CIB BANK LTD.

Separate financial statements
prepared in accordance with
International Financial Reporting Standards
as adopted by EU
for the year ended 31 December 2020

with the report of the Independent Auditor

Contents

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Independent Auditors' Report

To the shareholder of CIB Bank Zrt.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of CIB Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the statement of financial position as at 31 December 2020, which shows total assets of MHUF 2,415,669, the statement of profit or loss , which shows profit for the year of MHUF 11,519, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

This is an English translation of the Independent Auditors' Report on the 2020 separate financial statements of the CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete financial statements it refers to.

Key Audit Matters

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

Impairment of loans to customers

As at 31 December 2020, net carrying amount of loans to customers: HUF 1,127,505 million, related accumulated impairment loss: HUF 28,463 million

Refer to notes (25) and (49) (a) to the separate financial statement.

The key audit matter	Our response
Impairment allowances represent the Bank's best estimate of the expected credit losses ("ECLs") within loans to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. Measurement of impairment allowances requires the Bank to make complex and subjective judgements over the amounts of any such impairment. Impairment losses on individually significant non-performing loans (equal to or above HUF 75 million per exposure), are based on the Bank's estimates of the present value of expected future cash flows, which are inherently uncertain. The present value of expected future cash flows is influenced by, among other things, the applied discount factor on the value of collateral, the length of the recovery process and the cost of liquidation or sale process. Collective impairment, applied to Stage 1 and Stage 2 exposures, as well as to Stage 3 exposures below HUF 75 million, is determined by modelling techniques relying on key parameters such as the client rating, probability of default ("PD") and loss given default ("LGD"). These modelling techniques also consider historical experience, identification of exposures with a significant increase in credit risk, forward looking information and other areas of judgement. In addition, during 2020, a number of measures were taken by the government to alleviate the effects of the COVID-19 pandemic, including repayment moratoriums. As days-past-due	Our audit procedures in the area, performed, where applicable, with the assistance from our own financial risk management, information technology (IT) and property valuation specialists, included the following, among other things: — We inspected the Bank's ECL methods and models and assessed their compliance with the relevant requirements of the financial reporting standards. As part of the above, we challenged the Bank on whether the level of the methodology's sophistication is appropriate based on an assessment of the customer-level factors; — We tested the design, implementation and operating effectiveness of selected controls over impairment calculations, customer ratings, monitoring and collateral recording. We also tested selected IT-based controls over the days past due calculation, default and forborne flag settings; — We assessed the completeness and accuracy of data used for ECL estimates and evaluated its relevance and reliability; — We assessed whether the definition of default and the relevant standards' staging criteria were consistently applied. We also assessed whether the definition of default applied was appropriate based on the requirements of the standards; — We evaluated whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption

parameter is not an appropriate indicator of changes in credit risk for borrowers benefiting from the moratorium, the Bank applied alternative staging indicators based on qualitative factors. Identification of exposures at default in the current economic environment is also associated with increased estimation uncertainty.
 	
In the wake the above factors and complexities, we considered impairment of loans to customers to be associated with a significant risk of material misstatement in the separate financial statement which required our increased attention in the audit and as such was determined to be a key audit matter.
	resulting from the COVID-19 pandemic. As part of the procedure, we assessed the monitoring processes related to clients under moratorium and the appropriateness of alternative factors used to measure the significant increase in credit risk.
	
	For impairment allowances calculated individually, for a risk-based sample of loans, we:
	
	— inspected the borrower's loan files, including correspondence with the borrower and its latest available debt service and financial information, loss allowance estimates by credit risk officers, independent collateral appraisals, risk committee minutes, and also considered the resolution period estimated for the credit impaired loans;
	— challenged the key assumptions within the Bank's estimates of the present value of expected future cash flows from the borrower, as follows:
	  — future debt recovery scenarios – by reference to risk committee analysis and decisions, with different elements and assumptions challenged by reference to the history of the exposure and our experience with the industry and current economic conditions;
	  — collateral values – by reference to asset valuations by experts engaged by the Bank, whose experience, competence and objectivity we independently assessed. We also independently challenged the experts' appraisals, on a sample basis;
	
	For collective impairment allowance, we:
	
	— assessed the underlying model set-up and reperformed the calculation of the model output based on the Bank's data and assumptions.
	— obtained the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. We independently assessed the information by means of corroborating inquiries of the Management Board members and inspecting publicly available information;

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

Other Information

The other information comprises the 2020 business report of the Bank. Management is responsible for the preparation of the business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the separate financial statements expressed in the Opinion section of our report does not cover the business report.

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

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

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

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

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

We confirm that the information referred to in Section 95/C of the Act on Accounting has been provided in the business report.

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

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

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

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

• Identify and assess the risks of material misstatement of the separate 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholder on 13 May 2020 to audit the separate financial statements of the Bank for the financial year ended 31 December 2020. Our total uninterrupted period of engagement is 9 years, covering the periods ending 31 December 2012 to 31 December 2020.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 18 March 2021;

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

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

Budapest, 18 March 2021

KPMG Hungária Kft.

Registration number: 000202

Zoltán Mitták
Director, Professional Accountant
Registration number: 007298

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Statement of profit or loss and other comprehensive income
for the year ended 31 December 2020

(million HUF)

	Note	2020	2019
Interest income		38,753	30,688
of which interest income calculated using effective interest rate method		*39,855*	*32,720*
Interest expense		(8,019)	(5,943)
Net interest income	**8**	**30,734**	**24,745**
Fee and commission income		35,673	35,618
Fee and commission expense		(9,751)	(8,885)
Net fee and commission income	**9**	**25,922**	**26,733**
Profits (losses) on trading	10	6,529	9,130
Fair value adjustments in hedge accounting	11	376	(54)
Profits (losses) from derecognition of financial instruments	12	550	(500)
Net change in value of financial assets mandatorily measured at fair value through profit or loss	13	1,412	(42)
Other operating income	14	7,381	2,804
Other operating expense	14	(1,702)	(1,301)
Net operating income		**71,202**	**61,515**
Impairment profits (losses) and provisions for losses	15	(5,458)	3,577
Profits (losses) on changes in contracts relating moratoria	15	(2,277)	-
Operating expenses without bank tax	16	(46,400)	(46,049)
Profit/(loss) before bank tax and income taxes		**17,067**	**19,043**
Bank tax	17	(3,572)	(3,100)
Profit/(loss) before income taxes		**13,495**	**15,943**
Income tax expense	18	(1,976)	(1,962)
Net profit/(loss) for the year		**11,519**	**13,981**
Items that may be reclassified to profit or loss		(1,505)	3,435
Items that may not be reclassified to profit or loss		182	926
Other comprehensive income for the year (net of tax)	**20**	**(1,323)**	**4,361**
Total comprehensive income for the year		**10,196**	**18,342**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 10 to 84 are an integral part of these separate financial statements.

Statement of financial position
as at 31 December 2020

(million HUF)

	Note	31/12/2020	31/12/2019
Cash and current accounts with central banks	21	64,881	36,863
Financial assets measured at fair value through profit or loss	22	84,527	52,996
a) securities held for trading		*2,262*	*6,895*
b) trading derivatives		*23,704*	*20,153*
c) financial assets mandatorily measured at fair value		*58,561*	*25,948*
Financial assets measured at fair value through other comprehensive income	23	305,553	346,582
Financial assets measured at amortised cost		1,895,720	1,524,330
a) loans to banks	*24*	*695,445*	*440,911*
b) loans to customers	*25*	*1,127,505*	*1,013,131*
c) debt securities	*26*	*72,770*	*70,288*
Hedging derivatives	27	1,388	873
Fair value changes of the hedged financial assets in portfolio hedge (+/-)		3,583	3,827
Investments in subsidiaries	28	6,620	2,467
Property, land and equipment	29	19,562	17,724
Intangible assets	30	12,160	12,323
Tax assets	18	1,037	1,105
a) current		*471*	*805*
b) deferred		*566*	*300*
Other assets	31	20,638	10,326
Total assets		**2,415,669**	**2,009,416**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 10 to 84 are an integral part of these separate financial statements.

Statement of financial position
as at 31 December 2020

(million HUF)

	Note	31/12/2020	31/12/2019
Financial liabilities measured at amortised cost		2,112,135	1,725,516
a) deposits from banks	*32*	*354,706*	*279,919*
b) deposits from customers	*33*	*1,746,470*	*1,435,675*
c) subordinated debts	*36*	*10,959*	*9,922*
Trading derivatives	22	17,853	16,181
Hedging derivatives	27	9,168	8,906
Fair value changes of the hedged financial liabilities in portfolio hedge (+/-)		82	
Tax liabilities	18	879	693
a) current		*152*	-
b) deferred		*727*	*693*
Other liabilities	34	28,155	24,110
Provisions	35	6,496	4,924
Total liabilities		**2,174,768**	**1,780,330**
Share capital	37	50,000	50,000
Reserves	38	164,707	163,579
Retained earnings		26,194	15,507
Total shareholder's equity		**240,901**	**229,086**
Total liabilities and shareholder's equity		**2,415,669**	**2,009,416**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

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Statement of changes in equity
for the year ended 31 December 2020

(million HUF)

	Note	Ordinary shares	Retained earnings	Capital reserve	First time adoption reserve	Revaluation reserve	General reserve	Other reserve	Total
Balance at 31 December 2018		**50,000**	**12,839**	**96,925**	**86**	**2,522**	**4,418**	**53,954**	**220,744**
Other comprehensive income (OCI)	20	-	-	-	-	4,361	-	-	**4,361**
General reserve	38	-	(1,399)	-	-	-	1,399	-	**-**
Dividend paid	19	-	(10,000)	-	-	-	-	-	**(10,000)**
IFRS 9 FTA settlement reclassification		-	86	-	(86)	-	-	-	**-**
Net profit / (loss) for the period		-	13,981	-	-	-	-	-	**13,981**
Balance at 31 December 2019		**50,000**	**15,507**	**96,925**	**-**	**6,883**	**5,817**	**53,954**	**229,086**
VISA C reclassification effect	22	-	1,619	-	-	-	-	-	**1,619**
Other comprehensive income (OCI)	20	-	-	-	-	(1,323)	-	-	**(1,323)**
General reserve	38	-	(1,151)	-	-	-	1,151	-	**-**
Development reserve	38	-	(1,300)	-	-	-	-	1,300	**-**
Net profit / (loss) for the period		-	11,519	-	-	-	-	-	**11,519**
Balance at 31 December 2020		**50,000**	**26,194**	**96,925**	**-**	**5,560**	**6,968**	**55,254**	**240,901**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 10 to 84 are an integral part of these separate financial statements.

Statement of cash flows
as at 31 December 2020

(million HUF)

	Note	2020	2019
Operating activities			
Net profit/(loss) before income taxes		13,495	15,943
Interest income	8	(38,753)	(30,688)
Interest expense	8	8,019	5,943
Depreciation and amortization	16	5,490	4,882
Increase / (decrease) in impairment loss on financial instruments	15	5,458	(2,198)
Increase / (decrease) in impairment loss on investments in subsidiaries	14	(4,200)	(1,816)
Allocation / (reversal) of provisions	35	2,278	(1,382)
Net unrealized (gain) / loss on financial instruments		(2,613)	2,492
Fair value adjustment on PPE	29	(166)	-
Effect of exchange revaluation		6,697	1,106
Decrease / (increase) in loans to banks	24	87,142	(36,204)
Decrease / (increase) in FVPL financial assets	22	3,267	17,695
Decrease / (increase) in loans to customers	25	(110,671)	(130,477)
Decrease / (increase) in other assets	31	(10,347)	1,074
Increase / (decrease) in deposits from banks	32	62,817	24,195
Increase / (decrease) in deposits from customers	33	279,609	49,039
Increase / (decrease) in other liabilities	34	3,250	(7,744)
Interest received		31,310	33,389
Interest paid		(7,939)	(9,113)
Income tax paid		(1,583)	(2,615)
Cash flows used in operating activities		**332,560**	**(66,479)**
Investing activities			
Purchase of financial investments		(78,623)	(163,622)
Proceeds from sale of financial investments		115,634	84,600
Acquisitions to intangible and tangible assets		(4,364)	(5,318)
Proceeds from sale of intangible and tangible assets		224	58
Decrease / (increase) in ROU assets	39	(1,161)	(9,833)
Decrease / (increase) in repossessed assets		-	7
Change in investment in subsidiaries		47	-
Cash flows used in investing activities		**31,757**	**(94,108)**
Financing activities			
Increase / (decrease) in subordinated debts		-	-
Increase / (decrease) in lease liabilities		(31)	8,874
Dividend paid		-	(10,000)
Cash flows used in investing activities		**(31)**	**(1,126)**
Net increase / (decrease) in cash and cash equivalents		**364,286**	**(161,713)**
Cash and cash equivalents at the beginning of year		252,993	414,706
Cash and cash equivalents at the end of year		**617,279**	**252,993**

The notes on pages 10 to 84 are an integral part of these separate financial statements.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalent comprises the following balances with less than three months maturity from the date of acquisition.

(million HUF)

	Note	31/12/2020	31/12/2019
Cash and current accounts with central bank	21	64,881	36,863
Loans to banks	24	552,398	216,130
Cash and cash equivalents at the year end		**617,279**	**252,993**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

Notes to the separate financial statements

Part A Accounting policies

(1) Corporate information

The sole owner and ultimate parent company of CIB Bank Ltd. (hereinafter: the "Bank") is Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that holds 100% of the shares of the Bank as at 31 December 2020.

The Bank is a fully licensed Hungarian bank conducting local and international banking business both within and outside Hungary.

The registered address of the Bank is 4-14 Medve utca, Budapest.

Persons authorized to sign the financial statement are Dr. Pál Simák Chief Executive Officer, Chairman of the Board and Dario Massimo Grassani Chief Financial Officer and Deputy Chief Executive Officer.

Person responsible for directing and managing the tasks related to accounting is Hajnalka Szarvas (Budaörs), the chartered accountant registration number: 005105.

The Bank engaged KPMG Hungary Ltd. (1134 Budapest, Váci út 31.; Chamber of Hungarian Auditors reg. no.: 000202) to perform the statutory audit of the business year 2020. The individual responsible for the auditing is Zoltán Mitták, member of the Chamber of Auditors (MKVK registration number: 007298). The Bank paid HUF 81,2 million plus VAT for audit, the fee includes the statutory audit fees of CIB Bank and group reporting to the auditor of the parent, and HUF 5,5 million plus VAT for other assurance services to the auditor company in 2020.

The average number of active employees of the Group was 2,126 in 2020 and 2,097 in 2019, respectively.

As at 31 December 2020 the Bank had the following subsidiaries:

Company	CIB Group's share %	Country of incorporation	Principal business
CIB Leasing Co. Ltd.	100%	Hungary	Financial leasing services
CIB Rent Leasing and Trading Company Ltd.	100%	Hungary	Leasing services
CIB Insurance Broker Ltd.	100%	Hungary	Insurance agency services
Recovery Ltd.	100%	Hungary	Real Estate Management

The Bank took over the activities and assets of CIB Faktor on 1 January 2017, as a result of which the activities of CIB Faktor ceased to exist, its voluntary liquidation started on 27 December 2017, closed on 28 April 2020, and the Company was liquidated.

(2) Statement of compliance

The separate annual financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union and in accordance with the provisions applicable to entities preparing annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting. These separate financial statements are prepared for statutory filing purposes.

The financial statements for the year ended 31 December 2020 were authorized for issue in accordance with a resolution of the Management Board on 18 March 2021.

The Bank is consolidated by its ultimate parent company. The ultimate parent company's consolidated financial statements are available at www.intesasanpaolo.com web site.

The original financial statements have been prepared in Hungarian and this is the translation of the Hungarian version. The original financial statements are available at www.cib.hu web site.

(3) Basis of measurement

The annual financial statements of CIB Bank Ltd. have been prepared on a historical cost basis, except for financial instruments which are measured at fair value, thus financial instruments measured at fair value through other comprehensive income, derivative financial instrument and other financial assets and liabilities measured at fair value through profit or loss. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges are adjusted to record changes in fair value of hedged items attributable to the risks that are being hedged.

These financial statements are presented in Hungarian Forint (HUF) and all amounts are rounded to the nearest million except when otherwise stated.

(4) Changes in the business year

COVID-19 pandemic

The epidemiological actions related to COVID-19 pandemic also had and impact on the financial year of the Bank.

On 11 March 2020, the Government of Hungary declared an emergency situation related to coronavirus pandemic. In connection with this emergency, the following steps took place which also affected the operations of the Bank:

- On 18 March 2020, based on Government Decree 47/2020. (III. 18.) and Act LVIII of 2020, a payment moratoria has come into force concluding that retail and corporate customers will receive a deferral of payment for principal and interest instalments until 31 December 2020. The moratoria apply to loans already disbursed under existing credit agreements. Affected loan products include mortgage loans, unsecured loans, leases, credit cards and overdrafts. The moratoria will take effect automatically, but the debtor may declare his withdrawal from moratoria. After the moratoria expires, none of the instalments could be higher than contracted before application of moratorium measures, but the payment period will be leghtened.
- The Act CVII of 2020 on transitional measures for the stabilization of certain social groups and enterprises in financial difficulties (Moratoria Act II) and Government Decree 637/2020. (XII.22.) on special emergency rules for credit moratiora provide a moratoria on principal and interest payments, and prohibits the termination of loans from 1 January 2021 to 30 June 2021 for credit and loan agreements outstanding and disbursed on 18 March 2020
- In accordance with the regulations of the European Central Bank and European Systemic Risk Board, the National Bank of Hungary (MNB) calls on Banks to extend the previous dividend approval and payment restriction to 1 January 2021, which was valid until 30 September 2020. The Central Bank also expects credit institutions to refrain from repurchasing shares for the purpose of remunerating shareholders by 1 January 2021 (shares repurchased for allowances are not included in this category) and to consider variable remuneration policy restrictions on payments until the same date.
- The National Bank of Hungary eased capital adequacy reqirements.
- The Bank's response to all pandemics was primarily driven by maintaining the health of colleagues and customers, protecting jobs and ensuring business continuity. Although the pandemic situation required new scenarios in several respects to meet the priorities set for 2020, the Bank was able to take a significant step towards successfully and efficiently closing the 4-year strategic cycle by the end of 2021, despite the difficult circumstances. Through a number of innovations introduced for the first time on the market, the range of services available on digital channels has been further expanded, which has been and continues to be of particular help to customers and branch staff in the event of an epidemic. As a result, the Bank's revenues increased significantly while maintaining its costs. Overall, the epidemic situation did not violate the principle of going concern.

(5) Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

5.1 Foreign currency transactions

The presentation currency of the Bank is the Hungarian Forint (HUF). Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of transactions. Spot rate is the official rate of exchange quoted by the Hungarian Central Bank. At 31 December 2020 the euro was EUR 1 = HUF 365.13 (2019: EUR 1 = HUF 330.52).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined.

(5) Significant accounting policies (continued)

5.2 Financial instruments

The Bank has applied IFRS 9 requirements since 1 January 2018, except for the hedge accounting items, which is still evaluated according to IAS 39 until the dynamic risk management standard of IASB will be available.

5.2.1 Date of recognition

All "regular way" purchases and sales of financial assets and liabilities are recognized on the settlement date, i.e. the date that the financial asset is delivered except for derivatives. Regular way purchases or sales are purchases or sales that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Derivatives are recognized on a trade date basis. Trade date is the date that the Bank commits itself to purchase or sell an asset.

The evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value measurement is not evidenced by a valuation technique that uses only data from observable markets, then the carrying amount of the financial instrument on initial recognition is adjusted to defer the difference between the fair value measurement and the transaction price.

Subsequently, the difference is recognized in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If the fair value measurement is evidenced by a quoted price in an active market or is based in another valuation technique that uses only data from observable markets, then the Bank immediately recognizes gain or loss.

In 2013 the National Bank of Hungary launched its program called Funding for Growth Scheme (FGS). Under the program the National Bank granted refinancing funds for Hungarian credit institution with 0% interest rate - mainly in order to finance smal l- and medium businesses (SMB) by providing loans with discount rate and exchange foreign currency loans to HUF loans.

The program had three phases. The maximum interest rate of loans granted was 2.5% which, in case of the first two phases, was lower than the interest rate of similar loans available in the market. The difference between the fair value and gross book value of loans (granted and given as well) was recognized as operating income and expenses. The discount factor used for determining the fair value of loans was swap yield curve that belongs to the currency of the loan, increased by the risk premium of the partner group.

5.2.2. Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes (5). All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost and other adjustment at initial recognition is amortized using the effective interest rate method.

5.2.3 Measurement categories of financial assets and liabilities

The Bank classifies its financial assets based on the business model for managing the assets and its contractual terms. Financial assets are measured at either:

- amortised cost
- fair vaule through other comprehensive income (FVOCI)
- fair vaule through profit or loss (FVPL)

5.2.4 Business model assessment

The Bank determines its business model reflecting its intention to generate cash flows, that is, whether the Bank's objective is solely to collect contractual cash flows from the instruments or is to collect both the contractual cash flows arising from sale. If none of these is suitable, then the financial instrument is measured at FVPL.

Business model assessment is based on reasonably expected scenarios, considering the following factors:

- frequency, volume and timing of the sales in prior periods, the reason for such sales and the expectation about the future sales activity considered as an overall assessment on how the cash flows were collected.
- main purpose of holding securities
- evaluation of the instrument's performance and it's reporting to the management
- risk assessment of the financial instrument and strategy for managing those risks

(5) Significant accounting policies (continued)

5.2.5 The SPPI test

In case, when the business model is to hold financial instruments to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payment of principle and interest (the SPPI test), so that the interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms represent exposure to risk or volatility that are unrelated to a basic lending arrangement, so they do not give rise to solely payment of principle and interest, the financial instrument is measured at FVPL.

Assessing whether the contractual terms of the instrument are SPPI, the Bank considers the following factors:

- leverage features;
- prepayment and extension terms;
- conditions that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans)
- convertible options;
- condition regarding contractually linked instruments

A relevant question when assessing the SPPI Test features for a financial instrument is whether the time value of money is modified. In cases, when the time value of money is modified, benchmark cash flow test is performed in order to determine how different the contractual cash flows of such instrument could be in respect of the cash flows that would arise had the "time value of money" element not been modified.

Assessing benchmark cash flow test the following factors are considered:

- currency
- refixing period of the interest rate;
- frequency of interest payment;
- tenor of the interest rate (underlying rate);
- maturity

5.2.6 Fair values

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels:

- Level 1: inputs are the (unadjusted) quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs are inputs other than quoted prices included within Level 1 that are directly or indirectly observable for the asset or liability to be measured;
- Level 3: inputs are unobservable inputs for the asset or liability.

The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. For equities traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market closing prices at the close of business on the reporting date.

The fair value of interest-bearing items not traded on an active market is estimated based on discounted cash-flows using interest rates for items with similar remaining maturity. The carrying value of demand deposits is considered to be the fair value.

For equities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected discounted cash flows.

Classification is based on a hierarchy that reflects the significance of unobservable inputs used in the measurement. In case of changes occurred in the inputs or the weights when evaluating the fair values of assets, the assets could be reclassified in the fair value hierarchy.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note (46).

(5) Significant accounting policies (continued)

5.2.7 Loans to banks

Loans to banks include financial assets with fixed or determinable payments that are not quoted in an active market.

Measurement of loans to banks is driven by business model and the result of the SPPI test.

For Expected Credit Loss (ECL) calculation please refer to Note (5) and (6).

5.2.8 Loans to customers

Loans to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.

Measurement of loans to customers is driven by business model and the result of the SPPI test.

For ECL calculation please refer to Note 5.2.16.

Where possible the Bank seeks to restructure loans rather than to take possession of collateral. Restructuring may involve extending the payment period arrangements and the agreement of new loan conditions, particularly interest level. The Management continuously monitors renegotiated or restructured loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to an individual or collective impairment assessment.

The Bank provides commercial factoring services in order to finance its partners' business activity. There are two main types of factoring deals: deal with recourse and non-recourse. The Bank classifies the financed receivables depending on whether all the risks and rewards has been transferred, or not. Accordingly:

- in case of non-recourse factoring deals the Bank acquires all risks and rewards of the receivable and therefore the total amount of the receivable is recognised in its books irrespectively of paying the total amount, or not;
- in case of recourse factoring deals the Bank does not acquire all risks and rewards of the receivable therefore only the paid amount is recognised in its books as loan advance to customers.

Receivables from factoring transactions are initially recognised at fair value which is the invoiced amount less purchase discount. After initial recognition receivables from factoring are measured at amortised cost using the effective interest rate method less allowance for impairment. In case of non-recourse factoring deals the Bank applies net presentation: if the total amount of the acquired receivable is not paid, any related liability is deducted from the carrying amount of the receivable. The Bank does not apply the simplified provisioning method when determining the allowance of impairment. Receivables from factoring transactions are not represented separately but disclosed within loans and advances to customers.

Loans that are individually assessed for impairment (i.e. non-performing exposure exceeding HUF 75 million or EUR 250,000 at the customer level) and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the allowance.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal systems that consider credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors and have been estimated based upon historical patterns of losses in each component.

The Bank classifies exposures as default exposure when the exposure is more than 90 day past due or it is unlikely that the Bank can collect the contractual cash flows and the past due amount is higher than the 1% of the total on-balance sheet exposure, and higher than EUR 100 for retail loans and EUR 500 for non-retail loans, in line with CRR 178 paragraph. Loan exposures shall continue to be disclosed as non-performing loans up to at least 3 months from when they no longer meet conditions to be classified as such.

Credit impaired assets are part of those financial assets whose estimated cash-flows have been negatively impacted (impaired) by one or more events that have occurred. The impairment of financial assets may not necessarily be associated with specific event but may instead result from combination of factors. Some of the most common circumstances where objective evidence of impairment can be identified are listed below:

- significant financial difficulty of the borrower
- breach of contract, such as default or missed due date
- economic or contractual reasons relating to the borrower's financial difficulty
- probability of bankruptcy or another financial reorganisation of the debtor
- the disappearance of an active market
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(5) Significant accounting policies (continued)

Positions classified as non-performing loans must continue to be recognised as credit impaired loans until at least 3 months (90 days) have elapsed since they no longer meet the conditions to be classified as such. It may can be concluded, that all credit-impaired instruments must be assigned to Stage 3.

The general mostly applied rule of calculating impairments and allowances are based on discounted expected future cash flow method, with best available data for the Bank. The present value of the available estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the available estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

5.2.9 Derivatives financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, and valuation techniques such as discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank applies hedge accounting to its fixed rate assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the banking book. Hedged instruments are identified both on individual and portfolio level. Fair value change of financial assets hedged in portfolio is presented as a separate line in the statement of financial position.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument. The Bank, in accordance with the Intesa Sanpaolo Group's policies, designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items (efficiency tests). The effectiveness of the hedge must be tested both at its inception (designation of hedging relationship) and regularly during the entire lifetime of the hedge. In the case of a fair value hedge, changes in the fair value of derivatives that are designated as hedging items in fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Interest income and interest expense recognized on hedging derivative instruments are presented as interest income and interest expense in the statement of comprehensive income together with the interest income and interest expense recognized on hedged items. Change in fair value of hedging derivatives are presented in the income from trading activities in the statement of comprehensive income together with the change in fair value of the hedged instrument attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in profit or loss.

IAS 39 Financial Instruments: Recognition and Measurement requires hedge effectiveness to be assessed both prospectively and retrospectively. Retrospective test reveals the degree of hedge effectiveness achieved during the period from designation to the performance of the test; in other words, it measures how much the actual results have deviated from those of a perfect hedge.

Prospective test demonstrates the expected effectiveness of the hedge in future periods. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the delta in the fair value or cash flows of the hedged item attributable to the hedged risk must be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective and retrospective basis, within a range of 80% to 125%.

Notes (22) and (27) provide further details regarding derivative financial instruments and hedge accounting.

(5) Significant accounting policies (continued)

5.2.10 Debt securities at fair value through other comprehensive income (FVOCI)

The Bank classifies debt instruments measures at FVOCI when both of the following conditions are met:

- the objective of the business model is to collect contractual cash flow and sell the debt instrument
- the contractual terms of the instrument meet the SPPI test

These instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

For ECL calculation of debt instruments at FVOCI please refer to Note 5.2.16.3.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss.

5.2.11 Equity instruments at fair value through other comprehensive income (FVOCI)

The Bank occasionally classifies equity instruments at FVOCI, such classification is irrevocable and is made on an instrument-by-instrument basis. Equity instruments can be classified as equity instruments at FVOCI when they meet the definition of equity under IAS 32 and are not held for trading.

Changes is fair value of these instruments are recognized in OCI and are never recycled to profit or loss, even if the asset is sold. Accumulated gain or loss is transferred to retained earning upon derecognition.

Equity instruments at FVOCI are not subject to an impairment assessment and no impairment is recognised on them.

5.2.12 Deposits from bank and customers

All money market and customer deposits are initially recognized at fair value. After initial recognition, all interest-bearing deposits, other than liabilities held for trading, are subsequently measured at amortized cost with the interest expense booked to profit or loss with effective interest method.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

For liabilities carried at amortized cost, any gain or loss is recognized in profit or loss when the liability is derecognized.

5.2.13 Financial assets at fair value through profit or loss (FVPL)

Financial assets included in this category are debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term or held as part of a portfolio that is managed together for short-term profit or position taking. These instruments are initially recognised at fair value, with no transaction costs taken into consideration.

FVPL assets are subsequently recognised at fair value; changes in the fair value are presented in profit and loss. These instruments are not assessed in the ECL calculation.

5.2.14 Financial assets measured mandatorily at fair value through profit or loss (MFVPL)

The Bank classifies loans as financial assets measured mandatorily at fair value through profit or loss, where the contractual characteristics does not meet the criteria of SPPI test.

The Bank has exposures generated by the Housing Subsidy Scheme for Families (CSOK). Interest of these mortgage loans are subsidized until a certain term of the loan, where the subsidy amount depends on family conditions. Regarding this product (CSOK), the interest subsidy is calculated on the basis of 130% of the Government Debt Management Agency reference yield, while the transaction interest rate is fixed at 3%. Due to the different conditions in the transaction, the product is placed in the SPPI failed category and is measured at fair value through profit or loss.

The Bank has exposures generated by the program of Hungarian Development Bank for small and medium businesses. There is a mismatch regarding the interest characteristics of these special loans, as the interest reference rate is not line with the disbursed currency, therefore the criteria of the SPPI test is not met and these loans are also meaure at fair value through profit or loss.

In 2019, the Bank issued a so-called „babaváró" family support loan under the „Family Protection Plan", which has an interest that could not be higher than the 130% plus 200 bp of the weighted arithmetic average of the 5-year government bond's average yields established at auctions during the 3-month period before the disclosure. The Bank evaluate the loans at fair value, at level 3 of the fair value hierarchy, because the loan's cash-flow have not just capital and interest components.

(5) Significant accounting policies (continued)

The Bank uses the discounted cash-flows for evaluating the fair value of the loans. The discount rate is the average interest of disbursed loans updated monthly.

Investments in equity and debt securities that are not held for trading are also measured MFVPL (unless they are designed at FVOCI).

5.2.15 Derecognition of financial instruments

5.2.15.1 Derecognition due to substantial modification of terms and conditions

When a contractual clauses are modified during the life of an instrument, it must be verified whether the original asset must continue to be recognised in the balance sheet or whether, on contrary, the original instrument has to be eliminated from the balance sheet (derecognition) and a new financial instrument has to be recognised.The Bank derecognises a financial asset, when the terms and conditions are renegotiated to the extent that, substantially, it becomes a new loan. An assessment of the “substantial nature” of the modification shall be made, both in regard to qualitative and to quantitative elements. The qualitative and quantitative analyses designed to determine the “substantial nature” of the contractual modifications made to a financial asset will have to consider:

- the purposes for which modifications were made for example renegotiation of contract for commercial reasons and concessions made in response to economic problems faced by the counterparty;
- the presence of specific objective elements (“triggers”) that affect the characteristics and/or the contractual cash flows of the financial instrument

Assessing the derecognition of a financial asset, the Bank considers the following changes as significant change is cash flow:

- change in currency
- change in counterparty
- conversion of debt exposure into equity;
- if the modification results in an instrument that would no longer meet SPPI test
- other cases of a substantial change in the nature of the contract (i.e. the introduction of contractual clauses which expose the debtor to new and other risk components, such as returns tied to equity or commodity components, leverage effects or similar clauses.

The difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

Where the modification does not indicate significant change in cash flows, the modification does not result in derecognition. In this case the EIR is not modified and the relating gain or loss is recognised in the statement of comprehensive income as other operating expense or income.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

5.2.15.2 Derecognition other than for substantial modification

The Bank qualifies a financial asset for derecognition where:

- the rights to receive cash flows form the asset expire
- the Bank transfers its contractual rights to receive cash flows from the asset or if the Bank retains the rights to the cash flows, but has assumed to pay the received cash flows in full without delay to a thrid party
- the Bank has transferred substantially all the risks and rewards of the asset, or if the Bank retains the risk and rewards of the asset, but has transferred control of the asset

Financial liability is derecognised when the obligation is cancelled or expires.

5.2.16 Impairment of financial assets

From 1 January 2018, the Bank applies the expected credit loss model for all financial assets measured at amortized cost or FVOCI, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

(5) Significant accounting policies (continued)

The Bank's ECL calculations are outputs of complex models, elements of the ECL models that are considered accounting judgements and estimated include:

- the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time expected credit loss (LTECL)
- the segmentation of financial assets when their ECL is assessed on a collective basis
- development of ECL models, including the various formulas and the choice of inputs.
- selection of forward-looking macroeconomic information included in the calculation of ECL.

Loans to customers are classified to the non-performing loan category if the receivable is individually impaired. Evidence of impairment may include that the borrower is experiencing significant financial difficulties (is under liquidation), the probability that they will become insolvent (probability of default is 100%) or there is a material delinquency in interest or principal payments (more than 90 days material past due amount) and where observable data indicates that there is a change in economic conditions that correlate with default (managed by work-out department). For more information on non-performing loans see Note (49) on Risk Management.

Non-performing loans are considered as credit-impaired assets.

Exposure are fully written-off, when it can be supported by documents that all recovery options (including legal procedures against the debtor and the guarantor for the guarantor) are exhausted and no further recovery is expected. Exposures can also be written-off partially, when considering the supporting documents, usually at a late stage of legal proceedings, that part of the exposure to the debtor is unlikely to be recoverable.

5.2.16.1 Overview of Expected Credit Loss principles

Expected credit loss allowance is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date.

The Bank has significant amount of low credit risk financial assets. These are mainly intercompany items (receivables from subsidiaries and related parties) related to account of loans to banks and loans to customers.

For some exposures (clearly identified and performing government debt securities measured at fair value through other comprehensive income), the IFRS 9 low credit risk exemption is adopted, according to which exposures that, at the date of transition to the new Standard, are rated as investment grade, or above (and similar) is recognized as bearing low credit risk and treated as Stage 1. Investment grade can be allocated only to exposures with pd lower than 2% or to exposures that has "Investment grade" published by external financial rating company.

Simplified method of impairment requirements is applied on financial assets subject to IFRS 15 (trade receivables) based on IFRS 9.

The Bank classifies its financial assets into Stage 1, Stage 2, Stage 3 and POCI as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on the 12mECLs.
- Stage 2: When a loan has a significant increase in credit risk determined by a comparison of the Probability of Default art first recognition and that at reporting date.

  The following criteria is used to classify exposures to Stage 2:

  - Performing exposures with more than 30 days past due over the materiality threshold
  - Forborne exposures
  - Performing exposures with early warning signals
  - Performing exposures with significant increase in PD or other risk indicators similar to PD which can be used to assess the increase in credit risk
- Stage 3: Credit impaired assets are classified to Stage 3 during staging.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired assets on initial recognition. POCI assets are recorded at fair value at original recognition.

(5) Significant accounting policies (continued)

5.2.16.2. The calculation of ECLs

The mechanism of ECL calculation considers the following key elements:

- *Exposure at default (EAD).* The exposure consists of on-balance sheet assets and off-balance sheet liabilities, where off-balance sheet exposure represents the amount of contingent off-balance sheet liabilities of the Bank adjusted by a credit conversion factor (CCF) to convert off-balance sheet exposure into an on-balance sheet equivalent and is added to the actual on-balance sheet exposure. The credit conversion factor is defined at the level of loan facilities and is calculated using the simplified statistical methods adopted for Internal Capital Adequacy Assessment (ICAAP) purposes. In case of financial instruments classified as stage 2, EAD is determined on a yearly basis.
- *Probability of default (PD).* PD component determines probability of default, i.e. the probability of transition from the performing portfolio to the non-performing portfolio on debtor level. The PD component is the result of a combination of objective and subjective information about the debtor's credit-worthiness. The PD component for the retail (private individuals and entrepreneurs), small business, corporate (SME and large corporate) and project segments is calculated with statistically developed models. For each mentioned segment the Bank is using a separate, segment-specific model for the calculation of PDs and internal ratings. The models were developed with the point-in-time method.
- *Loss given at default (LGD).* LGD calculated by portfolio segments is the measure of losses incurred on facilities that have defaulted. Assuming that the process of collection of the existing and future non-performing facilities of the Bank will be equally or similarly efficient as the historical collection, LGD also represents the assessment of future losses on each facility that will default. For the purpose of the assessment of impairment / provision, the Bank uses the results of a simplified statistical method that was approved for Internal Capital Adequacy Assessment (ICAAP) purposes with downturn adjustments. The Advanced Internal Rating Based approach (AIRB) compliant LGD models are finalized.
- Including forward-looking information in the calculation of Expected Credit Losses (ECL), also connected to changes in the macro-economic scenario. Macro-economic inputs comprise both EU and domestic data, e.g. GDP, unemployment data.

When estimating the ECLs, the Bank considers three scenarios: a best case, a worst case, a most likely. Each of these is associated with different risk parameters. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by Credit Risk function.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant, and
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported).

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentration and economic factors.

Parameters used in the collective assessment are calculated with statistical methodologies and models which are to the largest extent possible aligned or identical to those used in the processes of approval of facilities or calculation of capital adequacy.

For the portfolio segments with insufficient homogeneous set of data for statistical assessment of loss, the Bank uses risk parameters provided by ISP group calculated on the whole ISP group portfolio for:

- central governments and central banks;
- public sector entities treated as institutions;
- municipalities;
- institutions.

The parameters used in the impairment / provision calculation is subject to regular internal reviews in order to ensure that those always reflect a best estimate for expected credit risk losses.

Management can apply judgment to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date.

(5) Significant accounting policies (continued)

5.2.16.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at fair value through OCI do not reduce the carrying amount of these financial assets, it remains at fair value. The amount equal to the allowance is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss in recognised in OCI is recycled to the profit and loss upon derecognition.

Financial assets included in this category are largely those had previously been classified as financial investments available-for- sale under IAS 39.

5.2.16.4 Purchased originated credit impaired financial assets (POCI)

The Bank considers the change in currency of the contract and the change in customer as significant change in the contractual cash flows. If this change is due to financial difficulties, the exposure is classified as purchased originated credit impaired financial asset. Credit impaired financial assets can also be purchased, occasionally.

The Bank only recognises the cumulative changes in LTECL since initial recognition in loss allowance.

Interest income is recognised using a credit-adjusted effective interest rate.

5.2.17 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when the Bank currently has a legally enforceable right to set off the amounts and it intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

5.3 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in the fair value and are used by the Bank in the management of its short-term commitments.

Cash is carried at amortized cost in the statement of financial position.

5.4 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in net trading income.

5.5 Repurchase and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position and are measured in accordance with accounting policies for non-trading investments. The liability for amounts received under these agreements is included in deposits from banks. The difference between sale and repurchase price is treated as interest expense in the respective period.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the statement of financial position. Amounts paid under these agreements are included in deposits from banks. The difference between purchase and resale price is treated as interest income in the respective period.

5.6 Investment in subsidiaries

Investment in subsidiaries are the investments which is controlled by the Bank based on a direct or indirect ownership. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investment in subsidiary is recognized initially according to the IAS 27 cost value model. Based on the subsequent measurement and the quarterly review, impairment is recognized, when the difference between the fair value and book value of the investment is durable and significant. The bank defines durability for one year and a significant percentage of 10%. For the purposes of determining the fair value of the Bank's subsidiaries, the values of the current equity of each subsidiary are to be taken into account unless a business and firm valuation- not older than one year - by an external expert is available.

If there is a change of power over an investee, or in other circumstances, the Bank reassesses whether it controls an investee on a continuous basis and discloses the information and the significant estimates which was used during the assessment.

(5) Significant accounting policies (continued)

5.7 Intangible assets, property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Cost incurred after initial recognition are capitalized, except for tangible assets measured at fair value.

At subsequent measurement the assets – except for owner-occupied properties - are measured at cost, net of accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful lives of all property, plant and equipment, except operational buildings.

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises – head quarters	3%	30% of gross value
Premises – branches	5%	30% of gross value
Leasehold improvements	5%	individually assessed
Electronic equipment's and office furniture	14.5%	individually assessed
Computer equipment	33%	individually assessed
Software	20%	individually assessed
Motor vehicles	20%	20% of gross value

Owner-occupied premises are subsequently carried at the revalued amount. The market trends which can affect the values of the properties, are inspected on an annual basis, and in every 3 years an independent valuation is c. If the inspections show that there is a major difference between the carrying amount and the market value, the properties are revalued.

When an owner-occupied property is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

Increases in carrying amounts arising from revaluation are recognized in the asset revaluation reserve and revaluation reserve on the other comprehensive income in equity, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognized in profit or loss.

Decreases in carrying amounts that offset previous increases of the same asset are recognized against the asset revaluation reserve. All other decreases in carrying amounts are recognized as loss in profit or loss.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the asset is included in profit or loss as operating income in the year the asset is derecognized. The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

5.8 Other assets

Other assets' initial recognition is assessed on an individual basis, based on the type of the asset. The balance of other assets includes those balances which have not been disclosed separately in the statement of financial position. After initial recognition they are measured at the lower of cost and net realizable value.

Receivables are initially measured at fair value and subsequently measured at amortised cost. For the impairment of the receivables the Bank uses the simplified impairment model.

5.9 Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded and met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(5) Significant accounting policies (continued)

5.10 Revenue recognition

The Bank has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018, which replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

A contract with a customer recognised as financial instrument which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in scope of the IFRS 9 and then applies IFRS 15 to the residual.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with costumers and the related assets and liabilities recognized by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

A five-step model is applied to determine when to recognise revenue, and at what amount. The revenue is recognised when the Bank transfers goods or services to a customer, measured at the amount at which the Bank expects to be entitled.

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

The following fee types are not integral part of the effective interest rate of the financial pursuant to IFRS 9 and, consequently have to be recognised in compliance with IFRS 15:

- the fees charged for loan service
- the commitment fees to originate a loan when the loan disbursement commitment is not designated at fair value through profit or loss and it is unlikely that specific loan agreement will be made
- the loan syndication fees received by the bank making a loan and does not keep any part of the loan for itself.

Fees earned for providing services - such as servicing fee, account turnover fee, card fee, investment services fee, documentary fee and cash management fee - are recognised over time. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transactions. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in profit or loss when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

Dividend income is recognised when the Bank's right to receive the payment is established.

5.11 Taxation

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Local business tax and Innovation contribution are both revenue driven taxes, thus considered income tax.

Deferred tax

Deferred tax is recognised for temporary difference in relation with corporate tax expense.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward for unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction affects neither the accounting profit nor taxable profit or loss.

The carrying amount of 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.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax items are measured using tax rates that are probable in the period in which the temporary differences reverse, based on tax laws that have been enacted or substantively enacted at the reporting date.

(5) Significant accounting policies (continued)

Current tax and deferred tax items are recognised in profit or loss as income tax expense.

Deferred tax asset and deferred tax liabilities are offset if legally enforceable rights exist to set off current tax assets against current tax liabilities and the deferred taxes relates to the same taxable entity and the same tax authority.

Bank tax

For 2020 the basis and rates are defined with reference to statutory reported financial data of the reporting entity for the period ended 31 December 2018. For 2019 the basis and rates are defined with reference to statutory reported financial data of the reporting entity for the period ended 31 December 2017.

The tax rates for credit institutions were 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.2% had been applied for the amount exceeding HUF 50 billion.

Bank tax is presented as operating expense in the profit or loss as it does not meet the definition of income tax under IFRS and presented on a separate line on the face of the comprehensive income.

Financial transaction duty

Financial transaction duty is presented as operating expense in profit or loss.

Pandemic related special tax

In order to implement the Economic Protection Plan and to replenish the Epidemiological Fund, a special tax relating to pandemic situation was introduced in 2020 based on Government Decree 108/2020. (IV.14.).

The base of the special tax is defined in Act LIX of 2006 on a special tax and annuity to improve the balance of public finances. 4 / A. § (4), point 1, for the tax year 2020 exceeding HUF 50 billion

The rate of the special tax is 0.19 percent.

The tax amount reduces the bank tax to be paid in the future, so in 2020 it will only appear in the statement of financial position, not in the statement of comprehensive income.

5.12 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the statement of financial position.

5.13 Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the statement of financial position at fair value, and the fair value is recognized in other liabilities.

Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the loss allowance in accordance with IFRS 9 and the amount initially recognised (before 1 January 2018 at the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee). Any change in the liability relating to financial guarantees is recorded in profit or loss.

5.14 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

For details please refer to Note (32).

5.15 Leases (Bank as lessee)

The Bank has applied IFRS 16 leasing standard from 1 January 2019 for every contract whether a contract is or contains a lease. The standard should be applied for every lease contract: A contract contains a lease if the lessee has the right to control the use of and identified asset for a period in exchange for consideration. According to the standard, the lessee recognises a right-of-use („RoU") asset and a lease liability. An identified asset may be a single asset or a capacity portion of an asset. A capacity or other portion of an asset that is not physically distinct is not an identified asset according to IFRS 16.

The contract needs to contain that the lessee has the right to obtain substantially all the economic benefits from use of the asset, and the right to decide on the use of the identified asset. The customer may obtain the economic benefits of use of the asset directly or indirectly in different ways.

(5) Significant accounting policies (continued)

If a contract is a lease, or it has a lease part, the Bank as a lessee recognises a right-of-use asset, a lease liability, a depreciation, and an interest expense from the commencement date. The "right of use" represents a lessee's right to use the underlying asset. After the commencement date, the lessee shall re-evaluate the lease liability to take into account the changes in the lease terms, or in the conditions.

The Bank uses the following exemptions permitted under IFRS 16 for all the asset groups:

- For the low-value assets the Bank does not recognise right-of-use asset. The lease payments are associated with these leases as an expense. The threshold for the low-value assets are EUR 5,000.
- The leases which have a lease term of 12 months or less are classified as short-term leases, and still recognised as expenses.
- It is applicable to use the IFRS 16 standard for intangible assets, however the Bank choses not to use IFRS 16 standard for intangible asset leases (e.g. software).

A lease contract can contain non-lease components as well. The purpose of IFRS 16 is to modify the accounting of leases not the accounting of services, so the standard requires the lessor and the lessee to separate the lease and non-lease components in a contract. The standard does not define the separation of these components for the lessee when measuring the lease if the non-leasing component is not significant comparing to the lease component. This exemption can be used for asset classes/groups – according to this, the Bank uses this exemption for the vehicle leases. Neither deductible nor non-deductible VAT is taken into account when measuring the lease liability. The Bank adopted portfolio approach for contracts including large number of individually small value, homogenous assets.

When determining the lease liability, the Bank takes into account every fix-payments, variable lease payments that depend on an index or a rate, and every option (purchase, renewal, extension, early termination, guaranteed residual value, etc.) that the Bank is reasonably certain to exercise. For leases where the lease payment changes are not tied to market rate changes (e.g. payments tied to quantitative indicators), the Bank still recognizes the lease as an expense

The lease liability measured at the present value of the lease payments discounted using the Intesa Group interbank borrowing rate as a discount rate. The applied interest rate is revised annually.

The discount is used for the lease period stated in the lease contracts. When a contract has an indefinite maturity, the Bank uses assumptions considering the option to extend the lease if the lessee is reasonably certain to exercise that option. With reference to property leases, the Bank has decided to consider for all new contracts only the first period of renewal as reasonably certain, unless there are particular contract clauses, facts, or circumstance that lead to the consideration of additional renewals.

In case of changes in the lease contract conditions, or the discount rates, the lease liability is needed to be remeasured. The remeasurement difference is recognised in the underlying asset use rights. If the core contents of the lease contract changes, the current right-of-use asset, and the lease liability is derecognised, and new right-of-use asset and lease liability will be recognised.

In May 2020, IASB issued a publication called Covid-19-Related Rent Concessions, which summarizes the changes that may be affected the IFRS 16 Leases standard that were triggered by the epidemic. Among other things, the publication summarizes what constitutes an amendment to a leasing contract and what may constitute a temporary benefit (in the context of an epidemic situation) and thus does not provide for an amendment to the contract. During the financial year, the Bank received rent concessions for certain bank branches, however, as they are all related to the situation due to COVID-19, therefore it is not necessary to apply contract accounting to them and the Bank recognizes the effect of these benefits in the statement of comprehensive income..

5.16 Net operating income

Net operating income represents profit from business operations and is defined as profit before tax connected to non-financial operations.

5.17 Employee benefits

Employee benefit is a consideration paid to employees for their services, which may be short-term employee benefits, post-employment benefits, other long-term employee benefits and severance payments.

Short term employee benefits are recognized as a current expense in the period when employees render their services. These include wages, social security contributions, bonuses, paid holidays and other fringe benefits and the tax charges thereon.

Payments to defined contribution pension and other welfare plans are recognized as an expense in the period in which they are earned by the employees.

There are no long-term employee benefits at the Bank.

(5) Significant accounting policies (continued)

5.18 Government grants

Government grant is recognised only when there is reasonable assurance that the entity will comply any conditions attached to the grant and the grant will be received.

5.19 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The list contains standards and interpretations issued and expected to be relevant to the Bank and to be adopted when they become effective.

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

IBOR reform

- The benchmark rate reforms' („IBOR reform") operational, risk management and accounting impacts are in the process of analysis.

(6) Significant accounting estimates and judgements

In preparing these annual financial statements the Management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The most significant cases for which judgments and estimates are required to be made by the management include:

- the use of measurement models for determining the fair value of financial instruments not listed on active markets,
- recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used,
- the measurement of impairment on non-financial assets,
- the measurement of impairment losses on financial assets,
- the measurement of provisions.

Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all such cases, the Bank would disclose the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

6.1 Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. For details please refer to Note (43).

(6) Significant accounting estimates and judgements (continued)

6.2 Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Bank had unused tax loss carry forwards as of 31 December 2020 and 2019. Due to the current market and economic conditions the management considered whether the Bank will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets.

6.3 Impairment on non-financial assets

Impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on discounted cash flow model.

Impairment losses are recognised in profit or loss. An impairment loss for non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6.4 Impairment on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Collective impairment is calculated with 3 main segments:

1. The first segmentation applied by the Bank when allocating a PD transaction, segregating the customer groups based on the customer rating and CRR compliant customer.
2. When calculating LGD, groups shall be formed on the basis of current transaction and collateral data.
3. When calculating CCF, it shall be classified according to the trade and its callability.

6.5 Provisions for risk and charges

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. In assessing and determining the amount of obligation the Bank considers whether a reliable estimate can be made of the amount of outflow of economic benefits.

Provisions are recognized and measured based on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Bank is involved in ongoing legal disputes; provision is made based on the assessment the best estimate of the expenditure required to settle the obligation.

The Bank is committed to close branches; provision is made based on the landlord's agreement for the obligation to be settled.

Provision on personal type expenses and other obligations are measured based on the best available estimation.

For details please refer to Note (35).

(6) Significant accounting estimates and judgements (continued)

6.6 Accounting estimates related to COVID-19 moratoria

The moratoria on the COVID-19 pandemic required the following accounting estimates:

- Expected credit loss calculations: During the payment moratoria the debtors are exempted from paying the interest and principal instalment, so in case of debtors under moratoria, no payment delay can be established. Late payment is a determining factor for probability of default, so the solvency of debtors is determined by other means. For details please refer to Note (49) point (a) Credit risk.
- Due to the moratoria, the cash-flow of each transaction will change, and for customers who have not indicated the opt out, the Bank has adjusted the cash-flow that the next instalment will be due after June 2021. The debtor however may opt out anytime from the moratoria. In addition, debtors who are opted out, can indicate that they want to remain in moratoria again, which also means a changed cash flow for the loan. Consequently, the determination of the cash flows of each transaction involves a significant estimate due to the moratoria.

(7) Equity correlation table

Equity correlation table is disclosed in line with the requirements stated in the Accounting Law, which contains shareholder's equity components according to IFRS.

(million HUF)

31/12/2020	Share capital under IFRS	Capital reserve	Retained earnings	Profit after tax	Revaluation reserve	Tied up reserve	Equity total
Share capital	50,000	-	-	-	-	-	**50,000**
Capital reserve	-	96,925	-	-	-	-	**96,925**
Retained earnings	-	-	14,675	11,519	-	-	**26,194**
General reserve	-	-	-	-	-	6,968	**6,968**
Other reserve	-	-	53,954	-	-	1,300	**55,254**
Financial assets measured at fair value through OCI	-	-	-	-	2,916	-	**2,916**
Fair value adjustment on premises	-	-	-	-	2,644	-	**2,644**
Equity in Hungarian Law on Accounting	**50,000**	**96,925**	**68,629**	**11,519**	**5,560**	**8,268**	**240,901**

(million HUF)

31/12/2019	Share capital under IFRS	Capital reserve	Retained earnings	Profit after tax	Revaluation reserve	Tied up reserve	Equity total
Share capital	50,000	-	-	-	-	-	**50,000**
Capital reserve	-	96,925	-	-	-	-	**96,925**
Retained earnings	-	-	1,526	13,981	-	-	**15,507**
General reserve	-	-	-	-	-	5,817	**5,817**
Other reserve	-	-	53,954	-	-	-	**53,954**
Financial assets measured at fair value through OCI	-	-	-	-	5,937	-	**5,937**
Fair value adjustment on premises	-	-	-	-	946	-	**946**
Equity in Hungarian Law on Accounting	**50,000**	**96,925**	**55,480**	**13,981**	**6,883**	**5,817**	**229,086**

Part B Information on the statement of comprehensive income

(8) Interest income and interest expense

(million HUF)

Interest income	2020	2019
Loans to banks measured at amortised cost	4,288	1,240
Loans to customers measured at amortised cost	28,937	25,364
Debt securities measured at amortised cost	1,480	950
Financial assets measured at fair value through other comprehensive income	4,880	4,957
Negative interest on financial liabilities	270	209
Interest income calculated using effective interest rate method	***39,855***	***32,720***
Securities held for trading	92	410
Financial assets mandatorily measured at fair value	922	201
Hedging derivatives	(2,116)	(2,643)
Other interest income	***(1,102)***	***(2,032)***
Total	**38,753**	**30,688**

Interest regarding hedging derivatives are presented as other interest income, causing a negative balance in the profit or loss and other comprehensive income.

Interest income on financial assets classified as stage 3 assets is HUF 843 million during 2020, and HUF 1,244 million during 2019.

(million HUF)

Interest expenses	2020	2019
Deposits from customers	4,366	3,790
Deposits from banks	2,667	1,603
Lease liabilities	80	93
Negative interest on financial assets	931	850
Hedging derivatives	(25)	(393)
Total	**8,019**	**5,943**

The Bank's interest income increased significantly in 2020, the main drivers were customer loans and bank placements. While the interest income on customer loans increased mainly due to volume effect, bank placements brought more income besides the higher balance, mainly because of the preferential deposit connected to Funding for Growth Scheme (FGS) and the 1-week deposit facility of MNB. Parallel with income, interest expense increased as well, mainly due to higher interest rates paid on bank liabilities, caused by the higher volume of FGS refinancing and the growth of mortgage refinancing sources to meet the Mortgage-financing compliance ratio (JMM). The interest rates on customer deposit grew slightly in line with higher HUF money market interest rate environment.

(9) Fee and commission income and expense

(million HUF)

Fee and commission income	2020	2019
Account turnover fee income	12,440	12,745
Investment services fee income	6,411	7,209
Card fee income	7,843	7,308
Servicing fee income from loans	2,607	2,829
Cash management fee income	1,099	1,344
Documentary fee income	1,727	1,308
Agent fee income	94	60
Other fee income	3,452	2,815
Total	**35,673**	**35,618**

(million HUF)

Fee and commission expense	2020	2019
Card fee expense	4,702	4,553
Account turnover fee expense	2,266	2,063
Investment services fee expense	321	283
Documentary fee expense	989	633
Servicing fee expenses for loans	136	56
Agent fee expense	371	320
Other fee expense	966	977
Total	**9,751**	**8,885**

Commission income remained on the level of the previous year, as the decline of payment income (as a result of the pandemic) and the decrease of investment service fees were offset by higher card and guarantee income. Commission expenses increased partly because of higher transactional activity (card and guarantee fees), partly due to higher agent fees paid (current account and loan related charges).

(10) Profits (losses) on trading

(million HUF)

	2020	2019
Net profits/(losses) from trading derivatives and trading with foreign currencies	6,340	6,503
Net profits/(losses) from financial assets measured FVOCI [(1)]	-	1,816
Net profits/(losses) from securities held for trading	189	811
Fair value adjustments from financial assets measured mandatory at fair value through profit or loss [(2)]	-	-
Total	**6,529**	**9,130**

[(1)] As a result of the classification review performed during the year, the Bank presents the realized gain on financial assets at fair value through profit or loss from 2020 on the 'Net gain on derecognition of financial instruments' line item and the reversal of impairment previously recognized for subsidiaries on the line 'Other operating income'.line item.

[(2)] As a result of the classification review, the Bank will also present the net revaluation result of MFVPL financial assets from 2020 onwards in the line “As a result of the classification review, the Bank will also present the net revaluation result of MFVPL financial assets from 2020 onwards in the line “Change in fair value of financial assets at fair value through profit or loss”.

Trading result decreased, as the Bank reclassified the fair value gains of financial instruments and sales gain on HTCS bonds to separate P&L lines in 2020.

(11) Fair value adjustments in hedge accounting

(million HUF)

	2020	2019
Income from	**5,397**	**9,756**
a) fair value hedge derivatives	1,860	2,033
b) hedged debt securities	449	3,711
c) hedged loans	524	3,548
d) hedged financial liabilities	2,564	464
Losses for	**(5,021)**	**(9,810)**
a) fair value hedge derivatives	(835)	(7,776)
b) hedged debt securities	(1,504)	(177)
c) hedged loans	(260)	(451)
d) hedged financial liabilities	(2,422)	(1,406)
Total	**376**	**(54)**

(12) Profits (losses) from derecognition of financial instruments

(million HUF)

	2020	2019
Losses from sale of debt securities at AC	(2)	-
Profits from sale of debt securities at FVOCI	1,240	371
Losses from sale of debt securities at FVOCI	(687)	(871)
Losses from derecognition of investments in subsidiaries	(1)	-
Total	**550**	**(500)**

All sales were not in contradiction with the prescription of the concerned business model.

(13) Net change in value of financial assets mandatorily measured at fair value through profit or loss

(million HUF)

	2020	2019
Loans to customers	947	(42)
Debt securities	556	-
Equity instruements	(91)	-
Total	**1,412**	**(42)**

(14) Other operating income and expense

(million HUF)

Other operating income	2020	2019
Intragroup service income	1,765	2,265
Writebacks of adjustments for impairment on investments in subsidiaries [1]	4,200	-
Dividend and similar income	800	35
Gain from selling of tangible and intangible assets	6	21
Gain on IFRS16 RoU assets	14	-
Gain on non-current asset held for sale	-	7
Fair value adjustment on premises	166	-
Other income	430	476
Total	**7,381**	**2,804**

(million HUF)

Other operating expense	2020	2019
Loss from selling of tangible and intangible assets	-	15
Loss on non-current asset held for sale	8	10
Telecommunication expenses related to business activities	459	517
Obligatory fees	547	-
Subsidies/grants paid, fines	32	62
Other expenses	656	697
Total	**1,702**	**1,301**

[1] As a result of the classification review performed during the year, from 2020 onwards, the Bank recognises the impairment losses and their reversals of investment activities of subsidiaries under other operating income or expenses. In previous years, these items were included in “Trading result”

(15) Impairment profits (losses) and provisions for losses including profits (losses) on changes in contracts relating moratoria

(million HUF)

	2020	2019
Individual impairment (expense) / reversal for loan losses	(84)	1,413
Collective impairment (expense) / reversal for loan losses	(4,155)	556
Impairment (expense) / reversal for losses on debt securities	(15)	100
Net (losses) / gains on sale of loans	648	430
Net (losses) / gains on changes in contracts relating moratoria	(2,277)	-
Financial assets measured at amortised cost	**(5,883)**	**2,499**
Financial assets measured at fair value through other comprehensive income	**43**	**31**
Provision (expense) / reversal for financial guarantees	(281)	38
Provision (expense) / reversal for other commitments and contingencies	(999)	302
Net (losses) / gains on repossessed properties	-	(3)
Other impairment (expense) / reversal for other receivables	382	(332)
Other provision (expense) / reversal	(997)	1,042
Other impairment losses and provisions	**(1,895)**	**1,047**
Total	**(7,735)**	**3,577**

(15) Impairment profits (losses) and provisions for losses including profits (losses) on changes in contracts relating moratoria (continued)

Profits (losses) on changes in contract without derecognition contains the losses arising from the contract modifications due to the COVID-19 pandemic related loan moratoria.

Loan related impairments increased significantly compared to 2019, as in last year some corporate recoveries resulted in impairment reversal, while in 2020 the Bank made significant new impairments as a result of the pandemic. The majority of new impairments was made on Stage 2 portfolio. With the application of IFRS 9 para 5.4.3 rules, the Bank recodred modification loss connected to moratoria (HUF 2.277 million).

Impairment, and impairment reversal relating to POCI assets are detailed in Note (25).

(16) Operating expenses without bank tax

(million HUF)

	2020	2019
Personnel expenses	20,926	21,651
of which salaries	*16,086*	*15,970*
of other benefits	*1,604*	*1,696*
of social contributions	*3,236*	*3,985*
Depreciation and amortisation	5,490	4,882
Office and information technology maintenance	8,008	6,647
Financial transaction duty	3,552	4,248
Other taxes and obligatory fees	2,998	2,845
Material expenses	1,170	1,223
Rent and leasing	1,291	1,459
Communications	913	860
Advertising	428	671
Legal fees	446	476
Expert fees	131	103
Other expenses	1,047	984
Total	**46,400**	**46,049**

Detailed information about lease payments can be found in Note (39).

(17) Bank tax

The change in the basis of bank tax is presented in the 5.11 Taxation section of the Significant accounting judgements and estimates (Note 5).

(18) Income taxes

The current income tax expense is based on the corporate income tax payable on the results for the year determined in accordance with Hungarian taxation rules.

The applicable corporate income tax rate for the Bank is 9% for the years 2020 and 2019.

For deferred tax calculation purposes, the Bank applied the tax rates that are expected to apply in the year when the asset is realised or the liability is settled.

(18) Income taxes (continued)

(million HUF)

Amounts recognised in profit or loss	2020	2019
Current income tax charge	2,070	1,899
of which corporate income tax	*336*	*329*
of which local business tax	*1,507*	*1,365*
of which innovation contribution	*227*	*205*
Deferred income tax	(94)	63
of which origination and reversal of temporary differences	*(94)*	*63*
Total	**1,976**	**1,962**

Reconciliation of income tax expense to profit before tax	2020		2019	
	million HUF	%	million HUF	%
Profit before tax	13,495		15,943	
Theoretical income tax expense at the statutory rate	1,215	9.00	1,435	9.00
Tax base amending items according to the local regulations	(720)	(5.34)	(963)	(6.04)
of which use of deferred losses	*(337)*	*(2.50)*	*(330)*	*(2.07)*
of which non-deductible provision	*(439)*	*(3.25)*	*(11)*	*(0.07)*
of which non-deductible expenditure	*56*	*0.41*	*(262)*	*(1.64)*
of which IFRS conversion effect	*-*	*-*	*(360)*	*(2.26)*
Change on not recognised tax asset	(253)	(0.50)	(81)	(0.50)
Other income type taxes	1,734	12.85	1,571	9.85
Income tax at effective tax rate	**1,976**	**16.01**	**1,962**	**12.31**

(million HUF)

Deferred tax assets and liabilities comprise	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Carry forward losses	566	-	300	-
Properties	-	457	-	275
Total deferred tax to profit or loss	**566**	**457**	**300**	**275**
Financial assets measured at other comprehensive income	-	270	-	418
Total deferred tax through OCI	**-**	**270**	**-**	**418**
Total	**566**	**727**	**300**	**693**

The management assess whether sufficient taxable profit will be available at the Bank to allow the benefit of all deferred tax asset to be utilized. The management decided to recognize deferred tax asset as at 31 December 2020 based on the budget plan. In relation of deferred taxes, the Bank took intro account the COVID-19 pandemic situation and the expiration of the moratoria on 30 June 2021 and prepared the profit and loss forecast according to it.

In 2020 the Bank used 3,728 million HUF accrued loss, the balance of carry forward unused tax losses was HUF 234,093 million as at 31 December 2020 and HUF 237,821 million as at 31 December 2019. From the remaining amount the Bank set a deferred tax asset of HUF 566 million for 2020 income tax.

(19) Dividend paid

In accordance with the recommendation of the National Bank of Hungary, the Bank did not pay dividends to its owners either in 2019 or in the 2020 business year.

(20) Other comprehensive income

(million HUF)

	2020	2019
Net gain/(loss) from changes in fair value on debt securities	(2,347)	8,497
of which credit risk changes	*(43)*	*(31)*
Amortization of debt securities measured at fair value through OCI	-	(51)
Hedge accounting adjustment on debt securities measured at fair value through OCI	1,246	(3,710)
Reclassification adjustment to profit or loss	(553)	(955)
Deferred tax	149	(346)
Items that may be reclassified to profit or loss	**(1,505)**	**(3,435)**
Net gain/(loss) from changes in fair value on equity instruments	113	926
Reclassification adjustment to equity	(1,619)	-
Deferred tax	(10)	-
Fair value adjustment on premises	1,698	-
Items that may not be reclassified to profit or loss	**182**	**926**
Total (net of tax)	**(1,323)**	**4,361**

Further information about hedge accounting is presented in Note (27).

Fair value adjustment on premises is the valuation difference of the owner-occupied properties. In 2020 the properties were revalued by an external appraiser, as a result of which the Bank recognized a valuation difference in other comprehensive income.

Part C Information on the statement of financial position

(21) Cash and current accounts with central bank

Cash and current accounts with the central bank comprise notes and coins of various currencies and nostro accounts with the central bank kept in Hungarian Forint.

(million HUF)

	31/12/2020	31/12/2019
Cash	17,336	17,742
Current HUF account with the National Bank of Hungary	47,545	19,121
Total	**64,881**	**36,863**
of which included in cash and cash equivalents	*64,881*	*36,863*

(22) Financial assets measured at fair value through profit or loss

Securities held for trading

(million HUF)

	31/12/2020	31/12/2019
Hungarian Government securities – HUF	2,043	6,436
Hungarian Government securities – NON-HUF	114	60
Bank and corporate bonds – HUF	1	16
Shares listed on stock exchange – HUF	38	19
Other securities– NON-HUF	66	364
Total	**2,262**	**6,895**

Income on investments and other non-fix yield assets are recognized in income from trading activities.

In 2020, the Bank reclassified the Intesa Sanpaolo S.p.A. shares that are part of the remuneration system from tranding securities to fair value through profit or loss.

Financial derivatives designated as held for trading: breakdown by product

(million HUF)

31/12/2020	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	13,974	462,066	10,689	444,402
Currencies	8,226	372,041	5,660	360,212
Equities and stock indexes	1,504	41,740	1,504	41,740
Total	**23,704**	**875,847**	**17,853**	**846,354**

(million HUF)

31/12/2019	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	16,225	450,946	12,291	367,397
Currencies	1,923	270,656	1,885	233,469
Equities and stock indexes	2,005	59,623	2,005	59,623
Total	**20,153**	**781,225**	**16,181**	**660,489**

(22) Financial assets measured at fair value through profit or loss (continued)

Financial assets mandatorily measured at fair value

(million HUF)

	31/12/2020	31/12/2019
Loans to customers	56,847	25,948
Debt securities	1,548	-
Equity instruments	166	-
Total	**58,561**	**25,948**

Equity instruments include Intesa Sanpaolo S.p.A. shares which are part of the remuneration system.

Based on detailed investigation performed the Bank retrospectively classified VISA C shares as debt securities from the date of acquisition and reclassified them as financial assets at fair value through profit or loss. Series C preferred shares are not equity instruments under IAS 32 because they contain an obligation to transfer a variable number of shares, so the reclassification of VISA C shares as debt securities is necessary.

Financial assets mandatorily measured at fair value comprises loans to customers, which do not meet the criteria of SPPI test. Presentation of financial assets mandatorily measured at fair value is included in Note (25).

(23) Financial assets measured at fair value through other comprehensive income

(million HUF)

	31/12/2020	31/12/2019
Hungarian government securities – HUF	280,349	321,180
Hungarian government securities – NON-HUF	19,203	19,394
Foreign government securities – NON-HUF	1,484	1,451
Bank and corporate bonds – HUF	2,664	1,912
Shares listed on stock exchange – NON-HUF	1,743	2,538
Shares not listed - HUF	110	107
Total	**305,553**	**346,582**

As explained in Note (22), the Bank retrospectively classified VISA C shares as debt securities from the date of acquisition and reclassified them as financial assets at fair value through profit or loss.

All of the FVOCI financial assets are classified as Stage 1.

The FVOCI assets' credit risks are detailed in Note (49).

(24) Loans to banks

(million HUF)

	31/12/2020	31/12/2019
Nostro accounts	16,648	9,131
of which included in cash and cash equivalents	*16,648*	*9,131*
Due from banks	678,797	431,780
of which compulsory reserve	*15,313*	*13,029*
of which included in cash and cash equivalents	*535,750*	*206,999*
of which loans to Hungarian banks	*382,185*	*217,317*
of which loans to banks in Intesa Sanpaolo Group	*294,591*	*212,179*
Total	**695,445**	**440,911**

(24) Loans to banks (continued)

Both in 2020 and 2019, the Bank is required to maintain with a National Bank of Hungary a minimum average balance as a restricted deposit for the month equivalent to 1% of the Bank's total resident customer deposits, foreign customer HUF and currency (less than one year) deposits.

The active repurchase agreement amounted to HUF 3,430 million at 31 December 2020. The Bank had no active repurchase agreement at 31 December 2019.

The majority of the exposures of loans to banks are classified as Stage 1 in the ECL module for impairment calculation.

(25) Loans to customers at amortised cost and at fair value through profit or loss

Analysis by sector

The gross loan portfolio may be analyzed by sector as follows:

Sector	31/12/2020		31/12/2019	
	million HUF	%	million HUF	%
Private customers	431,876	35.61	354,421	33.20
Heavy industry	135,753	11.19	150,460	14.09
Other, mostly service industries	106,668	8.80	90,065	8.44
Real estate investments	60,920	5.02	69,245	6.49
Financial activities	179,119	14.77	113,932	10.67
Trading	68,556	5.65	66,827	6.26
Light industry	99,515	8.21	111,819	10.47
Transportation and communication	37,902	3.13	39,339	3.68
Food processing	62,067	5.12	41,467	3.88
Agriculture	26,606	2.19	26,282	2.46
Chemicals and pharmaceuticals	3,833	0.31	3,718	0.35
Total	**1,212,815**	**100.00**	**1,067,575**	**100.00**

Loans and advances to customers comprises also the transaction related to factoring activities as the Bank took over CIB Factor's activity as of 1st January 2017.

Analysis by segment and staging

(million HUF)

Gross carrying amount 31/12/2020	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	84,529	-	-	-	-	**84,529**
Corporate	566,809	94,693	14,710	4,208	57	**680,477**
Retail	345,830	27,156	10,534	7,499	56,790	**447,809**
Total	**997,168**	**121,849**	**25,244**	**11,707**	**56,847**	**1,212,815**

(million HUF)

ECL allowance 31/12/2020	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	(190)	-	-	-	-	**(190)**
Corporate	(3,301)	(4,037)	(7,113)	(344)	-	**(14,795)**
Retail	(2,424)	(3,026)	(5,819)	(2,209)	-	**(13,478)**
Total	**(5,915)**	**(7,063)**	**(12,932)**	**(2,553)**	**-**	**(28,463)**

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

(million HUF)

Gross carrying amount 31/12/2019	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	36,373	-	-	-	-	**36,373**
Corporate	596,158	43,735	17,014	4,227	205	**661,339**
Retail	301,896	26,983	6,796	8,445	25,743	**369,863**
Total	**934,427**	**70,718**	**23,810**	**12,672**	**25,948**	**1,067,575**

(million HUF)

ECL allowance 31/12/2019	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	(182)	-	-	-	-	**(182)**
Corporate	(3,410)	(1,499)	(8,616)	(703)	-	**(14,228)**
Retail	(1,525)	(2,857)	(6,801)	(2,903)	-	**(14,086)**
Total	**(5,117)**	**(4,356)**	**(15,417)**	**(3,606)**	**-**	**(28,496)**

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

Analysis of gross loan portfolio and expected loan loss by stage

(million HUF)

Gross loan portfolio	01/01/2020	Increase	Decrease	Stage reclas-sification	Write-down	Sale	Exchange difference	31/12/2020
Stage 1	**934,427**	**299,847**	**(229,137)**	**(37,945)**	**-**	**(18)**	**29,994**	**997,168**
Central government	36,373	54,390	(9,128)	-	-	-	2,894	84,529
Other financial corporation	103,031	5,169	(2)	(129)	-	-	3,094	111,163
Non-financial corporation	493,127	11,168	(38,207)	(34,334)	-	-	23,892	455,646
Retail	301,896	229,120	(181,800)	(3,482)	-	(18)	114	345,830
Stage 2	**70,718**	**33,565**	**(22,194)**	**35,424**	**-**	**(100)**	**4,436**	**121,849**
Central government	-	-	-	-	-	-	-	-
Other financial corporation	160	16,566	(4,817)	129	-	-	-	12,038
Non-financial corporation	43,575	3,751	(1,157)	32,058	-	-	4,428	82,655
Retail	26,983	13,248	(16,220)	3,237	-	(100)	8	27,156
Stage 3	**23,810**	**17,189**	**(13,436)**	**2,521**	**(1,402)**	**(3,917)**	**479**	**25,244**
Other financial corporation	940	65	(222)	-	(16)	-	94	861
Non-financial corporation	16,074	12,382	(13,126)	2,275	(1,111)	(3,001)	356	13,849
Retail	6,796	4,742	(88)	246	(275)	(916)	29	10,534
POCI	**12,672**	**2,001**	**(2,725)**	**-**	**(9)**	**(542)**	**310**	**11,707**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	4,227	174	(479)	-	-	(24)	310	4,208
Retail	8,445	1,827	(2,246)	-	(9)	(518)	-	7,499
SPPI failed	**25,948**	**40,793**	**(9,889)**	**-**	**(4)**	**(1)**	**-**	**56,847**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	205	214	(357)	-	(4)	-	-	57
Retail	25,743	40,579	(9,532)	-	-	(1)	-	56,790
Total	**1,067,575**	**393,395**	**(277,381)**	**-**	**(1,415)**	**(4,578)**	**35,219**	**1,212,815**

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

(million HUF)

ECL	01/01/2020	Adjust-ment	Write-back	Stage reclassifi-cation	Modifi-cation loss	Decrease in allowance account due to write-offs	Write-off recognis-ed direct-ly through profit or loss	Decrease due to derecog-nition	Exchange difference	Other change	31/12/2020
Stage 1	**(5,117)**	**(6,226)**	**2,787**	**487**	**1,669**	**-**	**-**	**33**	**(209)**	**661**	**(5,915)**
Central government	(182)	(53)	60	-	-	-	-	-	(15)	-	(190)
Other financial corporation	(65)	(585)	24	1	16	-	-	-	(2)	326	(285)
Non-financial corporation	(3,345)	(3,724)	2,056	336	70	-	-	-	(192)	1,783	(3,016)
Retail	(1,525)	(1,864)	647	150	1,583	-	-	33	-	(1,448)	(2,424)
Stage 2	**(4,356)**	**(5,142)**	**2,264**	**(287)**	**395**	**-**	**-**	**100**	**(102)**	**65**	**(7,063)**
Central government	-	-	-	-	-	-	-	-	-	-	-
Other financial corporation	(15)	(61)	16	(1)	-	-	-	-	-	-	(61)
Non-financial corporation	(1,484)	(3,095)	850	(146)	136	-	-	-	(102)	(135)	(3,976)
Retail	(2,857)	(1,986)	1,398	(140)	259	-	-	100	-	200	(3,026)
Stage 3	**(15,417)**	**(7,719)**	**4,915**	**(200)**	**148**	**1,402**	**(183)**	**3,298**	**(197)**	**1,021**	**(12,932)**
Other financial corporation	(194)	(140)	76	-	1	16	-	-	(18)	8	(251)
Non-financial corporation	(8,422)	(5,925)	2,626	(191)	27	1,111	(41)	2,584	(156)	1,525	(6,862)
Retail	(6,801)	(1,654)	2,213	(9)	120	275	(142)	714	(23)	(512)	(5,819)
POCI	**(3,606)**	**(360)**	**3,403**	**-**	**65**	**9**	**(5)**	**300**	**(22)**	**(2,337)**	**(2,553)**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	(703)	(101)	2,099	-	30	-	-	24	(22)	(1,671)	(344)
Retail	(2,903)	(259)	1,304	-	35	9	(5)	276	-	(666)	(2,209)
SPPI failed	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	-	-	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-	-	-	-
Total	**(28,496)**	**(19,447)**	**13,369**	**-**	**2,277**	**1,411**	**(188)**	**3,731**	**(530)**	**(590)**	**(28,463)**

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

(million HUF)

Gross loan portfolio	01/01/2019	Increase	Decrease	Stage reclas-sification	Write-down	Sale	Exchange difference	31/12/2019
Stage 1	**784,703**	**1,759,917**	**(1,612,361)**	**(6,192)**	**(4)**	**(1)**	**8,365**	**934,427**
Central government	5,419	30,096	-	265	-	-	593	36,373
Other financial corporation	105,655	118,210	(122,141)	-	-	-	1,307	103,031
Non-financial corporation	434,738	1,393,054	(1,318,679)	(22,402)	(4)	-	6,420	493,127
Retail	238,891	218,557	(171,541)	15,945	-	(1)	45	301,896
Stage 2	**91,762**	**-12,281**	**(11,081)**	**1,277**	**-**	**(3)**	**1,044**	**70,718**
Central government	309	5	(49)	(265)	-	-	-	-
Other financial corporation	763	194	(824)	-	-	-	27	160
Non-financial corporation	42,644	(18,739)	(69)	18,721	-	-	1,018	43,575
Retail	48,046	6,259	(10,139)	(17,179)	-	(3)	(1)	26,983
Stage 3	**31,077**	**11,331**	**(20,144)**	**4,915**	**(2,000)**	**(1,669)**	**300**	**23,810**
Other financial corporation	1,463	137	(622)	-	(103)	-	65	940
Non-financial corporation	20,450	7,369	(14,210)	3,681	(965)	(468)	217	16,074
Retail	9,164	3,825	(5,312)	1,234	(932)	(1,201)	18	6,796
POCI	**14,466**	**2,098**	**(3,919)**	**-**	**(93)**	**(21)**	**141**	**12,672**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	5,084	61	(1,059)	-	-	-	141	4,227
Retail	9,382	2,037	(2,860)	-	(93)	(21)	-	8,445
SPPI failed	**7,284**	**18,904**	**(240)**	**-**	**-**	**-**	**-**	**25,948**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	445	-	(240)	-	-	-	-	205
Retail	6,839	18,904	-	-	-	-	-	25,743
Total	**929,292**	**1,779,969**	**(1,647,745)**	**-**	**(2,097)**	**(1,694)**	**9,850**	**1,067,575**

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

(million HUF)

ECL	01/01/2019	Adjust-ment	Write-back	Stage reclassifi-cation	Modifi-cation loss	Decrease in allowance account due to write-offs	Write-off recognis-ed direct-ly through profit or loss	Decrease due to derecog-nition	Exchange difference	Other change	31/12/2019
Stage 1	**(5,466)**	**(3,547)**	**3,338**	**(10)**	**-**	**-**	**-**	**-**	**(69)**	**637**	**(5,117)**
Central government	(59)	(45)	123	-	-	-	-	-	(6)	(195)	(182)
Other financial corporation	(56)	(348)	29	-	-	-	-	-	(1)	311	(65)
Non-financial corporation	(3,946)	(2,198)	2,222	116	-	-	-	-	(62)	523	(3,345)
Retail	(1,405)	(956)	964	(126)	-	-	-	-	-	(2)	(1,525)
Stage 2	**(4,599)**	**(3,140)**	**3,178**	**233**	**-**	**-**	**-**	**1**	**(31)**	**2**	**(4,356)**
Central government	(1)	-	1	-	-	-	-	-	-	-	-
Other financial corporation	(35)	(15)	37	-	-	-	-	-	(2)	-	(15)
Non-financial corporation	(1,636)	(1,073)	1,421	(167)	-	-	-	-	(29)	-	(1,484)
Retail	(2,927)	(2,052)	1,719	400	-	-	-	1	-	2	(2,857)
Stage 3	**(19,124)**	**(6,451)**	**7,111**	**(223)**	**-**	**2,004**	**(240)**	**1,632**	**(134)**	**8**	**(15,417)**
Other financial corporation	(550)	(88)	354	-	-	103	-	-	(13)	-	(194)
Non-financial corporation	(10,698)	(3,232)	4,204	51	-	969	(59)	433	(107)	17	(8,422)
Retail	(7,876)	(3,131)	2,553	(274)	-	932	(181)	1,199	(14)	(9)	(6,801)
POCI	**(4,048)**	**(1,211)**	**2,316**	**-**	**-**	**93**	**(51)**	**2**	**(37)**	**(670)**	**(3,606)**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	(1,700)	(69)	1,135	-	-	-	-	-	(37)	(32)	(703)
Retail	(2,348)	(1,142)	1,181	-	-	93	(51)	2	-	(638)	(2,903)
SPPI failed	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	-	-	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-	-	-	-
Total	**(33,237)**	**(14,349)**	**15,943**	**-**	**-**	**2,097**	**(291)**	**1,635**	**(271)**	**(23)**	**(28,496)**

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

Stage 1 loans increased in 2020 mainly in the households segment (by HUF 44,208 million), thanks to the high demand for mortgage loans, despite the pandemic. On the other hand corporate loans declined by HUF 35,688 million, mainly in the Large Corporate segment. The increase of loans to General Government is temporary and was the result of some repo transactions made on the last days of the year.

Stage 2 category increased by HUF 51,131 million, due to increased risk in some sectors as a result of the pandemic, and affected mainly the Corporate segment. Although past due balance did not increased thanks to the moratoria, the Bank made necessary reserves for the future, if credit quality may worsen after the moratoria.

Balance of Stage 3 loans increased by only HUF 1,434 million, as new inflow was offset by the sale and write-off of receivables.

The significant increase in the SPPI test failed category is mainly due to Babaváró loans.

Expected credit losses remained almost unchanged in 2020, although the share of Stage 2 portfolio increased (due to higher risk in some sectors as a result of COVID-19), while at the same time the impairment on Stage 3 loans decreased.

The non-discounted values of the POCI assets amounted to HUF 15,066 million at 31 December 2020, and HUF 16,872 million at 31 December 2019.

The active repurchase agreement amounted to HUF 50,000 million at 31 December 2020. The Bank had no active repurchase agreement at 31 December 2019.

The revaluation gains on loans specified as hedged items is presented in Note (27).

The liquidation value of collateral that the Bank holds relating to loans at 31 December 2020 amounts to HUF 971,196 million and HUF 870,847 million as at 31 December 2019, respectively.

According to IFRS 9 para 5.4.3 rules, due to the payment moratoria related to COVID-19 pandemic, the Bank modified the cash-flow the loans subject to moratoria. According to this, the debtors do not pay interest and principal until the expiration of the moratoria, and then after the expiration of the moratoria, the customer pays the contractual instalment with an extended term. The Bank may not charge compound interest for the period of the moratoria. The new cash-flow is discounted by the original interest rate and any realised loss is recorded on a transaction-by-transaction basis within the amortised cost. With the application of this rule the Bank recorded HUF 2.277 million modification loss connected to moratoria.

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

COVID-19 moratoria related portfolio as of 31 December 2020

(million HUF)

	Number of obligors	Of which: granted	Gross carrying amount					Residual maturity of moratoria					
				Of which: granted				<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months
					Of which:[1]	Of which:[2]	Of which: expired						
EBA-compliant moratoria loans and advances	44,918	44,918	321,765	321,765	321,765	-	-	321,765	-	-	-	-	-
of which: Households				191,930	191,930	-	-	191,930	-	-	-	-	-
_of which: Collateralised by residential immovable property				112,273	112,273	-	-	112,273	-	-	-	-	-
of which: Non-financial corporations				127,125	127,125	-	-	127,125	-	-	-	-	-
_of which: Small and medium-sized enterprises				91,557	91,557	-	-	91,557	-	-	-	-	-
_of which: Collateralised by commercial immovable property				88,216	88,216	-	-	88,216	-	-	-	-	-

[1] Of which: legislative moratoria

[2] Of which: subject to extended legislative moratoria

(25) Loans to customers at amortised cost and at fair value through profit or loss (continued)

(million HUF)

	Gross carrying amount								
		Performing				Non-performing			
			Of which:[1]	Of which:[2]	Of which: Stage 2		Of which:[1]	Of which:[2]	Of which:[3]
EBA-compliant moratoria loans and advances	321,765	299,542	299,542	2,390	83,710	22,223	22,223	9,663	18,977
of which: Households	191,930	181,974	181,974	1,929	18,699	9,956	9,956	6,275	8,479
_of which: Collateralised by residential immovable property	112,273	104,241	104,241	1,751	12,288	8,032	8,032	5,476	6,910
of which: Non-financial corporations	127,125	115,683	115,683	461	65,011	11,442	11,442	2,564	9,675
_of which: Small and medium-sized enterprises	91,557	80,115	80,115	461	37,741	11,442	11,442	2,564	9,675
_of which: Collateralised by commercial immovable property	88,216	80,817	80,817	26	48,764	7,399	7,399	1,687	6,072

[1] Of which: grace period of capital and interest

[2] Of which: exposures with forbearance measures

[3] Of which: unlikely to pay that are not past-due or past-due <= 90 days

(million HUF)

	Accumulated impairment, accumulated negative changes in fair value due to credit risk								
		Performing				Non-performing			
			Of which:[1]	Of which:[2]	Of which: Stage 2		Of which:[1]	Of which:[2]	Of which:[3]
EBA-compliant moratoria loans and advances	16,908	7,083	7,083	241	5,493	9,825	9,825	4,165	8,808
of which: Households	8,090	3,165	3,165	227	2,224	4,925	4,925	3,379	4,249
_of which: Collateralised by residential immovable property	5,531	1,890	1,890	207	1,402	3,641	3,641	2,800	3,164
of which: Non-financial corporations	8,382	3,719	3,719	14	3,269	4,663	4,663	549	4,323
_of which: Small and medium-sized enterprises	7,187	2,524	2,524	14	2,137	4,663	4,663	549	4,323
_of which: Collateralised by commercial immovable property	4,928	2,645	2,645	-	2,355	2,283	2,283	267	2,110

[1] Of which: grace period of capital and interest

[2] Of which: exposures with forbearance measures

[3] Of which: unlikely to pay that are not past-due or past-due <= 90 days

(26) Securities at amortized cost

(million HUF)

	31/12/2020	31/12/2019
Bank and corporate bonds – HUF	48,931	48,864
Bank and corporate bonds – other currency	23,839	21,424
Total	**72,770**	**70,288**

All of the financial assets measured at amortized cost are classified as Stage 1.

(27) Hedging derivatives

Financial derivatives designated as fair value hedge: breakdown by hedged instrument

(million HUF)

31/12/2020	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate derivatives - hedge of debt securities	416	25,803	3,440	152,293
Interest rate derivatives - hedge of loans	74	13,500	3,844	66,783
Interest rate derivatives - hedge of financial liabilities	787	82,630	1,884	39,103
Forward rate agreements - hedge of financial liabilities	111	200,000	-	-
Total	**1,388**	**321,933**	**9,168**	**258,179**

(million HUF)

31/12/2019	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate derivatives - hedge of debt securities	507	23,474	4,533	175,624
Interest rate derivatives - hedge of loans	200	19,026	3,876	49,555
Interest rate derivatives - hedge of financial liabilities	166	14,332	497	25,298
Total	**873**	**56,832**	**8,906**	**250,477**

Accumulated change of fair value of hedged instruments

(million HUF)

	31/12/2020	31/12/2019
Debts securities	2,533	3,744
Loans	3,879	3,831
Financial liabilities	(94)	542

Accumulated amount of fair value hedge adjustment is included in the carrying amount in case of loans, debt securities and financial liabilities at amorized cost. In the case of financial assets measured at FVOCI, the fair value adjustment is recognised in comprehensive income.

(27) Hedging derivatives (continued)

Lack of efficiency recognized in statement of comprehensive income related to fair value hedges, grouped by hedged item

(million HUF)

31/12/2020	Micro hedge	Macro hedge	Total
Debts securities	(213)	-	**(213)**
Loans	(15)	(82)	**(97)**
Financial liabilities	685	1	**686**
Total	**457**	**(81)**	**376**

(million HUF)

31/12/2019	Micro hedge	Macro hedge	Total
Debts securities	(133)	-	**(133)**
Loans	67	(68)	**(1)**
Financial liabilities	80	-	**80**
Total	**14**	**(68)**	**(54)**

(28) Investment in subsidiaries

(million HUF)

	2020.12.31			2019.12.31		
	Gross	Impair-ment	Net	Gross	Impair-ment	Net
CIB Leasing Co. Ltd.	3,751	(1,309)	2,442	3,751	(2,309)	1,442
CIB Rent Ltd.	1,047	(901)	146	1,047	(901)	146
CIB Insurance Broker Ltd.	598	-	598	598	-	598
CIB Factor Ltd. „u.w.”	-	-	-	100	(53)	47
Recovery Ltd.	86,544	(83,110)	3,434	86,544	(86,310)	234
Total	**91,940**	**(85,320)**	**6,620**	**92,040**	**(89,573)**	**2,467**

Current structure and change in investment in subsidiaries is disclosed in the (1) Corporate information part of the A. - Accounting policy.

(29) Property, plant and equipment

(million HUF)

	Land, premises	Leasehold improvements	Electronic equipment, office furniture	IT equipment	Motor vehicles	Other	Total
Cost							
Balance at 01/01/2019	**12,165**	**4,305**	**8,696**	**7,800**	**248**	**118**	**33,332**
IFRS 16 – ROU assets disposals	9,423	-	60	103	212	-	**9,798**
Additions	106	129	229	200	-	-	**664**
Disposals	(4,909)	(292)	(245)	(130)	(74)	-	**(5,650)**
Balance at 31/12/2019	**16,785**	**4,142**	**8,740**	**7,973**	**386**	**118**	**38,144**
IFRS 16 – ROU assets disposals	575	-	4	395	169	-	**1,143**
Additions	86	193	417	181	-	-	**877**
Disposals	(89)	(190)	(206)	(107)	(47)	-	**(639)**
Revaluation	1,268	-	-	-	-	-	**1,268**
Balance at 31/12/2020	**18,625**	**4,145**	**8,955**	**8,442**	**508**	**118**	**40,793**
Accumulated depreciation and impairment losses							
Balance at 01/01/2019	**5,075**	**4,046**	**7,848**	**7,433**	**196**	**-**	**24,598**
Depreciation of IFRS 16 – ROU assets disposals	845	-	8	11	41	-	**905**
Depreciation for the year	139	99	184	178	2	-	**602**
Disposals	(4,820)	(313)	(273)	(220)	(59)	-	**(5,685)**
Balance at 31/12/2019	**1,239**	**3,832**	**7,767**	**7,402**	**180**	**-**	**20,420**
Depreciation of IFRS 16 – ROU assets disposals	1,040	-	10	19	59	-	**1,128**
Depreciation for the year	201	55	250	218	-	-	**724**
Disposals	(60)	(190)	(110)	(45)	(43)	-	**(448)**
Revaluation	(595)	-	-	-	-	-	**(595)**
Balance at 31/12/2020	**1,825**	**3,697**	**7,917**	**7,594**	**196**	**-**	**21,229**
Net book value							
Balance at 31/12/2019	**15,546**	**310**	**973**	**571**	**206**	**118**	**17,724**
Balance at 31/12/2020	**16,800**	**448**	**1,036**	**848**	**312**	**118**	**19,562**

Leasehold improvements include improvements on leased branches.

Information about right-of-use-assets are presented in Note (39).

The Group revalued its own properties regarding to the revaluation method on 31 December 2020 using independent external Appraiser documentation, resulting HUF 1,697 million gain recorded in other comprehensive income, and HUF 169 million gain recorded in statement of comprehensive income.

Owner-occupied premises are classified in Level 3 of the fair value measurement hierarchy.

(30) Intangible assets

(million HUF)

	Software licenses and develop-ment	Other	Total
Cost			
Balance at 01/01/2019	**47,954**	**305**	**48,259**
Acquisition	4,550	103	**4,653**
Disposals	(93)	-	**(93)**
Balance at 31/12/2019	**52,411**	**408**	**52,819**
Additions	3,489	-	**3,489**
Disposals	(34)	(138)	**(172)**
Balance at 31/12/2020	**55,866**	**270**	**56,136**
Accumulated depreciation and impairment losses			
Balance at 01/01/2019	**36,891**	**265**	**37,156**
Depreciation for the year	3,221	119	**3,340**
Disposals	-	-	**-**
Balance at 31/12/2019	**40,112**	**384**	**40,496**
Depreciation for the year	3,614	5	**3,619**
Disposals	-	(139)	**(139)**
Balance at 31/12/2020	**43,726**	**250**	**43,976**
Net book value			
Balance at 31/12/2019	**12,299**	**24**	**12,323**
Balance at 31/12/2020	**12,140**	**20**	**12,160**

The net book value of internally developed software is HUF 7,157 million as at 31 December 2020, and HUF 6,980 million as at 31 December 2019, respectively.

(31) Other assets

(million HUF)

	31/12/2020	31/12/2019
Accrued assets	2,720	1,881
Non-income tax receivables	645	2,389
Items in transit (stock)	2,085	440
Trade receivables	97	560
Inventories	3,076	104
Other items	12,015	4,952
Total	**20,638**	**10,326**

Other items include the balance of settlement accounts which contains those cash in transit which are unsettled as at period end. As at 31 December 2020 other items contains settlement account related to value date differences on branch account with an amount of HUF 432 million. The account does not have a significant balance at 31 December 2019.

(32) Deposits from banks

(million HUF)

	31/12/2020	31/12/2019
Deposits from National Bank of Hungary	159,763	48,642
Deposits from other banks in Hungary	133,984	93,446
Deposits from banks in other countries	60,959	137,831
Total	**354,706**	**279,919**
of which related party items	*41,030*	*118,628*

(33) Deposits from customers

(million HUF)

	31/12/2020	31/12/2019
Deposits from customers in Hungary	1,699,406	1,404,745
Deposits from customers in other countries	47,064	30,930
Total	**1,746,470**	**1,435,675**
of which related party	*18,636*	*14,561*

The revaluation gains on deposits specified as hedged items is presented in Note (27).

(34) Other liabilities

(million HUF)

	31/12/2020	31/12/2019
Lease liabilities	9,760	9,146
Accrued liabilities	6,639	6,752
Suppliers	3,670	2,100
Non-income tax liability	2,715	2,900
Items in transit	572	421
Financial guarantees	500	216
Other items	4,299	2,575
Total	**28,155**	**24,110**

The balance of other items contains those items in transit which are unsettled as at period end.

Further information about lease liabilities is presented in Note (39).

(million HUF)

Financial guarantees comprise	**31/12/2020**	**31/12/2019**
Opening balance	**216**	**253**
Increase during the year	312	72
Decrease during the year	(28)	(109)
Closing balance	**500**	**216**

Concerning financial guarantees see Note (40) on Commitments and contingencies.

(35) Provisions

(million HUF)

	Commitments and contingencies	Legal disputes	Other	Total
Balance at 01/01/2019	**1,285**	**5,637**	**2,124**	**9,046**
Allocation	685	325	562	**1,572**
Use	-	(2,568)	(248)	**(2,816)**
Reversal	(980)	(1,567)	(331)	**(2,878)**
Balance at 31/12/2019	**990**	**1,827**	**2,107**	**4,924**
Allocation	1,787	872	743	**3,402**
Use	-	(36)	(412)	**(448)**
Reversal	(769)	(6)	(607)	**(1,382)**
Balance at 31/12/2020	**2,008**	**2,657**	**1,831**	**6,496**

Provisions for commitment and contingences were created for future credit obligations (see also Note (40) on Commitments and contingencies). For all booked provisions, the Bank expects out-flows / payments in a period longer than 1 year from reporting date.

Other provisions include the Bank's future obligations relating to rationalising the branch network and provision on personal type expenses based on our best available estimation.

The discount effect on provisions is not material.

(36) Subordinated debts

(million HUF)

	31/12/2020	31/12/2019
From Intesa Bank Ireland plc. for 30 million EUR. The debt's expiry date is 26 November 2021 with interest payable at 3 months EURIBOR plus 0.37%.	10,959	9,922
Total	**10,959**	**9,922**

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

(37) Share capital

During 2020 there was no change regarding the share capital of the Bank.

At 31 December 2019 the fully paid share capital consisted of 50,000,000,003 ordinary shares of HUF 1 each.

(38) Reserves

Capital reserve

Capital reserve contains the shareholders total capital contributions that connecting to the issue of new shares. There was no change in capital reserves during the business year.

Revaluation reserve

Revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Futhermore, the revaluation reserve comprises the cumulative, positive change in fair value of those tangible asset for which the revaluation model is applied, until the assets are derecognized or the change in fair value becomes negative.

In 2020, the Bank recognized a revaluation reserve of HUF 1,698 million in connection with the revaluation of its own properties.

(38) Reserves (continued)

Other reserve

Other reserve comprises the Bank's income from transaction under common control in the amount of HUF 4,164 million. Income from transaction under common control contains the income from the sale of CIB Investment Fund Ltd during 2013.

In addition to the above other reserve includes proceed received on sale of loan portfolio to the shareholder in amount of HUF 49,137 million. This equity contribution increased the other reserves during 2014.

In 2020, a HUF 1,300 million development reserve was transferred from retained earnings to the tied-up reserve in order to meet the requirements of the Corporate Tax regulation in connection with the tax advantage connected to renovation of the Bank's Head Office.

General reserve

Under section 83 of Act No. CCXXXVII of 2013, an amount equal to 10% of net profit after tax must be transferred to a non-distributable general reserve from the retained earnings. If there is a loss in the current financial year, the general reserve may be released insofar as to cover any such losses but is not to exceed the amount set aside in the general reserve.

Reserves classified as capital reserve, revalution reserve, other reserve and general reserve can not be paid as dividend.

(39) Leases (Bank as a lessee)

The Bank classified the right-of-use assets to property, land and equipment in the statement of financial position. The breakdown of the leases which are recognised as right-of-use assets:

(million HUF)

ROU assets	Premises (branch)	IT equip-ment	Vehicles	Other	Total
Cost					
IFRS 16 implementation 01/01/2019	**9,125**	**81**	**138**	**59**	**9,403**
Additions	383	22	74	1	**480**
Disposals	(85)	-	-	-	**(85)**
Balance at 31/12/2019	**9,423**	**103**	**212**	**60**	**9,798**
Additions	1,287	494	188	0	**1,969**
Disposals	(712)	(98)	(19)	0	**(829)**
Balance at 31/12/2020	**9,998**	**498**	**381**	**60**	**10,937**
Accumulated depreciation					
IFRS 16 implementation 01/01/2019	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	880	11	41	8	**940**
Disposals	(35)	-	-	-	**(35)**
Balance at 31/12/2019	**845**	**11**	**41**	**8**	**905**
Depreciation for the year	1,040	30	67	10	1,147
Disposals	-	(10)	(12)	-	(22)
Balance at 31/12/2020	**1,885**	**31**	**96**	**18**	**2,030**
Net book value					
Balance at 31/12/2019	**8,578**	**92**	**171**	**52**	**8,893**
Balance at 31/12/2020	**8,113**	**468**	**285**	**42**	**8,907**

The real estate right-of-use assets are mainly lease of branches. The duration of these contracts are mostly 5 years, with an option for extension. The Bank also has several contracts with indefinite maturity. In addition to the extension and termination options, the Bank use a business estimate based on its branch maintenance strategy for each contract. There is no purchase option in the terms of these contracts. At the date of the first time adoption, the weighted average incremental borrowing rate recognized in the statement of financial position is 1.13%.

(39) Leases (Bank as a lessee) (continued)

The vehicle lease contracts mainly have a 5 years duration. When determining the right-of-use, the Bank excludes the extension and the purchase option, because the Bank do not have an intention to use either of them.

The IT right-of-use assets are typically leased line and server leases. When evaluating the right of use asset, the Bank takes into account both the extension and the cancellation options. These contracts do not contain purchase options. The Bank uses a business estimate based on the IT maintenance, when determining the duration.

Breakdown of the lease liabilities:

(million HUF)

	31/12/2020			31/12/2019		
	Present value	Interest	Minimum lease payment	Present value	Interest	Minimum lease payment
Maturity with less than 1	1,285	54	1,339	1,016	77	1,093
Maturity between 1 and 5 years	4,537	152	4,689	4,080	228	3,969
Maturity over 5 years	3,669	62	3,731	4,059	120	4,515
Total	**9,491**	**268**	**9,759**	**9,155**	**425**	**9,577**

Profit or loss items of the lease contracts:

(million HUF)

	2020	2019
Lease liability interest expense	80	93
Lease payment fees	325	578
from which short-term lease payments	*1*	*182*
from which low-value asset lease payments	*-*	*4*
from which variable lease payments	*324*	*392*

The lease payments in the profit or loss are classified as operating expenses.

The short-term lease payment ledger contains IT maintenance related asset leases, which were closed in 2019 due to the IT maintenance centralisation. The short-term leases are also vehicle leases, which were closed in current year as well. The new vehicle leases are recognised as right-of-use assets and lease liabilities.

The short-term leases do not contain contracts where the maturity is in 2020.

Leases related to the leasing of low-value assets include the leasing payments for assets required for banking operations.

A portion of the variable lease payment are IT maintenance related, the rest of the contracts are banking and office operation related leasing.

The value of the future expected liabilities related to leases that are not recognized under lease liabilities is shown in the table below:

(million HUF)

	31/12/2020	31/12/2019
Future liabilities related to short-term lease contracts	1	55
Future liabilities related to variable lease payments	324	322

(39) Leases (Bank as a lessee) (continued)

The cash-flow contains the following outflows from lease payments:

(million HUF)

	2020	2019
Cash outflows from lease liabilities	1,147	1,030
Interest expense related to lease liabilities	80	93
Other lease payments	325	576
from which short-term lease payments	*-*	*180*
from which low-value asset lease payments	*1*	*4*
from which variable lease payments	*324*	*392*

(40) Commitments and contingencies

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customer's contingent liabilities upon the failure of the customers to perform under the terms of contract. Guarantees and standby letters of credit carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, guarantees, and endorsement liabilities from bills rediscounted.

Commitment to extend credit represents contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses.

The amount of long-term financial guarantees and commitments with a remaining maturity over one year is HUF 165,594 million as at 31 December 2020 and HUF 125,085 million as at 31 December 2019, respectively.

The amount of the securities in custody is HUF 1,164,028 million at 31 December 2020 and HUF 1,071,809 million at 31 December 2019, respectively.

(million HUF)

31/12/2020	Gross amount	Other liability	Provision
Guarantees	79,067	(477)	-
Letters of credit	2,866	(23)	-
Total financial guarantees	**81,933**	**(500)**	**-**
Commitments	440,274	-	(2,008)
Total	**522,207**	**(500)**	**(2,008)**

(million HUF)

31/12/2019	Gross amount	Other liability	Provision
Guarantees	42,582	(210)	-
Letters of credit	4,833	(6)	-
Total financial guarantees	**47,415**	**(216)**	**-**
Commitments	419,562	-	(990)
Total	**466,978**	**(216)**	**(990)**

(40) Commitments and contingencies (continued)

The following tables set out information about the gross carrying amount and the corresponding ECLs in relation to financial guarantees and commitments

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2020	**458,214**	**8,356**	**408**	**466,978**
Increase	1,923,211	117,113	9,682	**2,050,006**
Decrease	(1,882,350)	(114,187)	(9,740)	**(2,006,277)**
Transfers to Stage 1	-	7,775	185	**7,960**
Transfers to Stage 2	(7,775)	-	142	**(7,633)**
Transfers to Stage 3	(185)	(142)	-	**(327)**
Other adjustments	11,139	359	2	**11,500**
Balance at 31/12/2020	**502,254**	**19,274**	**679**	**522,207**

(million HUF)

ECL	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2020	**(840)**	**(95)**	**(271)**	**(1,206)**
Allocation	(944)	(830)	(302)	**(2,076)**
Use	171	35	23	**229**
Reversal	478	52	60	**590**
Transfers to Stage 1	-	(22)	-	**(22)**
Transfers to Stage 2	22	-	(1)	**21**
Transfers to Stage 3	-	1	-	**1**
Exchange difference	(21)	(2)	1	**(22)**
Other adjustment	(21)	-	(2)	**(23)**
Balance at 31/12/2020	**(1,155)**	**(861)**	**(492)**	**(2,508)**

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**495,670**	**3,226**	**500**	**499,396**
Increase	1,532,882	76,995	4,652	**1,614,529**
Decrease	(1,561,224)	(74,243)	(4,920)	**(1,640,387)**
Transfers to Stage 1	-	2,632	1	**2,633**
Transfers to Stage 2	(2,632)	-	177	**(2,455)**
Transfers to Stage 3	(1)	(177)	-	**(178)**
Other adjustments	(6,481)	(77)	(2)	**(6,560)**
Balance at 31/12/2019	**458,214**	**8,356**	**408**	**466,978**

(million HUF)

ECL	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**(1,101)**	**(51)**	**(386)**	**(1,538)**
Allocation	(566)	(88)	(103)	**(757)**
Use	190	23	76	**289**
Reversal	535	137	145	**817**
Transfers to Stage 1	-	(119)	-	**(119)**
Transfers to Stage 2	118	-	(3)	**115**
Transfers to Stage 3	-	4	-	**4**
Exchange difference	(7)	(1)	-	**(8)**
Other adjustment	(9)	-	-	**(9)**
Balance at 31/12/2019	**(840)**	**(95)**	**(271)**	**(1,206)**

(41) Carrying amount of financial assets and liabilities by earlier of contractual repricing or maturity date

(million HUF)

31/12/2020	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	47,545	-	-	-	-	-	17,336	**64,881**
Effective interest rates	*0.60*	-	-	-	-	-	-	***0.44***
Securities held for trading	-	3	225	1,269	591	70	104	**2,262**
Effective interest rates	-	*0.27*	*0.43*	*0.57*	*4.21*	*2.12*	-	***1.53***
Derivative financial assets	-	6,533	7,389	7,726	2,458	986	-	**25,092**
Securities mandatorily measured at FVPL	-	-	-	-	-	-	1,714	**1,714**
Financial assets measured at fair value through OCI	-	61,994	34,665	58,359	148,682	-	1,853	**305,553**
Effective interest rates	-	*0.96*	*0.31*	*0.31*	*0.79*	-	-	***0.68***
Loans to banks	20,097	605,054	70,294	-	-	-	-	**695,445**
Effective interest rates	*0.00*	*0.45*	*1.78*	-	-	-	-	***0.57***
Loans to customers at AC and FVPL [(1)]	99,977	276,160	203,324	187,879	305,936	114,659	-	**1,187,935**
Effective interest rates	*2.47*	*1.74*	*1.96*	*1.84*	*2.73*	*3.81*	-	***2.31***
Debt securities at amortised cost	-	44,145	-	7,313	7,378	13,934	-	**72,770**
Effective interest rates	-	*0.80*	-	*2.15*	*7.67*	*1.75*	-	***1.82***
Investment is subsidiaries	-	-	-	-	-	-	6,620	**6,620**
Liabilities								
Deposits from banks	2,069	83,390	60,481	45,910	145,275	17,581	-	**354,706**
Effective interest rates	-	*1.18*	*0.46*	*(0.89)*	*0.24*	*0.00*	-	***0.34***
Deposits from customers	1,396,041	69,235	168,739	16,217	91,165	5,073	-	**1,746,470**
Effective interest rates	-	*0.59*	*1.31*	*0.77*	*1.28*	*1.67*	-	***0.23***
Subordinated debts	-	-	-	10,959	-	-	-	**10,959**
Effective interest rates	-	-	-	*0.46*	-	-	-	***0.46***
Derivative financial liabilities	-	5,623	6,815	10,264	2,263	2,056	-	**27,021**
Net repricing gap	**(1,230,491)**	**835,641**	**79,862**	**179,196**	**226,342**	**104,939**	**27,627**	**223,116**

[(1)] Including portfolio hedge adjustment

(41) Carrying amount of financial assets and liabilities by earlier of contractual repricing or maturity date (continued)

(million HUF)

31/12/2019	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	19,121	-	-	-	-	-	17,742	**36,863**
Effective interest rates	*0,90*	-	-	-	-	-	-	***0,47***
Securities held for trading	-	1,686	2,084	2,440	223	79	383	**6,895**
Effective interest rates	-	*0,00*	*0,04*	*(0,57)*	*2,09*	*1,75*	-	***(0,10)***
Derivative financial assets	-	6,991	5,985	5,975	1,700	375	-	**21,026**
Financial assets measured at fair value through OCI	-	60,193	46,162	40,952	190,461	6,170	2,644	**346,582**
Effective interest rates	-	*0.62*	*0.15*	*0.07*	*0.57*	*1.15*	*0.00*	***0.47***
Loans to banks	9,132	404,928	26,851	-	-	-	-	**440,911**
Effective interest rates	-	*0.10*	*0.67*	-	-	-	-	***0.13***
Loans to customers at AC and FVPL [(1)]	58,472	266,310	294,756	150,760	195,670	76,938	-	**1,042,906**
Effective interest rates	*3.17*	*1.34*	*1.51*	*2.41*	*3.44*	*4.36*	-	***2.26***
Debt securities at amortised cost	-	46,584	-	6,622	-	17,082	-	**70,288**
Effective interest rates	-	*0.87*	-	-	-	*4.04*	-	***1.56***
Investments in subsidiaries	-	-	-	-	-	-	2,467	**2,467**
Liabilities								
Deposits from banks	2,322	181,493	24,983	15,791	43,509	11,821	-	**279,919**
Effective interest rates	-	*0.32*	*0.83*	*0.07*	*0.12*	*0.02*	-	***0.30***
Deposits from customers	1,130,841	55,078	165,838	50,403	33,159	356	-	**1,435,675**
Effective interest rates	-	*1.12*	*1.03*	*1.32*	*1.24*	-	-	***0.24***
Subordinated debts	-	-	-	9,922	-	-	-	**9,922**
Effective interest rates	-	-	-	*0.63*	-	-	-	***0.63***
Derivative financial liabilities	-	6,633	8,994	7,310	1,579	571	-	**25,087**
Net repricing gap	**(1,046,438)**	**543,487**	**176,023**	**123,323**	**309,806**	**87,896**	**23,237**	**217,334**

[(1)] Including portfolio hedge adjustment

(42) Carrying amount of assets and liabilities by maturity date

(million HUF)

31/12/2020	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with central bank	64,881	-	-	-	-	**64,881**
Securities held for trading	3	132	624	1,306	197	**2,262**
Derivative financial assets	5,087	1,387	693	8,783	9,142	**25,092**
Securities mandatorily measured at FVPL	-	-	-	-	1,714	**1,714**
Financial assets measured at fair value through OCI	-	9,547	83,477	201,410	11,119	**305,553**
Loans to banks [(1)]	572,226	2,388	-	105,838	14,993	**695,445**
Loans to customers at amortised cost and at fair value through profit or loss [(2)]	168,479	64,337	184,882	471,909	298,328	**1,187,935**
Debt securities at amortised cost	-	-	-	51,522	21,248	**72,770**
Investment in subsidiaries	-	-	-	-	6,620	**6,620**
Intangible assets, property, land and equipment	-	-	-	31,722	-	**31,722**
Tax assets	-	-	-	1,037	-	**1,037**
Other Assets	2,720	-	742	17,176	-	**20,638**
Total Assets	**813,396**	**77,791**	**270,418**	**890,703**	**363,361**	**2,415,669**
Liabilities						
Deposits from banks	11,446	4,960	48,445	266,057	23,798	**354,706**
Deposits from customers [(2)]	1,446,806	28,180	84,755	181,738	5,073	**1,746,552**
Subordinated debts	-	-	10,959	-	-	**10,959**
Derivative financial liabilities	2,792	1,496	624	12,129	9,980	**27,021**
Tax liabilities	-	-	-	879	-	**879**
Other liabilities	6,639	-	572	20,944	-	**28,155**
Provisions	-	-	-	6,496	-	**6,496**
Total liabilities	**1,467,683**	**34,636**	**145,355**	**488,243**	**38,851**	**2,174,768**
Net repricing gap	**(654,287)**	**43,155**	**125,063**	**402,460**	**324,510**	**240,901**

[(1)] The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (21).

[(2)] Including portfolio hedge adjustment.

(42) Carrying amount of assets and liabilities by maturity date (continued)

(million HUF)

31/12/2019	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	36,863	-	-	-	-	**36,863**
Securities held for trading	1,655	1,729	2,049	976	486	**6,895**
Derivative financial assets	1,520	191	1,252	7,741	10,322	**21,026**
Financial assets measured at fair value through OCI	8,242	21,078	40,952	267,495	8,815	**346,582**
Loans to banks [(1)]	261,333	78,270	86,316	-	14,993	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss [(2)]	97,163	93,983	216,782	399,134	235,844	**1,042,906**
Debt securities at amortised cost	-	-	-	46,583	23,705	**70,288**
Investment in subsidiaries	-	-	-	-	2,467	**2,467**
Intangible assets, property, plant and equipment	-	-	-	30,047	-	**30,047**
Tax assets	-	-	-	1,105	-	**1,105**
Other assets	1,881	-	545	7,900	-	**10,326**
Total assets	**408,656**	**195,251**	**347,896**	**760,981**	**296,632**	**2,009,416**
Liabilities						
Deposits from banks	7,616	4,914	18,212	215,127	34,050	**279,919**
Deposits from customers	1,151,962	26,856	58,029	183,578	15,250	**1,435,675**
Subordinated debts	-	-	6	9,916	-	**9,922**
Derivative financial liabilities	1,310	264	1,341	11,036	11,136	**25,087**
Tax liabilities	-	-	-	693	-	**693**
Other liabilities	6,752	-	421	16,937	-	**24,110**
Provisions for risk and charges	-	-	-	4,924	-	**4,924**
Total liabilities	**1,167,640**	**32,034**	**78,009**	**442,211**	**60,436**	**1,780,330**
Net position	**(758,984)**	**163,217**	**269,887**	**318,770**	**236,196**	**229,086**

[(1)] The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (21).

[(2)] Including portfolio hedge adjustment

(43) Analysis of financial liabilities' gross contractual cash flows by remaining contractual maturities

The following table summarize the maturity profile the Bank's financial liabilities' gross contractual cash flows – together with future interest income - as at 31 December 2020 and 2019. Repayments which are not subject to notice are treated as if notice were to be given immediately.

Carrying amount of the undiscounted financial liabilities is disclosed in the Note (41).

(million HUF)

31/12/2020	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from banks	11,588	5,370	50,243	270,515	23,814	**361,530**
Deposits from customers	1,446,816	28,526	85,979	182,465	5,073	**1,748,859**
Subordinated debts	-	-	11,004	-	-	**11,004**
Derivative financial liabilities	2,792	1,496	624	12,129	9,980	**27,021**
Financial guarantees	1,386	4,403	20,497	55,026	621	**81,933**
Commitments	74,781	12,496	116,500	62,873	173,624	**440,274**
Total undiscounted financial liabilities	**1,537,363**	**52,291**	**284,847**	**583,008**	**213,112**	**2,670,621**

(million HUF)

31/12/2019	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from banks	7,664	5,060	18,850	218,041	34,266	**283,881**
Deposits from customers	1,152,000	27,104	59,859	184,549	15,250	**1,438,762**
Subordinated debts	-	-	64	9,979	-	**10,043**
Derivative financial liabilities	1,310	264	1,341	11,036	11,136	**25,087**
Financial guarantees	1,781	10,361	15,934	15,393	3,946	**47,415**
Commitments	90,755	36,324	83,987	54,413	154,084	**419,563**
Total undiscounted financial liabilities	**1,253,510**	**79,113**	**180,035**	**493,411**	**218,682**	**2,224,751**

Part D Additional information

(44) Related party transactions

Companies (Intesa Sanpaolo Group)

For the purpose of the financial statements, related parties include all the enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the reporting enterprise (this includes parents, subsidiaries and fellow subsidiaries), associated companies and key management personnel.

Intesa Sanpaolo S.p.A /Italy, Torino/ (ultimate parent) is regarded as a related party that has significant control over the Bank.

The Bank also has entered into several transactions with companies controlled by Intesa Sanpaolo Group.

The most significant transactions with related parties are loan deposits and derivatives (foreign exchange swap deals and interest rate swap transactions).

(million HUF)

31/12/2020	Parent	ISP Group Compa-nies	CIB Group Compa-nies	Total
Assets				
Due from banks and due from customers	305,961	538	102,625	**409,124**
Financial investments	232	-	-	**232**
Derivative financial assets	15,659	3	-	**15,662**
Other assets	390	19	171	**580**
Liabilities				
Due to banks and due to customers	40,457	808	18,401	**59,666**
Subordinated debts	-	10,959	-	**10,959**
Derivative financial liabilities	16,142	-	-	**16,142**
Other liabilities	1,113	3	289	**1,405**
Commitments				
Guarantees	116	-	3	**119**
Loan commitments	59,994	1	36,908	**96,903**
Interest rate derivatives	1,379,619	-	-	**1,379,619**
Currency derivatives	95,984	1,805	-	**97,789**
Equity derivatives	9,905	-	-	**9,905**
Net interest income/(expense)	**(227)**	**(76)**	**1,109**	**806**
Trading and hedge income/(expenses)	**691**	**1**	**-**	**692**
Other operating income/(expense)	**(249)**	**57**	**6,806**	**6,614**
Operating expense	**(1,386)**	**(226)**	**(646)**	**(2,258)**

(44) Related party transactions (continued)

(million HUF)

31/12/2019	Parent	ISP Group Compa-nies	CIB Group Compa-nies	Total
Assets				
Due from banks and due from customers	206,135	13,299	95,452	**314,886**
Financial investments	364	-	-	**364**
Derivative financial assets	82	17,312	-	**17,394**
Other assets	35	325	214	**574**
Liabilities				
Due to banks and due to customers	117,371	1,430	14,388	**133,189**
Subordinated debts	-	9,922	-	**9,922**
Derivative financial liabilities	195	17,524	-	**17,719**
Other liabilities	2	-	119	**121**
Commitments				
Guarantees	70	13	3,374	**3,457**
Loan commitments	59,994	16,526	36,159	**112,679**
Interest rate derivatives	-	993,628	-	**993,628**
Currency derivatives	35,858	2,850	-	**38,708**
Equity derivatives	-	15,276	-	**15,276**
Net interest income/(expense)	**442**	**(2,015)**	**1,024**	**(549)**
Trading and hedge income/(expenses)	**499**	**1,959**	**-**	**2,458**
Other operating income/(expense)	**(185)**	**57**	**2,332**	**2,204**
Operating expense	**(1,011)**	**(40)**	**(559)**	**(1,610)**

All transaction with companies in the Intesa Sanpaolo Group are priced on an arm's length basis and are to be settled in cash. None of the transactions is secured.

Key management personnel

The key management personnel, who have authority and responsibility for planning, directing and controlling the activities of the entity, are the members of the Bank's Management Board and Supervisory Board. They receive conditions generally provided to the employees of the CIB Bank.

(million HUF)

Exposures to / from Boards members	31/12/2020	31/12/2019
Assets		
Loans	3	5
Equity instruments	166	143
Liabilities		
Current accounts and deposits	1,087	900
Commitments		
Loans and overdraft facilities not disbursed	5	4
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	980	927

There is no termination benefit or other long-term employee benefit in place.

There were changes in the Bank's key management members during 2020 and 2019.

(45) Average balances

Averages carrying amounts and average interest rates (where appropriate) are set out in the table below. The amounts are calculated by using a simple average of daily balances for trading instruments and monthly balances for other instruments. The average interest rates disclosed are the weighted average effective yields of interest-bearing financial instruments for the reporting period.

(million HUF)

31/12/2020	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	12,558	0.00
Securities measured at FVPL	5,510	1.86
Financial assets measured at fair value through OCI	350,737	1.39
Loans to banks	547,336	0.67
Loans to customers at AC and FVPL	1,106,093	2.75
Debt securities measured at amortised cost	46,081	1.29
Financial liabilities		
Deposits from banks	342,635	0.74
Deposits from customers	1,498,956	0.28
Subordinated debts	10,554	0.72
Lease liabilities	9,353	0.86

(million HUF)

31/12/2019	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	11,833	0.00
Securities held for trading	22,885	1.78
Financial assets measured at fair value through OCI	402,732	1.23
Loans to banks	437,133	0.21
Loans to customers at AC and FVPL	968,328	2.65
Debt securities measured at amortised cost	46,613	0.78
Financial liabilities		
Deposits from banks	256,650	0.59
Deposits from customers	1,413,882	0.25
Subordinated debts	9,778	0.72
Lease liabilities	8,585	1.09

(46) Fair value of financial assets and liabilities

The following tables comprise the book value and the fair value of those financial assets and liabilities, which are not presented at fair value in the statement of financial position.

(million HUF)

31/12/2020	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks at amortised cost	152,082	144,659	543,363	543,525
Loans to customers at amortised cost	760,448	761,568	367,057	363,374
Debt securities at amortised cost	72,770	74,197	-	-
Financial liabilities				
Deposits from banks	137,599	141,242	217,107	216,588
Deposits from customers	1,555,988	1,556,737	190,482	189,743
Subordinated debts	10,959	11,057	-	-

(million HUF)

31/12/2019	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks at amortised cost	220,957	218,503	219,954	220,041
Loans to customers at amortised cost	771,567	775,578	241,564	240,173
Debt securities at amortised cost	70,288	70,986	-	-
Financial liabilities				
Deposits from banks	202,791	206,952	77,128	76,315
Deposits from customers	1,331,558	1,331,078	104,117	104,612
Subordinated debts	9,922	10,108	-	-

Where available, the fair value of loans to banks and loans to customers is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. The Bank discounts the cash-flows using the exchange rate swap yield curve, and adds a client/deal level risk premium. The discounting is based on the cash-flows assembled by the deal conditions.

For debt securities at amortised cost, fair value is the market price or quoted exchange rate at the reporting date.

The fair value of deposits on demand is the amount payable at the reporting date.

The fair value of deposits from banks and customers is estimated using discounted cash flows.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: inputs that are quoted marked prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Unobservable input is used for instruments with conditions not closely connected to active markets.

(46) Fair value of financial assets and liabilities (continued)

The following table shows a fair value analysis of financial instruments measured at fair value in the statement of financial position by level of the fair value hierarchy:

(million HUF)

31/12/2020	Level 1	Level 2	Level 3	Total
Financial assets				
Securities held for trading	936	1,326	-	**2,262**
Trading derivative financial instruments	-	23,704	-	**23,704**
Securities measured at MFVPL	166	1,548	-	**1,714**
Loans to customers measured at MFVPL	-	-	56,847	**56,847**
Financial assets measured at FVOCI	301,295	4,148	110	**305,553**
Hedging derivative financial instruments	-	1,388	-	**1,388**
Financial liabilities				
Trading derivative financial instruments	-	17,853	-	**17,853**
Hedging derivative financial instruments	-	9,168	-	**9,168**

(million HUF)

31/12/2019	Level 1	Level 2	Level 3	Total
Financial assets				
Securities held for trading	834	6,061	-	**6,895**
Trading derivative financial instruments	-	20,153	-	**20,153**
Loans to customers measured at MFVPL	-	-	25,948	**25,948**
Financial assets measured at FVOCI	236,558	109,917	107	**346,582**
Hedging derivative financial instruments	-	873	-	**873**
Financial liabilities				
Trading derivative financial instruments	-	16,181	-	**16,181**
Hedging derivative financial instruments	-	8,906	-	**8,906**

In 2020, VISA Series A shares were transferred from Level 2 to Level 1 because a review during the year found that the Series A preference shares are convertible into non-preference, ordinary Series A shares, which include available market price, so the two shares have the same quoted price and need to be classified as Level 1 in accordance with IFRS 13.

During 2019, there was no realignment between levels 1 and 2, nor was there any other transfer to valuation level 3.

The following table shows an analysis of financial instruments not measured at fair value by level of the fair value hierarchy:

(million HUF)

31/12/2020	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	64,881	-	-	**64,881**	**64,881**
Loans to banks	-	-	688,184	**688,184**	**695,445**
Loans to customers at amortised cost	-	-	1,124,942	**1,124,942**	**1,127,505**
Debt securities at amortised cost	18,342	55,854	-	**74,196**	**72,770**
Financial liabilities					
Deposits from banks	-	-	357,830	**357,830**	**354,706**
Deposits from customers	-	-	1,746,480	**1,746,480**	**1,746,470**
Subordinated debts	-	-	11,057	**11,057**	**10,959**

(46) Fair value of financial assets and liabilities (continued)

(million HUF)

31/12/2019	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	36,863	-	-	**36,863**	**36,863**
Loans to banks	-	-	438,544	**438,544**	**440,911**
Loans to customers at amortised cost	-	-	1,015,751	**1,015,751**	**1,013,131**
Debt securities at amortised cost	13,983	57,003	-	**70,986**	**70,288**
Financial liabilities					
Deposits from banks	-	-	283,267	**283,267**	**279,919**
Deposits from customers	-	-	1,435,690	**1,435,690**	**1,435,675**
Subordinated debts	-	-	10,108	**10,108**	**9,922**

(47) Business combinations

There was no business combination in 2020 nor in 2019.

(48) Events after the reporting period

There was no significant adjusting or non-adjusting event after the reporting period.

E. Information on risks

(49) Risk management

Risk is inherent in the Bank's activities, but it is carefully managed through a process of ongoing identification, measurement and monitoring, subject to prudent risk limits and strong control. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The most significant risks to which the Bank is exposed are credit-, operational-, liquidity- and market risk, including interest rate, foreign exchange risks and other price risk.

The Management Board of the Bank is responsible to define risk management strategies in line with the expectations of the international and local Supervisory Authorities and regulatory framework and Intesa Sanpaolo S.p.A. The Management Committees of the Bank implement the execution of these policies. Independent Risk Assumption and Risk Management Committee provides independent risk supervision over the internal risk controls and management information systems.

The Credit policies department within the Chief Risk Officer area is responsible for implementing and maintaining risk related procedures to ensure an independent control process. Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and manages daily liquidity of the Bank. Activity of Treasury is supervised on a daily basis by the Market Risk Department and strategic Asset-Liability Management decisions are made by Assets and Liabilities Committee.

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management. Risk management framework is also comprehensively examined yearly by the National Bank of Hungary in the course of the Supervisory Review and Evaluation Process.

The Bank has established reporting systems, which permit the continuous monitoring of risk exposures. The risks are measured and quantified according to different methods, both statistical and non-statistical. Each method is based on different levels of uncertainty. The combination of methods makes it possible for the Bank to assess the behaviour of its exposure in different risk scenarios in order to capture all the aspects of the risk. This reflects both the expected loss likely to arise in normal circumstances and unexpected loss, which is an estimate of the ultimate actual loss based on statistical models.

As part of its overall risk management, the Bank uses derivative transactions to hedge financial risk to manage interest rate, foreign exchange risk and other risk transfer methodologies to minimise the loss on credit risks and other unforeseen operational and market events. The Bank actively uses collaterals to reduce its credit risks.

(a) Credit risk

Credit risk is the risk that a customer or counter party will be unable or unwilling to meet a commitment that they have entered into with the Bank. It arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk on loans and receivables is managed by the Management Board through the Credit Committee, the Credit Risk Governance Committee and the Problem Asset Committee, which establish credit regulations including the approval processes, discretionary credit limits, standards for the measurement of credit exposures, risk ratings of clients and assessments of management quality and financial performance.

Each significant outstanding loan is reviewed at least monthly. Loans are classified based on a point rating system, which incorporates qualitative and quantitative factors.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the Statement of Financial Position. Credit risk on trading instruments is managed by the Management Board through the Assets and Liabilities Committee. The Bank maintains strict control on open net positions, i.e. the difference between purchase and sale contracts, by both amount and term.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The transfers of financial assets between the stages are „symmetrical". This means that just as in the presence of a significant increase in credit risk, an asset must be transferred to stage 2, if subsequently its credit quality returns to being no longer significantly worse than measured at the time of initial recognition of the asset, the financial instrument can be transferred back to stage 1. The metrics used by the Bank that determine „improvements" – i.e. transitions from stage 2 to stage 1 – must be the same (in terms both of variables observed and of change in the variables chosen) identified to determine „worsening".

(49) Risk management (continued)

Any occurrence of a „significant increase in credit risk" (and hence transfer to stage 2) must be measured not by reference to the overall debtor, but to each individual exposure pertaining to the same counterparty.

Determination of the expected credit loss is always performed after measurement of the risk level with respect to initial recognition of the instrument. The Bank compares the risk of default occurring on the financial instrument as at the reporting date with the risk of default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information. The drivers to identify the actual occurrence of a significant increase in credit risk on a performing exposure are the following:

- increase in the lifetime probabilities of default
- the existence of the past due position of more than 30 days
- the granting of forbearance measures to the performing debtor

According to IFRS 9, the concept of "low credit risk" can include exposures having investment grade rating, without being limited to them. For an instrument to have "low credit risk" it is not necessary to have received an external rating. The instrument may be rated by means of the Group's internal rating methodologies, provided its assessment in line with the generally accepted definition of "low credit risk". The Group decided not to make a general use of the "low credit risk" exemption, i.e. simplification that permits to assume that instruments with "low credit risk" have not undergone a significant increase in credit risk since origination and thus can automatically be included in Stage 1.

The Bank uses ratings and a master scale to determine a significant increase in credit risk. These ratings are determined based on an internal model. If the rating cannot be decided on the basis of the internal model, the so-called benchmark probability of default is established.

The Bank sets a threshold for its significant growth. This threshold is determined based on simulations, forecasts, and historical data. Separate specific thresholds are set for retail, SME, corporate and large corporate sectors. Thresholds have been set adequately reflect when a loan needs to be classified in Stage 2, but if the loan performs well, it can return to Stage 1.

The Bank measures the impairment of non-performing (Stage 3) exposures in two different ways: by statistical measurement for exposures below HUF 75 million or € 250,000 where the Bank calculates impairment from internal models or based on estimated parameters, or applies individual impairment calculation where the client-level exposure is above the mentioned threshold.

A default is considered to exist if the borrower encounters a payment difficulty of more than 90 days, if the client wishes to settle repayment out of court, if its credit quality indicators deteriorate significantly, if future cash flows are not expected to fully cover the debt to the bank, if there is a severe decline in the customer's business, or if the exposure is either partially or fully written off and the loan is sold.

In relation to non-performing exposures, a component linked to the most-likely and downside scenarios expected over the period of the next three years is considered in addition to a component linked to current economic conditions. In fact, as required by IFRS 9, the effects of the forward looking scenario on LGD estimates pegged to the current conditions must also be considered. The forward looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most likely scenario. It is based on the methodological framework that it is used for performing loans, but ignores the upside scenario from prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Due to the moratoria, the definition of default was revised by the Bank is 2020, and the loans are no more classified to non-performing portfolio automatically, but in all cases, the backgrounds of the indicators are investigated.

For the identification of non-performing transactions and the determination of impairment for the loans is crucial for the Bank to have adequate forward-looking information. For this purpose, the Bank also prepares various macroeconomic and transaction-level forecasts and scenarios in accordance with the requirements of IFRS 9.

In line with Intesa Sanpaolo Group's best practice, the Bank used its own models to calculate the forward-looking component of IFRS9, both in determining the macroeconomic scenario and in forecasting the default rate. The Bank uses the same tools and logic as the annual ICAAP stress test methodology. In 2020, in view of the epidemic situation, CIB Bank revised the IFRS9 calculation twice and compared its own macroeconomic variables with the NHB's macro variables, and at the end of the year calculated the numerical difference in impairment / provisioning following the NHB's circular recommendation.

(49) Risk management (continued)

In the epidemic situation, in addition to the revision of IFRS9, risk management developed new measurement frameworks for customers under the moratoria in different segments to properly monitor credit risk growth and then formed an additional provision in Stage 2 as a management overlay. With these new frameworks, the Bank estimated from month to month which customers would have a payment problem after the moratoria expired. The Bank examined in which sector the given client worked, how his willingness to pay and save changed during the moratoria, whether his indebtedness may have increased, how his account turnover decreased, using also the pre-moratorial client behaviour statistics.

In 2020, Risk Management reviewed the segmentation process and developed a new methodology that is in line with regulations. CIB Bank intends to apply the new regulatory segmentation method uniformly when calculating the first pillar (with the related features of the STD approach) and the second pillar capital requirements, credit and debt rating processes, reporting, modeling processes and provisioning.

Credit claim may be partially or fully written off and removed from on balance sheet, even without waving entirely the claim, as long as legal proceedings have not been completed and even very low possibility of recovery remains. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value. In order to accelerate the write-off of loans whose possibility of recovery is deemed marginal, on a periodic basis (at least every six month) portfolios of bad loans are defined to be subject to total or partial write-offs if bearing the following macro-characteristics:

- percentage coverage >95%,
- vintage (understood as the period of time in “bad loan” status) > 5 years or >8 years, respectively, for non-mortgage and mortgage loans.

The methodological framework for estimating the risk parameters used to calculate ECL is based on the reference framework for the development of AIRB international models and the other risk metrics used for management purposes. The internal rating systems provide the basis for development of the IFRS 9 models. These internal systems have been adapted to align them with the requirement of the Standard. Indeed, determination of the risk parameters is based on point in time approach able to incorporate all available information, including forward-looking data.

In the Stage 1 category, the ECL is calculated by the Bank estimating a 1-year PD and LGD forecast and default exposure (EAD) at the beginning of the observation period. In Category 2, Stage calculates the life expectancy loss based on the remaining maturity. In the Stage 3 category, it adds an add-on parameter to the non-performing LGD forecast.

In determining the PD and LGD credit risk parameters, the Bank uses the basic + add-on approach, in line with the best practice of the Intesa Sanpaolo Group, where the add-on is based on the distance between pessimistic and optimistic scenarios. On the PD side, the estimated TTC matrix based on past data is skewed according to the Merton-Vasics methodology to fit the predicted default scenario rate, and then the estimated one-year and lifetime PD parameter was determined using these matrixes. In determining the LGD parameter, the Bank does not use a macroeconomic model, but uses the EBA stress test coefficients to rescale its own long-term LGD estimate, where the EBA stress test coefficients are determined according to each macroeconomic scenario.

The table below shows the maximum exposure (gross carrying amount without any impairment losses) to credit risk. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

(49) Risk management (continued)

(million HUF)

31/12/2020	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	64,900	64,881
Securities held for trading	2,262	2,262
Trading derivatives	23,704	23,704
Securities mandatorily measured at FVPL	1,714	1,714
Financial assets measured at fair value through OCI	305,553	305,553
Loans to banks	695,765	695,445
Loans to customers at amortised cost and at fair value through profit or loss	1,212,815	1,184,352
Debt securities measured at amortised cost	72,945	72,770
Hedging derivatives	1,388	1,388
Other assets	17,176	17,176
Financial guarantees	81,933	81,433
Commitments	440,274	438,266
Total maximum exposure	**2,920,429**	**2,888,944**

(million HUF)

31/12/2019	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	36,863	36,863
Securities held for trading	6,895	6,895
Trading derivatives	20,153	20,153
Financial assets measured at fair value through OCI	346,582	346,582
Loans to banks	441,129	440,911
Loans to customers at amortised cost and at fair value through profit or loss	1,067,575	1,039,079
Debt securities measured at amortised cost	70,439	70,288
Hedging derivatives	873	873
Other assets	8,283	7,901
Financial guarantees	47,415	47,199
Commitments	419,562	418,572
Total maximum exposure	**2,465,769**	**2,435,316**

The fair values of derivatives shown on the statement of financial position represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in values.

Contingent and future liabilities also includes financial guarantee contracts.

The following table presents the Bank's loans and advances to customers before taking into account any collateral held or other credit enhancement broken down by the relevant geographical areas:

(million HUF)

	31/12/2020	31/12/2019
Hungary	1,160,319	959,783
Euro Zone countries	21,285	23,173
EU - non-Euro Zone countries	30,987	84,434
Other regions	224	184
Total	**1,212,815**	**1,067,574**

(49) Risk management (continued)

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements is provided in Note (25).

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions, cash or securities
- for commercial lending, mortgage pledges over real estate properties, inventory and trade receivables

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. The Bank monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests if necessary additional collateral in accordance with the underlying agreement.

Effect of Credit Risk Mitigation on the exposure to credit risk:

(million HUF)

	31/12/2020	31/12/2019
Financial collateral	(86,199)	(32,926)
Guarantees	(141,230)	(90,010)
Total	**(227,429)**	**(122,936)**

The Bank assesses the loans with internal rating system, which differentiates the quality of non-overdue loans. The table below shows the credit quality of the loans to customers at amortised cost and fair value excluding allowances based on the Bank's credit rating system.

(million HUF)

Gross carrying amount 31/12/2020	Stage 1 Collec-tive	Stage 2 Collec-tive	Stage 3 Indi-vidual	Stage 3 Collec-tive	POCI assets	SPPI failed	Total
Performing loans							
A – Excellent	78,653	15,756	-	-	1	290	**94,700**
B – Stable	407,909	21,928	-	-	2,714	31,723	**464,274**
C – Acceptable	379,446	54,600	-	-	2,402	22,393	**458,841**
D – High Risk	75,894	24,755	-	-	248	1,244	**102,141**
Other	55,267	4,811	-	-	898	1,061	**62,037**
Total performing loans	**997,169**	**121,850**	**-**	**-**	**6,263**	**56,711**	**1,181,993**
Non-performing loans							
Corporate loans	-	-	12,599	2,207	1,238	-	**16,044**
Retail loan	-	-	294	10,143	4,205	136	**14,778**
Total non-performing loans	**-**	**-**	**12,893**	**12,350**	**5,443**	**136**	**30,822**

(49) Risk management (continued)

(million HUF)

Gross carrying amount 31/12/2019	Stage 1 Collec-tive	Stage 2 Collec-tive	Stage 3 Indi-vidual	Stage 3 Collec-tive	POCI assets	SPPI failed	Total
Performing loans							
A – Excellent	127,839	1,318	-	-	-	544	**129,701**
B – Stable	353,722	5,396	-	-	2,360	18,287	**379,765**
C – Acceptable	360,958	28,488	-	-	2,524	4,919	**396,889**
D – High Risk	85,889	24,419	-	-	310	800	**111,418**
Other	6,021	5,869	-	-	31	1,346	**13,267**
Total performing loans	**934,429**	**65,490**			**5,225**	**25,896**	**1,031,040**
Non-performing loans							
Corporate loans	-	-	14,137	2,971	2,201	-	**19,309**
Retail loan	-	-	411	11,518	5,244	53	**17,226**
Total non-performing loans	**-**	**-**	**14,548**	**14,489**	**7,445**	**53**	**36,535**

The „Other" rating refers to clients, which were assessed with not the latest, but a previous rating model.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. These facilitates focused on management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The attributable risk ratings are assessed and updated regularly.

The Bank does not recognize any credit risk in relation with available- for- sale investments, as the majority of the available- for- sale portfolio consisted of government bonds.

Thanks to portfolio cleaning efforts the credit quality of the portfolio started to improve in the previous periods and the positive tendency reflected in declining NPL volumes and improving cost of risk.

The table below shows the credit quality of the due from banks portfolio, based on the external rating system.

(million HUF)

	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+/ BB-	B+/ B-	Less than B-	Not rated	Total
31/12/2020	1,275	2,410	310,129	528	260	-	380,843	**695,445**
31/12/2019	754	1,994	222,334	598	27	-	215,204	**440,911**

The table below shows the aging analysis of past due but not individually impaired loans by segment.

(million HUF)

31/12/2020	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	10,169	59	137	163	**10,528**
Retail loan	9,028	1,242	559	258	**11,087**
Total	**19,197**	**1,301**	**696**	**421**	**21,615**

(million HUF)

31/12/2019	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	4,876	436	86	52	**5,450**
Retail loan	8,263	1,182	302	146	**9,893**
Total	**13,139**	**1,618**	**388**	**198**	**15,343**

(49) Risk management (continued)

Of the total aggregate amount of gross past due but not individually impaired loans and advances to customers, the liquidation value of collateral that the Bank held as at 31 December 2020 is HUF 5,780 million, and HUF 15,164 million as at 31 December 2019.

In the case of individually insignificant loans, a collective (portfolio-based) assessment is performed. Historical portfolio losses are taken into account as a key factor in determining collective impairment.

Collective impairment is determined based on the probabilistic bankruptcy probability modeled in accordance with the IFRS9 framework and the loss rate at default. Changes in gross carrying amount, and thus the volume of financial instruments themselves, may affect the change in recognized impairment.

The credit risk of derivative clients is determined on a counterparty basis for the entire duration of the exposure.

(b) Liquidity risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its payment obligations due to its inability to obtain funds on the market (funding liquidity risk) or to liquidate its assets (market liquidity risk).

The Management Board is responsible for maintaining an adequate level of liquidity and for defining control policies and management processes relating to the specific risk profile. Assets & Liabilities Management Committee monitors the implementation of the Liquidity Policy of the Bank and delegates day-to-day activities to the most appropriate offices and departments of the Bank. In the day-to-day liquidity management, the Head of Treasury and ALM is responsible for implementing the liquidity strategy and maintaining adequate liquidity within the limits described below. The Financial and Market Risk Management Department measures and monitors the liquidity position and controls liquidity limits on a daily basis and is also in charge of reporting to the management bodies and to the Parent Company liquidity positions and compliance with limits.

The key elements of the Bank's liquidity strategy are as follows:

- continuous respect of regulatory liquidity ratios;
- improve Structural Liquidity Position through matched funding (from shareholder or market driven);
- focused approach to short-term, medium-term, long-term product definitions in each business line.

Through active participation in monetary and financial markets, the Treasury and ALM ensures integrated management of the Bank's liquidity in local currency as well as in foreign currencies; optimizes the liquidity portfolio, guaranteeing efficient collateral management; and with regard to the other CIB group companies, the Treasury and ALM coordinates and facilitates intragroup cash flows, favouring organised, efficient development in compliance with internal and external regulations. It also acts to resolve any liquidity imbalances of the subsidiaries, in cooperation with the Financial and Market Risk Management Department, promoting all operating activities deemed suitable to return or keep the subsidiaries within the limits set forth by internal or external rules.

The Liquidity Policy includes to the Contingency Funding Plan where the strategies for addressing liquidity shortfalls in emergency situations are defined, together with the liquidity early warning system in operation.

The liquidity ratio is calculated as the ratio of liquid assets to total assets where liquid assets consists of cash, nostro account balances, 30-days interbank position and bonds with maximum 30 day remaining maturity, which are categorized by the National Bank of Hungary as eligible for its repo facility.

In addition to the liquid assets of the liquidity ratio, the Bank also has an EUR 700 million equivalent short-term (below 18 month) uncommitted multi currency credit line with the Parent Company.

The liquidity ratio during the year was as follows:

Liquidity ratio	31/12/2020	31/12/2019
31 December	30.9%	27.9%
Daily average during the period	24.8%	25.6%
Highest	32.1%	36.8%
Lowest	19.9%	17.9%

The maturity profile of the Bank's financial liabilities at the end of the year is presented in Note (43).

The COVID-19 pandemic did not have a negative impact on the Bank's liquidity. The loan-to-deposit ratio was very favourable at 60.3% at the end of the year in the terms of liquidity.

Due to the loan repayment moratoria introduced as a part of government measures, the Bank rescheduled capital and interest payments to its customers in 2020 In the amount of approximately HUF 64,900 million.

(49) Risk management (continued)

(c) Market risk - Trading

Market risk is the risk of loss due to fluctuations in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored through applying methodology that reflects the interdependency between risk variables.

The market risk for the trading portfolio is managed and monitored based on a VaR (Value at Risk) methodology. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

The Bank uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from previous years. The VaR models are designed to measure market risk in a normal market environment.

The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The factors of the distribution are calculated by using exponentially weighted historical data. The use of VaR has limitation because it is based on historical correlation and volatilities in market prices and assumes that future price movements will follow a statistical distribution.

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under – or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations with separate limit amounts for foreign exchange, interest rate, equity and total VaRs. Exposures are reviewed daily against the limits by management.

(million HUF)

VaR 2020	Foreign exchange	Interest rate	Equity	Correla-tion effect	Total
31 December	11	10	0	(9)	**12**
Daily average during the period	16	60	0	3	**63**
Highest	63	176	10	114	**176**
Lowest	2	3	0	10	**10**

(million HUF)

VaR 2019	Foreign exchange	Interest rate	Equity	Correla-tion effect	Total
31 December	6	2	0	3	**11**
Daily average during the period	17	33	0	(11)	**39**
Highest	46	85	17	(63)	**85**
Lowest	3	2	0	3	**8**

In addition to the VaR limits, position and stop-loss limits have been set up in line with the internal regulations of Intesa Sanpaolo Group.

Position limits enables the monitoring of exposures real time, and as a robust measurement technique, can be relied upon in case of error in the VaR model. Separate position limits and sub-limits are in place for foreign exchange, equity and interest rate positions.

Stop-loss limits are designed to control the down side movement of the profit and loss in a particular position. Separate stop-loss limits have been established both on a month-to-date and year-to-date horizon for the individual Treasury desks.

(49) Risk management (continued)

(d) Market risk – Non-trading

Interest rate risk– Non-trading

Interest rate risk is measured by the extent to which changes in market interest rates impact on equity and on net interest income. Gaps in the value of assets, liabilities and off-balance sheet instruments that mature or reprice during a given period generate interest rate risk. The Bank reduces this risk by matching the repricing of assets and liabilities using pricing/maturity techniques, including the use of derivative products.

Interest rate risk is managed by the Treasury in the Bank day-to-day operation supervised by the senior management, by Risk Management, and by the Parent Company. Risk tolerance limitation and the related policy are set by the Bank's Management Board. On the tactical horizon, interest risk is managed by the Financial Risk Committee, which proposes position and sensitivity limits, and monitors such limits to restrict the effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The following table demonstrates the sensitivity of the statement of profit or loss and other comprehensive income to a reasonable possible change in interest rates, with all other variables held constant.

The sensitivity of equity economic value is calculated on the changes of the net present value (NPV) of all non-trading financial assets, liabilities and derivatives on 31 December 2020 on the basis of the effects of standard shock scenarios.

The sensitivity of the net interest income is the effect of the standard shock scenarios on the net interest income within one-year time horizon, based on the floating and fixed rate non-trading financial assets and financial liabilities and derivative instruments as of 31 December 2020. The Bank uses for the sensitivity calculations NPV calculations with admitting negative value on interest rates for the year.

A threshold of zero is implemented in the calculation for those cases when the decrease of basis points would indicate a negative interest income. This method amends the symmetry of the sensitivity analysis.

(million HUF)

2020	Shock scenarios in basis points (+)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	+100	**6,811**	(319)	(207)	244	915	**633**
EUR	+100	**1,549**	(112)	199	669	592	**1,348**
USD	+100	**60**	(21)	7	16	15	**17**
CHF	+100	**47**	(10)	23	(25)	(43)	**(55)**
Other	+100	**(21)**	0	1	2	3	**6**

(million HUF)

2020	Shock scenarios in basis points (-)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(100)	**(7,139)**	319	207	(244)	(915)	**(633)**
EUR	(100)	**(1,605)**	112	(199)	(669)	(592)	**(1,348)**
USD	(100)	**(297)**	21	(7)	(16)	(15)	**(17)**
CHF	(100)	**(1)**	10	(23)	25	43	**55**
Other	(100)	**(10)**	0	(1)	(2)	(3)	**(6)**

(49) Risk management (continued)

(million HUF)

2019	Shock scenarios in basis points (+)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	+100	**6,931**	(744)	159	364	(720)	**(941)**
EUR	+100	**961**	(286)	139	392	358	**603**
USD	+100	**(37)**	(30)	0	18	18	**6**
CHF	+100	**31**	(10)	20	(14)	(27)	**(31)**
Other	+100	**(8)**	1	1	2	3	**7**

(million HUF)

2019	Shock scenarios in basis points (-)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(100)	**(6,728)**	744	(159)	(364)	720	**941**
EUR	(100)	**(1,004)**	286	(139)	(392)	(358)	**(603)**
USD	(100)	**37**	30	-	(18)	(18)	**(6)**
CHF	(100)	**(8)**	10	(20)	14	27	**31**
Other	(100)	**8**	(1)	(1)	(2)	(3)	**(7)**

Foreign exchange risk– Non-trading

Foreign exchange risk is the risk that the fair value of a financial instrument will fluctuate due to changes in FX rates.

The Bank has assets and liabilities, both on and off-balance sheet, denominated in various foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Any non-trading foreign exchange risk is transferred through internal hedges to trading book and is therefore reflected and managed via the value-at-risk figures in the trading books described under section (c) Market risk – Trading, with the exception of strategic and residual foreign FX positions.

The following table demonstrates the sensitivity of the statement of comprehensive income to reasonable possible changes in exchange rates, with all other variables held constant:

(million HUF)

2020	Sensitivity of net income			
	EUR	USD	CHF	Total
5% strengthening of currencies vs. HUF	(19)	(6)	(21)	**(46)**
5% weakening of currencies vs. HUF	19	6	21	**46**

(million HUF)

2019	Sensitivity of net income			
	EUR	USD	CHF	Total
5% strengthening of currencies vs. HUF	103	15	(9)	**109**
5% weakening of currencies vs. HUF	(103)	(15)	9	**(109)**

Changes in exchange rates does not have any effect on equity.

(49) Risk management (continued)

The currency structure of the Bank's financial assets, liabilities as follows:

(currency equivalents in million HUF)

31/12/2020	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	62,942	1,235	95	392	217	**64,881**
Securities held for trading	2,082	66	-	114	-	**2,262**
Securities measured at MFVPL	-	167	-	1,547	-	**1,714**
Securities measured at FVOCI	283,123	-	-	22,430	-	**305,553**
Loans to banks	504,742	173,371	7,112	2,640	7,580	**695,445**
Loans to customers at amortised cost and at fair value through profit or loss	860,034	294,302	13,660	16,355	1	**1,184,352**
Debt securities at amortised cost	48,931	23,839	-	-	-	**72,770**
Total financial assets	**1,761,854**	**492,980**	**20,867**	**43,478**	**7,798**	**2,326,977**
Deposits from banks	259,144	79,764	14,592	1,206	-	**354,706**
Deposits from customers	1,328,476	338,615	7,251	62,234	9,894	**1,746,470**
Subordinated debts	-	10,959	-	-	-	**10,959**
Total financial liabilities	**1,587,620**	**429,338**	**21,843**	**63,440**	**9,894**	**2,112,135**
Net on-statement of financial positon	**174,234**	**63,642**	**(976)**	**(19,962)**	**(2,096)**	**214,842**
FX position of derivatives	**(34,065)**	**56,711**	**(1,037)**	**(20,280)**	**(2,175)**	
Off-balance	***418,640***	***96,698***	***344***	***4,017***	***-***	***519,699***
Guaranteed	*67,755*	*10,835*	*-*	*-*	*-*	***78,590***
Letters of credit	*-*	*2,538*	*-*	*305*	*-*	***2,843***
Commitments	*350,885*	*83,325*	*344*	*3,712*	*-*	***438,266***

(49) Risk management (continued)

(currency equivalents in million HUF)

31/12/2019	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	35,553	949	50	209	102	**36,863**
Securities held for trading	6,471	364	-	60	-	**6,895**
Securities measured at FVOCI	323,200	-	-	23,382	-	**346,582**
Loans to banks	307,528	129,706	125	2,660	892	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss	666,414	323,599	13,821	35,196	49	**1,039,079**
Debt securities at amortised cost	48,864	21,424	-	-	-	**70,288**
Total financial assets	**1,388,030**	**476,042**	**13,996**	**61,507**	**1,043**	**1,940,618**
Deposits from banks	131,112	132,986	15,485	336	-	**279,919**
Deposits from customers	1,130,020	250,435	5,876	43,181	6,163	**1,435,675**
Subordinated debts	-	9,922	-	-	-	**9,922**
Total financial liabilities	**1,261,132**	**393,343**	**21,361**	**43,517**	**6,163**	**1,725,516**
Net on-statement of financial positon	**126,898**	**82,699**	**(7,365)**	**17,990**	**(5,120)**	**215,102**
FX position of derivatives	**78,976**	**(73,698)**	**7,230**	**(16,870)**	**3,847**	
Off-balance	***344,469***	***114,515***	***313***	***6,475***	***-***	***465,772***
Guaranteed	*25,717*	*16,655*	*-*	*-*	*-*	***42,372***
Letters of credit	*-*	*4,475*	*-*	*352*	*-*	***4,827***
Commitments	*318,752*	*93,385*	*313*	*6,123*	*-*	***418,573***

(e) Operational risk

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of internal processes, human resources and internal systems, or as a result of external events. Operational risk includes:

- legal risk, meaning the risk of losses resulting from the breach of laws or regulations, contractual or other liability or from other disputes;
- model risk, defined as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models;
- compliance risk, defined as the risk to incur judicial or administrative penalties, significant financial losses or damage to reputation as a result of the violation of mandatory rules or self-governance regulation;
- conduct risk, defined as the risk of incurring judicial or administrative sanctions, material financial losses or reputational harms as a result of behaviours unfair towards customers, jeopardising the integrity and orderly functioning of financial markets, constituting an infringement of regulations in financial crimes area (e.g. anti-money laundering, counter terrorism, embargoes, anti-corruption, tax crimes, cyber crimes);
- ICT risk (Information and Communication Technology risk), defined as the risk of economic, reputational and market share losses related to the use of information and communication technology. (IT security risk is part of the ICT risk);
- information Security risk, defined as the risk of sustaining economic loss, or reputational harm, including those arising from the failure to comply with rules as a result of the loss of confidentiality, integrity and/or availability of corporate information favoured or caused by the use of technology or related to it.
- cyber risk is the risk of disruption to business processes and/or financial loss and/or damage to reputation deriving from improper use and/or dissemination of digital data and information, any actual or attempted unauthorised access to the Bank's ICT or to the digital data and information contained therein and any malicious or involuntary activity that compromises or uses it inappropriately, jeopardising business processes and/or supporting critical infrastructures;

(49) Risk management (continued)

- financial reporting risk, defined as the possibility that quantitative or qualitative accounting or financial information contained in company communications disclosed to the public is not true, correct or complete due to the inadequacy of administrative processes or the ICT applications used to produce it.

Strategic and reputational risks are excluded.

In the Bank, Operational Risk Management measures and monitors the exposure to operational risk and reports thereon to the corporate bodies of the Bank, such as the Management Board, Supervisory Board, Audit Committee, Risk Assumption and Risk Management Committee and Operational Risk Committee. Operational Risk Management is also responsible for the consistent application and operation of the Intesa Sanpaolo Group's operational risk management framework, also taking into account the local idiosyncrasies.

In the Bank, the governing committee responsible for overviewing operational risk management activities is the Operational Risk Committee (ORC). The primary purpose of the Committee is to propose, advise on and investigate matters related to operational risk, thereby support the Management Board of the Bank. The Committee meets quarterly when it reviews and discusses the Bank's operational risk exposure and the ongoing risk mitigation actions.

In managing the Bank's operational risk exposure, both qualitative and quantitative tools are being applied.

One of the qualitative tools is the annual operational risk self-diagnosis where operational criticalities are identified and mitigating actions are defined in response to those criticalities. A set of operational key risk indicators is also used as a qualitative measure aiming at conveying an easily understandable overall picture to the senior management about the operational risk profile of the Bank, and in the meanwhile, enabling the Bank to react in a timely manner to adverse changes in that risk profile.

As a quantitative measure historical operational risk loss data have been collected and analysed in a systematic way since 2004. On the basis of the analyses performed by Operational Risk Management, mitigating actions are initiated to avoid the re-occurrence of similar losses or prevent the materialisation of potential risks.

In 2020, the Bank detected and recorded in its internal loss database 427 operational risk events which caused HUF 3,043 million effective operational loss (excluding losses boundary with credit risk and specific provisions). In 2019, the corresponding numbers were 436 events with HUF 445 million loss.

Since January 2008 the Bank have been calculating the regulatory capital requirement of the operational risk on the basis of The Standardised Approach (TSA). For ICAAP purposes, the Bank quantifies the operational risk capital requirement using the ISP Group's Advanced Measurement Approach (AMA) model.

As a result of the COVID-19 epidemic, new operating costs emerged amounted of HUF 186 million.

The Bank considers the following, among others, as direct operational risk costs related to the epidemic:

- costs of preventing the spread of the coronavirus: costs of additional hand sanitizers, masks and rubber gloves purchased by institutions, costs of emergency disinfections and cleaning
- costs of setting up mass telework and home office: costs of newly purchased computers and other equipment (the acquisition of which was not included in the Bank's annual procurement plan)
- extraordinary investment and operating costs related to the branch and central buildings: additional costs of guarding closed buildings, costs of glass walls and screens installed in the branches
- the operating costs of an organization set up to ensure crisis management and business continuity

The Bank considers the following, among others, as indirect operational risk costs related to the epidemic:

- losses related to the postponement and / or closure of projects due to a coronavirus epidemic, extraordinary write-offs

F. Information on capital

(50) Capital and capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximise the shareholder value, accompanied by an optimal financing structure.

The basis of the capital management of the Bank in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The rules have been being applied from 1 January 2014. The framework aims at making institutions in the EU more solid and strengthening their capacity to adequately manage the risks linked to their activities and creating capital bases adequate to absorb any losses they may incur in doing business, with special focus on the liquidity risk management tools and the capital requirements.

The Bank has entirely complied with the regulatory capital requirements in 2020 as well as in 2019.

The Bank quantifies the regulatory and ICAAP capital requirements. Both the risk management processes and the capital requirement comprehensively cover the Bank.

Internal Capital Adequacy Assessment Process (ICAAP)

The second pillar of Basel II capital framework prescribes how supervisory authorities and banks can effectively assess the appropriate level of capital. The assessment must cover all the risks incurred by the Bank, their sensitivity to crisis scenarios, and how they are expected to evolve in light of changes in the Bank's business going forward.

The Bank not only reviews its capital ratios, but it also assesses and continuously monitors its risk bearing capacity. The Bank’s primary internal measure to assess the impact of very severe unexpected losses across the different risk types is economic capital, which is also planned as part of the risk and capital strategy.

The Bank continuously focusing on the following risks:

Credit Risk

Risk that customers may not be able to meet their contractual payment obligations.

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Market Risk

The risk that arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility.

Residual Risk

The risk that arises from the recognized risk measurement and mitigation techniques used by the credit institution proves less effective than expected.

Model Risk

Model risk is the risk of losses relating to the development, implementation or improper use of any other models by the institution for decision-making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits, etc.)

Concentration Risk

Concentration risk is a banking term denoting the overall spread of a bank's outstanding accounts over the number or variety of debtors to whom the bank has lent money. This risk is calculated using a "concentration ratio" which explains what percentage of the outstanding accounts each bank loan represents.

(50) Capital and capital management (continued)

Banking book – Interest Rate Risk

Risk of losses on the fair value of the portfolio of banking assets and liabilities, not including trading assets and liabilities, resulting from changes in interest rates.

Interest rate risk is taken to be the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. In the context of Pillar 2, this is in respect of the banking book only, given that interest rate risk in the trading book is already covered under market risk regulations.

Liquidity Risk

The risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

Country Risk

The risk that the Bank may suffer a loss, in any given country, due to deterioration in economic conditions, political and social unrest, nationalization and expropriation of assets, government repudiation of external indebtedness, exchange controls and currency depreciation or devaluation.

Settlement Risk

Settlement risk is the risk that a transaction executed is not settled as expected through a settlement system. Settlement risk comprises credit risk and liquidity risk elements. Treasury transactions, trading book items (deals) and capital market dealings concluded as part of investment services convey a settlement risk that is a specific mix of credit and liquidity risk. The credit institution or the investment firm bears the risk that while it fulfils its contractual obligations (payment or delivery), the counterparty fails or defaults to do so.

Reputational Risk

The reputation risk is defined as a risk of a drop-in profits or capital due to a negative perception of the image of the bank by customers, counterparties, shareholders, investors or supervisory authorities

Strategic Risk

Present or prospective strategic risk is defined as the risk linked to a potential drop in profits or capital due to changes in the operating context or erroneous corporate decisions, inadequate implementation of decisions or poor reactions to changes in the competitive environment.

High Risk Portfolio

In line with the National Bank of Hungary's (MNB) requirement the Bank identifies the portfolio meeting the criteria defined by the MNB for high risk portfolios and allocates additional capital for such portfolios. Repossessed assets are forming part of the high-risk portfolios.

Applied methodologies

Under Pillar 1 the Bank applies Standardized Methodologies (STA) for quantifying the regulatory capital requirement of Credit risk, Operational risk and Market risk. Under Pillar 2 the Bank implemented and use advanced methodologies for ICAAP purposes.

Capital management

The Bank's regulator, National Bank of Hungary sets and monitors capital requirements for the Bank in the so called SREP - supervisory review and evaluation process.

The Bank's regulatory capital consists of the sum of the following elements:

- Tier 1 (all qualifies as Common Equity Tier 1 (CET1) capital), which includes ordinary share capital, related share premiums, retained earnings, OCI reserves and deductions for intangible assets and deferred tax other than temporary differences
- Tier 2 capital, which includes qualifying subordinated liabilities

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, specific limits, risk measures, the rules and ratios.

The primary objective of the Bank's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value based on total capital ratio.

(50) Capital and capital management (continued)

(million HUF)

Regulatory capital	31/12/2020	31/12/2019
Share capital	50,000	50,000
Reserves	173,822	165.106
Current year's profit after deduction dividend payment	11,519	6,981
Total shareholder's equity	**235,341**	**222,087**
Deduction item: intangible assets	(5,914)	(12,323)
Deduction item: prudential valuation	(410)	(420)
Deduction item: deferred tax asset	(566)	-
FVOCI instruments	8,212	-
Tier 1 capital	**236,663**	**209,344**
Subordinated capital	1,986	3,785
Tier 2 capital	**1,986**	**3,785**
Total capital	**238,649**	**213,129**
Risk weighted assets for Credit risks	1,027,760	888,184
Risk weighted assets for Market risks	10,267	13,621
Risk weighted assets for Operating risks	116,460	111,025
Credit Valuation Adjustment	1,775	3,490
Risk weighted assets	**1,156,271**	**1,016,320**
Tier 1 capital ratio (%)	**20.47%**	**20.60%**
Total capital ratio (%)	**20.64%**	**20.97%**

As described in point 6. of the Regulation 2020/873 of the European Parliament and Council of 24 June 2020, the temporary treatment of exclusion of the unrealised profit/loss of the fair value through other comprehensive income (FVOCI) instruments is first used in a standalone and consolidated COREP report for the quarter ending 31 December 2020, so the amount of unrealised loss recorded during 2020 has been added back to the Tier 1 capital..

The Bank does not apply the temporary rules of CRR: 473a. and instead of the template document, it shall publish a text document stating that Bank's own funds, capital adequacy ratio, and leverage ratio already reflect the amount of unrecognised gains and losses on government securities measured at fair value through other comprehensive income.

The Bank comply with Article 13a of Regulation No. 241/2014 of the European Parliament and Council, and the amount of intangible assets to be deducted from own funds has been adjusted with prudential amortisation for software as of 31 December 2020.

Current year's profit for 2019 includes the proposed dividend payment with an amount of HUF 7,000 million. Due to EBA guidance and MNB guidance published retrospectively to the approval and publication of the 2019 financial statements no quota of payable dividend is taken from the 2019 profit. So the final Tier 1 capital ratio was 21.29% and the Total capital ration was 21.66% as of 31 December 2019 restated based on the HUF 7,000 million retention of profit not distributed.

The minimum capital requirement is 8% under Pillar1. The Bank also meet the requirement of SREP.

SREP requirements for 2021 are already available, and the Bank estimates to meet the relating requirements based on current and projected financial position.

CIB BANK LTD.

Business and management report
based on the audited separate financial statements
for the year ended 31 December 2020
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

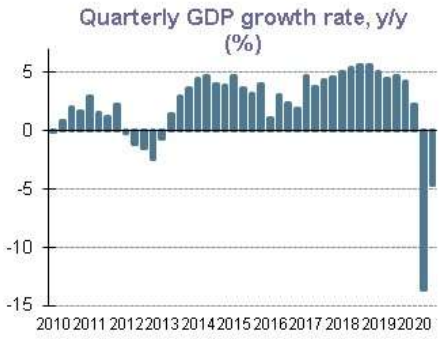
I. Macro and microeconomic environment

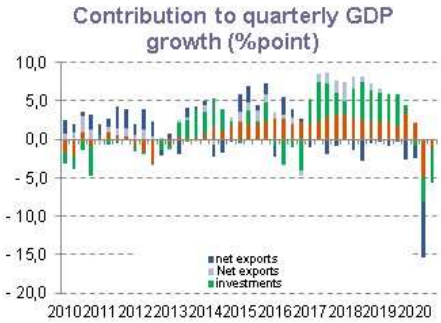
1. GDP

In 2020 the Hungarian economic performance has been dominated by the COVID-19 pandemic situation and the related restricted measures. GDP growth rate dropped to 2.2% year-on-year in Q1 2020, following a FY 2019 GDP-growth of 4.9% and 4.5% growth in Q4 2019. The significant slowdown was due to the impacts of the coronavirus pandemic that had been already felt in March. April and May were the deepest period of the crisis when the effect of pandemic caused widespread shutdowns in production and strict lockdowns, putting the economy into massive recession. In the second quarter, growth in Hungary fell by 13.6 per cent year-on-year and were down by 14.5% compared to Q1 2020.

The Hungarian economy posted a strong rebound in Q3 in line with the lifting of the containment measures. GDP grew by 11.3% q-o-q and the year-on-year decline of gross domestic product moderated from minus 13.6% to -4.6%. In the last quarter of the year, the number of infections showed a dramatic increase, therefore the government announced further containment measures, which immediately caused negative effect in economy. However, the impact of the shutdowns in the second wave of COVID-19 was less severe compared to Q2, thanks to the more selective and targeted nature of the restricted measures

The recession is affecting the different segments of the economy to varying degree. During the second wave the operation of companies has not been limited but the containment measures had severe negative impact on tourism including hotels and catering, airlines and related services, taxi services, and those services where personal contact would be inevitable. Full year GDP growth could be around -6.0% in 2020 based on the statistical data of Q1-Q3 and the expected growth rate of Q4. Looking ahead, illustrating the high degree of uncertainty and the various pandemic scenarios for the whole of 2021 the National Bank of Hungary projected a GDP growth in Hungary in a remarkable wide range between 3.5% and 6.0%.





Source: KSH

2. Budget and external balance

The 2020 budget deficit target was originally set at 1% but was later raised to much higher level to incorporate the impact of the coronavirus. Last year's annual data showed that the overall state budget produced an annual cash-based deficit of HUF 5,548.6 billion. The jump was primarily driven by the deceleration in the economy, the costs of containment measures and the already announced measures of the Economy Protection Action Plan. The economic slowdown reduced planned tax revenues. After a steep fall in the first half of the year, tax and contribution revenues significantly increased in H2, but stabilised at lower levels compared to previous dynamics. The ESA-based balance (calculated in accordance with the EU-methodology) is likely to reach -9% of GDP, with the final data to arrive later in 2021.

Within the main balance figure the central balance was HUF (4,953.5) billion, the social security balance HUF (641.8) billion, while separate state funds delivered a surplus of HUF 46.7 billion. The above-plan cash-based deficit naturally created a massive jump in state financing needs but the favourable interest rate environment provided new bond releases with relatively low yields. In line with the massive deteririoation of the budget position, public debt jumped to 81.2% of GDP -according to the preliminary estimate.

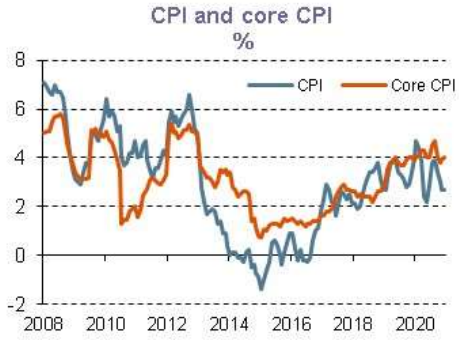
I. Macro and microeconomic environment (continued)

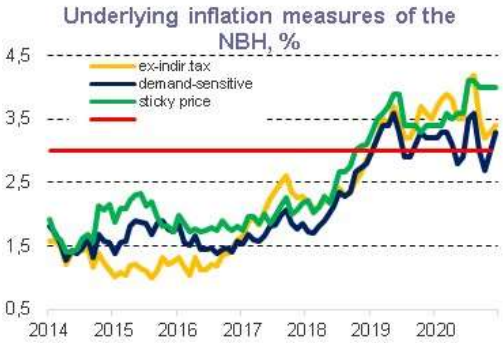
The pandemic had its impact on the country's external balances, too. The current account balance hit a low point in Q2, followed by a recovery in Q3. The 4-quarter average deficit stood only at -0.2% of GDP in the third quarter of the year. The improvement was driven by the rising trade surplus on the one hand, but the declining deficit of the income balance and the higher surplus of the transfer balance also played a role. The net external financial capacity of Hungary remained positive despite the shortfall of the C/A balance, the strong rise of the state's financing need was offset by the improving saving position of the private sector (households, corporates).

3. Inflation

The December 2020 inflation figure came below market expectations at 2.7% y/y. The outcome implied an annual average CPI of 3.3% for 2020, down from 3.4% in 2019. During the year, inflation fluctuated in a relatively wide range of 2.2%-4.7% due to the pandemic and related containment measures.

Regarding the whole of 2020, of the main price categories alcohol and tobacco prices and food prices were showing significant, above-average rise. On the other hand, the motor fuel prices went down sharply over a year as a result of significantly falling oil prices. Core inflation also showed volatile movements, but the annual average core CPI was 4.1%, up from 3.8% in the preceding year. Tax-adjusted core inflation index calculated by the MNB showed an annual average rise of 3.7%. According to MNB's forecast, inflation will be in the range of 3.5% to 3.6%, core inflation excluding indirect taxes will amount to 2.8%–3.0% this year. For 2022, the central bank projects both headline and core inflation to return to the vicinity of 3%.





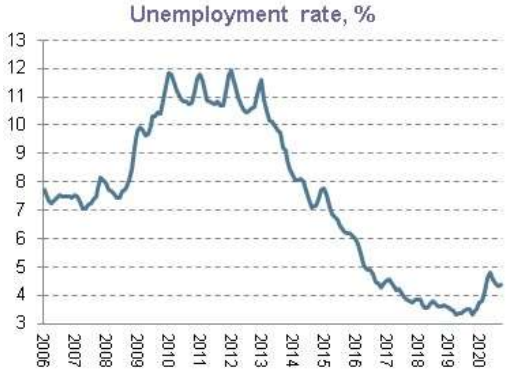
Source: MNB, KSH

4. Labor market

The coronavirus crisis had its impact on the labor market, too. For the first time since 2017 the unemployment rate was higher than 4.0%. The unemployment rate was 3.7% in Q1 but moved up to 4.8% in Q2. The second half of the year was characterized with gradual, slow recovery in tandem with the lifting of the restriction measures and improving economic activity. Nonetheless, the second COVID wave has started to take its toll on the employment situation towards the end of the year. The deterioration, however, was less severe compared to the first wave. The different government measured aimed at the labor market managed to provide some support, corporates had to adapt: the huge fall of economic activity forced companies to dismiss employees, but many of them reacted by shortening the working time and increasing the number of part-time workers. In terms of employment, the worst period of this year was May–July 2020 when the average number of employed people was less than 4.4 million and the employment rate of people aged 15–64 was only 69.1%. The number of employees in the public employment programme dropped further and was down by almost 19 thousand y-o-y in 2020, and the number of emplyoers working abroad also decline further depressing the employment rate.

However, wage growth has remained close to double-digit territory in 2020. Up to November 2020, the dynamics reached 9.6%, showing no sign of significant slowdown, although in sectors most affected by the containment measures the dynamic has been much lower.

I. Macro and microeconomic environment (continued)

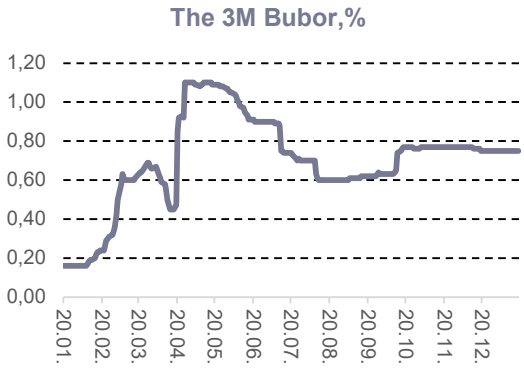


Source: MNB, KSH

5. Monetary policy

The Central Bank tried to mitigate the effects of the coronavirus epidemic on the economy and on financial markets without prejudice to the primary objective (achieve and maintain price stability). In April, as a result of unfavourable pandemic developments the forint depreciated by almost 10% against the euro. Consistent with this the NBH had to ease the pressure on the domestic currency (monetary policy tightening) and support the real economy (monetary policy easing) at the same time. Hence, in early April the Monetary Council decided to make the interest rate corridor symmetrical, the policy rate and the O/N depo rate were kept unchanged (0.90% and -0.05%) but raised the O/N lending rates to 1.85% (BUBORs jumped above 1%). On the other hand, the Central Bank remained active in applying non-conventional measures to extend monetary easing and announced a series of liquidity boosting measures (QE, FGS Go!) to secure the smooth functioning of markets and through a new repo facility (up to 5-year) they could influence the long-end segment of the curve, too. These measures caused a relatively flat yield curve.

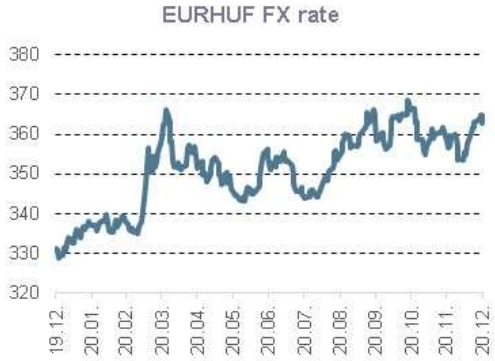
In the middle of the year the NBH cut the policy rate by a total of 30bps to 0.6% in two steps but it proved to be a hasty move. After that, the policy rate was left unchanged, but the central bank had to tighten monetary conditions via the 1W depo rate in an effort to keep HUF from weakening too much. Since then the Central Bank has not modified its policy instruments but reacted to the worsening growth outlook by scaling up the QE program and raising the amount available via the FGS Go!.



Source:MNB

I. Macro and microeconomic environment (continued)

The forint showed a massive trend of depreciation against the euro in 2020, with the EUR/HUF cross exchange rate rising from the 325-330 range at the beginning of 2020 to above 365 in early April followed by a relatively robust correction phase, but the EUR/HUF rate briefly moved above again the critic level and reached a new life time high at above 368 in October. The forint's nearly 10% depreciation against the euro and the annual FX market trend was strongly driven by the low interest rate environment, the shifting monetary policy expectations and changes in global risk appetite. The annual average EUR/HUF level was more than 350.



Data source: Reuters

6. Banking environment

The Hungarian banking sector was able to grow despite the pandemic, although loan grow rates were negatively affected by the spread of COVID-19. Profitability of the sector decreased, but remained in the positive territory, while the liquidity and capital position of the banks is still solid.

Corporate lending increased by 7,2% (excluding foreign exchange effect) by November 2020, compared to the same period of 2019, while the growth rate reached 10% in 2019. The negative effects of the economic slowdown was compensated by new government and central bank loan and guarantee programmes announced as a consequence of the pandemic. In addition the moratorium on payments also reduced the amortization of the loan portfolio. The growing trend of new loan disbursements in the household sector also came to an end in 2020, but the loan portfolio of the sector was able to grow by 14,4% as of November 2020, compared to the same period of the previous year, slightly below the growth rate of 2019 (15,4%). Payment moratorium had a significant impact, but demand for mortgages and for Babaváró loan product was strong during the year.

Loan portfolio quality remained stable, 90+ DPD ratio increased to 1,6% as of Q3 2020 from 1,5% at year end 2019. However due to the payment moratorium, the ratio does not reflect the changes in credit risk. On the other hand loan loss provisions increased by almost HUF 250 bn compared to the same period of 2019, which caused a drop in the sector's profit to HUF 235 billion from HUF 556 billion a year before.

Total assets, liabilities, and equity

Based on the most recent available figures (as of November, 2020) the banking sector's overall total assets increased by 19.4% compared to prior year-end and amounted to HUF 51,741 billion.

The gross loan portfolio increased by 13.4% (HUF 26,977 billion) compared to December 2019 (+10.7% excluding the foreign exchange effect).

The decline in loans outstanding to households stopped since the new disbursements more than offset the volume of repayments, thus pushing retail loans up by +13,1% compared to the end of the previous year. Demand for new loans was at very low level in the years following the financial crisis, however from 2015, there was a turnaround with growth of over 30% in recent years and this tendency continued in 2019 and continued in the first quarter of 2020, but demand for new loans declined in the second quarter of 2020.

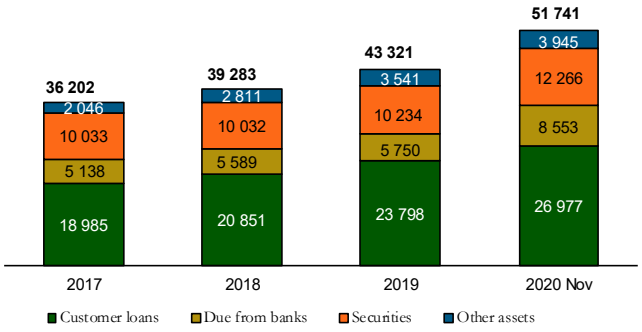
In the second half of 2020, the demand for loans started to increase again, but still the volume of new disbursements remained below than the 2019, there was 1.6% decrease in retail new disbursements as of November 2020 compared to the same period last year. The volume of foreign currency loans significantly decreased from 58.1% as of December 2014 to 32.6% as of November 2020, largely due to the conversion of the foreign currency mortgage portfolio.

The volume of deposits from customers increased by 16.0% compared to the end of 2019, reaching HUF 28,264 billion at the end of November 2020. Retail deposits increased by 14.1%, while corporate deposit showed 19.8% increase compared to December 2019.

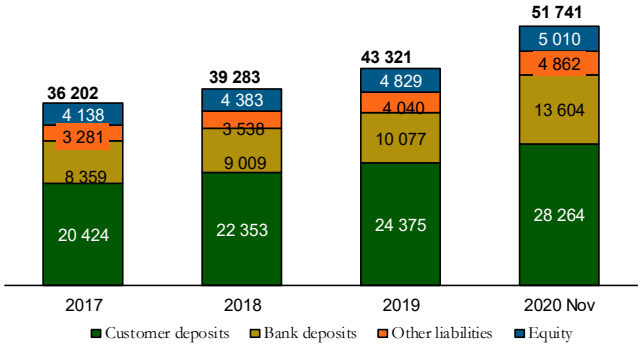
I. Macro and microeconomic environment (continued)

At the same time the net asset value of investment funds totalled HUF 5,644 billion at the end of November 2020 (+1.9%). While government bond portfolio of consumer customers increased by 8.5% as of October 2020 from the beginning of the year, and it reached HUF 8,671 billion volume.

Assets (HUF billion)



Liabilities (HUF billion)



Data source: NBH, IFRS

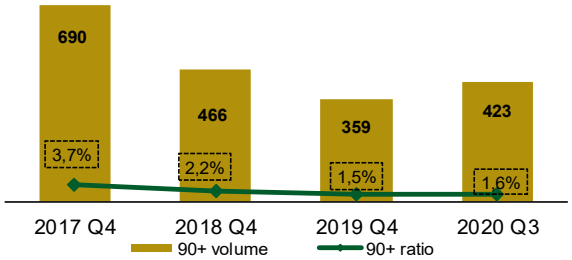
Credit quality

90+ past due loan ratio (non-performing loans) decreased significantly to 1.6% as of September 2020 thanks to the portfolio cleaning.

Volume of corporate loans with more than 90 days past due within total loan showed a significant decrease and the 90+ ratio was 1.4% at the end of September 2020. The retail segment's portfolio quality has also improved with a 90+ ratio decreased to 2.1% as of Q3 2020, which is further 0.9% point improvement compared to the 2019 year-end.

The moratorium will temporarily provide support in portfolio quality, but will also increase credit risk and impairment.

90+ DPD ratio and volume (HUF billion)



Data source: NBH; IFRS, Q4 2020 data is not available

I. Macro and microeconomic environment (continued)

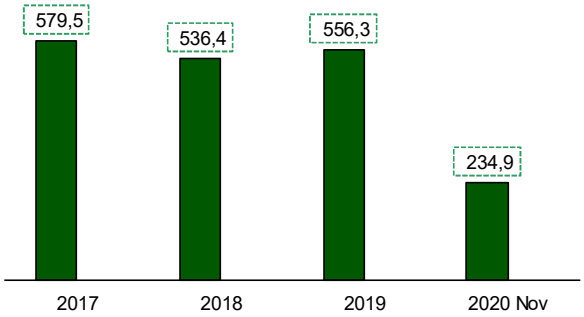
Profitability

The profitability of the banking sector had deteriorated by more than 50% compared to the same period of last year as of November 2020, mainly due tot he significant provisioning.

The effect of the higher Operating Cost level (+12,4%) was partly offset by the increase in Net Operating Margin (+5,1%), however, due to more than HUF 242 billion impairment losses, the banking sector's profit after tax totalled to HUF 235 billion as of November 2020.

Net Interest Income increased by 12.6%, Net Commission income increased by 5.0%, Profit from Trading Activities decreased by 11.2% and Other Income / Expense decreased by 13.5% compared to the same period last year. The cost / income ratio was 58.6% at the end of November 2020.

Profit after tax (HUF Bn)



Data source: NBH; IFRS

Liquidity and Capital

The amount of liquid assets (securities and interbank receivables) increased by HUF 4,836 billion (+30.3%) while the sector's loan to deposit ratio (net customer loan / customer deposits) decreased by 2.6% points (92.9% as of November 2020) due to a significant increase in the customer deposit portfolio.

The liquidity and capital position of the domestic banking system has further improved over the past year, strengthening its resilience even in the face of a longer-lasting recovery. Despite the higher risk costs, the banking system can be characterized by a positive result and a strong capital position, with a Capital Adequacy Ratio (CAR) at 20.9% as of September 2020 (includes Co-operative credit institutions).

II. Business strategy and priorities

In 2018, CIB Bank, hand in hand with its parent company, Intesa Sanpaolo, established the fundamental strategic directions and objectives of the period until 2021. In line with this, as a universal service provider, CIB will continue to operate serving all customer segments by substantially improving its operational efficiency, while holding on to long-term profitable operation, through increased business volumes, digitalisation covering the full spectrum of banking operations and the optimisation of sales channels.

The pillars of the strategy – in line with the key strategic objectives of Intesa Sanpaolo Group 2018-2021 business plan – are as follows:

- The implementation of the **digital transition** permeating the whole of the bank parallel to the transformation of the role and tasks of the physical network.
- **Increasing revenues** in an increasingly competitive environment in the interest of sustainably profitable operation, by ensuring that an increasing proportion of revenues is derived from the fees and commissions of additional services provided to customers.
- **Improving cost efficiency** by way of digitalisation and the optimisation of sales channels. In this context, process transformations related to digitalisation, the increasing of the ratio of online sales, the simplification of sales activities and certain other activities supporting sales through the increased involvement of third partners and agents, as well as the directing of released capacities to the performance of greater added-value activities will be implemented.
- The conclusion of the process aimed at **reducing the portfolio of non-performing loans** and maintaining loan quality.

In order for the Bank to be able to meet its objectives of long-term profitable operation and improvement by the end of 2021, it identified the acceleration of business growth as a top business priority in 2020. As part of this, the Bank aims to further increase its market share in segments and products that are particularly important to its business policy, to focus on increasing the share of commission-type income within its overall revenue structure, and to continue with the strict management of costs that it began in previous years. In addition, it is consistently following the path towards digital transition established in previous years and will further increase digital penetration among its customers by extending digitalisation to new products and services. In order to meet its business goals, the Bank has identified improving work-life balance among its employees as a key non-business priority for 2020.

Although COVID-19 required new scenarios to be elaborated to meet the priorities set for 2020, the Bank managed to take significant steps towards successfully and profitably closing the 4-year strategic cycle by the end of 2021, despite the difficult circumstances. The Bank's new loan disbursements increased significantly, with the result that its market share improved substantially in some segments. At the same time, due to the prudent and consistent lending policy developed over previous years, the Bank's credit portfolio proved to be crisis-resistant and its quality did not deteriorate. Through a number of innovations introduced as firsts on the market, the range of services available through digital channels was further expanded – and this has been and continues to be of particular help to customers and branch staff facing the challenges brought on by the pandemic. As a result, CIB's revenues increased significantly while its costs remained the same. All this resulted in a significant improvement in the Bank's cost efficiency ratio. Measures taken to protect customers and employees, and the continuous and careful communication of these measures, have strengthened employee loyalty, and the home office solutions that we implemented for the central functions has improved work-life balance. The Bank plans to integrate the favourable aspects of this arrangement into its future operations: over the long term, it intends to set a ratio of office to home work of roughly 60/40%, and will adapt its infrastructure accordingly.

III. Outlook for the banking sector

Increasing lending activity

Altough economic growth and credit demand will be lower in 2021 than before the COVID outbreak, we expect a growth around 5% in the customer loan balance of the banking sector. The increase will be higher in case of Household loans as lower growth of personal loans will be mitigated by the still popular Babaváró loan, while demand for mortgages will remain strong. The Funding for Growth Go! facility of MNB will support lending to SME-s.

Margins remain under pressure

Economic recession due to the pandemic led the most important central banks to cut rates in 2020 and interest rates are expected to remain on the current extreme low level in 2021. Margins in most foreign currencies will be under pressure both on the active and on the passive side. In Hungary BUBOR is expected to remain on its current level, which will provide a positive margin on the deposit side, while lending spreads are favourable impacted by the preferential deposit connected to FGS.

Worsening in credit quality

Payment moratoria will offer a shelter for customers with financial difficulties during the first half of the year, but we expect worsening credit quality in the sectors negatively affected by the pandemic. The end of the payment moratoria and a delayed economic recovery might cause a significant increase in overdue loans in corporate and retail business as well. Portfolio cleaning could mitigate this effect partialy, but NPL ratios will increase in 2021 and risk cost will also be higher than before the COVID outbreak.

IV. Evaluation on the performance of CIB Bank including net assets, financial and earning position

Assets

The balance sheet total of CIB Bank amounted to HUF 2,415,669 million (+20.2% compared to December 2019) as of December 2020. The higher total assets were primarily a consequence of the increase in customer and bank deposits.

Customer loans

At the end of December 2020 CIB Bank's gross loan portfolio was HUF 1,212,815 million (+13.5%). Within the total portfolio the proportion of consumer loans (mortgage, car financing and others) levelled at 36.9% by the end of December (+4.0%). The share of large corporate loans diminished by 4.0%, to 38.4%, while that of SME and Small Business financing changed by -0.4% and +0.4% respectively. Demand for new financing was negatively affected by the pandemic, however retail mortgage and Babaváró new disbursements rose by 15% and 60% (while personal loans dropped by -28%). Corporate new disbursements were able to grow by 4% compared to year 2019, thanks to the very popular Funding for Growth schemes.

Loan portfolio quality

The credit quality of CIB Bank's loan portfolio improved further in 2020, and the share of 90+ days past due loans decreased to 0.6% (-0.7%) thanks to limited new inflow (supported by the moratorium) and portfolio cleaning activities. Despite the positive change in portfolio quality the Bank made HUF 5,868 million loan impairment over the year, to cover the losses that may arise after the moratorim ends.

Securities

The Bank held securities portfolio of HUF 388,919 million by December 2020 (-8,8%) of which securities measured fair value through profit or loss amounted to HUF 3,976 million; held to collect and sell portfolio reached HUF 305,553 million, while held to collect and equity investments amounted to HUF 79,390 million. Most of the security portfolio (79.3% of total securities held) consisted of government bonds.

Interbank receivables

CIB Bank's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 760,326 million (+59.1%) by the end of December 2020. 40.3% of interbank receivables was placed within Intesa Sanpaolo Group, while 54.9% was short term placement at MNB.

Tangible and intangible assets

Net book value of fixed and intangible assets increased to HUF 31,722 million (+5.6% compared to December 2019), mainly thanks to new software investments.

IV. Evaluation on the performance of CIB Bank including net assets, financial and earning position (continued)

Liabilities

Customer deposits

Total customer deposits, amounted to HUF 1,746,552 million (+21.7%) by the end of December 2020. All business segments contributed to the growth.

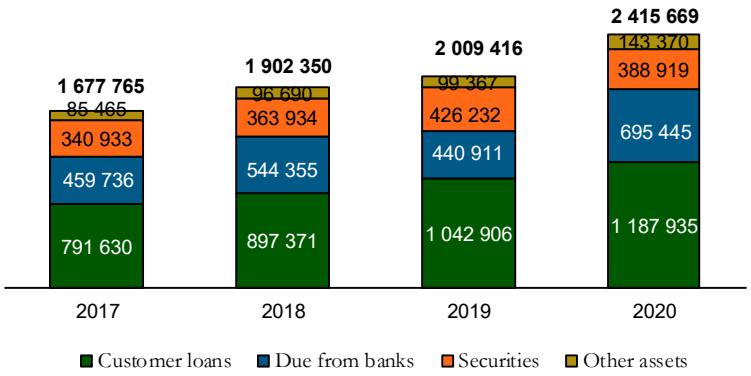
Deposit from banks

Interbank funds – including subordinated deposits – totalled to HUF 365,665 million (+26.2%) as of December 2020, the increase was the result of refinancing received from the central bank as part of FGS. Part of the funds came from the Bank's parent company, accounting for 14.2% of the total of interbank deposits, while the remaining part was received from supranational financial institutions, mortgage banks and from the central bank.

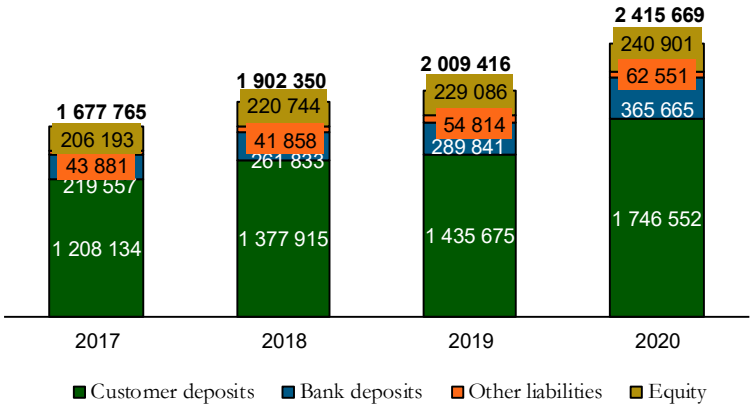
Equity

CIB Bank's total shareholders' equity was HUF 240,901 million and increased by +5.2%, thanks to the the profit for the current year and some positive changes in revaluation reserves.

Assets (HUF million)



Liabilities & Equity (HUF million)



Data source: CIB Bank, IFRS

IV. Evaluation on the performance of CIB Bank including net assets, financial and earning position (continued)

Profit and loss

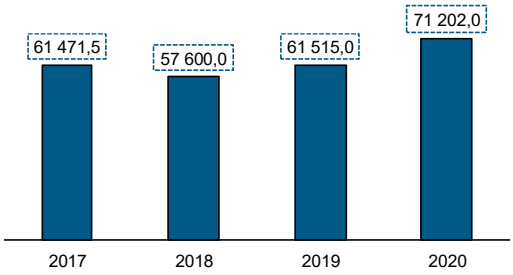
The Bank closed year 2020 with a profit of HUF 11,519 million.

Revenues

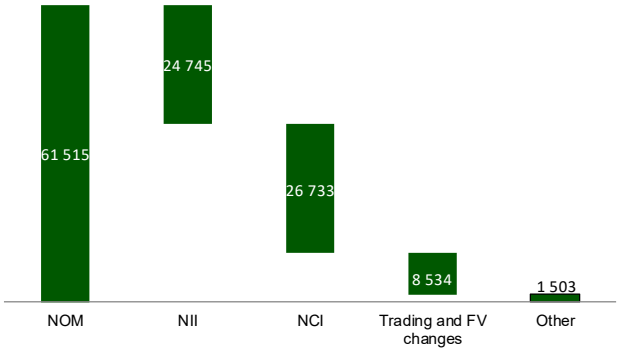
Total revenue of CIB Bank amounted to HUF 71,202 million (+15.7% compared to the same period of 2019), out of which Net Interest Income was HUF 30,734 million (+24.2%). Net Commission Income was HUF 25,922 million (-3.0%), while Trading Income and Fair Value changes totalled to HUF 8,867 million (+3.9%), Other operating income and expenses reached HUF 5,679 million (+278%).

Revenues increased compared to 2019, thanks to growing business activity, especially in customer lending. Trading results improved, due to the revaluation of equity investments in the subsidiaries

Revenues (HUF Mln)

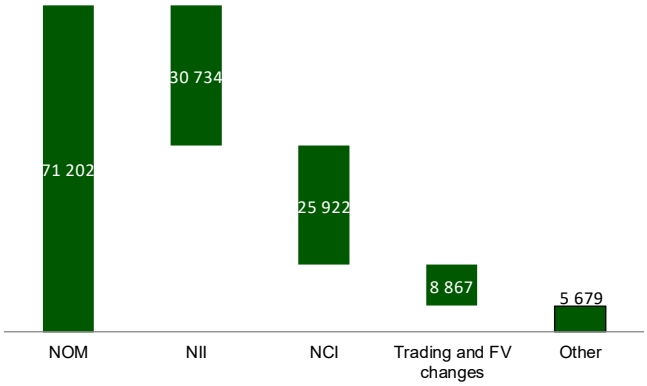


Breakdown of revenues - 2019



Relative weight	40.2%	43.5%	13.9%	2.4%

Breakdown of revenues - 2020



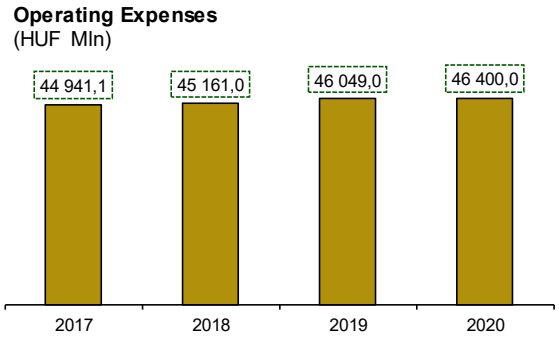
Relative weight	43.2%	36.4%	12.5%	8.0%

Data source: CIB Bank, IFRS

IV. Evaluation on the performance of CIB Bank including net assets, financial and earning position (continued)

Operating expenses

Total operating expenses increased by 0.8% compared to 2019 and amounted to HUF 46,400 million without the bank tax.



Data source: CIB Bank, IFRS

Banking sector tax

Total extraordinary bank tax of the Bank amounted to HUF 3,572 million in 2020.

Allowances and impairments

The cumulated amount of new allowances, impairments and provisions showed a balance of HUF (7,735) million. Out of the total, loan impairments reached HUF (3,591) million due to increased risk connected to some customers because of the pandemic. In addition HUF (2,277) million modification loss was booked in connection with the moratorium and in line with IFRS 9, paragraph 5.4.3.

V. Key events and processes occurring after the balance sheet date

No significant events or processes occurred after the balance sheet date, during the period prior to the preparation of the financial statements and the approval thereof that could have a material impact on the Bank financial or earnings position.

VI. Utilisation of financial instruments in the Bank

The Bank holds a substantial quantity of liquid financial instruments.

The purpose of the substantial cash and short-term bank placements is to ensure immediate liquidity on top of the unencumbered high-quality security portfolio. The portfolio of securities held for trading, serves several purposes at the same time: buffer to serve customers' investment needs, provide a short-term opportunity to realise profit, while also as a secondary source of liquidity.

The derivative transactions are FX forward deals, futures dealt on the stock-exchange and OTC contracts, FX swaps, FX options, interest rate swaps and forward rate agreements The Bank performs such transactions for hedging purposes in its banking book and with short-term profit taking and client service goal in its trading book. In the first case, the primary objective is to reduce the bank's FX and interest rate risk exposure both from financial asset valuation and interest income point of view.

VII. Risk-management and hedging policy of the Bank

The Bank's regulations pertaining to the various significant types of risk are approved, and reviewed at least once a year, by the Management Board of the mother company. The Bank has credit risk management, market risk management, liquidity and liquidity crisis management, interestrate risk, country risk - counterparty risk management and operational risk management policies. These regulations serve to define the framework of its activities related to the specific areas of risk management along unified principles across the entire Group.

VII. Risk-management and hedging policy of the Bank (continued)

CIB Bank's credit risk management policy defines fundamentals of credit risk management, risk appetite of the Bank both on general level and on an annual basis adjusted to the changing business environment. Basic roles and responsibilities, clear segregation of duties and major tools of credit risk measurement and management are unambiguously defined in the policy.

The financial portfolio policy, the market risk charter and interest rate risk management policy includes the guiding principles related to currency and interest risk, the regulations containing methodology of sensitivity analyses and value-at-risk calculations, as well as the limits for the risk exposures.

The liquidity policy determines the fundamental principles, goals, and procedures for liquidity management, maximum liquidity exposure limits, as well as the organizational framework for monitoring them. In the frame of the liquidity strategy, the bank's senior management takes into consideration the likely future development of business volumes, and the cost of funds. The liquidity policy includes the liquidity contingency plan, which specifies the procedures to be followed in case of an unexpected crisis scenario – further specified in contingency funding plan - and defines the order the liquidation of assets which may depend on the nature of the crisis. In these regulations, the bank also defines the maximum tolerance related to Basel 3 regulatory liquidity ratios, the LCR and the NSFR.

The Bank applies hedge accounting to some specific assets hedged by interest rate swaps in order to mitigate the interest rate risk in the Banking Book. The Bank in accordance with IFRS and Intesa Sanpaolo Group policies designates certain derivatives also as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). In the case of derivatives that do not qualify for hedge accounting, changes in the fair value of such derivative instrument are recognised immediately through profit and loss. The P&L calculation method depends on the purpose of the transaction wether trading or hedging. The effect of the changes in the fair value is immediately recognized on the income statement in case of the derivative transactions for trading purposes.

The country risk management policy regulates the method for establishing limits for individual countries and specifies the extent of the regularly reviewed limits as well.

The operational risk management guidelines define the events that are grouped into this risk category, and the methods for measuring the risks of this type borne by the Bank.

VIII. Price, credit, interest, liquidity and cash-flow risks of the Bank

In the course of its business operations, the Bank is primarily and mainly exposed to credit risk. The mitigation of this type of risk is achieved partly through compliance with the statutory requirements and internal limits, and partly through prudent lending and loss-provisioning practices.

Legal requirements as well as best practices of risk management are transformed into daily operations of the Bank by internal regulations. The internal regulations treat in detail the procedures related to debtor rating, deal approval, limit-setting, the recognition and evaluation of collateral, loan and customer monitoring, and risk management, applicable to the various customers and customer groups. They also specify the lending-related responsibilities and duties of the individual organizational units. In alignment with the requirements of the supervisory bodies and its owner, the Bank pursues a prudent policy in terms of assumption of risk.

Lending process is managed along structured principles in its entire complexity from customer request via credit approval, disbursement, and monitoring until full repayment of the loan or, if unavoidable, until work-out management. Basis of any credit-risk related decision is the exposure of the group of connected clients towards CIB Group.

In the frame of the core business activity the Bank is actively managing the interest rate risk by defining the maximum accepted level of interest rate risk exposure held in the banking book and the expected net interest income. Each year, the Management Board, under the supervision of the Supervisory Board and in line with the group level risk tolerance of the parent company, determines the risk appetite and corresponding limits. Reports on the current interest rate risk position are submitted to the respective risk management committees on monthly basis and regulated in the banking book interest rate risk management policy.

Special emphasis is also placed on the management of liquidity and cash-flow risks, due to the high importance of maintaining the Bank's liquidity and disponibility and ensuring the safety of customer deposits constantly.

Among the various price risks, the Bank is predominantly exposed to the changes of currency exchange rates, as well as as well as the changes of the market values of securities. The Bank aims to hedge its FX positions in the frame of the trading book activities performed by the Treasury.

IX. Research and development

In 2020 and 2019 the Bank had no own research and development and did participate in the financing of any research projects.

X. Employment policy

CIB Bank is a major employer in the Hungarian banking sector. At the end of 2020 it had a total of 2034 active employees, of which 169 were part-time workers. The year 2020 was heavily affected by the pandemic and the associated restrictions. The situation, however, contributed to the further strengthening of factors integral to CIB Bank's HR strategy, such as work-life balance, digitalization and efficiency. In 2020 the new way of working was defined, and the bank started the preparations.

CIB Bank considers it a priority to manage its costs and resources thoughtfully and efficiently. To further strengthen operations in this regard, a new reporting system has been developed for the managers.

A so-called self-service HR reporting function has been implemented, which enables managers to query up-to-date information about the employees under their management, including headcounts and other HR data. This report package is provided by the Bank to give managers access to key up-to-date information, thus supporting them in their daily operations, whether they are considering a decision affecting the staff or would just like to check a piece of data.

In order to expand the salary management scheme used by CIB Group as a more flexible alternative to headcount management, and to give greater control over the scheme to the heads of divisions, a system of division and department level personnel expense reports has been introduced. This is a monthly report that contrasts actual and budget figures and in addition to salary costs, covers all major HR cost items such as overtime as well as the costs of trainees and temporary staff. This helps managers better plan the human resources needed to accomplish the tasks ahead while staying within the available budget.

XI. Sites of operation

The Banks head office is located at 1027 Budapest, Medve u. 4-14.

XII. Corporate governance policy

In keeping up with the applicable national and EU regulations CIB Bank and its subsidiaries comply, without exception, with the rules set out therein, including those on corporate governance. The national and EU norms are made available to the public via the www.magyarkozlony.hu and the http://eur-lex.europa.eu websites, respectively.

Consistent professional governance within CIB Group takes place in accordance with the "Principles of the professional governance and operation of CIB Group" policy, which defines also the guidelines for the running the organisation.

The Bank's parent company issues group-level policies at predetermined intervals and on specified topics, which are enforced and implemented by the Group in accordance with the applicable "Policy on the Implementation and Issuance of Group Policies".

The Bank operates a responsible internal governance system, in which the individual governance and supervisory functions are clearly separated from one another. The governance functions are carried out by the Management Board and Governance Committees, while the control functions are performed by the Supervisory Board, the Audit Committee, Internal Audit and Validation, as well as through second-level and various built-in process controls. The external control function of the Bank is performed by the Auditor.

The **Sole Shareholder** practices the rights of the General Meeting which is the Bank's supreme decision-making body. The Sole Shareholder makes decisions in writing in the authority of the supreme decision making body, which becomes effective as soon as it is communicated to the Management Board. The Sole Shareholder makes decisions in accordance with the Bank's Statutes and the relevant statutory regulations. The Sole Shareholder chooses the members of the Management Board, as well as the executive entitled to use the title of CEO, from the members of the Management Board. Decisions falling within the Sole Shareholder's exclusive scope of authority are comprised by the Bank's Statutes.

The **Management Board** is the Bank's management body. Its members are chosen by the Sole Shareholder practicing the authority of the supreme decision maker in keeping with the Bank's Statutes. The Management Board has its own rules of procedure. The duties of the Management Board include making all decisions related to the management of the Bank that are outside of the Sole Shareholder's scope of authority, in accordance with the law or the Bank's Statutes.

XII. Corporate governance policy (continued)

The **Supervisory Board** is the Bank's highet controlling body. Its members are chosen by the Sole Shareholder practicing the authority of the supreme decision maker. The Supervisory Board has its own rules of procedure. It is the duty of the Supervisory Board to oversee the Bank's executive management and administrative procedures, business management, trading and other relationships, in accordance with the provisions of the Bank's Statutes.

The **Audit Committee** is a body that supports the professional activities of the Supervisory Board with respect to internal audit tasks. The Audit Committee's members and rules of procedure are defined by the Sole Shareholder practicing the authority of the supreme decision maker. The committee's duties include the review of the auditing process, internal and external control and risk management system.

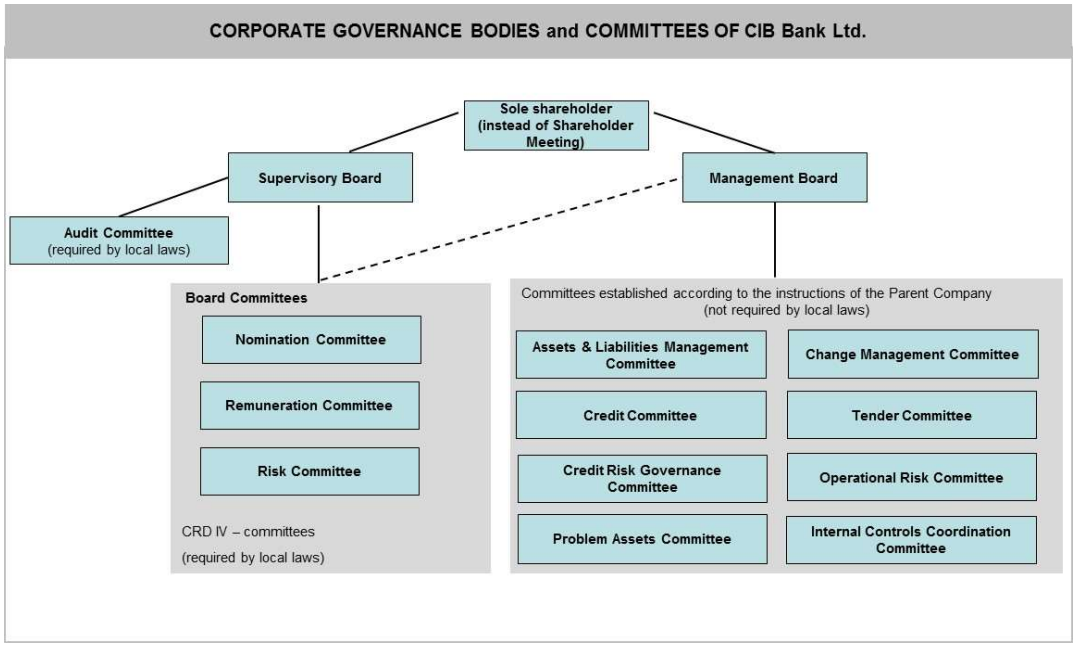
The **Remuneration Committee** operates based on the Constitution and upon 117. § (6) of Act CCXXXVII of 2013 also known as the Hungarian Banking Act (Hpt.). Remuneration Committee's members and rules of procedure are decided by the Supervisory Board. The Committee's duties include overseeing and preparing decisions regarding the remuneration of the members of the management board, Key People (as defined in the Remuneration Policy) performing internal control functions in compliance with the relevant legislation, supervisory guidance and Intesa Sanpaolo Group Remuneration Policies and preparing decisions regarding the remunerations and the Remuneration Policy.

The **Nomination Committee** operates based on the Constitution and upon 112. § of the Hungarian Banking Act (Hpt.). The Committee's duties include recommending the appointments of the members of the Management Board and the Supervisory Board to the Sole Shareholder and also the re-assessment of the suitability of the members.

The **Risk Committee** operates based on the Constitution and upon 110. § of the Hungarian Banking Act (Hpt.). The Committee's duties include supporting the Management Board and the Supervisory Board to define the risk appetite framework and the risk strategy of the Group and in the implementation of the approved risk strategy.

Other governance committees are established on the basis of the resolution of the Management Board (in line with the Bank's Statutes). The scope of authority and the operating procedures of these committees must be stipulated by a Policy that is approved by the Management Board. Governance Committees are the individual decision-making initiating, proposing and opining bodies depending on the responsibilities assigned by the Management Board. Governance Committees may operate along with Subcommittees and sections.

The members, operation and decision-making competencies of governance committees are regulated in a separate policy.



XII. Corporate governance policy (continued)

Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Mission:

- To ensure a continuous and independent supervision over the conduct of business and the processes, in order to prevent or detect any irregular practices or risky behaviors / situations;
- To ensure the efficient and effective management of the Bank's processes, the safeguard of assets and protection against losses, reliability and integrity of the accounting and operational information, the compliance of operations with the policies established by corporate governance bodies and internal and external regulations;
- To provide consulting support to the Bank functions, also by participating in projects, with the aim of adding value and improving the effectiveness of control, risk management and governance processes of the organization;
- To ensure the supervision over the Internal Control System of subsidiaries, including governance and guidance activities for the relevant Internal Auditing Functions;

XIII. Non-financial statement

Our sustainability principles, reporting

CIB Group consists of CIB Bank and its subsidiaries, with CIB Bank playing a decisive role. The sole owner and the parent company of CIB Bank is Intesa Sanpaolo. The figures presented in this chapter relate primarily to CIB Bank's own operations.

Since 2005, every year CIB Group has prepared its sustainability report in line with the GRI international reporting guidelines, which is to be supplemented starting with the below brief report prepared in conjunction with financial statements.

CIB Group has integrated sustainability principles into its core business and corporate culture, and it is along these lines that we carry out our various tasks, because like our parent company, Intesa Sanpaolo Group, we believe that these should be reflected in an organization's processes and day-to-day operations.

With our parent company's strong support behind us, our main points of focus continue to include solidifying our position as a bank that consistently provides high-quality services to our retail and corporate customers. We believe that long-term sustainable growth can only be achieved through the fulfilment of these objectives.

The coronavirus pandemic had a crucial impact on the Bank's operations in 2020. We were nevertheless able to adapt to the new challenges and continue our initiatives for staff retention and for facilitating the professional growth of talented employees, as well as to shape our corporate culture in line with our business goals. The Bank has made significant efforts to strengthen the commitment and motivation of our employees, and it has sought to involve them not only in the implementation of the strategy but also in the social and environmental programmes and energy saving initiatives launched by the banking group. Through our various direct and indirect initiatives, the Bank has been able to help 50,000 people in need for years now, by organizing numerous volunteer programmes and with the help of our civil-sector partners (e.g. Hungarian Food Bank Association, Feed the Doctors).

The sustainability reports have been prepared in compliance with the international guidelines of the Global Reporting Initiative (GRI). The report, published as a separate document during the year, covers all key topics primarily from the point of view of our key stakeholders and the target group for our report, i.e. our customers. For the ninth year in a row, our report also includes a demonstration of compliance with the principles set out in the UN Global Compact. For more information, visit our website.

This year's non-financial report presents the topics that were among CIB Group' priorities for 2020 also considered significant by the regulatory environment (see the relevant regulations above in the annual financial statements on page 11), and which had a significant impact on the progress of the business year. As a result, our non-financial report also highlights the impact of handling the coronavirus on human resources management, measures of ensuring human rights, environmental protection, as well as ethical and compliance measures ensuring fair business behaviour in general.

XIII. Non-financial statement (continued)

Business model overview

As a universal bank, CIB Bank offers the full range of commercial banking and investment services, supplemented by products and solutions offered by its subsidiaries. With a branch network that provides nationwide coverage, the Bank serves about 416,000 customers, while continuously seeking innovative solutions tailored to the needs of its customers. Its services are available to businesses, institutions, municipalities and sole traders, as well as to residential (retail) customers. Besides the Bank's branches, customers also have a wide range of electronic channels to choose from, through which they can manage their finances quickly and conveniently.

Based on the four-year growth strategy set for CIB Group in 2018, the banking group has set itself the goal of becoming the primary bank of its customers. The key elements of this approach are the simplification of banking processes, increasing customer satisfaction, and digitalisation, which is set to play a prominent role in sales and in the service model. As the non-financial statement is part of the annual financial statements of CIB Group, the Group's business strategy, target group, financial performance, as well as the impact of the coronavirus pandemic on our business and operations are described in the relevant chapters of the report above.

Ethical standards and rules of conduct

The Group's wish is to achieve its goals while observing, and putting into practice, the Group's Code of Ethics, the Group's Internal Code of Conduct, the principles of sustainable development and responsible operation. Its operation is founded on seven core values* of the Code of Ethics, which also support sustainability, and are described in detail in the sustainability section of our website. The fulfilment of these requirements is assured by our advanced corporate governance system and decision-making processes. See in our Sustainability Report on our website.

As a company that operates in compliance with strict ethical norms, we have put in place a number of mechanisms that reveal risks that have previously, due to their nature, remained hidden; these include ethical risks. In accordance with the Group Rules on Internal System for Reporting Violations the purpose of these procedural rules - being an internal mechanism in place for reporting violations - is to enable victims in ethics cases to ask for help, to consult and request advice, before taking action if needs be, and to do so in an anonymous manner. CIB Group has an Ethics Committee, chaired by the Bank's Head of CSR as the ethics ombudsman. Members are the heads of the legal, internal audit, human resources and compliance units. The chairman of the board of ethics has full decision-making autonomy while the investigation and decision-making process is fully assisted by the entire board of ethics. Privacy and anonymity issues are covered, based on Hungarian legal requirements and historical experiences. Information about single cases mustn't be shared with anyone outside the board of ethics. CIB ethics management is strictly based on ISBD guidelines, fine-tuned upon local specific characteristics and legal (external, internal) requirements.

The Rules of Conduct are the rules-level representation of the values contained in the Code of Ethics. The rules ensuring ethical behaviour, with a special focus on corruption-free and non-discriminatory operations, are included in the rules of procedure of the bank group as policies adopted by the Board of Directors, violation of which may have consequences under labour law. Other key areas of corporate governance are the fight against money laundering and terrorist financing, the avoidance of conflicts of interest, risk management and internal audit, which are dealt with by specified functions for these matters. Further details on corporate governance, the operation of the ethics system, diversity and previous reported complaints can be found on our website.

*Core values: integrity, excellence, transparency, respect for specific qualities, equality, values of the individual, responsibility in the use of resources

Stakeholder dialogue

Maintaining the stability of our operations and implementing a trust-based growth strategy that offers real opportunities requires continuous dialogue with our stakeholders. Stakeholders include any person potentially affected by our Bank's operation and activities and/or who may have an impact on our Company. Of these, the following three Groups have particular importance: employees, customers and shareholders. Apart from the three pre-eminent groups of stakeholders, other stakeholders have been identified: suppliers, NGOs, local communities, trade organisations and the Bank's broader operating environment. Our community relations include relations with representatives of trade organisations (associations, trade associations and boards of trade), the non-governmental sector (non-profit organisations, foundations and local communities) and members of the local communities. We contact our stakeholders through different means of communication and through various channels, the most important of which are highlighted in the report, while a more comprehensive overview is available on the website.

XIII. Non-financial statement (continued)

HR impact of the coronavirus pandemic

Expanding the possibilities for flexible work arrangements within the Bank remained a focus for our HR activities. At the beginning of the year we carried out a local survey on working from home among all of the Bank's managers. The results were used to help us switch to working from home, in line with the governmental measures introduced upon the first wave of the coronavirus pandemic, for all roles where this was feasible without disrupting our business operations. Once the pandemic will be over, the Bank still wants to offer flexible work arrangements, including the possibility of working from home regularly for a wide range of our employees.

All actions and the decisions taken by the management of the Bank concerning the pandemic were primarily intended to safeguard the health of our employees and of our customers, to protect jobs and to ensure business continuity.

- Working from home for all roles where it was feasible was supported. To make this possible, laptops and mobile phones were provided to all employees within a short time.
- To mitigate the risk of catching the virus, we introduced internal rules to significantly reduce the risk of mass infection within the Bank. These actions included, for example, the requirement to wear a mask, social distancing, regular disinfection of hands, as well as limits to the number of participants at both internal and customer meetings as well as at corporate events.
- Furthermore, at the branches, plexiglass and partitions were installed, and, for a period of time, alternating shifts were introduced to protect our employees and our customers. We also provided our employees with virus tests when necessary.
- Training programs suitable for those working from home were revised.
- Detailed guides were prepared for both our managers and our people to help them overcome the challenges of working from home.
- IntrApp, a new mobile communication platform was launched for our colleagues to ensure that they receive essential company news wherever they are.
- Regular and fully transparent information was provided about the actions taken in response to the pandemic.

When the pandemic was officially announced, we granted all employees in the at-risk category (the elderly, chronically ill, or pregnant) who could not feasibly work from home as many days of paid leave as the number of days they used from their holiday allowance. Additionally, when digital schooling was introduced, it was ensured that our employees who were unable to arrange supervision for their young children during the day were not left without benefits. Those who continued to come to their workplace were provided with various opportunities that made commuting safe, including giving access to the central office parking lots to all, contributing to the costs of commuting using one's own car, allowing the use of GreenGo community car rental in Budapest, and, occasionally, using taxi, too.

The actions taken and the rules in effect have proven helpful in the effective management of the coronavirus crisis within the Bank as well as in preventing and reducing infection within the organisation. The Bank set up a coronavirus crisis team on 22 February 2020, which has been monitoring the national pandemic situation and has introduced additional stricter or more relaxed rules for work to fit the situation. The team will continue to support the priorities of protecting our people and customers as well as maintaining effective and profitable operations in 2021.

Our people's commitment and employee programs

During recent years we have launched numerous initiatives as part of the CIB Spirit employee program portfolio, but the coronavirus pandemic required changes to these programs as well. One thing remained unchanged, however: all our decisions were made based on the considerations of a responsible employer.

- Our employees as well as their family members whose situation became difficult received assistance from the Employee Assistant Program, which offered psychological, legal, financial and lifestyle advice by phone and email.
- At the beginning of the quarantine a collection of links on our Intranet were created to provide useful advice for the period of quarantine. This included separate pages dedicated to remote schooling, online teambuilding activities and events for kids.
- To help new mothers returning from childcare leave, an online Womentoring Day was held, which was attended by nearly 60 female employees. This scheme has been helping for years those on childcare leave to keep in touch with the Bank, get help with their careers, and prepare for their return to work.
- The Bank provided financial support to 200 children of CIB employees to have a better summer holiday. Also, special initiatives were organized for employees' children for Christmas that included the distribution of gifts and an online event.

XIII. Non-financial statement (continued)

- Recognising the need among our employees, a brand-new series of programs, called "Shake up your connections" were launched. The scheme is designed to offer opportunities for strengthening relationships with colleagues and for participating in revitalising and energy-boosting programmes, in the online domain of course.
- At the end of the year a community building function was added to our mobile IntrApp internal communication platform. Numerous groups have been formed around various topics.
- Recognition and celebration of the previous year's performance of our sales and support people were a must for this year as well. This year the annual TOP Allstars Gala took the form of an online award ceremony. Members of the Board presented awards to 150 employees. Our end-of-the-year gala was also held online and was attended live by over 700 employees.

Several internal surveys were taken during the year, which showed that employees were quite satisfied that "the company handles the coronavirus crisis appropriately" (91%). The TOP Allstars Online Gala won a gold medal at the most prestigious HR communication competition (HRKOMM Award) in the "most original event of the year" category, and our various initiatives earned us the honorific Family-friendly Company in 2020 title as well.

Training events

- Before the first wave of the pandemic in the spring, CIB's renewed talent program was launched under the name of Talent University for 60 employees. The program consists of two phases: a credit-based core training, in which talents can choose from a portfolio of 19 development components. This will be followed by a specialisation period, in which employees can study one of 4 specialisations. The Talent University managed to keep going despite the lockdown restrictions. 5 special webinars were organized, on various aspects of the pandemic and its implications for CIB. Talents could also attend a full-day TEDx online event centred around the topic of innovation and had access to engaging methodology training sessions (project management, storytelling, etc.) as well as to introductions to various fields of banking.
- In 2020 special emphasis was put on ensuring that members of the branch network could attend training online from home. In addition to continuing with the tried and tested e-learning training sessions (MIFID, IDD etc.), over 20 hours of training video on retail and corporate products as well as various processes and IT systems were recorded. In 2020, 2200 attendances were registered at 32 training events organised for branches, and 98 new branch employees participated in the multiple-week onboarding program. Over 120 employees participated in the gamified online training program designed to learn about the investment consulting service through various games, quizzes, and exercises of increasing difficulty. Additionally, a multi-tier training program was conducted to support the priority business project for the re-segmenting of the SME and small business clientele.
- In this peculiar year, it became especially important to organise and provide relevant training to our executives. The Restart series of programs was designed for our heads of branches to provide them with methodological support to discuss the experiences of the pandemic with their team and to prepare for the "new normal". An organizational development process was launched so that the Bank could consider the new standards and requirements that executives and employees need to meet. These discussions were followed by a series of online workshops for executives, brief, to-the-point, online training sessions on more than 15 topics for managers and employees were developed, where they learned about virtual work practices, working effectively from home, and remote leadership among others. The training and development process for newly appointed managers within the organization was revised and implemented online providing new managers with continuous support for one year after their appointment.
- In April 2020 the Digital Galaxy platform was re-opened to employees for six months, offering gamified learning about the universal topic of digitalisation, including home office. More than 36,000 successful exams in our e-learning system in 2020 were registered.
- A video library of 3.5 hours covering more than 10 topics for new entrants was compiled to help them familiarize with the general structure and operations so that they can navigate the world of CIB more confidently.
- The year 2020 presented quite numerous challenges in the field of training, where our entry "Supporting the branch network during the first wave of the pandemic" won a gold medal at the HRKOMM Award in the Change Management category.

XIII. Non-financial statement (continued)

Human rights

HIGHLIGHTS

- We have made a commitment to protect human rights in accordance with the 1948 UN Universal Declaration on Human Rights. We expect all of our Hungarian and foreign partners to do the same.
- In the course of its operation, our Bank fully respects the Fundamental Law of Hungary and all other general domestic and international conventions on human rights and ethics.
- We treat protecting the personal data of our customers as a key priority; we investigate complaints related to data handling and take steps to reduce the number of complaints to a minimum.
- We provide our employees with fair and satisfactory working conditions and pay, as well as a wide range of other benefits.
- In 2020, we continued with the implementation of the Code of Ethics and Rules of Conduct based thereon, and continued operations based on the acceptance of procedures and the system. The pandemic eventually forced us to postpone the mandatory e-learning training in ethics to the first quarter of 2021.
- We are committed to eliminating all forms of discrimination from our conduct and to respecting differences in gender, age, race, religion, political and trade-union alignment, and language, and to respecting the rights of those with disabilities.
- We signed the declaration of the Self-Regulating Advertising Body on ensuring the fair depiction of humans.
- Our branches have either full or partial accessibility for disabled persons.

Relevant points and detailed descriptions

In addition to complying with the applicable laws, CIB Bank strives to identify, mitigate and prevent, as much as possible, any potential violation of human rights in connection with its operations, in line with the recommendations specified in the UN Guiding Principles on Business and Human Rights. Its parent company, Intesa Sanpaolo adopted a specific policy on human rights, which was approved by its Board of Directors in 2018, and which - taking into consideration the principles already expressed in the group's Code of Ethics - declares that

- it is committed to support the protection of human rights in accordance with the principles set forth in the UN Universal Declaration of Human Rights of 1948 and in subsequent international conventions on civil, political, economic, social and cultural rights;
- it recognises the principles set out in ILO (International Labour Organisation) fundamental conventions, particularly the right of association and collective bargaining, the ban on forced- and child labour and the elimination of discrimination at work;
- it contributes to the fight against corruption, accepting the guidelines of the OECD (Organisation for Economic Co-operation and Development) and the anticorruption standards published by the UN in 2003, and also by adopting a zero-tolerance policy to any manifestation of corruption.

The Group's Human Rights Policy was implemented by CIB Bank in 2018.

CIB Bank undertakes to uphold human rights in all situations in which it recognises that its activities might have an impact and has therefore outlined areas of responsibility for all stakeholders affected by its operations: employees, customers, suppliers and communities. As the issue of the environment is closely intertwined with that of human rights, support for strict environmental standards is a key action towards respecting and enforcing human rights.

The area of impact is quite wide-ranging, and can be summarised as follows:

- respect for employee rights;
- respect for the rights of customers (in particular the right to privacy, health, safety and non-discrimination);
- respect for the rights of suppliers (in particular the right to health, safety and non-discrimination);
- respect for human rights throughout the supply chain (in particular the avoidance of trade relations with suppliers who violate the human rights of their employees or their wider community);
- respect for human rights with regard to financing operations, investment projects and customer service (including risk analysis, especially when it concerns large-scale projects and businesses in sensitive industries).

We pay special attention to the most vulnerable, both through various forms of community support and through projects designed to promote financial integration.

XIII. Non-financial statement (continued)

How relevant issues are monitored

Respect and expansion of human rights are monitored by the Compliance, Human Resources and CSR functions.

The Code of Ethics mailbox (etikaibejelentes@cib.hu) under the jurisdiction of the Ethics Committee represents another guarantee for all stakeholders, which can be used by all to report any rights violations with the guarantee that any reports made will be treated confidentially and will not result in retaliation.

Main indicators as at 31 December 2020

- Percentage of male and female workers by level of seniority (%):

	male	female
manager	57.4% (2019: 55.4%)	42.6% (2019: 44.6%)
officer	48.9% (2019: 49.4%)	51.1% (2019: 50.6%)
employee	25.7% (2019: 26.0%)	74.3% (2019: 74.0%)

- Number of injuries and absence days (by injuries): 2020: 6 injuries and 71 days (2019: 13 ,62)
- Number of ethics complaints for violation of human rights (complaint): 2020: 0 (2019: 1*)
- Initiatives and donations made to vulnerable and underprivileged groups (Hungarian forints): 2020: HUF 41.2 million (2019: HUF 14 million)
- Financial literacy education activities for children: In 2020 the Bank Joined the Group's celebration of the World Savings Day within the "Art of Savings" and recorded two videos titled “Savings for kids”, in which our expert answered questions from kids about finances, such as what banks are for and what saving means. (2019: Pénz7 [Money Week], World Savings Day [financial literacy education programme week for children]) (2018: same)

(*) The internal investigation found that human rights had not been violated.

Social and labour affairs

HIGHLIGHTS

- The actions taken in connection with the pandemic are described in detail in the HR impact of the coronavirus pandemic chapter.
- The Bank abides by the laws of the country, the relevant passages of the Fundamental Law of Hungary and complies fully with the Labour Code.
- The organisation regulates matters that affect every employee equally in the HR regulations.
- A trade union is in place to represent the interests of employees.
- We declared in our Code of Ethics that we are committed to eliminating all forms of discrimination from our conduct and to respecting differences in gender, age, race, religion, political and trade-union alignment, and language, and to respecting the rights of those with disabilities.
- We place emphasis on achieving gender equality and our long-term objective is to fully comply with the principle of “equal pay for equal work”.

Relevant points and detailed descriptions

Equal treatment and diversity

The Bank’s Organisational and Operational Regulations (OOR) also clearly define the key principles related to responsible practices. Through this, the Bank rejects all forms of discrimination and corruption in both its internal and external communication, prohibits any form of discrimination and guarantees the general requirements of equal treatment in accordance with the relevant EU guidelines. Besides the above, the regulations governing compliance and risk management activities also proclaim similar principles aimed at supporting responsible operation.

CIB Group ensures equal treatment for its existing and future employees in accordance with the Fundamental Law of Hungary, the effective statutory provisions and the Bank Group’s Code of Ethics. This is achieved through the transparency of decision-making processes within the company and the ethical training provided to both managers and employees. The examination of ethical issues associated with this topic and the subsequent preventive changes ensure legal and ethical compliance in this area.

XIII. Non-financial statement (continued)

We ensure equal treatment for all existing and prospective employees, but at the same time we also give special consideration to ensuing work opportunities for people with disabilities and disadvantaged workers, and to creating a level playing field for these individuals. In connection with this, as on previous occasions, it was decided that downsizing should not affect any employees who are in some way disadvantaged or living with a disability. Where necessary, we adapt the hiring process to accommodate the special needs of people with altered abilities. Through these measures, we ensure the diversity of our staff. The Bank's 'Womentoring' initiative, which aims to support our female colleagues in thinking about a specifically 'female' career path, was created to help increase the proportion of female colleagues in senior management, and to prepare colleagues who have been on maternity leave to return to work successfully.

Remuneration and Pay

Both the 2020 ISP Group Remuneration Policy and the 2020 CIB Group Remuneration Framework were adopted, in accordance with international and local regulations.

Wages are classified on the basis of various criteria. The criteria considered include the complexity of tasks by job, the popularity of the qualifications required for the job on the labour market, the wage lifecycle, i.e. at which phase the employee concerned reached a specific position, the employee's experience and his/her actual performance in the job.

The wide range of fringe benefits is an important component of our remuneration strategy. The value of the benefits package provided under the Cafeteria system remained the same in 2020. Part-time workers were again entitled to a pro rata share of the full amount.

Representation of interests

There is a functioning trade union at CIB Bank. Representatives of the trade union make up what is known as the Social Committee, whose task is to manage certain forms of social assistance that we provide to employees.

Occupational Health and Safety

Participation in regular mandatory examinations of fitness for the job and the profession as required by the applicable law remained compulsory for all staff members in 2020. Beyond a certain seniority of position, as in previous years, an annual health examination is provided for managers in the framework of occupational health checks, with regard to the higher risk factors.

Recognising the need for international standardisation of health and safety at work, CIB Bank has acknowledged and implemented the Rules for Occupational Health and Safety management systems applicable to the international subsidiary banks of the Intesa Sanpaolo Group.

Appointing an Occupational Health and Safety Officer was the first step at the Bank towards a new framework covering all activities associated with the system, in line with the parent company's strategy to implement management systems that are consistent with ISO 45001 international standard requirements.

During the Covid-19 pandemic period, CIB Bank's Health and Safety at Work Officer was involved to develop OH&S regulations in agreement with the ISP Group, to manage the different modes of intervention according to the epidemiological spread of the epidemic, with standards shared at group level, and appropriately customized in accordance with the laws of the country.

International Healthcare Programme

Through the International Healthcare Programme, in 2020 the Bank offered to employees with permanent contracts second medical opinions and/or medical treatment in centres of excellence in countries that are not their country of residence and/or workplace. The programme provides assistance in the event of serious illnesses (i.e. cancer, highly complex surgical procedures etc.), covers treatment and other complementary service costs (visa assistance, travel etc.), all transport and accommodation expenses in the foreign country, and reimburses all medical costs borne once back home.

Performance Assessment

Since 2019 the managers working in central and/or support areas have been supported by a new, more flexible and user-friendly performance assessment system called NewPat in specifying targets for members of their teams and then in assessing achievement of such goals as well as the competences that are of benefit to the employees in their work. Sales employees have been supported in performance management processes by a single sales incentive system (GPS) since 2014.

During the performance assessment period, panel discussions are conducted across the organisation in order to ensure the consistency of the assessments between the levels of management and individual divisions. All Bank employees get an assessment of their performance and a review of their career options.

XIII. Non-financial statement (continued)

Closely related to the performance assessment mechanisms, our career management system also continues to operate, primarily in order to identify and retain talents, enable all employees to consider their desired career paths at CIB Group and to ensure that managers develop conscious replacement strategies within their teams and to promote career mobility among the various divisions.

How relevant issues are monitored

Respect and expansion of welfare and employee rights are monitored by the Human Resources, Compliance and CSR functions through the following:

- At the level of the Intesa Sanpaolo Group, by way of monitoring compliance with the Group's Code of Ethics, including the assessment of third parties, and in accordance with the international ISO 26000 corporate social responsibility related standard.
- Through sustainability reporting with active stakeholder involvement, which includes the specification of development goals and relevant measurement indexes.
- Regular employee satisfaction surveys are conducted to monitor changes in corporate culture and employee opinion.

The Code of Ethics mailbox (etikaibejelentes@cib.hu) under the jurisdiction of the Ethics Committee represents another guarantee for all stakeholders, which can be used by all to report any rights violations with the guarantee that any reports made will be treated confidentially and will not result in retaliation.

Main indicators as at 31 December 2020

- Number of employees of the CIB Group, per level of seniority (persons):

employee	1,294	(2019: 1,264)
officer	550	(2019: 545)
manager	190	(2019: 193)
Total	**2,034**	**(2019: 2,002)**

- Average training per year (hours/employee): 38.55 (2019: 47.63)
- Percentage of part-time employees (%): 8.3% (2019: 6.5%)
- Percentage of employees who are trade union members (%): 6.6% (2019: 7.1%)
- Number of injuries in the year: 2020: 6 (3 during working hour and 3 injuries when commuting) (2019: 13 (3 during working hours and 10 injuries when commuting)

Anti-corruption, conflict of interest

HIGHLIGHTS

- The Bank regularly revises and updates its Code of Ethics as well as its regulations on the behaviour expected of its employees, which specifically prohibit corruption. The main regulations of Intesa Sanpaolo such as Group Anti-corruption Guidelines; Conflict of Interest Management Group Rules and Conflicts of interest Management Group Rules have been adopted by the Bank.
- Our conflicts of interest rules are more stringent than the relevant national regulations.
- All employees of CIB Group regularly attend e-learning on anti-corruption topics such as money laundering and the financing of terrorism, as well as conflicts of interest, via our e-learning interface (MultiLearn) accessed through our internal network.

Relevant points and detailed descriptions

In terms of responsible banking operation, clearly defining responsibilities, and in certain cases – depending on the relative importance of the given function – creating a separate organisational unit, is of key importance. We regard legal compliance – especially with respect to the prevention of market abuse and money laundering – and the appropriate management of the risks arising from our operation as being of particular importance.

The functions supporting compliance with EU guidelines and legislative requirements ensure responsible operation, a key tenet of which is the effort towards corruption-free operation.

A separate team of specialists coordinates activities to prevent money laundering and the financing of terrorism. They have the task of checking transactions that are relevant or risky from the perspective of money laundering and sanctions, authorising the opening of accounts for new customers and reviewing existing customer relationships, as well as providing training for employees in the prevention of money laundering, forwarding reports to the competent authorities, and ensuring the necessary flow of information.

XIII. Non-financial statement (continued)

The obligatory Code of Conduct, which was adopted in 2008 with an update in 2020, and the Anti-corruption Regulations issued by our parent company Intesa Sanpaolo in 2017 and its subsequent update in 2020 include a set of rules on the prohibition of corruption. As a part of its efforts to combat corruption – in keeping with the relevant guiding principles of Intesa Sanpaolo –CIB Group does not, in any way, support politicians or political parties, or institutions with which they are associated. As a matter of course, our zero-tolerance policy regarding corruption applies to our employees, suppliers and other third parties as well.

Internal audit is an independent, objective assurance and consulting activity, the aim of which is to improve the operation and increase the effectiveness of the given organisation. In order to assist in achieving the organisation's stated objectives, the Internal Audit function methodically and systematically assesses and improves the effectiveness of the audited organisation's governance and control procedures.

Our internal policies set out stricter rules on conflicts of interest than the provisions of Act CXXXVII of 2013 (Credit Institutions Act), Act CXXXVIII of 2007 (Investment Firms Act) and Act I of 2012 (Labour Code).

The purpose of the risk management function is to identify the risks of the given organisational unit, to measure the identified risks and manage them to ensure that they do not jeopardise prudent operation or the fulfilment of business objectives. At CIB Group, it is the Risk Management department that is responsible for these activities.

It is important for us to advance ethical behaviour within our industry by exhibiting fair market and competitive conduct, leading by example, and through participation. We adhere to the self-regulating approach adopted by the industry and apply this to our own operations, while acting ethically towards our competitors. Fair competitive market conduct serves as the basis for our pricing policy.

How relevant issues are monitored

- Our corporate governance regulations, process requirements and internal training courses ensure that our employees do not fall victim to or become involved in corruption. Our employees receive training and information on the relevant topics through ethics training and regular anti-corruption e-learning sessions. The compliance systems ensure that anti-corruption rules are enforced through audits.
- Our employees take part in distance learning courses and examinations on the prevention of money laundering, conflicts of interest, security awareness and compliance via the e-learning platform accessible via the intranet, as well as through in-person training courses.
- The controlling of conflicts of interest is performed by the independent Compliance unit.
- The Compliance unit also performs the controlling and recording of gifts accepted by employees. The key principles governing gifts are zero-tolerance and exceptionality. The acceptance of gifts can, in certain cases, be classified as corruption.

The Code of Ethics mailbox (etikaibejelentes@cib.hu) and postal address, under the jurisdiction of the Ethics Committee, allowing the reporting of any reports, questions, comments represents another guarantee for all stakeholders, which can be used by all to report any rights violations with the guarantee that any reports made will be treated confidentially and will not result in retaliation. Additional guarantee is provided by the involvement of the Compliance and Internal Audit functions through the email addresses compliance@cib.hu and belsoellenorzes@cib.hu, which are available for this purpose as well.

Main indicators as at 31 December 2020

- Proportion of employees who took a distance-learning course and an exam in money-laundering prevention (%): 2020: 97% (2019: 83%)
- Number of ethics reports on suspected corruption (report): 2020: 0 (2019: 0)
- Number of employees dismissed due to corruption: (report): 2020: 0 (2019: 0)

XIII. Non-financial statement (continued)

Enviromental protection

HIGHLIGHTS

- We continue to perform the energy efficiency objectives (installing LED lights in the branch offices, UPS optimisation, server cooling setting, replacement of boilers and air conditioners).
- When preparing and implementing the training programs we take special care to respect the values of our natural, economic and social environment, and make an effort to manage our resources responsibly and without waste. To this end we give preference to electronic communication (e.g. in the process of sending out invitations, information or training materials), and where paper-based documentation is absolutely necessary we produce this economically, with double-sided printing.
- There is selective waste collection in place at our headquarters. Every year, the volume of hazardous waste is reduced, and most of it is reused (restaurant fats are recycled).
- We continue to use the GreenGo car sharing service, which uses electric cars, to significantly reduce the environmental impact from our use of taxi services.
- CIB Group first joined Earth Hour, WWF's international climate protection initiative, 10 years ago, in 2010. In 2020 we invited our Facebook followers to like our post and contribute to the Bank's sustainability campaign with one hour of no decorative lighting for each like. As 5115 followers responded, in 2020 we switched off all non-essential external lighting at our two headquarters in Budapest for 5115 hours to raise awareness of the importance of climate and environmental protection.

Relevant points and detailed descriptions

We aim to use all our resources sparingly. In this regard we promote conduct that is based on the best use of resources and on the avoidance of waste and ostentation. We give priority to solutions that have been designed with sustainability in mind.

The main regulations of Intesa Sanpaolo such as Guidelines for the Governance of Environmental, Social and Governance Risks Concerning Lending Operations and Rules on Lending Operations in the Coal sector were adopted by the Bank.

The Group's Rules for Environmental and Energy Policy was acknowledged in 2014 and implemented by CIB in 2015. In December 2016, CIB Bank adopted its own energy policy, in which it has declared the following:

- we are committed to complying with all legal requirements and other commitments undertaken in relation to energy management;
- we are continuously working toward improving our energy performance indicators and our energy management system;
- we provide access to information and resources to achieve our energy management goals;
- we integrate energy efficiency, as a key element, into our procurement, renovation and new-build plans;
- we strive towards preventing pollution, reducing our ecological footprint and energy consumption by raising the energy efficiency awareness of our colleagues;
- we motivate our people to actively contribute to achieving our corporate goals and to creating more effective processes.

In certain contracts we stipulate that in the course of fulfilling their obligations suppliers are obliged to use environmentally friendly technology, products and materials, and make efforts to recycle the waste that is generated. We have launched numerous initiatives aimed at reducing energy and water consumption, including the installation of solar panels on the roofs of our central office buildings, in order to cut down the use of non-renewable energy sources. We continue to perform the energy efficiency objectives (installing LED lights in the bank branches, UPS optimisation, server cooling setting).

- ***Implementation of the ISO 50001 Standard***

CIB began the implementation of the ISO 50001 energy management standard in 2016. In addition to it being a legal requirement, the introduction of this standard is also a means to improve corporate energy efficiency through regulated and monitored energy management, therefore, it is justified by both management expectations and professional reasons. In 2020 the Bank migrated to the ISO 50001:2019 standard and retained its qualification under the new system.

Its goal is to reduce energy costs, greenhouse gas emissions and other forms of harmful environmental impact. The standard aims to integrate energy management activities into a single system and is based on the "plan, do, check, act" (PDCA) process cycle.

XIII. Non-financial statement (continued)

The introduction and ongoing operation of the standard is sponsored by the management's representative (COO). Implementation is carried out by the energy team consisting of people from the Property Services, PR and Marketing Communication, Human Resources, Procurement, IT and Process Management functions. At the level of operative tasks, their work is supported by certain members of the Network Coordination and Property Services functions. Compliance of the energy management operations with the standard is verified by an internal auditor, who is a Bank employee. Management decisions are prepared by the energy team.

How relevant issues are monitored

Compliance with environmental standards and the continuous expansion of pledges are monitored by the Property Services, Human Resources and CSR functions through the following:

- by way of monitoring the execution of the Group-level Code of Ethics.
- in line with the international ISO 50001 energy management standard, audited by an independent third party;
- the annual ISO 50001 examination for every employee;
- through sustainability reporting with active stakeholder involvement, which includes the specification of development goals and relevant measurement indexes.

Main indicators as at 31 December 2020

- Total energy use (GJ): 2020: 51,193 (2019: 52,755)
- Number of bicycle storage facilities (piece): 2020: 39 stands, suitable for the storage of 78 bicycles (2019: 78)
- Greenhouse gas emissions avoided through the use of solar collectors (tonnes, as carbon dioxide equivalent): 2020: 2.73 (2019: 1.15)
- CO2 emissions from energy consumption (t): 2020: 6,255 (2019: 5,460)
- Purchased paper (kg): 2020: 93.690 (2019: 134.964)
- Electricity use (kWh): 2020: 9,057,565 (2019: 9,739,875)
- Other renewable energy consumption (kWh): 2020: 13,450 (2019: 15,278)
- CO2 savings in 2020 from using electric cars instead of taxi services: cc. 425 kg.

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.