Annual Report 2021

Consolidated FInancial Statement

Raiffeisen BANK

Content

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.

After yet another challenging year due to 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.

On behalf of the Supervisory Board

Andreas Gschwenter
Chairman of the Supervisory Board

Foreword of the Chief Executive Officer

Ladies and Gentlemen,

I am pleased to inform you that Raiffeisen Bank Zrt. closed the year 2021 with an outstanding profit. The bank's market position remains strong and stable, both the deposit portfolio and the lending volume have grown dynamically.

In 2021, the bank achieved a profit of HUF 36 billion, which is unique in its history and represents a 150 per cent increase compared to the previous year. The loan-to-deposit ratio was 56 per cent at the end of 2021 (that is, there are almost twice as many deposits as loans). The return on equity doubled to 15 per cent. The capital adequacy ratio was 22.43 per cent, which is significantly higher than the regulatory requirement.

Raiffeisen Bank is well capitalized, and the war in Ukraine in 2022 has no direct impact on its operations, as all subsidiary banks of the RBI Group are fully self-financed in each country.

In the segment of private individual customers, there was still strong interest in personal loans and mortgage products, including state-subsidized schemes. Raiffeisen Bank recorded rapid growth in retail lending, outpacing that of the market. Several new digital developments, introduced during the pandemic period, contributed to this result, leading to a significant increase in the number of digital solutions used by customers, such as the instant video banking solution called RaiConnect. The bank's share in online account openings also increased significantly.

In the corporate business, the bank continues to play a leading role in offering and financing export activities, in structured and treasury services, and in providing the NHP and Széchenyi programs. Revenues in this sector increased by nearly 30 per cent.

We have now spent the second year in our new central office building, which is equipped with numerous solutions for energy efficiency and sustainable operations that meet our expectations. At the time of the publication of this report, our banking operations center in Nyíregyháza is already operating in a brand new office building that meets the requirements of the new era and is equipped with numerous digital solutions and co-working areas.

Best regards,

Zolnai György

Overview of the 2021 business year

(1) Macroeconomic environment in 2021

The developed and developing economies in the world have suffered the consequences of the pandemic, which had an impact on the first half of 2021 along with preserving problems for the second half of the year, making the recovering of the economy harder. The economy of the euro area showed a really weak performance in the fourth quarter of 2021. The GDP decreased by 0.2% on a quarterly basis, which showed a 1.1% lag on year to date. The spring reopening had its results, the quarterly GDP jumped to 2.2%, the increase speeded up to 2.3% in the third quarter, which slowed down only in the last quarter due to the supply capacity problems, and the recent, compared to the previous ones much more relaxed restrictions due to pandemic, resulting in an only 0.3% increase in GDP. The yearly index in the fourth quarter of 2021 was 4.6%, in which there is still a significant base effect, that will probably remain in the first quarter of 2022, even if the start of the year looks weaker. However, the above resulted a 5.2% GDP increase for the euro area in 2021. Regarding the internal structure of the increase, the services have recovered in almost all of the sectors of production, in the second half of 2021 more of the processing sector was suffering due to the persisting fragmentation of the global supply chains, which recovers slower than expected. From the demand side it was clearly a brake on the consumption, and on the investments in a greater extent, along with reducing the contribution of foreign trade because the import hunger of the internal demand after the reopening overshadowed the weak export production. Meanwhile, the employment steadily increased, the unemployment level decreased to the record low level before the crisis by the end of 2021, however the salaries did not increase significantly despite the shortage of labour, as did in other developed economies. Nevertheless, the inflation jumped to a peak of 5% never seen before due to the base effect of the energy prices, the indirect effects and the the demand shocks. The European Central Bank prognosed an average 3.2% inflation for 2022 at the end of 2021, which, according to its opinion, can approach the 2% mid-term target in 2023. As a precaution it ends its bond purchasing program started in 2020 by spring 2022, but it did not decide about the increase of the base interest rate by beginning of 2022, however it did not show a consistent position on this matter, whereas the market prices up until the end of 2022 a 450 bp increase in the -0.50% deposit interest rate.

Due to the Ukrainian war soaring Western European energy and raw material prices, the risks surrounding the inflation and the probable further monetary policy tightening moved robustly upwards at the end of February. The Group calculated in 2022 with a yearly 5.6% inflation, next year 2% along with a 3.3% economic expansion for this year and 2.5% for next year.

In the meantime, the economy of the USA, which increased its output by 5.7% (while its GDP for the fourth quarter of 2021 showed a 1.7% quarterly and 5.5% yearly increase), last year did not increase its base interest rate too, however, it started to end its bond purchasing program as well. GDP growth expectations are similar to the 19 member states of the euro area: the market calculates for 2022 3.3% growth, afterwards about 2.5%,regarding the inflation with 5.2% and also 2.5%. The Federal Reserve shows a much more systematic communication than the central bank of the euro area to the extent that it acknowledged the need for increasing the base interest rate already at the end of 2021, while the market prices a 150 bp tightening for the first quarter of 2022, which may further intensify in the rest of the year. The tighter commitment is thanks to the fact, that their economy overall continues with a healthier status than the euro area, the wage out-flow is much stronger, moreover the consumer prices already grew by 7% in December, for the first time since June 1982. The sharply rising energy prices in the first months of 2020 due to geopolitical tensions support the rapid adjustment of the interest policy even more, whereas the other risks arising from the situation in Eastern Europe were not only observed in the interest market, but in the massive underweighting of the capital markets already in Q1 2022. Last year the EUR/USD FX rate sank from the mid-2021 levels between 1.22-1.23 to near 1.12 mainly due to the contrast in the expectations regarding the euro area and the oversee monetary policy, from where it sank further below 1.10 by March 2022. Overall the biggest threats to the growth are basically the capacity problems at the demand side and the extra high inflation, whereas the prolonged Russian-Ukrainian war or its escalation can maintain a significant uncertainty in the financial markets in the near term.

(1.1) Hungarian economy

The Hungarian economy demonstrated an extraordinary resistance in 2021. Although the GDP fell a little in the first quarter of 2021, but it only resulted a 1.7% quarterly growth, which speeded up to 2.3% in the second quarter. In the third quarter again again some slowdown was experienced, since the output only grew by 0.9% compared to the second quarter but in the fourth quarter the quarterly figure grew back to 2.1%, which moved the yearly index to 7.1%, and the GDP growth for the whole year to 7.1% as well. The actual data way exceeded analysts' expectations (true however, in mid-2021 those were already about this level, in some cases they increased it). The extraordinary data is mainly thanks to the low base, however, the structure of the growth also significantly regenerated by now and almost all sector contributed to last year's growth. Unfortunately at the contribution side, in the processing industry the weak output of automotive industry due to global chip deficit could have a slowing effect, however the services normalized in most of the sectors. On the processing side the internal demand increased thanks to the consumption and investments, the contribution of the export due to the weakening of the external balance was way moderate.

Looking forward the consumption and the investment will probably remain the generator for the increase, the growth in external demand and in the export capacity serving it is highly probable in 2022, while more and more indicators show that global deficit of raw materials and assets will ease gradually. The labor market steadily improves. The employment is expanding and the unemployment rate approached recent record low values already in the second half of 2021. The wage out-flow was over 8% also in last year and in 2022 it can even be a double-digit figure again. Based on its mid-term prognose Raiffeisen Bank expects a 3.5% growth for 2022-2023. The risks surrounding the growth forecast are pointing downwards due to the crisis in Eastern Europe.

The inflation recovered fast by mid-2021 due to the strong loan and wage out-flow, and it further increased until the year-end thanks to the demand shocks arising as a consequence of the global deficit of raw materials and assets, and due to the general energy crisis. The headline was 7% in December, it resulted a 5.1% increase in prices for the year. Regarding the prospects, the risks moved significantly upwards in the first quarter of 2022, as a result of which the central bank's tightening started last year is expected to continue more strongly and to last longer in the rest of the year. In March 2022 the market calculates with a base interest and BUBOR rates peaking over 7% for the second part of the year. The inflation risks are heated by the further steep devaluation of the forint due to the Ukrainian war (in March HUF/EUR rate was close to 400). After 5.1% of last year, Raiffeisen Bank calculates with a 8.8% yearly average inflation for 2022 and 5.5% for 2023. There are mostly upwards showing risks surrounding these prognoses.

(1.2) The banking sector

According to the NBH's preliminary information, the banking sector recorded for 2021 a HUF 820 billion consolidated profit after tax, which is more than double of last year's result. The net interest income was 18% higher than last year, the net fee income showed a slightly lower, 13% increase. The operating costs increased by 8% compared to last year. The recorded net impairment and risk provisions dropped to less than half of last year's figure, contributing significantly to the increase in the sector's result. The total asset of the sector is HUF 70,186 billion, which shows a 16% increase according to the 2021 preliminary data. The balance of corporate loans increased by 10%, the balance of retail loans increased by 15% during the year. The balance of client deposits increased significantly as well, overall the deposits from retail and non-financial corporates increased by 16% compared to last year. The percentage of non-performing loans decreased slightly, from prior year's 3.5% to 3.3%. The cost-income-ratio (CIR) was 59.6% for 2021, which is much more favourable compared to last year's 63%. The sector's return on equity (RoE) and return on asset (RoA) ratios also significantly improved: the former increased to 11.6% (from 6.4%), the latter to 1.2% (from 0.6%). The liquidity situation and equity ratio of the sector is appropriate.

(*The data are also available on the website published by the NBH https://www.mnb.hu/felugyelet/idosorok/i-penz-es-hitelpiaci-szervezetek/hitelintezetek)

(2) Presentation of the business segments' performance

(2.1) Corporate and Investment Banking business segment

The Group's Corporate and Investment Banking business segment maintained its dominant role in the commercial banking market, further increased its loan portfolio, with its 9-10% market share it is one of the dominant market player in the mid and large corporate segment, it belongs to the leading banks in export finance and treasury services as well.

The Group achieved a portfolio growth in line with the market trends in project financing and syndications. In 2021 the increase in the assets was predominantly due to non-property project and syndicated financing activity. The expansion of the lending portfolio was realised with conservative business policy and risk taking. Overall, the loan portfolio remained of excellent quality even during the pandemic.

The Group's Trade, Export and Agricultural financing segment achieved extraordinary results also in 2021 by increasing the its asset portfolio by about 40%. It took advantage of the opportunities offered by the economic incentive programs introduced due to the pandemic, adopting to the changed market and client demands. As the biggest commercial bank partner of the Exim Bank, reinforced its position as market leader in the segment of interest subsidised loans refinanced by Exim Bank. It could significantly increase its stock of agricultural loans thanks to the tenders in the Rural Development Programmes and the 7-year Agricultural development programme introduced by the government at the start of 2021.
The increase of the stock of guarantees and letter of credits continued. Based on the feedback of clients the result was mainly thanks to tha fact, that the Group was able to reorganize its partly home office based operation due to the pandemic so that its ability to react and client lead time did not worsened.
The Factoring segment achieved a successful year as well, producing the biggest percentage growth not only in the domestic factoring market, but also amongst RBI group's network banks. The Group believes that recently introduced new factoring software and restructuring of internal processes established a long-term successful operation in this segment.

Important part of the Group's client service model is to finance municipalities, entities owned by municipalities, non-profit entities, associations, condominiums and other communities as well as to provide complete, advanced financial services to clients. Significant part of services are investment and development loans to municipalities, associations and condominiums. It supports the services provided to these clients by ongoing development of digital channels, maintaining immediate payment transaction services, and providing QR code based payment opportunity. Digital developments ensure effective client servicing and facilitate the use of ASP services for municipalities.

The Financial Institutions and Custody segment continued its growing trend in 2021 – which was characteristic for the previous years – in terms of both the number of active clients and deposits, loan and custody portfolio.

Thanks to the Group's Cash, FX and Capital Market Department – according to the statistics of the National Bank of Hungary – it was the bank with the biggest FX turnover in Hungary also in 2021, and was again the biggest player in the derivative section of Budapest Stock Exchange. The Raiffeisen Bank was the 6th biggest direct state securities distributor in 2021. Furthermore, in 2021 the investment banking segment was the second biggest bond issue organizer in the NBH Bond Funding for Growth Scheme.

(2.2) Retail clients

The Retail and Premium Banking segments focused on new client acquisitions, lending and investment products in 2021.
The lending and acquisition targets were supported with successful marketing campaigns by the Group throughout the whole year, which lead to extraordinary results.
By the end of November 2021 the Group achieved a 6.97% market share in retail funding. The clients' appetite for investments started recover at the end of April. The demand for state securities is still strong, but in the second half of the year the demand for investment funds increased significantly as well.
In the first half of 2021 the Group launched the opportunity for online bank account opening for retail clients and further increased the video banking service model. Furthermore, for the RaiConnect service – which offers video solutions for Premium clients – new functionalities were introduced and it can already be launched also from the myRaiffeisen mobileapp.
Significant developments supporting the digitalization of retail client services continued in 2021 as well, resulting in launching new functions in the myRaiffeisen mobileapp, contributing to the increasing number of clients using the mobileapp. As a further element of digital developments, the Group further widened mobile payment opportunities for its clients.
The Group widened the circle of accounts available to retail clients, which now provides a favorable offer for the youth segment and can encourage their everyday banking on the online platform. The Group supported reaching new client acquisition targets with many successful actions, campaigns, which contributed through multiple channels to opening new bank accounts, promoting the active and digital account use. Furthermore, a Raiffeisen ATM cash pay-in service was introduced, which is already available in many places of the country.
The segment continued in 2021 its successful business operation in retail lending despite the difficulties caused by coronavirus pandemic. During summer there was a demand for retail mortgage loans and personal loans never seen before, while the demand for baby loan remained stable.
In mortgage lending it is still a highlighted target to fully service client needs, where certainty and predictability are the main factors. During autumn the Group was one of the firsts to join NBH's Green Home Programme, which gained significant popularity at its launch. In the area of personal loans digitalization is one of the focus points, relating to which the launching of a completely online application process needs to be highlighted, which has been used from month to month more and more by clients with existing banking relationships.
Overall, the Group closed a strong year in retail lending, and we expect it to be maintainable in the next period, although the increasing interest rate environment can make it harder.
The Group's market share slightly but further increased in terms of retail loan portfolio, which was 5.4% at 2021 year-end.
In 2021 the main targets of the small entities segment were new client acquisitions, the introduction of innovative solutions and new loan products. Maintaining quality client service in small entity client relationships and building relationships as partners were still in the small entities segment's strategic focus. Thanks to this the number of micro clients increased by 16%, resulting the fourth place in the ranking of small entities acquisitions, which is a very good result considering the size of the branch network. It contributed to the double-digit growth of the business portfolios, to 20% increase of the fund balance and 16% of increase in the number of transactions.
The Group was one of the firsts to introduce the loan products of the Széchenyi Card relaunching programme in July 2021. The new market loan distribution increased by 32% compared to last year, and after the end of the FGS program three quarters of new loan distributions comparised of the products of Széchenyi GO! Program.
Raiffeisen Group supported the use of banking services provided to small entity clients by continuous development of digital channels (VideoBank service/ myRaiffeisen mobilapplication), widening the scope of the electronic services (SME ON online bank account opening), introduction of new innovative payment solutions (Scan&Go mobil payment app, QR code payment and application for payment) and the expansion of card accepting service (myPOS credit card acceptance), ensuring the efficient and comfortable services for small entity clients. It is supported by our regular surveys of small entity client satisfaction, which continued to improve in 2021.

(2.3) Private Banking Clients

Friedrich Wilhelm Raiffeisen Private Banking aims to protect its client's family's wealth, increasing it and maintaining it from generation to generation. The Group provides, with the help of the professional work of it's experienced advisors safety, comfort, discretion and customized individual solutions to its clients.
Friedrich Wilhelm Raiffeisen Private Banking closed an extraordinary successful year in 2021. Thanks to the honored trust of its clients the amount of total managed asset reached over HUF 766 billion, which is a more than 10% increase in a year. This increase further strengthens the Group's market position.
It is impossible to provide and maintain the satisfaction of special private clients without customized individual solutions and high standards of service. Accordingly, Friedrich Wilhelm Private Banking invested substantial amounts also in 2021 to introduce new products and services and to develop IT systems and advisor knowledge. The Covid-19 highlighted the importance of digitalization, as a result of which not only the clients were able to smoothly handle their financials during the distance keeping but the employees of the Group were also able to be available in all repsects during the lock down.
The client services of Friedrich Wilhelm Raiffeisen Private Banking lies on 4 pillars: offering long-term financial solutions combined with active investment advisory, availability of dedicated, highly trained advisors, supporting the work of investment advisors with modern IT tools and allocating assets based on risk and return optimization.
During the year, clients happily acknowledged, that the Group could increase its country-wide FWR availability to 13 with its new representative client service space on the 8th floor in the Agora office building and for the former branch in Királyhágó square a new, freshly designed and worthy place was found in the Hillside Office Building.

(2.4) Financial Institutions

The financial institutions segment is of strategic priority for the Group. The asset portfolio further increased in 2021, keeping a moderate risk weighted assets and capital need character. The deposit balance increased significantly in line with market trends. Besides interest income increase in commissions also contributed to over-the-plan results. The segment is still characterized by secure funding and stable long-term client relationships. The risk costs and cost level of the segment are low.
The main target group of the segment are domestic insurers, investment fund managers, funds and domestic and international financial institutions and investment service providers, which are supported with innovative solutions, products to serve fast and securely their clients in cash management and treasury operations. Besides the mentioned factors the domestic and international banking relationships were in focus as well, along with – considering the Group's strategy, furthermore adhering to strict compliance principles – international payment service providers and Raiffeisen Bank Zrt.'s contracted currency exchange brokers. Since 2021 Raiffeisen Bank Zrt's Financial Institutions department provides professional support for intragroup servicing of payment service providers (PSP).
In 2021 also the custodian segment could further increase its managed security portfolio and closed a successful year. The Banking Group provides a unique custodian market solution in its Vienna headquarter with the support of strengthened group level management to provide custody services for and to settle clients' investments directed to Central and Eastern Europe.
In the rising interest rate environment there was a strong demand amongst institutional investor clients for customized investment opportunities and for investment products offered by the Cash, FX and Capital Market Department. The Group takes a leadership role in a number of internal projects as well as in projects concerning the whole Hungarian capital market. Both the clients' and the profession's clear feedbacks prove that Raiffeisen Bank is one of the strongest brands in the regional money and capital markets.

(3) Corporate Governance Statement

Responsible corporate governance is a fundamental tool of the foremost goals of the Group, the precondition of long-term value creation. The duty of corporate governance is to create an appropriate balance, operating order amongst owners, client, employees, business partners and the wider public. Raiffeisen Group full complies with relevant legislations and HNB's instructions and recommendations. The Banking Group's organisational setup and operating conditions are included in Deed of Foundation accepted by the sole shareholder and in the Organisational and Operational Policy. The Group continuously revises and improves its corporate governance practice.

(4) Use of financial instruments

In accordance with the requirements of IFRSs and Accounting Law the Banking Group shall from 2018 on – in accordance with IFRS9 – classify its financial assets as measured at amortised cost, measured at fair value through other comprehensive income, or measured at fair value through profit or loss, based on

- the Group's business model to manage the financial assets; and
- the contractual cash flow characteristics of the financial assets.

A financial asset shall be measured at amortised cost if both of the below 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; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the below 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; 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.

The Banking Group can at initial recognition irrevocably elect to present the subsequent changes in the fair value of certain equity instruments, that otherwise would be measured at fair value through profit or loss, in other comprehensive income.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Banking Group shall classify all financial liabilities as measured at amortised cost, except for those cases described in the standards in detail, in which cases they shall be treated as financial liabilities measured at fair value through profit or loss.

The accounting policy of the Group and a number of disclosures requires the determination of fair value of financial assets and liabilities. Fair value is determined for measurement and/or disclosure purposes based on the below methods.

All financial instruments are initially recognised at fair value plus directly attributable transaction costs (except for financial instruments measured at fair value through profit or loss in which case transaction costs are charged directly to profit or loss). 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 basis of determining fair value of financial instruments quoted in active markets is the bid price in case of assets and the ask price in case of liabilities. If obesrvable price is not available, fair value is determined using valuation techniques that rely on observable market data. The method may be comparison with similar instruments for which there is an observable quoted market price, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair value of financial instruments may be determined using techniques based entirely or partly on assumptions that are not underpinned by actual market transactions or observable market data.

The Banking Group designed the following methodology to determine fair value:

a) derivative transactions

- Fair value of foreign currency forward and futures transactions is the difference between the forward exchange rate, determined for the maturity of the transaction and prevailing at the valuation date, and the strike price, discounted from date of maturity to valuation date.
- Fair value of cross currency swaps is the difference between the forward exchange rate, determined for the maturity of the transaction and prevailing at the valuation date, and the strike price, discounted from date of maturity to valuation date. Yield curves used for the purpose of the valuation incorporate current market interest premium.
- Fair value of interest rate swaps and forward rate agreements (FRA) is the net present value of the expected future cash flows discounted to the valuation date.
- Fair value of plain vanilla and exotic foreign currency options is determined using the modified Black-Scholes model. In case of exotic options for which no closed formula exist, values are determined using iterative techniques.
- Fair value of cross currency interest rate swaps is the net present value of the expected future cash flows of the instrument discounted to the valuation date, where we incorporate into the yield curve used for the purpose of the valuation the interest rate premium (basis swap spread) representative to the market of those instruments (including also country risk premium).
- Fair value of stock and index futures is determined based on the difference of the quoted price and the strike price.

b) securities

Fair value of securities measured at fair value through profit or loss or at fair value through other comprehensive income is determined using market prices available in Bloomberg information system. It is the stock exchange closing price in case of securities where it is available. In case of securities where stock exchange price is not available, the fair value is the net present value of the expected future cash flows of the security discounted to the valuation date.

c) loans
Loans are basically measured at amortised cost which equals 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 expected credit loss allowance recorded.
To hedge the fair value changes of certain loans with fixed interest rate the Group entered into interest rate swaps. Such loans hedged with IRS transactions are measured in the financial statements at amortised cost adjusted for fair value changes attributable to the hedged risk.

d) deposits
The Group measures its deposits at amortised cost. Certain structured deposits contain embedded derivatives which are separated from the deposits by the Group. The Group measures the embedded derivatives at fair values with its changes recognised in profit or loss.
The Group involves certain deposits with fixed interest rate in hedge accounting. The fair value of those deposits is determined by calculating the net present value of expected future cash flows discounted to the reporting date.

e) bonds issued
Non-structured bonds issued are measured at amortised cost and thus they are not revalued, except for bonds involved in hedge accounting. In such cases only interest rate risk is hedged not credit risk.
Fair value of hedge-accounted issued bonds with fixed interest rate is the present value of future cash flows, whereas in case of structured instruments the Group values the embedded derivative which is separated from the host contract.

Hedge accounting

The Banking Group designated certain derivative instruments held for risk management purposes as hedging instruments designated in hedge accounting. At inception of the hedge the Group formally documents the relationship between the hedging instrument(s) and the hedged item(s), the risk management objectives and hedging strategy followed by entering into the transaction and the method used for measuring hedge effectiveness. The Group evaluates at inception of the hedging relationship and continuously thereafter whether the hedging instrument will be highly effective in offsetting the fair value changes of the hedged item attributable to the hedged risk over the entire term of the hedging instrument and whether the actual results fall within the 80-125 precent range.

(5) Basic principles of risk management and hedging 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) Credit risk management

Risk and credit assessment of non-retail clients is based on individual analysis and rating, typically with quarterly financial monitoring and yearly limit review. In retail and micro enterprise financing there is an automated scorecard-based assessment. Constraints of financing are represented by the desired balance of business and risk factors as determined by the owner and the management of the Group, the act on financial institutions and other legislations and the framework defined by the Group's Credit Policy.
The Group reacted to clients' payment difficulties due to the economic crisis with loan restructuring solutions, introduction of processes for forecasting payment delinquency, strengthening collection and receivables management, between 2016 and 2020 it decreased its exposure to and the number of non-performing clients both in retail and corporate financing. The economic crisis due to coronavirus pandemic did not cause in 2021 a systematic and mass increase in the balance of non-performing loans, only a few clients became non-performing, amongst them some with relatively higher exposure. Non-performing rate for corporates was about 2%, for retail it stabilised about 5%, remaining below the mid-term strategic plan. This sound level was also facilitated by measures for clearance of non-performing portfolio along with the application of standard workout methods.
Participation in the payment moratorium, in accordance with the relevant guidance of EBA, did not automatically trigger default and payment difficulty in 2020 and thus the Group pays particular attention to identifying debtors presumably facing payment difficulties also during the term of the moratorium. In relation to clients opting in to moratorium2 starting in 2021, the Group made in case of corporates an extraordinary individual risk review to recognise worsening risk profiles and to determine defaults and eventually necessary restructuring. As a result of the assessments it identified a few new restructured portfolios with a relatively low exposure, in the mid and large corporate portfolio no new clients became non-performing due to moratorium2. The Group assessed clients entering into moratorium2 also in the retail segment. Clients in case of whom the Group identified financial difficulties, were reclassified to non-performing status. If the client had no financial difficulties but has been in moratorium

for more than 9 months, was reclassified to Stage 2 and there is a close monitoring in place regarding the problems and financial difficulties of clients opting out of moratorium2.
The Group followed the same procedure in assessing clients also during moratorium3 starting in November 2021. In the corporate portfolio, participation of clients in the third moratorium is negligible, the affected exposures were already at least on watch list (in collection management status or in a status immediately before that).
The risk management procedures of the Group operate in accordance with the requirements of Basel III and IFRS9.
Base data necessary to sophisticatedly measure risks are contained in structured form in a modern data warehouse. From May 2021 the capital requirement of the whole banking portfolio (corporate, retail and SME) is quantified using the advanced, internal rating based (IRB) methodology. During 2017 the municipality portfolio was returned to the standard methodology. The Group started the same transformation in 2018 regarding financing the top segment of individuals which was completed in the last quarter of 2019.
Capital requirement of baby loans and in retail segment the capital requirement of products in crisis guarantee related microsegment is calculated using the standard methodology.
Measuring and reporting risks is performed on a monthly and quarterly basis in compliance with the Group's and regulator's requirements. The Group uses the results of risk models widely in pricing, in determining credit decisions and strategic directions, thereby ensuring long-term capital adequacy, building up a portfolio that is stable also in respect of risks and the efficient usage of capital available.
The Group reacted also in its credit policy to the changes caused by coronavirus: in judging riskiness of industries, besides higher granularity, the volume/probability of short-term effects and expected mid-term recovery plays a particular role. Financing activity is aimed at industries with better conditions and clients with stronger resilience, whereas the more vulnerable part of the portfolio requires a more cautious approach. In respect of the latter the Group acted with particular care also in determining impairment and recognised additional impairment if necessary. At the end of 2021 in the corporate segment, besides crisis factors caused by coronavirus, the crisis of supply chains, the increase in energy prices and the restricted and/or more costly access to other resources were also incorporated into the additional impairment considerations. The Group continuously revises and if justified adjusts the adequate level of related reserves.
In the retail segment in March 2020 the Group identified increased risks based on the industry classification of the client's employer, building categories of high/medium/low risk based on expected economic downturn. Besides that, considering the „Management circular on the usage of macroeconomic information and factors triggering significant increase in credit risk in the application of IFRS 9 standard" of HNB the Group decided in November 2020 on the application of portfolio level management corrections, so called overlays. In accordance with that it recognised additional impairment on the riskiest clients participating in the moratorium. Moreover it is important that during 2021 the Group comprehensively investigated the changes in income situation of clients, thereby forward-lookingly prepare for the potential problems.

(5.2) Operational risk management

All organisational units participate actively in managing and as necessary decreasing the level of operational risk (department, region, subsidiary). The Group makes significant efforts to improve the risk management organisation and increase risk awareness, which includes identifying, collecting, assessing, reporting, monitoring and also managing operational risks threatening to achieve the Group's business goals. The main tools used to identify risks are collection of loss data, risk indicators, scenario analyses and risk self-assessments. In course of this work the root causes of all identified operational risk events are explored and used up in decisions on process improvements.
In order to further strengthen the operational risk management activity, the Group implemented those standards that comply with the requirements imposed by the advanced measurement method. The Group continues to efficiently operate the operational risk framework AMA (Advanced Measurement Approach) introduced in 2016, in order to ensure the smooth transition to SMA in the mid-term.

(5.3) Market and liquidity risk management

Market and liquidity risk is managed within the Group at a number of levels using advanced methods and infrastructure, monitoring is performed independently of business functions. Measuring and reporting risks is done on a daily/weekly/monthly and quarterly basis in compliance with the requirements of the Group and the regulator. Grouping, measuring, managing of risks and building economic capital is done in the framework of the Group's ICAAP processes.
Measuring and controlling the risks is effected through complex risk, position, stop loss and VaR limit systems, the methodology of which is in accordance with the requirements of the parent bank and the regulator. Management of market and liquidity risks related to banking activity covers the following areas: trading book and banking book interest rate risk; the Group's liquidity risk also from going concern and stress point of view; the risk arising from illiquidity of market positions; share price risk; foreign currency risk; risk inherent in option trading; counterparty risk of OTC derivative transactions. In addition to that, this function of the Group ensures the independent pricing of various financial instruments in accordance with regulation required by the Parent Bank and by IFRS 9. In addition to this, Market Risk function is responsible for controlling the market-conformity of capital and money market transactions.

(5.4) Fraud risk management

Fraud risk is a dominant element of operational risks. In order to increase the efficiency of fraud risk management, the Group centralised during 2014 the credit fraud risk management in the Integrated Risk Management Department, in the current Fraud Risk Controlling Group. As a continuation of the integration, between 2015 and 2017 non-credit fraud risk management was also performed by the Integrated Risk Management Department and since end of 2017 non-credit fraud risk management has been assigned to the newly formed Banking Security Department. Since 2019, non-credit fraud risk management function involves banking card fraud management and charge-back administration tasks and the Group's fraud transaction monitoring system is also supervised by this function.
Credit fraud management function pays particular attention to every credit fraud event, the experiences of which are in all cases incorporated into the base or monitoring processes of financing activity and into the training materials.

(6) Environmental protection

The Group and its subsidiaries do not own assets that are of particular importance from environmental protection point of view. At the same time, 9% of the common use car fleet of the Group is entirely electrically-propelled, in order to minimise local air pollution in the capital city and in large towns, and in addition, in course of fleet replacement old diesel vehicles were replaced with cars with modern petrol engines. In course of continuous modernisation of lighting and energy supply the replacement of uninterruptible power supplies across the entire branch office network was completed and the renovation of air conditioning systems in a number of branch offices is in progress and we made in the branch office network several mechanical engineering investments enhancing energy efficiency. In the second half of the year the Group entered into the possession of its new 18,000 m2 headquarter built in Agóra Budapest office park holding BREEM and WELL qualifications, which already has an energy efficient heating and modern LED lighting system.
As an effect of these measures we expect a further 5-10% decrease in energy-consumption.
Closely relating to environmental protection, the Group places more and more emphasis on creating sustainability, working out the detailed framework system is in progress, for the coordination of which the Group sets up the Sustatinability Council.

(7) Employment policy

The Group is one of the dominant employers in the financial sector: at the end of December 2021 the number of employees was 2,889. It is especially important for the Group that is operates as a fair and correct employer, on the one hand fully considering and complying with the prescriptions of the Hungarian Labour Code, on the other hand ensuring favourable work and career opportunities and continuous professional development to its employees.
Recruitment and selection is done centrally, in course of the activity of HR, paying attention to the core principles of inclusive culture and taking care that discrimination does not appear in the daily selection practice. The Group's selection practice is focused on trained and qualified workforce, however at the same time it provides an opportunity also to graduates for intensive professional development.
The Group pays attention to and strives for ensuring for its employees fair and competitive income compared to Hungarian labour market. Fringe benefits, within the framework of Cafeteria system, provide a choice for the colleagues to select the benefit most fitting their personal needs.
All employees are covered by the performance development process operated by the Group, which provides a framework for clear goal setting, constructive feedback and well-grounded performance evaluations. Performance-dependent financial and moral rewards incentivise the colleagues to achieve outstanding performance.
The Group has a complex training and development activity, which is focused, besides developing professional knowledge and skills, on programmes to improve personal, managerial, language and IT skills. At year-end the employees of the Group spent on average 0.52 day at training-development events and in programmes; they spent 2.17 days without e-learning. The Group supports the colleagues in successful and effective coping with everyday performance challenges and stress situations with community building and employee well-being programmes.
The Group operates a comprehensive and conscious succession planning practice, the goal of which on the one hand is the retention of managers and employees working in key professional roles, on the other hand planning and developing internal labour supply. Workplace Council operates within the organisational framework of the Group, ensuring consideration of employee interests.
From the beginning of the pandemic, spring 2020, in order to establish directives, frameworks and rules relating to the pandemic and to ensure secure daily operation, the Group set up the Corona Team with participation of leaders of the banking functions, which is operated continuously. It organised, except for the branches and critical business areas, the employees' working from home, which, subsequent to the pandemic, as a new standard will remain an integral part of the operation and will continue to be operated in a framework and construction based on the field of work.

(8) Compliance activity

In accordance with the regulations and the requirements of NBH the Banking Group operates for exploring and managing compliance risks – as part of the internal defence lines – an independent orgainsational unit who performs the following functions:

- Controlling the compliance with ethical rules, issueing guidance on related questions, performing investigations of notices
- Ensuring compliance with regulations on conflicts of interest and the control of that
- Organising and operating anti-corruption measures within the group
- Fighting against money-laundering and financing international terrorism, as well as organising, governing and co-ordinating the compliance with international sanctioning measures within the group, operating relating monitoring system; operating a notification and control system, liaison with the competent authority.
- Ensuring and controlling the compliance with regulations regarding segregation of financing and investment services, restricting the flow of information, prohibition of insider trading and market manipulation and employee trading, and liaison with the competent authority.
- Ensuring and controlling compliance with regulations on investment related services (e.g. Bszt.), performing defensive task related to client assets.

The organisational location of the compliance function and its scope of activities are in all respects in accordance with relevant regulations, with HNB guideline on the system of lines of defence and the underlying EBA (GL44) guideline.

(9) Research and development

The Group performs R&D activity in developing applications in relation to finance services and implementing 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

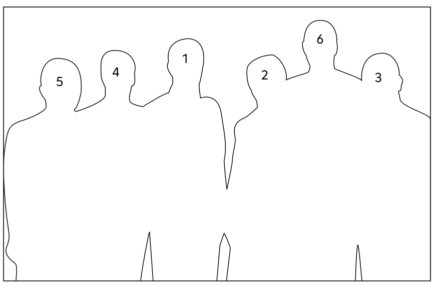
Chairman

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

Raiffeisen Bank International (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 comprises numerous other financial service providers that are active in areas such as leasing, asset management and M&A.
In total, around 46,000 RBI employees serve 19 million customers from around 1,800 business outlets, the vast majority of which are in CEE. At year-end 2021, RBI's total assets was approximately € 192 billion.
RBI AG shares have been listed on the Vienna Stock Exchange since 2005. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares with the remaining 41.2 per cent in free float.

Deloitte Auditing
and Consulting Ltd.

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Company Registration Number:
01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Raiffeisen Bank Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank Ltd. (the "Bank") and its subsidiaries (the "Group") for the year 2021 which comprise the consolidated statement of financial position as at December 31, 2021 – which shows total assets of HUF 3,825,288 million –, and the related consolidated statement of profit or loss, consolidated statement of comprehensive income – which shows a net profit for the period of HUF 36,734 million –, consolidated statement of changes in equity and consolidated statement of cash-flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021 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 European Union (the „EU IFRS"), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the *"The Auditor's Responsibilities for the Audit of the Consolidated Financial Statements"* section of our report.

We are independent of the Group in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the 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 the same ethical requirements.

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

Other Matters

The Consolidated Financial Statements for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on April 23, 2021.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 an opinion on these matters.

Key audit matter	How our audit addressed the matter
Expected credit losses on loans to customers at amortized cost	
(See notes 6. to the consolidated financial statements for the details) As at December 31, 2021 the Group shows loans to customers at amortised cost in the amount of HUF 1,437,459 million (gross: HUF 1,497,573 million), in connection with HUF 60,114 million loss allowance on loans) has been recognized. The determination of expected credit losses is based on a large extent on the professional judgment of management and the use of subjective assumptions, both in the application of portfolio-level collective impairment models and in the determination of individual credit losses. The most significant assumptions applied in provisioning calculation are the followings: - IFRS9 credit risk staging methodology and application - probability of default - loss given default - estimation of future cash-flows expected to be realized. The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Group in calculating the ECL. Based on the significance of the above described circumstances the calculation of expected credit loss of loans assessed on portfolio-level and in the determination of individual credit losses was identified as a key audit matter.	The relevant audit procedures performed by us included the followings: - evaluating the design and implementation of internal controls relating to monitoring of loans and approval of impairment, - test of staging through portfolio-level analysis and the staging methodology applied by the model, - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable - robust challenge of management estimates related to the loan impairment, - assess the collective model methodology and testing the calculations in terms of risk parameters (probability of default - PD, loss given default -LGD, expected credit loss - ECL, macroeconomic factors) applied by the collective models by involving of experts, recalculation of impairment, - evaluating specific loan impairments by selecting a random sample based on risk profiles, and for the individually impaired loans the review of consideration and valuation of collaterals and estimates of expected future cash-flows, - comprehensive analysis of loan portfolio, - assessing the requirement for additional allowances considering the Group's ECL model, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses, and - assessing the adequacy of the disclosures in the financial statements.

Other Information: business report

Other information includes the consolidated business report of the Group for 2021. Management is responsible for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled *Opinion* does not apply to the consolidated business report.

Our responsibility in connection with our audit of the consolidated financial statements 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.

Furthermore, in accordance with the Accounting Act, our responsibilities also include assessing whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements.

In our opinion, the consolidated business report of the Group for 2021 corresponds to the consolidated financial statements of the Group for 2021 and the relevant provisions of the Accounting Act in all material respects. As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the consolidated business report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

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 the International Financial Reporting Standards as adopted by the European Union, 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.

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit 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, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgement 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 the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes to the consolidated financial statements, 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 the Group's internal control that we identify during the audit.

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Group on May 14, 2021 and our uninterrupted engagement has lasted for 1 year.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Group, which we issued on April 6, 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to Raiffeisen Bank Zrt. and its controlled undertakings and which have not been disclosed in the consolidated business report.

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, April 8, 2022

…………………………………………………
Molnár Gábor

on behalf of Deloitte Auditing and Consulting Ltd.
and as statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083
Registration number of statutory registered auditor: 007239

I. Primary financial statements

A. Consolidated statement of profit or loss

(HUF million)	Notes	2021	2020
Interest income calculated with the effective interest method	(7, 11)	70,679	53,207
Other interest income	(7, 11)	14,788	21,010
Interest expenses	(7, 11, 25)	-17,550	-21,546
Net interest income	**(7, 11)**	**67,917**	**52,671**
Dividend income		1,917	346
Fee and commission income	(8)	77,693	67,565
Fee and commission expenses	(8)	-19,900	-17,793
Net fee and commission income	**(8)**	**57,793**	**49,772**
Net trading income and fair value result	(9, 11)	241	2,960
Net gains/losses from hedge accounting	(10, 11)	798	-101
Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss	(11)	993	574
Other operating income	(12)	1,863	1,946
Other operating expenses	(12)	-18,907	-17,550
Staff expenses	(15)	-29,508	-26,362
Other administrative expenses	(16)	-18,644	-17,075
Depreciation and amortisation	(24)	-9,832	-10,441
Other result	(13, 14)	-1,588	-5,176
Levies and special governmental measures	(17)	-6,789	-6,072
Impairment losses	(6, 11)	-5,607	-8,214
Profit before tax from continuing operations		**40,647**	**17,278**
Tax expense or (-) income related to profit or loss from continuing operations	(18)	-3,913	-4,339
Profit after tax from continuing operations		**36,734**	**12,939**
Profit for the year		**36,734**	**12,939**

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

(HUF million)	Notes	2021	2020
Profit for the year		**36,734**	**12,939**
Other comprehensive income	**(38)**	**-603**	**-3,796**
Items that will not be reclassified to profit or loss	**(38)**	**-6**	**-586**
Fair value changes of equity instruments measured at fair value through other comprehensive income	(38)	-71	-577
Income tax relating to items that will not be reclassified to profit or loss	(18, 38)	65	-9
Items that may be reclassified to profit or loss	**(38)**	**-597**	**-3,210**
Foreign currency translation		0	52
Cash flow hedges (effective portion)	**(10, 38)**	**813**	**17**
Valuation gains or (-) losses taken to equity	(10, 38)	594	-71
Transferred to profit or loss	(10, 38)	219	88
Debt instruments at fair value through other comprehensive income	(38)	-1,469	-3,602
Valuation gains or (-) losses taken to equity	(38)	383	-3,006
Transferred to profit or loss	(38)	-1,852	-596
Income tax relating to items that may be reclassified to profit or (-) loss	(18, 38)	59	323
Total comprehensive income for the year	**(38)**	**36,131**	**9,143**

C. Consolidated statement of financial position

(HUF million)	Notes	31.12.2021	31.12.2020
Cash, cash balances at central banks and other demand deposits	(6, 19, 46)	482,489	121,791
Financial assets held for trading	(6, 20, 42, 46)	114,942	82,031
Non-trading financial assets mandatorily at fair value through profit or loss	(6, 20, 42, 46)	98,941	67,742
Financial assets designated at fair value through profit or loss	(6, 20, 42)	195	18,471
Financial assets at fair value through other comprehensive income	(6, 22, 23, 42, 46)	351,960	515,154
Financial assets at amortised cost	(6, 21, 42, 46)	2,670,508	2,328,854
Derivatives – Hedge accounting	(10, 42, 46)	53,286	5,461
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-12,917	-567
Current tax assets	(18)	36	511
Investments in subsidiaries, joint ventures and associates	(44)	23	123
Property and equipment	(24)	33,706	33,797
Intangible assets	(24)	21,037	19,689
Deferred tax assets	(18)	3,466	1,518
Other assets	(26)	7,616	8,271
Total assets		**3,825,288**	**3,202,846**
Financial liabilities held for trading	(6, 27, 28, 42, 46)	58,502	48,943
Financial liabilities measured at amortised cost	(6, 25, 28, 29, 30, 31, 42, 46)	3,450,738	2,877,574
Derivatives – Hedge accounting	(10, 42, 46)	76,099	12,095
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-57,868	1,460
Current tax liabilities	(18)	1,599	242
Provisions	(6, 33)	9,034	9,058
Deferred tax liabilities	(18)	4	3
Other liabilities	(32)	7,498	6,932
Total liabilities		**3,545,606**	**2,956,307**
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)	2,380	2,983
Retained earnings	(6, 40)	30,686	24,391
Other reserves	(6, 39)	14,992	11,336
Profit or loss	(6)	36,734	12,939
Total equity		**279,682**	**246,539**
Total liabilities and total equity		**3,825,288**	**3,202,846**

D. Consolidated statement of changes in equity

				Other comprehensive income not to be reclassified	Other comprehensive income to be reclassified					
Sources of equity changes	**Share capital**	**Share premium**	**AT1 instruments issued**	**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**	**Retained earnings**	**Other reserves**	**Total**
Notes	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance 2020.01.01	**50,000**	**113,445**	**31,445**	**3**	**-195**	**3,156**	**19**	**37,330**	**11,336**	**246,539**
Profit or (-) loss	0	0	0	0	0	0	0	36,734	0	**36,734**
Other comprehensive income	0	0	0	-6	740	-1,337	0	0	0	**-603**
Total comprehensive income for the year	**0**	**0**	**0**	**-6**	**740**	**-1,337**	**0**	**36,734**	**0**	**36,131**
Payments on equity instruments	0	0	0	0	0	0	0	-3,127	0	**-3,127**
Total contributions and distributions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,127**	**0**	**-3,127**
Transfers among components of equity	0	0	0	0	0	0	0	-3,656	3,656	**0**
Other increase or (-) decrease in equity	0	0	0	0	0	0	0	139	0	**139**
Total other equity transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,517**	**3,656**	**139**
Closing balance 2020.01.01	**50,000**	**113,445**	**31,445**	**-3**	**545**	**1,819**	**19**	**67,420**	**14,992**	**279,682**

				Other comprehensive income not to be reclassified	Other comprehensive income to be reclassified					
Sources of equity changes	**Share capital**	**Share premium**	**AT1 instruments issued**	**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**	**Retained earnings**	**Other reserves**	**Total**
Notes	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance 01.01.2021	**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**
Payments on equity instruments	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**
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 31.12.2021	**50,000**	**113,445**	**31,445**	**3**	**-195**	**3,156**	**19**	**37,330**	**11,336**	**246,539**

E. Consolidated statement of cash flows

(HUF million)	Notes	2021	2020
Profit or loss for the period		**36,734**	**12,939**
Cash flows from operating activities			
Adjustments for:			
Depreciation and amortisation	(24)	9,832	10,441
Net impairment loss on non-financial assets	(13)	34	61
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(11)	6,489	9,101
Net interest income	(11)	-67,917	-52,672
hereof: amortization, accruals and unwinding		5,046	8,658
Net gains or (-) losses from derecognition of non-financial assets	(12)	4	-36
Other		2,090	-1,921
Income tax expense	(18)	3,913	4,339
		-45,555	**-30,687**
Changes in operating assets and liabilities:			
Change in financial assets held for trading	(20)	-29,110	-28,979
Change in non-trading financial assets mandatorily at fair value through profit or loss	(20)	-31,089	-33,203
Change in financial assets at fair value through other comprehensive income	(22)	159,547	2,055
Change in financial assets at amortised cost	(22)	-288,492	-576,612
Change in derivatives (assets) – Hedge accounting	(10)	-41,037	-1,108
Change in other assets	(26, 34)	659	-5,252
Change in financial liabilities held for trading	(27)	7,590	26,358
Change in financial liabilities measured at amortised cost	(29)	573,505	567,234
Change in derivatives (liabilities) – Hedge accounting	(10)	57,917	2,609
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	-46,978	-606
Change in other liabilities, provisions and liabilities held for sale	(32, 33, 34)	542	-1,716
		363,054	**-49.220**
Interest received	(7, 11)	88,518	91,181
Interest paid	(7, 11)	-15,555	-29,851
Dividend received		1,917	346
Income tax paid	(18)	-3,904	-4,548
Net cash from (+)/used in (-) operating activities		**425,209**	**-9,840**
Cash flows from investing activities			
Purchases of securities	(20, 22)	-137,936	-52,286
Disposals of securities	(20, 22)	86,178	74,883
Disposals of other equity investments	(44)	650	0
Purchases of property and equipment	(24)	-3,022	-4,553
Disposals of property and equipment	(24)	11	23
Purchases of intangible assets	(24)	-6,138	-6,944
Disposals of intangible assets	(24)	1	44
Net cash from (+)/used in (-) investing activities		**-60,256**	**11,167**
Cash flows from financing activities			
Issuance and repurchase of issued debt securities	(30)	0	-50
Repayment of issued debt securities at maturity	(30)	0	-2,631
Payment of lease liabilities	(25)	-2,328	-1,982
Dividend paid	(35)	-3,127	-3,116
Net cash from (+)/used in (-) financing activities		**-5,455**	**-7,779**
Net increase/decrease of cash, cash balances at central banks and other demand deposits		**359,498**	**-6,452**
Cash, cash balances at central banks and other demand deposits as at 1 January		**121,791**	**126,155**
Net effect of exchange rate changes		1,200	2,088
Cash, cash balances at central banks and other demand deposits as at 31 December	**(19)**	**482,489**	**121,791**

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 Budapest, Váci 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 (NBH) 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 2021 comprise the Bank and its subsidiaries (together referred to as the 'Group'). For further information on consolidated subsidiar-ies please see Note 44 Investments in subsidiaries. The website of the financial statements can be found at: https://www.raiffeisen.hu/raiffeisen-csoport/sajtoszoba/penzugyi-adatok.

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

The consolidated financial statements of the Group were prepared on a going concern basis.

(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 IFRS Interpretations Committee and its predecessor body.

These financial statements were authorised for issue on 8 April 2022.

(2.2) Basis of measurement

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

- 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 epidemy described in Note 6 Financial risk management.

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

Amendments to standards and interpretations introduced in 2021 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

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

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 measured at fair value at the date of acquisition.

ii. Associates

An associate is an entity over which the Group has significant influence without having control. Associates are not consolidated. The Group had no such participations in 2021 and 2020.

iii. Non-trading equity instruments

Non-trading equity instruments representing investments in entities over which the Group has neither joint control nor significant influence are presented in 'Financial assets measured at fair value through other comprehensive income'. These equity instruments are not consolidated.

iv. 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.

v. 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 45.

vi. 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 involve-ment 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.

vii. Transactions eliminated on consolidation

Intra-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. In line with the consolidated accounting policy, entities are not consolidated if they are exempted from consolidation based on that policy (e.g., due to immateriality).

(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 receiva-bles, 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 func-tional 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 as part of the fair value measurement.

(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 straightline 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 considered,
- 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 proceeds 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 capital 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 properties 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 lessee 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 lessee 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 lessee 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 lessee 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 (trad-ed) 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 standard 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 leas-es 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 inci-dental 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 state-ment of comprehensive income as 'Other operating expenses', the amount of the reversal is reported as 'Other operating income'.

(4.8) 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.

Classification of the mandatory reserves as cash is explained in more detail in Note 19 Cash, cash balances at central banks and other demand deposits.

(4.9) Determination of fair value

Several 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 measured 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 in-struments where observable market prices exist, discounted cash flow analysis, option pricing models and other valuation tech-niques commonly used by market participants. For financial instruments, fair value may be determined in whole or in part using valuation techniques based on as-sumptions 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 favourable 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 favourable market is the market that maximises the amount that would be received for the sale of the asset or mini-mises the amount that would be paid for the transfer of the liability after considering transac-tion costs and shipping costs.

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

(4.10) Financial instruments

(4.10.1) Recognition and initial measurement

For regular way purchases and sales of financial assets, the Group applies trade date accounting, i.e., 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 liabilities measured at fair value through profit or loss) is recognised when the Group falls under the provisions of the contract e.g., 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 finan-cial 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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., 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 – e.g., off-market interest rate loans – then the difference at initial recognition is recognised as follows:

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 consider when pricing the asset or liability. In case of loans, the deferred difference is recognised using the effective interest rate while in case of derivatives the difference is recognised linearly.

(4.10.2) Classification and subsequent measurement

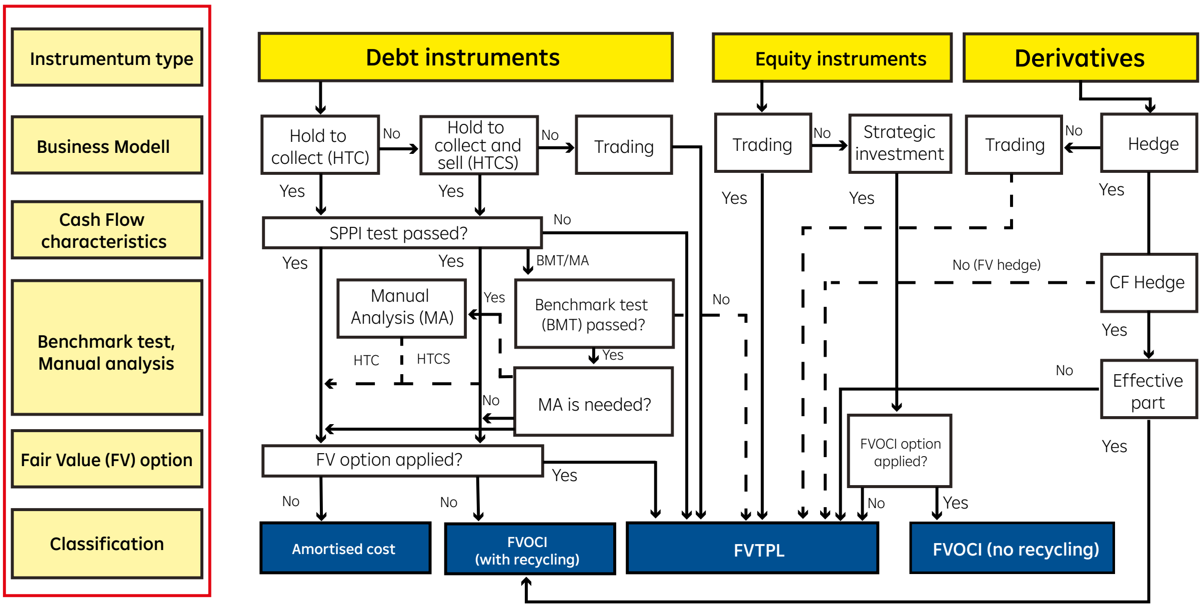
i. Classification and measurement of financial

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

The classification of a financial asset is based on a two-step methodology which defines the accounting valuation model for the instrument types:

- 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 – e.g., 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 expecta-tions 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 to collect 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 to collect 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 objective is to realise short-term profits.
- Strategic investment portfolio: the goal is to hold long-term investments and collect cash flows (e.g., 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), i.e., 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 lend-ing risks (e.g., liquidity risk) and costs (e.g., 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 considers 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 gen-erated by a defined asset (e.g., non-performing financial assets that cannot be liquidated), and
- contractual terms that modify the time value of money element – e.g., 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 grouping (clusterisation) of financial assets. The analysis of contractual cash flow characteristics of contracts not clasterised is performed individually.

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 HUF 10 million 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 pub-lished 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 in-centive loans are deemed not to solely represent payments of principal and interest on principal outstanding

Accounting 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 to collect 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 not 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 – i.e., 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 recognition 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 liabilities, 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, expense (including impairment losses or gains) and interest recognised previously.

The Group cannot reclassify a financial liability after initial recognition.

(4.10.3) 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 recog-nised 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 nega-tive. 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 accrued interest are recognised in statement of comprehensive income line item 'Net trading income and fair value result'.

(4.10.4) 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 undertaking 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 pan-demic, the Government introduced a legislative repayment moratorium. In case 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 recog-nised 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'.

Sources of ineffectiveness

The Group has identified the following possible sources of ineffectiveness in both fair value and cash flow hedges:

- Hedging interest rate risk with swaps could cause a possible ineffectiveness in hedge relationship. The derivative counterparty's credit risk is not offset by the hedged item. This risk is minimised by entering into derivatives only with high credit quality counterparties.
- Different amortisation profiles on hedged item principal amounts and interest rate swap notionals.
- In some cases, the discounting curve is different on the hedged item and the derivate deal for the purposes of calculation of fair value.
- Ineffectiveness might arise due to different starting/maturity date between the hedged item and the hedging instrument.

Interest rate benchmark reform

The reform of interest rate benchmarks such as interbank offered rates (IBORs) caused changes to financial re-porting requirements under IFRS Standards. The International Accounting Standards Board (the Board) tackled the changes in two phases.

Phase 1 amended specific hedge accounting requirements where uncertainty could arise in the run-up to the transition. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amount of interest rate benchmark-based cash flows of the hedging instrument is uncertain.

The Group has no hedged items with an interest rate benchmark subject to the reform. The Group has concluded that as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

Phase 2 addressed potential financial reporting issues that may arise when IBORs are either reformed or replaced. When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging rela-tionship to reflect the change(s) required by IBOR reform. Since the Group has no hedged items with an interest rate benchmark subject to the reform, the hedge designation is amended only to updating the description of the hedging instrument subject to the reform. The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

(4.10.5) 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 recognition (Stage 1 classification)

For financial instruments classified to Stage 1, the recognition of 12 months expected credit loss is required, i.e., 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 in-strument 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 fi-nancial 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 and Baa3 (Moody's) qualification.

Significant increase in credit risk (transfer to Stage 2)

The 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:

Quantitative criteria

The Group applies quantitative criteria as primary indicators related to the significant 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 regulations 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 es-timated 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 line with the provisions of IFRS and Group instructions in case of contracts where the Group identifies significantly increased credit risk, which cannot be detected using other Stage 2 indicators, nor assessed with statistical models: by those clients where the post model adjustment described in Chapter 6.2 as-sumes a non-significant rating deterioration, the transfer to Stage 2 is automatic.

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

In case of retail (individuals and micro enterprises) portfolios, if the borrower meets one or more 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 portfolio 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 considers 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 fulfil 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 materiality limit,
- the Group suffers credit losses due to the client, or it sells the asset with losses due to financial difficulties (typically 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 quantitative 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 catego-rises 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 con-sistently 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.

Participation in the legislative repayment moratorium due to the 2020 COVID-19 pandemic is not considered an automatic indicator for non-performance. For clients participating in the 2 repayment moratoria introduced in 2021 (repayment moratorium 2 and repayment moratorium 3), the Group assessed individually the possible worsened liquidity and financial position, and in such cases, the clients affected with the moratoria were considered restructured and an impairment test was performed to detect the probable non-performance. In case of clients detected in the impairment test, the Group performed a net present value calculation, and in case of contracts where the net present value of the expected future repayments did not cover the actual outstanding balance, default status was concluded, and the client was transferred to Stage 3. The tests described above were performed separately for clients participating in the repayment moratorium 2 and repayment moratorium 3 by the Group.

During the repayment moratoria, the DPD calculations have been terminated for the outstanding balances eligi-ble for the moratoria.

In case of retail clients, the Group considers a debt instrument arising from a financing agreement as default-ed 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 HUF equiva-lent of EUR 100 and 1% compared to the total (delayed and non-delayed) exposure from the transactions (in case of micro companies total exposure from the same client).

Qualitative criteria

It is expected that the borrower cannot fulfil 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 other reasons,
- there is a cross-default, i.e., another transaction of a client or another 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 instru-ments 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 prod-uct 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 recoveries with the effective interest rate of the transactions. The expected recoveries are calculated on a client basis and the ex-perts provide estimates in more scenarios and the probability-weighted averages of the different scenarios are considered in the present value calculations.
- 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, nonperforming exposures and expected losses understandable.

In case of retail portfolios, the Group applies a macroeconomic model based on these economic 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 deter-mined by the combination of statistical analysis and expert credit rating taken the outcomes of the selected in-dividual 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 2021.

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.

The forward-looking information applied to determine the expected credit losses for the actual and previous period is presented in Note 6.2 Credit risk.

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.

(4.10.6) 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 entirety, 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 al-lowance. The legal claim towards the client remains the contractual receivable amount before writeoff.

Forgiveness of receivables is also possible for non-individuals and it qualifies as a derecognition event. Forgiveness 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 forgiveness of a loan is recognised in the statement of profit or loss, depending on the classification of the financial asset under either 'Impairment losses' (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.

(4.10.7) 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 re-wards 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 liabilities 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 state-ment 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.

(4.10.8) 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 qualitative and quantitative criteria.

Qualitative criteria:

- change of currency, when the contract does not allow drawdowns in multiple currencies,
- the financial instrument changes (i.e., loan to bond or current account to term loan in case of restructuring),
- addition or elimination of a parameter that violates the SPPI test.

Quantitative criteria:

- 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),
- 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) 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 modifica-tion gain or loss is presented in the statement of profit and loss, in the line item 'Impairment losses'. 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% threshold, therefore it is considered as an insig-nificant 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 considered 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.

(4.10.9) 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.

(4.10.10) 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 ac-counting 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.

(4.11) 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.

(4.12) 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, 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 occur at any time up to the expiry date while in case of pending legal issues it could be expected to occur at the date of closing the legal case.

(4.13) 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 amount of the financial guarantee liability subsequently is the higher of the provision for expected credit losses in line with the rules of the IFRS 9 and its initially recognised amount less the accumulated revenue recorded in line with IFRS 15. Financial guarantees are presented under provisions.

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

(4.14) 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 depos-its 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 fair 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.

(4.15) 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 customers standard for its fee and commission income arising from its contracts with customers.

Payment service and card fees

Payment service fees

The Group provides for its clients various services relating to account management. In course of account management, various related services can be used, for example initiating transfers, direct debits, standing orders, internet banking, providing or forwarding account information.

Fees related to the Group's continuous services are charged monthly in arrears. The fees charged are typically fixed monthly fees which were determined per customer group and per account package.

Transaction fees are typically charged by the Group at the time of the cash movement of the transaction or monthly in arrears. These fees are typically determined as a percentage, the volume depending on the transac-tion. One-off fees related to transactions are collected by the Group when the service is provided. These fees can be fixed fees or fees determined on a percentage basis.

Fees and fee packages are periodically revised, detailed information on which can be found in the current published list of terms and conditions.

Fees and commissions related to issued bank cards

The Group's services include issuing bank cards for its clients and other activities. In providing those services, various types of commission income are realised in the settlement services related line items of fee and commission income, which are basically determined in relation to the issuance and are based on the bank card transactions.

A typical fee income is the yearly bank card usage fee, which depends on the type of the bank card. The yearly fees are typically charged in advance and accounted for over the reference period.

Fees related to services provided continuously are accounted for over the time period the service is provided. Transaction based fees related to issued bank cards are charged either when the transaction is affected or monthly in arrears. Transaction based fees are typically the following: ATM cash withdrawal and cash deposit fees, brokerage commissions. One-off fees can be card blocking fees and card replacement fees which typically fall into the category of fixed fees.

Fees and fee packages are periodically revised, detailed information on which can be found in the current published list of terms and conditions.

Margin included in foreign exchange conversions and other transactions

The Group embeds a margin, a quasi-transaction fee, in the transactions of clients involving currency conversion and in clients' other securities transactions. Although these margin amounts are accounted for as foreign exchange gain or loss at the time of effecting the transaction, the Group reclassifies them monthly to its commission income. Such margins can be charged in relation to spot and forward transfers, conversions, bank card and securities trading transactions, effected through various channels (Direkt-net, Elektra, branch office).

Fees charged for outsourced currency exchange activity

In Hungary, only credit institutions are allowed to engage in currency exchange activity. The Group does this type of activity for its clients also through currency exchange brokers. Given that if the Group did this activity directly on its own, it would incur certain expenditures, the profit realised on currency exchange activity is presented gross: fees embedded in transactions and charged in relation to the clients' currency exchanges and other fees collected from exchange brokers are presented as fee income, whereas the result of currency exchange deals credited to the exchange brokers are presented as fee expense. The fees are typically settled monthly.

Fees charged for transfers and securities issuance

In course of its investment management services, the Group provides securities account management services for its clients. The Group charges fees for securities account management and related services. Securities account management fees are typically determined as a percentage of the stock of securities managed on the se-curities account over a certain period. It is settled in the reference period in arrears, quarterly or yearly.

Other fees and commissions can be charged in relation to securities transactions of the Group's clients, which are determined as a percentage of the transaction volume. These fees typically relate to affecting the transaction and are accounted for in the current month.

Fee and commission income from fund management activity

The investment fund management fees and commissions and income from portfolio management activity provided for funds and insurers are presented under the Group's investment service-related income. These activities qualify for continuously provided services, the fees of which are typically accounted for monthly, the amount depending on the size of the managed portfolio.

Insurance fees

The Group mediates insurance services for its clients. The Group passes through premiums collected from clients to the insurance companies. In case these premiums relate to credit products, they are presented net of interest income. Premiums not related to credit products are accounted for as commissions. Fees charged for mediating insurance services are also presented gross as fee and commission income for agency services.

As these services are provided continuously, the fees are typically accounted for monthly.

Other fee and commission income not mentioned above

Financial commissions not yet mentioned, and items related to other services are presented under custody, corporate finance, asset management and other income. In cases when services are provided continuously (for example fees for custody, protecting credit collateral, safe fees), the practice is also to account for the income over the reference period, typically monthly in arrears. The one-off fees and commissions are accounted for in the given period, typically at the time of provision of the service (for example advisory services for corporate customers, providing information, other financial services related activities).

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

Fee and commission income not connected to the Group's services as a credit institution

Items of fee income accounted for under IFRS 15 are also presented under Other operating income of the Group, however these are not connected to the Group's services as a credit institution, and as such are not part of the classical fee and commission income. Such can be typically: fees for expert and accounting services provided to subsidiaries, proceedings fees recovered, income from selling inventories, which are accounted for by the Bank monthly in case of services provided continuously and in other cases at the time of occurrence of the economic event.

The Goup did not disclose the value of any open performance obligations at December 31, 2021, as its contracts with customers generally have a fixed term that is less than one year, an open term with a cancellation period that is less than one year, or provisions that allow the Bank to recognize revenue at the amount it has the right to invoice.

Amounts of fees are disclosed in note (12) Other operating income and expenses.

(4.16) 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.

(4.17) 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.

(4.18) 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.

(4.19) 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 contributions 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.

Post-employment benefits include defined pension contributions that result from state plan funded on a pay-as-you-go basis.

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.

(4.20) 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 sub-stantively 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 investments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subse-quently recognised in profit or loss when the accumulated fair value gain or loss is recognised in profit or loss.

(4.21) Share capital

Share capital is the sum of preference and ordinary shares contributed by the shareholders at foundation or at capital increase. Share capital is recognised at the time of the registry by the commercial court in the amount registered and defined in the deed of company formation. Share capital is valued at book value using historical rates.

(4.22) 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).

(4.23) Government grants

Government grants are specific resources that relate to operating activities of the Group and are transferred by the state (government and its agencies) in return for compliance with certain conditions. These can be in several forms, such as grants related to assets, grants related to income, forgivable 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

Initial application of new standards and amendments to existing standards issued by IASB and adopted by the EU, effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Meas-urement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),

- Amendments to IFRS 16 'Leases' - COVID-19-Related Rent Concessions beyond 30 June 2021 adopted by the EU on 30 August 2021 (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021),

- Amendments to IFRS 4 Insurance Contracts 'Extension of the Temporary Exemption from Applying IFRS 9' adopted by the EU on 15 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

The adoption of amendments to the existing standards has not led to any material changes in the Group's fi-nancial statements.

New standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements for issue, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),

- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),

- Amendments to IFRS 3 'Business Combinations' - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),

- IFRS 17 'Insurance Contracts' including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),

- Amendments to various standards due to 'Improvements to IFRSs (cycle 2018 -2020)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU on the date of the publication of these financial statements:

- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim stand-ard and to wait for the final standard,

- Amendments to IAS 1 'Presentation of Financial Statements' - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),

- Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),

- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 12 'Income Taxes'** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 17 'Insurance contracts'** - Initial Application of IFRS 17 and IFRS 9 – Comparative In-formation (effective for annual periods beginning on or after 1 January 2023).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on its financial statements in the period of initial application.

(5.2) Significant events in the reporting period

During the COVID-19-pandemic, many compensation actions have been introduced among which the ones that effect the financial sector significantly are the following:

Repayment moratorium

The contracts expired under the repayment moratorium are prolonged. Due to the repayment moratorium in case of contracts under the repayment moratorium, the Group stopped collecting the repayments and the in-terest and fees due. In case of these contracts, the principal, interest and fee obligations were postponed beyond the end of the moratorium and those will have to be paid under the term in equal instalments. After the end of the repayment moratorium, the term must be prolonged so that the instalments after the end of the moratorium cannot exceed the instalments according to the original contract terms.

Repayment moratorium II. (moratorium 2, 1 January 2021 - 31 October 2021)

The Act CVII. of 2020 about the temporary actions in order to stabilize the situation of particular society groups and enterprises with financial difficulties (Act on Repayment Moratorium II.), along with the Government Decree nr. 637/2020. (XII.22.) about special rules related of the repayment moratorium in connection with the emergen-cy provided a repayment moratorium (furthermore: repayment moratorium 2) and prohibited the termination of loan agreements from 1 January 2021 to 30 June 2021 for loans disbursed in accordance with loan and credit con-tracts effective on 18 March 2020. The repayment moratorium 2 has the same substance as the repayment moratorium (moratorium 1) provided between 19 March 2020 and 31 December 2020 based on the Act on the provisional rules relating to the cessation of the emergency and on epidemiological readiness (Act on Moratorium I). The Government extended generally the repayment moratoria to 31 October 2021.

Repayment moratorium III. (moratorium 3, 1 November 2021 - 30 June 2022)

In 2021, the Government extended the repayment moratoria for particular society groups and enterprises with financial difficulties until 30 June 2022 (Government Decree nr. 536/2021. (XII.22.) about the modification of the Government Decree nr. 637/2020. (XII.22.) about special rules related of the repayment moratoria in connection with the emergency). From 1 November 2021, only those clients are able to participate in the repayment morato-rium who participated in the repayment moratorium on 30 September 2021 and declared between 1 October 2021 and 31 October 2021 on a form specified by the legislation their intention to continue participating in the moratorium (from 1 November 2021) and comply with eligibility conditions set by the legislation. The exact condi-tions for eligibility are determined by Section 5 of the Government Decree nr. 637/2020. (XII.22.).

Interest cap

On 24 December 2022, the Government Decree nr. 782/2021. (XII. 24.) about the implementation of the Act 2009. CLXII on loans to consumers in pandemic, which fixed the interest of retail loans (interest cap) was published.

The decree is applicable to retail mortgage loans with floating interest tied to benchmark interest rates (BUBOR), having an interest period less than 3 years, typically 3 or 6-month interest periods. If such loan is under the repayment moratorium, the interest maximization still applies for it.

According to the government decree, apart from the Section 1 17/D of the Act 2009 CLXII on loans to consumers, in case of mortgage loans tied to benchmark interest rate, in the period from 1 January 2022 to 30 June 2022

- the contractual benchmark interest rate effective from the contractual repricing date after the entry into force of the decree, and
- the contractual benchmark interest rate effective from the contractual repricing date before the entry into force of the decree

cannot be higher than the contractual benchmark interest rate effective on 27 October 2021.

The Group cannot add the sum of the forgiven interest either to the outstanding capital or to the outstanding interest due from the affected debtors. On 1 January 2022 (or in case the benchmark interest rate for the current interest period is more favourable than the above benchmark interest maximum, on the next repricing date), considering benchmark interest rate fixed in the decree and applying unchanged contractual interest rate spread, the Bank sets the maximum applicable interest determined by the decree for the affected loan con-tracts.

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 National Bank of Hungary supports and strengthens the monetary stability using all the available means, so it seeks to mitigate the impact of the increasing inflationary pressures on the financial intermediary sector, on the public and the whole economy for e.g., through continuous interest increase and introduction of new mone-tary policy measures. The sanctions for underreserving were reintroduced. The NBH now works on the reservation of the banking system's liquidity. This purpose is served by the introduction of the one-week deposit and the one-month NHB note along with the separation of the base rate (O/N) and one-week deposit interest rate. The tightening of the regulatory limit for foreign currency financing and the temporary restrictions on dividend payments were abolished on 31 December 2021.

During 2021 the National Bank of Hungary modified multiple times its already published Management Circular about the use of macroeconomic information and factors triggering significant increase in credit risk under IFRS 9. The Group assesses its compliance with the management circular as follows:

Corporate segment

The Group transfers clients in corporate segment who opted-in for the repayment moratorium 2 to Stage 2 based on risk monitoring in accordance with the guidelines of the NBH's management circular. However, those clients are excluded who participated less than 9 months – in compliance with the European Banking Authority's (EBA) report about the moratoria updated in December – in the first and second moratoria combined. If any single transaction of a client participated more than 9 months in the first and second moratoria combined, then the Group performed the risk monitoring assessment in case the client was opting-in to moratoria 2.

The transactions of client already classified as Stage 2 or Stage 3 at the start of the moratorium 2 were automatically flagged as restructured.

Considering the fact that clients participating in the repayment moratorium 1 with their last due repayment in 2020 were automatically transferred to repayment moratorium 2, those clients who notified the Group during their risk monitoring that they do not intend to participate in the repayment moratorium 2 with any of their transactions and opted-out from the repayment moratorium 2 by declaration, the Group did not establish financial difficulty and did not flagged the transaction as restructured. In respect of newly opted-in clients, the Group performed every single time the necessary risk monitoring assessment and based on that transferred the clients to Stage 2 in case of financial difficulty.

In case of financial difficulty identified as above and participation in repayment moratorium 2, the Group also performs an impairment test (impairment test considering the credit impaired trigger according to IFRS 9) for the purpose of identifying potential non-performance.

When opting-in to the repayment moratorium 3, the Group considered the affected transactions as restricted and transferred them to Stage 2 in every case. In case of these clients, the default assessment was completed through preforming the impairment test.

Retail segment

In accordance with the NBH's management circular published on 21 January 2021, the Group assumes that its clients participating more than 9 months in the repayment moratoria have financial difficulties or they are expected to have financial difficulties in the future, therefore they were transferred to Stage 2. Moreover, the Group assessed also for these clients the need to classify the related balances as non-performing, based on trig-gers other than days past due, due to the occurrence of 'unlikely to pay' conditions according to point a) of Sec-tion 1 of CRR Article 178, with particular attention to the situation, when the client loses job under the pandemic.

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

The interest benchmark rate reform

There is a global, overall interest benchmark reform in progress, which seeks to change some particular interbank interest rates (IBOR) to alternative almost risk-free interest rates ('IBOR reform'). The substantial part of LIBOR interest rates will cease after 31 December 2021, except USD LIBOR for some maturities, which will be available until 30 June 2023. Instead of these riskfree alternative (transaction based or hybrid, partly based on other pricing) in-terbank interest rates will be introduced in Europe along with Hungary. Apart from LIBOR, the EURIBOR will not cease, but its calculation method will be changed.

The Bank has substantial outstanding balances in some particular interbank benchmark interest rates, which are affected in the reform.

The main risk for which due to the IBOR reform the Group is exposed are operating risks: i.e., renegotiation of loan contracts through bilateral negotiations, actualization of the contracts, updating the systems using IBOR yield curves, review of the operating controls in respect of the reform, regulatory risks. The financial risks are mainly related to interest risk.

The Group launched a project managing the transition to the alternative yields. The transition is based on the RBI's methodology, but in two phases:

- in 2021 the reform of GBP, CHF, EUR, JPY LIBOR,
- in 2022 the reform of overnight, 1-month, 3-month USD LIBOR.

In the first phase, enterprises, financial institutions, private individuals were affected in the transition (no balance to retail clients). There was a mutual decision about the pricing methodology in the related business areas, but later modification was needed due to the different products and client needs.

The new benchmark interest rates used in the related portfolio are the following:

- EONIA -> €STR (Euro Short-Term Rate)
- GBP LIBOR -> SONIA (Sterling Overnight Index Average)
- CHF LIBOR -> SARON (Swiss Average Rate Overnight)
- USD LIBOR -> SOFR (Secured Overnight Financing Rate)
- JPY LIBOR -> TONAR (Tokyo Overnight Average Rate)

In case of the transactions, the Group applied a 5-day retrospective period but did not consider any credit adjustment spread. The LIBOR transactions were handled by the Group to the contrary of the EU regulation. In case of bank accounts, the Group neither applied the retrospective period nor the credit adjustment spread (except for some credit institutions). The Group did not apply a fallback clause, but some contracts were modified bilaterally.

The Group notified the clients through mail or internet bank.

In case of new products, the Group applied the same methodology as in case of existing transactions, the transfer pricing and the contractual background should be clarified.

The Group will apply the overnight SOFR for the transition from overnight, 1-month, and 3-month LIBOR, but in case of some individual clients' need the SOFR might be needed to be used.

The Group believes that a contract did not reprice to an alternative benchmark interest rate, if the contractual interest rate is still tied to a benchmark rate, which is affected by the IBOR reform, even in cases, when it contains a fallback clause for the termination of the IBOR benchmark rate currently in use.

(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. 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 ex-perience, 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 fore-casts is 3 years and Pillar I and Pillar II capital adequacy is analysed for both the expected and the pessimistic scenarios.

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 31.03.2021 in order to mitigate the economic crisis due to the COVID-19 pandemic, according to the guidelines of EBA 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 ef-fects 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 consid-ered as a financial difficulty as long as the participation in such program does not last longer than 9 months. 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 eco-nomic 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 interpreted 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 restructuring.
- 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 ac-tions detailed above, the general rules. This is disclosed in Note 4.10.5 Impairment of financial assets.

Government actions with different conditions than above, especially the repayment moratoria programs (mora-torium 2 and 3) launched in 2021 are no exception to the standard assessment obligation for restructuring and non-performance, therefore the Group applies the standard identification processes, in compliance with regula-tions of the CRR, EBA, RBI Group, the NBH Decree Nr. 39/2016 and the NBH's management circulars.

Retail segment

Lending framework and risk policy

Retail segment

The repayment moratorium introduced by the government from 19.03.2020 was extended until 30.10.2021 with unchanged conditions, and until 30.06.2022 with limited conditions. If the client applying for the loan has other out-standing 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 weakened. The Group uses the conclusions of the above analysis in its credit decisions, 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 addi-tion to information available in the Group's systems:

- A questionnaire 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 request-ed 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 information, clients are divided 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 monthly taking into account the above detailed COV-ID related considerations (risk profile). The portfolio considered as high risk was screened completely and in line with the clients' needs their exit from the moratoria and the restructuring of their finances through re-financing 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 impair-ment of HUF 2.572 million was recognised. The Group reviewed this approach in September 2021 and did not consider this valid, since all of those clients were already transferred to Stage 2, who spent more than 9 months in the repayment moratoria.

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 the repayment moratoria did not reflect the real expected credit losses for the period after the moratoria. There-fore, the Group recorded an additional HUF 3,346 million impairment loss for the riskiest clients in 2020 (restructured, already having 30+ DPD before the repay-ment moratoria, the client's payments decreased significantly) calculated with 100% PD factor, since based on the Group's expectation this client segment has a high probability of becoming defaulted after the repayment moratoria.

In March 2021. the Group assessed the financial status of the clients opted-in to repayment moratorium 2 (and transferred them to Stage 3, where appropriate) and at the same time terminated the portfolio level manage-ment correction.

In November 2021, the Group again performed the assessment of the financial situation for clients opted into the repayment moratorium 3, and transferred clients with proven financial difficulty to default, e.g., Stage 3. Moreover, the Group applied the portfolio level management overlay corrections, because in case of clients who spent more than 9 months in the repayment moratoria and who

- in retail segment do not keep their primary bank account by the Group, or
- in microenterprises segment more than 25% loss of turnover, the Group identified increased credit risk.

The Group recorded a HUF 2,772 million additional impairment related.

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 iden-tified 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 seg-ment. Furthermore, the RBI group's effective lending policy was reviewed and amended in March 2020 with the following points:

1. 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 af-fected 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 signifi-cant decline in the client's rating. The accurate documentation of the sensitivity analysis is crucial 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 cli-ent's potential vulnera-bility to COVID-19.

3. 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 (wheth-er 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.

4. 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 expected 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 COVID-19, 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 changing macroeconomic forecasts (mainly GDP, unemployment rates, infla-tion) provided by the RBI's analysing department which were updated several times during the year. In 2020, the revised, deteriorating customer ratings and declining collateral value in the commercial real estate market re-sulted in an increased impairment level. In 2021, risk profile of the individuals was stagnant so no further increase in impairment was due to the impact of COVID's protracted waves.

Furthermore, the Group concluded, that the COVID-19 created such a new situation, which cannot be managed with its credit risk models with sufficient accuracy and can only predict the expected credit losses with limita-tions. Therefore, the Group applied the so-called management overly impairment, 'Post Model Adjustment' op-tion for the years 2020 and 2021.

In 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, the expected credit loss was calculated based on the average from the historically available worst period instead of its current models and the additional impairment loss was allocated by the Group to the affected clients.

Further clients were involved in the Post Model Adjustment depending on their exposure to the supply chain dif-ficulties, rising of the energy and material prices and labour shortages during the second half of 2021. From 2021, static model was replaced by dynamic model including the probability of the expected rating downgrade per transaction ceteris paribus depending on the listed risk factor and thus with the probability of the related ex-pected default and expected loss increase.

The Stage 2 indicators that are used for identifying increased credit risk profiles were supplemented with the COVID factors, too. Those clients were transferred to Stage 2 based on the sector-based Post Model Adjustment for which the model assumes a significant downgrade, so in this case expected credit loss covers the expected loss over the term. Clients entering the repayment moratoria – in case no 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.

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 mon-itoring 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 gov-ernment, 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 repay-ments 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 non-performance. The financial obligations could not be fulfilled entirely and timely.
- Unrated:
  Non-retail portfolio: Unrated exposures in the corporate sector mostly belong to the subsegment 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 (based on a specific rule, 100% impairment is allocated to them by the Group), uncoded transactions, transactions unrated due to data failure in a negligible number and private and babyloans under standard approach. 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.

31.12.2021	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	54,091	0	0	0	0	0	0	**54,091**
Placements with banks and central bank	428,398	0	0	0	0	1,007,462	0	**1,435,860**
Loans and advances to clients	0	0	97,771	0	0	1,437,459	0	**1,535,230**
Investment in debt securities	0	43,272	627	195	351,897	225,587	0	**621,578**
Equity instruments**	0	6,141	543	0	63	0	0	**6,747**
Loan commitments and financial guarantees	0	0	0	0	0	0	4,546	**4,546**
Derivative assets	0	65,529	0	0	0	0	0	**65,529**
Total	**482,489**	**114,942**	**98,941**	**195**	**351,960**	**2,670,508**	**4,546**	**3,723,581**

* This balance sheet line item contains receivables due from HNB amounting to HUF 399,910 million, which is not included in the table (21) Placements with banks. From 2021 the O/N deposits have been reclassified to the column above from the Place-ments with banks and central bank, i.e., Financial assets at amortised cost.
** 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'.

31.12.2020	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 and central bank	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 38,475 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 guaran-teed amounts and the amounts that can be drawn down under of the loan commitment, respectively.

(HUF million)	31.12.2021 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehen-sive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Placements with banks										
Minimal risk	2,067	0	0	0	0	0	0	0	0	**2,067**
Excellent credit standing	1,329,538	0	0	0	0	0	0	0	0	**1,329,538**
Very good credit standing	88,358	15,002	0	0	0	0	0	0	0	**103,360**
Good credit standing	199	0	0	0	0	0	0	0	0	**199**
Average credit standing	402	0	0	0	0	0	0	0	0	**402**
Acceptable credit standing	0	301	0	0	0	0	0	0	0	**301**
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	1	0	0	0	0	0	0	0	0	**1**
Gross carrying amount	**1,420,565**	**15,303**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,435,868**
Loss allowance	-6	-2	0	0	0	0	0	0	0	**-8**
Carrying amount	**1,420,559**	**15,301**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,435,860**
Loans and advances to clients										
Minimal risk	15,181	4,032	0	0	0	0	0	0	999	**20,212**
Excellent credit standing	70,294	6,466	0	21	0	0	0	0	4,207	**80,988**
Very good credit standing	287,570	48,222	0	17	0	0	0	0	5,313	**341,122**
Good credit standing	214,662	80,730	0	159	0	0	0	0	4,187	**299,738**
Average credit standing	300,919	104,874	0	643	0	0	0	0	2,830	**409,266**
Acceptable credit standing	93,807	48,725	0	736	0	0	0	0	782	**144,050**
Weak credit standing	28,549	84,231	0	398	0	0	0	0	181	**113,359**
Very weak credit standing	3,380	12,196	0	174	0	0	0	0	45	**15,795**
Doubtful / high default risk	1,223	6,747	0	205	0	0	0	0	109	**8,284**
Default	0	1	67,832	3,661	0	0	0	0	276	**71,770**
Unrated	8,728	868	2,299	23	0	0	0	0	78,842	**90,760**
Gross carrying amount	**1,024,313**	**397,092**	**70,131**	**6,037**	**0**	**0**	**0**	**0**	**97,771**	**1,595,344**
Loss allowance	-3,345	-22,726	-30,879	-3,164	0	0	0	0	0	**-60,114**
Carrying amount	**1,020,968**	**374,366**	**39,252**	**2,873**	**0**	**0**	**0**	**0**	**97,771**	**1,535,230**
Investment in debt securities										
Minimal risk	0	0	0	0	32,103	0	0	0	0	**32,103**
Excellent credit standing	35,676	0	0	0	25,870	0	0	0	35,942	**97,488**
Very good credit standing	168,127	4,462	0	0	263,179	7,772	0	0	7,662	**451,202**
Good credit standing	7,761	0	0	0	13,191	0	0	0	0	**20,952**
Average credit standing	6,874	0	0	0	8,650	0	0	0	117	**15,641**
Acceptable credit standing	2,873	0	0	0	1,258	0	0	0	373	**4,504**
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	**221,311**	**4,462**	**0**	**0**	**344,251**	**7,772**	**0**	**0**	**44,094**	**621,890**
Loss allowance	-156	-30	0	0	-86	-40	0	0	0	**-312**
Carrying amount	**221,155**	**4,432**	**0**	**0**	**344,165**	**7,732**	**0**	**0**	**44,094**	**621,578**
Loan commitments and financial guarantees										
Minimal risk	11,850	1,330	0	0						**13,180**
Excellent credit standing	37,859	3,357	0	0						**41,216**
Very good credit standing	114,848	43,915	0	0						**158,763**
Good credit standing	112,381	16,631	0	0						**129,012**
Average credit standing	139,412	26,773	0	0						**166,185**
Acceptable credit standing	47,475	16,987	0	0						**64,462**
Weak credit standing	15,337	9,541	0	0						**24,878**
Very weak credit standing	372	3,240	0	0						**3,612**
Doubtful / high default risk	66	1,204	0	0						**1,270**
Default	0	0	15,472	0						**15,472**
Unrated	2,089	2,973	65	0						**5,127**
Gross amount	**481,689**	**125,951**	**15,537**	**0**	**0**	**0**	**0**	**0**	**0**	**623,177**
Carrying amount (provision)	-734	-998	-2,814	0	0	0	0	0	0	**-4,546**
Derivative assets										
Minimal risk									1	**1**
Excellent credit standing									54,246	**54,246**
Very good credit standing									2,174	**2,174**
Good credit standing									2,824	**2,824**
Average credit standing									5,179	**5,179**
Acceptable credit standing									378	**378**
Weak credit standing									627	**627**
Very weak credit standing									0	**0**
Doubtful / high default risk									4	**4**
Default									83	**83**
Unrated									13	**13**
Carrying amount									**65,529**	**65,529**

(HUF million)	31.12.2020									
	Financial assets at amortised cost				Financial assets at fair value through other comprehen-sive 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	1,974	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**
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**

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

	31.12.2021								
	Financial assets at amortised cost				Financial assets at fair value through other comprehen-sive income				
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to bank and clients									
Non-retail									
Central bank	1,230,193	0	0	0	0	0	0	0	**1,230,193**
Sovereign	14,919	0	0	0	-1	0	0	0	**14,918**
Credit institution	184,299	15,303	0	0	-6	-2	0	0	**199,594**
Financial corporate	31,882	0	0	0	-10	0	0	0	**31,872**
Large corporate	645,887	272,139	41,811	0	-1,487	-9,487	-12,605	0	**936,258**
Small -and medium enterprises	50,918	15,502	1,335	0	-182	-117	-279	0	**67,177**
Retail									
Private Individuals	258,288	101,099	22,349	6,037	-1,485	-12,143	-14,934	-3,164	**356,047**
hereof: mortgage	201,006	75,567	15,988	5,780	-796	-8,288	-10,198	-2,958	**276,101**
Micro	28,492	8,352	4,636	0	-180	-979	-3,061	0	**37,260**
Carrying amount	**2,444,878**	**412,395**	**70,131**	**6,037**	**-3,351**	**-22,728**	**-30,879**	**-3,164**	**2,873,319**

	31.12.2020								
	Financial assets at amortised cost				Financial assets at fair value through other comprehen-sive income				
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
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**
Financial 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**

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 enterpris-es (SMEs).

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 SMEs 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.

No new SME contracts may be concluded under any of the NBH Funding for Growth Scheme (neither under the latest Funding for Growth Scheme Go, after 30 September 2021), excluding refinancing loans with predetermined rules from a different commercial bank within identical framework of the Loan Scheme.

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. Considering the adverse economic effects of the long-lasting pan-demic and the substantial financing need from the SMEs for the construction, the Monetary Council decided to in-crease the frame budget of Funding for Growth Scheme Go with HUF 3,000 billion in 2021.

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 SMEs 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 2021 year-end, the balance outstanding from the above-described FG Schemes was HUF 134,426 million (2020: the Group had refinancing balance of HUF 117,995 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. in-troduced a scheme with favourable conditions named 'Garantiqa Crisis Guarantee Scheme' with a frame budget of HUF 2,200 billion for the domestic SMEs and large enterprises, whereby it provides a 90% guarantee. A 90% surety-ship of the state is linked to the guarantee. The Scheme is available until 06.30.2022. In October 2020, a new prod-uct 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 SMEs with a maximum term of 10-year (maxi-mum 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 SMEs. It has strictly regulated conditions (requesting, 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 SMEs are able to request it without participating in the Széchenyi Job Maintaining Loan Program. Refinancing is also possible through the product under various restrictions. At our Group, it is only available for micro and small enterprises.

2. Széchenyi Liquidity Loan Plus
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 refinancing 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 enterprise's existing operation or to an operation that is listed in its business plan as an operation to be carried out. Refinancing is also possible when complying with specified rules.

Széchenyi Card Restart (GO) Program

The products of the scheme were introduced to mitigate the negative economic effects of the coronavirus pandemic and are only available for SMEs. It has strictly regulated conditions (requesting, precluding, contracting, disbursing conditions), with which all the banks must comply. For the product, the Group provides fix own financing, thanks to this and to the high state subsidy in interest, administration and guarantee fee, the enterprises can access these products at low fixed interests and cost level.

1. Széchenyi Restart (GO) Overdraft
The purpose of the loan is to help with the transitional liquidity problems of the requesting enterprises/debtors. Refinancing is also possible through the product under various restrictions. At our Group, it is only available for micro and small enterprises.

2. Széchenyi Restart (GO) Liquidity Loan
The purpose of the loan is to help with the transitional liquidity problems of the requesting enterprises/debtors. Re-financing is also possible through the product under various restrictions.

3. Széchenyi Restart (GO) Investment Loan
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 enterprise's existing operation or to an operation that is listed in its business plan as an operation to be car-ried out. Refinancing is also possible when complying with specified rules.

4. Agricultural Széchenyi Restart (GO) Beruházási Hitel
The purpose of the loan is to provide log-term financing for enterprises' development, and investments in the operation areas of agricultural products production, agricultural post-harvest services provision, and activities related to forestry, game- and fish farming, and thereby improve investment climate and maintain the competitiveness of enterprises and refinancing on certain conditions. The investment loan for development will be granted to enterprises that meet the criteria for eligibility under temporary support title. For all loan transactions, the 80% or 90% guarantee of AVHGA will be involved.

Agricultural Enterprises Loan Guarantee Foundation (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 SMEs 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, and later it was modified several times to 30.06.2022. The guarantee can be given to loans (work-ing capital and investment loans, overdrafts) with a maximum term of 6 years and the amount cannot exceed 25% of the enterprise's revenue of 2019 or the double of the personal costs of 2019, or in duly justified cases the amount of the enterprise's 18-month liquidity needs.

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 in-terest determined by EXIM. The net margin of the commercial banks is also fixed, EXIM provides refinancing at 2,5% in case of SMEs and at 2% in case of large enterprises.

2. EXIM Compensation Loan Protection Program
Under the program, companies who had difficulties after 01.02.2020 have an option the receive a 100% state subsidized suretyship to their existing loans. An 80% of suretyship is granted to SMEs 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 ma-turity 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.

EXIM Spin up SME Investment Loan Program

EXIM launched its Spin up SME Investment Loan Program to promote restart after the deterioration of the business environment due to the COVID-19 pandemic by providing interest-subsidized loans to finance the development pro-jects necessary for this purpose for SME size exporters, suppliers, and businesses preparing to export. The aim of the program is to provide investment loan (maximum 10 year) for SME size enterprises, who got into difficult situation after 1 February 2020 with fixed, by EXIM determined interest. The margin of the commercial banks is also fix: 2.5% is ensured by EXIM during the refinancing.

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 2021, exposures towards credit institutions increased significantly due to a few individually significant amounts (2021: HUF 1,421 billion, 2020: HUF 814 billion).

In 2021, besides the unchanged level of the portfolio in the corporate segment (2021: HUF1,053 billion; 2020: HUF 1,077 billion), the balance of non-performing corporate loans increased (2021: HUF 41.4 billion, 2020: HUF 30.9 billion).

The increase in the non-performing portfolio was caused by two opposite impacts: return on about HUF 6 billion workout operation and along with about HUF 850 million recorded loss decreasing effect, the Group detected about HUF 22.7 billion non-performing balance during its standard assessment processes. The volume of the new non-performing portfolio is determined by a single cash-flow producing project loan (HUF 16.8 billion), where the owner decided about a new renovation, therefore the Group decided on the non-performing statues due to the uncertain future cash-flows. This is a distinct event, no signs of systematic portfolio deterioration nor its signs can be seen.

The proportion of non-performing loans in the corporate segment is still very good, 2.8%.

In addition to the decrease in the default portfolio, the number of corporates classified in Stage 2 increased due to the introduced overlay impairment.

In the retail and micro-enterprises portfolios, a significant increase in the exposure occurred in 2021 (HUF 526.3 bil-lion, 2020: HUF 434.8 billion). In the retail segment, the portfolio significantly increased both in the mortgage loan and in the uncollateralized product portfolio, and in the uncollateralized portfolio due to the childbirth incentive loan program measured at FVTPL Besides, the non-performing exposure increased (2021: HUF 30.3 billion, 2020: HUF 22 billion). The non-rated (uncategorized) exposure increased (2021: HUF 86.9 billion, 2020: HUF 58 billion) in the retail segment, mainly related to childbirth incentive loans.

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 ex-planatory 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 invest-ment companies. Expected recoveries are given in multiple scenarios by the experts and a probability-weighted average of the scenarios is considered 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 re-garding 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.

PDs 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, PDs are estimated at the segment level while LGD estimation involves more parame-ters (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 probability of default uses 12 months expected probability 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 considered to be in default, and every defaulted fi-nancial asset is considered credit-impaired).

In retail segments probability of default is calculated over the lifetime of the instrument, with modelling the probability of monthly marginal default and repayments. In case of negative account balances the Group records impair-ment 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 PDs 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 average PDs. When determining the average PDs, the Group did not take into consideration the effect of the portfolio level management overlay:

	Average PD	
	Non-retail	Retail
Minimal risk	0.00%	1.61%
Excellent credit standing	0.01%	1.34%
Very good credit standing	0.04%	1.41%
Good credit standing	0.09%	1.92%
Average credit standing	0.37%	2.69%
Acceptable credit standing	0.19%	4.22%
Weak credit standing	2.92%	6.69%
Very weak credit standing	2.76%	12.66%
Doubtful / high default risk	6.42%	36.75%
Unrated	1.05%	5.98%

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 central 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 entities.

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 entities.

In case of retail portfolios, exposure at default is determined monthly taking the future expected principal repayments in-to account. In case of revolving transactions, exposure at default is determined taking a credit conversion factor (CCF) into account as follows: EAD = used facility + unused facility * 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 im-pact 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 2021.

Gross domestic product	Scenario	2022	2023	2024
	Optimistic	6.88%	4.26%	4.56%
	Base	5.50%	3.50%	3.80%
	Pessimistic	2.75%	1.97%	2.27%
Unemployment rate	**Scenario**	**2022**	**2023**	**2024**
	Optimistic	2.08%	2.79%	3.15%
	Base	3.90%	3.80%	4.16%
	Pessimistic	6.43%	5.21%	5.57%
Long-term (10 years) government bond yields	**Scenario**	**2022**	**2023**	**2024**
	Optimistic	2.94%	3.49%	3.49%
	Base	3.85%	4.00%	4.00%
	Pessimistic	6.57%	5.51%	5.51%
Inflation rate	**Scenario**	**2022**	**2023**	**2024**
	Optimistic	6.66%	4.86%	4.26%
	Base	4.40%	3.60%	3.00%
	Pessimistic	1.82%	2.16%	1.56%

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:

31.12.2021 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	28,430	26,004	27,170	31,049

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

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:

31.12.2021 (HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 1	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	28,430	20,135	-8,295

31.12.2020 HUF million)	Weighted (25/50/25%)	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

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 expo-sures would change:

31.12.2021 HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 1	Staging effect
Impairment on debt instruments and provisions for loan commitments and finan-cial guarantee contracts, in total	28,430	40,787	12,357

31.12.2020 HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 1	Staging effect
Impairment on debt instruments and provisions for loan commitments and finan-cial guarantee contracts, in total	22,677	30,709	8,031

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 01.01.2021	Increases due to origina-tion and acquisi-tion	Decrea-ses due to derecog-nition	Changes due to change in credit risk (net)	Changes due to modifi-cations without derecog-nition (net)	Changes due to update in the met-hodology for esti-mation (net)	Decrease in impa-irment account due to write-offs	Other adjust -ments	Closing balance 31.12.2021	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss
Debt instruments										
Placements with banks	2	9	-5	-1	0	0	0	1	6	**0**
Loans and advances to clients	1,586	1,173	-894	2,173	0	-693	-9	9	3,345	**0**
Investment in debt securities	47	93	-29	116	0	0	0	15	242	**0**
of which: collectively assessed impairment	1,635	1,275	-928	2,288	0	-693	-9	25	3,593	**0**
Stage 1 total	**1,635**	**1,275**	**-928**	**2,288**	**0**	**-693**	**-9**	**25**	**3,593**	**0**
Placements with banks	0	0	0	2	0	0	0	0	2	**0**
Loans and advances to clients	19,326	4,358	-5,027	4,620	0	-564	-2	15	22,726	**0**
Investment in debt securities	278	0	0	-194	0	0	0	-14	70	**0**
of which: collectively assessed impairment	19,604	4,358	-5,027	4,428	0	-564	-2	1	22,798	**0**
of which: non-performing	0	0	0	0	0	0	0	0	0	**0**
Stage 2 total	**19,604**	**4,358**	**-5,027**	**4,428**	**0**	**-564**	**-2**	**1**	**22,798**	**0**
Placements with banks	0	0	0	0	0	0	0	0	0	**0**
Loans and advances to clients	26,674	6,221	-13,044	11,068	0	-4	-357	321	30,879	**0**
Investment in debt securities	0	0	0	0	0	0	0	0	0	**0**
of which: collectively assessed impairment	13,411	395	-4,531	8,782	0	-4	-101	18	17,970	**0**
of which: individually assessed impairment	13,263	5,826	-8,513	2,286	0	0	-256	303	12,909	**0**
Stage 3 total	**26,674**	**6,221**	**-13,044**	**11,068**	**0**	**-4**	**-357**	**321**	**30,879**	**0**
Placements with banks	0	0	0	0	0	0	0	0	0	**0**
Loans and advances to clients	3,670	0	-3,485	2,972	0	0	-8	15	3,164	**0**
Investment in debt securities	0	0	0	0	0	0	0	0	0	**16**
of which: collectively assessed allowances	3,670	0	-3,485	2,972	0	0	-8	15	3,164	**0**
of which: individually assessed allowances	0	0	0	0	0	0	0	0	0	**0**
POCI total	**3,670**	**0**	**-3,485**	**2,972**	**0**	**0**	**-8**	**15**	**3,164**	**16**
Total allowance for debt instruments	**51,583**	**11,854**	**-22,484**	**20,756**	**0**	**-1,261**	**-376**	**362**	**60,434**	**16**
Commitments and financial guarantees given										
Stage 1	254	196	-142	440	0	-16	0	2	734	**0**
Stage 2	1,183	934	-898	-207	0	-18	0	4	998	**0**
Stage 3	4,019	282	-2,232	798	0	0	0	-53	2,814	**0**
Total provisions on commitments and financial guarantees given	**5,456**	**1,412**	**-3,272**	**1,031**	**0**	**-34**	**0**	**-47**	**4,546**	**0**

(HUF million)	Opening balance 01.01.2020	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Changes due to update in the methodology for estimation (net)	Decrease in impairment account due to write-offs	Other adjust-ments	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**
of which: collectively assessed impairment	2,240	931	-420	-1,169	0	0	0	53	1,635	**180**
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: collectively assessed impairment	5,903	2,659	-2,015	12,911	0	0	-19	164	19,603	**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 loss allowance for debt instruments	**37,058**	**8,332**	**-18,331**	**24,664**	**0**	**-773**	**-228**	**861**	**51,583**	**180**
Loan 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 loan commitments and financial guarantees given	**6,221**	**1,440**	**-5,967**	**3,532**	**0**	**0**	**0**	**236**	**5,456**	**0**

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

In 2021, some changes in retail estimation methodology are shown in the column 'Changes due to update in the methodology for estimation (net)'. The additional expected credit loss recognised due to COVID-19 is presented in the column 'Changes due to change in credit risk (net)' with an amount of HUF 2,772 million (2020: HUF 11,272 billion). 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' but affects interest (2021: HUF 7,139 million, 2020: HUF 5,720 million). Besides the above, the profit or loss item 'Impairment losses' includes amounts from de-recognising sold and written-off exposures (2021: HUF 6,272 million, 2020: HUF 4,4363 million) including individually large corporate exposures and retail packages, as well as recoveries from purchased or originated credit-impaired financial instruments (2021: HUF 1,252 million, 2020: HUF 3,173 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 3,495 million (2020: HUF 5,080 million).

Contract modifications and expected credit losses

There were contract modifications which did not lead to derecognition of the financial assets in 2021, too. The amortised costs of financial assets so modified and for which lifetime expected credit losses were recognised amounted to HUF 203,977 million (2020: HUF 476,265 million) before the modifications and the related net modification loss amounted to HUF 1,554 million (2020: HUF 3,053 million), the biggest part of this was related to net modification loss (2021: HUF -726 million, 2020: 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 moratorium, furthermore from the changes in the present value of the clash flows related to the products affected by the interest rate stop (2021: HUF -962 million).

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

12.31.2021	Performing			Non-performing			
(HUF million)	Total performing	hereof: Stage 2	hereof: restructured	Total non-performing	hereof: unlikely to pay that are not past-due or past-due <= 90 days	hereof: restructured	Total performing and non-performing
Households	14,661	14,658	1,090	8,341	22,004	8,265	**23,002**
hereof: collateralised by residential immovable property	10,084	10,080	836	6,479	15,684	6,465	**16,563**
Non-financial corporations	1,376	1,349	877	21,974	23,299	21,960	**23,350**
hereof: small and medium-sized enterprises	859	831	428	1,817	2,625	1,802	**2,676**
hereof: collateralised by commer-cial immovable property	71	71	20	17,375	17,443	17,374	**17,446**
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Gross carrying amount	**16,037**	**16,007**	**1,967**	**30,315**	**45,303**	**30,225**	**46,352**
Impairment	-2,667	-2,667	-247	-11,900	-13,753	-11,832	**-14,567**
Net carrying amount	**13,370**	**13,340**	**1,720**	**18,415**	**31,550**	**18,393**	**31,785**

12.31.2020	Performing			Non-performing			
(HUF million)	Total performing	hereof: Stage 2	hereof: restructured	Total non-performing	hereof: unlikely to pay that are not past-due or past-due <= 90 days	hereof: restructured	Total performing and non-performing
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 commer-cial 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 2021 was HUF 36,468 million (2020: HUF 86,308 million).

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

(HUF million)	31.12.2021	31.12.2020
Real estate	268	96,771
Domestic trade	761	23,247
Other, mainly service industries	18,055	32,856
Finance	242	4,549
Public administration	0	1,914
Mining	0	113
Manufacturing	3,328	53,427
Agriculture	52	4,890
Transportation, communication	473	21,518
Construction	171	4,003
Energy	0	26
Infrastructure	0	1,126
Households	23,002	144,337
Total	**46,352**	**388,777**

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

(HUF million)	2021	2020
Households	-674	-2,162
hereof: collateralised by residential immovable property	-464	-1,270
Non-financial corporations	-48	-982
hereof: small and medium-sized enterprises	-45	-650
hereof: collateralised by commercial immovable property	-23	-535
Other	-4	-142
Modification gains or (-) losses, net total	**-726**	**-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 finan-cial 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 cove-nants, 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 con-version into an amortising loan.

The phases of the legislative repayment moratoria introduced to offset the economic difficulties and launched in 2021 can no longer be considered as an exception from the application of the rules above in compliance with the EBA's related report. The Group applied the following rules for the transactions participating in the second and third phases of the repayment moratoria, which basically resulted in the increase of the restructured portfolio in 2021.

The Group transfers clients in corporate segment who opted-in for the repayment moratorium 2 to Stage 2 based on risk monitoring in accordance with the guidelines of the NBH's management circular. However, those clients are excluded who participated less than 9 months – in compliance with the EBA's report about the moratoria updated in December 2020 – in the first and second moratoria combined. If any given transaction of a client participated more than 9 months in the first and second moratoria combined, then the Group performed the risk monitoring assess-ment in case the client was opting-in to moratorium 2.

The transactions of clients already classified as Stage 2 or Stage 3 at the start of the moratorium 2 were automatically flagged as restructured.

Considering the fact that clients participating in the repayment moratorium 1 with their last due repayment in 2020 were automatically transferred to repayment moratoria 2, those clients who notified the Group during their risk monitoring that they do not intend to participate in the repayment moratorium 2 with any of their transactions and opted-out from the repayment moratorium 2 with their notification, the Group did not establish financial difficulty and did not consider the given transaction restructured. In respect of newly opted-in clients, the Group performed every single time the necessary risk monitoring assessment and transferred the clients to Stage 2 in case of financial difficulty.

When opting-in to the repayment moratorium 3, the Group considered the affected transactions as restructured.

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 3 months prior to the contract modification contractual payments more than 30 days past due or the borrower was in a more than 30 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:

12.31.2021 (HUF million)	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value changes due to change in credit risk and provisions			Collaterals and financial guarantees received
	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	87,533	50,117	137,650	-7,863	-23,473	-31,336	**75,902**
Total financial assets at amortised cost	**87,533**	**50,117**	**137,650**	**-7,863**	**-23,473**	**-31,336**	**75,902**
Loans and advances to clients	11	218	229	0	0	0	**161**
Total financial assets at fair value through profit and loss	**11**	**218**	**229**	**0**	**0**	**0**	**161**
Commitments and financial guarantees given (Stage 3)	6,666	3,664	10,330	-140	-1,280	-1,420	**2,734**
Total	**94,210**	**53,999**	**148,209**	**-8,003**	**-24,753**	**-32,756**	**78,797**

12.31.2020 (HUF million)	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value changes due to change in credit risk and provisions			Collaterals and financial guarantees received
	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**

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:

31.12.2021 (HUF million)	Loans and advances to clients	Investments in securities	Loan commitments and financial guarantees given	Derivative assets	Total collateral
Cash deposits	**13,196**	**0**	**14,926**	**4,480**	**32,602**
Debt securities issued by	**45,699**	**0**	**288**	**0**	**45,987**
Government	7,308	0	0	0	7,308
Companies	29,888	0	60	0	29,948
Others	8,503	0	228	0	8,731
Shares	**13,078**	**0**	**54**	**1,313**	**14,445**
Mortgage on	**477,545**	**0**	**29,516**	**0**	**507,061**
Residential real estate	267,090	0	2,112	0	269,202
Commercial real estate	173,657	0	19,868	0	193,525
Other	36,798	0	7,536	0	44,334
Guarantees from	**302,258**	**158**	**47,536**	**0**	**349,952**
Government	181,111	94	1,179	0	182,384
Banks	121,147	64	46,357	0	167,568
Other collateral	**114,483**	**0**	**40,328**	**0**	**154,811**
Total collateral	**966,259**	**158**	**132,648**	**5,793**	**1,104,858**

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

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

31.12.2021	Financial assets at amortised cost				Financial assets at fair value through other comp-re-hensive income	Financial assets at fair value through profit and loss	
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1		Total
Loans and advances to clients	625,374	218,381	25,633	2,710	0	94,161	966,259
Investment in debt securities	64	0	0	0	94	0	158
Loan commitments and financial guarantees given	625,374	218,381	25,633	2,710	0		132,648
Derivative assets						5,793	5,793
Total	**738,381**	**236,074**	**27,645**	**2,710**	**94**	**99,954**	**1,104,858**

31.12.2020	Financial assets at amortised cost				Financial assets at fair value through other comp-re-hensive income	Financial assets at fair value through profit and loss	
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1		Total
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
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**

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)	31.12.2021	31.12.2020
Property and equipment	848	1,060
Other	4	12
Total assets obtained	**852**	**1,072**

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:

31.12.2021 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial gua-rantees given
Real estate	0	169,417	168	2,934	23,385
Domestic trade	0	169,186	3,626	477	117,789
Other, mainly service industries	0	187,097	12,292	1,052	81,813
Finance	205,673	94,161	224,385	35,765	68,675
Central Bank	1,230,195	0	35,047	15,195	643
Public administration	0	7,692	271,885	0	835
Mining	0	4,568	0	2	135,258
Manufacturing	0	323,739	69,193	9,123	4,370
Agriculture	0	32,882	2,439	0	31,512
Transportation, communication	0	85,397	0	159	134,692
Construction	0	22,990	829	814	1,328
Energy	0	1,770	2,026	0	2,340
Infrastructure	0	2,988	0	0	20,537
Private households	0	493,457	0	8	0
Total	**1,435,868**	**1,595,344**	**621,890**	**65,529**	**623,177**

31.12.2021 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial gua-rantees 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**

(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, vola-tility 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 re-ports were implemented for market risk related risk types. The Group is carrying out daily market conformity moni-toring 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 trans-actions 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 daily.

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

Interest bearing financial instruments

Financial instruments with fixed interest rates

(HUF million)	31.12.2021	31.12.2020
Financial assets	2,300,225	1,662,801
Financial liabilities	462,118	362,376
Total	**1,838,107**	**1,300,425**

Financial instruments with variable interest rates

	31.12.2021		31.12.2020	
(HUF million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities
HUF	799,767	1,946,812	867,228	1,604,812
CHF	4,471	18,143	1,463	10,148
EUR	437,227	762,994	428,380	657,027
USD	33,590	134,167	41,955	141,072
Other currencies	3,402	26,496	12,107	20,135
Total	**1,278,457**	**2,888,612**	**1,351,133**	**2,433,194**

Changes can be broken down as follows:

•the fixed-rate financial assets increased by HUF 637 billion (fix interest rate loans increased by HUF 665 billion),
•fixed-rate liabilities increased by HUF 100 billion (mainly due to fix interest rate term deposits),
•variable-rate assets decreased by HUF 73 billion (of which the amount of securities decreased by HUF 80 billion),
•variable-rate liabilities increase by HUF 455 billion (the largest increase was related to the customer deposits).

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 (ex-cluding 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.

Interest rate benchmark reform

The Group launched a project, tasked partly with managing the Group's liquidity risks related to the IBOR reform. The project regularly communicates with the ALCO and IRD, issues new rules and monitors the new risks related to the IBOR reform.

The table below presents the outstanding 'non-reformed' alternative clause containing financial assets, liabilities and derivatives on 31 December 2021

2021.12.31 (HUF)	EURIBOR	EONIA	EUR LIBOR	USD LIBOR	GBP LIBOR	CHF LIBOR	JPY LIBOR
Non-derivative assets							
Other demand deposits	0	0	0	0	0	0	0
Loans and advances	27.725	775	0	3	0	4	0
Debt securities	0	0	0	0	0	0	0
Total	**27.725**	**775**	**0**	**3**	**0**	**4**	**0**
Non-derivative liabilities							
Deposits	443.748	2.396	0	1.298	5.061	5.327	456
Debt securities issued	0	0	0	0	0	0	0
Other financial liabilities	0	0	0	0	0	0	0
Total	**443.748**	**2.396**	**0**	**1.298**	**5.061**	**5.327**	**456**
Derivatives							
Derivatives	320.207	0	0	0	0	0	0
Derivatives in Hedge Accounting	635.350	0	0	24.070	0	0	0
Total	**955.557**	**0**	**0**	**24.070**	**0**	**0**	**0**

2020.12.31 (HUF)	EURIBOR	EONIA	EUR LIBOR	USD LIBOR	GBP LIBOR	CHF LIBOR	JPY LIBOR
Non-derivative assets							
Other demand deposits	0	0	0	0	0	0	0
Loans and advances	7.358	20.545	0	0	0	25	0
Debt securities	0	0	0	0	0	0	0
Total	**7.358**	**20.545**	**0**	**0**	**0**	**25**	**0**
Non-derivative liabilities							
Deposits	371.005	4.503	0	3.002	3.514	2.743	670
Debt securities issued	0	0	0	0	0	0	0
Other financial liabilities	0	0	0	0	0	0	0
Total	**371.005**	**4.503**	**0**	**3.002**	**3.514**	**2.743**	**670**
Derivatives							
Derivatives	290.946	0	0	2.974	0	0	0
Derivatives in Hedge Accounting	338.054	0	329	26.316	0	0	0
Total	**629.000**	**0**	**329**	**29.290**	**0**	**0**	**0**

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:

31.12.2021 (HUF million)	**HUF**	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash, cash balances at central banks and other demand deposits	429,068	991	39,528	7,453	5,449	482,489
Financial assets held for trading except for derivatives	49,293	0	36	85	0	49,414
Non-trading financial assets mandatorily at fair value through profit or loss	98,314	0	0	627	0	98,941
Financial assets designated at fair value through profit or loss	195	0	0	0	0	195
Financial assets at fair value through other comprehensive income	221,381	0	91,053	21,173	18,353	351,960
Financial assets at amortised cost	1,879,554	4,363	732,687	53,629	275	2,670,508
Financial assets except for derivatives	2,677,805	5,354	863,304	82,967	24,077	3,653,507
Financial liabilities held for trading except for derivatives	6,428	0	0	0	0	6,428
Financial liabilities measured at amortised cost	2,287,969	18,647	939,347	175,623	29,152	3,450,738
Financial liabilities except for derivatives	2,294,397	18,647	939,347	175,623	29,152	3,457,166
Net open position on balance sheet	383,408	-13,293	-76,043	-92,656	-5,075	196,341
Net derivative and spot instruments (-/+: short / long position)	36,156	13,851	73,986	92,348	4,448	220,789
Total open foreign currency position (net)	**419,564**	**558**	**-2,057**	**-308**	**-627**	**417,130**

31.12.2021 (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**

The Group has an overall low level of exposure to foreign currency risk at the end of both 2021 and 2020.

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 con-fidence 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 divid-ed 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 inter-est 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)	31.12.2021			
Trading book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	6	95	2	396
Interest rate risk	94	429	47	1,063
Share and commodity price risk	0	9	0	51
Total risk	120	324	104	569
Banking book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	0	0	0	0
Interest rate risk	1,404	892	281	3,144
Total risk	1,404	892	281	3,144

(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

Gap and BPV report

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 million)	31.12.2021			
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	240	-597	-2	211
3 months to 6 months	230	-564	0	493
6 months to 1 year	-63	-862	-1	765
1 year to 2 years	-55	-72	0	-8
2 years to 3 years	-53	2	0	0
3 years to 5 years	-903	-13	0	0
5 years to 7 years	561	-3	0	0
7 years to 10 years	590	0	0	0
10 years to 15 years	74	0	0	0
15 years to 20 years	659	0	0	0
Over 20 years	-1,613	0	0	0
Banking book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	6,578	-35	93	727
3 months to 6 months	-1,018	-3,627	-1	111
6 months to 1 year	1,743	1,500	21	256
1 year to 2 years	3,417	59	0	475
2 years to 3 years	175	468	-16	945
3 years to 5 years	-2,403	-5,207	-9	1,654
5 years to 7 years	5,722	226	0	-32
7 years to 10 years	4,426	3,699	0	2
10 years to 15 years	-2,214	-709	0	0
15 years to 20 years	-242	-113	0	0
Over 20 years	-9	0	0	0

(HUF million)	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

(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 always meet its liabilities when due, 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.

31.12.2021				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)	54,091	**54,091**	54,091	0	0	0
Placements with banks	(6, 19)	428,397	**429,612**	429,612	0	0	0
Loans and advances	(6, 20, 21, 42)	2,542,693	**2,795,530**	1,134,493	326,860	880,697	453,480
Investment in debt securities	(6, 20, 21, 22, 23, 42)	621,579	**683,112**	43,127	41,925	353,599	244,461
Total assets		**3,646,760**	**3,962,345**	**1,661,323**	**368,785**	**1,234,296**	**697,941**
Derivative instruments							
Derivative instruments - Trading	**(20, 42)**		**56,653**	**5,713**	**6,605**	**20,184**	**24,151**
Outflow			**-146,946**	-3,549	-45,726	-65,055	-32,616
Inflow			**203,599**	9,262	52,331	85,239	56,767
Derivative instruments - Hedge accounting	**(10, 42)**		**53,673**	**-1,801**	**2,822**	**26,532**	**26,120**
Outflow			**-4,219**	-4,219	0	0	0
Inflow			**57,892**	2,418	2,822	26,532	26,120
Total derivative instruments			**110,326**	**3,912**	**9,427**	**46,716**	**50,271**

31.12.2021				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
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	3,418,743	**3,453,983**	2,884,766	100,084	358,343	110,790
Short positions	(6, 27, 28, 42)	6,428	**6,428**	6,428	0	0	0
Debt securities issued	(6, 28, 30)	689	**769**	0	0	769	0
Other financial liabilities	(5, 32)	31,305	**35,268**	7,019	2,361	11,440	14,448
Financial guarantees given		146,141	**146,141**	146,141	0	0	0
Loan commitments		301,919	**301,919**	301,919	0	0	0
Total liabilities		**3,905,225**	**3,944,508**	**3,346,273**	**102,445**	**370,552**	**125,238**
Derivative instruments							
Derivative instruments - Trading	**(27, 42)**		**-42,669**	**-3,721**	**-4,741**	**-11,548**	**-22,659**
Outflow			**-110,484**	-7,997	-29,854	-46,717	-25,916
Inflow			**67,815**	4,276	25,113	35,169	3,257
Derivative instruments - Hedge accounting	**(10, 42)**		**-76,728**	**3,428**	**-5,018**	**-35,757**	**-39,381**
Outflow			**-116,180**	-3,087	-15,074	-39,223	-58,796
Inflow			**39,452**	6,515	10,056	3,466	19,415
Total derivative instruments			**-119,397**	**-293**	**-9,759**	**-47,305**	**-62,040**

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				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
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							
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**

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.

31.12.2021 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	114,942	64,741	50,201
Non-trading financial assets mandatorily at fair value through profit or loss	98,941	4,093	94,848
Financial assets designated at fair value through profit or loss	195	0	195
Financial assets at fair value through other comprehensive income	351,960	56,384	295,576
Financial assets at amortised cost	2,670,508	1,443,128	1,227,380
Derivatives – Hedge accounting	53,286	1,695	51,591
Deferred tax assets	3,466	0	3,466
Other assets	7,616	7,616	0
Total assets	**3,300,914**	**1,577,657**	**1,723,257**
Financial liabilities held for trading	58,502	22,266	36,236
Financial liabilities measured at amortised cost	3,450,738	3,006,888	443,850
Derivatives – Hedge accounting	76,099	2,208	73,891
Provisions	9,034	9,034	0
Deferred tax liabilities	4	0	4
Other liabilities	7,498	7,498	0
Total liabilities	**3,601,875**	**3,047,894**	**553,981**

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 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**

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:

2021		2020	
Date	**HUF million**	**Date**	**HUF million**
2021.01.31	243	31.01.2020	160
2021.02.28	148	28.02.2020	55
2021.03.31	173	31.03.2020	937
2021.04.30	183	30.04.2020	141
2021.05.29	99	31.05.2020	150
2021.06.30	161	30.06.2020	169
2021.07.31	184	31.07.2020	260
2021.08.31	78	31.08.2020	169
2021.09.30	118	30.09.2020	129
2021.10.30	59	31.10.2020	161
2021.11.30	147	30.11.2020	205
2021.12.31	228	31.12.2020	327

(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 busi-ness and internal supporting activities.

The Group's objective is to manage operational risk 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 re-spect 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 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 2021 including the 2,5% capi-tal 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

The central bank does not prolong the National Bank Hungary's Monetary Council's December 2021 decision about the dividend limit issued in 2020 for the banking sector. There has been no decision about the dividend from the Group' 2021 profit.

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 cap-ital buffers: systemic risk buffer, capital conservation buffer, systemically important institution buffer.

Capital adequacy

(HUF million)	2021	2020
Share capital	50,000	50,000
Capital reserve	113,445	113,445
Retained earnings	67,420	37,331
Accumulated other comprehensive income	5,425	5,273
Funds for general banking risk	14,992	11,336
Adjustments to CET1 due to prudential filters	-3,067	-2,082
(-) Goodwill	-1,035	-1,035
(-) Other intangible assets	-11,248	-11,666
(-) IRB shortfall of credit risk adjustments to expected losses	-3,165	-1,292
(-) Additional capital requirement for non-performing exposures	-281	0
Common Equity Tier 1 Capital	**232,486**	**201,310**
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	1,413	5,953
Equity instruments classified as subordinated loans	57,195	56,595
Tier 2 Capital	**58,608**	**62,548**
Total regulatory capital	**322,539**	**295,303**
Capital requirement	**115,039**	**107,698**
Solvency ratio (%)	**21.43%**	**21.94%**

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, oth-er interest income and interest expenses

(HUF million)	2021	2020
Interest income calculated with the effective interest method	**70,679**	**53,207**
Other interest income	**14,788**	**21,010**
Financial assets held for trading	**12,364**	**14,982**
Debt securities	464	372
Derivatives – Held for trading	8,949	13,073
Derivatives – Held for risk management (not in hedge accounting)	2,951	1,537
Financial assets designated at fair value through profit or loss	**624**	**1,150**
Debt securities	624	1,150
Non-trading financial assets mandatorily at fair value through profit or loss	**3,565**	**2,169**
Loans and advances	3,565	2,169
Derivatives – Hedge accounting, interest rate risk	**-2,068**	**2,548**
Other	**303**	**161**
Interest income total	**85,467**	**74,217**
Interest expense calculated with the effective interest method	**-7,277**	**-5,126**
Other interest expenses	**-10,273**	**-16,420**
Financial liabilities held for trading	**-11,722**	**-11,972**
Derivatives – Held for trading	-8,613	-11,593
Derivatives – Held for risk management (not in hedge accounting)	-3,109	-379
Derivatives – Hedge accounting, interest rate risk	**1,523**	**-4,238**
Other	**-74**	**-210**
Interest expense total	**-17,550**	**-21,546**
Net interest income	**67,917**	**52,671**

Net interest income of the Group increased by HUF 15,246 million compared to previous year, which is primarily due to the increase in interest income, and slightly due to the decrease of interest expenses.

The interest income calculated with the effective interest method increased significantly (HUF 17,472 million increase), mainly due to increase in interest income from interbank placements, especially to the National Bank of Hungary and from the highest interest income from current accounts and loans from customers.

The interest expense calculated with the effective interest method did not change significantly. The decrease of HUF 2,151 million interest expense was mainly caused by the reclassification of the initial fair value of NBH deposits to the interest income.

The interest income from securities measured through other comprehensive income (except government bonds), and the amorti-zation of discounts and premiums related to these securities caused further increase in interest in-come (HUF 768 million increase in interest income).

The net interest income was decreased by the net interest income from derivatives (HUF 2,368 million decrease in net interest income) and interest income on debt securities designated at fair value through profit or loss, as well (HUF 526 million decrease in interest).

At the same time, there was a HUF 1,396 million increase in interest from loans mandatorily measured at fair value through profit or loss, due to disbursements of childbirth incentive loans.

The net interest income from derivatives in cash flow and fair value hedges increased (HUF 1.145 million interest in-crease).

(HUF million)	2021	2020
Interest income calculated with the effective interest method	**70,679**	**53,207**
Financial assets at fair value through other comprehensive income	**7,920**	**7,152**
Debt securities	7,920	7,152
Financial assets at amortised cost	**62,759**	**46,055**
Debt securities	3,700	3,530
Loans and advances	57,431	40,874
Leasing receivables	1,560	1,611
Other assets	68	40
Interest expense calculated with the effective interest method	**-7,277**	**-5,125**
Financial liabilities at amortised cost	**-7,277**	**-5,125**
Deposits	-4,937	-2,736
Subordinated liabilities	-1,690	-1,831
Debt securities issued	-40	-89
Leasing liabilities	-610	-469
Net interest income calculated with the effective interest method	**63,402**	**48,082**

(8) Net fee and commission income

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

(HUF million)	2020	20120
Fee and commission income		
IFRS 15 revenues		
Payment and bank card services	36,725	33,652
Margin included in foreign exchange conversions and other transactions	15,604	12,084
Outsourced currency exchange activity	9,772	9,096
Security issuance fees and transfer commissions	5,269	4,532
Fund management	2,548	2,136
Services as agent	1,044	1,212
Custody	859	680
Corporate finance	399	267
Asset management	109	13
Other	0	1,271
Total IFRS 15 revenues	**1,664**	**64,943**
IFRS 9 revenues		
Loan servicing activities	168	30
Loan commitments given	4	1
Financial guarantees given	2,956	2,064
Loans granted	572	527
Total IFRS 9 revenues	**3,700**	**2,622**
Total fee and commission income	**77,693**	**67,565**
Fee and commission expense		
Payment and bank card services	-4,831	-4,636
Margin included in foreign exchange conversions and other transactions	-137	-8,834
Outsourced currency exchange activity	-9,409	-8,835
Securities	-641	-568
Services of agents	-54	-57
Custody	-725	-647
Clearing and settlement	-63	-71
Loan servicing activities	-295	-305
Loan commitments received	-12	-7
Financial guarantees received	-1,512	-791
Other	-2,221	-1,876
Total fee and commission expense	**-19,900**	**-17,793**
Net income from commissions and fees	**57,793**	**49,772**

The net fee and commission income increased by HUF 8,021 million compared to previous year which is mainly due to the in-crease of fees in payment services and in foreign exchange conversions and other transactions.

The fees related to transfer and other payment transactions and credit cards increased significantly.

The Group's transaction fees related to the foreign exchange transactions and other securities increased by HUF 3,426 million. Hereof, the Group also realized extraordinary result on individual priced fixing, besides transactions related to card and Direktnet were also significant. The transaction fee result built into transactions on securities slightly decreased the fee income. The Group recognised a HUF 1,076 million higher commission income in 2021 through the distribution of investments units.

(9) Net trading income and fair value result

Gains and losses from financial assets and liabilities held for trading

(HUF million)	2021	2020
Derivative instruments	**11,040**	**2,548**
Derivatives held for trading	2,248	-1,099
Derivatives held for risk management purposes, without hedge accounting	8,792	3,648
Equity instruments	0	51
Debt securities	-306	440
Other financial liabilities	671	197
Gains or (-) losses on financial assets and liabilities held for trading, net	**11,405**	**3,236**

Gains or losses on derivatives held for trading increased from HUF -1,990 million to HUF 2,248 million (by HUF 3,347 million). The main reason is the HUF 4,213 million increase 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 hedg-ing purposes) increased by HUF 5,144 million, which is partly due to decrease in gains on FX swap, forward and futures transactions (HUF -1,308- million) and increase in gains on one foreign currency and two currency interest rate swaps (FRA, IRS, CCIRS) transactions (HUF +6,452 million).

Gains on debt securities decreased by HUF 745 million, as a result of the decreasing gains of other bonds (HUF -470 million) and government bonds (HUF -541 million).

Change in other financial liabilities was caused by on the one hand the HUF 3,313 million decrease in the foreign exchange conversion margin and on the other hand by the HUF +3,787 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)	2021	2020
Equity instruments	13	37
Debt securities	35	227
Loans and advances	-6,364	907
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**-6,316**	**1,171**

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

The 'Debt securities' line shows the revaluation result of Visa C shares.

In 2021, the revaluation result of childbirth incentive loan decreased the gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss by HUF -5,376 million.

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

(HUF million)	2021	2020
Debt securities	-614	-1,262
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-614**	**-1,262**

In 2021, the total amount of line 'Debt securities' includes gains or losses recognised on government bonds.

(10) Gains and losses from hedge accounting

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

(HUF million)	2021	2020
Fair value changes of the hedging instrument (including effects of discontinuation) in fair value hedges	-18,407	-1,043
Fair value changes of the hedged item attributable to the hedged risk in fair value hedges	19,846	894
Ineffectiveness in profit or loss from cash flow hedges	-641	48
hereof: existing hedges	-424	136
discontinued hedges	-217	-88
Gains and losses from hedge accounting, net	**798**	**-101**

Net gain on fair valuation of interest rate swaps and cross-currency interest rate swaps hedging purchased bonds amounted to HUF 31,448 million in 2021 (in 2020 HUF 662 million loss). Loss on fair valuation of interest rate swaps hedging deposits amounted to HUF 5,971 million in 2021 (in 2020 HUF 157 million gain). On interest rate swaps hedg-ing deposit portfolio, a fair valuation loss of HUF 59,470 million was recognised (in 2020 HUF 422 million loss). Net fair valuation gain on interest rate swaps hedging loans advanced was HUF 3,315 million (in 2020 HUF 12 million gain). Fair valuation loss in relation to interest rate swaps hedging issued bonds amounted to HUF 86 million (in 2020 HUF 71 million loss). In 2021, HUF 12,357 million gain (in 2020 HUF 57 million loss) was recognised in gains and losses from hedge accounting, related to interest rate swaps that hedged portfolio of loans advanced.

In 2021, HUF 29,887 million loss (in 2020 HUF 399 million gain) was recognised from fair value adjustment on hedged purchased bonds. Fair value adjustment recognised in 2021 amounted to HUF 5,952 gain (in 2020 HUF 201 million loss) on hedged deposits, HUF 3,219 million loss (in 2020 HUF 14 million loss) on hedged loans advanced, HUF 78 million gain (in 2020 HUF 71 million gain) on hedged issued bonds. On hedged deposit portfolio HUF 59,272 gain (in 2020 HUF 587 million gain), on hedged portfolio of loans advanced HUF 12,350 million loss (in 2020 52 million gain) was recognised from fair value adjustments.

Given that the majority of the Group's hedging relationships is denominated in HUF, significant increase in yields experienced in 2021 exaggerated profit or loss effect of hedge ineffectiveness. Whereas during 2020, 3-months BUBOR was observed in the range of 0.16% - 0.75% in 2021 it was in the range of 0.75% - 4.21%. Swap rate of HUF interest rate swaps with a maturity of 5 years was observed in the range of 0.65% - 1.57% (2020) and 1.05% - 4.72% (2021).

A further event increasing gross effect on profit or loss was that the Group decided during 2021 to lengthen the estimated duration of HUF and EUR retail and SME sight deposit portfolio. Because of this, the interest sensitivity of both the deposit portfolio and the hedging interest rate swaps increased resulting in a higher gross revaluation gain or loss on them compared to prior years.

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:

31.12.2021	Maturity			
(HUF million)	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	10,584	116,700	74,313	44,065
Average fixed interest rate	0.39%	1.22%	1.63%	2.14%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	8,994	17,476	0
Average HUF/EUR exchange rate	-	363.50	367.98	-

31.12.2020	Maturity			
(HUF million)	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	-

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:

31.12.2021	Carrying amount						
(HUF million)	Notional amount	Assets	Liabilities	Changes in fair value in 2020 used for calculating hedge inef-fec-tiveness	Change in the value of the hedging instru-ment recognised in other compre-hensive income	Hedge inef-fec-tiveness recog-nised in profit or loss	Amount reclas-sified from the cash flow hedge reserve to profit or loss
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	245,662	6,575	6,095	-98	305	-375	189
Interest rate risk hedge total	**245,662**	**6,575**	**6,095**	**-98**	**305**	**-375**	**189**
Interest rate risk / Currency risk HUF/EUR Cross currency interest rate swaps (CCIRS)	26,470	178	181	-240	289	-49	30
Interest rate risk / Currency risk hedge total	**26,470**	**178**	**181**	**-240**	**289**	**-49**	**30**
Portfolio cash flow hedges total	**272,132**	**6,753**	**6,276**	**-338**	**594**	**-424**	**219**

31.12.2020	Carrying amount						
(HUF million)	Notional amount	Assets	Liabilities	Changes in fair value in 2020 used for calculating hedge inef-fec-tiveness	Change in the value of the hedging instru-ment recognised in other compre-hensive income	Hedge inef-fec-tiveness recog-nised in profit or loss	Amount reclas-sified from the cash flow hedge reserve to profit or loss
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**

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 ineffec-tiveness in 2021	Cash flow hedge reserve 31.12.2021 existing hedges	Cash flow hedge reserve 31.12.2021 discontinued hedges*
Interest rate risk			
Loans	-6,292	-5,337	0
Deposits	6,630	5,716	-5
Interest rate risk hedge total	**338**	**379**	**-5**
Interest rate risk/Currency risk			
Loans	234	214	0
Deposits	55	-50	7
Interest rate risk/Currency risk hedge total	**289**	**164**	**7**
Hedged items in cash flow hedges total	**627**	**543**	**2**

(HUF million)	Changes in fair value used for calculating hedge ineffec-tiveness in 2021	Cash flow hedge reserve 31.12.2020 existing hedges	Cash flow hedge reserve 31.12.2020 discontinued hedges*
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**

*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 2021, HUF 813 million gain (in 2020 HUF 17 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 as at 31.12.2021 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 2021 or 2020. In 2021, HUF 217 million loss (in 2020 HUF 88 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 2021, HUF 424 million loss (in 2020 HUF 136 million gain) was recognised in the same line relating to the ineffectiveness of hedging instruments designated in cash flow hedging relationships existing as at 31.12.2021.

Fair value hedges

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

31.12.2021	Maturity			
(HUF million)	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased HTCS bonds				
Nominal	6,000	22,750	146,592	98,207
Average fixed interest rate	1.06%	0.56%	1.13%	0.95%
Interest rate swaps (IRS) hedging purchased HTC bonds				
Nominal	0	0	37,735	101,375
Average fixed interest rate	-	-	0.37%	1.63%
Interest rate swaps (IRS) hedging loans				
Nominal	2,540	6,663	90,053	33,928
Average fixed interest rate	0.51%	0.33%	0.49%	1.16%
Interest rate swaps (IRS) hedging deposits				
Nominal	0	0	46,088	0
Average fixed interest rate	-	-	1.46%	-
Interest rate swaps (IRS) hedging issued bonds				
Nominal	0	0	658	0
Average fixed interest rate	-	-	6.19%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	90,485	64,815	603,756	367,311
Average fixed interest rate	0.43%	0.62%	0.72%	1.91%
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	498	7,530	41,085	49,865
Average fixed interest rate	0.37%	0.91%	1.12%	1.49%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging HTCS purchased bonds				
Nominal	0	0	0	18,543
Average CZK/EUR exchange rate	-	-	-	25.37

31.12.2020	Maturity			
(HUF million)	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**
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging HTCS purchased bonds				
Nominal	0	0	0	18,543
Average CZK/EUR exchange rate	-	-	-	25.37

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:

31.12.2021 (HUF million)	Nominal	Carrying amount Assets	Carrying amount Liabilities	Changes in fair va-lue in 2020 used for calculat-ing hedge ineffective-ness	Hedge ineffectiveness recognised in profit or loss
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging pur-chased HTCS bonds	273,549	19,387	1,563	24,583	1,608
Interest rate swaps (IRS) hedging pur-chased HTC bonds	139,110	5,548	155	6,910	-38
Interest rate swaps (IRS) hedging loans	133,184	2,483	95	3,316	97
Interest rate swaps (IRS) hedging deposits	46,088	0	5,667	-5,972	-19
Interest rate swaps (IRS) hedging issued bonds	658	21	0	-86	-8
Interest rate risk hedge total	**592,589**	**27,439**	**7,480**	**28,751**	**1,640**
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased HTCS bonds	18,543	0	494	-44	-9
Interest rate risk / Currency risk hedge total	**18,543**	**0**	**494**	**-44**	**-9**
Micro fair value hedges total	**611,132**	**27,439**	**7,974**	**28,707**	**1,631**
Portfolio fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging deposit portfolios	1,126,367	6,936	60,999	-59,478	-206
Interest rate swaps (IRS) hedging loan port-folios	98,978	12,158	850	12,358	8
Interest rate risk hedge total	**1,225,345**	**19,094**	**61,849**	**-47,120**	**-198**
Portfolio fair value hedges total	**1,225,345**	**19,094**	**61,849**	**-47,120**	**-198**
Hedging instruments in fair value hedges total	**1,836,477**	**46,533**	**69,823**	**-18,413**	**1,433**

31.12.2020 (HUF million)	Nominal	Carrying amount Assets	Carrying amount Liabilities	Changes in fair va-lue in 2020 used for calculat-ing hedge ineffective-ness	Hedge ineffectiveness recognised in profit or loss
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging pur-chased 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 port-folios	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**

Derivatives designated as hedging instruments in fair value hedge relationships are presented in the statement of financial po-sition 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 state-ment 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:

31.12.2021	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 2021 used for calculating hedge ineffec-tiveness
			Assets		Liabilities		
(HUF million)	Assets	Liabilities	existing hedges	discontinued hedges	existing hedges	discontinued hedges	
Purchased HTCS bonds	254,355	0	-17,955	0	0	0	-22,939
Purchased HTC bonds	127,534	0	-6,472	0	0	0	-6,948
Loans	122,863	0	-2,445	100	0	0	-3,219
Deposits	0	40,354	0	0	-5,752	0	5,952
Issued bonds	0	689	0	0	5	0	78
Deposit portfolio	0	743,110	0	0	-57,868	0	59,272
Loan portfolio	65,867	0	-12,917	0	0	0	-12,350
Hedged items in fair value hedges total	**570,619**	**784,153**	**-39,789**	**100**	**-63,615**	**0**	**19,846**

31.12.2021	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 2021 used for calculating hedge ineffec-tiveness
			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**

*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 al-ways on the liability side.

In 2021, gain on fair value changes of hedged items in designated fair value hedging relationships attributable to the hedged risk amounted to HUF 19,846 million (in 2020 HUF 894 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 18,407 million in 2021 in relation to derivatives designated as hedging instruments in fair value hedges (in 2020 a loss of 1,043 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)	Note	2021	2020
Financial instruments held for trading		**12,119**	**6,246**
Net interest income	(7)	642	3,009
Realised and unrealised gains and losses	(9)	11,405	3,236
Dividend income		72	1
Net gains and losses from hedge accounting		**253**	**-1,791**
Net interest income	(7)	-545	-1,690
Realised and unrealised gains and losses	(10)	798	-101
Non-trading financial instruments mandatorily at fair value through profit or loss		**-2,748**	**3,349**
Net interest income	(7)	3,565	2,170
Realised and unrealised gains and losses	(9)	-6,316	1,171
Dividend income		3	8
Financial instruments designated at fair value through profit or loss		**10**	**-112**
Net interest income	(7)	624	1,150
Realised and unrealised gains and losses	(9)	-614	-1,262
Financial instruments at fair value through other comprehensive income		**9,114**	**7,498**
Net interest income	(7)	7,920	7,152
Impairment	(6)	196	-270
Realised and unrealised gains and losses		998	616
Financial instruments at amortised cost		**46,636**	**28,534**
Net interest income	(7)	54,879	40,461
Impairment loss	(6)	-6,684	-8,831
Realised and unrealised gains and losses		-1,559	-3,096
Net gains or losses on financial instruments		**65,384**	**43,724**

(12) Other operating income and expenses

(HUF million)	2021	2020
Gain on disposal of intangibles, property and equipment	-1	36
Gain on disposal of inventory	252	216
Operational fees	48	48
Income related to damages	16	11
Rental income from investment property	50	0
Professional fees	113	198
Income from accounting services	81	44
Income from other non-banking activities	207	282
Other	1,097	1,111
Other operating income total	**1,863**	**1,946**
Transaction fee and other taxes	-18,278	-16,826
Expenses related to damages	-86	-81
Expert fees	-75	-63
Other provisions	-173	-250
Expenses from other non-banking activities	-126	-112
Other expenses	-169	-218
Other operating expenses total	**-18,907**	**-17,550**

Other operating income decreased by HUF 84 million. The increase in other operating expenses is due to increase in transaction fee by HUF 1,452 million.

The Group recognised HUF 1,467 million (2020: HUF 1,379 million) in other income that represents revenue from contracts with customers (IFRS 15).

(13) Impairment of non-financial assets

Development of impairment of non-financial assets:

(HUF million)	Opening 01.01.2021	Additions	Reversals	Closing 31.12.2021
Other non-financial assets	-62	-34	59	-37
Impairment on non-financial assets total	**-62**	**-34**	**59**	**-37**

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

The Impairment of non-financial assets line shows the impairment of the Properties obtained against receivables.

(14) Other result

(HUF million)	2021	2020
Modification gains or losses, net	-1,554	-3,053
Impairment on non-financial assets	-34	-61
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0	-2,062
Other result	**-1,588**	**-5,176**

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 recognises a one-time change in gross carrying amount through profit or loss. In 2021, HUF 1,554 million (2020: HUF -3,053 million) loss was recognised in profit or loss of which HUF 725 million (2020: HUF -3.234 million) was loss connected to modification related to repayment moratoria. In the period of the moratorium from 01.01.2021 to 31.10.2021., additional loss of HUF 480 million was determined compared to the estimate of the previous year. The estimate was made for the period from the beginning of November based on the calculation of the previous period (2021: HUF 245 million). In 2021, HUF 962 million loss was determined due to the Interest Stop.

Losses arising from cash flow changes due to payment moratoria are presented above under section Contract modi-fications 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 op-erations 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 recognised was HUF 2,062 million.

(15) Staff expenses

(HUF million)	2021	2020
Salaries	-23,896	-21,130
Social security contributions	-4,310	-4,092
Other employee benefits	-1,302	-1,140
Total	**-29,508**	**-26,362**

	2021		2020	
(HUF million)	Headcount (person)	Salaries	Headcount (person)	Salaries
Full time	2,640	-22,498	2,154	-19,878
Part time	234	-1,304	671	-1,243
Pensioners	15	-94	17	-9
Total	**2,889**	**-23,896**	**2,842**	**-21,130**

(16) Other administrative expenses

(HUF million)	2021	2020
Office space expenses rental, maintenance, other	-2,735	-2,639
IT cost	-4,945	-4,118
Legal, advisory and consulting expenses	-3,441	-3,312
Advertising, PR and promotional expenses	-2,761	-2,229
Deposit insurance fees	-1,325	-1,089
Communication expenses	-1,610	-1,426
Office supplies	-185	-214
Car expenses	-252	-225
Security expenses	-158	-140
Travelling expenses	-44	-87
Training expenses for staff	-272	-239
Expenses for leases	-318	-780
Sundry administrative expenses	-598	-577
Total	**-18,644**	**-17,075**

The increase in IT costs is due to the increase of maintenance and support 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, other administrative expenses were recognised in the amount of HUF 203 million (2020: HUF 429 million).

(17) Bank tax and other special levies

(HUF million)	2021	2020
Surtax of financial institutions and surtax of credit institutions	-4,811	-4,573
Resolution Funds	-1,978	-1,499
Bank tax and other special levies	**-6,789**	**-6,072**

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% (2020: 0.15%) for the portion of tax base not exceeding HUF 50 billion and 0.20% (2020: 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. Therefore, 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 De-cember 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 recognised 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)	2021	2020
Current tax expense	**5,736**	**3,968**
Corporate income tax	1,578	792
Local business tax	3,614	2,760
Innovation contribution	544	416
Deferred tax expense/-income	**-1,823**	**371**
Origination and reversal of temporary differences	136	41
Changes in the tax effect of tax losses	-1,959	330
Income tax expense	**3,913**	**4,339**

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 2021 and 2020. The tax base of corporate income tax differs from the tax base of local business tax and innovation contribution.

Reconciliation of effective tax rate

	2021		2020	
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax	million)	(%)	(HUF	17,278
Expected tax rate calculated with Group's applicable tax rate	million)	3,658	9.00%	1,555
Tax effect of tax base adjusting items	**-9.60%**	**-3,903**	**-2.36%**	**-407**
Tax effects related to tax losses:				
- usage of previously not recognised tax losses	-3.65%	-1,483	-4.13%	-713
- change in previously unrecognised tax losses	-4.82%	-1,959	1.91%	330
Other	-1.13%	-461	-0.14%	-24
Other income taxes – local business tax, innovation contribution	10.23%	4,158	18.47%	3,191
Income tax expense total	**9.63%**	**3,913**	**25.11%**	**4,339**

Income taxes recognised in other comprehensive income

	2021			2020		
	Before tax	Tax expense/ benefit	After tax	Before tax	Tax expense/ benefit	After tax
Items that will not be reclassified to profit or loss						
Changes in fair value reserve (equity instruments)	-71	65	-6	-577	-9	-586
Items that will not be reclassified to profit or loss – total	**-71**	**65**	**-6**	**-577**	**-9**	**-586**
Items that the Group reclassified or will reclassify to profit or loss						
Changes in hedge reserve						
Effective portion of fair value changes	594	-53	541	-71	6	-65
Net amount reclassified to profit or loss	**219**	**-21**	**198**	**88**	**-8**	**80**
Change in fair value reserve (debt instruments)						
Changes in fair value	383	-34	349	-3,006	271	-2,735
Net amount reclassified to profit or loss	-1,852	167	-1,685	-596	54	-542
Items that the Group reclassified or will reclassify to profit or loss – total	**-656**	**59**	**-597**	**-3585**	**323**	**-3262**
Foreign currency translation reserve for foreign operations			0			52
Total	**-727**	**124**	**-603**	**-4162**	**314**	**-3796**

Movements in deferred tax balances

	Net balance 01.01.2021	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31.12.2021		
				Net	Deferred tax assets	Deferred tax
Property and equipment; intangible assets	36	-34	0	liabilities	2	0
Non-trading financial assets mandatorily at fair value through profit or loss	-3	-1	0	-4	0	-4
Investment securities – at fair value through other comprehensive income	-378	0	197	-181	0	-181
Derivatives*	19	0	-73	-54	0	-54
Loss allowances for expected credit losses	352	-99	0	253	253	0
Tax losses carried forward	1,484	1,959	0	3,443	3,443	0
Loss allowances for trade receivables	5	-2	0	3	3	0
Other assets and liabilities	0	0	0	0	0	0
Net deferred tax asset/liability before offsetting				**3,462**	**3,701**	**-239**
Offsetting					-235	235
Tax assets/Tax liabilities	**1,515**	**1,823**	**124**	**3,462**	**3,466**	**-4**

	Net balance 01.01.2020	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31.12.2020		
				Net	Deferred tax assets	Deferred tax
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**

*Derivatives are presented net

In 2021, HUF 3,466 million (2020: HUF 1,518 million) deferred tax asset was recognised which comprises of the following items:

- HUF 258 million (2020: HUF 393 million) was recognised due to temporary differences which modify the tax base and are expected to reverse in the future,
- HUF 3,443 million (2020: HUF 1,484 million) was recognised for the balances of tax losses carried forward from previous years which are expected to be utilised by the Group,
- HUF -235 million (2020: HUF -359 million) was recognised due to fair values of financial assets measured at fair value through other comprehensive income and cash flow hedging instruments recognised in other comprehensive income.

In 2021, HUF 4 million (2020: HUF 3 million) deferred tax liability was recognised for fair values of financial assets measured at fair value through other comprehensive income recognised in other comprehensive income.

Tax loss carry-forward for which no deferred tax asset has been recognised by maturity breakdown

Maturity	2021	2020
12.31.2030	93,411	131,884
Total	**93,411**	**131,884**

The Group has HUF 93,411 million (2020: HUF 131,884 million) carry-forwards of unused tax losses on 31 December 2021 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 3,443 million deferred tax asset in respect of 2022 and 2023.

(19) Cash, cash balances at central banks and other demand deposits

	2021			2020		
	HUF	Foreign	After tax	HUF	Foreign	After tax
Cash and cheques	currency	Total	54,091	currency	Total	59,484
National Bank of Hungary	399,910	0	399,910	38,475	0	38,475
Other banks	3,776	24,712	28,488	2,800	21,032	23,832
Total	**429,067**	**53,422**	**482,489**	**72,687**	**49,104**	**121,791**

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 (2020: 1%). The average balance of mandatory reserve was HUF 25,362 million (2020: HUF 21,314 million).

1% required reserves shall be kept in respect of the following liability categories:

- deposits and loans received with an original maturity of less than two years and
- debt securities with an original maturity of less than two years.

No required reserves shall be kept in respect of liabilities owed to other credit institutions required to hold reserves and the outstanding total of loans from the NBH.

NBH shall calculate the reserve base of the credit institution for the last calendar day of the reporting period. The amount of required reserves shall be equal to the product of the stock, of liabilities included in the reserve base and the appropriate reserve ratio. The Group is required to hold reserves subsequently, on average in the second month (maintenance period) following the calculation period.

The mandatory reserve can be used by the Group for its daily activities under the condition that the monthly average balance of the reserve is kept within the legal limits. Consequently, the Group consideres it as cash for statement of cash flow purposes.

(20) Financial assets at fair value through profit or loss

Financial assets held for trading

31.12.2021 (HUF million)	Nominal value of derivatives	Carrying amount
Derivative instruments	**1,522,473**	**65,527**
Hereof: economic hedge	393,409	29,622
Interest rate	552,641	43,412
Equity	0	92
Currency	969,832	22,023
Equity instruments		**6,141**
Debt securities		**43,274**
Government bonds and treasury bills		42,219
Corporate and other bonds		977
Bank bonds		78
Financial instruments held for trading total	**1,522,473**	**114,942**

31.12.2020 (HUF million)	Nominal value of derivatives	Carrying amount
Derivative instruments	**1,414,072**	**43,526**
Hereof: economic hedge	317,771	8,671
Interest rate	426,290	14,376
Equity	0	47
Currency	987,782	29,103
Equity instruments		**1,723**
Debt securities		**36,782**
Government bonds and treasury bills		28,826
Corporate and other bonds		7,883
Bank bonds		73
Financial instruments held for trading total	**1,414,072**	**82,031**

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 MIRSs 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, since then there have been no new deals. As at 31.12.2021 the carrying amount of these swaps was HUF 11,946 million asset (HUF 86 million asset as at 31.12.2020), there was no amount reported under liabilities (HUF 1,858 million liability as at 31.12.2020). Fair valuation result recognised in relation to MIRSs amounted to HUF 13,618 million gain in 2020 (HUF 25 million loss in 2020) and was presented in the statement of comprehensive income line item 'Net trad-ing income and fair value result'.

Non-trading financial assets mandatorily at fair value through profit or loss

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Negative fair value changes due to changes in credit risk – non-performing exposures
Equity instruments	**493**	**0**	**50**	**543**	**0**
Debt securities	**1,091**	**0**	**-464**	**627**	**0**
Bank bonds	1,091	0	-464	627	0
Loans and advances	**102,495**	**183**	**-4,907**	**97,771**	**-370**
Non-trading financial assets mandatorily at fair value through profit or loss total	**104,079**	**183**	**-5,321**	**98,941**	**-370**

31.12.2020 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying 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**

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 79 billion by year-end (2020: HUF 55 billion).

Financial assets designated at fair value through profit or loss

31.12.2021 (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	**202**	**1**	**-8**	**195**	**0**
Government bonds and treasury bills	202	1	-8	195	0
Financial assets designated at fair value through profit or loss	**202**	**1**	**-8**	**195**	**0**

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**

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 the sale of government bonds during 2021.

(21) Placements with banks

(HUF million)	31.12.2021					31.12.2020				
	Less than 1 year		Over 1 year			Less than 1 year		Over 1 year		
	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
National Bank of Hungary	830,183	0	0	0	830,183	584,372	0	0	0	584,372
Other Banks	1,952	41,966	0	12,773	56,691	497	20,537	0	35,688	56,722
Impairment losses	0	-1	0	-1	-2	0	0	0	-1	-1
Placements with banks total	**832,135**	**41,965**	**0**	**12,772**	**886,872**	**584,869**	**20,537**	**0**	**35,687**	**641,093**

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 contain mostly placements maturing within a month with a bal-ance of HUF 830 million. The balance of 1-day placements were reclassified to 'Cash, cash balances at central banks and other demand deposits' and the balance of placements with NHB increased by HUF 276 million from 2020 to 2021. Other placements with banks decreased by HUF 31 million during 2021 compared to the previous 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 226 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 352 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 no securities as collateral for its liabilities in 2021 (2020: HUF 240 million).

In 2021, the Group recognised HUF 1,599 million loss in other comprehensive income in relation to securities measured at fair value through other comprehensive income (2020: HUF 3,583 million loss) and reclassified HUF 87 million loss from other comprehensive income to profit or loss (2020: HUF 596 million gain).

National Bank Hungary (NBH) launched the Bond Funding for Growth Scheme (NKP) in March 2019, to support the financing needs of companies and to help by building financing channels other than bank lending. Within the program, the NBH can purchase se-curities in the amount of HUF 1,550 billion. Corporate bonds were purchased in 2021 and 2020 as well.

Investment securities measured at amortised cost

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses*	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	125,060	1,069	-1,055	-2,343	-8	122,723
Corporate and other bonds	76,327	581	-5,178	201	-175	71,756
Bank bonds	31,291	60	-239	-1	-3	31,108
Investments in securities at amortised cost total	**232,678**	**1,710**	**-6,472**	**-2,143**	**-186**	**225,587**

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**

* The disclosed amounts arise from hedge accounting.

Investment securities measured at fair value through other comprehensive income

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses*	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments	**39**	**0**	**24**	**0**		**63**
Shares in limited liability companies	20	0	23	0		43
Shares in companies limited by shares	19	0	1	0		20
Debt securities	**367,487**	**2,025**	**-15,958**	**-1,532**	**-125**	**351,897**
Government bonds and treasury bills	145,006	1,158	-2,496	-1,728	-10	141,930
Corporate and other bonds	36,753	867	-6,478	196	-115	31,223
Bank bonds	185,728	0	-6,984	0	0	178,744
Financial assets at fair value through other comprehensive income total	**367,526**	**2,025**	**-15,934**	**-1,532**	**-125**	**351,960**

31.12.2020 (HUF million)	Cost	Accrued interest	Unrealised gains/losses*	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments	**720**	**0**	**93**	**0**		**782**
Shares in limited liability companies	56	0	16	0		41
Shares in companies limited by shares	664	0	77	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**	**8,615**	**-6,110**	**-319**	**515,154**

The Group elected to measure its other, non-controlling interests at fair value through other comprehensive income and therefore 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 is because the Group received type A preference shares by reduc-ing 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'.

(23) Investments in unlisted securities

(HUF million)	Cost	Accrued interest	Unrealised gains/losses*	Discount/Premium
RC Gazdasági és Adótanácsadó Zrt.	**20.00%**	**20.00%**	**5**	**4**
Garantiqa Hitelgarancia Zrt.	0.16%	0.19%	15	15
SWIFT	0.01%	0.02%	38	36
VISA A	-	0.001%	0	722
Pannon Lúd Mezőgazdasági és Szolgáltató Kft.	0.89%	0.89%	5	5
RAJNA investment units	-	-	0	0
Investments in unlisted securities total			**63**	**782**

Unlisted investment securities are included in the statement of financial position line item 'Financial assets at fair value through other comprehensive income'. Besides from changes in fair values, the changes in the book value resulted from the following: in 2020, conversion and reclassification of VISA Inc C shares was carried out, de-scribed in Note 22.

(24) Property and equipment, intangible assets and goodwill

	Gross carrying amount					Accumulated depreciation/amortization					Carrying amount
(HUF million)	01.01.2021	Additions	Disposals	Reclassifi-cations	31.12.2021	01.01.2021	Additions	Disposals	Reclassifi-cations	31.12.2021	31.12.2021
Property, plant and equipment											
Property	39,719	2,625	-483	3	41,864	-12,915	-3,362	482	0	-15,795	26,069
Plant and equipment	19,288	2,352	-909	-7	20,724	-12,295	-1,681	889	0	-13,087	7,637
Property, plant and equipment total	**59,007**	**4,977**	**-1,392**	**-4**	**62,588**	**-25,210**	**-5,043**	**1,371**	**0**	**-28,882**	**33,706**
Intangible assets											
Software	59,002	6,135	-1,106	4	64,035	-40,425	-4,765	1,104	0	-44,086	19,949
Other intangible assets	1,750	0	0	0	1,750	-638	-24	0	0	-662	1,088
Intangible assets total	**60,752**	**6,135**	**-1,106**	**4**	**65,785**	**-41,063**	**-4,789**	**1,104**	**0**	**-44,748**	**21,037**

(HUF million)	Gross carrying amount 01.01.2020	Additions	Disposals	Reclassifi-cations	31.12.2020	Accumulated depreciation/amortization 01.01.2020	Additions	Disposals	Reclassifi-cations	31.12.2020	Carrying amount 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 intangible 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**

The Group recognised expenses amounting to HUF 1,722 million in the carrying amount of intangible assets, in course of developing intangible assets (2020: HUF 1,737 million).
As at 31 December 2021, property includes HUF 22.324 million (2020: HUF 23,213 million) and plant and equipment includes HUF 129 million (2020: HUF 226 million) right-of-use as-sets. The Group presented goodwill under intangible assets in its books in the amount of HUF 1,035 million (2020: HUF 1,035 million). Hereof HUF 1,023 million is the goodwill on Raiffeisen Befektetési Alapkezelő Zrt and HUF 12 million on SCT Kárász utca Kft. No impairment was recognised for goodwill. In 2020, the entire software portfolio was re-viewed 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-year rental term, in respect of which 3- or 5-year extension options were recorded. In case of contracts with shorter term, 1- or 2-year 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 underlying as-set is a low-val-ue 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.):

(HUF million)	Gross carrying amount 01.01.2021	Additions	Disposals	31.12.2021	Accumulated depreciation/amortization 01.01.2021	Additions	Disposals	31.12.2021	Carrying amount 31.12.2021
Right-of-use asset									
Property	26,992	1,973	-16	28,949	-3,779	-2,861	15	-6,625	22,324
Vehicles	434	-17	-67	350	-208	-67	54	-221	129
Right-of-use asset total	**27,426**	**1,956**	**-83**	**29,299**	**-3,987**	**-2,928**	**69**	**-6,846**	**22,453**

(HUF million)	Gross carrying amount 01.01.2020	Additions	Disposals	31.12.2020	Accumulated depreciation/amortization 01.01.2020	Additions	Disposals	31.12.2020	Carrying amount 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**

Lease liabilities

The Group presents lease liabilities within 'Financial liabilities measured at amortised cost'. The maturity analysis for lease liabilities as at 31 December 2020 is as follows (undiscounted cash flows):

(HUF million)	31.12.2021	31.12.2020
Less than 1 year	**3,050**	**1,362**
Between 1 and 5 years	11,446	9,515
More than 5 years	14,448	14,751
Total	**28,944**	**25,628**

Amounts presented in the Statement of cash flows

In 2021, the total cash outflows related to lease contracts amounted to HUF 2,938 million (2020: HUF 2,449 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:

(HUF million)	31.12.2021	31.12.2020
Interest expense on lease liabilities	610	469
Expenses relating to short-term leases	231	852
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	65	73
Total	**906**	**1,394**

In 2021, the Group recognised expenses related to leases within the administrative expenses with the amount of HUF 906 million (2020: HUF 1,394 million).

The Group as a lessor

The main activity of the leasing company is financial leasing under which vehicles, real estates and equipments are leased.

The net investment in the lease according to the type of leasing activity is presented in the table below:

(HUF million)	31.12.2021	31.12.2020
Vehicles leasing	39,090	42,788
Real estate leasing	6,834	7,133
Equipment leasing	15,284	14,160
Finance leases per balance sheet	**61,208**	**64,081**

In 2021, HUF 1,563 million (2020: HUF 1,591 million) was presented in the income statement under 'Other interest incom'e. In the financial year, there was no such income from variable leasing fees which was not considered in the valuation of the net investment.

The following table describes the receivables (IFRS 9) from financial lease

	31.12.2021						
(HUF million)	Up to 1 year	1 year to 2 years	2 year to 3 years	3 year to 4 years	4 year to 5 years	Over 5 years	Total
Gross investment leases	19,892	18,062	11,505	8,279	3,446	4,714	65,898
Unearned finance income	1,657	1,151	702	371	157	195	4,233
Net present value of minimum lease payments	**18,235**	**16,911**	**10,803**	**7,908**	**3,289**	**4,519**	**61,665**
Accumulated allowance for uncollectible minimum lease payments	123	146	87	64	27	10	457
Finance leases per balance sheet	**18,112**	**16,765**	**10,716**	**7,844**	**3,262**	**4,509**	**61,208**

	31.12.2020						
(HUF million)	Up to 1 year	1 year to 2 years	2 year to 3 years	3 year to 4 years	4 year to 5 years	Over 5 years	Total
Gross investment leases	19,838	16,805	15,037	7,725	4,449	3,822	67,676
Unearned finance income	1,311	877	534	264	159	215	3,360
Net present value of minimum lease payments	**18,527**	**15,928**	**14,503**	**7,461**	**4,290**	**3,607**	**64,316**
Accumulated allowance for uncollectible minimum lease payments	61	57	60	31	18	8	235
Finance leases per balance sheet	**18,466**	**15,871**	**14,443**	**7,430**	**4,272**	**3,599**	**64,081**

The risk associated with the rights retained in the underlying assets is managed by the Group, including the registration of assets financed in the Credit Collateral Register, required collateral for the assets, residual value guarantee and redemption agreement.

(26) Other assets

(HUF million)	31.12.2021	31.12.2020
Prepayments and accrued income	2,953	2,543
Materials and inventories	226	309
Repossessed assets	852	1,071
Tax receivables	3,453	4,292
Other assets	132	56
Other assets total	**7,616**	**8,271**
thereof: loss allowance	-37	-62

In 2021, the balance of other asset decreased by HUF 655 million which is mainly due to the decrease of the tax receivables. In 2020, due to the pandemic situation, the government introduced the extra surtax levied on credit institutions which had to be paid in three equal instalments. However, with this amount presented as a receivable, the credit institution may decrease its 'normal' surtax obligation determined by the extra surtax act in a form of tax retention. This caused the decrease of the tax assets in 2021.

Furthermore, larger movements were observable by advances to suppliers, accruals and properties obtained by taking possession of collaterals in 2021. In case of accruals, the decrease in accrued income was offset by the increase of accrued expenses. The amount of advances to suppliers increased by HUF 352 million. The properties obtained by taking possession of collaterals de-creased by HUF 219 million. Loss allowances presented relate to properties ob-tained by taking possession of collaterals.

Within accruals, the amount of accrued income according to IFSR 15 is HUF 3,504 million (2020: HUF 3,681 million).

(27) Financial liabilities at fair value through profit or loss

31.12.2021 (HUF million)	Nominal value of derivatives	Book value
Derivative instruments held for trading	**1,257,638**	**52,074**
Hereof: economic hedge	272781	17,082
Interest rate	471,569	33,345
Equity	1	103
FX	786,068	18,626
Total derivative instruments	**1,257,638**	**52,074**
Short positions		6,428
Total short positions		**6,428**
Total financial liabilities at fair value through profit/loss	**1,257,638**	**58,502**

31.12.2020 (HUF million)	Nominal value of derivatives	Book value
Derivative instruments held for trading	**1,371,955**	**41,404**
Hereof: economic hedge	286,437	6,266
Interest rate	370,096	11,222
Equity	1	201
FX	1,001,858	29,981
Total derivative instruments	**1,371,955**	**41,404**
Short positions		7,539
Total short positions		**7,539**
Total financial liabilities at fair value through profit/loss	**1,371,955**	**48,943**

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 state-ment of financial position line items

The following table reconciles classes of financial liabilities defined for disclosure purposes with the statement of financial position line items:

31.12.2021 (HUF million)	Financial liabilities held for trading	Financial liabilities at amortised cost	Total
Deposits from banks	0	491,295	**491,295**
Deposits from customers	0	2,870,117	**2,870,117**
Subordinated liabilities	0	57,333	**57,333**
Debt securities issued	0	689	**689**
Derivative liabilities	52,074	0	**52,074**
Short positions	6,428	0	**6,428**
Other financial liabilities	0	31,304	**31,304**
Total	**58,502**	**3,450,738**	**3,509,240**

31.12.2020 (HUF million)	Financial liabilities held for trading	Financial liabilities at amortised cost	Total
Deposits from banks	0	405,898	**405,898**
Deposits from customers	0	2,383,080	**2,383,080**
Subordinated liabilities	0	56,732	**56,732**
Debt securities issued	0	727	**727**
Derivative liabilities	41,404	0	**41,404**
Short positions	7,539	0	**7,539**
Other financial liabilities	0	31,137	**31,137**
Total	**48,943**	**2,877,574**	**2,926,517**

(29) Deposits from banks and deposits from customers

Deposits from banks

	31.12.2021					31.12.2020				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	30,888	17,869	285,875	136,205	470,837	21,466	13,749	217,713	138,430	391,358
Non resident	19,705	128	0	625	20,458	14,365	95	0	80	14,540
Deposits from banks total	**50,593**	**17,997**	**285,875**	**136,830**	**491,295**	**35,831**	**13,844**	**217,713**	**138,510**	**405,898**

Deposits from customers

	31.12.2021					31.12.2020				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	1,888,765	873,766	5,366	830	2,768,727	1,541,574	757,407	4,333	819	2,304,133
Non resident	54,736	45,579	0	1,073	101,388	32,044	44,939	0	1,965	78,948
Deposits from banks total	**1,943,501**	**919,345**	**5,366**	**1,903**	**2,870,115**	**1,573,618**	**802,346**	**4,333**	**2,784**	**2,383,081**

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 1,034 billion at the end of 2021 (2020: HUF 901 billion).

(30) Debt securities issued

(HUF million)	31.12.2021 Par value	31.12.2021 Carrying amount	31.12.2020 Par value	31.12.2020 Carrying amount
Measured at amortised cost	**627**	**689**	**627**	**727**
fix	627	689	627	**727**
Total debt securities issued	**627**	**689**	**627**	**727**

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 684 million at the end of 2020 (2020: HUF 644 million).

(31) Subordinated liabilities

31.12.2021 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	**14,802**
Raiffeisen Bank International AG	28.02.2020	50	EUR	3.00	28.02.2031	**18,499**
Raiffeisen Bank International AG	28.02.2020	50	EUR	2.88	28.02.2030	**18,497**
Raiffeisen Bank International AG	27.03.2020	15	EUR	3.13	31.03.2027	**5,535**
Subordinated liabilities total		**155**				**57,333**

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**

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.

(32) Other liabilities

(HUF million)	31.12.2021	31.12.2020
Deferred income and accrued expenses	4,210	3,802
Tax liabilities	3,251	**3,128**
Sundry liabilities	37	**2**
Other liabilities total	**7,498**	**6,932**

The two predominant items within other liabilities are accruals and tax liabilities. Mainly the balance of accruals increased, the balance of accrued costs increased by HUF 561 million, meanwhile the amount of deferred income and the initial valuation difference of macro hedge IRSs show a decrease. The line item 'Tax liabilities' compromises of liabilities other than income tax liabilities. Tax liabilities increased by HUF 123 million compared to 2020.

Within accruals, the amount of accrued income according to IFSR 15 is HUF 50 million (2020: HUF 0 million).

(33) Provisions

The following table details provisions other than those set up for expected credit losses:

(HUF million)	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2021	128	1,238	2,236	3,602
Additions, including increases in existing provisions	72	510	4,635	5,217
(-) Amounts used	-80	-1	-3,490	-3,571
(-) Unused amounts reversed during the period	0	-720	-40	-760
Other movements	0	0	0	0
Closing balance 31.12.2021	120	1,027	3,341	4,488

(HUF million)	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2020	302	1,224	3,038	4,564
Additions, including increases in existing provisions	0	540	1,697	2,237
(-) Amounts used	-174	0	-2,460	-2,634
(-) Unused amounts reversed during the period	0	-526	21	-505
Other movements	0	0	60	0
Closing balance 31.12.2020	128	1,238	2,236	3,602

(34) Assets and liabilities held for sale and discontinued operations

Assets and liabilities held for sale

The Group had no assets and liabilities held for sale on 31 December 2021 and 31 December 2020.

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 as in 2020.

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 2021.

(35) Share capital

Shareholder structure of the Group was as follows as at 31.12.2021 and 31.12.2020:

	31.12.2021			
Shareholder	Type of share	Number of shares	Par value	Total
Raiffeisen-RBHU Holding GmbH	(HUF million)	5,000,009	10,000	50,000
Total		5,000,009		50,000

	31.12.2020			
Shareholder	Type of share	Number of shares	Par value	Total
Raiffeisen-RBHU Holding GmbH	(HUF million)	5,000,009	10,000	50,000
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 31 December 2021 and 31 December 2020.

There has been no decision about the dividend from the Group' 2021 profit. The Group paid no 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 reappropriation.

(37) Equity instruments issued, other than share capital

31.12.2021 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**

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 is 12-month 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 con-sidered 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 2021 the Group paid HUF 3,127 million (2020: HUF 3,116 million) divi-dend 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 reappropriation within equity the Group set up general reserve amounting to HUF 3,656 million in 2020 (2020: HUF 1,453 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.

31.12.2021	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision		
Lender	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loan commitments	213,874	84,412	3,632	508	895	1,430
Financial guarantees given	118,346	18,817	8,978	97	59	421
Other guarantees and commitments	149,469	22,722	2,927	129	44	963
Total	**481,689**	**125,951**	**15,537**	**734**	**998**	**2,814**

31.12.2020	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision		
Lender	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**

*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. Consequently, 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 (4.9) 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 transfers between the fair value hierarchy levels are registered at the end of the reporting period.

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

31.12.2021	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	**48,627**	**66,315**	**0**	**24,956**	**0**	**96**	**66,040**	**0**
Derivative instruments	0	65,527	0	25,062	0	0	66,150	0
Equity instruments	6,141	0	0	0	0	24	0	0
Debt securities	42,486	788	0	-106	0	72	-110	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**1,170**	**97,771**	**4**	**-6,365**	**0**	**-414**	**-4,921**
Equity instruments	0	543	0	13	0	0	50	0
Debt securities	0	627	0	-9	0	0	-464	0
Loans and advances	0	0	97,771	0	-6,365	0	0	-4,921
Financial assets designated at fair value through profit or loss total	**195**	**0**	**0**	**0**	**0**	**-8**	**0**	**0**
Debt securities	195	0	0	0	0	-8	0	0
Financial assets at fair value through other comprehensive income total	**295,452**	**56,445**	**63**	**-9,362**	**3**	**-6,718**	**-9,239**	**23**
Equity instruments	0	0	63	-77	3	0	0	23
Debt securities	295,452	56,445	0	-9,285	0	-6,718	-9,239	0
Hedging derivative instruments	**0**	**53,286**	**0**	**49,741**	**0**	**0**	**55,203**	**0**
Financial assets at fair value total	**344,274**	**177,216**	**97,834**	**65,339**	**-6,362**	**-6,630**	**111,590**	**-4,898**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**58,502**	**0**	**14,335**	**0**	**0**	**52,593**	**0**
Derivatives	0	52,074	0	14,335	0	0	52,593	0
Short positions	0	6,428	0	0	0	0	0	0
Hedging derivative instruments	**0**	**76,099**	**0**	**68,453**	**0**	**0**	**79,771**	**0**
Financial liabilities at fair value total	**0**	**134,601**	**0**	**82,788**	**0**	**0**	**132,364**	**0**

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**

Fair value hierarchy: financial instruments measured at amortised cost

31.12.2021			Fair value hierarchy		
(HUF million)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	225,587	223,677	152,208	71,469	0
Loans and advances	2,384,597	2,411,815	0	0	2,411,815
Financial assets at amortised cost total	**2,610,184**	**2,635,492**	**152,208**	**71,469**	**2,411,815**
Financial liabilities at amortised cost					
Deposits	3,418,743	3,421,637	0	0	3,421,637
Debt securities issued	689	710	0	710	0
Other financial liabilities	6,066	5,998	0	0	5,998
Financial liabilities at amortised cost total	**3,425,498**	**3,428,345**	**0**	**710**	**3,427,635**

31.12.2020			Fair value hierarchy		
(HUF million)	Carrying amount	Fair value	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**

Assumptions made in estimating the fair value of financial instruments

A few 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 instruments 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 frontoffice 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 based on 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 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 01.01.2021	Exchange differences	Origina-tions/ purchases	Payments	Sales	Settle-ments	Gains/ losses in profit or loss	Hereof: unrealised gains/ losses	Gains/ losses in other compre-hensive income	Closing balance 31.12.2021
Non-trading financial assets mandatorily at fair value through profit or loss										
Loans and advances	66,671	0	0	40,694	0	-3,314	-6,280	-6,365	0	97,771
Non-trading financial assets mandatorily at fair value through profit or loss total	**66,671**	**0**	**0**	**40,694**	**0**	**-3,314**	**-6,280**	**-6,365**	**0**	**97,771**
Financial assets at fair value through other comprehensive income										
Equity instruments	60	2	0	0	0	0	0	0	3	63
Financial assets at fair value through other comprehensive income total	**60**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**3**	**63**

(HUF million)	Opening balance 01.01.2020	Exchange differences	Origina-tions/ purchases	Payments	Sales	Settle-ments	Gains/ losses in profit or loss	Hereof: unrealised gains/ losses	Gains/ losses in other compre-hensive income	Closing balance 31.12.2020
Non-trading financial assets mandatorily at fair value through profit or loss										
Loans and advances	33,996	0	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**	**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	0	2	60
Financial assets at fair value through other comprehensive income total	**56**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**2**	**60**

Total gains and losses presented in the table above were recognised in profit or loss and in other comprehensive in-come as follows:

31.12.2021	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 securities	Loans and advances
Total gains or losses in profit or loss:	**0**	**0**	**-2800**	**0**	**0**	**0**
Net trading income and fair value result	0	0	-6364	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**3**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**-2801**	**0**	**0**	**0**
Net trading income and fair value result	0	0	-6365	0	0	0
Other interest income	0	0	3563	0	0	0

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 securities	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

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:

31.12.2021 (HUF million)	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	97,771	a)	b)	c1)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	**97,771**				
Financial assets at fair value through other comprehensive income					
Equity instruments	63	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	**63**				

31.12.2020 (HUF million)	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)	c2)	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**				

Identifier	Description
a)	Performing Retail: Discounted Cash flows, Behavioural Option Modelling if applies, Financial Option Pricing: Black-Scholes (shifted) if applies Non-retail: Discounted Cash flows, Behavioural 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 'baby loan' 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% - +0.31% for HUF funding costs at valuation; 0,17% - +3,7% 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: 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 %
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:

31.12.2021 (HUF million)	Fair value at reporting date	Valuation technique	Significant unobservable inputs
Financial assets at amortised cost			
Loans and advances	2,411,815	discounted CF	discount curve
Financial assets at amortised cost total	**2,411,815**		
Financial liabilities at amortised cost			
Deposits	3,421,637	discounted CF	discount curve
Other financial liabilities	5,998	no valuation	not applicable
Financial liabilities at amortised cost total	**3,427,635**		

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**		

(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

31.12.2021 (HUF million)	Entities having joint control or significant influence over the Bank or its parent	Unconsolidat-ed sub-sidiar-ies and other entities be-longing to the same group	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Financial assets					
Debt securities	0	0	0	0	0
Loans and advances	45,989	1,372	0	11	0
hereof: non-performing	0	0	0	0	0
Financial assets total	**45,989**	**1,372**	**0**	**11**	**0**
Financial liabilities					
Deposits	62,859	1,973	0	1,018	0
Financial liabilities total	**62,859**	**1,973**	**0**	**1,018**	**0**
Nominal value of loan commitments, financial guarantees given and other contingencies given	3,460	1,530	0	6	0
Nominal value of derivatives	4,019,887	0	0	0	0

31.12.2020 (HUF million)	Entities having joint control or significant influence over the Bank or its parent	Unconsolidat-ed sub-sidiar-ies and other entities be-longing to the same group	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	2,959,034	0	0	0	0

Income and expenses from transactions with related parties

2021 (HUF million)	Entities having joint control or significant influence over the Bank or its parent	Unconsolidat-ed sub-sidiar-ies and other entities be-longing to the same group	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Interest income	6,090	27	0	0	0
Interest expense	-5,465	-1	0	0	0
Dividend income	0	342	0	0	0
Fee and commission income	471	9	0	3	0
Fee and commission expense	-415	0	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair value through profit and loss	-62	0	0	0	0
Total	**619**	**377**	**0**	**3**	**0**

2020 (HUF million)	Entities having joint control or significant influence over the Bank or its parent	Unconsolidat-ed sub-sidiar-ies and other entities be-longing to the same group	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 value through profit and loss	0	0	0	0	0
Total	**1,877**	**370**	**0**	**4**	**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 906 million in 2021 (2020: HUF 932 million) which were short-term employee benefits.

(44) Investments in subsidiaries

The subsidiaries of the Bank and their activities are summarised in the following table:

31.12.2020 (HUF million)	Ownership interest 31.12.2020.	Ownership interest 31.12.2020.	Residence of the Company	Brief description of activities
Raiffeisen Corporate Lízing Zrt.	100%	100%	1054 Budapest, Akadémia u. 6.	Finance leasing
Raiffeisen Biztosításközvetítő Kft.	100%	100%	1133 Budapest, Váci út 116-118.	Activities of insurance agents and brokers
SCT Kárász utca Ingatlankezelő Kft.	100%	100%	1133 Budapest, Váci út 116-118.	Management of real estate on a fee or contract basis
Raiffeisen Befektetési Alapkezelő Zrt.	100%	100%	1133 Budapest, Váci út 116-118.	Fund management activities
RB Szolgáltató Központ Kft.	100%	100%	4400 Nyíregyháza, Sóstói út 31/b	Other financial auxiliary activities
Raiffeisen Energiaszolgáltató Kft.	100%	100%	1133 Budapest, Váci út 116-118.	Activities of holding companies
Raiffeisen Autó Lízing Kft.	100%	100%	1054 Budapest, Akadémia u. 6.	Leasing of cars and light motor vehicles
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	100%	100%	1054 Budapest, Akadémia u. 6.	Real estate development

The following table presents changes in the investments in unconsolidated related parties:

(HUF million)	Cost 01.01.2021	Increase	Decrease	Cost 31.12.2021	Fair value correction 01.01.2021	Increase	Decrease	Fair value correction 31.12.2021	Carrying amount 01.01.2021	Carrying amount 31.12.2021
Raiffeisen Biztosításközvetítő Kft.	5	0	0	5	0	0	0	0	5	5
Raiffeisen Energiaszolgáltató Kft.	100	0	-100	0	0	0	0	0	100	0
Raiffeisen Autó Lízing Kft.	42	0	0	42	-27	0	0	-27	15	15
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	3	0	0	3	0	0	0	0	3	3
Total	**150**	**0**	**-100**	**50**	**-27**	**0**	**0**	**-27**	**123**	**23**

(HUF million)	Cost 01.01.2020	Increase	Decrease	Cost 31.12.2020	Fair value correction 01.01.2020	Increase	Decrease	Fair value correction 31.12.2020	Carrying amount 01.01.2020	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**

There is no significant difference between the accounting and prudential consolidation 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 subsidiaries to consolidate.

(45) Fund management activity

The Group manages zero closed-end (2021: 0) and 15 open-end (2020: 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)	2021	2020
Managed funds	235,722	182,578
Open-end funds	235,722	182,578
Net fee and commission income from funds	2,323	1,980
Deposits from funds	37,630	22,967
Interest income and expense on deposits from funds	69	50

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 2021 and 2020, 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:

	Note	Liabilities			Equity						
	Note	Debt securities	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	AT1 instruments issued	Retained earnings	Reserves	NCI	Total
Restated balance as at 1 January 2021		**727**	**56,732**	**25,628**	**50,000**	**113,445**	**31,445**	**37,330**	**14,319**	**0**	**329,626**
Changes from financing cash flows											
Proceeds from issue of debt securities	(30)	0	0	0	0	0	0	0	0	0	0
Repayment of debt securities at maturity	(30)	0	0	0	0	0	0	0	0	0	0
Payment of lease liability	(25)	0	0	-2,328	0	0	0	0	0	0	-2,328
Dividends and coupon on equity instruments paid*	(35)	0	0	0	0	0	0	-3,127	0	0	-3,127
Total changes from financing cash flows		**0**	**0**	**-2,328**	**0**	**0**	**0**	**-3,127**	**0**	**0**	**-5,455**
The effect of changes in foreign exchange rates		**0**	**601**	**206**	**0**	**0**	**0**	**0**	**0**	**0**	**807**
Changes in fair value		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-727**	**0**	**-727**
Other changes		**-52**	**-7**	**22**	**0**	**0**	**0**	**0**	**123**	**0**	**86**
Liability-related											
Interest expense	(7)	14	1,690	610	0	0	0	0	0	0	2,314
Interest paid	(7)	0	-1,683	-607	0	0	0	0	0	0	-2,290
Total liability-related other changes		**14**	**7**	**3**	**0**	**0**	**0**	**0**	**0**	**0**	**24**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**0**	**33,217**	**3,657**	**0**	**36,874**
Balance as at 31 December 2021		**689**	**57,333**	**23,531**	**50,000**	**113,445**	**31,445**	**67,420**	**17,372**	**0**	**361,235**

	Note	Liabilities			Equity						
	Note	Debt securities	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	AT1 instruments issued	Retained earnings	Reserves	NCI	Total
Restated balance as at 1 January 2020		**727**	**56,732**	**25,628**	**50,000**	**113,445**	**31,445**	**37,330**	**14,319**	**0**	**329,626**
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
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 as at 31 December 2020		**727**	**56,732**	**25,628**	**50,000**	**113,445**	**31,445**	**37,330**	**14,319**	**0**	**329,626**

*In 2021, the Group paid HUF 3,127 million (2020: HUF 3,116 million) dividends on additional AT1 capital from retained earnings.

(47) Disclosures according to the Hungarian Accounting Law

i. Head of Accounting, Tibor Gáspár is responsible for the coordination and management of bookkeeping services and he is also entitled to perform bookkeeping services (registration 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 Deloitte Könyvvizsgáló és Tanácsadó Kft. (registration number: 000083), the auditor in charge is Gábor Molnár (registration number: 007239). The audited consolidated annual financial statements of the Group are published by the Court of registration and also available at the website of the Group at www.raiffeisen.hu.

Audit fees

The following net fees were charged by Deloitte Könyvvizsgáló és Tanácsadó Kft. in 2021 and KPMG Hungária Kft. and KPMG Tanácsadó Kft. in 2020:

(HUF million)	2021	2020
Audit fees	106	81
Other assurance services	12	8
Fees for non-audit services	5	19
Total	**123**	**108**

iv. There has been no decision about the dividend from the Group' 2021 profit.

(HUF million)	31.12.2021	31.12.2020
Retained earnings + Profit and loss after tax	67,420	37,331
Sources available for dividend payment	**67,420**	**37.331**

There were no received dividends (neither in 2021, nor in 2020) 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

The Hungarian Raiffeisen Bank is well capitalized, the Russian-Ukraine military conflict, which started after the balance sheet date had no direct impact on its operation, as within the Raiffeisen Bank Group all subsidiary banks per country are fully self-financing. The Hungarian Raiffeisen Bank has a continuous liquidity, which is way beyond the ex-pectations of the Nation Bank of Hungary. The ownership background is stable, the daily operation of the Bank is normal, the current situation is being handled actively.

The Group has investigated the expected impact of the recent conflict between Russia and Ukraine on its Corporate and Project Finance Portfolio. There is no relevant cross border (meaning country of risk RU, UA) financing in Corporate and Project finance portfolio of RBHU. There is one GCC (Group of connected clients) identified where the Group has on top of Hungarian also some proportion of Russian local standalone operation, that is directly not financed. This Group represents less than 1% our non-retail exposure. Additional sanctions or some extent of indirect contagion risk (meaning likes of supply chain disruption or energy price effect) cannot be for the time being absolutely excluded.

(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
CF: Cash flow
CIRS: Cross Currency Interest Rate Swap
COVID-PWO: clients, that either are already showing, or based on the Group's expectation 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
EBA: European Banking Authority
EURIBOR: Euro Interbank Offered Rate
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 Accounting Law
Hold to collect: the model's objective is to hold financial assets to collect contractual cash flows
Hold to collect and sell: the model's objective is both collecting contractual cash flows and selling financial assets in the portfolio

IAS: International Accounting Standards
IASB: International Accounting Standards Board
ICCAP: Internal Capital Adequacy Assessment 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
LIBOR: London Interbank Offered Rate
MA: Manual Analysis
MIRS: Monetary policy Interest Rate Swap
NBH: National Bank of Hungary
OCI: Other Comprehensive Income
PD: Probability of Default
PL: Profit and Loss
POCI: Purchased or Originated Credit Impaired
PRIBOR: Prague Interbank Offered Rate
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 recogni-tion
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 objective is to realise short-term profits
VaR: Value at Risk
WCV: Weighted Collateral Value

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