses taken to equity	(38)	-3,006	4,362
Transferred to profit or loss	(38)	-596	-138
Income tax relating to items that may be reclassified to profit or (-) loss	(18, 38)	323	-465
Total comprehensive income for the year	**(38)**	**9,143**	**25,922**

The accompanying notes form an integral part of these consolidated financial statements.

C. Consolidated statement of financial position

(HUF million)	Notes	31.12.2020	31.12.2019
Cash, cash balances at central banks and other demand deposits	(6, 19, 46)	121,791	126,155
Financial assets held for trading	(6, 20, 42, 46)	82,031	58,360
Non-trading financial assets mandatorily at fair value through profit or loss	(6, 20, 42, 46)	67,742	33,996
Financial assets designated at fair value through profit or loss	(6, 20, 42)	18,471	20,237
Financial assets at fair value through other comprehensive income	(6, 22, 23, 42, 46)	515,154	524,922
Financial assets at amortised cost	(6, 21, 42, 46)	2,328,854	1,788,860
Derivatives – Hedge accounting	(10, 42, 46)	5,461	6,021
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-567	-619
Current tax assets	(18)	511	326
Non-current assets classified as held for sale	(34)	0	0
Investments in subsidaries, joint ventures and associates	(44)	123	0
Property and equipment	(24)	33,797	17,116
Intangible assets	(24)	19,689	18,548
Deferred tax assets	(18)	1,518	1,575
Other assets	(26)	8,271	3,047
Total assets		**3,202,846**	**2,598,544**
Financial liabilities held for trading	(6, 27, 28, 42, 46)	48,943	27,705
Financial liabilities measured at amortised cost	(6, 25, 28, 29, 30, 31, 42, 46)	2,877,574	2,298,996
Derivatives – Hedge accounting	(10, 42, 46)	12,095	11,569
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	1,460	2,014
Liabilities included in disposal groups classified as held for sale	(34)	242	636
Provisions	(6, 33)	9,058	10,782
Deferred tax liabilities	(18)	3	3
Other liabilities	(32)	6,932	6,923
Total liabilities		**2,956,307**	**2,358,628**
Share capital	(6, 35)	50,000	50,000
Share premium	(6, 36)	113,445	113,445
Equity instruments issued other than share capital	(37)	31,445	31,445
Accumulated other comprehensive income	(6, 38)	2,983	6,779
Retained earnings	(6, 40)	24,391	7,533
Other reserves	(6, 39)	11,336	9,883
Profit or loss	(6)	12,939	20,831
Total equity		**246,539**	**239,916**
Total liabilities and total equity		**3,202,846**	**2,598,544**

* There were reclassficatios, see on page 12, 2. d) Changes in accounting policies

D. Consolidated statement of changes in equity

Sources of equity changes	Share capital	Share premium	Equity instruments issued other than capital	Other comprehensive income not to be reclassified	Other comprehensive income to be reclassified			Retained earnings	Other reserves	Total
				Fair value changes of equity instruments measured at fair value through OCI*	Cash flow hedges [effective portion]	Debt instruments at fair value through OCI*	Foreign currency translation			
	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance [current period]	**50,000**	**113,445**	**31,445**	**589**	**-211**	**6,434**	**-33**	**28,364**	**9,883**	**239,916**
Profit or (-) loss	0	0	0	0	0	0	0	12,939	0	12,939
Other comprehensive income	**0**	**0**	**0**	**10**	**16**	**-3,278**	**52**	**0**	**0**	**-3,200**
Total comprehensive income for the year	0	0	0	10	16	-3,278	52	12,939	0	9,739
Issuance of other equity instruments										
Dividends	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,116**	**0**	**-3,116**
Total contributions and distributions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,116**	**0**	**-3,116**
Other equity transactions	0	0	0	0	0	0	0	0	**0**	0
Transfers among components of equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-1,453**	**1,453**	**0**
Other increase or (-) decrease in equity	0	0	0	-596	0	0	0	596	0	0
Total other equity transactions	0	0	0	-596	0	0	0	-857	1,453	**0**
Closing balance [current period]	**50,000**	**113,445**	**31,445**	**3**	**-195**	**3,156**	**19**	**37,330**	**11,336**	**246,539**

*OCI: Other Comprehensive Income

D. Consolidated statement of changes in equity

Sources of equity changes	Share capital	Share premium	Equity instruments issued other than capital	Other comprehensive income not to be reclassified	Other comprehensive income to be reclassified			Retained earnings	Other reserves	Total
				Fair value changes of equity instruments measured at fair value through OCI*	Cash flow hedges [effective portion]	Debt instruments at fair value through OCI*	Foreign currency translation			
	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance [current period]	**50,000**	**113,445**	**0**	**292**	**-1,070**	**2,590**	**-124**	**39,086**	**7,823**	**212,042**
Profit or (-) loss	0	0	0	0	0	0	0	20,831	0	20,831
Other comprehensive income	**0**	**0**	**0**	**297**	**859**	**3,844**	**91**	**0**	**0**	**5,091**
Total comprehensive income for the year	0	0	0	297	859	3,844	91	20,831	0	25,922
Issuance of other equity instruments	0	0	31,445	0	0	0	0	0	**0**	31,445
Dividends	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-29,425**	**0**	**-29,425**
Total contributions and distributions	**0**	**0**	**31,445**	**0**	**0**	**0**	**0**	**-29,425**	**0**	**2,020**
Other equity transactions	0	0	0	0	0	0	0	0	**0**	0
Transfers among components of equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2,060**	**2,060**	**0**
Other increase or (-) decrease in equity	0	0	0	0	0	0	0	-68	0	-68
Total other equity transactions	0	0	0	0	0	0	0	-2,128	2,060	**-68**
Closing balance [current period]	**50,000**	**113,445**	**31,445**	**589**	**-211**	**6,434**	**-33**	**28,364**	**9,883**	**239,916**

*OCI: Other Comprehensive Income

E. Consolidated statement of cash flows

(HUF million)	Notes	2020	2019
Profit or loss for the period		**12,939**	**20,831**
Cash flows from operating activites			
Adjustments for:			
Depreciation and amortisation	(24)	10,441	7,650
Net impairment loss on non-financial assets	(13)	61	46
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(11)	9,101	-11,290
Net interest income	(11)	-52,672	-41,406
hereof: amortization, accruals and unwinding		8,658	17,337
Net gains or (-) losses from derecognition of non-financial assets	(12)	-36	-9
Other		-1,921	-1,652
Income tax expense	(18)	4,339	4,128
		-30,687	**-42,533**
Changes in operating assets and liabilities:			
Change in financial assets held for trading	(20)	-28,979	-10,241
Change in non-trading financial assets mandatorily at fair value through profit or loss	(20)	-33,203	-26,311
Change in financial assets designated at fair value through profit or loss	(20)	0	0
Change in financial assets at fair value through other comprehensive income	(22)	2,055	-54,577
Change in financial assets at amortised cost	(22)	-576,612	-143,569
Change in derivatives (assets) – Hedge accounting	(10)	-1,108	-2,219
Change in other assets	(26, 34)	-5,252	845
Change in financial liabilities held for trading	(27)	26,358	-1,944
Change in financial liabilities measured at amortised cost	(29)	567,234	143,920
Change in derivatives (liabillities) – Hedge accounting	(10)	2,609	7,114
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	-606	3,155
Change in other liabilities, provisions and liabilities held for sale	(32, 33, 34)	-1,716	2,464
		-49.220	**-81,363**
Interest received	(7, 11)	91,181	85,052
Interest paid	(7, 11)	-29,851	-26,309
Dividend received		346	12
Income tax paid	(18)	-4,548	-3,379
Net cash from operating activities		**-9,840**	**-47,689**
Cash flows from investing activities			
Purchases of securities	(20, 22)	-52,286	0
Disposals of securities	(20, 22)	74,883	25,538
Purchases of investment in subsidaries, joint ventures and associates	(44)	0	0
Sale of investment in subsidaries, joint ventures and associates	(44)	0	7,841

E. Consolidated statement of cash flows

Purchases of other equity investments	(44)	0	-54
Disposals of other equity investments	(44)	0	0
Purchases of property and equipment	(24)	-4,553	-4,296
Disposals of property and equipment	(24)	23	30
Purchases of intangible assets	(24)	-6,944	-5,732
Disposals of intangible assets	(24)	44	0
Net cash from investing activities		**11,167**	**23,327**
Cash flows from financing activities			
Issuance and repurchase of issued debt securities	(30)	-50	-441
Repayment of issued debt securities at maturity	(30)	-2,631	-7,463
Issuance of Additional Tier 1 Capital (AT1)	(37)	0	31,445
Payment of lease liabilities	(25)	-1,982	-1,516
Dividend paid	(35)	-3,116	-29,425
Net cash used in financing activites		**-7,779**	**-7,400**
Net increase/decrease of cash, cash balances at central banks and other demand deposits		**-6,452**	**-31,762**
Cash, cash balances at central banks and other demand deposits at 1 January		**126,155**	**156,730**
Net effect of exhange rate changes		2,088	1,187
Cash, cash balances at central banks and other demand deposits at 31 December	**(19)**	**121,791**	**126,155**

*Placements with the National Bank of Hungary and with other banks have been reclassified from 'Cash, cash balances at central banks and other demand deposits' to 'Financial assets at amortised cost' at 31.12.2017, therefore they differ from the amounts reported in the financial statements of 31.12.2017 by HUF 231 billion.

II. Notes to the consolidated financial statements

(1) General information

Raiffeisen Bank Zrt. ('the Bank') commenced its operations in 1987 as a commercial bank domiciled in Hungary. The Bank's registered office is 1133 BudapestVáci Street 116-118.

The website of the Bank can be found at: https://www.raiffeisen.hu/raiffeisen-csoport/raiffeisen-bank-zrt

The Bank holds a full commercial banking license issued by the National Bank of Hungary and carries on a wide range of financial activities. The consolidated financial statements of the Bank as at and for the year ended 31 December 2020 comprise the Bank and its subsidiaries (together referred to as the 'Group'). For further information on consolidated subsidiaries please see Note 44 Investments in subsidiaries.

The Bank is controlled by Raiffeisen CEE Region Holding GmbH. The ultimate parent of the Group remained Raiffeisen Bank International A.G. (RBI).

Ágnes Tölgyes Chief Financial Officer (address: 1124 Budapest, Nárcisz utca 54. 1. em. 5.) and Tibor Gáspár Head of Accounting Department are obliged to sign these consolidated financial statements. Tibor Gáspár is entitled to perform bookkeeping services (registration number: 168480, address: 2330 Dunaharaszti, Király utca 38.).

(2) Basis of preparation

(2.1) Statement of compliance

The Group elected – in accordance with related legislation – to apply international accounting standards also for the purposes of preparing separate financial statements of the Bank in accordance with section 177 (55) of Hungarian Accounting Law (hereinafter 'HAL'). The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by EU.

IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

These financial statements were authorised for issue on 23 April 2020.

(2.2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- financial assets at fair value through other comprehensive income are measured at fair value;
- assets and liabilities that are hedged are measured at fair value only in respect of the risk that is hedged;
- other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or – if

applicable –, at cost less accumulated depreciation and impairment losses.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The selection, development, application and disclosure of critical accounting policies and accounting estimates are agreed with the Supervisory Board of the Group.

Significant areas of estimation uncertainty are expected credit loss described in Note 6 Financial risk management, the determination of fair value described in Note 42 Determination of fair value and the significant estimation uncertainties due to COVID-19 described in Note 48 Events after the reporting date.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(2.3) Functional and presentation currency

These consolidated financial statements are presented in Hungarian Forints, which is the Bank's and its subsidiaries' functional currency. Except as indicated, financial information is presented in Hungarian Forints rounded to the nearest million.

(3) Changes in accounting policies

(3.1) IFRS 16 Leases

Amendments to standards and interpretations introduced in 2020 have no or insignificant effect on the consolidated financial statements

(4) Significant accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the Group in preparing and presenting financial statements. The accounting policies set out below have been consistently applied to all the periods presented in the consolidated financial statements, and by all Group entities.

(4.1) Presentation of financial statements

These consolidated financial statements include the financial statements of the Bank and its subsidiaries and associates ('the Group'). The income, expenses, assets and liabilities of the subsidiaries are included in the respective line items in the consolidated financial statements, after eliminating inter-company balances and transactions.

(4.2) Basis of consolidation

I. Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls the entity. The financial statements of subsidiaries are consolidated from the date when control commences until the date when control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Bank. The costs directly attributable to the acquisition are accounted for at the date of acquisition in the statement of profit or loss. Any excess of the consideration paid for the subsidiary over the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the consideration paid for the subsidiary is less than the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in profit or loss, after reassessing the identification and measurement of the assets acquired. The acquired identifiable assets, liabilities and contingent liabilities are meaured at fair value at the date of acquisition.

II. Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's consolidated financial statements if, based on an evaluation of the substance of their relationship with the Group and the risks and benefits associated with them, the Group concludes that it controls those entities.

III. Funds management

The Group manages and administers assets held in investment funds on behalf of investors. The financial statements of these investment funds are not included in these consolidated financial statements, except when the Group controls the investment funds. Information about the Group's funds management activities is set out in Note 44.

IV. Control

There is only one basis for consolidation, namely control. Control exists if an investor has all three of the following elements: (a) rights to the income of the investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect these returns. Definition of control is defined in IFRS 10. The Bank adopted the definition of control and consolidates subsidiaries based on that.

V. Transactions eliminated on consolidation

IIntra-group balances and any realised and unrealised income and expenses arising from intra-group transactions are eliminated in preparing consolidated financial statements. All unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(4.3) Investment in associates

Associates are entities over which the Group has significant influence, but according to IFRS 10 it has no control.

Associates are accounted for under the equity method except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case it is measured at the lower of its carrying amount and fair value less costs to sell.

Under the equity method, the investment is initially recorded at fair value and the carrying amount is increased or decreased to recognise the Group's share of the profits or losses and other comprehensive income of the investee after the date of acquisition. The statement of comprehensive income of the consolidated financial statement reflects these changes in the results but the post-acquisition changes in the associate's reserves are recognised directly in the Group's consolidated statement of changes in equity. When the losses of Group's share in an associate equal or exceed its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Profits on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the respective associates. Losses are also eliminated to the extent of the Bank's interest in the associates unless the transaction provides evidence of an impairment of the asset transferred.

(4.4) Foreign currency transactions

Items included in the financial statements of all entities in the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions executed in a currency other than the functional currency are considered to be foreign currency transactions. Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The Group uses the exchanges rates published by National Bank of Hungary.

The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted by effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of equity investments measured at fair value through other comprehensive income, which are recognised in other comprehensive income.

(4.5) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for the supply of services or for administration purposes.

I. Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries, and on the acquisition of interests in associates, when the consideration paid exceeds the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. If the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the consideration transferred, the excess is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses. The carrying amount of goodwill is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the goodwill's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of goodwill exceeds its recoverable amount. Impairment losses recognised for goodwill are charged to profit or loss and are not reversed in a subsequent period

Goodwill on acquisitions of interests in associates is included in 'Investments measured by the equity method'.

II. Intangible assets other than goodwill

Intangible assets that have a finite useful life are measured initially at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. The recoverable amount is determined based on the replacement value.

Other intangible assets are amortised using the straight-line method over their estimated useful life not exceeding 6 years from the date when the asset is available for use. The amortisation shall cease at the earlier of the date when the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5, and the date when the asset is derecognised. Amortisation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

Personnel expenses incurred during developing intangible assets are capitalised and amortised. Subsequent other expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognised in profit or loss as incurred.

(4.6) Property and equipment

I. Owner occupied property

Items of property and equipment, including leasehold improvements, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Cost of maintenance and repairs are recognised in profit or loss as incurred. Major improvements of an item of property and equipment are recognised in the carrying amount of those items if it is probable that associated future economic benefits will flow to the Group and related costs can be measured reliably.

Depreciation is allocated over the estimated useful life of the asset using the straight-line method and is included in line item 'Depreciation and amortisation' in the consolidated profit or loss.

The estimated useful lives of individual categories of assets are as follows:

- properties (freehold): 50 years,
- properties (leasehold): the contractual terms of the leasehold are taken into account,
- equipment: 3-7 years.

Freehold land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Items of property and equipment are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Gains and losses on disposal of an item of property and equipment are determined by comparing the pro-ceeds from disposal with the carrying amount of property and equipment, and are recognised net in line items 'Other operating income' or 'Other operating expense' in profit or loss.

II.Investment property

Investment property is property held (by the owner or by a lessee under financial lease) to earn rentals or for capi-tal appreciation or both. The Group applies cost model as valuation method for investment property. The Group uses straight line depreciation, and the useful lives of the properties are 20 years. The fair value of investment proper-ties is disclosed according to IAS 40. It is determined by independent experts and is reviewed quarterly. The fair value is supported by market evidence.

III. Leased assets

At inception of a contract, the Group in accordance with IFRS 16 assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into (or modified) on or after 1 January 2019.

The Group applies the practical expedients allowed by IFRS 16 to short-term leases and to leases where the underlying asset is a low-value asset. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group acting as a lessee

For contracts that contain in addition to one lease component one or more lease or non-lease components the Group as a lesse allocates consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components.

The Group as a lesse recognises a right-of-use asset and a lease liability at the commencement date of the lease term. The right-of-use asset is initially recognised at cost, which comprises the initially recognised amount of the lease liability, any lease payments made at or before the commencement date of the lease term minus any lease incentives received, the Group's initial direct costs incurred and an estimate of costs to dismantle the underlying asset and to restore the underlying asset to the condition required by the terms and conditions of the lease.

The Group as a lesse subsequently measures the right-of-use asset applying the cost model less any accumulated depreciation and any accumulated impairment losses and adjusted for any reassessment of the lease liability.

The Group as a lesse measures the lease liability at the commencement date of the lease term at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the incremental borrowing rate of the lessee, which is a base rate derived from interest rate swap curves in the currency of the respective lease contracts increased with a margin derived from unsecured and liquid (traded) bonds of European Groups published by Bloomberg.

At the commencement date of the lease term the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under a residual value guarantee;
- the exercise price under a purchase option if the lessee is reasonably certain to exercise that option; and
- penalties for early termination of a lease if the lease term reflects the exercise of an early termination option by the lessee.

The lease liability is subsequently measured at amortised cost using the effective interest method.

The lease liabilities are remeasured when there is a change in future lease payments. It can arise from a change in an index or rate used for determining the lease payments, from a change in the estimate of the amount expected to be payable under a residual value guarantee, from the Group's changing its assessment of whether it will exercise a purchase, extension or termination option or from the revision of fixed lease payment.

The Group records the amount of remeasurement of the lease liability as an adjustment to the carrying amount of the right-of-use asset. In case the carrying amount of the right-of-use asset has been reduced to zero and further reduction shall be made due to the remeasurement of the lease liability, the remaining reduction is recorded in profit or loss.

The Group presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Financial liabilities measured at amortised cost' in the statement of financial position.

The Group applies IFRS 16 coronavirus pandemic related rent concessions amendment, which allows for the simplified accounting for rent concessions.

Short-term leases and leases of low-value assets

The Group has elected not to apply the requirements of the standrard to short-term leases and to leases where the underlying asset is a low-value asset. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group acting as a lessor

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. A lease is a finance lease, when the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. A lease is an operating lease when the lease does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset. The assessment of the leases is made at the date of the inception, remeasurement is only made in case of modification of the lease.

To the net investment in a lease the derecognition and impairment requirements of IFRS 9 standard are applied.

(4.7) Assets obtained against receivables

If the Group has mortgages registered on the collateralised property, it is entitled to sell it with or without a court resolution, under a sales procedure conducted on its own behalf. The property may also be subject to forced sale if the owner is a company subject to liquidation.

If the Group has a purchase right over the property, the Group's claim may be enforced against the property. In this case, the Group is entitled to purchase the property at the purchase price determined in the option contract and to offset the purchase price against its claim or to assign a third party to exercise the right of purchase and to offset the purchase price paid by the third party against its claim.

Assets of which the Group takes possession upon resigning credit and leasing transactions are valued at a price determined by an expert. In case of assets withdrawn from leasing, the Group calculates the impairment loss only for the receivable before the sale, because later the receivable is reduced by the income from the sale of the asset. In case of loan contracts, impairment losses are recognised for the assets repossessed on the basis of the annual loss rates on sale transactions and future prospects.

Impairment loss allowance is recognised in the statement of financial position as ‚Other assets' and in statement of comprehensive income as ‚Other operating expenses', the amount of the reversal is reported as ‚Other operating income'.

(4.8) Investments in subsidaries, joint ventures and associates

The Group reports equity instruments as interests that are acquired in accordance with the Group's long-term strategic goals, plans and business policies. Shares and other ownership interests acquired this way may include subsidiaries, associates and other investments.

A subsidiary is an entity over which the Group has control, therefore is entitled to the various types of positive returns produced by the entity which has received the investment, bears the consequenses of negative returns, and is able to control the operation of the entity throughout its deceisions, this way is able to affect the returns.

An associate is an entity over which the Group has significant influence without having control.

Non-trading equity instruments over which the Group has neither joint control nor significant influence are measured at fair value through other comprehensive income.

(4.9) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet and are presented as 'Cash, cash balances at central banks and other demand deposits' in the statement of financial position as.

(4.10) Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair value is determined for measurement and / or disclosure purposes based on the following methods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are meas-ured at fair value based on bid prices for assets held and ask prices for liabilities issued. When observable prices are not available, fair value is determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For financial instruments, fair value may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

The determination of fair value assumes that the sale or disposal of the asset occurs on the primary market for the asset or liability or, lacking that, on the most favorable market for the asset or liability.

The primary market is the market with the highest volume and activity level for the asset or liability to be valued.

The most favorable market is the market that maximises the amount that would be received for the sale of the as-set, or minimises the amount that would be paid for the transfer of the liability after taking into account transaction costs and shipping costs.

More information about the determination of fair value is in Note 42 Determination of fair value.

(4.11) Financial instruments

(4.11.1) Recognition and initial measurement

For regular way purchases and sales of financial assets, the Group applies trade date accounting, ie. recognition when the Group is committed to the sale or purchase of the asset. Regular way purchase or sale is a purchase or sale of an asset based on a contract whose terms require delivering the asset within the time frame established by conventions and regulations in the market.

Every other financial asset and liability (including financial assets and liablities measured at fair value through profit or loss) is recognised when the Group falls under the provisions of the contract eg. receivables arising from loans to banks or clients are recognised when the loan is disbursed.

At initial recognition, the Group measures the financial assets or liabilities at their fair value plus or minus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

According to IFRS 9.B5.1.2A, the best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie. the fair value of the consideration given or received).

If the fair value determined by the Group differs from the transaction price at initial recognition – eg. off-market interest rate loans – then the difference at initial recognition is recognised as follows:

a)a) if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss under 'Net trading and fair value result';

b) in all other cases, the measurement is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(4.11.2) Classification and subsequent measurement

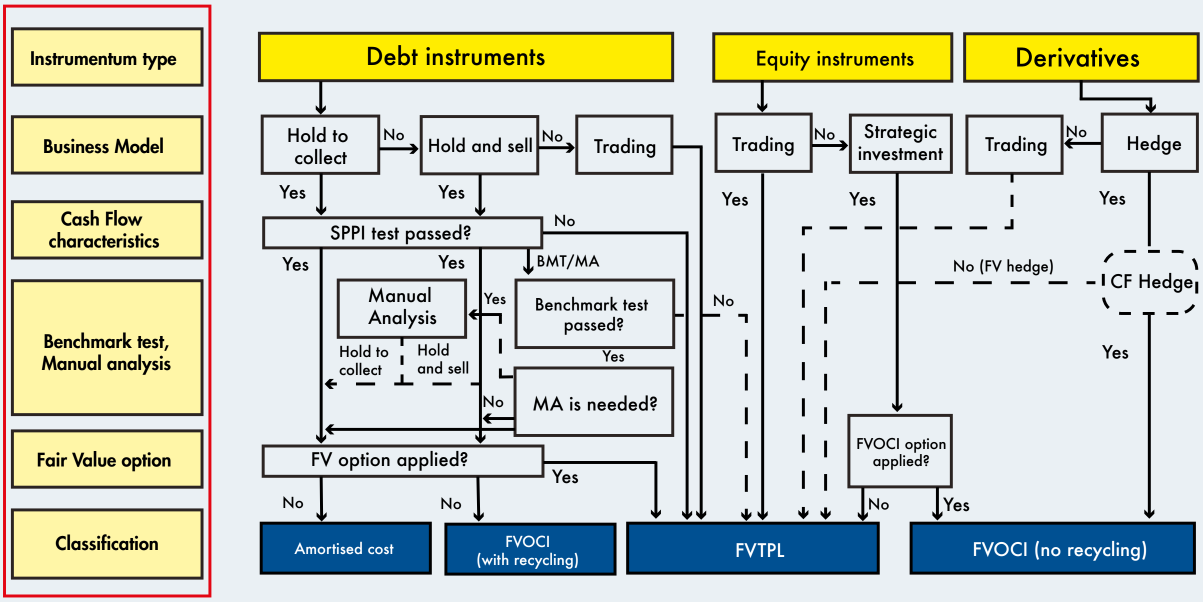
I. Classification and measurement of financial

At initial recognition, the Group classifies financial assets to the following categories: at amortised cost, at fair value throung other comprehensive income or at fair value through profit or loss.

The classification of a financial asset is based on a two-step methodology as follows:

- determination of the business model,
- analysis of the contractual cash flow characteristics (Solely Payment of Principal and Interest, SPPI test).

The following chart illustrates the methodology discussed above:



Business model of financial assets

The business model is determined on a portfolio basis as it best reflects the Group's business objectives for a group of assets and it is also the level of aggregation that management uses. When determining the business model, the Group takes into consideration the following information:

- how the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- how managers of the business are compensated – eg. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, value and timing of sales in prior periods, the reasons for such sales, and the expectations about future sales activity; and
- whether sales activity and the collection of contractual cash flows are each integral or incidental to the business model ('hold-to-collect' versus 'hold and sell' business model).

Hold-to-collect business model

The model's objective is to hold financial assets to collect contractual cash flows even when if sales of financial assets have occurred or are expected to occur.

The following examples of sales may be consistent with the hold-to-collect business model:

- the sales are due to an increase in the credit risk of a financial asset;
- the sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent);
- the sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

Quantitative guidelines or thresholds are not provided by IFRS 9 on the value or frequency of sales from hold-to-collect business model. For the Group, the sale of less than 10% of the portfolio's carrying amount during a rolling 3 year period would potentially be considered consistent with hold-to-collect business model. Sale of an asset with maturity of less than 3 months can be deemed as close to maturity.

Hold-and-sell business model

The objective of this business model is to meet the Group's everyday liquidity needs. Realising profit from financial assets in these types of portfolios can be achieved by both collecting contractual cash flows and selling financial assets in the portfolio.

Other business models

- Trading portfolio: the primary obejective is to realise short-term profits.
- Strategic investment portfolio: the goal is to hold long-term investments and collect cash flows (eg. dividend).
- Hedge portfolio: derivatives in hedging relationships as hedging instruments.

Analysis of contractual cash flow characteristics

The Group assesses whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test), ie. whether they are consistent with the terms of a basic lending agreement. For this purpose, the principal is the fair value at initial recognition. The interest can only contain consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (eg. liquidity risk) and costs (eg. administrative costs), as well as profit margin. This also means that the contractual terms need to be examined, whether they introduce features that change the timing or amount of contractual cash flows. The Group consideres the following factors:

- contractual features that change the timing or amount of contractual cash flows;
- gearing;
- prepayment and prolongation options;
- contractual terms that limit the Group's receivables to defined assets of the debtor or cash flows generated by a defined asset (eg. non-performing financial assets that cannot be liquidated); and
- contractual terms that modify the time value of money element – eg. the interest rate is reset on a regular basis.

The Group uses both quantitative (Benchmark test – denoted by 'BMT' in the above figure) and qualitative (Manual Analysis – denoted by 'MA' in the above figure) approaches to determine whether the time value of money element of the interest rate is modified.

The Group primarily performs the analysis of contractual cash flow characteristics by clasterisation of financial assets. The analysis of contractual cash flow characteristics of contracts not clasterised is performed individually.

In 2019, the Group identified the following three portfolios where the contractual terms are not consistent with a basic lending agreement as described in IFRS 9.

Subsidised housing loans ('CSOK' – housing subsidy for families, Subsidised Housing Loans)

These loans granted to individuals for the purpose of financing the purchase of flats/houses share two characteristics. One shared characteristic is that a pre-determined portion of the contractual interest is generally paid by the Hungarian government instead of the borrower over a certain period. The other shared characteristic is that the contractual interest reprices with a pre-determined frequency (the interest period can be 3, 5 and 10 years) and depends on average yields ('GDMA average yields') observed at government bond and treasury bill auctions, regularly published by the Government Debt Management Agency ('GDMA'). In the formula determining contractual interest, the GDMA average yields are multiplied by 1.3 and a risk premium is added to the resulting interest rate. The Group regards the multiplier applied to GDMA average yields as a leverage factor inconsistent with a basic lending agreement and thus the contractual cash flows of subsidised housing loans are deemed not to solely represent payments of principal and interest on principal outstanding.

Loan programs of Hungarian Development Bank (HDB)

A common characteristic of the interest of such loans granted to enterprises in course of the loan programs is that the currency in which the loan is denominated differs from the currency of the base rate used to determine variable interest rate on those loans (currency mismatch): according to IFRS 9, due to the currency mismatch, the contractual cash flows of the loans do not solely represent payments of principal and interest on principal outstanding.

Childbirth incentive loan

The childbirth incentive loan is part of the Hungarian Government's Family Protection Action Plan. The program started in July 2019 and will end in December 2022.

The program offers a state subsidized personal loan up to 10 million HUF to married couples with the condition that they bear at least one child within 5 years. Further state support is granted to an early redemption of the loan after the second child (30% capital repayment) and the third newly born child (full capital repayment). The loan is interest free for the customers who pay only the capital and the guarantee fee. The interest subsidy is equal to 130% of the weighted average of 5-year government bond yields observed on auctions regularly published by GDMA in the preceding 3 months plus 2%. In case of breaching the conditions, the customer shall pay back the interest subsidy within 120 days and the loan becomes interest bearing with an interest rate equal to 130% of the weighted average of 5-year government bond yields observed on auctions regularly published by GDMA in the preceding 3 months plus 5%. The Group regards the multiplier applied to GDMA average yields as a leverage factor inconsistent with a basic lending agreement and thus the contractual cash flows of childbirth incentive loans are deemed not to solely represent payments of principal and interest on principal outstanding.

Classification

At amortised cost

The Group measures its financial assets at amortised cost (AC), if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (hold-to-collect) and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

At fair value through other comprehensive income

The Group measures its debt instruments at fair value through other comprehensive income (FVOCI) 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 (hold-and-sell) and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The Group may make an irrevocable election at initial recognition for equity investments not held for trading and does nor qualify as a subsidiary, associate or joint venture, to measure subsequent changes in fair value in other comprehensive income. The Group makes this election on an instrument-by-instrument basis.

At fair value through profit and loss

All other financial assets – ie. not at amortised cost or at fair value through other comprehensive income – are measured at fair value through profit and loss (FVTPL).

The Group may make an irrevocable election at initial reconition to measure a financial asset at fair value through profit or loss, if it eliminates or significantly reduces an accounting or presentation mismatch.

II. Classification and measurement of financial liabilities

The Group measures financial liablities, except for financial guarantees and loan commitments, at amortised cost or at fair value through profit or loss.

At fair value through profit and loss

Financial liabilities at fair value through profit or loss include held for trading financial liabilities that are not derivatives and derivatives that are not in hedging relationships.

The fair value changes of financial liabilities at fair value through profit or loss after initial measurement are recognised in profit or loss.

At amortised cost

Financial liabilities at amortised cost are subsequently measured at amortised cost using effective interest method.

III. Reclassifications

The Group reclassifies a financial asset, when and only when it changes its business model for managing the financial asset.

If the Group reclassifies financial assets, the reclassification is applied prospectively from the reclassification date. The Group determines the reclassification date as the first day of the quarter following the business model change. The Group does not remeasure income, expence (including impairment losses or gains) and interest recognised previously.
The Group cannot reclassifiy a financial liability after initial recognition.

(4.11.3) Derivatives

Derivative financial instruments include forward foreign exchange contracts, interest rate swaps, forward rate agreements, futures and options (both written and purchased). Derivatives are measured initially and subsequently at fair value.

Derivative contracts are entered into with the purpose of trading, or for risk management purposes in order to hedge interest rate and foreign exchange risk. In addition, the Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and equity market risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, and options. The Group applies IAS 39 to the accounting for designated hedging relationships.

The Group holds structured issued bonds that contain both a liability component and an embedded derivative whose values are interdependent. Embedded derivatives are separated when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative meet the definition of a stand-alone derivative, if they were in a separate contract; and the combined contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the consolidated profit or loss.

Derivatives embedded in financial assets that are in the scope of IFRS 9 are never separated. In this case the entire hybrid instrument is assessed for classification as part of the SPPI test.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right to offset exists, and the parties intend to settle the cash flows on a net basis.

Interest income and expense from derivatives – irrespective whether derivatives are held for trading or held for risk management purposes – are recognised in statement of comprehensive income line item 'Net interest income' and changes in fair value less accured interest are recognised in statement of comprehensive income line item 'Net trading income and fair value result'.

(4.11.4) Hedge accounting

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and the hedged item(s), including the risk management objective and strategy in underta-king the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedging relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

In order to mitigate the possible liquidity difficulties from the economic damages caused by the COVID-19 pandemic the Government introduced repayment moratoria. In cases of loans that are eligible for the repayment moratoria and are also designated as a hedged instrument the Group manages the modified interest risk of the new cash flow profile in 2020 with the existing derivatives, from 2021 with new derivative instruments. The Group considers the changes in fair value arising from the modification of the cash flow profiles as a change in the hedging costs, consequently it has no effect on the retrospective effectiveness of the hedging relationships.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the changes in fair value of a recognised asset or liability that could affect profit and loss, changes in the fair value less accrued interest of the derivative are recognised immediately in profit and loss together with changes in the fair value of the hedged item that are attributable to the hedged risk under 'Net gains/losses from hedge accounting'. Interest income or expense arising from the derivative is reported as 'Net interest income'.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit and loss as part of the recalculated effective interest rate of the item over its remaining term.

The Group hedges fixed-rate loans, deposits, fixed-rate issued bonds and purchased bonds in fair value hedge relationships with interest rate swaps and cross currency interest rate swaps. Hedge accounting is applied on micro and on macro (portfolio) level as well. Under the latter case, a portfolio of (modelled) current account balances and a portfolio of fixed rate loans are designated as hedged items.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, the portion of the gain or loss less accrued interest on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss under 'Net gains/losses from hedge accounting'. Interest income or expense of the derivative is reported as 'Net interest income'.

The Group applies cash flow hedge accounting using interest rate swaps and cross currency interest rate swaps where the hedged portfolio is a group of foreign currency loans and forint deposits and the purpose of the hedge is to eliminate the fluctuation of the interest income and expense that arises from fluctuations in the base rates and in exchange rates.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively from that point of time when the hedging relationship became ineffective. The Group reclassifies gain or loss accumulated in other comprehensive income into profit or loss in the same periods during which the hedged asset or liability affects the profit or loss. However, if the Group expects that all or the portion of the loss in the other comprehensive income will not be recoverable then it reclassifies that amount immediately to profit or loss as 'Net gains/losses from hedge accounting'.

(4.11.5) Impairment of financial assets

The determination of expected credit losses requires accounting estimates that, as a definition, are rarely the same as the actual results.

The Group measures expected credit losses based on entire contractual term for financial instruments measured at amortised cost or at fair value through other comprehensive income, loan commitments, lease receivables and financial guarantee contracts. For these expected losses in each reporting period the Group recognises an impairment loss allowance (in case of financial assets) or provision (in case of loan commitments or financial guarantee contracts).

The Group does not recognise impairment for equity instruments.

Recognition of expected credit loss

In terms of expected credit losses, the Group classifies its assets to the following valuation categories:

Performing financial instruments where the credit risk of the financial instrument has not increased significantly since initial recognicition (Stage 1 classification):
For financial instruments classified to Stage 1, the recognition of 12 months expected credit loss is required, ie. expected credit loss attributable to the financial instrument, arising from default events within 12 months after the reporting date.

Performing financial instruments with a deteriorating credit risk profile, where the credit risk of the financial instrument has increased significantly since initial recognition (Stage 2 classification):
For financial instruments classified to Stage 2 the recognition of lifetime expected credit loss is required. Lifetime expected credit losses are credit losses arising from potential default events during the entire life of the financial instruments.

Credit-impaired financial instruments (Stage 3 classification):
Those exposures are classified as credit-impaired where there is objective evidence that the debtor will not be able to meet its payment obligations towards the Group. For financial instruments classified as Stage 3, the recognition of lifetime expected credit loss is required (see the definition above).

Purchased or originated credit impaired financial instruments (POCI classification):
POCI financial assets are those which are classified as credit-impaired at initial recognition. For the Group, POCI financial assets can be recognised by either purchase or contract modification, where the modification results in derecognition of the original financial asset and the recognition of the modified financial asset. In case of POCI financial assets, the recognition of lifetime expected credit loss is required from initial recognition until derecognition.

Low credit risk financial assets

The Group applies this qualification only in case of investment grade rated government securities, for which the Group always recognises 12-month expected credit losses, even if their credit risk has increased significantly since initial recognition. The Group classifies government securities as investment grade for which external credit rating agencies gave AAA and BBB- (Standard &Poor's, Fitch), and Aaa és Baa3 (Moody's) qualification.

Significant increase in credit risk (transfer to Stage 2)

TThe Group considers an increase in credit risk of a financial instrument significant since its initial recognition, when at least one of the following quantitative, qualitative or termination criteria are met:

Quatitative criteria

The Group applies quantitative criteria as primary indicators related to the signicicant increase in credit risk for all its portfolios. For the quantitative classification, the Group compares the actual and initial probability of default for the remaining maturity of the asset. The increase in probability of default (PD) differs for each segment (it is 250% for non-retail segment, but can decrease to minimum 150% for transactions with a maturity of over one year, in line with the reguations of the parent bank). In the retail segment (households and micro enterprises) the determination of significant increase in PD is based on the initial and actual credit rating, remaining maturity and the PD curve. The measure for significant portfolio deterioration was determined on the basis of the PD estimated for the remaining maturity of a financial asset at the date of disbursement divided by the current PD for the remaining maturity, disaggregated into products of the retail portfolio.

Qualitative criteria

For the determination of significant increase in the credit risk for all its material portfolios, the Group uses qualitative criteria as secondary indicators. The transfer to Stage 2 is carried out if the following criteria are met:

In case of sovereign, banking and corporate financial institutions, local and regional government portfolios, if one of the following criteria are met for the borrower:

- renegotiation because of financial difficulties;
- past-due for more than 30 days;
- the client requires special treatment because of its credit risk status,
- in accordance with IFRSs and the parent bank's policies, those transactions that are in line with other holistic criteria, where the Group identifies significantly increased credit risk since disbursement that cannot be captured with the help of other Stage 2 indicators.

The Group applies the holistic criterion defined in a policy for those non-retail real estate financing transactions where the risk of non-repayment could significantely increase if both of the following conditions are met:

- the current yields are lower than the long-term average,
- the financing involves significant baloon (>50%).

The Group reviews on a yearly basis and at the individual level whether the above conditions are met and if the long term yields fall below the yield of a transaction then that transaction is reclassified to Stage 1.

The review of the significant increase of credit risk includes forward looking information and is carried out quarterly for each non-retail potfolio of the Group.

In case of retail (individuals and micro enterprises) portfolios, if the borrower meets one of the following criteria:

- renegotiation because of financial difficulties;
- expert judgement;
- past-due for more than 30 days;
- default event at another transaction of the client,
- the transaction or client rating is unrated.

The review of the significant increase of credit risk includes forward looking information and is carried out monthly for each retail potfolio of the Group at the transaction level.

For the information related to the increase in credit risk due to COVID-19 please see Note 6.2 Credit risk.

Definition of credit-impaired loans (transfer to Stage 3)

In case of **non-retail clients** in line with the definition of credit-impaired loans, the Group consideres a debt instrument defaulted if it meets one of the following criteria:

Quantitative criteria

The borrower has material contractual payments past due for more than 90 days compared to its contractual payment obligation. It is not possible for borrowers with contractual payments past due for more than 90 days to be classified to a category other than Stage 3.

A payment delay is considered material, if the overdue amount reaches HUF 150,000 and the ratio of the overdue amount to the total on-balance outstanding amount from the same client reaches 1%.

Qualitative criteria

It is expected that the borrower cannot fulfill its payment obligations, which indicates that the borrower is experiencing significant financial difficulties. A non-retail client turns into default due to expected non-payment in the following cases:
- legal claim enforcement procedure (bankruptcy, liquidation) starts against the client;
- the Group terminates the financing agreement with immediate effect;
- the Group restructures the obligation with material losses due to existing financial difficulties in line with the above mentioned materialiaty limit;
- the Group suffers credit losses due to the client, or it sells the asset with losses due to financial difficulties (tipically these are not primary defaults);
- in case of financial institutions, the supervisory license is withdrawn;
- repayment moratoria in a country.

In case of probable expected credit losses due to other reasons: for the purpose of assessing expected credit losses, in order to sort out clients with financial difficulties, the Group applies a complex early warning system and process based on qualitative and quanitative indicators, which examines the expected credit losses and expected recoveries of the client using financial indicators.

The Group classifies every transaction that meets the default definition of IFRS as non-performing and categorises them as Stage 3 for impairment and provision calculation purposes.

The criteria mentioned above are applied for non-retail debt instruments of the Group and are in line with the definition of non-performance used in internal credit risk management. The definition of default is applied consistently in the Group's models relating to probability of default (PD), exposure at default (EAD), and loss given default (LGD).

If the criteria of default are not met for at least 3 months or in case of restructured loans for more than 3 months, but at least for a 1 year period, the asset is not considered defaulted anymore.

In itself the participation in the statutory debt instalment repayment moratoria for the 2020 economic crisis caused by the coronavirus is not considered as an evidence for expected credit loss, consequently it does not trigger automatic transfer to Stage 3, if the normal and regular risk assessments, monitoring activities, impairment test does not indicates this.

During the repayment moratoria, the DPD calculations have been terminated for the outstanding balances eligible for the moratoria.

In case of retail clients , the Group considers a debt instrument arising from a financing agreement as defaulted in line with the definition of credit-impaired, when one or more of the following criteria are met:

Quantitative criteria

If the financial asset is in a material payment delay for more than 90 days compared to the contractual payment obligation arising from the financing agreement.

A payment delay is considered material, if the delay related to the financing agreement reaches the the HUF equivalent of EUR 100 and 1% compared to the total (delayed and non-delayed) exposure from the transactions (in case of microcompanies total exposure from the same client).

Qualitative criteria

It is expected that the borrower cannot fulfill its payment obligation, which indicates that the borrower is experiencing significant financial difficulties. A retail client turns into default due to expected non-payment in the following cases:

- the debtor passed away;
- the debtor committed a fraud;
- legal claim enforcement procedure (bankruptcy, liquidation) starts against the micro enterprise client;
- the Group sold the receivable due to its high credit risk,
- terminating the financing agreement with immediate effect;
- restructuring the obligation due to financial difficulties;
- envisaging expected credit losses due to oher reasons,
- there is a cross-default, i.e. another transaction of a client or an other client's default causes default of a certain transaction.

An asset is no longer considered defaulted when the criteria of default have not met for 3 months, or in case of restructured loans for 1 year, and the client fulfils all other conditions to be classified out of the 'defaulted' category.

The Group considers every credit-impaired (see the definition above) transaction defaulted and classifies it to Stage 3 for the purposes of impairment and provisioning. The criteria above are applied to all retail debt instruments of the Group.

Measurement of expected credit losses

The amount of expected credit loss is an unbiased probability-weighted amount that takes into consideration the time value of money, uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

More specifically, the Group measures expected credit losses in the following way:

In case of Stage 1 and Stage 2 exposures: The marginal expected credit loss for the given month is the product of PD, LGD and EAD. The above calculation estimates the future amount of expected credit losses effectively, from which the Group calculate a present value for the reporting date. Then the calculated amount of expected credit losses is weighted based on a forward-looking scenario.

The Group applies different models for estimating its reserves for **Stage 3 exposures:**

- In case of exposures to sovereigns, corporate clients, project financing and financial institutions, local and regional municipalities, insurance undertakings and collective investment companies in Stage 3, the reserves are calculated by workout experts by discounting the expected reocveries with the effective interest rate of the transactions. The expected recoveries are calculated on a client basis and the experts provide estimates in more scenarios and the probability-weighted averages of the different scenarios are taken into account in the present value calcuations.

- In case of Stage 3 retail loans, the expected credit loss is calculated by adjusting statistical estimates for most likely expected loss (BEEL, Best Estimate of Expected Loss) to remove indirect costs, and conservative add-ons from those estimations.

Discount rate

The Group applies the following discount rates when calculating the expected credit losses:
- financial instruments and financial assets which are not purchased or originated credit-impaired (non-POCI): original or current effective interest rate;
- purchased or originated credit-impaired financial assets (POCI): the credit-adjusted effective interest rate;
- undrawn loan commitments: market interest rate which is an appropriate approximation of effective interest rate;
- financial guarantees: market interest rate which is an appropriate approximation of effective interest rate;
- lease receivables: interest rate implicit in the lease

Forward looking information

Assessment of whether credit risk has increased significantly since initial recognition and the measurement of expected credit losses are estimations incorporating also forward-looking information. The Group performed a chronological analysis and determined the most significant economic variables influencing credit risk and expected credit losses in case of each portfolio.

These economic variables and their impact on the probability of default, loss given default and exposure at default can vary across types of categories. While making this analysis, also expert estimations were used. The forecasts of the above economic variables ('base case economic scenario') is provided by Raiffeisen Research quarterly, giving the best estimates of those economic indicators for the following three years. The impact of those economic variables on the probability of default, loss given default and exposure at default is determined by using statistical regressions in order to make the impact of historical development of such variables on default rates, non-performing exposures and expected losses understandable.

In case of retail portfolios, the Group applies a macroeconomic model based on these economical variables in order to estimate the probability of default. Based on this model the effect of forecasted change in PD is estimated for a 3-year period, then it returns to the original PD curve.

Besides the base economic scenario, a best case (optimistic) and a worst case (pessimistic) scenario is also provided by Raiffeisen Research, together with their weighting in order to grab the expected variance. The Group concluded that three scenarios capture the expected variance properly. The weighting of the scenarios is determined by the combination of statistical analysis and expert credit rating taken the outcomes of the selected individual scenarios into account. The probability-weighted expected credit losses are determined by running the appropriate expected credit loss model to the respective scenarios and weighting the results, the weights being the probabilities of the scenarios. The weights of the scenarios (probability of the scenarios: 50% base, 25% optimistic, 25% pessimistic) re-mained the same in 2020, since the effects of the COVID were reflected in all of the worse expectation (for example in forecasted fall back in the GDP, after that in the increasing unemployment rates).

Like all economic forecasts, these estimates and their probabilities of occurrence are prone to significant uncertainties and thus actual outcomes might significantly differ from forecasts. It is the Group's view that these forecasts represent the best estimate of the possible results and cover eventual differences and asymmetries concerning the various portfolios of the Group.

Recognition of expected credit losses in the statement of financial position

The Group recognises expected credit losses in its statement of financial position as follows:

- for financial assets measured at amortised cost: as loss allowance which is deducted from the gross carrying amount of the asset;
- for loan commitments and financial guarantee contracts: as a provision;
- for financial assets measured at fair value through other comprehensive income: the impairment is not recognised in the statement of financial position, since the carrying amounts of these assets are their fair values. The Group recognises the impairment for these financial assets in the reserve for fair value measurement and discloses those amounts in the Notes.

(4.11.6) Write-off of financial assets

Loans and debt instruments are written off (partially entirely), if the Group has no reasonable expectations of recovering a financial asset or a portion thereof. Generally, this is the case if the Group believes that the debtor does not have sufficient assets that generate enough cash flow to repay the amount to be written off.

In a legal claim enforcement procedure, the Group considers the following factors when deciding on the write-off of a loan to clients other than individuals:

- the claim has been qualified as irrecoverable in a legal claim enforcement procedure (liquidation, enforcement);
- the recoverable amount does not cover collection costs; or
- the expected recovery of the Group is zero in a liquidation procedure based on the ranking order of creditors

The Group applies the partial write-off rules of IFRS 9 for loans to non-individuals, if it has no reasonable expectations of recovering a financial asset in its enterity, based on ongoing legal claim enforcement procedure or the operating cash flows of the client. In these cases, partial write-off is applied to the extent of the existing loss allowance. The legal claim towards the client remains the contractual receivable amount before write-off.

Foregiveness of receivables is also possible for non-individuals and it qualifies as a derecognition event. Foregiveness is only possible with taking the requirements of business rationality into account. Not only business and economic considerations can be reasonable, but also any other considerations, e.g. legal, technical, technological or other.

A loan to an individual can only be written off, if the recoverable amount does not cover collection costs and the claim was qualified as irrecoverable.

The write-off or foregiveness of a loan is recognised in the statement of profit or loss, depending on the classification of the financial asset under either 'Impairment losses on financial assets' (loans measured at amortised cost or at fair value through other comprehensive income) or 'Net trading income and fair value result' (loans measured at fair value through profit or loss). Any return on a loan previously written off is recognised under the same lines in the statement of profit or loss.

(4.11.7) Derecognition of financial assets and liabilities, other than contract modifications

The Group derecognises a financial asset, when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group also enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and sale and repurchase transaction.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of the ownership of a financial asset, it derecognises the asset, if it does not retain control over the asset. If the Group retains substantially all the risks and rewards, the rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate in the balance sheet items of placements with banks, other assets, deposits or other liablities depending on the nature and direction of the transaction. In transfers in which control over the financial asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial assets for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset is recognised for the servicing contract if servicing fee exceeds the value of the service and a liability is recognised for the servicing contract if servicing fee is lower than the value of the service.

The Group enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical securities at a certain date in the future at a fixed price. Securities purchased subject to commitments to resell them at future dates are not recognised as securities. The amounts paid are presented in the statement of financial position line item 'Financial assets at amortised cost' and disclosed as collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised and measured in the consolidated statement of financial position as part of the securities portfolio. The proceeds from the sale of the securities are included in the statement of financial position line item 'Financial liabilities at amortised cost'. The difference between the sale and repurchase considerations is recognised on an accrual basis over the term of the transaction and is included in interest income or expense, respectively.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The net result from derecognition of financial assets and liabilities is in 'Net trading income' or Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss' ' line items of the statement of profit or loss.

(4.11.8) Modification of financial assets and liabilities

I. MODIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

The Group carries out an evaluation when the contractual cash flows of a financial asset are renegotiated, otherwise modified or exchanged for another financial asset. If the renegotiated cash flows significantly differ from the contractual cash flows of the original financial asset, the original financial asset is derecognised and the new financial asset is recognised at fair value on the date of the renegotiation. The difference between the carrying amount of the original financial asset and the fair value of the newly recognised financial asset is included in the line item 'Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss' in the statement of profit or loss.

The Group evaluates significance based on the following criteria:

- qualitative criteria:
  o change of currency, when the contract does not allow draw-downs in multiple currencies;
  o the financial instrument changes;
  o addition or elimination of a parameter that violates the SPPI test,
- quantitative criteria:
  o the cumulative average remaining term of the contract weighted with the cash flows changes by more than 2 years or 50% of the original term (considering the larger of the 2 criteria);
  othe net present value of the modified contractual cash flows discounted using the original effective interest rate (for floating rate instruments, using the actural effective interest rate) differs from the net present value of the original contractual cash flows discounted with the same interest rate by more than 10% and in case of non-retail financial assets by EUR 100,000, in case of retail assets by EUR 2,000 EUR (considering the larger of the 2 criteria).

If the modified cash flows of an asset measured at amortised cost do not differ significantly from the cash flows prior to the modification, the modification does not result in derecognition. In this case, the Group recalculates the gross carrying amount of the financial asset and the difference between this amount and the gross carrying amount of the asset prior to the modification is recognised as a modification gain or loss in the statement of profit or loss. If the modification was carried out in relation to the financial difficulties of the client, the modification gain or loss is presented in the statement of comprehensive income in the line item 'Impairment losses on financial assets'. In other cases, the modification gain or loss is presented in the statement of comprehensive income in the line item 'Other result'.

In case of contracts eligible for the repayment moratoria the difference between the net present value of the modified contractual cash flows discounted using the original effective interest rate (for floating rate instruments, using the actual effective interest rate) and the net present value of the original contractual cash flows discounted with the same interest rate did not exceed the 10% treshold, therefore it is considered as an insignificant renegotiation, consequently the Group presents the corresponding modification loss or gain in the statement of comprehensive income in the line item 'Other result', and the gross carrying amount was modified in the statement of financial position.

Any fees taken into accounting in determining the fair value of the new financial asset and any reimbursed transaction costs incurred during the modification adjust the amortised cost of the modified financial asset. Other transaction costs are recognised as part of the gain or loss on the derecognition.

Financial liabilities

The Group derecognises the financial liability, if its terms are modified and the modified cash flows significantly differ from the original cash flows (the evaluation of significance is the same as for financial assets). In this case, the carrying amount of the original financial liability is derecognised and the modified financial liability is recognised at its fair value at the date of modification. The difference between the carrying amount of the derecognised liability and the fair value of the new, recognised liability is reported as 'Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss' in the statement of profit or loss.

If the modified cash flows of a liability measured at amortised cost do not differ significantly from the cash flows prior to the modification, the modification does not result in derecognition of the financial liability. In this case, the Group recalculates the amortised cost of the financial liability and the difference between this amount and the amortised cost of the liability prior to the modification is recognised as a modification gain or loss as 'Other result'.

If the modification does not result in derecognition, transaction costs and fees incurred during the modification adjust the amortised cost of the financial liability.

If the modification results in derecognition of a financial liability, transaction costs and fees incurred during modification are normally recognised in the statement of profit or loss, unless they are proven to be directly attributable to the recognition of the modified financial liability.

(4.11.9) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(4.11.10) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. The Group, as a lessor, recognises assets held under a finance lease in its consolidated statement of financial position as receivables (under 'Placements with banks' and 'Loans and advances to customers' as appropriate) at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease. Lease payments relating to the accounting period are applied against the gross investment in the lease to reduce both the principal and unearned finance income.

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'Property and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the equipment is thereby impaired.

(4.12) Deposits, debt securities and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value less directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(4.13) Provisions for contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities, which include commitments and certain issued guarantees, and other liabilities, which include pending legal issues and employee benefits, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group.

The timing of the possible outflows depends on the occurrence, or non-occurrence of future events. In case of commitments and issued guarantees the event could occure at any time up to the expiry date while in case of pending legal iussues it could by expected to occur at the date of closing the legal case.

(4.14) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported as provision.

Further details are set out in Note 41 Contingent liabilities and commitments.

(4.15) Interest income and interest expense

Interest income on financial instruments, calculated using the effective interest method are presented in the line item 'Interest income calculated with the effective interest method', negative interest on demand deposits at the National Bank of Hungary and on financial liabilities is presented in the line item 'Other interest income' and interest on financial liabilities as well as negative interest on financial assets is presented in the line item 'Interest expenses' in the statement of profit or loss. Interest income and expense for financial instruments measured at fair value through profit or loss in trading book and classified as held for trading, as well as derivative instruments designated for risk management purposes are presented in 'Other interest income' and 'Interest expenses'. Interest income for loans measured at fair value through profit or loss is presented in 'Other interest income' and interest expense for deposits measured at fiar value through profit or loss is presented in 'Interest expenses'. In case of derivatives, the interest is separated from other changes in fair value, and as a result the interest result only contains realised and unrealised interest results from derivatives.

The effective interest rate method is the method used for the calculation of amortised cost of financial assets and liabilities and the allocation of interest income and expense between different reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life (or a sometimes a shorter period) of the financial asset or financial liability to the net carrying amount of a financial asset or a financial liability. The effective interest rate is determined at the initial recognition of the financial asset or financial liability and is revised in case of financial instruments with a floating interest when the floating interest rate is periodically reset. When calculating the effective interest rate, the Group estimates future cash flows by considering all contractual terms of the financial instrument. The calculation contains all paid or received amounts which are an integral part of the effective interest rate, including transaction costs and any other premium and discount. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Calculation of interest income

The Group calculates the effective interest on financial assets that are not credit-impaired (Stage 1 and Stage 2) by applying the original effective interest rate to the gross carrying amount of the financial asset. In case of credit-impaired (but not POCI) financial assets, the interest is calculated by applying the original effective interest rate to the amortised cost (net carrying amount) of the financial asset. If the financial asset is reclassified to a non-credit-impaired category (Stage 1 and Stage 2), the base for effective interest calculation reverts to the gross carrying amount. For POCI financial assets, the interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost (net carrying amount) of the financial asset until derecognition.

(4.16) Fee and commission income

Every realised and accrued fee and commission income is recognised as a fee and commission income, except for those that are included in the calculation of the effective interest rate of financial instruments and which relate to financial instruments measured at fair value through profit or loss.

The Group applies IFRS 15 Revenue from contracts with cutomers standard for its fee and commission income. This determines a five-step model, which serves as a universal framework for the accounting of revenue.

The method of recognising fee and commission is the following:

i. Identifying the contract
In the Group's practice, a contract is an agreement between two or more parties that creates enforceable rights and obligations. Based on the regulated nature of the Group's business activities, the contracts can be documented oral or written arrangements. Irrespectively of its form, a contract has economic substance and establishes legally enforceable rights and obligations

ii. Identifying the performance obligations in the contract
Based on the contract, this step determines which specific proposed service or which combination of specific proposed services are considered as separate performance obligation.
The Group determines a service to a client to be distinct, if the following two criteria are met:
• the client can utilise the service either on its own or together with other readily available resources (which means that the service is capable of being distinct); and
• the service is separately identifiable from other promises in the contract.

iii. Determination of the transaction price
The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring services to a customer, excluding amounts collected on behalf of third parties.

Variable consideration
The Group takes into account the variable consideration partially or as a whole, if it is highly probable that no significant reversal will occur in the amount of the recognised accumulated revenue when the uncertainty relating to the variable consideration is resolved. For the purpose of assessing this, the Group takes both the probability and the magnitude of reversal into account.

iv. Allocation of the transaction price to performance obligations
The Group's objective of allocating the transaction price is to allocate the transaction price to each performance obligation in an amount to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer. For the purpose of the allocation objective, the transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. The stand-alone selling price is the price at which the Group would sell a promised service separately to a customer.

v. Recognition of fee and commission income
The fee and commission income is recognised when the Group satisfies the performance obligation by transferring the proposed service to a customer. This may happen either at a point in time or over time.

Given the activities of the Group, the revenue from services is recognised at a point in time or over short, mostly over monthly periods. There can also be quarterly or yearly fees or commissions which entitle the counterparty of the contract to utilise the related services for those periods.

All significant services of the Group generating fee and commission income are detailed in Note 8 Net fee and commission income.

(4.17) Net trading income and fair value result

Net trading income comprises gains less losses related to trading and non-hedging assets and liabilities held for risk management purposes, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(4.18) Other operating income and expense

Other operating income and expense comprises realised gains and losses on disposal of inventory, intangible assets, and property and equipment and sundry items that cannot be classified elsewhere.

(4.19) Dividend income

Dividend income is recognised when the right to receive the income is established. This is usually the date of the approval of the dividend in case of equity instruments.

(4.20) Employee benefits

The Group applies the requirements of the IAS 19 Employee benefits standard. Employee benefits are considerations given in exchange for service rendered by employees.

Short-term employee benefits comprise of wages, salaries and social security contriutions that are due to be settled within twelve months, short-term compensated absences, profit sharing plans, bonuses and non-monetary benefits.

Long-term employee benefits are other bonuses and compensations payable more than twelve months after the reporting period.

The Group only recognises liabilities or assets relating to termination benefits, if it is demonstrably committed to terminate the employment.

Employee benefits are reported as 'Staff expenses' and more information is detailed in Note 15 Staff expenses.

(4.21) Income tax

Income tax for the period comprises current and deferred tax. Income tax is recognised in the consolidated income statement, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. The Group considers the business tax and the innovation contribution as part of income tax.

Current tax is the calculated tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date as well as any adjustments to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

Deferred tax relating to fair value re-measurement of available-for-sale investments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in profit or loss when the accumulated fair value gain or loss is recognised in profit or loss.

(4.22) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(4.23) Additional Tier 1 Capital

The Group presents, in accordance with IAS 32.16, bonds issued that do not include contractual obligation to deliver a fix or determinable number of currency units, as equity instruments in its financial statements.

In the case such bonds are denominated in foreign currency, as non-monetary items, they are translated into the functional currency, in accordance with IAS 21.23 b), at the exchange rate prevailing at the date of the transaction (historical exchange rate).

(4.24) Government grants

Governmant grants are specific resources that relate to operating activities of the Group and are transfered by the state (government and its agancies) in return for compliance with certian conditions. These can be in several forms, such as grants related to assets, grants related to income, forgiveable loans, and low-interest loans.

The government grants are recognised by the Group only when there is reasonable assurance that the Bank will comply with the conditions attaching to them, and that the grants will be received.

The government grants are initially recognised at fair value according to IAS 20 standard. According to the income approach the Group records these grants in profit or loss over the period when the costs/expenses which are intended to be compensated by the grant are recognised.

The government grants related to assets are presented, applying the method of gross presentation, as deferred income and is proportionately recognised to profit or loss over the life of the asset thereby reducing depreciation charge for the period.

(5) Events under the reporting period

(5.1) New standards and interpretations not yet effective

The following standards, modifications of standards and interpretations are not applied in the financial statements, as they are not effective for the reporting period ended 31 December 2020 and the Group did not opt for earlier application

Amendments to IAS1 (Long-term and short-term classification of liabilities, effective date: 1st January 2022)

The aim of the amendments to IAS1 is to clarify those criteria on the basis of which liabilities are classified as current or long-term. In the future, that classification of liabilities shall be based exclusively on rights existing at the end of the reporting period. The amendments also provide further guidance of the interpretation of the right to defer financial settlement for at least twelve months, and clarify what constitutes a financial settlement.

Amendments to IAS16 (Property, plant and equipment – revenue before ordinary use, effective date: 1st January 2022)

The amendment prohibits the deduction of revenue, that arises before the property, plant and equipment is operated at the corresponding location and in accordance with management's intensions, from cost. After the amendment becomes effective, these gains or losses will be recognized in net income, regarding products produced in the trial run for which the rules of IAS 2 Inventories will be applied.

Amendments to IAS 37 (Onerous contracts – Contract performance costs, effective date: 1st January 2022)

The changes specify that the cost of performing the contract includes costs that are directly related to the contract. The contract costs directly related to the performance of the contract may be incremental costs (such as direct labor, materials), or an allocation of other costs directly connected to the performance of the contract (such an allocation of depreciation of tangible asset used for perform the contract).

Amendments to IFRS 3 (Reference to the Frameworks, effective date: 1st January 2022)

The changes update the IFRS3, in orfer to reference on the 2018 framework instead of the 1989 framework. The amendments consist two changes: In case of transactions and other events under IAS37 or IFRIC21 in order to identify the obligations by business combinations. The amendments make clear guidance that the aquirer shall not recognize the contingent aseets obtained via business combination.

Annual improvements to IFRS – period 2018-2020 (effective date: 1st January 2022)

Amendments to IFRS9, IFRS16 and IAS41:

Amendment to IFRS9 (Financial Instruments)

Amendments clarify that in case of assessing whether an exchange of debt instrument between a borrower and a creditor is under significantly different conditions, the fees to be charged together with the discounted present value of the cash flows under the new terms include only fees received or paid between the borrower and the creditor, including fees received or paid by borrower or creditor on behalf of the other.

Amendment to illustrative examples of IFRS16 (Leases)

As a result of the amendment, from Illustrative example 13 connected to IFRS16 the reference of the refund for the improvement of a leased property provided by the lessor to the lessee is removed, as well as the explanation of accounting applicable to the lessee in case of such return.

Amendments to IAS41 (Agriculture)

Amendments eliminate the requirement to use pre-tax cash flows when measuring the fair value of agricultural assets. Previously, IAS41 required the entities use pre-tax cash flows in determination of fair value, but did not prescribe the use of a pre-tax discount rate to discount these cash flows.

IBOR reform

The Group did not adopt early the amendments due to the phase 2 of the IBOR reform (IFRS 9, IAS 39, IFRS 7, IFRS 4 és IFRS 16 – issued2020. augusztus 27-én kibocsátva, hatályos a 2021. január 1-jén vagy azt követően kezdődő éves időszakokra, a korábbi alkalmazás megengedett), it is still under evaluation whether these amendments have significant on the Group's financial statements.

One of the focuses of the amendments due to the Phase 2 of the IBOR reform is the introduction of a practical solutions for the contract modifications, which is a potentially relevant topic for the Group:

- According to the amendments of the IFRS 9 Financial Instruments standard a modification of a contract may require a significant gain or loss in the statement of profit and loss. However, the amendments due to the phase

2 of the IBOR reform introduce a practical solution, if the contract modification is due to the IBOR reform and is on the basis of the economic equivalents. In these cases, the modification of the contracts are recognized through to actualization of the effective interest rate.
- Such practical solution is applicable under the IFRS 16 Leases standard too, when recognizing the leasing modifications due to the IBOR reform by the lessee.

The standards, amendments and interpretations presented above are not expected to have a material impact on the Group's consolidated financial statements.

(5.2) Significant events in the reporting period

The coronavirus was officially declared as pandemic by the WHO on 11 March 2020. Hungary has been hit by the pandemic three times.

At the beginning of the first wave, the Operational Body responsible for the defence against the pandemic was established by the government on 21 January 2020, and on 11 March 2020 the government declared national emergency status, a special legal status. Restrictions were introduced which were terminated step-by-step from the beginning of May after the fade of the first wave.

As the second wave started, at first the restrictions were less stringent, but due to the increasing number of infections in November 2020, strict restrictions were introduced again from 1 November 2020: curfew at night, most shops could be open until 7 pm, remote learning was introduced at schools from the 9th class and at the universities and colleges as well.

Due to the more dramatic third wave, restrictions were once again introduced in March 2021: starting from March 8 kindergartens and primary schools were closed for a month, and only the crucially important shops could be open.

During the pandemic, many compensation actions have been introduced among which the ones that effect the financial sector significantly are the following:

Repayment moratorium 1

The Hungarian Government introduced a repayment moratorium with its Act LVIII/2020 on the temporary rules related to the termination of the emergency and on the pandemical preparedness, furthermore with Decree nr. 47/2020. (III. 18.) along with the Decree nr. 62/2020. (III. 24.) which is about the detailed rules for the general actions (repayment moratorium 1). Clients who entered the moratorium have no payment obligations due to the Group unitl 31 December 2020 arising from their credits, loans and financial leases disbursed in accordance with agreements that had been signed until and were effective on 18 March 2020 12 p.m. and for which disbursement had already been made. Both the retail and the Hungarian corporate debtors are eligible for the repayment moratorium. The debtors are able to choose to maintain the payments in line with the original contractual terms. Contracts maturing during the repayment moratorium are extended. With regard to the repayment moratorium, the Group relaxed the collection of instalments, interests and fees in case of contracts eligible for the moratorium. In case of these contracts, the instalment, interest and fee payment obligations were deferred beyond the end of the repayment moratorium and should be paid over the remaining term in yearly equal instalments. After the end of the repayment moratorium, the maturities shalll by extended so, that instalment payable after the end of the repayment moratorium cannot exceed the instalment according to the original contract. In line with the legislation, the Group closed the 2020 repayment moratorium, and informed its clients about repayment schedule and due dates of their 2020 payment obligations that were deferred.

Decree about the APR

The substantive decrease of the annual percentage rate of charge (APR) for newly distributed retail loans helps to mitigate the temporary liquidity difficulties of households. According to the Gov. Decree nr. 178/2020. (V. 4.), until the end of 2020, the Government maximized the APR of retail consumer loans taken from 19 March 2020 at 5.9% (central bank base rate plus 5 percentage point). The maximised APR is not applicable for mortgage loans.

Repayment moratorium 2

The Act CVII. of 2020 about the temporary actions in order to stabilize the situation of particular society groups and enterprises with financial difficulties, along with the Government Decree nr. 637/2020. (XII.22.) about special rules related of the repayment moratorium in connection with the emergency situation provided a repayment moratorium (repayment moratorium 2) and prohibited the termination of loan agreements from 1. January 2021 to 30. June 2021 for loans distributed in accordance with loan and credit contracts effective on 18. March 2020. The repayment moratorium 2 has the same substance as the repayment moratorum provided between 19. March 2020 and 31. December 2020 based on the Act on Repayment Moratorium 1.

Loan programs

For the loan programs introduced due to the pandemic please see the section about the loan portfolio in the Note 6.2 Credit risk.

Actions by the national Bank of Hungary

The NBH tries to mitigate the stress due to the coronavirus pandemic in the financial markets. This objective is served by the introduction of a long term, secured, fixed interest loan instrument with unlimited budget, along with relaxing the sanctions upon under-reserving, whereby the central bank gives exemption to the banks from complying with the mandatory reserving requirements. Additional actions are adding loans provided to large enterprises to the scope of collaterals acceptable by the central bank and restructing the conditions of swap tenders, which substantively strengthen the liquidity status of the banking system. The National Bank continuously monitors the possibilities of additional measures to improve the liquidity of the banking system.

The NBH supports and strengthens financial stability with all means at its disposal and therefore inteds to mitigate the effects of the coronavirus pandemic on the financial sector with explicit measures. The guidances secure maintaining the continuous operation of the financial service providers, while the set of actions reduce the banks' administrative burdens and enable flexible treatment of macro and micro prudential rules. The temporary restriction on dividend payments and making the regulatory limits for foreign exchange financing stricter strengthen the banking system. These actions support overcoming the temporary difficulties and maintaining the lending capacity of the banking system.

Despite the unprecedented situation, the Group's cooperation with clients remains smooth, the continuous contact is secured.

(6) Financial risk management

(6.1) Introduction and overview

The Group's principles of managing interest rate risk, foreign currency risk, credit risk and liquidity risk are subject to regular review performed by management and by the Board of Directors.

Risk management is operated independently from business areas. Credit risk management is operated by the Credit Risk Management Department (CRM) in case of clients with non-standard products and services, and by Retail Risk Management Department (RMM), in case of clients with standard products.

Individual credit risk analysis, credit rating, credit assessment and credit monitoring is performed by the CRM; portfolio level credit risk measurement and analysis of market (interest rate, foreign currency, liquidity) risks and operational risks is performed by the Integrated Risk Assessment Department (IRD).

The Group is exposed to the following risks:

i. Credit risk
ii. Market risk
iii. Liquidity risk
iv. Operational risk

This explanatory note describes the Group's exposure to the above risks, its objectives, policies and processes for measuring and managing those risks and its capital management.

(6.2) Credit risk

Credit risk is a risk of financial loss arising from a customer's or client's non-performance of its contractual obligations. It primarily arises from the Group's lending, commercial financing and leasing activities, however it also might arise from specific off-balance sheet products (e.g. guarantees) or from investment debt securities.

Credit risk management

Limits to lending activities are defined by the balance of business and risk considerations which are established by Group's management, within the frame of the Act on Credit Institutions, other laws and regulations and the Group's Credit Policies.

The Group's lending activity is primarily cash flow based, where the cash flows expected from the client's core business activity serve as the basis of repaying the loan. In certain cases, more emphasis is put on collateral value, expected future income from the financed project, recovery rate of a portfolio or the combination of those. Accordingly, lending decisions are made based on the amount of the loan requested, its term, the type of the product, financial situation, non-financial characteristics and prospects of the client and on the collaterals.

Credit risk arises primarily from the non-performance risk related to banking activities involving retail and corporate clients, banks and municipalities as lenders. Non-performance risk is the risk that a client will not be able to fulfil its contractual financial obligations. However, credit risk might also arise from migration risk, from the concentration of lenders, credit risk mitigation techniques and from country risk.

Credit risk is the main risk factor within the Group, which is also indicated by the internal and regulatory capital requirements. Thus, the Group assesses and monitors credit risk both on individual and on portfolio level. Credit risk management and lending decisions are based on the corresponding credit policies, credit risk handbooks and on the tools and processes developed specifically for this purpose.

Internal credit risk controlling system involves various types of monitoring measures which are closely integrated in the process starting with the client's application for a loan, continuing through Group's approval and ending with the repayment of the loan.

Losses arising from credit risk are accounted for by recognising impairment on individual and on portfolio level. In the latter case, impairment is recognised for portfolios consisting of loans which have the same risk profile and fulfil certain conditions. In retail business, unit impairment is recognised on the level of product portfolios.

Impairment associated with the credit risk of loans and advances to clients and banks is recognised in the amount of expected credit loss, and is based on group level standards. Impairment loss is recognised, if the present value of the principal and interest amounts expected to be repaid – taken any collateral into account – is lower than the carrying amount of the respective loan. Impairment on the portfolio level is calculated based on a valuation model that estimates cash flows expected from the loans in the portfolio based on historical loss experience, taking the economic environment and forecasts of future economic conditions into account.

The Group prepares integrated forecasts for provisions, impairment, capital requirement and profit and loss after tax and performs stress testing bi-annually. Based on expectations about the macroeconomic environment, we estimate default rates and their impact on the above amounts using statistical models. The period of the forecasts is 3 years and we analyse Pillar I and Pillar II capital adequacy in case of both expected and pessimistic scenarios. Starting from the current year, forecast period used for stress scenarios also covers 3 years.

The Group reacted to the financial difficulties of its clients caused by the financial and real economic crisis with restructuring measures, introducing early warning processes and strengthening of collection and debt management procedures.

Effect of the COVID-19 on the credit risk management

The events that are under actions of the government decided until 30.09.2020 in order to mitigate the economic crisis due to the COVID-19 pandemic, according to the guidelines of EBA (https://eba.europa.eu/eba-provides-clarity-banks-consumers-application-prudential-framework-light-covid-19-measures) should be considered as follows in relation to default:

- The exercise of a guarantee provided by the state or state organisation for mitigating the economic effects of the crisis is not considered as a default event.
- The public repayment moratoria („public moratoria") introduced in order to mitigate the economic effects of the crisis or the general moratoria introduced by the Group ("private moratoria") is not considered as a financial difficulty. In this relation the general moratoria introduced by the Group is defined as a program, which is available for a clearly identifiable group of clients and in this group the client's financial and real economic difficulties are not investigated individually.
- Under the repayment moratoria - according to the above point – the payment delay is not applicable, neither is the default upon 90+ past due status. The payment delay should be interprered based on the new payment schedules after the end the moratoria.
- rescheduling of payments according to the above should not on their own be considered when assessing forced rrestructuring.
- It does not automatically qualify for a bad financial situation, when the Group introduces special attention and monitoring for the closer tracking of some clients, therefore it does not indicate an automatic trigger for impairment testing.
- The Group still has to investigate individually the financial difficulties of these clients and whether other default trigger exists, furthermore for contracts or modifications of contract not in the scope of the actions detailed above, the general rules. This is disclosed in Note 4.9.5 Impairment of financial assets.

Retail segment

LENDING FRAMEWORK AND RISK POLICY

Retail segment

The economic impact of the coronavirus pandemic caused significant difficulties in the operation of some industries. In retail lending the Group investigates during the credit assessment process the industry rating of the applying client's employer, in case of individual entrepreneur the industry rating of the enterprise. The industry rating in itself is not a cause for rejection, but it can influence the final risk decision.

The repayment moratorium introduced by the government from 19.03.2020 was extended until 30.06.2021. If the client applying for the loan has other outstanding loans – taken before the moratoria –, the Group also investigates during the credit assessment processes whether these outstanding loans are eligible for the repayment moratoria. Based on the analyses prepared in the topic. it could be concluded that a huge number of clients requested voluntarily to continue the repayment according to the original contract, and also the fact, that only participating in the repayment moratoria does not indicate clearly that the client's financial performance has been weekened. The Group uses the conclusions of the above analysis in its credit decitions, however participating in the repayment moratoria itself does not indicate automatic negative credit assessment decision.

Micro- and SME segment

In general, given the situation due to COVID-19, the Group tried to handle the micro and SME segment with due caution and attention. The Group monitored and reviewed regularly to what extent their clients are affected and tried to collect more and better information.

The process for collecting information during the credit assessment has been extended with the following, in addition to information available in the Group'systems:

- A quiestionnaire for both segments was prepared extended with COVID-19 related questions, which must be attached to the credit proposals. The questionnaire focuses on the enterprise's operation during the COVID, revenue prognoses, level of own reserves, customer-supplier relationships, financing needs.
- In the micro segment in case of affiliated companies for loans over HUF 20 million, trial balance is requested in order to obtain well supported information on interim operations (in SE segment it has already been part of the risk analysis documentation).
- In case of application for certain products in the micro segment, other bank's statements are requested from the new (new-to-bank) clients to support the account turnover.

Based on external and internal informations, clients are devided into risk segments (low, moderate, high). The profile is determined mainly by the industry and account turnover, but the financial product type, the moratorium status and the answers given in the COVID questionnaire also influence the profile.

During the COVID period, a stricter-than-normal, transitional risk approach is used for the moderate and high-risk clients. For these clients, selling of products collaterized by crisis guarantee is preferred (products of Széchenyi Card Program, products with Garantiqua HG, FGS Go!).

The performance of the micro and SME segment is measured and analysed on a monthly basis taking into accout the above detailed COVID related considerations (risk profile). The portfolio considered as high risk was screened completely and in line with the clients' needs their escape from the moratoria and the restructuring of their finances through refinancing with products collateralized by crisis guarantee could be ensured.

EXPECTED CREDIT LOSSES

In March 2020, the Group identified the increased credit risk through the client's employer's industry categorisation, based on the segments (low/moderate/high risk based on expected economic downturn) published by RBI. Those clients that are employed in high or moderate risk industries were transferred to Stage 2 based on professional judgement, this way an additional impairment of HUF 2.572 million was recognized. The Group reviewed this approach in November 2020 and concluded that it was still relevant.

Otherwise, considering the „Management Circular about the use of macroeconomic information and factors triggering significant increase in credit risk under IFRS 9" published by NBH, the Group decided in November 2020 to apply a portfolio level management overlay, the so called „Post Model Adjustment". The underlying assumption for this was that the days-past-due (DPD) numbers frozen due to to the repayment moratoria did not reflect the real expected credit losses for the period after the moratoria. Therefore, the Group recorded an additional HUF 3,346 million impairment loss for the riskiest clients (restructed, already having 30+ DPD before the repayment moratoria, the client's payments decreased significantly) calculatted with 100% PD factor, since based on he Group's expectation this client segment has a high probability of becoming defaulted after the repayment moratoria.

Corporate segment

LENDING FRAMEWORK AND RISK POLICY

In case of the corporate segment, the Group regularly monitored and reviewed to what extent its clients were affected and tried to collect more and better information. As a result of the portfolio screening, the Group identified some particularly sensitive industries (e.g.: hotels, food service, vehicle production) where the exposures, industry forecasts and possible outcomes were reviewed in detail and individually as well. The screening has still been running regularly ever since in case of the corporate segment. Furthermore, the RBI group's effective lending policy was reviewed and amended in May 2020 with the following points:

1. Temporarily, the Group (for the first half of the year) did not perform business operations with the state of China, Japan, South Korea, Hongkong and Italy and all of the clients operating in these countries were considered as increased credit risk clients, and financing of buy-outs from loans was suspended. The segmentation of industries based on risk was supplemented with COVID-19 factors (see point 2).

2. Review of the industry segmentation, refinement of lending framework: those industries, which were affected by the COVID-19, were classified into moderate/high risk segments and restrictions were made accordingly:
   - Clients in high risk industries: new transactions and prolongations with existing clients should be handled with special care and are to be approved in special cases, acquisitions of new clients are to be avoided.
   - Clients in moderate risk industries: prolongations may be performed, but new transactions are only to be signed, if based on a sensitivity analysis in case of a decrease in the client's revenue, the Group does not expect any significant decline in the client's rating. The accurate documentation of the sensitivity analysis is crutial in the decision.
   - Clients in low risk industries: continuing of the normal business in line with the effective lending policy, however the risk management and approval process shall particularly focus on considering the client's potential vulnerability to COVID-19.

3. Review and expansion of the client's credit risk segmentation (in terms of early warning systems) (Client Risk Status, short CRS) considering the COVID-19 pandemic:

   Throughout the industry and client specific analyses, as part of the Early Warning System (EWS) a category „COVID-Pre-Workout" (COVID-PWO) was introduced in order to highlight the clients with questionable debt repayment abilities. This credit risk category is for clients who due to the effect of the virus on their business operation have already shown or according the Group's estimation are about to show in short time the early signs of deterioration in credit risk (i.e.: worsening in client rating). The category COVID-PWO was introduced by the Group in order to proactively manage the possible risks for the related clients. In relation to this, the following action plan was introduced:
   - stricter monitoring and more intense connection with the client in order to detect the financial difficulties in time,
   - preparing weekly reports to RBI regarding COVID-PWO in case of both improving and deteriorating of financial and subjective circumstances,
   - the review of the COVID-PWO client's status is outside of the „normal" PWO meetings, it is out of turn,
   - no need for the use of workout experts and for performing impairment test, if no specific request or guidance have been received,
   - by clients with outstanding balance of over EUR 5 million, preliminary RBI consultation is needed for reclassification to standard status.

4. Update and review of the effective general corporate lending framework and corporate lending framework specific to the type of financing:

   a) supplementing general lending policies

   - applying the changes initiated by RBI and presented above,

- the risk profile of the clients needs to be investigated from the COVID-19 vulnerability point of view, regarding both the volume of supply/demand and the potential damage of the supply chain,
- the flexibility of the cost structure needs to be analysed, what fixed cost are to be expected for the next period,
- when assessing the client's financial situation, the short-term liquidity needs to be analysed (whether it is able to cover its expenditures for the next 6-9 months),
- the existence and probability of the shareholders financial support should be assessed,
- further lending is only allowed if the increased debt repayment is still in line with reference debt ratios in the Group's risk policy, and the recovery is expected from primary sources,
- if debt reference ratios are significantly breached, the client is given PWO status,
- in case of clients participating in the repayment moratoria, due to the extended term validity and amounts of the limits in the credit proposals shall be reviewed and updated if needed.

b) supplementing specific lending policies

- transactions with leverage: new transactions with the purpose of management-buy-out (MBO) and acquisitions/buy-outs should be financed with particular care,
- FX, interest and loan derivative limits: the margin-call processes should be kept, clients with missing or decreasing revenue easily could by over-hedged, therefore they could become exposed to the changes of the underlying again, this consideration should be an integral part of the limit proposal (especially in case of COVID-PWO status), the interest rate swaps concluded in relation to clients participating in the repayment moratoria can be modified between the client and the Group based on bilateral agreement,
- bridging loans related to capital market transactions: the Group does not accept new proposals,
- non project-related unsecured finance for property developers: the Group accepts proposals only with particular circumspection,
- real estate finance: the Group accepts proposals only with particular circumspection.

5. Implementing rules for new transactions:

- the Group provides finance only for industries that were not mentioned as COVID-19 effected industries in point 2., and on selective basis,
- the Group applies the selective method for the ongoing transactions (considering the exepcted or potential COVID-19 effects),
- for clients with long and good history with stable risk profile, limit increase is approvable in order to solve their transitional liquidity difficulties,
- refinancing loans outstanding with other banks is not precluded, however mainly it could be considered in case of low risk industries, less influenced by the virus, with detailed assessment of the client's ability to repay the debt considering the COVID-19.

EXPECTED CREDIT LOSSES

The Groups' impairment recognition was influenced in many ways by the COVID-19. Stage 1 and Stage 2 impairments were directly affected by the declining macroeconomic forecasts (mainly GDP, unemployment rates, yields on government bond markets) provided by the RBI's analysing department which were updated a number of times during the year. Furthermore, decline in the clients' financial situation and the resulting revised/worsening rating caused a higher level of impairment (where significant decline in rating occurred, transfer from Stage 1 to Stage 2 was performed). The slightly increasing returns on the market of the commercial real estates that bear a particularly important collateral role in the non-real portfolio were considered during the review of collateral values. The decreasing collateral values led to an increase in the impairment level as well.

The Stage 2 indicators that are used for identifying increased credit risk profiles were supplemented with the COVID-PWO status that considers also COVID factors. During the portfolio screening, many clients negatively affected by COVID were transferred to Stage 2 based on this status, so in their case the expected credit loss covers the lifetime expected credit loss. Clients entering the repayment moratoria – in case no any other trigger for increased credit risk occurred – were not transferred automatically to Stage 2. However, if such client's rating significantly declined or its risk status was PWO or COVID-PWO then in their case Stage 2 classification was performed and impairment was recognised.

Furthermore, the Group concluded that the COVID-19 created such a new situation that could not be handled with its credit risk models with sufficient accuracy and the expected credit loss could only be predicted with limitations. Therefore, the Group applied the option of the „Post Model Adjustment" for the year 2020. The lockdown due to the second wave of the coronavirus pandemic resulted in total or close to total loss of revenue in certain industries (e.g.: tourism/restaurant/entertainment/hotels/airports). For clients identified this way (90 clients, HUF 125 billion outstanding balance) the expected credit loss was calculated based on the average from the historically available worst period instead of its current models and an additional impairment loss (HUF 5,374 million) was allocated by the Group to the clients affected.

Process of credit rating

Risk assessment and rating of corporate clients, project companies, companies acting in commodity and commerce financing and municipality clients is based on individual assessment and rating, with regular financial monitoring and annual renewal of limits. Financing is based on credit limits, with only simple approval method used on transaction level.

In case of credit products for individuals, private banking clients and small and medium enterprises, an automated scorecard based assessment is in place.

Internal credit rating categories are as follows:

- **Minimal risk:**
  Non-retail portfolio: This rating category is reserved for corporates with the highest external credit ratings (AAA) and for other special cases that are deemed to bear minimal risk (e.g. companies related to the government, OECD countries rated AAA by an external credit rating agency).
  Retail portfolio: This rating category is reserved for the clients with the best credit ratings

- **Excellent credit standing:**
  Non-retail portfolio: For all other clients this is the highest available rating category. Based on the excellent profitability, financial obligations can be fulfilled at any time. Companies in this rating category have a strong equity position and a sound financing structure.
  Retail portfolio: On the basis of an excellent income, financial obligations can be fulfilled at any time.

- **Very good credit standing:**
  Non-retail portfolio: On the basis of a very strong profitability the probability is very high that the client can fulfil all payment obligations – both principal and interest – also in the long term. Companies in this rating category also have a strong equity position and a sound financing structure and market position.
  Retail portfolio: On the basis of a high income the probability is very high that the client can fulfil all payment obligations – both principal and interest – also in the long run. Clients in this category have a comfortable financial situation.

- **Good credit standing:**
  Non-retail portfolio: On the basis of a strong profitability it is expected that the client can fulfil all financial obligations in the medium term. Good capital situation and sound financing structure.
  Retail portfolio: Based on a high income and sociodemographic position it is expected that the client can fulfil all financial obligations in the medium term.

- **Average credit standing:**
  Non-retail portfolio: Based on a strong profitability, continuous principal repayments and interest payments are expected. A reasonable balance sheet structure with a satisfactory equity base.
  Retail portfolio: Based on its sufficient credit capacity and sociodemographic position continuous principal repayments and interest payments are expected.

- **Acceptable credit standing:**
  Non-retail portfolio: Based on satisfactory profitability, continuous principal repayments and interest payments are expected. Increased sensitivity towards serious deterioration of economic environment. Limited flexibility in financing.
  Retail portfolio: Based on satisfactory income and sociodemographic position, continuous principal repayments and interest payments are expected. Increased sensitivity towards serious deterioration of economic environment.

- **Weak credit standing:**
  Non-retail portfolio: Clients in this rating category have a low profitability and their financial flexibility is limited. Significant deterioration of economic parameters might have a negative impact on the timeliness of principal repayments and interest payments. Their business fundamentals are below average and show weaknesses in certain areas.
  Retail portfolio: Clients in this category have a lower income and a more limited credit capacity. Significant deterioration of economic parameters might have a negative impact on the timeliness of principal repayments and interest payments.

- **Very weak credit standing:**
  Non-retail portfolio: Companies with weak profitability and weak financing structure. Yet a lower magnitude negative change in the economic environment can prevent the complete and timely fulfilment of the financial obligations.
  Retail portfolio: Has a low income and an unfavourable sociodemographic position. Yet a lower magnitude negative change in the economic environment can prevent the complete and timely fulfilment of the financial obligations

- **Doubtful / high default risk:**
  Non-retail portfolio: Companies with a very weak profitability and a problematic financing structure. Partial losses on the principal or on interest should be envisaged.
  Retail portfolio: Has a very low income and an unfavourable sociodemographic position. Partial losses on the principal or on interest are envisaged

- **Default:**
  Occurred nonperformance. The financial obligations could not be fulfilled entirely and timely.

- **Unrated:**
  Non-retail portfolio: Unrated exposures in the corporate sector mostly belong to the sub-segment under the standardised approach (Article 150 of 575/2013 EU Regulation) and thus they, by definition, do not have an internal credit rating (e.g. liabilities under litigation, settlement accounts with foreign exchange brokers presented under other receivables).
  Retail portfolio: Unrated exposures in the retail sector mainly consist of negative account balances, uncoded transactions, transactions unrated due to data failure in a negligible number and employee loans. Loans granted to third parties by subsidiaries are also classified to the unrated retail portfolio

The following table reconciles relevant balance sheet line items with the financial asset classes determined for disclosure purposes and with the loan commitments and financial guarantees financial instrument classes. 'Provision' balance sheet line item contains expected credit losses for loan commitments and financial guarantee contracts.

31.12.2020 (HUF million)	Cash, cash balances at central banks and other demand deposits *	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Provisions***	Total
Cash	59,484	0	0	0	0	0	0	59,484
Placements with banks	62,307	0	0	0	0	751,530	0	813,837
Loans and advances to clients	0	0	66,671	0	0	1,417,402	0	1,484,073
Investment in debt securities	0	36,780	541	18,471	514,372	159,922	0	730,086
Equity instruments**	0	1,723	530	0	782	0	0	3,035
Loan commitments and financial guarantees	0	0	0	0	0	0	5,456	5,456
Derivative assets	0	43,528	0	0	0	0	0	43,528
Total	**121,791**	**82,031**	**67,742**	**18,471**	**515,154**	**2,328,854**	**5,456**	**3,139,499**

* This balance sheet line item contains receivables due from HNB amounting to HUF 3,452 million, which is not included in the table (21) Placements with banks.
** Included only for the purposes of reconciliation to the balance sheet and is not included in the tables detailing credit risk exposures.
*** Column Provisions only contains provisions set up in accordance with IFRS 9. Provisions set up in accordance with IAS 37 are detailed in the table (33) Provisions.
**** Placements with banks and Loans and advances to clients are presented hereinafter together as 'Loans and advances'.

31.12.2019 (HUF million)	Cash, cash balances at central banks and other demand deposits *	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Provisions***	Total
Cash	98,634	0	0	0	0	0	0	98,634
Placements with banks	27,521	0	0	0	0	381,186	0	408,707
Loans and advances to clients	0	0	33,996	0	0	1,228,996	0	1,262,992
Investment in debt securities	0	24,858	0	20,237	523,355	178,678	0	747,128
Equity instruments**	0	2,834	0	0	1,567	0	0	4,401
Loan commitments and financial guarantees	0	0	0	0	0	0	6,218	6,218
Derivative assets	0	30,668	0	0	0	0	0	30,668
Total	**126,155**	**58,360**	**33,996**	**20,237**	**524,922**	**1,788,860**	**6,218**	**2,558,748**

*This balance sheet line item contains receivables due from HNB amounting to HUF 3,452 million, which is not included in the table (21) Placements with banks.
** Included only for the purposes of reconciliation to the balance sheet and is not included in the tables detailing credit risk exposures.
*** Column Provisions only contains provisions set up in accordance with IFRS 9. Provisions set up in accordance with IAS 37 are detailed in the table (33) Provisions.

**** Placements with banks and Loans and advances to clients are presented hereinafter together as 'Loans and advances'.

Credit quality of the Group's exposures

The following tables contain information about the credit quality of financial assets, undrawn loan commitments and financial guarantees. For financial assets measured at amortised cost or at FVOCI, gross carrying amounts are presented in the lines of the tables. For financial instruments measured at FVTPL, the carrying amounts are presented in the lines. For financial guarantees and undrawn loan commitments, the lines contain the guaranteed amounts and the amounts that can be drawn down under of the loan commitment, respectively.

(HUF million)	31.12.2020 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Placements with banks										
Minimal risk	1,974	0	0	0	0	0	0	0	0	**1,974**
Excellent credit standing	185,632	0	0	0	0	0	0	0	0	**185,632**
Very good credit standing	2,990	0	0	0	0	0	0	0	0	**2,990**
Good credit standing	222	0	0	0	0	0	0	0	0	**222**
Average credit standing	622,862	0	0	0	0	0	0	0	0	**622,862**
Acceptable credit standing	0	0	0	0	0	0	0	0	0	**0**
Weak credit standing	133	0	0	0	0	0	0	0	0	**133**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful/high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	26	0	0	0	0	0	0	0	0	**26**
Gross carrying amount	**813,839**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**813,839**
Loss allowance	-2	0	0	0	0	0	0	0	0	**-2**
Carrying amount	**813,837**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**813,837**
Loans and advances to clients										
Minimal risk	47,004	3,416	0	0	0	0	0	0	2,783	**53,203**
Excellent credit standing	44,517	43,107	0	0	0	0	0	0	3,039	**90,663**
Very good credit standing	222,922	60,702	0	148	0	0	0	0	2,599	**286,371**
Good credit standing	256,161	50,904	46	601	0	0	0	0	1,848	**309,560**
Average credit standing	254,317	154,017	0	1,021	0	0	0	0	811	**410,166**
Acceptable credit standing	124,299	32,476	0	1,017	0	0	0	0	221	**158,013**
Weak credit standing	40,373	51,633	1,208	305	0	0	0	0	61	**93,580**
Very weak credit standing	2,861	11,238	0	47	0	0	0	0	35	**14,181**
Doubtful/high default risk	349	2,416	0	44	0	0	0	0	25	**2,834**
Default	0	0	48,394	4,411	0	0	0	0	71	**52,876**
Unrated	7,278	1,334	92	0	0	0	0	0	55,178	**63,882**
Gross carrying amount	**1,000,081**	**411,243**	**49,740**	**7,594**	**0**	**0**	**0**	**0**	**66,671**	**1,535,329**
Loss allowance	-1,586	-19,326	-26,674	-3,670	0	0	0	0	0	**-51,256**
Carrying amount	**998,495**	**391,917**	**23,066**	**3,924**	**0**	**0**	**0**	**0**	**66,671**	**1,484,073**

(HUF million)	31.12.2020									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss	Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		
Investment in debt securities										
Minimal risk	30,020	0	0	0	65,787	0	0	0	0	**95,807**
Excellent credit standing	0	0	0	0	83,504	0	0	0	613	**84,117**
Very good credit standing	0	0	0	0	131,127	0	0	0	0	**131,127**
Good credit standing	0	0	0	0	15,562	0	0	0	45	**15,607**
Average credit standing	129,907	0	0	0	213,592	3,959	0	0	53,261	**400,719**
Acceptable credit standing	0	0	0	0	1,161	0	0	0	141	**1,302**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	1,732	**1,732**
Doubtful/high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**
Gross carrying amount	**159,927**	**0**	**0**	**0**	**510,733**	**3,959**	**0**	**0**	**55,792**	**730,411**
Loss allowance	-5	0	0	0	-42	-278	0	0	0	**-325**
Carrying amount	**159,922**	**0**	**0**	**0**	**510,691**	**3,681**	**0**	**0**	**55.792**	**730.086**
Loan commitments and financial guarantees										
Minimal risk	19,234	6,386	0	0						**25,620**
Excellent credit standing	14,655	2,691	0	0						**17,346**
Very good credit standing	131,653	22,549	0	0						**154,202**
Good credit standing	99,024	5,965	0	0						**104,989**
Average credit standing	139,856	13,178	0	0						**153,034**
Acceptable credit standing	47,548	22,544	0	0						**70,092**
Weak credit standing	15,422	5,583	577	0						**21,582**
Very weak credit standing	448	3,543	0	0						**3,991**
Doubtful/high default risk	18	332	0	0						**350**
Default	0	0	6,034	0						**6,034**
Unrated	1,294	2,387	0	0						**3,681**
Gross amount	**469,152**	**85,158**	**6,611**	**0**	**0**	**0**	**0**	**0**	**0**	**560,921**
Carrying amount (provision)	-255	-1,183	-4,018	0	0	0	0	0	0	**-5,456**
Derivative assets										
Minimal risk									3	**3**
Excellent credit standing									22,617	**22,617**
Very good credit standing									2,087	**2,087**
Good credit standing									2,096	**2,096**
Average credit standing									14,663	**14,663**
Acceptable credit standing									1,946	**1,946**
Weak credit standing									59	**59**
Very weak credit standing									6	**6**
Doubtful/high default risk									0	**0**
Default									35	**35**
Unrated									16	**16**
Carrying amount									**43,528**	**43.528**

(HUF million)	31.12.2019									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss	Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		
Placements with banks										
Minimal risk	1,141	0	0	0	0	0	0	0	0	**1,141**
Excellent credit standing	136,730	0	0	0	0	0	0	0	0	**136,730**
Very good credit standing	74,924	0	0	0	0	0	0	0	0	**74,924**
Good credit standing	2	0	0	0	0	0	0	0	0	**2**
Average credit standing	660	0	0	0	0	0	0	0	0	**660**
Acceptable credit standing	195,198	0	0	0	0	0	0	0	0	**195,198**
Weak credit standing	59	0	0	0	0	0	0	0	0	**59**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful/high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	16	0	0	0	0	0	0	0	0	**16**
Gross carrying amount	**408,730**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**408,730**
Loss allowance	-23	0	0	0	0	0	0	0	0	**-23**
Carrying amount	**408,707**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**408,707**
Loans and advances to clients										
Minimal risk	48,188	4,572	0	0	0	0	0	0	2,212	**54,972**
Excellent credit standing	47,718	4,854	0	0	0	0	0	0	1,179	**53,751**
Very good credit standing	289,398	49,838	0	66	0	0	0	0	2,040	**341,342**
Good credit standing	181,271	21,986	1	427	0	0	0	0	1,107	**204,792**
Average credit standing	219,317	27,860	2	991	0	0	0	0	890	**249,060**
Acceptable credit standing	213,415	18,854	15	497	0	0	0	0	367	**233,148**
Weak credit standing	39,945	7,897	51	75	0	0	0	0	92	**48,060**
Very weak credit standing	5,637	5,588	0	29	0	0	0	0	47	**11,301**
Doubtful/high default risk	2,857	3,873	1	0	0	0	0	0	0	**6,731**
Default	32	0	56,087	6,223	0	0	0	0	78	**62,420**
Unrated	7,813	573	18	0	0	0	0	0	25,984	**34,388**
Gross carrying amount	**1,055,591**	**145,895**	**56,175**	**8,308**	**0**	**0**	**0**	**0**	**33,996**	**1,299,965**
Loss allowance	-2,156	-5,904	-25,873	-3,041	0	0	0	0	0	**-36,974**
Carrying amount	**1,053,435**	**139,991**	**30,302**	**5,267**	**0**	**0**	**0**	**0**	**33,996**	**1,262,991**

	31.12.2019									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss	Total
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		
Investment in debt securities										
Minimal risk	60,014	0	0	0	47,075	0	0	0	0	**107,089**
Excellent credit standing	0	0	0	0	113,903	0	0	0	0	**113,903**
Very good credit standing	0	0	0	0	118,072	0	0	0	73	**118,145**
Good credit standing	0	0	0	0	14,229	0	0	0	0	**14,229**
Average credit standing	0	0	0	0	3,249	0	0	0	0	**3,249**
Acceptable credit standing	118,676	0	0	0	226,876	0	0	0	45,022	**390,574**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful/high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**
Gross carrying amount	**178,690**	**0**	**0**	**0**	**523,404**	**0**	**0**	**0**	**45,095**	**747,189**
Loss allowance	-12	0	0	0	-49	0	0	0	0	**-61**
Carrying amount	**178,678**	**0**	**0**	**0**	**523,355**	**0**	**0**	**0**	**45,095**	**747,128**
Loan commitments and financial guarantees										
Minimal risk	9,810	5,461	1	0						**15,272**
Excellent credit standing	85,140	530	7	0						**85,677**
Very good credit standing	178,521	6,116	44	0						**184,681**
Good credit standing	53,724	2,231	10	0						**55,965**
Average credit standing	153,789	4,189	8	0						**157,986**
Acceptable credit standing	92,773	3,167	7	0						**95,947**
Weak credit standing	13,782	1,737	1	0						**15,520**
Very weak credit standing	719	1,428	1	0						**2,148**
Doubtful/high default risk	160	64	0	0						**224**
Default	0	0	25,424	0						**25,424**
Unrated	2,740	970	0	0						**3,710**
Gross amount	**591,158**	**25,893**	**25,503**	**0**	**0**	**0**	**0**	**0**	**0**	**642,554**
Carrying amount (provision)	-294	-147	-5,777	0	0	0	0	0	0	**-6,218**
Derivative assets										
Minimal risk									0	**0**
Excellent credit standing									18,219	**18,219**
Very good credit standing									1,510	**1,510**
Good credit standing									1,699	**1,699**
Average credit standing									5,158	**5,158**
Acceptable credit standing									3,879	**3,879**
Weak credit standing									107	**107**
Very weak credit standing									1	**1**
Doubtful / high default risk									0	**0**
Default									81	**81**
Unrated									14	**14**
Carrying amount									**30,668**	**30,668**

The following table shows the credit quality of the Group's exposures according to sectors:

	31.12.2020								
	Financial assets at amortized cost				Financial assets at fair value through other compehensive income				Total
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Loans and advances to bank and clients									
Non-retail									
Central bank	**622,861**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**622,861**
Sovereign	23,084	0	0	0	-7	0	0	0	**23,077**
Credit institution	187,291	0	0	0	-2	0	0	0	**187,289**
Finanacial corporate	40,547	117	1	0	-24	-6	0	0	**40,635**
Large corporate	731,305	227,577	31,726	0	-555	-8,148	-13,173	0	**968,732**
Small -and medium enterprises	41,150	7,431	405	0	-25	-172	-259	0	**48,530**
Retail	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Private Individuals	144,204	163,848	15,074	7,592	-730	-9,783	-11,551	-3,670	**304,984**
hereof: mortgage	100,634	132,334	11,255	7,559	-304	-7,029	-8,430	-3,647	**232,372**
Micro	23,478	12,270	2,534	2	-245	-1,217	-1,691	0	**35,131**
Carrying amount	**1,813,920**	**411,243**	**49,740**	**7,594**	**-1,588**	**-19,326**	**-26,674**	**-3,670**	**2,231,239**

	31.12.2019								
	Financial assets at amortized cost				Financial assets at fair value through other compehensive income				Total
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Loans and advances to bank and clients									
Non-retail									
Central bank	**178,590**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**178,590**
Sovereign	7,997	0	0	0	-5	0	0	0	**7,992**
Credit institution	224,390	0	0	0	-23	0	0	0	**224,367**
Finanacial corporate	33,274	80	171	0	-34	0	-167	0	**33,324**
Large corporate	765,719	68,219	35,467	0	-701	-719	-10,407	0	**857,578**
Small -and medium enterprises	36,469	4,510	638	0	-25	-53	-407	0	**41,132**
Retail	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Private Individuals	187,755	70,534	17,436	8,308	-1,115	-4,926	-13,232	-3,041	**261,719**
hereof: mortgage	122,981	65,161	13,742	8,286	-337	-4,215	-9,983	-3,025	**192,610**
Micro	30,127	2,554	2,464	0	-276	-207	-1,660	0	**33,002**
Carrying amount	**1,464,321**	**145,897**	**56,176**	**8,308**	**-2,179**	**-5,905**	**-25,873**	**-3,041**	**1,637,704**

Information about the Group's loan portfolio

Funding for Growth' Program of the National Bank of Hungary

As part of its monetary policy instruments, on 1 June 2013 the National Bank of Hungary (NBH) launched its three-pillar Funding for Growth Scheme (FGS), the explicit objective of which was to grant access to subsidised loans for small and medium enterprises (SME's).

During the year 2016, the program was broadened and the third phase, which had two pillars, was launched. In the second pillar of the third phase, an on-market Euro/Hungarian forint swap deal (CIRS) is attached to Hungarian forint refinancing deal that allows the financial institutions to provide financing in foreign currency – without foreign exchange risk – for SME's having natural currency hedging.

NBH refinances only loan amounts disbursed by credit institutions participating in FGS with a collateralised loan bearing 0% interest rate, i.e. NBH does not grant pre-refinancing. SMEs can apply under the FGS for investment (capital expenditure) loans, working capital loans, loans for pre-financing EU subsidies and loans for repaying foreign currency loans (conversion loans). The maximum term is 10 years in case of investment (capital expenditure) loans, loans pre-financing EU-subsidies and conversion loans, and 1 year in case of working capital loans. Credit institutions can only charge a maximum interest of 2.5% (including costs and fees).

The refinancing received and the loans granted under FGS are transactions concluded at off-market terms. In these cases, in accordance with IFRS 9.5.1.1A and B5.1.2A, the Group quantifies the fair value difference which is amortised to net interest income over the term of the loans.

Funding for Growth Scheme Go!

In order to mitigate the negative economic effects of the coronavirus pandemic, to avoid the crisis in the lending market the NBH introduced on 20.04.2020 the Funding for Growth Scheme Go! as part of its Funding for Growth Program with a frame budget of HUF 1,500 billion, which was increased with the decision of the Monetary Council on 17.11.2020 by HUF 1,500 billion to HUF 2,500 billion. Under the scheme, the National Bank provides a 0% interest, maximum 20-year maturity refinancing loan to the credit institutions, which can be passed through to Hungarian SME's in the form of loan or financial lease bearing a maximum interest rate of 2,5%. In the frame of the scheme, the following purposes can be financed: working capital loans, investment loan, pre-financing of grants, refinancing.

At 2020 year-end the balance outstanding from he above described FG Schemes was HUF 117,995 million (2019: the Group had refinancing balance of HUF 74,988 million under the FG scheme).

Garantiqa Crisis Guarantee Scheme

In order to mitigate the negative economic effects of the coronavirus pandemic, the Garantiqa Hitelgarancia Zrt introduced a scheme with favourable conditions named „Garantiqa Crisis Guarantee Scheme" with a frame budget of HUF 2,200 billion for the domestic SME's and large enterprises, whereby it provides a 90% guarantee. A 90% suretyship of the state is linked to the guarantee. The Scheme is available until 06.30.2021. In October 2020 a new product of the Crisis Guarantee scheme named as 'Garantiqa Crisis Guarantee Scheme Investment Loan Guarantee' was also introduced, which is available for investment loans granted to SME's with a maximum term of 10-year (maximum 80% guarantee, 90% state indemnity).

Széchenyi Card Plus Scheme

The products of the scheme were introduced to mitigate the negative economic effects of the coronavirus pandemic and are only available for SME's. It has stricktly regulated conditions (requsting, precluding, contracting, disbursing conditions), with which all the banks must comply. For the product the NBH provides refinancing as part of the FGS Go!. Thanks to this and to the high state subsidy in interest, administration and guarantee fee, the enterprises are able to access these products at low fixed interests and cost level.

1. Széchenyi Card Overdraft Plus

The purpose of the loan is to help with the transitional liquidity problems of the requesting enterprises/debtors. Micro and SME's are able to request it without participating in the Széchenyi Job Maintaining Loan Program. Refinaincing is also possible throgh the prodcuct under various restrictions. At our Group, it is only available for micro and small enterprises.

2. Széchenyi Liquidity Loan

The purpose of the loan is to provide free-use working capital loan. The enterprise is permitted to cover its operating costs (without limitations) with the loan, including refinaincing its already outstanding loan(s).

3. Széchenyi Investment Loan Plus

The purpose of the loan is to provide long-term financing for the enterprises' developments and this way to improve the investment climate, to maintain the competitiveness of the enterprises, and refinancing on certain conditions. In the frame of the scheme financing of only such investment is permitted where the investment is clearly related to the enterpris's existing operation or to an opreation that is listed in its business plan as an operation to be carried out. Refinancing is also possible when complying with specified rules.

AVHGA Crisis Program

The Hungarian Government decided about the introduction of the AVHGA Crisis Agriculture Guarantee Scheme in its decree nr. 1195/2020. (dated 30.04.2020), which aims to improve the possibilities to receive loan for agriculture and countryside micro and SME's with 90% guarantee labelled as a transitional grant. There's a 90% state subsidised suretyship linked to the guarantee. At first participation in the scheme was available only for loan contracts signed before 31.12.2020, but later it was modified to 30.06.2021 and it cannot be precluded that the deadline will be extended to the end of 2021. The guarantee can be given to loans (working capital and investment loans, overdrafts) that can have a maximum term of 6 years and the amount cannot exceed 25% of the enterprise's previous year's revenue or the double of the personal costs in previous year.

EXIM Compensation Program

In order to balance the negative economic effects of the coronavirus pandemic and to mitigate the damages of the domestic economic operators the Exim introduced the Compensation Program for the exporting companies, their suppliers and companies preparing to export. The Scheme consist of 3 pillars:

1. EXIM Compensation Loan Program

The aim of the program is to provide working capital finance (maximum for 3 years), investment loans (maximum for 6 years) and lease finance (maximum 6 years) for companies who had difficulties after 01.02.20020 with a fixed interest determined by EXIM. The net margin of the commercial banks is also fixed, EXIM provides refinancing at 2,5% in case of SME's and at 2% in case of large enterprises.

2. EXIM Compensation Loan Protection Program

Under the program, companies who had difficulties after 02.01.2020 have an option the receive a 100% state subsidied suretyship to their existing loans. An 80% of suretyship is granted to SME's and small mid-cap companies (maximum of 499 employees) and a 50% suretyship is granted for companies larger than these (but by individual cases the Credit Committee of Exim can approve 90%, too) for working capital finance loans with a maximum maturity of 3 years and for investment loans with a maximum maturity of 6 years. The approval process for guarantees below of HUF 300 million are processed in accelerated proceed.

3. EXIM Compensation Credit Insurance Program

The program helps exporters with 95% insurance of deferred trade receivables. The novelty of the program is that it can be used for market risk insurance for a temporary period.

Retail products

The APR-cap was introduced because of COVID-19, and the Group complied with its requirements and transformed its personal loan product in line with this. The Group speeded up the implementation of the online process solutions and in line with the requirements of the law, temporary process solutions were introduced, in order to minimize the number of client contacts.

Purchased or originated credit-impaired (POCI) financial assets

The predominant part of the Group's POCI portfolio was recognised in the books of the Group through the mandatory conversion of foreign currency denominated loan receivables to Hungarian Forint at fixed exchange rates in accordance with Act XXXVIII of 2014 ('Curia Act'), Act XL of 2014 ('Settlement Act'), Act LXXVII of 2014 ('Hungarian Forint Conversion Act') and Act CXLV of 2015 on questions relating to Hungarian Forint conversion of certain consumer loan contracts.

Changes to the portfolio

In 2020, exposures towards credit institutions increased significantly due to a few repayments of individually significant amounts (2020: HUF 814 billion; 2019: HUF 409 billion).

In 2020, besides the significant increase of the portfolio in the corporate segment (2020: HUF 1,077 billion; 2019: HUF 921.5 billion), the balance of non-performing corporate loans decreased (2020: HUF 30.9 billion; HUF 2019: 36.2 billion). The decrease in the non-performing portfolio can be tied to two factors: firstly, according to the effective EBA regulations for the repayment moratoria, the term "financial difficulty" cannot be applied for the portfolio under the repayment moratoria (please see: The effect of the coronavirus pandemic on the credit risk management), secondly, it is a result of the implementation of the Group's comprehensive strategy for non-performing portfolio. The Group still follows a detailed operative workout plan, under which the Group uses external refinancing along with steps of legal actions or selling debt, and if no further return is expected, partial or total write-down is performed. The non-performing portfolio decreased with immaterial risk cost in relation to the overall size of the portfolio

Along with the decrease in the exposure of default portfolio, the portfolio transferred to Stage 2 increased significantly due to the risk management action regarding the period of the repayment moratoria.

In the retail and micro-enterprises portfolios, a significant increase in the exposure occurred in 2020 (2020: HUF 434,8 billion; 2019: HUF 369,8 billion). In the retail segment, the portfolio significantly increased in both the mortgage loan and in the uncollateralized product portfolio, and in the uncollateralized portfolio due to the childbirth incentive loan program measured at FVTPL. The Stage 2 exposure significantly increased in 2020 due to the transfers based on qualitative criteria mainly based on expert judgements in case of clients employed in industries with increased risk in the current economic situation. Besides, the non-performing exposure decreased in 2020 (2020: HUF 22 billion, 2019: HUF 26,2 billion).

The non-rated (uncategorized) exposure (2020: HUF 58 billion; 2019: HUF 29 billion) in the retail segment is mainly related to childbirth incentive loans.

Receivables due from municipalities and fiscal institutions continued to increase in 2020 (2020: HUF 23,5 billion; 2019: HUF 8,6 billion).

The increase in the exposure was independent from the programs introduced due to the COVID, because the clients mostly used them from refinancing.

Expected credit losses

Quantification of expected credit losses for financial assets at amortised costs and financial assets at fair value through other comprehensive income is performed in accordance with the respective accounting policies, see explanatory note (4.11.5) Impairment of financial assets.

The determination of the exposure necessary for credit risk management is a complex exercise and requires the application of models as exposure changes depend on market conditions, expected cash flows and the passage of time. The assessment of credit risk of the portfolio contains further estimations regarding the probability of default, the loss given default and the correlations between different clients' non-performance. Group measures credit risk using the probability of default (PD), the risk exposure (EAD) and the expected loss due to default (LGD). This is the primary approach in measuring expected credit losses under IFRS 9.

Expected credit losses are calculated by workout experts discounting expected recoveries with the effective interest rates of the transactions in case of Stage 3 exposures towards sovereign and corporate clients, from project financing, towards credit institutions, local and regional municipalities, insurance companies and collective investment companies. Expected recoveries are given in multiple scenarios by the experts and a probability-weighted average of the scenarios is taken into accounting when calculating the present value of recoveries.

Measuring expected credit losses of financial assets at amortised cost and financial assets at fair value through other comprehensive income is an area requiring the use of complex models and making significant assumptions regarding future economic conditions and the behaviour of the loans. Significant estimates made in applying the accounting requirements for expected credit losses are as follows:

- determining the criteria for significant increase in credit risk;
- selecting appropriate models for the purpose of measuring expected credit losses;
- determining the appropriate number of scenarios and the appropriate weighting of them for the product types, markets and the expected credit losses associated with them;
- grouping similar financial assets into portfolios for the purpose of measuring expected credit losses.

PD's in retail portfolios (individuals and micro-enterprises) are estimated across homogenous segments and product portfolios, while LGD estimation is typically more granular (portfolios with homogenous collaterals).

In case of non-retail portfolio, PD's are estimated at the segment level while LGD estimation involves more parameters (segment, product, fact and level of collateralisation).

Probability of default (PD)

Probability of default means the probability that the borrower will not fulfil its financial obligations in the following 12 months or in the remaining lifetime of the financial instrument. In general, in case of non-retail segments the calculation of lifetime probality of default uses 12 months expected probality of default in accordance with Article 178 CRR, cleared from the conservative margin as a starting point. (In line with the definition of default in Article 178 CRR every financial asset that is credit-impaired under IFRS 9 is condisered to be in default, and every defaulted financial asset is considered credit-impaired).

In retail segments probality of deafult is calculated over the lifetime of the instrument, with modeling the probality of monthly marginal default and repayments. In case of negative account balances the Group records impairment for the total receivable, therefore both the PD and LGD is 100%.

Following this, statistical methods are used to determine how certain characteristics (amongst others rating, days past due) evolve from initial recognition over the entire lifetime of the loan portfolio. The typical risk profile is based on historical data and parameters.

The Group uses statistical models to incorporate forward-looking information into PD's in case of the following segments
- sovereigns, local and regional municipalities, insurance companies and collective investment companies;
- corporate clients, project financing and financial institutions;
- retail (individuals and micro-enterprises).

When certain input parameters are not available entirely, grouping, averaging and benchmarking is used for the purpose of the calculations.

The following table presents the averge PD's. When determing the average PD's the Group did not take into consideration the effect of the portfolio level management overlay.

	Average PD	
	Non-retail	Retail
Minimal risk	0.01%	1.30%
Excellent credit standing	0.01%	0.30%
Very good credit standing	0.12%	0.40%
Good credit standing	0.12%	0.90%
Average credit standing	0.19%	1.70%
Acceptable credit standing	0.31%	3.20%
Weak credit standing	2.31%	6.60%
Very weak credit standing	3.20%	13.10%
Doubtful / high default risk	15.36%	37.60%
Unrated	0.37%	4.80%

Loss given default (LGD)

The loss given default is the Group's expectation about the magnitude of the loss. The loss rate expected at default is different depending on the type of counterparty and product.

For non-retail segments, given the amount of data available and the weight of non-retail segments in the portfolio, modelling is performed by Raiffeisen Bank International (RBI):

- in case of corporate clients, project financing, credit institutions, insurance companies and local and regional municipalities, the Group uses its own LGD estimations taking loss rate experience into account;
- loss given default for sovereign debts is estimated using market information sources;
- in case of investment funds, given the lack of loss experience, expert estimations for uncollateralised LGD, which is considered in capital adequacy calculations, is used.

In order to determine the LGD parameters the RBI modelling collects data from the members of the Group, which is sent individually to the center database by the entities. Thereafter, the central modelling calculates the LGD based on the data received and country-specific information so, that it matches the lending information of the various entitites.

Macroeconomic forecasts were also incorporated into LGDs based on own estimations. The Group uses a weighted average LGD over three scenarios when quantifying expected credit loss.

In case of retail segment, the estimation of LGD is based on recovery data collected by the Group. Modelling is performed by the Group on its own based on the methodology approved by RBI. The model is validated by the IRB. Generally, for the purpose of calculating impairment the Group uses loss given default determined in accordance with CRR, cleared from conservative factors. In cases of negative account balances the LGD is 100%.

Exposure at default (EAD)

Exposure at default is measured considering all amounts regarded by the Group as receivable at an expected date of default within the next 12 months or over the entire lifetime of the instrument. 12 months and lifetime EAD is determined taking the expected repayment characteristics into account, which varies across product types. For amortising products and bullet-type loans, EAD is based on contractual repayment obligations over the next 12 months or the lifetime of the instrument. Where relevant, assumptions about prepayments and refinancing are considered while calculating EAD.

In case of non-retail segments, the Group makes own estimations in order to quantify exposures at default of off-balance sheet items for Corporate and SMB portfolios, the ones having so-called high probabilities of default. The credit conversion factors applied are quantified using different methodologies for revolving and non-revolving exposures. Related modelling is performed by RBI. This process is the same as the process described at the modelling of LGD parameters, i.e. various entities send data to the central database, afterwards the central modelling calculates the EAD using those and other country-specific information so that it matches the lending information of the various entitites.

In case of retail portfolios, exposure at default is determined monthly taking the future expected principal repayments into account. In case of revolving transactions, exposure at default is determined taking a credit conversion factor (CCF) into account as follows: EAD = used facility * (1+CCF). The expected lifetime of revolving transactions is estimated using statistical methods, which allows us to calculate lifetime expected credit losses also for such product types.

Forward-looking information

Assessment of whether credit risk has increased significantly since initial recognition and the measurement of expected credit losses are estimations incorporating also forward-looking information. The Group performed a chronological analysis and determined the most significant economic variables influencing credit risk and expected credit losses in case of each portfolio.

These economic variables and their impact on the probability of default, loss given default and exposure at default can vary across types of categories. While making this analysis expert estimations were also used. The forecasts of the above economic variables ('base case economic scenario') is provided by Raiffeisen Research quarterly, giving the best estimates of those economic indicators for the following three years. The impact of those economic variables on the probability of default, loss given default and exposure at default is determined by using statistical regressions in order to make the impact of historical development of such variables on default rates, non-performing exposures and expected losses understandable.

The most important macroeconomic variables affecting expected credit losses are as follows:

- Non-retail portfolios: gross domestic product, unemployment rate, long-term (10 years) government bond yields, inflation rate.
- Retail portfolios: gross domestic product.

Besides the base economic scenario, a best case (optimistic) and a worst case (pessimistic) scenario is also provided by Raiffeisen Research, together with their weighting (the weighting of the three scenarios: 25% optimistic, 50% base, 25% pessimistic scenario), in order to grab expected variances. The weighting of the scenarios is determined by the combination of statistical analysis and expert credit rating taken the outcomes of the selected individual scenarios into account. The probability-weighted expected credit losses are determined by running the appropriate expected credit loss model to the respective scenarios and weighting the results, the weights being the probabilities of the scenarios. The weights of the scenarios (probability of the scenarios: 50% base, 25% optimistic, 25% pessimistic) remained the same in 2020, since the effects of the COVID were reflected in the worse expectations in all three scenarios (for example in forecasted fall back in the GDP and in the increasing un employment rates in the years thereafter).

Gross domestic product	Scenario	2021	2022	2023
	Optimistic	5.92%	5.44%	5.46%
	Base	4.00%	4.00%	4.50%
	Pessimistic	1.34%	2.01%	3.17%
Unemployment rate	**Scenario**	**2021**	**2022**	**2023**
	Optimistic	2.31%	2.56%	2.81%
	Base	4.10%	3.90%	3.70%
	Pessimistic	6.58%	5.76%	4.94%
Long-term (10 years) government bond yields	**Scenario**	**2021**	**2022**	**2023**
	Optimistic	1.37%	1.41%	2.21%
	Base	2.18%	2.02%	2.62%
	Pessimistic	4.50%	3.76%	3.78%
Inflation rate	**Scenario**	**2021**	**2022**	**2023**
	Optimistic	5.77%	4.93%	3.99%
	Base	3.60%	3.30%	2.90%
	Pessimistic	1.10%	1.43%	1.65%

As all economic forecasts, these estimates and their probabilities of occurrence are prone to significant uncertainties and thus actual outcomes might significantly differ from forecasts. It is the Group's view that these forecasts represent the best estimate of the possible results and cover eventual differences and asymmetries concerning the various portfolios of the Group.

Sensitivity analysis

The table below presents the expected credit loss (impairment and provisions) for Stage 1 and Stage 2 exposures, amounts weighted across scenarios (25/50/25%) and the total amounts for each scenario:

31.12.2020 (HUF million)	Weighted (25/50/25%)	100% Optimistic	100% Base	100% Pessimistic
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	22,677	20,441	22,335	25,699

31.12.2019 (HUF million)	Weighted (25/50/25%)	100% Optimistic	100% Base	100% Pessimistic
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	8,587	6,853	8,705	10,084

The table below presents an analysis of the performing exposures - if all exposures were classified to Stage 1 (12-months default rate calculated), by how much the expected credit loss (impairment and provisions) calculated for performing exposures would change:

31.12.2020 (HUF million)	Weighted	100% of performing exposures in Stage 1	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	22,677	8,835	-13,842

31.12.2019 (HUF million)	Weighted	100% of performing exposures in Stage 1	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	8,587	3,834	-4,751

The table below presents an analysis of the performing exposures - if all exposures were classified to Stage 2 (lifetime default rate calculated), by how much the expected credit loss (impairment and provisions) calculated for performing exposures would change:

31.12.2020 (HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 2	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	22,677	30,709	8,031

31.12.2019 (HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 2	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	8,587	19,893	11,309

Current year development of expected credit losses

The following table presents the development of loss allowances and provisions for expected credit losses (through reconciling the opening and the closing balance of loss allowances and provisions by classes of financial instruments):

(HUF million)	Opening balance 01.01. 2020	Increases due to origination and acquisition	Decreases due to dere-cognition	Changes due to change in credit risk (net)	Changes due to modifi-cations without derecogni-tion (net)	Changes due to update in the meth-odology for estimation (net)	Decrease in impairment account due to write-offs	Other ad-justments	Closing balance 31.12. 2020	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss
Debt instruments										
Placements with banks	23	3	-4	-21	0	0	0	1	**2**	0
Loans and advances to clients	2,156	906	-405	-1,125	0	0	0	54	**1,586**	180
Investment in debt securities	61	22	-11	-23	0	0	0	-2	**47**	0
Stage 1 total	**2,240**	**931**	**-420**	**-1,169**	**0**	**0**	**0**	**53**	**1,635**	180
Placements with banks	0	0	0	0	0	0	0	0	**0**	0
Loans and advances to clients	5,903	2,537	-2,015	12,757	0	0	-19	162	**19,326**	0
Investment in debt securities	0	122	0	154	0	0	0	2	**278**	0
of which: non-performing	0	0	0	0	0	0	0	0	**0**	0
Stage 2 total	**5,903**	**2,659**	**-2,015**	**12,911**	**0**	**0**	**-19**	**164**	**19,603**	0
Placements with banks	0	0	0	0	0	0	0	0	**0**	0
Loans and advances to clients	25,874	4,742	-12,018	8,385	0	-691	-209	591	**26,674**	0
Investment in debt securities	0	0	0	0	0	0	0	0	0	0
of which: collectively assessed impairment	15,099	165	-3,390	2,407	0	-691	-163	-15	**13,412**	0
of which: individually assessed impairment	10,774	4,577	-8,628	5,978	0	0	-46	608	13,263	0
Stage 3 total	**25,874**	**4,742**	**-12,018**	**8,385**	**0**	**-691**	**-209**	**591**	**26,674**	0
Placements with banks	0	0	0	0	0	0	0	0	**0**	0
Loans and advances to clients	3,041	0	-3,878	4,537	0	-82	0	52	**3,670**	0
Investment in debt securities	0	0	0	0	0	0	0	0	**0**	0
of which: collectively assessed allowances	3,041	0	-3,875	4,535	0	-82	0	52	**3,671**	0
of which: individually assessed allowances	0	0	-3	2	0	0	0	0	**-1**	0
POCI total	3,041	0	-3,878	4,537	0	-82	0	52	**3,670**	0
Total allowance for debt instruments	**37,058**	**8,332**	**-18,331**	**24,664**	**0**	**-773**	**-228**	**861**	**51,583**	**180**
Commitments and financial guarantees given										
Stage 1	295	318	-353	-4	0	0	0	-2	**254**	0
Stage 2	149	91	-249	1,189	0	0	0	3	1,183	0
Stage 3	5,777	1,031	-5,365	2,347	0	0	0	229	**4,019**	0
Total provisions on commitments and financial guarantees given	**6,221**	**1,440**	**-5,967**	**3,532**	**0**	**0**	**0**	**236**	**5,456**	**0**

(HUF million)	Opening balance 01.01. 2019	Increases due to origination and acquisition	Decreases due to dere-cognition	Changes due to change in credit risk (net)	Changes due to mod-ifications without derecogni-tion (net)	Changes due to update in the metho-dology for estimation (net)	Decrease in impairment account due to write-offs	Other adjustments	Closing balance 31.12. 2019	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss
Debt instruments										
Placements with banks	6	88	-4	-69	0	0	0	2	**23**	**0**
Loans and advances to clients	1,730	1,220	-329	-445	0	-36	0	16	**2,156**	**34**
Investment in debt securities	58	30	-14	-13	0	0	0	0	**61**	**0**
Stage 1 Total	**1,794**	**1,338**	**-347**	**-527**	**0**	**-36**	**0**	**18**	**2,240**	**34**
Placements with banks	3	0	0	-3	0	0	0	0	**0**	**0**
Loans and advances to clients	7,207	1,393	-1,952	1,121	0	-1,853	-28	15	**5,904**	**1**
Investment in debt securities	5	0	0	-5	0	0	0	0	**0**	**0**
of which: non-performing	1,605	21	-55	-1,025	0	0	0	-546	**0**	**0**
Stage 2 Total	**7,215**	**1,393**	**-1,952**	**1,113**	**0**	**-1,853**	**-28**	**15**	**5,903**	**1**
Placements with banks	0	0	0	0	0	0	0	0	**0**	**0**
Loans and advances to clients	39,458	3,590	-24,032	3,828	0	4,111	-1,219	138	**25,873**	**2**
Investment in debt securities	0	0	0	0	0	0	0	0	0	**0**
of which: collectively as-sessed impairment	19,023	380	-8,006	41	0	4,111	-413	-36	**15,100**	**0**
of which: individually as-sessed impairment	20,435	3,210	-16,026	3,787	0	0	-806	174	10,774	**0**
Stage 3 Total	**39,458**	**3,590**	**-24,032**	**3,828**	**0**	**4,111**	**-1,219**	**138**	**25,874**	**2**
Placements with banks	0	0	0	0	0	0	0	0	**0**	**0**
Loans and advances to clients	4,032	5	-4,153	2,994	0	160	-12	15	**3,041**	**0**
Investment in debt securities	0	0	0	0	0	0	0	0	**0**	**0**
of which: collectively as-sessed allowances	4,032	5	-4,153	2,994	0	160	-12	15	**3,041**	**0**
of which: individually as-sessed allowances	0	0	0	0	0	0	0	0	**0**	**0**
POCI Total	4,032	5	-4,153	2,994	0	160	-12	15	**3,041**	**0**
Total loss allowance for debt instruments	**52,499**	**6,326**	**-30,484**	**7,408**	**0**	**2,382**	**-1,259**	**186**	**37,058**	**37**
Loan commitments and financial guarantees given										
Stage 1	234	344	-288	9	0	-5	0	1	**295**	**0**
Stage 2	268	155	-240	50	0	-85	0	1	149	**0**
Stage 3	1,983	4,479	-698	-60	0	52	0	21	**5,777**	**0**
Total provisions on loan commitments and financial guarantees given	**2,485**	**4,978**	**-1,226**	**-1**	**0**	**-38**	**0**	**23**	**6,221**	**0**

*Recoveries of previously written off amounts are reported under Impairment losses on financial assets in the Profit and loss statement

In 2020, some changes in retail estimation methodology, in 2019 the effect of the change in the definition of default on the expected credit loss is shown in the column „Changes due to update in the methodology for estimation (net)". The additional expected credit loss recognized due to COVID-19 is presented in the column „Changes due to change in credit risk (net)" with an amount of HUF 11,272 million. For the details about the changes in the methodology please see the Note 'Effect of the COVID-19 on the credit risk management'.

The total of this year's movements in expected credit losses include – within changes due to change in credit risk – the adjustments to the net exposure of credit-impaired (Stage 3) exposures arising from the net interest calculation, which is presented in 'Impairment losses on financial assets' but affects interest (2020: HUF 5,720 million, 2019: HUF 6,335 million). Besides the above, the profit or loss item 'Impairment losses on financial assets' includes amounts from de-recognising sold and written-off exposures (2019: HUF 14,405 million, 2018: HUF 14,813 million) including individually large corporate exposures and retail packages, as well as recoveries from purchased or originated credit-impaired financial instruments (2020: HUF 3,173 million, 2019: HUF 3,755 million).

The Group performs further collection procedures in relation to certain financial assets which were written off in the current year. The contractual receivables relating to such financial assets amount to HUF 5,080 million (2019: HUF 11,051 million).

Contract modifications and expected credit losses

There were contract modifications which did not lead to derecognition of the financial assets in 2020, too. The amortised costs of financial assets so modified and for which lifetime expected credit losses were recognised amounted to HUF 476,265 million (2019: HUF 3,510 million) before the modifications and the related net modification loss amounted to HUF 3,053 million (2019: HUF 8 million), the biggest part of this was related to net modification loss (– HUF 3,285 million) arising from the changes in the present value of the cash flows related to the cash flows from clients participating in the phase 1 and 2 of the repayment moratorium. The loss of HUF 2,105 million for the phase 1 of the repayment moratorium was determined at its closure based on difference in the present value of the new cash flows and the cash flows before the moratoria. For the phase 2 which will start in 2021 an estimation was prepared based on the calculation for the phase 1 (HUF 1,180 million).

The table below present the balances related to the repayment moratoria:

12.31.2020	*Performing*			*Non-performing*			*Total performing and non-performing*
(HUF million)	*Total performing*	*hereof: Stage 2*	*hereof: re-structured*	*Total non-performing*	*hereof: unlikely to pay that are not past-due or past-due <= 90 days*	*hereof: restructured*	
Households	*135,065*	*86,825*	*4,642*	*9,272*	*6,289*	*4,331*	*144,337*
hereof: collateralised by residential immovable property	*78,927*	*58,451*	*4,337*	*7,458*	*5,292*	*4,082*	*86,385*
Non-financial corporations	*213,234*	*113,891*	*326*	*26,234*	*23,548*	*7,380*	*239,468*
hereof: small and medium-sized enterprises	*124,893*	*67,645*	*317*	*4,435*	*4,139*	*1,914*	*129,328*
hereof: collateralised by commercial immovable property	*114,736*	*81,342*	*64*	*1,126*	*997*	*864*	*115,862*
Other	*4,947*	*9*	*0*	*25*	*25*	*0*	*4,972*
Gross carrying amount	***353,246***	***200,725***	***4,968***	***35,531***	***29,862***	***11,711***	***388,777***
Impairment	*-13,299*	*-12,654*	*-716*	*-13,950*	*-10,589*	*-8,348*	*-27,249*
Net carrying amount	***339,947***	***188,071***	***4,252***	***21,581***	***19,273***	***3,363***	***361,528***

Out of the total gross carrying amount, the unpaid amount related to the payment moratoria in 2020 was HUF 86,308 million.

The table below shows the gross carrying amounts related to the payment moratoria by sectors:

(millió Ft)	*31.12.2020*
Real estate	*96,771*
Domestic trade	*23,247*
Other, mainly service industries	*32,856*
Finance	*4,549*
Public administration	*1,914*
Mining	*113*
Manufacturing	*53,427*
Agriculture	*4,890*
Transportation, communication	*21,518*
Construction	*4,003*
Energy	*26*
Infrastructure	*1,126*
Households	*144,337*
Total	***388,777***

The below table presents the loss from changed cash flows due to the payment moratoria:

(million HUF)	*2020*
Households	*-2,162*
hereof: collateralised by residential immovable property	*-1,270*
Non-financial corporations	*-982*
hereof: small and medium-sized enterprises	*-650*
hereof: collateralised by commercial immovable property	*-535*
Other	*-142*
Modification gains or (-) losses, net total	***-3,286***

Loans with renegotiated terms

Loans with renegotiated terms are loans which were restructured due to the deterioration of the financial situation of the borrower. In such cases original contractual terms are modified to help the borrower overcome financial difficulties.

The definition of renegotiation (forborne) used by the Group is based on EBA (EU) regulation 227/2015.

Non-retail: all types of receivables due from corporate and municipality clients and fiscal institutions may be subject to renegotiations (loans, current account facilities, bonds, guarantees, factoring facilities and other financial assets).

The Group regards its non-retail contracts to be restructured, where a forced renegotiation of the contractual terms occurs due to financial difficulties, where concessions are granted by the Group to the borrower under the modified contract which it would not grant to other borrowers in the normal course of the business, with regards to the financial difficulties of the borrower, in order to achieve full recovery.

Typical concession measures: extending the term, converting a revolving loan into an amortising loan, granting concession period, standstill agreement, capitalisation of interests, favourable pricing, exempting from financial covenants, forgiveness of principal or interest, conversion of the old transaction. In practice, similarly to the previous years, the most common concession measures were the restructuring of terms and repayment amounts and conversion into an amortising loan.

All types of **retail loans** (personal loans, credit cards, current account facilities, mortgages) might be subject to renegotiations. The two main types of renegotiations:

- variations of renegotiations determined by the Group;
- government programs.

The contract shall be regarded as associated with a concession, i.e. forborne based on the above, if

- the borrower is in financial difficulty and
- the terms and conditions of the contract were modified to grant a concession to the borrower (in the form of conversion or modification) that the Group would not grant to borrowers in normal financial situations.

A contract can be regarded as forborne – regardless of the modified conditions or actual past due status – if in course of the contract modification the Group is granting a concession and the borrower had at least once during the 6 months prior to the contract modification contractual payments more than 60 days past due or the borrower was in a more than 60 days delinquency at the date of contract modification.

Exposures associated with concessions (forborne exposures) are regarded by the Group as restructured for the purposes of Regulation 39/2016 of NBH.

Restructured loan exposures of the Group as at the reporting date are presented in the following tables:

31.12.2020	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value change due to change in credit risk and provisions			Collaterals and financial guarantees received
(HUF million)	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	*7,991*	*18,597*	*26,588*	*-923*	*-13,180*	*-14,103*	*12,383*
Total financial assets at amortised cost	**7,991**	**18,597**	**26,588**	**-923**	**-13,180**	**-14,103**	**12,383**
Loans and advances to clients	*1*	*1*	*2*	*0*	*0*	*0*	*1*
Total financial assets at fair value through profit and loss	**1**	**1**	**2**	**0**	**0**	**0**	**1**
Commitments and financial guarantees given (Stage 3)	*823*	*1,248*	*2,071*	*-4*	*-1,158*	*-1,162*	*229*
Total	**8,815**	**19,846**	**28,661**	**-927**	**-14,338**	**-15,265**	**12,613**

31.12.2019	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value change due to change in credit risk and provisions			Collaterals and financial guarantees received
(HUF million)	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	*7,287*	*21,378*	*28,665*	*-703*	*-14,383*	*-15,086*	*10,969*
Total financial assets at amortised cost	**7,287**	**21,378**	**28,665**	**-703**	**-14,383**	**-15,086**	**10,969**
Loans and advances to clients	*0*	*2*	*2*	*0*	*0*	*0*	*0*
Total financial assets at fair value through profit and loss	**0**	**2**	**2**	**0**	**0**	**0**	**0**
Commitments and financial guarantees given (Stage 3)	*1,000*	*525*	*1,525*	*-3*	*-409*	*-412*	*110*
Total	**8,287**	**21,905**	**30,192**	**-706**	**-14,792**	**-15,498**	**11,079**

The balance of renegotiated loans did not change significantly from 2019 to 2020. The loans participating in the moratoria are not classified as renegotiated according to the resolution of the EBA.

Write-off of loans

Loans (and related loss allowances) are typically written off partially or in full when there are no realistic prospects of recovering principal amount and, in case of collateralised loans, when cash inflows from foreclosure of the collateral were received and further recovery from the loan is realistically no longer expected.

Collaterals

According to the credit policy of the Group, the repayment capabilities of the borrower are considered in the course of lending instead of excessively relying on collaterals. Depending on the credit standing of the customer and on product type, certain facilities may be uncollateralised. Nevertheless, collaterals are important factors in credit risk mitigation.

As a general principle, when calculating collateral coverage, the Group considers collateral which is defined in the Raiffeisen International Group Directive for Collateral Evaluation and Management (Catalogue) and complies with all of the following requirements:

- legal enforceability;
- sustainable intrinsic value;
- realizable and willingness to realise;
- little or no correlation between the credit standing of the borrower and the value of the collateral.

The allocated Weighted Collateral Value (WCV) is the discounted market value of the collaterals, reduced by prior ranking liens, capped at the contractually pledged amount, applying a discount for currency mismatch, and limited by the amount of the covered contractual exposure.

The major types of collaterals accepted are as follows: mortgage on property, cash deposits, securities, pledge on machinery, pledge on inventories, commodities, sureties and guarantees and other comfort factors.

Collateral and Risk Process Management Division of Credit Risk Management Department is responsible for the processes related to collaterals (valuation and regular revaluation, real estate on-site visits, checking physical existence, monitoring of coverage requirements, etc.).

The values of collaterals by type – represented by WCV capped at the value of the receivables – are presented in the following tables:

31.12.2020 (HUF million)	Placements with banks	Loans and advances to clients	Investments in securities	Loan commitments and financial guarantees given	Derivative assets	Total collateral
Cash deposits	**0**	**17,100**	**0**	**14,423**	**2,829**	**34,352**
Debt securities issued by	**0**	**91,033**	**0**	**394**	**0**	**91,427**
Government	0	8,032	0	10	0	**8,042**
Companies	0	75,444	0	112	0	**75,556**
Others	0	7,557	0	272	0	**7,829**
Shares	**0**	**10,929**	**0**	**456**	**918**	**12,303**
Mortgage on	**0**	**417,958**	**0**	**21,498**	**0**	**439,456**
Residential real estate	0	221,232	0	1,962	0	**223,194**
Commercial real estate	0	164,268	0	11,247	0	**175,515**
Other	0	32,458	0	8,289	0	**40,747**
Guarantees from	**0**	**191,138**	**230**	**23,896**	**0**	**215,264**
Government	0	100,157	230	0	0	**100,387**
Banks	0	90,981	0	23,896	0	**114,877**
Other collateral	**0**	**87,186**	**0**	**31,496**	**0**	**118,682**
Total collateral	**0**	**815,344**	**230**	**92,163**	**3,747**	**911,484**

31.12.2019 (HUF million)	Placements with banks	Loans and advances to clients	Investments in securities	Loan commitments and financial guarantees given	Derivative assets	Total collateral
Cash deposits	**0**	**15,180**	**0**	**10,690**	**1,176**	**27,046**
Debt securities issued by	**0**	**94,996**	**0**	**1,384**	**0**	**96,380**
Government	0	1,105	0	38	0	**1,143**
Companies	0	84,155	0	713	0	**84,868**
Others	0	9,736	0	633	0	**10,369**
Shares	**0**	**8,489**	**0**	**220**	**298**	**9,007**
Mortgage on	**0**	**334,042**	**0**	**23,767**	**0**	**357,809**
Residential real estate	0	172,810	0	1,426	0	**174,236**
Commercial real estate	0	133,849	0	13,990	0	**147,839**
Other	0	27,383	0	8,351	0	**35,734**
Guarantees from	**0**	**146,115**	**0**	**20,518**	**0**	**166,633**
Government	0	42,287	0	0	0	**42,287**
Banks	0	103,828	0	20,518	0	**124,346**
Other collateral	**0**	**87,307**	**0**	**28,900**	**0**	**116,207**
Total collateral	**0**	**686,129**	**0**	**85,479**	**1,474**	**773,082**

The values of collaterals at the reporting dates by categories of exposures are presented in the tables below:

31.12.2020 (HUF million)	Financial assets at amortised cost				Financial assets at fair value through other compehensive income	Financial assets at fair value through profit and loss	Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1		
Placements with banks	0	0	0	0	0	0	**0**
Loans and advances to clients	503,116	229,114	16,664	3,536	0	62,914	**815,344**
Investment in debt securities	0	0	0	0	230	0	**230**
Other receivables	0	0	0	0	0	0	**0**
Loan commitments and financial guarantees given	76,500	14,236	1,427	0	0	0	**92,163**
Derivative assets						3,747	**3,747**
Total	**579,616**	**243,350**	**18,091**	**3,536**	**230**	**66,661**	**911,484**

31.12.2019 (HUF million)	Financial assets at amortised cost				Financial assets at fair value through profit and loss	Total
	Stage 1	Stage 2	Stage 3	POCI		
Placements with banks	0	0	0	0	0	**0**
Loans and advances to clients	549,076	95,938	6,597	4,756	29,761	**686,128**
Other receivables	0	0	0	0	0	**0**
Loan commitments and financial guarantees given	80,165	5,104	211	0	0	**85,480**
Derivative assets					1,474	**1,474**
Total	**629,241**	**101,042**	**6,808**	**4,756**	**31,235**	**773,082**

Assets obtained by taking possession of collateral

The following table shows the carrying amounts of assets obtained by the Group by taking possession of collaterals or by other foreclosure measures:

(HUF million)	31.12.2020	31.12.2019
Property and equipment	1,060	626
Other	12	12
Total assets obtained	**1,072**	**638**

Concentrations

The Group monitors concentrations of credit risk by sector. An analysis of credit risk concentration by sector in gross value at the reporting dates is shown below:

31.12.2020 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	190,289	12,012	3,137	13,357
Domestic trade	0	141,881	1,495	348	105,436
Other, mainly service industries	0	187,921	14,464	450	66,865
Finance	190,978	108,014	288,739	26,991	66,132
Central Bank	622,861	0	0	8,690	507
Public administration	0	14,251	397,578	0	720
Mining	0	236	0	18	125,294
Manufacturing	0	340,000	15,617	1,491	3,063
Agriculture	0	28,684	0	11	34,304
Transportation, communication	0	88,852	0	1,884	122,251
Construction	0	18,484	506	504	1,384
Energy	0	2,267	0	0	2,821
Infrastructure	0	2,490	0	0	18,789
Private households	0	411,960	0	4	0
Total	**813,839**	**1,535,329**	**730,411**	**43,528**	**560,923**

31.12.2019 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	170,427	142	1,740	9,319
Domestic trade	0	141,639	0	150	99,987
Other, mainly service industries	0	138,263	0	205	53,680
Finance	230,140	136,864	331,193	22,216	160,348
Central Bank	178,590	0	0	2,752	0
Public administration	0	8,651	407,258	0	180
Mining	0	1,178	0	39	1,204
Manufacturing	0	232,704	8,596	185	108,189
Agriculture	0	30,016	0	7	4,199
Transportation, communication	0	85,121	0	3,123	66,756
Construction	0	14,716	0	240	115,825
Energy	0	3,916	0	0	382
Infrastructure	0	1,833	0	0	2,415
Private households	0	334,639	0	11	20,070
Total	**408,730**	**1,299,967**	**747,189**	**30,668**	**642,554**

With regards to concentrations, a more significant change from 2019 to 2020 occurred in loans and receivables to customers in the manufacturing and real estate sector, attributable to a few larger placements and the effect of the repayment moratoria. In the retail segment, along with the new disbursement, the repayment moratoria resulted an increase in the outstanding balance.

(6.3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Management of market risk

The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

VaR (Value at Risk) limit system is operated by RBI where separate VaR limits are assigned to the different risk types: interest rate risk of the trading book, interest rate risk of the banking book, equity price risk of the trading book, volatility risk and the risk relating to the Group's foreign currency open position. Additionally, credit spread risk between bonds and money market products is indicated as an individual risk factor in the reports as well.

During the past couple of years audit and control functions within the Group became stricter than before. New reports were implemented for market risk related risk types. The Group is carrying out daily market conformity monitoring activity, and the results are presented on a regular basis to the Management.

The Group developed new stress tests that are also regularly presented to the Management.

The Group manages its market risk exposure separately between trading and non-trading portfolios.

Trading portfolio includes positions arising from market-making, proprietary position-taking and other positions so designated by the Group that are valued based on mark-to-market pricing method. Trading activities include transactions with debt and equity securities, foreign currencies and derivative financial instruments.

Non-trading portfolio (banking book) includes positions that arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. The Group's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments.
A special interest rate model was introduced for the products in the banking book with no maturity, which was integrated also into the risk reports.

Exposure to interest rate risk – trading and banking book

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is measured by the sensitivity analysis of the banking book's net interest income and of the mark-to-market value of the trading book to the volatility of interest rates.

Interest rate exposure is the most significant risk factor in the banking and trading book portfolios. On Group level, strict Basis Point Value limits and Value-at-risk (VaR) limits are defined, which are monitored on a daily basis.

The Group's interest-bearing financial instruments per interest type at the reporting dates are as follows:

Interst bearing financial instruments

Financial instruments with fixed interest rates

(HUF million)	31.12.2020	31.12.2019
Financial assets	1,662,801	1,218,690
Financial liabilities	362,376	218,177
Total	**1,300,425**	**1,000,513**

Financial instruments with variable interest rates

	31.12.2020		31.12.2019	
(HUF million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities
HUF	867,228	1,604,812	667,652	1,344,888
CHF	1,463	10,148	5,875	12,144
EUR	428,380	657,027	451,406	504,636
USD	41,955	141,072	51,057	113,855
Other currencies	12,107	20,135	11,676	13,998
Total	**1,351,133**	**2,433,194**	**1,187,666**	**1,989,521**

Changes can be broken down as follows:

- the fixed-rate financial assets increased in 2020 with HUF 444 billion (largest changes: NBH placements HUF 412 billion);
- fixed-rate liabilities increased by HUF 143 billion (loans from NBH HUF 66 billion, interbank deposits HUF 45 billion, financial leases HUF 25 billion increase);
- variable-rate assets increased by HUF 163 billion (customer loans: HUF 162 billion);
- variable-rate liabilities increase by HUF 443 billion (the largest increase was related to the customer deposits: HUF 400 billion).

In order to ensure that interest rate risk exposures are maintained within acceptable limits, the Group uses interest rate swaps and other interest rate derivative agreements as primary risk management techniques.

The Group uses derivatives designated in qualifying hedge relationships to hedge the fair value of certain fixed interest rate loans, fixed interest rate deposits and fixed interest rate issued and purchased bonds. The Group also has contracts to manage its exposure to interest rate risk which are not designated in qualifying hedge relationships. The Group presents interests on derivative financial instruments – regardless of whether they are used for trading or for risk management purposes – in 'Net interest income'. The Group presents gains and losses on fair valuation (excluding accrued interest) in case of derivatives not involved in hedge accounting in the profit or loss line item 'Net trading income and fair value result' and in case of derivatives involved in hedge accounting in the profit or loss line item 'Net gains/losses from hedge accounting'.

For risk management purposes, the Group uses cross currency interest rate swaps involved in portfolio cash flow hedge accounting, where the hedged portfolio is a group of foreign currency loans and Hungarian forint deposits and the purpose of the hedge is to eliminate the fluctuation of the interest income and expense that arises from changes in the base rates and the fluctuation of the Hungarian forint exchange rate.

Information about the cash flow hedging instruments is included in note (10) Net gains/losses from hedge accounting.

Exposure to currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. When calculating exposures to currency risk, the Group takes the entire open position into account.

The Group's financial position in foreign currencies at the reporting dates is presented in the tables below:

31.12.2020 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash, cash balances at central banks and other demand deposits	72,687	926	36,428	6,989	4,761	**121,791**
Financial assets held for trading except for derivatives	38,362	0	36	106	0	**38,504**
Non-trading financial assets mandatorily at fair value through profit or loss	67,201	0	0	541	0	**67,742**
Financial assets designated at fair value through profit or loss	18,471	0	0	0	0	**18,471**
Financial assets at fair value through other comprehensive income	359,971	0	110,784	24,642	19,757	**515,154**
Financial assets at amortised cost	1,571,470	5,526	671,499	70,831	9,528	**2,328,854**
Financial assets except for derivatives	**2,128,162**	**6,452**	**818,747**	**103,109**	**34,046**	**3,090,516**
Financial liabilities held for trading except for derivatives	7,539	0	0	0	0	**7,539**
Financial liabilities measured at amortised cost	1,834,102	14,508	823,934	181,133	23,897	**2,877,574**
Financial liabilities except for derivatives	**1,841,641**	**14,508**	**823,934**	**181,133**	**23,897**	**2,885,113**
Net open position on balance sheet	**286,521**	**-8,056**	**-5,187**	**-78,024**	**10,149**	**205,403**
Net derivative and spot instruments (-/+: short / long position)	-90,140	8,595	9,256	78,791	-8,256	**-1,754**
Total open foreign currency position (net)	**196,381**	**539**	**4,069**	**767**	**1,893**	**203,649**

31.12.2019 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash, cash balances at central banks and other demand deposits	96,542	864	16,750	6,957	5,042	**126,155**
Financial assets held for trading except for derivatives	27,615	0	35	43	0	**27,693**
Non-trading financial assets mandatorily at fair value through profit or loss	33,996	0	0	0	0	**33,996**
Financial assets designated at fair value through profit or loss	20,237	0	0	0	0	**20,237**
Financial assets at fair value through other comprehensive income	310,087	0	177,903	18,882	18,050	**524,922**
Financial assets at amortised cost	1,059,102	6,016	637,685	76,912	9,145	**1,788,860**
Financial assets except for derivatives	1,547,579	6,880	832,373	102,794	32,237	**2,521,863**
Financial liabilities held for trading except for derivatives	37	0	0	0	0	**37**
Financial liabilities measured at amortised cost	1,476,197	12,191	635,041	158,113	17,454	**2,298,996**
Financial liabilities except for derivatives	**1,476,234**	**12,191**	**635,041**	**158,113**	**17,454**	**2,299,033**
Net open position on balance sheet	**71,345**	**-5,311**	**197,332**	**-55,319**	**14,783**	**222,830**
Net derivative and spot instruments (-/+: short / long position)	150,225	5,727	-198,222	56,194	-13,793	**131**
Total open foreign currency position (net)	**221,570**	**416**	**-890**	**875**	**990**	**222,961**

The Group has an overall low level of exposure to foreign currency risk at the end of both 2020 and 2019.

The Group defines strict limits for the open positions and uses VaR indicators as well. These limits are monitored on a daily basis.

Risk factors related to the foreign currency options are handled within VaR calculations. For Greek values (gamma and vega), additional limits are defined and monitored on daily basis.

Exposure to other price risk – trading book

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's exposure to other price risk only arises from exposures to exchange traded equity instruments. The Group defines strict limits for open equity exposures and uses price risk VaR as well. These limits are monitored on a daily basis.

Tools for managing market risk – trading book and banking book

Value at risk

The principal tool used to measure and control market risk exposure within the Group's trading and banking portfolio is Value at Risk (VaR). A VaR indicator shows the maximum loss of a financial instrument under a given period and confidence level, within normal course of business. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-days holding period in case of trading book and a 250-days holding period in case of banking book. The VaR is a risk indicator which must be assigned to the distribution of possible losses of the financial instrument. The Group applies Monte Carlo VaR calculation. Considering the trading book products, they can be divided into three basic risk factors – foreign currency, interest rate and price – and risks are grouped according to this categorization.

VaR is not the sum of every single component (foreign currency risk, interest rate risk and price risk) as there is a correlation between the components (diversification effect). Diversification effect results in a reduction of the overall risk of a portfolio when its individual component risks do not move together. Foreign currency risk, price risk and interest rate risk do not correlate with each other perfectly, thus diversification effect exists. The VaR figure is calculated on a daily basis on fundamentals separately and on their entire group as well. Diversification effect is not taken into consideration by the Group in case of Economic Capital calculations.

A summary of the VaR positions representing the market risk exposure of the Group's trading and banking book is presented in the tables below:

(HUF million)	*31.12.2020*			
Trading book	***VaR at year end***	***Average VaR***	***Minimum VaR***	***Maximum VaR***
Foreign currency risk	*17*	*113*	*6*	*452*
Interest rate risk	*87*	*224*	*34*	*1,090*
Share and commodity price risk	*13*	*24*	*0*	*706*
Total risk	*159*	*246*	*34*	*699*
Banking book	***VaR at year end***	***Average VaR***	***Minimum VaR***	***Maximum VaR***
Foreign currency risk	*0*	*0*	*0*	*0*
Interest rate risk	*710*	*1,797*	*706*	*5,111*
Total risk	*710*	*1,797*	*706*	*5,111*

(HUF million)	31.12.2019			
Trading book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	15	136	4	419
Interest rate risk	102	100	39	406
Share and commodity price risk	12	10	0	88
Total risk	117	212	68	480
Banking book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	0	0	0	0
Interest rate risk	1,121	759	406	1,925
Total risk	1,121	759	406	1,925

The significant change in the maximum of the banking book and trading book VaR was related to the outbreak of the COVID-19. In 2020 end of March and the first half of April, the VaR calculated for the actual banking book and trading book portfolio increased significantly because of market uncertainty and volatility related to the pandemic, which were built in the risk factors used by the VaR modelling.

Gap and BPVreport

Besides measuring VaR, interest rate risk is also estimated by using classical means of principal and interest maturity analysis. In the gap report, the assets and liabilities are shown in different repricing categories according to the expected repricing dates.

Repricing of assets or liabilities occurs when:

- they fall due;
- part of the principal is repaid according to the contract;
- the interest is repriced in accordance with the contract, based on a reference rate;
- the assets or liabilities are repaid before maturity.

The interest-bearing off-balance sheet items are managed as nominal deposits and loans.

The difference between assets and liabilities in the same repricing category is called a 'gap'. The gap in a particular category is positive when interest rate risk of assets exceeds that of liabilities, and negative in the opposite case. For the different repricing categories, interest rate sensitivities, i.e. basis point values (BPV) are assigned. BPV shows the changes in the present value of a certain repricing category's position due to a 1 basis point parallel shift of the interest rate curve. BPV limits which were approved by RBI are assigned for the repricing categories by currency.

BPV reports are presented in the below tables:

(HUF thousand)	31.12.2020			
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-237	15	-1	45
3 months to 6 months	-46	400	0	-104
6 months to 1 year	-310	-381	0	685
1 year to 2 years	-1,009	4	0	-9
2 years to 3 years	-571	0	0	-5
3 years to 5 years	-1,166	-10	0	-1
5 years to 7 years	-1,106	-9	0	0
7 years to 10 years	800	0	0	0
10 years to 15 years	312	0	0	0
15 years to 20 years	-1,133	0	0	0
Over 20 years	-134	0	0	0
Banking book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	1,415	-416	-68	-203
3 months to 6 months	-1,029	314	0	-761
6 months to 1 year	-1,282	4,970	1	261
1 year to 2 years	-4,479	-3,411	-2	141
2 years to 3 years	-6,206	-14,089	2	584
3 years to 5 years	-16,566	-9,413	2	1,755
5 years to 7 years	-19,481	4,160	-1	-24
7 years to 10 years	13,876	15,210	-9	-27
10 years to 15 years	-2,832	3,930	-55	0
15 years to 20 years	-650	0	-60	0
Over 20 years	-76	0	0	0

(HUF thousand)	31.12.2019			
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-134	-134	-5	-97
3 months to 6 months	513	-443	1	-40
6 months to 1 year	-3,453	2,769	0	427
1 year to 2 years	372	34	0	-6
2 years to 3 years	-1,242	0	0	-7
3 years to 5 years	913	0	0	-7
5 years to 7 years	-1,138	-1	0	0
7 years to 10 years	-167	-3	0	0
10 years to 15 years	3	0	0	0
15 years to 20 years	-6	0	0	0
Over 20 years	0	0	0	0
Banking book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-2,955	-956	-49	-255
3 months to 6 months	-1,691	-645	-6	-650
6 months to 1 year	1,654	3,416	-16	428
1 year to 2 years	-348	1,049	0	151
2 years to 3 years	-11,064	-6,268	-1	14
3 years to 5 years	-6,008	2,946	-2	862
5 years to 7 years	-12,786	-527	4	24
7 years to 10 years	3,760	438	-38	0
10 years to 15 years	-2,044	4	-63	0
15 years to 20 years	-222	0	-70	0
Over 20 years	-51	0	0	0

(6.4) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities.

Managing liquidity risk

The objective of liquidity management is to provide the necessary liquidity for the Group to meet its liabilities when due at all times, under both normal and stressed conditions.

Liquidity risk management is a key priority in RBI Group as well as in Raiffeisen Bank Hungary, thereby the Group has a comprehensive set of group-standards and local internal rules, regulations and practices beside the legal regulations regarding liquidity requirements. Liquidity management procedures, tasks, responsibilities, reports and instructions for the limit systems are all governed in Management directives.

Liquidity management is one of the main tasks of the Asset Liability Committee (ALCO). ALCO is responsible for asset and liability management, liquidity risk management and setting local limit system according to (or sometimes stricter than) the limits determined by RBI Liquidity Risk Management. The ALCO meets monthly and has extraordinary meetings if necessary.

Besides internal liquidity risk reporting, RBI prepares a liquidity report based on data provided by the Group on a daily basis in order to monitor group wide liquidity risk.

The Group's liquidity policy which includes the liquidity contingency plan is reviewed annually. The Group's liquidity position is stable, its liquidity risk exposure is low. The Group does not use stand-by loan commitments for liquidity management purposes, sufficient level of liquidity reserve is available without such commitments.

The following table shows the undiscounted cash flows from the Group's non-derivative financial liabilities, loan commitments and issued financial guarantee contracts on the basis of their earliest possible maturity. The table also shows a maturity analysis for derivative financial liabilities including the remaining contractual maturities for those derivatives for which contractual maturities are essential for the understanding of the timing of the cash flows. The gross nominal outflow disclosed in the following tables is the remaining contractual, undiscounted cash flow from the Group's non-derivative financial liabilities, loan commitments and the issued financial guarantees. The disclosure for derivatives shows a gross inflow and outflow amount for derivatives.

31.12.2020				*Timing of contractual cash flows*			
(HUF million)	*Notes*	*Carrying amount*	*Contractual cash flows*	*3 months or less*	*3-12 months*	*1-5 years*	*more than 5 years*
Assets							
Cash	*(6, 19)*	*59,484*	***59,484***	*59,484*	*0*	*0*	*0*
Placements with banks	*(6, 19)*	*62,307*	***62,307***	*62,307*	*0*	*0*	*0*
Loans and advances	*(6, 20, 21, 42)*	*2,235,603*	***2,432,710***	*933,457*	*331,357*	*784,009*	*383,887*
Investment in debt securities	*(6, 20, 21, 22, 23, 42)*	*730,086*	***873,518***	*35,457*	*157,904*	*552,898*	*127,259*
Total assets		***3,087,480***	***3,428,019***	***1,090,705***	***489,261***	***1,336,907***	***511,146***
Derivative instruments							
Derivative instruments - Trading	*(20, 42)*		***31,522***	***16,967***	***7,714***	***3,014***	***3,827***
Outflow			***-146,109***	*-1,415*	*-31,869*	*-30,975*	*-81,850*
Inflow			***177,631***	*18,382*	*39,583*	*33,989*	*85,677*
Derivative instruments - Hedge accounting	*(10, 42)*		***2,161***	***-138***	***-191***	*1,836*	***654***
Outflow			***-329***	*-138*	*-191*	*0*	*0*
Inflow			***2,490***	*0*	*0*	*1,836*	*654*
Total derivative instruments			***33,683***	***16,829***	***7,523***	***4,850***	***4,481***

31.12.2020 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows			
				3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	2,845,710	**2,850,641**	2,391,716	76,326	272,784	109,815
Short positions	(6, 27, 28, 42)	7,539	**7,539**	7,539	0	0	0
Debt securities issued	(6, 28, 30)	727	**882**	34	0	848	0
Other financial liabilities	(5, 32)	31,137	**35,904**	6,349	2,127	11,182	16,246
Financial guarantees given		129,799	**129,799**	129,799	0	0	0
Loan commitments		279,030	**279,030**	279,030	0	0	0
Total liabilities		**3,293,942**	**3,303,795**	**2,814,467**	**78,453**	**284,814**	**126,061**
Derivative instruments			**0**	**0**	**0**	**0**	**0**
Derivative instruments - Trading	(27, 42)		**-38,904**	-17,679	-10,814	-6,894	-3,517
Outflow			**-137,194**	-18,337	-88,783	-24,346	-5,728
Inflow			**98,290**	658	77,969	17,452	2,211
Derivative instruments - Hedge accounting	(10, 42)		**-14,821**	-444	-1,109	-9,682	-3,586
Outflow			**-40,410**	-454	-1,109	-18,546	-20,301
Inflow			**25,589**	10	0	8,864	16,715
Total derivative instruments			**-53,725**	**-18,123**	**-11,923**	**-16,576**	**-7,103**

31.12.2019 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows			
				3 months or less	3-12 months	1-5 years	more than 5 years
Assets							
Cash	(6, 19)	98,634	**98,634**	98,634	0	0	0
Placements with banks	(6, 19)	27,521	**27,521**	27,521	0	0	0
Loans and advances	(6, 20, 21, 42)	1,644,178	**1,812,467**	524,511	264,389	717,202	306,365
Investment in debt securities	(6, 20, 21, 22, 23, 42)	747,127	**776,280**	48,908	188,170	446,797	92,405
Total assets		**2,517,460**	**2,714,902**	**699,574**	**452,559**	**1,163,999**	**398,770**
Derivative instruments							
Derivative instruments - Trading	**(20, 42)**		**16,077**	**6,338**	**2,259**	**3,257**	**4,223**
Outflow			**-162,945**	-1,556	-18,556	-63,000	-79,833
Inflow			**179,022**	7,894	20,815	66,257	84,056
Derivative instruments - Hedge accounting	(10, 42)		**2,946**	**144**	**24**	**2,289**	**489**
Outflow			**-1,757**	144	24	-2,414	489
Inflow			**4,703**	0	0	4,703	0
Total derivative instruments			**19,023**	**6,482**	**2,283**	**5,546**	**4,712**

31.12.2019 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows 3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	2,278,526	**2,282,413**	1,951,339	61,295	235,473	34,306
Short positions	(6, 27, 28, 42)	37	**37**	37	0	0	0
Debt securities issued	(6, 28, 30)	4,646	**4,860**	3,835	80	945	0
Other financial liabilities	(5, 32)	15,824	**16,887**	7,734	1,349	4,826	2,978
Financial guarantees given		146,001	**146,001**	146,001	0	0	0
Loan commitments		388,883	**388,883**	388,883	0	0	0
Total liabilities		**2,833,917**	**2,839,081**	**2,497,829**	**62,724**	**241,244**	**37,284**
Derivative instruments			**0**	**0**	**0**	**0**	**0**
Derivative instruments - Trading	(27, 42)		**-26,262**	-6,525	-5,293	-10,128	-4,316
Cash outflow			**-69,017**	-7,135	-7,242	-46,141	-8,499
Cash inflow			**42,755**	610	1,949	36,013	4,183
Derivative instruments - Hedge accounting	(10, 42)		**-14,069**	-311	-734	-8,610	-4,414
Cash outflow			**-34,207**	-294	-734	-12,772	-20,407
Cash inflow			**20,138**	-17	0	4,162	15,993
Total derivative instruments			**-40,331**	**-6,836**	**-6,027**	**-18,738**	**-8,730**

The following table sets out the carrying amounts of assets and liabilities that are expected to be recovered or settled within one year or over one year.

31.12.2020 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	82,031	45,068	**36,963**
Non-trading financial assets mandatorily at fair value through profit or loss	67,742	3,050	**64,692**
Financial assets designated at fair value through profit or loss	18,471	0	**18,471**
Financial assets at fair value through other comprehensive income	515,154	100,309	**414,845**
Financial assets at amortised cost	2,328,854	1,271,630	**1,057,224**
Derivatives – Hedge accounting	5,461	342	**5,119**
Deferred tax assets	1,518	5	**1,513**
Other assets	8,271	8,271	**0**
Total assets	**3,027,502**	**1,428,675**	**1,598,827**
Financial liabilities held for trading	48,943	37,829	**11,114**
Financial liabilities designated at fair value through profit or loss	0	0	**0**
Financial liabilities measured at amortised cost	2,877,574	2,498,033	**379,541**
Derivatives – Hedge accounting	12,095	210	**11,885**
Provisions	9,058	6,698	**2,360**
Deferred tax liabilities	3	0	**3**
Other liabilities	6,932	6,932	**0**
Total liabilities	**2,954,605**	**2,549,702**	**404,903**

31.12.2019 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	58,360	32,515	**25,845**
Non-trading financial assets mandatorily at fair value through profit or loss	33,996	1,680	**32,316**
Financial assets designated at fair value through profit or loss	20,237	537	**19,700**
Financial assets at fair value through other comprehensive income	524,922	136,173	**388,749**
Financial assets at amortised cost	1,788,860	798,499	**990,361**
Derivatives – Hedge accounting	6,021	350	**5,671**
Deferred tax assets	1,575	0	**1,575**
Other assets	3,047	3,047	**0**
Total assets	**2,437,018**	**972,801**	**1,464,217**
Financial liabilities held for trading	27,705	12,234	**15,471**
Financial liabilities designated at fair value through profit or loss	0	0	**0**
Financial liabilities measured at amortised cost	2,298,996	2,022,834	**276,161**
Derivatives – Hedge accounting	11,569	386	**11,184**
Provisions	10,782	10,783	**0**
Deferred tax liabilities	3	0	**3**
Other liabilities	6,923	6,923	**0**
Total liabilities	**2,355,978**	**2,053,160**	**302,819**

The Group allocates Economic Capital monthly to the illiquid positions in the trading book. The development of this Economic Capital is shown in the table below:

2020		2019	
Date	**HUF million**	**Date**	**HUF million**
31.01.2020	160	31.01.2019	58
28.02.2020	55	28.02.2019	36
31.03.2020	937	29.03.2019	57
30.04.2020	141	30.04.2019	55
31.05.2020	150	31.05.2019	120
30.06.2020	169	29.06.2019	47
31.07.2020	260	31.07.2019	169
31.08.2020	169	31.08.2019	108
30.09.2020	129	30.09.2019	132
31.10.2020	161	31.10.2019	122
30.11.2020	205	30.11.2019	155
31.12.2020	327	31.12.2019	115

(6.5) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology, and infrastructure, and from external factors other than pure credit, market and liquidity risks. Operational risk also includes risks arising from non-compliance with legal and regulatory requirements and generally accepted standards of corporate behaviour. These risk types are inherent in each of the Group's business and internal supporting activities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has an Operational Risk Management network consisting of a separate Operational Risk Controlling Group and a centralised Fraud Risk Controlling Group and approximately 100 dedicated Operational Risk Specialists located in business units, support departments, regions and at subsidiaries.

Operational Risk Controlling applies different tools to identify risks across all departments: key risk indicators; scenarios; control and risk self-assessment; loss data collection and external databases.

The processes above are used to help identify risks early and are needed to reduce the occurrence of future loss events. The loss events are uploaded by the dedicated operational risk specialists into a loss database, and based on this and other supplementary information (e.g. key risk indicators, status of risk mitigation plans), quarterly reports are created by Operational Risk Controlling.

Operational Risk Controlling gets strong management support. Operational risk issues and possible mitigation measures are discussed quarterly at the Operational Risk and Fraud Committee meetings where the Chief Executive Officer, the Chief Risk Officer, the Chief Operations Officer, the Retail Banking Board member and other members of the Committee (mainly heads of departments) are attended and decide on the priority of risk mitigation plans. RBI CRO receives information about the most relevant Operational Risk issues through the CRO meeting.

(6.6) Capital management

The Group's local regulator (National Bank of Hungary (NBH)) sets and monitors capital requirements for the Group.

With effect from 1 January 2008, the Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The same stands for the Basel III requirements with effect from 30th June 2014.

The Group as a member of Raiffeisen Bank International Group has been granted a joint approval in December 2008 by the Austrian Financial Market Authority (home regulator) and the eight member countries' host authorities to adopt the use of Internal Rating Based approach to credit risk management, except in respect of some credit portfolios which remain under standard approach according to the accepted implementation plan.

Principal changes arising from the introduction of Basel III advanced approach were as follows:
- reduction of own funds with the negative difference between loss allowances and provisions for credit losses and expected loss;
- addition of the positive difference between loss allowances and provisions for credit losses and expected loss up to 0.6 % of risk-weighted exposure amount to tier 2 capital (under IRB approach);
- own funds should cover the capital requirement of credit, market and operational risk.

A Group's own funds can be split into two tiers:
- tier 1 capital (T1),
  - common tier 1 capital (CET1) which includes common tier 1 capital instruments (share capital, share premium, retained earnings, accumulated other comprehensive income, other reserves) and the related deductions, namely deductions related to intangible assets, goodwill, deferred tax assets, IRB shortfall of credit risk adjustment to expected loss, deductions due to securitization positions, and other deduction due to exceeding limits,
  - additional tier 1 capital (AT1): which includes capital instruments eligible as additional tier1 capital.

- tier 2 capital (T-2), which includes subordinated loans and the excess of loss allowances and provisions for credit losses over expected losses in case of loan portfolios for which the Basel III IRB method is applied.

There are also restrictions on the amount of surplus of loss allowances and provisions for credit losses over expected losses that may be included as part of tier 2 capital. Other deductions from own funds include the book value of qualifying interests in other financial institutions.

Banking operations are categorised as either trading book or banking book transactions. Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As noted above, the Basel II/III capital requirement also introduced a new requirement in respect of operational risk.

Besides the above capital requirements, the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also important. The Group recognises the need to maintain a balance between the higher returns that might be possible with higher gearing and the advantages and security from a sound capital position.

The Group has complied with all regulatory capital requirements throughout the year of 2020 including the 2,5% capital conservation buffer. Despite the crises caused by the coronavirus, the capital position of the Group remained at an adequate level aligned with its' risk appetite

Aligned with the expectation of the National Bank, the Group decided to postpone the dividends planned for 2020.

Regulatory capital requirement

The Group's policy is to maintain the capital adequacy continuously above the required level and take any necessary actions on time. The Group applies regulatory capital (Basel III Pillar 1) as well as economic capital (Basel III Pillar 2, ICAAP) for calculating capital adequacy. The Group started a gradual transition to calculating capital requirements for credit risk via the Internal Rating Based (IRB) approach, first introducing the Foundation Internal Ratings Based (F-IRB) approach for its non-retail portfolio on 1st December 2008. Starting from July 2010 and April 2012, capital requirement for exposures to individuals and Micro-SME customers respectively are measured by advanced IRB (A-IRB) method. Above the regulatory minimum capital requirement, the Group needs to keep additional capital for the following capital buffers: systemic risk buffer, capital conservation buffer, systemically important institution buffer.

Capital adequacy

(HUF million)	*2020*	*2019*
Share capital	*50,000*	*50,000*
Capital reserve	*113,445*	*113,445*
Retained earnings	*37,331*	*26,314*
Accumulated other comprehensive income	*5,273*	*6,770*
Funds for general banking risk	*11,336*	*9,883*
Adjustments to CET1 due to prudential filters	*-2,082*	*-2,821*
(-) Goodwill	*-1,035*	*-1,035*
(-) Other intangible assets	*-11,666*	*-17,472*
(-) IRB shortfall of credit risk adjustments to expected losses	*-1,292*	*-1,575*
Common Equity Tier 1 Capital	***201,310***	***183,509***
Capital instruments eligible as AT1 Capital	*31,445*	*31,445*
Additional Tier 1 Capital (AT1)	***31,445***	***31,445***
IRB Excess of loss allowances and provisions over expected losses	*5,953*	*2,787*
Equity instruments classified as subordinated loans	*56,595*	*46,273*
Tier 2 Capital	***62,548***	***49,060***
Total regulatory capital	***295,303***	***264,014***
Capital requirement	***107,698***	***100,085***
Solvency ratio (%)	***21.94%***	***21.10%***

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by the aim to ensure sufficient capital to cover possible risks in order to guarantee continuous safe banking operation (going concern principle) as well as to cover occasionally high losses eventually to be incurred in extreme market circumstances, and secondarily, to optimise return on equity of the Group.

In order to quantify the risks, the Group calculates capital both required by regulation and required economically and optimization is based on economic capital requirements.

The process of allocating capital to specific operations and activities is undertaken by Credit Risk Control and ICAAP Coordination Unit of IRD, which is subject to review by the Group's Management. An additional tool for optimal capital allocation is the application of risk and equity cost-based pricing.

The Group's principles in respect of capital management and allocation are regularly reviewed by the Board of Directors.

(7) Interest income calculated with the effective interest method, other interest income and interest expenses

(HUF million)	2020	2019
Interest income calculated with the effective interest method	**53,207**	**47,757**
Other interest income	**21,010**	**26,892**
Financial assets held for trading	**14,982**	**21,345**
Debt securities	372	420
Derivatives – Held for trading	13,073	13,850
Derivatives – Held for risk management (not in hedge accounting)	1,537	7,075
Financial assets designated at fair value through profit or loss	**1,150**	**1,216**
Debt securities	1,150	1,216
Non-trading financial assets mandatorily at fair value through profit or loss	**2,169**	**815**
Loans and advances	2,169	815
Derivatives – Hedge accounting, interest rate risk	**2,548**	**3,344**
Other	**161**	**172**
Interest income total	**74,217**	**74,649**
Interest expense calculated with the effective interest method	**-5,126**	**-11,921**
Other interest expenses	**-16,420**	**-21,322**
Financial liabilities held for trading	**-11,972**	**-17,109**
Derivatives – Held for trading	-11,593	-11,840
Derivatives – Held for risk management (not in hedge accounting)	-379	-5,269
Derivatives – Hedge accounting, interest rate risk	**-4,238**	**-4,065**
Other	**-210**	**-148**
Interest expense total	**-21,546**	**-33,243**
Net interest income	**52,671**	**41,406**

Net interest income of the Group increased by HUF 11,265 million compared to previous year, which is primarily due to the significant decrease in interest expenses.

The interest income calculated with the effective interest method increased significantly (HUF 5,450 million increase), mainly due to increase in interest income from customer loans and interbank exposures, especially to National Bank of Hungary (NBH).

The interest expense calculated with the effective interest method decreased significantly in 2020 (HUF 6,795 million decrease in expenses). The main reason is that the Group paid HUF 4,507 million for break cost related to early repayment of its subordinated liability in 2019.

The interest income from securities measured through other comprehensive income (except government bonds), and the amortization of discounts and premiums related to these securities caused further increase in interest income (HUF 724 million increase in interest income).

The net interest income was decreased by the net interest income from derivatives (HUF 1,226 million decrease in net interest income) and interest income on debt securities designated at fair value through profit or loss, as well (HUF 66 million decrease in interest).

At the same time, there was a HUF 1,354 million increase in interest from loans mandatorily measured at fair value through profit or loss, due to disbursements of childbirth incentive loans during 2020.

The net interest income from derivatives in cash flow and fair value hedges decreased (HUF 969 million interest decrease).

(HUF million)	*2020*	*2019*
Interest income calculated with the effective interest method	***53,207***	***47,757***
Financial assets at fair value through other comprehensive income	***7,152***	***6,428***
Debt securities	*7,152*	*6,428*
Financial assets at amortised cost	***46,055***	***41,329***
Debt securities	*3,530*	*3,720*
Loans and advances	*40,874*	*36,076*
Leasing receivables	*1,611*	*1,527*
Other assets	*40*	*6*
Interest expense calculated with the effective interest method	***-11,921***	***-8,490***
Financial liabilities at amortised cost	***-11,921***	***-8,490***
Deposits	*-4,231*	*-5,142*
Subordinated liabilities	*-7,165*	*-2,602*
Debt securities issued	*-525*	*-746*
Leasing liabilities	*-469*	*-276*
Net interest income calculated with the effective interest method	***48,081***	***35,836***

(8) Net fee and commission income

The following table presents the net fee and commission income on financial instruments of the Group not measured at fair value through profit or loss:

(HUF million)	2020	2019
Fee and commission income		
IFRS15 revenues		
Security issuance fees and transfer comissions	4,532	4,555
Corporate finance	267	134
Fee based advisory	0	28
Asset management	13	16
Custody	680	685
Central administrative services for collective investment	2,136	2,176
Payment services	33,652	34,696
Services as an agent	1,212	88
Outsourced currency exchange activity	9,096	12,903
Fees included in foreign exchange conversions and other transactions	12,084	11,434
Other	1,271	1,875
Total IFRS15 revenues	**64,943**	**68,590**
IFRS9 revenues		
Loan servicing activities	30	633
Loan commitments given	1	15
Financial guarantees given	2,064	1,984
Loans granted	527	303
Total IFRS9 revenues	**2,622**	**2,935**
Total fee and commission income	**67,565**	**71,525**
Fee and commission expense		
Securities	-568	-613
Clearing and settlement	-71	-69
Custody	-647	-570
Payment services	-4,636	-3,685
Loan servicing activities	-305	-550
Loan commitments received	-7	-1
Financial guarantees received	-791	-897
Services of agents	-57	-50
Outsourced currency exchange activity	-8,835	-12,494
Other	-1,876	-2,665
Total fee and commission expense	**-17,793**	**-21,594**
Net income from commissions and fees	**49,772**	**49,931**

(HUF million)	2020	2019
Fee and commission income		
Financial assets at amortised cost	67,565	71,525
Total fee and commission income	**67,565**	**71,525**
Fee and commission expense		
Financial liabilities at amortised cost	-17,793	-21,594
Total fee and commission expense	**-17,793**	**-21,594**
Net income from commissions and fees	**49,772**	**49,931**

The net fee and commission income decreased by HUF 159 million compared to previous year. Basically, no significant change is seen regarding the individual commission groups. Major changes are due to the following reaons:
- Fee income from account statements was classified to payment fee income (2020: HUF 164 million; 2019: HUF 180 million).
- In 2019, credit protection fee income related to accounts was reported under loan servicing activities, however, such income is classified as other commission income in 2020 (2020: HUF 830 million; 2019: HUF 832 million).
- SMS fees paid were booked as other commission expense in 2019, however, in 2020 these expenses are part of payment services in accordance with the related revenue (2020: HUF 932 million; 2019: HUF 781 million).

Main reasons of changes not related to reclassification:
- The amount of fee income related to transfers and other payment transactions decreased by HUF 1,183 million.
- The fees included in foreign exchange conversions and other securities transactions increased by HUF 650 million.
- Compared to 2019, a significant decrease is seen in the Group's fee income and fee expenses realized through currency brokers, mainly due to the pandemic situation. In Hungary, only credit institutions are authorised to perform currency exchange operations. The Group performs currency exchange for its clients (also) through currency brokers. Given that the Group would incur various types of expenditures if it performed currency exchange on its own, profit or loss on currency exchange operations are presented gross: fee income includes fees charged to the clients that are built into the transactions and other fees collected from currency brokers, whereas fee expense includes results of currency exchange deals credited to the currency brokers. (However, the net effect is a decrease of only HUF 148 million.)
- Although the reclassification mentioned above causes a decrease of HUF 832 million in loan servicing activities, this was offset by the decrease in unwinding correction of commissions (HUF 510 million profit increase) and the decrease in commission expenses related to litigation and recovery charge (HUF 141 million profit increase).
- As Raiffeisen Biztosításközvetítő Zrt. was also deconsolidated in 2020, the company could not contribute to commission income which resulted HUF 1,293 million decrease in commission income for the Group.

(9) Net trading income and fair value result

Gains and losses from financial assets and liabilities held for trading

(HUF million)	*2020*	*2019*
Derivative instruments	***2,548***	***-2,395***
Derivatives held for trading	*-1,099*	*2,480*
Derivatives held for risk management purposes, without hedge accounting	*3,648*	*-4,875*
Equity instruments	*51*	*27*
Debt securities	*440*	*-40*
Other financial liabilities	*197*	*1,573*
Gains or (-) losses on financial assets and liabilities held for trading, net	***3,236***	***-835***

Gains or losses on derivatives held for trading decreased from HUF 2,480 million to HUF -1,099 million (by HUF 3,579 million). The main reason is the HUF 2,757 million decrease in realized and unrealized gains/losses on FX swap, forward and futures transactions.

The amount of line 'Derivatives held for risk management purposes, without hedge accounting' (derivatives for hedging purposes) increased by HUF 8,523 million, which is partly due to gains on FX swap, forward and futures transactions (HUF +6,033 million) and gains on IRS transactions (HUF +2,490 million).

Gains on debt securities increased, as a result of the increasing exchange rate gains of other bonds (HUF +367 million) and government bonds (HUF +232 million) and the decreasing exchange rate gain of treasury bills (HUF -66 million).

Change in other financial liabilities was caused by on the one hand the HUF 531 million increase in the foreign exchange conversion margin and on the other hand by the HUF 845 million increase in gains on spot transactions.

Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

(HUF million)	*2020*	*2019*
Equity instruments	*37*	*0*
Debt securities	*227*	*0*
Loans and advances	*907*	*648*
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	***1,171***	***648***

'Equity Instruments' includes gains or losses recognized on units of Raiffeisen Befektetési Alapkezelő Zrt.

Line 'Debt securities' shows the revaluation result of Visa C shares reclassified to 'Non-trading financial assets mandatorily measured at fair value through profit or loss' as of 1 January 2020.

In 2020, the revaluation result of childbirth incentive loan increased the gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss by HUF 1,087 million. This was HUF 412 million in 2019.

Gains or losses on financial assets and liabilities designated at fair value through profit or loss

(millió Ft)	*2020*	*2019*
Debt securities	*-1,262*	*-202*
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	*-1,262*	*-202*

In 2020, the total amount of line 'Debt securities' includes gains or losses recognized on government bonds. The balance of losses on government bonds amounted to HUF 199 million in 2019.

(10) Gains and losses from hedge accounting

The following table presents the net fair valuation gains or losses arising from derivatives involved in hedge accounting and the related hedged items:

(HUF million)	*2020*	*2019*
Fair value changes of the hedging instrument (including effects of discontinuation)	*-1,043*	*-2,412*
Fair value changes of the hedged item attributable to the hedged risk	*894*	*2,374*
Ineffectiveness in profit or loss from cash flow hedges	*48*	*56*
hereof : existing hedges	*136*	*210*
discontinued hedges	*-88*	*-154*
Gains and losses from hedge accounting, net	***-101***	***18***

Net loss arising from the fair valuation of interest rate swaps and cross-currency interest rate swaps hedging purchased bonds amounted to HUF 662 million in 2020 (in 2019 HUF 4,580 million loss). In 2020, fair value gain of interest rate swaps hedging deposits was HUF 157 million (in 2019 there was no such deal). Interest rate swaps hedging deposit portfolio generated a fair valuation loss of HUF 422 million in 2020 (in 2019 HUF 2,753 million gain). Net fair value gain on interest rate swaps hedging loan receivables amounted to HUF 12 million in 2020 (in 2019 HUF 828 million loss). Net fair value loss on interest rate swaps designated as hedging instruments for debt securities issued amounted to

HUF 71 million in 2020 (in 2019 HUF 356 million loss). In 2020, HUF 57 million loss (in 2019 HUF 599 million gain) was recognised in the "Gains and losses from hedge accounting" related to the interest swaps hedging loan portfolio.

In 2020, net result arising from fair value adjustments amounted to HUF 399 million (in 2019 HUF 4,490 million) on hedged purchased bonds, HUF -201 million (in 2019 there was no such deal) on hedged deposits, HUF -14 million (in 2019 HUF 683 million) on hedged loan receivables, HUF 71 million (in 2019 HUF 344 million) on hedged debt securities issued, HUF 587 million (in 2019 HUF -2,524 million) on hedged received deposit portfolio; and HUF 52 million (in 2019 HUF -619 million) on hedged loan portfolio.

Cash flow hedges

The Group has applied cash flow hedge accounting since December 2012, using interest rate swaps and cross currency interest rate swaps to hedge interest rate risk and foreign currency risk arising from loan portfolio denominated in foreign currency and received deposit portfolio denominated in HUF.

The following table presents the main characteristics of derivative financial instruments for which the Group applies cash flow hedge accounting:

31.12.2020 (HUF million)	*Maturity*			
	0-3 months	*3-12 months*	*1-5 years*	*over 5 years*
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	*3,651*	*84,829*	*106,151*	*19,100*
Average fixed interest rate	*0,05%*	*0,11%*	*0,84%*	*1,31%*
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	*0*	*0*	*9.023*	*0*
Average HUF/EUR exchange rate	*-*	*-*	*358,77*	*-*

31.12.2019 (HUF million)	*Maturity*			
	0-3 months	*3-12 months*	*1-5 years*	*over 5 years*
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	*16,526*	*8,788*	*181,064*	*6,000*
Average fixed interest rate	*-0.36%*	*0.19%*	*0.63%*	*1.20%*
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	*0*	*0*	*8,826*	*0*
Average HUF/EUR exchange rate	*-*	*-*	*331.98*	*-*

In case of CCIRS contracts, the Group exchanges floating interest cash flows linked to BUBOR fixing to floating interest cash flows linked to EURIBOR fixing both repricing with a frequency of less than one year.

The following table presents amounts related to hedging instruments and hedge ineffectiveness in designated cash flow hedge relationships:

31.12.2020 (HUF million)	Carrying amount			Changes in fair value in 2020 used for calculating hedge ineffec-tiveness	Change in the value of the hedging instrument recognised in other compre-hensive income	Hedge ineffec-tiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss
	Notional amount	Assets	Liabilities				
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	213,731	1,097	515	-70	-84	37	-13
Interest rate risk hedge total	213,731	1,097	515	-70	-84	37	-13
Interest rate risk / Currency risk HUF/EUR Cross currency interest rate swaps (CCIRS)	9,023	0	309	112	13	99	101
Interest rate risk / Currency risk hedge total	9,023	0	309	112	13	99	101
Portfolio cash flow hedges total	222,754	1,097	824	42	-71	136	88

31.12.2019 (HUF million)	Carrying amount			Changes in fair value in 2019 used for calculating hedge ineffec-tiveness	Change in the value of the hedging instrument recognised in other compre-hensive income	Hedge ineffec-tiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss
	Notional amount	Assets	Liabilities				
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	212,378	1,273	696	829	700	139	32
Interest rate risk hedge total	212,378	1,273	696	829	700	139	32
Interest rate risk / Currency risk HUF/EUR Cross currency interest rate swaps (CCIRS)	8,826	35	262	160	90	71	122
Interest rate risk / Currency risk hedge total	8,826	35	262	160	90	71	122
Portfolio cash flow hedges total	221,204	1,308	958	989	790	210	154

Derivatives designated as hedging instruments in cash flow hedge relationships are presented in the statement of financial position line item 'Derivatives – Hedge accounting' amongst assets if their fair value is positive and in line item 'Derivatives – Hedge accounting' amongst liabilities if their fair value is negative.

Both hedge ineffectiveness recognised in profit or loss during the existence of the designated hedge relationships and amounts recycled from other comprehensive income to profit or loss upon or after discontinuation of the hedge relationship are presented in the statement of comprehensive income line item 'Net gains/losses from hedge accounting'.

Amounts in the current period related to hedged items designated in cash flow hedge relationships are presented below:

(HUF million)	Changes in fair value used for calculating hedge ineffectiveness in 2020	Cash flow hedge reserve	
		existing hedges	discontinued hedges*
		31.12.2020	
Interest rate risk			
Loans	-83	365	0
Deposits	5	-434	-6
Interest rate risk hedge total	-78	-69	-6
Interest rate risk/Currency risk			
Loans	0	1	0
Deposits	13	-101	-20
Interest rate risk/Currency risk hedge total	13	-100	-20
Hedged items in cash flow hedges total	**-65**	**-169**	**-26**

(HUF million)	Changes in fair value used for calculating hedge ineffectiveness in 2019	Cash flow hedge reserve	
		existing hedges	discontinued hedges*
		31.12.2019	
Interest rate risk			
Loans	1,036	443	0
Deposits	-181	-423	-7
Interest rate risk hedge total	855	20	-7
Interest rate risk/Currency risk			
Loans	0	1	1
Deposits	92	-112	-113
Interest rate risk/Currency risk hedge total	92	-111	-112
Hedged items in cash flow hedges total	**947**	**-91**	**-119**

*Amounts presented here arise from discontinued hedge relationships where the hedged cash flows are expected to occur. These amounts are recognised to profit or loss as the hedged cash flows affect profit or loss or when it becomes known that the hedged cash flows are no longer expected to occur (when the Group reclassifies the entire amount from equity to profit or loss).

The Group designates loan receivables and deposits received, denominated in HUF or in EUR, bearing variable interest rate, having yearly or less than yearly payment frequencies as hedged items. Loan receivables designated as hedged items in cash flow hedge relationships are presented in the statement of financial position line item 'Financial assets at amortised cost', and received deposits so designated are presented in the statement of financial position line item 'Financial liabilities at amortised cost'.

In 2020, HUF 17 million gain (in 2019 HUF 944 million gain) was recognised in other comprehensive income relating to the effective portion of fair value changes of hedging instruments designated in cash flow hedging relationships existing at 31.12.2020 or discontinued earlier. These amounts include reclassifications between other comprehensive income and profit or loss arising from the systematic amortisation of hedge reserves to profit or loss, relating to cash flow hedging relationships discontinued before 2020 or 2019. In 2020, HUF 88 million loss (in 2019 HUF 154 million loss) was reclassified to profit or loss relating to discontinued cash flow hedging relationships and the Group presented these amounts within Net gains/losses from hedge accounting. During 2020, HUF 136 million gain (in 2019 HUF 210 million gain) was recognised in the same line relating to the ineffectiveness of hedging instruments designated in cash flow hedging relationships existing at 31.12.2020.

Fair value hedges

The following table presents the main characteristics of derivative financial instruments for which the Group applies fair value hedge accounting:

31.12.2020 (HUF million)	Maturity			
	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased bonds				
Nominal	4,461	3,651	236,425	64,924
Average fixed interest rate	2,64%	0,11%	1,25%	1,38%
Interest rate swaps (IRS) hedging loans				
Nominal	0	21,173	47,879	24,425
Average fixed interest rate	-	0,72%	0,48%	0,92%
Interest rate swaps (IRS) hedging deposits				
Nominal	0	0	27,859	0
Average fixed interest rate	-	-	1,15%	-
Interest rate swaps (IRS) hedging issued bonds				
Nominal	0	0	619	0
Average fixed interest rate	-	-	6,19%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	2,730	109,684	350,421	0
Average fixed interest rate	0,15%	0,64%	0,65%	-
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	0	5,453	31,010	41,062
Average fixed interest rate	-	0,84%	1,21%	1,66%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds				
Nominal	0	0	0	17,331
Average CZK/EUR exchange rate	-	-	-	27.32

31.12.2019 (HUF million)	Maturity			
	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased bonds				
Nominal	0	12,594	135,807	79,494
Average fixed interest rate	-	0.65%	1.59%	1.17%
Interest rate swaps (IRS) hedging loans				
Nominal	2,400	2,692	76,298	23,968
Average fixed interest rate	0.69%	0.00%	0.54%	0.99%
Interest rate swaps (IRS) hedging issued bonds				
Nominal	3,621	0	628	0
Average fixed interest rate	5.07%	-	6.19%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	0	37,330	218,828	0
Average fixed interest rate	-	0.69%	0.82%	-
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	0	2,350	16,940	19,140
Average fixed interest rate	-	0.55%	1.22%	1.89%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds				
Nominal	0	0	0	16,256
Average CZK/EUR exchange rate	-	-	-	25.82

In case of CCIRS, the Group exchanges floating interest cash flows linked to PRIBOR fixing to floating interest cash flows linked to EURIBOR fixing both repricing with a frequency of less than one year.

The following table presents amounts related to hedging instruments and hedge ineffectiveness:

31.12.2020 (HUF million)	Nominal	Carrying amount Assets	Carrying amount Liabilities	Changes in fair value in 2020 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased bonds	309,461	260	7,189	-682	-913
Interest rate swaps (IRS) hedging loans	93,477	18	1,177	12	-3
Interest rate swaps (IRS) hedging deposits	27,859	194	6	157	-44
Interest rate swaps (IRS) hedging issued bonds	619	108	0	-71	0
Interest rate risk hedge total	**431,416**	**580**	**8,372**	**-584**	**-960**
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds	17,331	0	630	20	650
Interest rate risk / Currency risk hedge total	**17,331**	**0**	**630**	**20**	**650**
Micro fair value hedges total	**448,747**	**580**	**9,002**	**-564**	**-310**
Portfolio fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging deposit portfolios	462,835	3,671	628	-422	166
Interest rate swaps (IRS) hedging loan portfolios	77,525	113	1,641	-57	-5
Interest rate risk hedge total	**540,360**	**3,784**	**2,269**	**-479**	**161**
Portfolio fair value hedges total	**540,360**	**3,784**	**2,269**	**-479**	**161**
Hedging instruments in fair value hedges total	**989,107**	**4,364**	**11,271**	**-1,043**	**-149**

31.12.2019 (HUF million)	Nominal	Carrying amount Assets	Carrying amount Liabilities	Changes in fair value in 2019 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased bonds	227,895	326	6,562	-4,466	-54
Interest rate swaps (IRS) hedging loans	105,358	18	1,250	-828	-144
Interest rate swaps (IRS) hedging deposits	4,249	316	0	-356	-12
Interest rate risk hedge total	**337,502**	**660**	**7,812**	**-5,650**	**-210**
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds	16,256	0	357	-114	-36
Interest rate risk / Currency risk hedge total	**16,256**	**0**	**357**	**-114**	**-36**
Micro fair value hedges total	**353,758**	**660**	**8,169**	**-5,764**	**-246**
Portfolio fair value hedges					
Interest rate risk	256,158	3,963	709	2,753	228
Interest rate swaps (IRS) hedging deposit portfolios	38,430	90	1,733	599	-20
Interest rate risk hedge total	**294,588**	**4,053**	**2,442**	**3,352**	**208**
Portfolio fair value hedges total	**294,588**	**4,053**	**2,442**	**3,352**	**208**
Hedging instruments in fair value hedges total	**648,346**	**4,713**	**10,611**	**-2,412**	**-38**

Derivatives designated as hedging instruments in fair value hedge relationships are presented in the statement of financial position line item 'Derivatives – Hedge accounting' amongst assets if their fair value is positive and in line item 'Derivatives – Hedge accounting' amongst liabilities if their fair value is negative.

Ineffectiveness recognised in profit or loss during the existence of the designated hedge relationships is presented in the statement of comprehensive income line item 'Net gains/losses from hedge accounting'.

Amounts in the current period related to hedged items designated in fair value hedge relationships are presented below:

31.12.2020	Carrying amount		Fair value adjustments to the carrying amounts of hedged items due to its fair value changes attributable to the hedged risk*				Changes in fair value in 2020 used for calculating hedge ineffectiveness
			Assets		Liabilities		
(HUF million)	Assets	Liabilities	existing hedges	discontinued hedges	existing hedges	discontinued hedges	
Purchased bonds	312,864	0	5,548	0	0	0	399
Loans	68,658	0	941	4	0	0	-14
Deposits	0	28,085	0	0	201	0	-201
Issued bonds	0	693	0	0	83	0	71
Deposit portfolio	0	408,930	0	0	1,460	0	587
Loan portfolio	61,430	0	-567	0	0	0	52
Hedged items in fair value hedges total	**442,952**	**437,708**	**5,922**	**4**	**1,744**	**0**	**894**

31.12.2019	Carrying amount		Fair value adjustments to the carrying amounts of hedged items due to its fair value changes attributable to the hedged risk*				Changes in fair value in 2019 used for calculating hedge ineffectiveness
			Assets		Liabilities		
(HUF million)	Assets	Liabilities	existing hedges	discontinued hedges	existing hedges	discontinued hedges	
Purchased bonds	244,490	0	4,936	0	0	0	4,489
Loans	81,188	0	911	1	0	0	684
Deposits	0	4,573	0	0	154	0	344
Issued bonds	0	204,728	0	0	2,014	0	-2,524
Deposit portfolio	35,334	0	-619	0	0	0	-619
Hedged items in fair value hedges total	**361,012**	**209,301**	**5,228**	**1**	**2,168**	**0**	**2,374**

*The Group begins to amortise fair value adjustments to the carrying amounts of hedged items to profit or loss from the date when the hedged items cease to be adjusted for changes in their fair values attributable to the risk being hedged, i.e. from the date when the hedge relationship is discontinued.

Carrying amounts of purchased bonds designated as hedged items in fair value hedge relationships are included in the statement of financial position line item 'Financial assets at fair value through other comprehensive income' and 'Financial assets at amortised cost', carrying amounts of loan receivables so designated are included in the statement of financial position line item 'Financial assets at amortised cost', whereas carrying amounts of deposits and bonds issued so designated are included in the statement of financial position line item 'Financial liabilities at amortised cost'.

Adjustments to the carrying amount of hedged loan and deposit portfolios for changes in their fair values attributable to the hedged risk – excluding accrued interests – are presented separately in the statement of financial position, in line item 'Fair value changes of the hedged items in portfolio hedge of interest rate risk', regardless of their sign,the loan portfolio related items are always on the asset side while the fair value of the deposit portfolio are always on the liability side.

In 2020, gain on fair value changes of hedged items in designated fair value hedging relationships attributable to the hedged risk amounted to HUF 894 million (in 2019 HUF 2,374 million gain) which is presented in the statement of comprehensive income line item 'Net gains/losses from hedge accounting'.

The Group recognised a loss of HUF 1,043 million in 2020 in relation to derivatives designated as hedging instruments in fair value hedges (in 2019 a loss of 2,412 million), presented in the statement of comprehensive income line item 'Net gains/losses from hedge accounting'.

(11) Net gains/losses on financial instruments

The following table summarises the net gains and losses on financial instruments presented in previous notes.

(HUF million)	Megjegyzés	2020	2019
Financial instruments held for trading		**6,246**	**3,407**
Net interest income	(7)	3,009	4,235
Realised and unrealised gains and losses	(9)	3,236	-835
Dividend income		1	7
Net gains and losses from hedge accounting		**-1,791**	**-703**
Net interest income	(7)	-1,690	-721
Realised and unrealised gains and losses	(10)	-101	18
Non-trading financial instruments mandatorily at fair value through profit or loss		**3,349**	**1,463**
Net interest income	(7)	2,170	815
Realised and unrealised gains and losses	(9)	1,171	648
Dividend income		8	0
Financial instruments designated at fair value through profit or loss		**-112**	**1,014**
Net interest income	(7)	1,150	1,216
Realised and unrealised gains and losses	(9)	-1,262	-202
Financial instruments at fair value through other comprehensive income		**7,498**	**7,050**
Net interest income	(7)	7,152	6,428
Impairment	(6)	-270	2
Realised and unrealised gains and losses		616	614
Dividend income		0	6
Financial instruments at amortised cost		**28,534**	**40,669**
Net interest income	(7)	40,461	29,408
Impairment loss	(6)	-8,831	11,288
Realised and unrealised gains and losses		-3,096	-27
Net gains or losses on financial instruments		**43,724**	**52,902**

(12) Other operating income and expenses

(HUF million)	2020	2019
Gain on disposal of intangibles, property and equipment	36	9
Gain on disposal of inventory	216	273
Operational fees	48	0
Income related to damages	11	42
Rental income from investment property	0	0
Professional fees	198	161
Income from accounting services	44	63
Income related to energy trading	0	651
Income from other non-banking activities	282	160
Other	1,111	313
Other operating income total	**1,946**	**1,672**
Transaction fee and other taxes	-16,826	-17,135
Expenses related to damages	-81	-56
Expert fees	**-63**	**-43**
Other provisions	-250	-385
Expenses from other non-banking activities	-112	-59
Other expenses	-218	-270
Other operating expenses total	**-17,550**	**-17,948**

Other operating income increased by HUF 247 million. From this, other income increased by HUF 798 million which was counterbalanced with the decrease of income from providing energy services due to the sale of this activity. The decrease in other operating expenses is due to decrease in transaction fee by HUF 309 million and decrease in other provisions by HUF 135 million.

(13) Impairment of non-financial assets

Development of impairment of non-financial assets:

(HUF million)	Opening 01.01.2020	Additions	Reversals	Closing 31.12.2020
Impairment or (-) reversal of impairment on other non-financial assets	-45	-61	43	**-62**
Other	-45	-61	43	**-62**
Impairment on non-financial assets total	**-45**	**-61**	**43**	**-62**

(HUF million)	Opening 01.01.2019	Additions	Reversals	Closing 31.12.2019
Impairment or (-) reversal of impairment on other non-financial assets	-118	-46	119	**-45**
Other	-118	-46	119	**-45**
Impairment on non-financial assets total	**-118**	**-46**	**119**	**-45**

(14) Other result

(HUF million)	2020	2019
Modification gains or losses, net	-3,053	-9
Impairment on non-financial assets	-61	-46
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-2,062	-247
Other result	**-5,176**	**-302**

The above line 'Modification gains or losses, net' includes profit or loss effect of contract modifications which did not result in derecognition of the modified financial assets. In case of these non-substantial contract modifications the Group recognizes a one-time change in gross carrying amount through profit or loss. In 2020, HUF -3,053 million loss amounted in profit or loss of which HUF -3,234 million is connected to modification related to repayment moratoria. For the first phase of the moratoria, a loss of HUF 2,105 million was determined at the end of the phase based on the difference between the present value of the new cash flows for transactions and the present value of cash flows prior to moratoria, for the second phase starting in 2021 an estimate was made using the calculations of the first phase (HUF 1,180 million).

Losses arising from cash flow changes due to payment moratoria is presented above under section Contract modifications and expected credit losses of Note (6.2) Credit risk.

In 2020, loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations is due to the fact that in the financial year the Bank decided not to fully include its four subsidiaries (Raiffeisen Autó Lízing Kft., Raiffeisen Biztosításközvetítő Kft., Raiffeisen Energiaszolgáltató Kft., Raiffeisen Ingatlan Üzemeltető Kft.) in the consolidation. The consolidation steps taken in previous years were eliminated, thereby assets and liabilities were reversed to the balance sheet through profit or loss. Thus, the expense recognized was HUF 2,062 million. In 2019, this line included the loss on sale of EURO Green Kft.

(15) Staff expenses

(HUF million)	2020	2019
Salaries	-21,130	-20,973
Social security constributions	-4,092	-4,559
Other employee benefits	-1,140	-1,246
Total	**-26,362**	**-26,778**

(HUF million)	2020		2019	
	Headcount (person)	Salaries	Headcount (person)	Salaries
Full time	2,154	-19,878	2,504	-19,922
Part time	671	-1,243	228	-1,046
Pensioners	17	-9	10	-5
Total	**2,842**	**-21,130**	**2,742**	**-20,973**

(16) Other administrative expenses

(HUF million)	2020	2019
Office space expenses rental, maintenance, other	-3,336	-3,733
IT cost	-4,157	-3,703
Legal, advisory and consulting expenses	-3,312	-3,457
Advertising, PR and promotional expenses	-2,229	-2,373
Deposit insurance fees	-1,089	-1,323
Communication expenses	-1,426	-1,533
Office supplies	-214	-286
Car expenses	-234	-307
Security expenses	-140	-148
Travelling expenses	-87	-166
Training expenses for staff	-239	-294
Sundry administrative expenses	-612	-756
Total	**-17,075**	**-18,078**

The changes in the structure of other administrative expenses can be explained as follows. The decrease in office space rental expenses is due to the transition to IFRS 16. The increase in IT costs is due to the increase of maintanence and suppport costs of more and more complex systems related to speed up the delivery of the project. Due to the actions implemented because of the COVID, the other administrative expenses increased by HUF 429 million.

(17) Bank tax and other special levies

(HUF million)	2020	2019
Surtax of financial institutions and surtax of credit institutions	-4,573	-4,180
Resolution Funs	-1,499	-1,262
Bank tax and other special levies	**-6,072**	**-5,442**

Surtax of financial institutions is levied on the modified total assets as at the end of the second preceding tax year. Tax rate is 0.15% (2019: 0.15%) for the portion of tax base not exceeding HUF 50 billion and 0.20% (2019: 0.20%) for the exceeding portion. While calculation the modified total assets, certain inter-bank loans and deposits and certain debt instruments issued by financial institutions are deductible.

Surtax of credit institutions is levied on profit before tax at a tax rate of 30%. However, tax regulations connect surtax of credit institutions with the surtax of financial institutions payable for a given year such that the two surtaxes together result in an aggregate tax payable on the modified total assets as at the end of the second preceding tax year. As a consequence, the Group does not regard surtax for credit institutions as an income tax. The amount of surtax of credit institutions payable decreases the amount of surtax of financial institutions and is capped at that amount.

In accordance with the Act on Resolution, the Group pays a yearly membership fee to the Resolution Fund, the calculation methodology of which is transparent and uniform across the European Union and is established by European Commission Regulation. According to the regulation, yearly membership fees payable by the institutions are calculated by NBH acting in its resolution capacity. NBH notifies the institutions of the fee payable until 1 May of each year. Yearly fees payable by the institutions shall be determined so that the value of Resolution Fund's assets until 31 December 2024 – spread evenly over that period – reaches at least 1% of the portion of insured deposits not exceeding the EUR 100,000 indemnification threshold, placed with credit institutions licensed in Hungary (target level).

The Group qualifies as an institution obliged to pay a risk-based fee. Risk-based fees are calculated so that the yearly target value, reduced by the fixed fees payable by limited activity investment undertakings and by the progressive fixed fees, is allocated amongst the institutions obliged to pay a risk-based fee in proportion of their fee base adjusted by a risk adjustment multiplier.

The Group recognized the payable extra surtax due to the pandemic as a single liability, and it was paid in 2020, so this liability is not presented in the financial statement. Since the Group is entitled to a tax retention related to the normal surtax in the coming year, the Group did not present an expense against the liability for the extra surtax due to the pandemic, but an asset (please see Note 26. Other assets). Considering the right for the tax retention, the payment embodies an advanced payment for the normal surtax of credit institutions.

(18) Income tax

Income tax expense recognised to profit or loss

(HUF million)	2020	2019
Current tax expense	**3,968**	**4,228**
Corporate income tax	792	1,214
Local business tax	2,760	2,619
Innovation contribution	416	395
Deferred tax expense/-income	**371**	**-100**
Origination and reversal of temporary differences	41	-117
Changes in the tax effect of tax losses	330	17
Income tax expense	**4,339**	**4,128**

Corporate income tax is 9% of the tax base, local business tax is 2% of the tax base and innovation contribution is 0.3% of the tax base in both 2020 and 2019. The tax base of corporate income tax differs from the tax base of local business tax and innovation contribution.

Reconciliation of effective tax rate

	2020		2019	
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		17,278		24,959
Expected tax rate calculated with Group's applicable tax rate	9.00%	1,555	9.00%	2,246
Tax effect of tax base adjusting items	-2.36%	-407	-4.84%	-1,208
Tax effects related to tax losses:				
- usage of previously not recognised tax losses	-4.13%	-713	-4.40%	-1,099
- change in previously unrecognised tax losses	1.91%	330	0.07%	17
Other	-0.14%	-24	-4.40%	-1,099
Other income taxes – local business tax, innovation contribution	18.47%	3,191	12.15%	3,033
Income tax expense total	**25.11%**	**4,339**	**16.54%**	**4,128**

Income taxes recognised in other comprehensive income

(HUF million)	2020 Before tax	2020 Tax expense/ benefit	2020 After tax	2019 Before tax	2019 Tax expense/ benefit	2019 After tax
Items that will not be reclassified to profit or loss						
Changes in fair value reserve (equity instruments)	-577	-9	-586	329	-32	297
Items that will not be reclassified to profit or loss – total	**-577**	**-9**	**-586**	**329**	**-32**	**297**
Items that the Group reclassified or will reclassify to profit or loss						
Changes in hedge reserve						
Effective portion of fair value changes	-71	6	-65	790	-71	719
Net amount reclassified to profit or loss	88	-8	80	154	-14	140
Change in fair value reserve (debt instruments)						
Changes in fair value	-3,006	271	-2,735	4,362	-393	3,969
Net amount reclassified to profit or loss	-596	54	-542	-138	-13	-125
Items that the Group reclassified or will reclassify to profit or loss – total	**-3585**	**323**	**-3262**	**5,168**	**-465**	**4,703**
Foreign currency translation reserve for foreign operations			52			91
Total	**-4162**	**314**	**-3796**	**5,497**	**-497**	**5,091**

Movements in deferred tax balances

(HUF million)	Net balance 01.01. 2020	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31.12.2020 Net	Balance at 31.12.2020 Deferred tax assets	Balance at 31.12.2020 Deferred tax liabilities
Property and equipment; intangible assets	37	-1	0	36	36	0
Non-trading financial assets mandatorily at fair value through profit or loss	0	-3	0	-3	0	-3
Investment securities – at fair value through other comprehensive income	-694	0	316	-378	0	-378
Derivatives*	21	0	-2	19	19	0
Loss allowances for expected credit losses	394	-42	0	352	352	0
Tax losses carried forward	1,814	-330	0	1,484	1,484	0
Loss allowances for trade receivables	0	5	0	5	5	0
Other assets and liabilities	0	0	0	0	0	0
Net deferred tax asset/liability before offsetting				**1,515**	**1,896**	**-381**
Offsetting					-378	378
Tax assets/Tax liabilities	**1,572**	**-371**	**314**	**1,515**	**1,518**	**-3**

(HUF million)	Net balance 01.01. 2019	Recog-nised in profit or loss	Recog-nised in other compre-hensive income	Balance at 31.12.2019		
				Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	-5	42	0	37	37	0
Investment securities – at fair value through other comprehensive income	-282	0	-412	-694	0	-694
Derivatives*	106	0	-85	21	21	0
Loss allowances for expected credit losses	299	95	0	394	394	0
Tax losses carried forward	1,831	-17	0	1,814	1,814	0
Loss allowances for trade receivables	22	-22	0	0	0	0
Other assets and liabilities	-1	1	0	**0**	**0**	**0**
Net deferred tax asset/liability before offsetting				1,572	2,266	-694
Offsetting					-691	691
Tax assets/Tax liabilities	**1,970**	**99**	**-497**	**1,572**	**1,575**	**-3**

*Derivatives are presented net

In 2020 HUF 1,518 million (2019: HUF 1,575 million) deferred tax asset was recognised which comprises of the following items:

- HUF 393 million (2019: HUF 432 million) was recognised due to temporary differences which modify the tax base and are expected to reverse in the future;
- HUF 1,484 million (2019: HUF 1,814 million) was recognised for the balances of tax losses carried forward from previous years which are expected to be utilised by the Group;
- HUF -359 million (2019: HUF -671 million) was recognised due to fair values of available-for-sale financial assets and cash flow hedging instruments recognised in other comprehensive income.

In 2020 HUF 3 million (2019: HUF 2 million) deferred tax liability was recognised for fair values of available-for-sale financial assets recognised in other comprehensive income.

Tax loss carry-forward for which no deferred tax asset has been recognised by maturity breakdown

Maturity	2020	2019
12.31.2020	0	21,856
12.31.2030	131,884	136,245
Total	**131,884**	**158,101**

The Group has HUF 131,884 million (2019: HUF 158,101 million) carry-forwards of unused tax losses on 31 December 2020 that are not expected to be utilised in the future, which can be utilised in the tax year containing 31 December 2030 the latest. Tax losses carried forward from previous years can be utilised as tax base decreasing items up to 50 percent of the tax base calculated before such utilisation.

The Group currently prepares business plans for 3 years, based on which it recognised HUF 1,484 million deferred tax asset in respect of 2021 and 2022, for tax loss carry-forwards of HUF 32,978 million, as it is probable that in the next two years the Group will have sufficient taxable income against which those tax loss carry-forwards can be utilised.

(19) Cash, cash balances at central banks and other demand deposits

(HUF million)	31.12.2020			31.12.2019		
	HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and cheques	31,412	28,072	59,484	87,532	11,102	98,634
National Bank of Hungary	38,475	0	38,475	3,452	0	3,452
Other banks	2,800	21,032	23,832	5,558	18,511	24,069
Total	**72,687**	**49,104**	**121,791**	**96,542**	**29,613**	**126,155**

Current account with National Bank of Hungary (NBH) contains the mandatory reserves. The Group is obliged to place 1% mandatory reserve with NBH after certain deposits received (2019: 1%). The average balance of mandatory reserve was HUF 21,314 million (2019: HUF 18,632 million). The Group fulfils the remaining part of the mandatory reserving requirements by holding government bonds in its portfolio.

(20) Financial assets at fair value through profit or loss

Financial assets held for trading

31.12.2020 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gains/ losses	Carrying amount
Derivative instruments	**1,414,072**	**2,634**	**0**	**40,892**	**43,526**
Hereof economic hedge	317,771	-12	0	8,683	8,671
Interest rate	426,290	0	0	14,376	14,376
Equity	0	0	0	47	47
Currency	987,782	2,634	0	26,469	29,103
Commodity	0	0	0	0	0
Other	0	0	0	0	0
Equity instruments		**1,691**	**0**	**32**	**1,723**
Debt securities		**36,525**	**205**	**52**	**36,782**
Government bonds and treasury bills		28,613	193	20	28,826
Corporate and other bonds		7,839	12	32	7,883
Bank bonds		73	0	0	73
Loans and advances		**0**	**0**	**0**	**0**
Financial instruments held for trading total	**1,414,072**	**40,850**	**205**	**40,976**	**82,031**

31.12.2019 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gains/ losses	Carrying amount
Derivative instruments	**1,331,560**	**797**	**0**	**29,870**	**30,667**
Hereof economic hedge	334,106	368	0	9,792	10,160
Interest rate	433,655	0	0	19,063	19,063
Equity	0	0	0	41	41
Currency	897,905	797	0	10,766	11,563
Commodity	0	0	0	0	0
Other	0	0	0	0	0
Equity instruments		**2,671**	**0**	**163**	**2,834**
Debt securities		**24,684**	**139**	**36**	**24,859**
Government bonds and treasury bills		24,471	138	34	24,643
Corporate and other bonds		140	1	2	143
Bank bonds		73	0	0	73
Loans and advances		**0**	**0**	**0**	**0**
Financial instruments held for trading total	**1,331,560**	**28,152**	**139**	**30,069**	**58,360**

The Monetary Council decided on 21 November 2017 to introduce further non-conventional vehicles from January 2018. One of these vehicles is the general, unconditional monetary policy interest rate swap (MIRS). The aim of introducing that vehicle was that the loose monetary conditions also prevail on the longer-term section of the yield curve and to increase the proportion of loans with longer fixed interest periods.

Banks could apply for 5 and 10-year MIRS's introduced as general monetary policy vehicle, at tenders written by NBH, in proportion of their total assets. A difference compared to previous IRS programs of the central bank was that MIRS is unconditional. The Group utilised the amount allocated. The application of the vehicle made it possible for the Group to strengthen its fixed interest rate lending.

MIRS was concluded with the banks on terms announced by NBH which were more favourable than current market conditions. Initial fair values of those derivatives were estimated using discounting based on yield curves built from quoted market prices of IRS transactions with various terms, available at the date of announcement of the tenders. On initial recognition, the Group recognised the difference between the fair value and the transaction price in profit or loss.

During 2018, the Group concluded MIRS interest rate swaps in a nominal amount of HUF 95,136 million, in 2019 there were no new deals. As at 31.12.2020 the carrying amount of these swaps was HUF 86 million asset (HUF 164 million asset as at 31.12.2019) and HUF 1,858 million liability (HUF 2,056 million liability as at 31.12.2019). Fair valuation result recognised in relation to MIRS's amounted to HUF 25 million gain in 2020 (HUF 5,480 million loss in 2019) and was presented in the statement of comprehensive income line item 'Net trading income and fair value result'.

Non-trading financial assets mandatorily at fair value through profit or loss

31.12.2020 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Car-rying amount	Negative fair value changes due to changes in credit risk – non performing exposures
Equity instruments	**493**	**0**	**37**	**530**	**0**
Debt securities	**997**	**0**	**-456**	**541**	**0**
Bank bonds	**997**	**0**	**-456**	**541**	**0**
Loans and advances	**65,096**	**98**	**1,477**	**66,671**	**-215**
Non-trading financial assets mandatorily at fair value through profit or loss total	**66,586**	**98**	**1,058**	**67,742**	**-215**

2019.12.31 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Car-rying amount	Negative fair value changes due to changes in credit risk – non performing exposures
Loans and advances	33,200	26	770	33,996	-260
Non-trading financial assets mandatorily at fair value through profit or loss total	**33,200**	**26**	**770**	**33,996**	**-260**

The Group presents loans under non-trading loans and advances mandatorily measured at fair value through profit or loss, the contractual cash flows of which are not solely payments of principal and interest on the principal amount outstanding.

In the retail segment exposures in the uncollateralised product group increased significantly, within this the amount of childbirth incentive loans mandatorily measured at fair value through profit or loss reached HUF 55 billion by year-end (2019: HUF 26 billion).

Financial assets designated at fair value through profit or loss

31.12.2020 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Carrying amount	Accumulated negative fair value change from change in credit risk (non-performing assets)
Debt securities	**20,290**	**533**	**-2,352**	**18,471**	**0**
Government bonds and treasury bills	20,290	533	-2,352	18,471	0
Financial assets designated at fair value through profit or loss	**20,290**	**533**	**-2,352**	**18,471**	**0**

31.12.2019 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Carrying amount	Accumulated negative fair value change from change in credit risk (non-performing assets)
Debt securities	**20,899**	**537**	**-1,199**	**20,237**	**0**
Government bonds and treasury bills	20,899	537	-1,199	20,237	0
Financial assets designated at fair value through profit or loss	**20,899**	**537**	**-1,199**	**20,237**	**0**

The Group uses interest rate swaps which are measured at fair value through profit or loss to manage foreign exchange and credit risk. Some government bonds and treasury bills were designated at fair value through profit or loss to reduce the accounting mismatch associated with those interest rate swap transactions.

There was a decrease in the portfolio of financial assets designated at fair value through profit or loss compared to prior year which is primarily attributable to government bonds matured during 2020.

(21) Placements with banks

31.12.2020 (HUF million)	Less than 1 year HUF	Less than 1 year Foreign currency	Over 1 year HUF	Over 1 year Foreign currency	Total
National Bank of Hungary	584,372	0	0	0	**584,372**
Other Banks	497	20,537	0	35,688	**56,722**
Impairment losses	0	0	0	-1	**-1**
Placements with banks total	**584,869**	**20,537**	**0**	**35,687**	**641,093**

31.12.2019 (HUF million)	Less than 1 year HUF	Less than 1 year Foreign currency	Over 1 year HUF	Over 1 year Foreign currency	Total
National Bank of Hungary	175,137	0	0	0	**175,137**
Other Banks	44,613	21,342	0	42,480	**108,435**
Impairment losses	0	-17	0	-4	**-21**
Placements with banks total	**219,750**	**21,325**	**0**	**42,476**	**283,551**

Placements with banks are included in the statement of financial position line item 'Financial assets at amortised cost'.

Receivables due from National Bank of Hungary contains mostly placements maturing within a month with a balance of HUF 475 million, these kinds of items did not exist last year, furthermore the balance of 1-day placements increased by HUF 62,561 million from 2019 to 2020. Other placements with banks increased by HUF 51,692 million during 2020 compared to prior year.

(22) Investment securities not measured at fair value through profit or loss

This note presents securities listed on stock markets and not measured at fair value through profit or loss. Securities measured at fair value through profit or loss (FVTPL) are detailed in note (20) Financial assets at fair value through profit or loss, while unlisted securities are detailed under note (23) Investments in unlisted securities.

HUF 160 million from securities listed on stock markets and not measured at fair value through profit or loss is included in the statement of financial position line item 'Financial assets at amortised costs', and HUF 515 million from them is included in the statement of financial position line item 'Financial assets at fair value through other comprehensive income'.

The Group pledged securities amounting to HUF 240 million as collateral for its liabilities in 2020 (2019: HUF 1,200 million).

In 2020, the Group recognised HUF 3,583 million gain in other comprehensive income in relation to securities measured at fair value through other comprehensive income (2019: HUF 4,772 million) and reclassified HUF 596 million gain from other comprehensive income to profit or loss (2019: HUF 138 million gain).

The NBH launched the Bond Funding for Growth Scheme, under which corporate bonds were bought in 2020 and 2019 as well.

Investment securities measured at amortised cost

31.12.2020 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	130,774	969	493	-2,329	-5	129,902
Bank bonds	30,000	20	0	0	0	30,020
Investments in securities at amortised cost total	**160,774**	**989**	**493**	**-2,329**	**-5**	**159,922**

31.12.2019 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	123,303	1,287	0	-5,914	-11	118,665
Bank bonds	60,000	14	0	0	-1	60,013
Investments in securities at amortised cost total	**183,303**	**1,301**	**0**	**-5,914**	**-12**	**178,678**

Investment securities measured at fair value through other comprehensive income

31.12.2020 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments	**720**	**0**	**77**	**0**	**16**	**782**
Shares in limited liability companies	56	0	0	0	16	41
Shares in companies limited by shares	664	0	77	0	0	741
Debt securities	**509,637**	**2,645**	**8,522**	**-6,110**	**-319**	**514,372**
Government bonds and treasury bills	217,285	1,795	7,854	-6,280	-10	220,642
Corporate and other bonds	37,475	850	579	170	-309	38,764
Bank bonds	254,877	0	89	0	0	254,966
Financial assets at fair value through other comprehensive income total	**510,357**	**2,645**	**8,599**	**-6,110**	**-303**	**515,154**

31.12.2019 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments		**0**	**622**	**0**	**0**	**1,567**
Shares in limited liability companies	51	0	16	0	0	35
Shares in companies limited by shares	433	0	576	0	0	1,009
Investment fund units	493	0	30	0	0	523
Debt securities	**516,179**	**2,881**	**12,004**	**-7,663**	**-49**	**523,354**
Government bonds and treasury bills	238,626	2,336	10,387	-7,648	-21	243,680
Corporate and other bonds	8,895	370	242	86	-9	9,586
Bank bonds	268,658	175	1,375	-101	-19	270,088
Financial assets at fair value through other comprehensive income total	**517,156**	**2,881**	**12,626**	**-7,663**	**-49**	**524,921**

The Group elected to measure its other, non-controlling interests at fair value through other comprehensive income and as a consequence it never recognises changes in their fair values in profit or loss. The reason for this election is that these interests do not serve the Group's profit generation but the performance of various banking services (e.g. credit card business, payment transaction services, etc.).

In case of equity instruments, a significant part of the change due to the fact that the Group received type A preference shares by reducing the proportion of VISA Inc C shares. As of 1 January 2020, Visa C shares as well as Investment fund units were reclassified to "Non-trading financial assets at fair value through profit or loss".

In 2019, changes in these equity instruments resulted from changes in fair values and due to sale of CF Pharma Gyógyszergyártó Kft.

(23) Investments in unlisted securities

(HUF million)	Ownership interest %	Ownership interest %	Carrying amount	Carrying amount
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
RC Gazdasági és Adótanácsadó Zrt.	20.00%	20.00%	4	6
Garantiqa Hitelgarancia Zrt.	0.19%	0.19%	15	15
SWIFT	0.02%	0.02%	36	30
VISA Inc C.	-	0.03%	0	988
CF Pharma Gyógyszergyártó Kft.	0.001%	-	722	-
Pannon Lúd Mezőgazdasági és Szolgáltató Kft.	0.89%	0.89%	5	5
RAJNA befektetési jegy	-	-	0	523
Investments in unlisted securities total			**782**	**1,567**

Unlisted investment securities are included in the statement of financial position line item 'Financial assets at fair value through other comprehensive income'. The changes in the book value of equity instruments resulted apart from changes in fair values with the following movements: as detailed in Note 22 in 2020 the on Visa C shares reclassification and conversion was performed.

(24) Property and equipment, intangible assets and goodwill

((HUF million)	Gross carrying amount					Accumulated depreciaton/amortization					Carrying amount
	01.01.2020	Additions	Disposals	Reclassifications	31.12.2020	01.01.2020	Additions	Disposals	Reclassifications	31.12.2020	31.12.2020
Property, plant and equipment											
Property	22,146	17,673	-99	-1	39,719	-10,234	-2,780	99	0	-12,915	26,804
Plant and equipment	16,731	3,719	-1,163	1	19,288	-11,528	-1,902	1,135	0	-12,295	6,993
Property, plant and equipment total	**38,877**	**21,392**	**-1,262**	**0**	**59,007**	**-21,762**	**-4,682**	**1,234**	**0**	**-25,210**	**33,797**
Intangible assets											
Software	54,804	6,942	-2,744	0	59,002	-37,408	-5,731	2,714	0	-40,425	18,577
Other intabgible assets	1,762	2	-14	0	1,750	-610	-28	0	0	-638	1,112
Intangible assets total	**56,566**	**6,944**	**-2,758**	**0**	**60,752**	**-38,018**	**-5,759**	**2,714**	**0**	**-41,063**	**19,689**

(millió Ft)	Gross carrying amount							Accumulated depreciaton/amortization					Carrying amount
	2019. 01.01	Recognition of right-of-use asset on initial application of IFRS 16	Adjusted balance as at 01.01. 2019	Additions	Disposals	Reclassifi-cations	12.31 2019.	01.01 2019.	Additions	Disposals	Reclassifi-cations	12.31 2019	12.31 2019
Property, plant and equipment													
Property	10,700	9,549	20,249	1,899	0	-2	22,146	-7,801	-2,433	0	0	-10,234	11,912
Plant and equipment	16,028	0	16,028	3,039	-2,335	-1	16,731	-12,139	-1,418	2,029	1	-11,527	5,204
Property, plant and equipment total	**26,728**	**9,549**	**36,277**	**4,938**	**-2,335**	**-3**	**38,877**	**-19,940**	**-3,851**	**2,029**	**1**	**-21,761**	**17,116**
Intangible assets													
Software	49,247	0	49,247	5,730	-175	2	54,804	-33,810	-3,773	175	0	-37,408	17,396
Other intabgible assets	1,761	0	1,761	0	0	1	1,762	-583	-26	0	-1	-610	1,152
Intangible assets total	**51,008**	**0**	**51,008**	**5,730**	**-175**	**3**	**56,566**	**-34,393**	**-3,799**	**175**	**-1**	**-38,018**	**18,548**

The Group recognised expenses amounting to HUF 1,737 million in the carrying amount of intangible assets, in course of developing intangible assets (2019: HUF 968 million).

As at 31 December 2020, property and equipment includes right-of-use assets of HUF 23.213 million (2019: HUF 8,635 million) and HUF 226 million (2019: HUF 308 million). The Group presented goodwill in its books with the amount of HUF 1,035 million (2019: HUF 1,048 million). In 2020, Raiffeisen Autó Lízing Kft. has been removed from the scope of consolidation, therefore a goodwill HUF 13 million was derecognised. No impairment was recognised for goodwill in 2020 and 2019. In 2020, the entire software portfolio was reviewed by an external consultant and software no longer or not fully used was impaired to the extent of its recoverable amount amounting to HUF 1,910 million

(25) Leases

The Group acting as a lessee (IFRS 16)

The Group leases properties, typically office premises and branches and vehicles. Property lease contracts usually have a 3 or 5 years rental term, in respect of which 3 or 5 years extension options were recorded. In case of contracts with shorter term, 1 or 2 years extension options were recorded. The contracts with indefinite term have a one-year notice period.

The Group moved into a new head office in 2020, therefore the existing head office rental contracts were terminated with effect from 31 December 2019. The Group classified the previous head office lease as short-term lease applying the practical expedient allowed by the standard on transition, thus no right-of-use asset and lease liability were recognised on transition in connection to that lease contract. The contract for new head office has been recorded in June 2020 with an original term of 10 years extended with a 5-year option in the total amount of HUF 15,295 million. The present value was calculated with an incremental borrowing rate of 2.28%.

The vehicles have 6 years of rental term in all cases, extension options were not recorded in the contracts.

Furthermore the Group leases IT equipment, however they either qualify as short-term leases or the underleying asset is a low-value asset, thus the Group – based on its election – does not recognise right-of-use assets and lease liabilities for them.

The Group has no sale and leaseback arrangements.

Right-of-use assets

Right-of-use assets related to leased properties and vehicles are presented within property and equipment (see Note 24.):

	Gross carrying amount				Accumulated depreciaton/ amortization				Carrying amount
(HUF million)	*01.01. 2020.*	*Addi-tions*	*Disposals*	*31.12. 2020.*	*01.01. 2020.*	*Addi-tions*	*Disposals*	*31.12. 2020.*	*31.12. 2020.*
Right-of-use asset									
Property	*10,155*	*16,837*	*0*	*26,992*	*-1,520*	*-2,259*	*0*	*-3,779*	*23,213*
Vehicles	*439*	*0*	*-5*	*434*	*-131*	*-77*	*0*	*-208*	*226*
Right-of-use asset total	***10,594***	***16,837***	***-5***	***27,426***	***-1,651***	***-2,336***	***0***	***-3,987***	***23,439***

	Gross carrying amount				Accumulated depreciaton/ amortization				Carrying amount
(HUF million)	*01.01. 2019.*	*Addi-tions*	*Disposals*	*31.12. 2019.*	*01.01. 2019.*	*Addi-tions*	*Disposals*	*31.12. 2019.*	*31.12. 2019.*
Right-of-use asset									
Property	*9,549*	*606*	*0*	*10,155*	*0*	*-1,520*	*0*	*-1,520*	*8,635*
Vehicles	*1,267*	*37*	*-865*	*439*	*-574*	*-135*	*578*	*-131*	*308*
Right-of-use asset total	***10,816***	***643***	***-865***	***10,594***	***-574***	***-1,655***	***578***	***-1,651***	***8,943***

Lease libilities

The Group presents lease liabilities within „Financial liabilities measured at amortised cost". The maturity analysis for lease liabilities at 31 December 2020 is as follows:

(HUF million)	31.12.2020	31.12.2019
Less than 1 year	1,362	1,539
Between 1 and 5 years	9,515	4,884
More than 5 years	14,751	2,827
Total	**25,628**	**9,250**

Amounts presented in the Statement of cash-flows

In 2020 the total cash outflows related to lease contracts amounted to HUF 2,449 million (2019: HUF 1,800 million), that are presented within „Payment of lease liabilities" and „Interest paid".

Amounts recognised in profit or loss

According to IFRS 16 the amounts recognised in profit or loss for 2020:

(HUF million)	31.12.2020
Interest expense on lease liabilities	469
Expenses relating to short-term leases	852
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	73
Total	**1,394**

(HUF million)	31.12.2019.
Interest expense on lease liabilities	276
Expenses relating to short-term leases	1,374
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	61
Total	**1,711**

In 2020, the Group recognised expenses related to leases within the administrative expenses with the amount of HUF 1,394 million (201: HUF 1,711 million).

The Group as a lessor

The following table describes the receivables (IFRS9) from financial lease

	31.12.2020				31.12.2019			
(HUF million)	Up to 1 year	1 year to 5 years	Over 5 years	Total	Up to 1 year	1 year to 5 years	Over 5 years	Total
Gross investment leases	19,838	44,015	3,822	67,675	19,834	47,610	4,933	72,377
Unearned finance income	1,311	1,833	215	3,359	1,395	1,969	311	3,675
Net present value of minimum lease payments	**18,527**	**42,182**	**3,607**	**64,316**	**18,439**	**45,641**	**4,622**	**68,702**
Accumulated allowance for uncollectible minimum lease payments	81	45	109	235	128	38	91	257
Finance leases per balance sheet	**18,446**	**42,137**	**3,498**	**64,081**	**18,311**	**45,603**	**4,531**	**68,445**

(26) Other assets

(HUF million)	31.12.2020	31.12.2019
Prepayments and accrued income	2,543	2,082
Materials and inventories	309	184
Merchandise inventory and suspense accounts for services rendered not yet charged out	1,071	638
Tax receivables	4,292	134
Other assets	56	9
Other assets total	**8,271**	**3,047**
thereof: loss allowance	-62	-45

In 2020, a significant increase occurred in the balance of other asset which is mainly due to the increase of the tax receivables. This year due to the pandemic situation, the government introduced the extra surtax levied on credit institutions which needs to be paid in three equal instalments. The amount presented as a receivable can be consumed in the next 5 years, whereby the Group will be able the reduce its surtax liability.

Furthermore, an increase can be seen in the outstanding balance of prepayments and accrued income and assets obtained by taking possession of collaterals in 2020. In both cases, larger movements were observable during the two years: on one hand the accrued costs and expenses increased by HUF 433 million and the balance of accrued income increased by HUF 156 million, on the other hand advances to suppliers decreased slightly. The properties obtained by taking possession of collaterals increased by HUF 451 million. Loss allowances presented relate to properties obtained by taking possession of collaterals.

(27) Financial liabilities at fair value through profit or loss

31.12.2020 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gain/loss	Book value
Derivative instruments held for trading	**1,371,955**	**3,169**	**0**	**38,235**	**41,404**
Hereof economic hedge	286,437	485	0	5,781	6,266
Interest rate	370,096	0	0	11,222	11,222
Equity	1	0	0	201	201
FX	1,001,858	3,169	0	26,812	29,981
Total derivative instruments	**1,371,955**	**3,169**	**0**	**38,235**	**41,404**
Short positions		7,539	0	0	7,539
Total short positions		**7,539**	**0**	**0**	**7,539**
Total financial liabilities at fair value through profit/loss	**1,371,955**	**10,708**	**0**	**38,235**	**48,943**

31.12.2019 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gain/loss	Book value
Derivative instruments held for trading	**1,233,640**	**325**	**0**	**27,343**	**27,668**
Hereof economic hedge	254,985	-103	0	6,793	6,690
Interest rate	413,530	0	0	15,647	15,647
Equity	1	0	0	223	223
FX	820,109	325	0	11,473	11,798
Total derivative instruments	**1,233,640**	**325**	**0**	**27,343**	**27,668**
Short positions		37	0	0	37
Total short positions		**37**	**0**	**0**	**37**
Total financial liabilities at fair value through profit/loss	**1,233,640**	**362**	**0**	**27,343**	**27,705**

The Group uses other derivatives not designated in qualifying hedge relationships to manage its foreign currency, interest rate and equity price risk exposures. The instruments applied are interest rate swaps, cross-currency interest rate swaps, forwards, futures and options. The fair value of these instruments is shown in the table above. Derivatives held for trading purposes are also included in the table above.

The Group presents the above financial liabilities at fair value through profit or loss in the statement of financial position line item 'Financial liabilities held for trading'.

(28) Reconciliation between classes of financial liabilities and statement of financial position line items

he following table reconciles classes of financial liabilities defined for disclosure purposes with the statement of financial position line items:

31.12.2020 (HUF million)	Financial liabilities held for trading	Financial liabilities designation at fair value through profit or loss	Financial liabilities at amortised cost	Total
Deposits from banks	0	0	405,898	405,898
Deposits from customers	0	0	2,383,080	2,383,080
Subordinated liabilities	0	0	56,732	56,732
Debt securities issued	0	0	727	727
Derivative liabilities	41,404	0	0	41,404
Short positions	7,539	0	0	7,539
Other financial liabilities	0	0	31,137	31,137
Total	**48,943**	**0**	**2,877,574**	**2,926,517**

31.12.2019 (HUF million)	Financial liabilities held for trading	Financial liabilities designation at fair value through profit or loss	Financial liabilities at amortised cost	Total
Deposits from banks	0	0	290,302	290,302
Deposits from customers	0	0	1,937,060	1,937,060
Subordinated liabilities	0	0	51,164	51,164
Debt securities issued	0	0	4,646	4,646
Derivative liabilities	27,668	0	0	27,668
Short positions	37	0	0	37
Other financial liabilities	0	0	15,824	15,824
Total	**27,705**	**0**	**2,298,996**	**2,326,701**

(29) Deposits from banks and deposits from customers

Deposits from banks

31.12.2020 (HUF million)	Within 1 year		Over 1 year		Total
	HUF	Foreign currency	HUF	Foreign currency	
Resident	21,466	13,749	217,713	138,430	**391,358**
Non resident	14,365	95	0	80	**14,540**
Deposits from banks total	**35,831**	**13,844**	**217,713**	**138,510**	**405,898**

31.12.2019 (HUF million)	Within 1 year		Over 1 year		Total
	HUF	Foreign currency	HUF	Foreign currency	
Resident	2,303	5,048	111,087	128,563	**247,001**
Non resident	38,245	349	0	4,707	**43,301**
Deposits from banks total	**40,548**	**5,397**	**111,087**	**133,270**	**290,302**

Deposits from customers

31.12.2020 (HUF million)	Within 1 year		Over 1 year		Total
	HUF	Foreign currency	HUF	Foreign currency	
Resident	1,541,574	757,407	4,333	819	**2,304,133**
Non resident	32,044	44,939	0	1,965	**78,948**
Deposits from customers total	**1,573,618**	**802,346**	**4,333**	**2,784**	**2,383,081**

31.12.2019 (HUF million)	Within 1 year		Over 1 year		Total
	HUF	Foreign currency	HUF	Foreign currency	
Resident	1,287,103	578,115	2,852	874	**1,868,944**
Non resident	27,984	38,726	0	1,406	**68,116**
Deposits from customers total	**1,315,087**	**616,841**	**2,852**	**2,280**	**1,937,060**

Deposits from customers and deposits from banks are included in the statement of financial position line item 'Financial liabilities at amortised cost'.

A significant increase in deposits was experienced in both corporate and retail segment.

Deposits insured by National Deposit Insurance Fund (indemnified amount) was HUF 901 billion at the end of 2020 (2019: HUF 765 billion).

(30) Debt securities issued

(HUF million)	31.12.2020 Par value	31.12.2020 Carrying amount	31.12.2019 Par value	31.12.2019 Carrying amount
Measured at amortised cost	**627**	**727**	**4,132**	**4,646**
fix	627	727	4,052	4,573
floating	0	0	80	73
Total debt securities issued	**627**	**727**	**4,132**	**4,646**

Debt securities issued are included in the statement of financial position line item 'Financial liabilities at amortised cost'.

Debt securities insured by National Deposit Insurance Fund (indemnified amount) was HUF 644 million at the end of 2020 (2019: HUF 4,491 million).

(31) Subordinated liabilities

31.12.2020 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	28.02.2020	40	EUR	3.13	27.02.2032	14,647
Raiffeisen Bank International AG	28.02.2020	50	EUR	3.00	28.02.2031	18,305
Raiffeisen Bank International AG	28.02.2020	50	EUR	2.88	28.02.2030	18,303
Raiffeisen Bank International AG	27.03.2020	15	EUR	3.13	31.03.2027	5,477
Subordinated liabilities total		**155**				**56,732**

31.12.2019 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	29.12.2017	22	EUR	5.69	31.12.2024	7,406
Raiffeisen Bank International AG	29.12.2017	45	EUR	5.83	31.12.2024	14,820
Raiffeisen Bank International AG	29.12.2017	28	EUR	5.68	31.12.2024	9,201
Raiffeisen Bank International AG	29.12.2017	28	EUR	5.68	31.12.2024	9,201
Raiffeisen Bank International AG	29.12.2017	32	EUR	5.83	31.12.2024	10,536
Subordinated liabilities total		**155**				**51,164**

Subordinated liabilities are included in the statement of financial position line item 'Financial liabilities at amortised cost'. These borrowings are direct, unconditional and unsecured liabilities of the Group which are subordinated to liabilities due to other depositors or lenders of the Group.

The Bank signed a contract on 20 December 2019 with its parent bank to repay its subordinated liabilities and to re-issue them with new conditions, according to which during February-March of 2020 amounts of about EUR 140 million were repaid and EUR 155 million was redisbursed with a maturity extended to 2027-2032 with interest rates between 2.88-3.13%. A disbursement of further EUR 15 million occured on 27.3.2020 in line with the signed contract.

(32) Other liabilities

(HUF million)	31.12.2020	31.12.2019
Deferred income and accrued expenses	3,802	3,546
Tax liabilities	3,128	2,762
Sundry liabilities	2	615
Other liabilities total	**6,932**	**6,923**

The two predominant items within other liabilities are accruals and tax liabilities. Both amounts increased slightly compared to 2019, the balance of accruals increased by HUF 256 million. This is mainly due to the increase in accrued expenses (HUF 640 million), while the accrual of income and the initial valuation difference of macro hedge IRS's decreased.

(33) Provisions

The following table details provisions other than those set up for expected credit losses:

(HUF million)	Other long term employee benefits	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2020	0	302	1,224	3,038	4,564
Additions, including increases in existing provisions	0	0	540	1,697	2,237
(-) Amounts used	0	-174	0	-2,460	-2,634
(-) Unused amounts reversed during the period	0	0	-526	21	-505
Other movements	0	0	0	60	0
Closing balance 31.12.2020	**0**	**128**	**1,238**	**2,236**	**3,602**

(HUF million)	Other long term employee benefits	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2019	0	176	801	4,532	5,509
Additions, including increases in existing provisions	0	186	953	2,810	3,949
(-) Amounts used	0	-60	0	-4,063	-4,123
(-) Unused amounts reversed during the period	0	0	-530	-241	-771
Other movements	0	0	0	0	0
Closing balance 31.12.2019	**0**	**302**	**1,224**	**3,038**	**4,564**

The provision recorded for restructing decreased by HUF 174 million in 2020, provision for legal issues increased by HUF 14 million. Other provisions decreased by HUF 802 million.

(34) Assets and liabilities held for sale and discontinued operations

In May 2019, the Group sold the assets and liabilities of its subsidiary named EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft, wich were already classified held for sale. The net result (HUF -247 million) from the transaction is presented within Other result in profit or loss.

After the Group decided in 2020 to harmonise its scopes of consolidation, the result (HUF -2,061 million) of deconsolidating certain subsidiaries excluded from the full consolidation scope is presented within Other result in profit or loss as well.

Profit or loss from discontinued operations

Discontinued operation is a part of the Group either sold or classified as held for sale. The Group did not have discontinued operation in 2020.

(35) Share capital

Shareholder structure of the Group was as follows as at 31.12.2020 and 31.12.2019:

Shareholder	31.12.2020 Type of share	Number of shares	Par value	Total (HUF million)
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Raiffeisen-RBHU Holding GmbH	Preference share	0	0	0
Total		**5,000,009**		**50,000**

Shareholder	31.12.2019 Type of share	Number of shares	Par value	Total (HUF million)
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Raiffeisen-RBHU Holding GmbH	Preference share	0	0	0
Total		**5,000,009**		**50,000**

The authorised, issued and paid share capital of the Group consists of ordinary shares with a par value of HUF 10,000. Share capital did not change in the periods presented in these financial statements.

The Group had no treasury shares as at 31December 2020 and 31December 2019.

The Group paid no dividend from its 2019 profit and there has been no decision about the dividend from its 2020 profit.

(36) Share premium

Amounts contributed to the Group by the shareholder, after deduction of transaction costs, increases share premium. In 2017, share capital in an amount of HUF 176,649 million was transferred to retained earnings. There has been no change in share premium after that re-appropriation.

(37) Equity instruments issued, other than share capital

31.12.2020 Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest rate	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	13.03.2019	100	EUR	9.00%	Without maturity	31,445
Additional Tier1 loan total						**31,445**

The Management Board of the Bank decided on 4 March 2019 to privately issue bonds qualifying for subordinated additional tier 1 capital instrument (AT1 capital) according to Article 52 of Regulation (EU) No. 575/2013 (CRR) in the amount EUR 100 million.

The consideration for the 500 pieces of dematerialised bonds with a nominal value of EUR 200,000 each was paid on 13 March 2019. The bonds are perpetual, carry variable interest, the amount of which is12-months EURIBOR plus 9%. The interest shall be paid in the currency of the bond on 30 May each year. Considering that the issued bond is perpetual and the bondholder is not entitled to redeem it, and the fact that any payments to be effected under the terms and conditions of the bonds, including any interests and any payments arising from any redemption or recall events specified in the contract are at the sole discretion of the Bank i.e. the Bank has no contractual obligation to effect those payments, the amount received from the issue is considered as equity and the interest paid on it is considered as dividend. The equity item is recognised in HUF in the books. The Bank is entitled to recall or repay in the events specified in the terms and conditions. In 2020 the Group paid HUF 3,116 million (2019: HUF 625 million) dividend on the AT1 capital.

(38) Accumulated other comprehensive income

Accumulated other comprehensive income includes accumulated net fair value changes of investments measured at fair value through other comprehensive income.

In case of debt securities, unrealised fair value is included in this statement of financial position line item until derecognition of the debt securities or until they become impaired; after that gain or loss on derecognition is recognised to profit or loss.

In case of equity instruments measured at fair value through other comprehensive income any gain or loss on derecognition is directly realised in equity, on line item 'Retained earnings' (a reclassification between accumulated other comprehensive income and retained earnings).

In addition to the above, accumulated other comprehensive income also contains the effective portion of fair value changes of hedging instruments designated in cash flow hedges and deferred tax related to the above items.

(39) Other reserves

The general reserve is included under 'Other reserves', in accordance with Act CCXXVII of 2013, chapter 38 section 83. According to these prescriptions, a credit institution shall transfer 10% of its net profit for the period to general reserve. As a re-appropriation within equity the Group set up general reserve amounting to HUF 1,453 million in 2020 (2019: HUF 2,060 million).

(40) Retained earnings

The line item 'Retained earnings' includes undistributed profit or loss of the current and previous periods.

(41) Contingent liabilities and commitments

The Group has commitments to grant loans as it provides current account facilities and other loan facilities for its client.

The Group also provides guarantees and accreditives to its clients whereby it guarantees that clients fulfil their obligations towards third parties.

The following table contains the contractual amounts of contingent liabilities and commitments per categories. The amounts presented in the table below show the total amount committed in case of loan commitments. In case of guarantees and other commitments, the amounts show the maximum amount of loss that would be recognised by the Group on the reporting date when the parties did not fulfil contractual obligations.

31.12.2020	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
(HUF million)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loan commitments	218,929	58,239	1,862	197	1,083	1,436
Financial guarantees given	117,872	11,013	914	33	57	636
Other guarantees and commitments	132,350	15,908	3,836	25	43	1,946
Total	**469,151**	**85,160**	**6,612**	**255**	**1,183**	**4,018**

31.12.2019	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
(HUF million)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loan commitments	355,766	14,807	1,031	260	112	432
Financial guarantees given	121,263	3,104	868	18	21	487
Other guarantees and commitments	114,129	7,982	23,604	16	14	4,858
Total	**591,158**	**25,893**	**25,503**	**294**	**147**	**5,777**

*Accumulated negative fair value changes attributable to changes in credit risk in case of non-performing commitments

Contingent liabilities and commitments bear off-balance sheet credit risk as only the related fees, commissions and provisions for future expected losses are included in the statement of financial position until fulfilment or expiry of such obligations. A significant number of such off-balance sheet items expire without utilising them fully or partially. As a consequence, the above amounts do not represent future expected cash flows.

(42) Determination of fair value

In order to determine fair values of financial assets and liabilities for which no observable market prices are available, it is necessary to apply valuation techniques in accordance with the accounting policies. In case of financial instruments traded less frequently and whose prices are less transparent, fair value is less objective and determining it requires judgement to various extents depending on liquidity, concentration, uncertainties in market variables, pricing assumptions and other risks relating to the specific instrument. Please see the below section 'Valuation of financial instruments, fair value hierarchy'.

Critical judgements in applying the Group's accounting policies

The following are critical judgements made in applying the Group's accounting policies:

Valuation of financial instruments, fair value hierarchy

The Group's accounting policy on fair value measurements is discussed in Note (4.10) Determination of fair value.

The Group measures fair value using the following hierarchy of methods:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs are based on directly or indirectly observable information, however, the relation of them to the market pricing of the financial asset or liability is more indirect. These may be the following:

a) quoted prices for similar assets or liabilities in active market;
b) quoted prices for identical or similar assets or liabilities in markets that are not active and this does not represent reliably the assessment of market participant at the valuation date;

c) inputs other than quoted prices (e.g. yield curves observable at commonly quoted intervals, interest rates, credit spreads, implied volatilities, etc.) that are observable for the asset or liability;
d) indirectly observable inputs which can be derived from and confirmed by the observable inputs.

Level 3: Inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

The following table analyses financial instruments measured at fair value on the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised based on the inputs used in the valuation. If fair values are determined with valuation techniques using unobservable inputs, the fair values include any deferred differences between the transaction price and fair value on initial recognition.

Fair value hierarchy: financial instruments measured at fair value

31.12.2020	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
(HUF million)	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value								
Financial assets held for trading total	**38,317**	**43,714**	**0**	**11,056**	**0**	**87**	**41,084**	**0**
Derivative instruments	0	43,528	0	11,060	0	0	41,088	0
Equity instruments	1,723	0	0	0	0	32	0	0
Debt securities	36,594	186	0	-4	0	55	-4	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**1,071**	**66,671**	**-419**	**753**	**0**	**-419**	**1,444**
Equity instruments	0	530	0	37	0	0	37	0
Debt securities	0	541	0	-456	0	0	-456	0
Loans and advances	0	0	66,671	0	753	0	0	1,444
Financial assets designated at fair value through profit or loss total	**18,471**	**0**	**0**	**0**	**0**	**-2,352**	**0**	**0**
Debt securities	18,471	0	0	0	0	-2,352	0	0
Financial assets at fair value through other comprehensive income total	**388,801**	**126,293**	**60**	**0**	**0**	**8,477**	**123**	**21**
Equity instruments	0	723	60	0	0	0	77	21
Debt securities	388,801	125,570	0	0	0	8,477	46	0
Hedging derivative instruments	**0**	**5,461**	**0**	**-546**	**0**	**0**	**5,462**	**0**
Financial assets at fair value total	**445,589**	**176,539**	**66,731**	**10,091**	**753**	**6,212**	**46,250**	**1,465**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**48,943**	**0**	**10,879**	**0**	**0**	**38,258**	**0**
Derivatives	0	41,404	0	10,879	0	0	38,258	0
Short positions	0	7,539	0	0	0	0	0	0
Hedging derivative instruments	**0**	**12,095**	**0**	**-13**	**0**	**0**	**11,318**	**0**
Financial liabilities at fair value total	**0**	**61,038**	**0**	**10,866**	**0**	**0**	**49,576**	**0**

31.12.2019 (HUF million)	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value								
Financial assets held for trading total	**27,692**	**30,668**	**0**	**-1,565**	**0**	**199**	**30,028**	**0**
Derivative instruments	0	30,668	0	-1,565	0	0	30,028	0
Equity instruments	2,834	0	0	0	0	163	0	0
Debt securities	24,858	0	0	0	0	36	0	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**0**	**33,996**	**0**	**580**	**0**	**0**	**691**
Loans and advances	0	0	33,996	0	580	0	0	691
Financial assets designated at fair value through profit or loss total	**20,237**	**0**	**0**	**0**	**0**	**-1,199**	**0**	**0**
Debt securities	20,237	0	0	0	0	-1,199	0	0
Financial assets at fair value through other comprehensive income total	**492,982**	**31,884**	**56**	**0**	**0**	**11,411**	**1,198**	**18**
Equity instruments	0	1,512	56	0	0	0	604	18
Debt securities	492,982	30,372	0	0	0	11,411	594	0
Hedging derivative instruments	**0**	**6,021**	**0**	**3,371**	**0**	**0**	**6,009**	**0**
Financial assets at fair value total	**540,911**	**68,573**	**34,052**	**1,806**	**580**	**10,411**	**37,235**	**709**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**27,705**	**0**	**851**	**0**	**0**	**27,379**	**0**
Derivatives	0	27,668	0	851	0	0	27,379	0
Short positions	0	37	0	0	0	0	0	0
Hedging derivative instruments	**0**	**11,569**	**0**	**7,301**	**0**	**0**	**11,331**	**0**
Financial liabilities at fair value total	**0**	**39,274**	**0**	**8,152**	**0**	**0**	**38,710**	**0**

Fair value hierarchy: financial instruments measured at amortised cost

31.12.2020 (HUF million)	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	159,922	162,421	162,421	0	0
Loans and advances	2,106,889	2,158,046	0	0	2,158,046
Financial assets at amortised cost total	**2,266,811**	**2,320,467**	**162,421**	**0**	**2,158,046**
Financial liabilities at amortised cost					
Deposits	2,845,710	2,839,178	0	0	2,839,178
Debt securities issued	727	758	0	758	0
Other financial liabilities	5,687	5,687	0	0	5,687
Financial liabilities at amortised cost total	**2,852,124**	**2,845,623**	**0**	**758**	**2,844,865**

31.12.2019 (HUF million)	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	178,678	184,308	184,308	0	0
Loans and advances	1,541,341	1,632,121	0	0	1,632,121
Financial assets at amortised cost total	**1,720,019**	**1,816,429**	**184,308**	**0**	**1,632,121**
Financial liabilities at amortised cost					
Deposits	2,278,526	2,312,210	0	0	2,312,210
Debt securities issued	4,646	4,884	0	4,884	0
Other financial liabilities	7,353	7,353	0	0	7,353
Financial liabilities at amortised cost total	**2,290,525**	**2,324,447**	**0**	**4,884**	**2,319,563**

Assumptions made in estimating the fair value of financial instruments

A number of financial instruments are not traded on active markets and thus fair values are based on estimations made using net present value calculations of other valuation techniques which are significantly influenced by assumptions made regarding estimated future cash flows and discount rates. In many cases it would not be possible to immediately realise the fair value due to the size of the portfolio.

Assumption made and estimation techniques used in calculating fair values of financial insturments are as follows:

I. Cash, cash balances at central banks and other demand deposits (level 1)

Due to their short-term nature, the carrying amounts of Cash, cash balances at central banks and other demand deposits are a reasonable approximation of their fair value.

II. Loans and advances to customers (level 3)

For determining the fair value of these assets, future expected cash flows are discounted to their present value using current market interest rates.

Fair values of loans and advances in Stage 1 and Stage 2 credit risk categories are calculated centrally by the parent company using discounted cash flow method and, if relevant, taking behavioural option models and financial option pricing models into account.

The Group uses discounted cash flow method also used for calculating fair values of Stage 3 (credit-impaired) loans and advances. For these transactions fair value is calculated as the present value of the expected recoveries (distressed cash flows) estimated by the expected loss/provisions modelling system, discounted with risk free rates plus liquidity and credit risk premium.

These items are included in lines 'Loans and advances' in the tables presenting fair value hierarchy.

III. Investments in securities (level 1 and level 2)

Quoted market prices are used for exchange-traded securities and listed debt instruments. The fair values of Hungarian government bonds and corporate bonds classified as held for trading, designated at fair value through profit and measured at fair value through other comprehensive income are measured based on market prices available in the Bloomberg Front-End System.

The fair value of the securities is the market price quoted on the stock exchange (if such price exists). If no quoted price exists, price available from OTC markets is used; otherwise the fair value is the present value of the discounted contractual cash flows at the valuation date.

These items are included in lines 'Equity instruments' and 'Debt securities' in the tables presenting fair value hierarchy.

IV. Investments in unlisted securities (level 2 and level 3)

These instruments are not quoted on markets. Besides market information, the Group uses other assumptions to value those instruments.

For instruments valued at level 3 of the fair value hierarchy, fair values are calculated using dividend discount models.

These items are included in lines 'Equity instruments' in the tables presenting fair value hierarchy.

V. Derivative instruments (level 1 and level 2)

Fair value of exchange-traded derivatives is the quoted price.

Fair value of interest rate swaps and forward rate agreements is determined by discounting the forecasted future cash flows. In doing so, the Group applies the market rates applicable for the remaining maturity of the financial instruments.

The Group determines fair values of cross currency swaps using discounted cash flow method (calculated by front-office system). Basis swap spreads representative to the markets of those instruments also including country risk premiums are incorporated into yield curves used for the purpose of the valuation.

The fair values of forward exchange transactions are computed on the basis of current forward rates. Fair values of plain vanilla and exotic currency options are calculated with modified Black-Scholes model. In case of exotic options, the fair value of which cannot be estimated with a closed formula, fair values are calculated using iteration techniques.

For hedging the exposures to changes in fair value of some loans, deposits or plain vanilla bonds (both purchased and issued), the Group has entered into interest rate swap transactions. The fair value of these hedged loans, deposits and bonds is the discounted present value of the future cash flows at balance sheet date. These loans, deposits and bonds are measured at amortised cost or at fair value in the statement of financial position.

The aim of calculating CVA/DVA (Credit Value Adjustment/Debit Value Adjustment) according to IFRS 13 is to quantify the risk of possible losses arising from counterparty defaults in case of the Group's derivative exposures. The varying parameter in the model is the possible future change in the counterparty's probability of default and not the changes in market variables. The calculation process is as follows: expected future exposures are estimated on mark-to-market basis for specific future dates, these are multiplied with default probabilities and then aggregated, and finally the result is adjusted with a recovery rate.

VI. Bank deposits, deposits from customers (level 3)

Fair value of deposits from banks and deposits from customers are determined using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

According to IFRS 13 standard the Group takes its own credit risk into account as follows: the Group discounts future cash flows of the deposits by using discount factors that are shifted by the liquidity premium applicable for the dates of cash flows determined for each currency. The level of liquidity premiums is based on market information, for instance: BUBOR/LIBOR reference rates, interest rates of Interest Rate Swaps and Forward Rate Agreements, ASW spreads (Asset Swap Spreads).

These items are included in lines 'Deposits' in the tables presenting fair value hierarchy.

VII. Debt securities issued, subordinated liabilities (level 2 and level 3)

Fair value of debt securities issued is determined by the Group using quoted market prices at the balance sheet date if available, or by reference to quoted market prices for similar instruments. Fair value of subordinated liabilities is calculated by discounting the future cash flows.

According to IFRS 13 standard, own credit risk is quantified as follows: depending on the currency, the future cash flows of the bond are discounted by using EUR or HUF zero coupon swap yield curve shifted by liquidity premium applicable on the valuation date.

Fair values of fixed rate debt securities issued and designated in hedge relationships are calculated as the present value of future cash flows while in case of structured instruments the Group values and separates the embedded derivative from the host contract.

Non-structured debt instruments issued are measured at amortised cost and thus they are not revalued except for cases when they are designated as hedged items in fair value hedges. In these cases, only interest rate risk and not the credit risk is hedged.

Fair value – Level 3 disclosures

The following table reconciles opening and closing balances of fair values calculated based on level 3 inputs in case of relevant financial instruments, i.e. for those measured at fair value:

(HUF million)	*Opening balance 01.01. 2020*	*Exchange differences*	*Originations/ purchases*	*Sales*	*Settlements*	*Gains/ losses in profit or loss*	*Hereof: unrealised gains/ losses*	*Gains/ losses in other comprehensive income*	*Closing balance 31.12. 2020*
Non-trading financial assets mandatorily at fair value through profit or loss									
Loans and advances	*33,996*	*0*	*33,563*	*0*	*-1,646*	*758*	*753*	*0*	*66,671*
Non-trading financial assets mandatorily at fair value through profit or loss total	***33,996***	***0***	***33,563***	***0***	***-1,646***	***758***	***753***	***0***	***66,671***
Financial assets at fair value through other comprehensive income									
Equity instruments	*56*	*2*	*0*	*0*	*0*	*0*	*0*	*2*	*60*
Financial assets at fair value through other comprehensive income total	***56***	***2***	***0***	***0***	***0***	***0***	***0***	***2***	***60***

(HUF million)	Opening balance 01.01. 2019	Exchange differences	Originations/ purchases	Sales	Settlements	Gains/ losses in profit or loss	Hereof: unrealised gains/ losses	Gains/ losses in other comprehensive income	Closing balance 31.12. 2019
Non-trading financial assets mandatorily at fair value through profit or loss									
Loans and advances	7.691	0	28.138	0	-2.483	650	580	0	33.996
Non-trading financial assets mandatorily at fair value through profit or loss total	**7.691**	**0**	**28.138**	**0**	**-2.483**	**650**	**580**	**0**	**33.996**
Financial assets at fair value through other comprehensive income									
Equity instruments	52	1	0	-15	0	0	0	18	56
Financial assets at fair value through other comprehensive income total	**52**	**1**	**0**	**-15**	**0**	**0**	**0**	**18**	**56**

Total gains and losses presented in the table above were recognised in profit or loss and in other comprehensive income as follows:

31.12.2020	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
(HUF million)	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt ecurities	Loans and advances
Total gains or losses in profit or loss:	**0**	**0**	**3,076**	**0**	**0**	**0**
Net trading income and fair value result	0	0	907	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**2**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**2,922**	**0**	**0**	**0**
Net trading income and fair value result	0	0	753	0	0	0
Other interest income	0	0	2,170	0	0	0

31.12.2019	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
(HUF million)	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt ecurities	Loans and advances
Total gains or losses in profit or loss:	**0**	**0**	**1,464**	**0**	**0**	**0**
Net trading income and fair value result	0	0	648	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**18**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**1,395**	**0**	**0**	**0**
Net trading income and fair value result	0	0	580	0	0	0
Other interest income	0	0	815	0	0	0

The following tables summarise significant inputs used in level 3 fair valuations in case of financial instruments measured at fair value and in case of financial instruments which are measured by the Group at amortised cost but for which fair values are disclosed:

Financial instruments measured at fair value:

31.12.2020 (millió Ft)	Fair value at reporting date	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average))	Sensitivity of fair values to unobservable inputs
Non-trading financial assets mandatorily at fair value through profit or loss					
Loans and advances	66,671	a)	b)	c1)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	**66,671**				
Financial assets at fair value through other comprehensive income					
Equity instruments	60	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	**60**				

31.12.2019 (millió Ft)	Fair value at reporting date	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average))	Sensitivity of fair values to unobservable inputs
Non-trading financial assets mandatorily at fair value through profit or loss					
Loans and advances	33,996	a)	b)	c1)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	**33,996**				
Financial assets at fair value through other comprehensive income					
Equity instruments	56	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	**56**				

Identifier	Description
a)	Performing Retail: Discounted Cash flows, Behavioral Option Modelling if applies, Financial Option Pricing: Black-Scholes (shifted) if applies Non-retail: Discounted Cash flows, Behavioral Option Modelling if applies, Financial Option Pricing: Black-Scholes (shifted) if applies NPLs: Discounted Cash Flows
b)	Performing: Retail: estimated cash flows in case of „babyloan" product Non-retail: funding curves (for liquidity costs) NPL: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk Non-retail: recovery estimated by workout
c1)	Performing: Retail: estimated average monthly instalment between HUF 2083 - 455563 (grace period vs. prepayment by the state) Non-retail: funding curves (for liquidity costs): -0.15% - +0.01% for HUF funding costs at valuation; -0.50726% - +2.57069% for HUF funding costs at origination NPL: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100 %
c2)	Performing: Retail: risk-free curve for discounting: 0.1% - 3.2487% Non-retail: risk-free curve: 0.10% - 1.94% funding curves (for liquidity costs): -0.1% - +0.61% for HUF funding costs at valuation; -0.50726% - +2.57069% for HUF funding costs at origination credit spread range (CDS curve): +0% - +60.8% for CDS at valuation; +0% - +44.46% for CDS at origination NPL: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100 %
d)	If the duration of the estimated cash flows decreases fair value can decrease. Increase in risk-free curve, funding curve and credit spreads cause a decrease in FV. If distressed CF or recovery rate increase, FV also increases.
e)	Dividend discounting model (DDM)
f)	Length of period with high growth rate Growth rate in terminal period Beta* in terminal period
g)	Length of period with high growth rate: 1-15 years Growth rate in terminal period: 0-5% Beta* in terminal period: 0.8-1.2
h)	As length of period with high growth rate increases fair value decreases With the increase of growth rate fair value increases Fair value increases with the decrease of the beta,

*Beta is a flexibility measure compared to the market, used for calculating cost of equity

Financial instruments at amortised cost:

31.12.2020 (HUF million)	Fair value at reporting date	Valuation technique	Significant unobservable inputs
Financial assets at amortised cost			
Loans and advances	2,158,046	discounted CF	discount curve
Financial assets at amortised cost total	**2,158,046**		
Financial liabilities at amortised cost			
Deposits	2,839,367	discounted CF	discount curve
Other financial liabilities	5,687	no valuation	not applicable
Financial liabilities at amortised cost total	**2,845,054**		

31.12.2019 (HUF million)	Fair value at reporting date	Valuation technique	Significant unobservable inputs
Financial assets at amortised cost			
Loans and advances	1,632,121	discounted CF	discount curve
Financial assets at amortised cost total	**1,632,121**		
Financial liabilities at amortised cost			
Deposits	2,312,210	discounted CF	discount curve
Other financial liabilities	7,353	no valuation	not applicable
Financial liabilities at amortised cost total	**2,319,563**		

(43) Related parties

The Group determines in accordance with IAS 24 whether a party qualifies as a party related to the Group.
The Group's related parties include amongst others the parent company, associates, joint ventures, key management personnel and their close family members and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held by key management personnel or their close family members.

Transactions with related parties

During the period, related parties had the following transactions with the Group:

Assets and liabilities against related parties

31.12.2020 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Financial assets					
Debt securities	16,470	0	0	0	0
Loans and advances	20,774	2,963	0	13	0
hereof: non-performing	0	0	0	0	0
Financial assets total	**37,244**	**2,963**	**0**	**13**	**0**
Financial liabilities					
Deposits	64,776	6,433	0	797	0
Financial liabilities total	**64,776**	**6,433**	**0**	**797**	**0**
Nominal value of loan commitments, financial guarantees given and other contingencies given	3,172	1,563	0	6	0
Nominal value of derivatives	2,415,453	0	0	0	0
Accumulated impairment and negative fair value change from change in credit risk of non-performing assets	0	0	0	0	0

31.12.2019 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associ-ates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Financial assets					
Debt securities	14,944	0	0	0	0
Loans and advances	4,465	134	0	13	0
hereof: non-performing	0	0	0	0	0
Financial assets total	**19,409**	**134**	**0**	**13**	**0**
Financial liabilities					
Deposits	62,761	47	0	414	0
Financial liabilities total	**62,761**	**47**	**0**	**414**	**0**
Nominal value of loan commitments, financial guarantees given and other contingencies given	21,959	466	0	6	0
Nominal value of loan commitments, financial guarantees and other contingencies received	51,231	0	0	0	0
Nominal value of derivatives	2,415,453	0	0	0	0
Accumulated impairment and negative fair value change from change in credit risk of non-performing assets	0	0	0	0	0

Income and expenses from transactions with related parties

2020 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Interest income	17,560	25	0	0	0
Interest expense	-15,669	-1	0	0	0
Dividend income	0	336	0	0	0
Fee and commission income	156	10	0	4	0
Fee and commission expense	-170	0	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair vlue through profit and loss	0	0	0	0	0
Total	**1,877**	**370**	**0**	**4**	**0**

2019 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Interest income	14,723	4	0	0	0
Interest expense	-19,876	0	0	0	0
Fee and commission income	182	2	0	3	0
Fee and commission expense	-206	0	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair vlue through profit and loss	110	0	0	0	0
Total	**-5,067**	**6**	**0**	**3**	**0**

The above transactions were conducted in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collaterals, as for third parties.

The remuneration of key management personnel amounted to HUF 932 million in 2020 (HUF 857 million in 2019).

(44) Investments in subsidiaries

The subsidiaries of the Bank and their activities are summarised in the following table:

Subsidiaries	Ownership interest 31.12. 2020	Ownership interest 31.12. 2019	Residence of the Company	Brief description of activities
Raiffeisen Gazdasági Szolgáltató Zrt.	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Other professional, scientific and technical activities n.e.c.
Raiffeisen Corporate Lízing Zrt.	100,00%	100,00%	1054 Budapest, Akadémia u. 6.	Finance leasing
Raiffeisen Biztosításközvetítő Kft.	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Activities of insurance agents and brokers
SCT Kárász utca Ingatlankezelő Kft.	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Management of real estate on a fee or contract basis
Raiffeisen Befektetési Alapkezelő Zrt.	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Fund management activities
RB Szolgáltató Központ Kft.	100,00%	100,00%	4400 Nyíregyháza, Sóstói út 31/b	Other financial auxiliary activities
Raiffeisen Energiaszolgáltató Kft.	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Activities of holding companies
Késmárk utca 11-13, Kft.	100,00%	100,00%	1158 Budapest, Késmárk utca 11-13.	Management of real estate on a fee or contract basis
Raiffeisen Autó Lízing Kft.	0,00%	100,00%	1133 Budapest, Váci út 116-118.	Leasing of cars and light motor vehicles
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	0,00%	100,00%	1133 Budapest, Váci út 116-118.	Real estate development
Raiffeisen Autó Lízing Kft.	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Leasing of cars and light motor vehicles
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Real estate development

The following table presents changes in the investments in unconsolidated related parties:

(HUF million)	Gross carrying amount 01.01. 2020	Increase	De-crease	Gross carrying amount 31.12. 2020	Impairment 01.01. 2020	Increase	De-crease	Impairment 01.01. 2020	Net carrying amount 01.01. 2020	Net carrying amount 31.12. 2020
Raiffeisen Biztosításközvetítő Kft.	0	5	0	5	0	0	0	0	0	5
Raiffeisen Energiaszolgáltató Kft.	0	100	0	100	0	0	0	0	0	100
Raiffeisen Autó Lízing Kft.	0	42	0	42	0	-27	0	-27	0	15
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	0	3	0	3	0	0	0	0	0	3
Total	**0**	**150**	**0**	**150**	**0**	**-27**	**0**	**-27**	**0**	**123**

(HUF million)	Gross carrying amount 01.01. 2019	Increase	Decrease	Gross carrying amount 31.12. 2019	Impair-ment 01.01. 2019	Increase	Decrease	Impair-ment 31.12. 2019	Net carrying amount 01.01. 2019	Net carrying amount 31.12. 2019
Harmadik Vagyonkezelő Kft.	31	0	-31	0	0	0	0	0	31	0
Total	**31**	**0**	**-31**	**0**	**0**	**0**	**0**	**0**	**31**	**0**

In January 2019 Harmadik Vagyonkezelő Kft merged into SCT Kárász utca Ingatlanfejelsztő Kft. In April 2020 Raiffesen Gazdasági Szolgáltató Zrt merged into one of the Group's subsidiary, the Raiffeisen Befektetési Alapkezelő Zrt. The same happened with the subsidiary Késmárk utcq 11-13. Kft, which merged into the SCR Kárász utca Inatlanfejlesztő Kft in October 2020.

There is no significant difference between the accounting and prudenical consodilation of the Group, that is why the Group decided to harmonise those scopes of consolidation. The exclusion of the deconsolidated companies, which was made during the mentioned harmonisation, has no material effect on the reliability and accuracy of the financial statement. Consequently, companies included in the table for 2020 are not included amongst subsidiaires to consolidate.

(45) Fund management activity

The Group manages zero closed-end (2019: 0) and 15 open-end (2019: 15) investment funds via Raiffeisen Befektetési Alapkezelő Zrt., a fully owned and consolidated subsidiary. As the funds are not controlled by the Group, they are not consolidated. For fund management services provided by the Group, funds pay certain fees and commissions that are reported as 'Net fee and commission income' (see Note 8).

The value and transactions with funds are detailed in the following table:

(HUF million)	2020	2019
Managed funds	**182,578**	**176,139**
Open-end funds	182,578	176,139
Closed-end funds	0	0
Net fee and commission income from funds	1,980	2,051
Deposits from funds	22,967	10,819
Interest income and expense on deposits from funds	50	9

There were no fix term funds among open-end funds in the last two years.
Both term deposits and demand deposits are reported under Deposits from funds.
In 2020 and 2019, the Group realised more interest income than interest expense on deposits from funds. This is due to the Bank 'paying' negative interest after demand deposits in EUR.

(46) Changes in the financing activities

The reconciliation between the changes in liabilities and the cash flows arising from financing activities is detailed in the following table:

(HUF million)	Note	Liabilities			Equity						Total
		Debt securities	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	
Restated balance at 1 January 2020		**4,646**	**51,164**	**9,250**	**50,000**	**113,445**	**31,445**	**28,364**	**16,662**	**0**	**304,976**
Changes from financing cash flows											
Proceeds from issue of debt securities	(30)	-50	0	0	0	0	0	0	0	0	-50
Repayment of debt securities at maturity	(30)	-2,631	0	0	0	0	0	0	0	0	-2,631
Proceeds from issue of Additional Tier 1 Capital (AT1)	(27)	0	0	0	0	0	0	0	0	0	0
Payment of lease liability	(25)	0	0	-1,982	0	0	0	0	0	0	-1,982
Dividends and coupon on equity instruments paid*	(35)	0	0	0	0	0	0	-3,116	0	0	-3,116
Total changes from financing cash flows		**-2,681**	**0**	**-1,982**	**0**	**0**	**0**	**-3,116**	**0**	**0**	**-7,779**
The effect of changes in foreign exchange rates		**0**	**5,567**	**1,519**	**0**	**0**	**0**	**0**	**0**	**0**	**7,086**
Changes in fair value		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,058**	**0**	**-3,058**
Other changes		**-835**	**272**	**16,836**	**0**	**0**	**0**	**0**	**-141**	**0**	**16,132**
Liability-related											
Interest expense	(7)	29	1,831	469	0	0	0	0	0	0	2,329
Interest paid	(7)	-432	-2,102	-464	0	0	0	0	0	0	-2,998
Total liability-related other changes		**-403**	**-271**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**-669**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**0**	**12,082**	**856**	**0**	**12,938**
Balance at 31 December 2020		**727**	**56,732**	**25,628**	**50,000**	**113,445**	**31,445**	**37,330**	**14,319**	**0**	**329,626**

*In 2020, the Group paid HUF 3,116 million (2019: HUF 625 million) dividends on additional AT1 capital from retained earnings.

(HUF million)	Note	Liabilities			Equity						Total
		Debt securities	Sub-ordinated liabilities	Lease liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	
Restated balance at 1 January 2019		**12,137**	**45,382**	**10,242**	**50,000**	**113,445**	**0**	**39,086**	**9,511**	**0**	**279,803**
Changes from financing cash flows											
Proceeds from issue of debt securities	(30)	-441	0	0	0	0	0	0	0	0	-441
Repayment of debt securities at maturity	(30)	-7,141	0	0	0	0	0	0	0	0	-7,141
Proceeds from issue of Additional Tier 1 Capital (AT1)	(27)	0	0	0	0	0	31,445	0	0	0	31,445
Payment of lease liability	(25)	0	0	-1,516	0	0	0	0	0	0	-1,516
Dividends and coupon on equity instruments paid	(35)	0	0	0	0	0	0	-29,425	0	0	-29,425
Total changes from financing cash flows		**-7,582**	**0**	**-1,516**	**0**	**0**	**31,445**	**-29,425**	**0**	**0**	**-7,078**
The effect of changes in foreign exchange rates		**0**	**1,261**	**195**	**0**	**0**	**0**	**0**	**91**	**0**	**1,547**
Changes in fair value		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**5,497**	**0**	**5,497**
Other changes		**0**	**0**	**329**	**0**	**0**	**0**	**0**	**-497**	**0**	**-168**
Liability-related											
Interest expense	(7)	281	7,165	276	0	0	0	0	0	0	7,722
Interest paid	(7)	-190	-2,644	-276	0	0	0	0	0	0	-3,110
Total liability-related other changes		**91**	**4,521**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,612**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**0**	**18,703**	**2,060**	**0**	**20,763**
Balance at 31 December 2019		**4,646**	**51,164**	**9,250**	**50,000**	**113,445**	**31,445**	**28,364**	**16,662**	**0**	**304,976**

(47) Disclosures according to the Hungarian Accounting Law

i. Head of Accounting, Tibor Gáspár is responsible for the coordination and management of bookeeping services and he is also entitled to perform bookeeping services (registracion number: 168480, address: 2330 Dunaharaszti, Király utca 38.).
ii. Ágnes Tölgyes, Chief Financial Officer (address: 1124 Budapest, Nárcisz utca 54. 1. em. 5.) and Tibor Gáspár, Head of Accounting are obliged to sign these consolidated financial statements.
iii. The Group, as a financial institution, is obliged by regulation to have its financial statements audited according to the Act C of 2000 on Accounting and the auditor is KPMG Hungária Kft. (registration number: 000202), the auditor in charge is Gábor Agócs (registration number: 005674). The audited consolidated annual financial statements of the Group are published by the Court of registration and also available at the wegsite of the Group at www. raiffeisen.hu.

Audit fees

The following net fees were charged by KPMG Hungária Kft. and KPMG tanácsadó Kft. in 2020 and 2019:

(HUF million)	*2020*	*2019*
Audit fees	*81*	*78*
Other assurance services	*8*	*6*
Fees for non-audit services	*19*	*130*
Total	***108***	***214***

iv. In line with the expectation of the NBH the Bank has not yet decided about the dividents payable after the profit for 2020.

(HUF million)	*31.12.2020*	*31.12.2019*
Retained earning + Profit and loss after tax	*37,331*	*28,364*
Sources available for dividend payment	***37.331***	***28,364***

There were no received dividends (neither in 2020, nor in 2019) recognised before the date the financial statements were authorised for issue and which, in accordance with section 114/A, paragraph 17 and section 39, paragraph 3a of Act C on Accounting, are eligible to increase the sources available for dividend payment.

(48) Events after the reporting date

On 21 January 2021, the new amendment to the NBH Management Circular was published, which is about the use of macroeconomic information and factors triggering significant increase in credit risk under IFRS 9. The Group considers the compliance with the Management Circular an event after the reporting date, its effect is detailed below.

Corporate segment

In line with the provisions of the NBH management circular issued on 21 January 2021, the Group transfers the corporate clients participating in the repayment moratoria 2 to Stage 2 based on risk monitoring. The exemptions to these are clients who stayed less than total 9 months – in line with the EBA's report about the moratoria updated in December – in the first and second repayment moratoria together. If any of the client's transaction stayed longer than 9 months in the first and second repayment moratoria together, then the Group performed risk monitoring assessment when entering into the repayment moratorium 2.

The transactions participating in the repayment moratorium 2 from clients, who were already classified as Stage 2 or Stage 3 at the beginning of the repayment moratorium 2 were automatically marked as restructed.

Due to the fact that clients participating with their last instalments in 2020 in the repayment moratorium 1 were automatically joined to the repayment moratoria 2, in case of clients who indicated during the risk monitoring that they do not wish to participate with any of their transactions in the repayment moratorium 2 and also opted out from the repayment moratoria 2 through declaration, the Group did not determine financial difficulty, and did not mark the contracts as restructured. Regarding the newly joined ones, the Group performs the risk monitoring assessment in every case and transfers the client to Stage 2 in case of financial difficulty.

Based on the above, at the end of the first quarter of 2021 an outstanding balance from the corporate portfolio participating in the repayment moratoria of HUF 11 billion will be marked as restructured and transferred to Stage 2, the ECL impact is expected to be about HUF 18 million.

In case of financial difficulty and participation in the repayment moratorium 2 in line with the above, the Group performs impairment test (test to assess whether the exposure is credit-impaired under IFRS9) in order to detect the possible non-performance, and furthermore investigates whether the rescheduling due to the moratoria result a change in the net present value more than 1%. Based on the impairment test the Group did not identify in the first quarter non-performing status due to expected non-payment related to mid and large corporate portfolio, in the segment of small enterprises default of about HUF 650 million is expected.

Retail segment

According to the NBH Management Circular published at 21.01.2021 the Group assumes in retail segment, that clients participating in the repayment moratoria for more than 9 months have financial difficulties, or it is expected that they will have, therefor transfers them to Stage 2, which will result in an additional impairment of HUF 1,339 million in the retail segment and HUF 70 million in the small enterprises segment in the first quarter of 2021. Furthermore, the Group continue to monitor any trigger, besides days-past-due, for the need to classify the client as defaulted based on the factors „unlikely to pay" from the Article 178 (1) CRR, with particular attention to the case when the client loses its job due to the pandemic.

(49) Abbreviations and terms used in the financial statements

AAC: At Amortised Cost
ALCO: Asset and Liability Committee
BEEL: Best Estimate of Expected Loss
Beta: a flexibility measure compared to the market, used for calculating cost of equity
BMT: Benchmark Test
BPV: Basis Point Values
CCIRS: Cross Currency Interest Rate Swap
CDS: Credit Default Swap
CF: Cash flow
CIRS: Cross Currency Interest Rate Swap
COVID-PWO: clients, that either are already showing, or based on the Group's ecxpectation are about to show in a short period the first signs to decline in the credit rating due to effect of the virus on their business operation
CRM: Credit Risk Management Department
CRO: Chief Risk Officer
CRR: Capital Requirements Regulation
CVA/DVA: Credit Value Adjustment/Debit Value Adjustment
Default: non-performing
EAD: Exposure at Default

FGS: Funding for Growth Scheme
FRA: Forward Rate Agreement
FV: Fair Value
FVOCI: at Fair Value through Other Comprehensive Income
FVTPL: at Fair Value Through Profit and Loss
Gap: the difference between assets and liabilities in the same repricing category
GDMA: Government Debt Management Agency
GVH: Hungarian Competition Authority
HAL: Hungarian Accouning Law
Hold-and-sell: the model's objective is both collecting contractual cash flows and selling financial assets in the portfolio
Hold-to-collect: the model's objective is to hold financial assets to collect contractual cash flows
IAS: International Accounting Standards
IASB: International Accounting Standards Board
ICCAP: Internal Capital Adequacy Assesment Process
IFRS: International Financial Reporting Standards
IFRIC: International Financial Reporting Interpretations Committee
IRB: Internal Rating Based Approach
IRD: Integrated Risk Assessment Department
IRS: Interest Rate Swap
L&R: Loans and Receivables
LGD: Loss Given Default
MA: Manual Analysis
MIRS: Monetary policy Interest Rate Swap
NBH: National Bank of Hungary
OCI: Other Ccomprehensive Income
PD: Probability of Default
PL: Profit and Loss
POCI: Purchased or Originated Credit Impaired
Repayment moratorium 1: repayment moratorium (repayment suspension), which was introduced by the Act LVIII/2020 on the temporary rules related to the termination of the emergency and on the pandemical preparedness, furthermore by the Gov. Decree nr. 47/2020. (III. 18.) along with decree on the detailed rules about the defined actions in this, the Gov. Decree nr. 62/2020. (III. 24.).
Repayment moratorium 2: repayment moratoria (repayment suspension), which was introduced by the Act CVII/2020 on the temporary actions in order to stabilize the situation for particular society groups and enterprises with financial difficulties along with the Gov. Decree nr. 637/2020. (XII.22.) on the special rules related to the repayment moratoria in connection with the emergency.
RRM: Retail Risk Management Department
SPPI: Solely Payment of Principal and Interest
Stage 1: performing financial instruments where the credit risk has not increased significantly since initial recognicition
Stage 2: performing financial instruments with a deteriorating credit risk profile, where the credit risk has increased significantly since initial recognition
Stage 3: credit-impaired financial instruments
Trading: primary obejective is to realise short-term profits
VaR: Value at Risk
WCV: Weighted Collateral Value

Consolidated income statement in euro

(million euro)	2020	2019
Interest income calculated with the effective interest method	151	147
Other interest income	60	83
Interest expenses	-61	-102
Net interest income	**150**	**127**
Dividend income	1	0
Fee and commission income	192	220
Fee and commission expenses	-51	-66
Net fee and commission income	**141**	**153**
Net trading income and fair value result	8	0
Net gains/losses from hedge accounting	0	0
Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss	2	2
Other operating income	6	5
Other operating expenses	-50	-55
Staff expenses	-75	-82
Other administrative expenses	-48	-56
Depreciation and amortisation	-30	-24
Other result	-15	-1
Levies and special governmental measures	-17	-17
Impairment losses on financial assets	-23	23
Profit/loss before tax from continuing operations	49	77
Tax expense or income related to profit or loss from continuing operations	-12	-13
Profit/loss after tax from continuing operations	**37**	**64**
Profit/loss after tax from discontinued operations	0	0
Profit/loss for the year	**37**	**64**

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2020 was 363,89 HUF/EUR in 2019 was 330,53 HUF/EUR.

Data above are not part of the consolidated report.

Consolidated statement of financial position in euro

(million euro)	2020	2019
Cash, cash balances at central banks and other demand deposits	335	382
Financial assets held for trading	225	177
Non-trading financial assets mandatorily at fair value through profit or loss	186	103
Financial assets designated at fair value through profit or loss	51	61
Financial assets at fair value through other comprehensive income	1,416	1,588
Financial assets at amortised cost	6,400	5,412
Derivatives – Hedge accounting	15	18
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-2	-2
Current tax assets	1	1
Non-current assets classified as held for sale	0	0
Investments in subsidaries, joint ventures and associates	0	0
Equity-accounted investees	0	0
Property and equipment	93	52
Intangible assets	54	56
Deferred tax assets	4	5
Other assets	23	9
Total assets	**8,802**	**7,862**
Financial liabilities held for trading	134	84
Financial liabilities designated at fair value through profit or loss	0	0
Financial liabilities measured at amortised cost	7,908	6,955
Derivatives – Hedge accounting	33	35
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	6
Liabilities included in disposal groups classified as held for sale	1	2
Current tax liabilities	0	0
Provisions	25	33
Deferred tax liabilities	0	0
Other liabilities	19	21
Total liabilities	**8,124**	**7,136**
Share capital	137	151
Share premium	312	343
Equity instruments issued other than share capital	86	95
Other equity	0	0
Accumulated other comprehensive income	8	21
Retained earnings	67	23
Other reserves	31	30
(-) Treasury shares	0	0
Profit/loss	36	63
Total equity	**678**	**726**
Total liabilities and total equity	**8,802**	**7,862**

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