GRÁNIT BANK ZRT.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE EUROPEAN UNION

31 DECEMBER 2020

WITH AN INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

For the shareholders of Gránit Bank Zrt.

Report on the audit of the consolidated annual financial statements

Opinion

We have conducted the audit of the attached 2020 consolidated annual financial statements of Gránit Bank Zrt. (the "Bank" or the "Company") and its subsidiaries (collectively: the "Group"), consisting of a consolidated balance sheet prepared in respect of 31 December 2020 – in which the matching total of assets and liabilities is HUF 570,429 M – plus a consolidated profit and loss account and a consolidated other comprehensive income statement for the year ending on this same date – in which the comprehensive income in the reporting year is HUF 1,721 M profit – as well as a statement of changes in consolidated equity, a consolidated cash flow statement, and a set of supplementary notes containing a summary of the key elements of the accounting policy and other explanatory information.

In our opinion the attached consolidated annual financial statements provide a true and fair view of the consolidated net worth and financial position of the Group as at 31 December 2020, as well as of its consolidated income position and its consolidated cash flow pertaining to the financial year ending on that date, and was prepared in line with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and has in all material respects been prepared in accordance with the additional requirements of Act C of 2000 on Accounting (hereinafter: "Accounting Act") pertaining to consolidated annual financial statements compiled according to IFRS as adopted by the EU.

Our opinion is in accordance with our supplementary report of 6 May 2021 to the supervisory board.

Basis of the opinion

We conducted our audit in compliance with Hungarian National Auditing Standards and the laws applicable in Hungary regarding audits and other statutory provisions. The section "Responsibility of the auditor for the audit of the consolidated annual financial statements" of our report provides a more detailed description of our responsibility within the meaning of these standards.

We are independent of the Group according to the laws in force in Hungary, the Regulations of the Chamber of Hungarian Auditors on the "Rules of conduct (ethical rules) of the auditing profession and the related disciplinary procedures" and, in respect of issues not regulated in these latter, 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 comply with all other ethical requirements set out in these standards.

The non-audit services provided by us to the Group in the business year starting 1 January 2020 and ending 31 December 2020 are presented in Note 36 of the Notes to the Financial Statements.

To the best of our knowledge and belief, we declare that the non-auditing services provided by us are consistent with the laws and regulations applicable in Hungary and we do not provide services that are banned by Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council and Paragraphs (1) and (2) of Section 67/A of Act LXXV of 2007 on the Chamber of Hungarian Auditors, auditor activities and the public supervision of audit activities.

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

Our audit approach

Overview

Group materiality threshold	The materiality limit applied during the audit of the Group HUF 99 million.
Scope of the Group audit	The Group consists of two subsidiaries and the Bank. Both subsidiaries operate in Hungary and correspond to 0.2% of the consolidated interest revenues and 0.5% of the consolidated assets.
Key audit matters	• Impairment recognised on customer loans measured amortised cost

When planning our audit, we determined the materiality threshold and assessed the risks of material misstatement in the consolidated annual financial statements. We particularly considered those areas that require management judgement, such as significant accounting estimates that are based on assumptions and uncertain future events. As in all of our audits, we considered the risks of the management's overriding of controls, including, among other things, the evaluation of any identified evidence of partiality that might suggest material misstatement associated with fraud.

Materiality

The scope of our audit was affected by the materiality threshold applied by us. The audit is planned in a way that provides reasonable assurance as to the fact that the consolidated annual financial statements do not contain any material misstatements. Misstatements could arise from fraud or error. Misstatements are considered material if it can be reasonably expected that they could, either individually or collectively, interfere with the economic decisions the users may make on the basis of the given consolidated annual financial statements.

Based on our professional judgement, we determined certain broad thresholds of materiality, including the materiality threshold for the consolidated annual financial statements as a whole, which we present in the table below. It was by taking these and other quality factors into account that we determined the scope of our audit, and the nature, schedule and extent of our audit procedures, and arrived at our assessment of the impacts the errors individually or collectively have on the entirety of the annual financial statements.

Materiality threshold	HUF 99 M
Method of determination	5% of the consolidated pre-tax profit
Explanation of the choice of the base of comparison used	We have chosen the consolidated pre-tax profit as the base of comparison because, in our opinion, the users of the consolidated annual financial statements typically use this to evaluate the performance of the Group, and it is also a generally accepted benchmark. When determining the scale of materiality, we took 5% into account, which is in line with the percentage applied for profit-oriented companies of the same sector.

Scope of the audit of the Group

We defined the scope of the audit of the Group so as to ensure we would conduct sufficient work to be able to express an opinion on the entirety of the consolidated annual financial statements, taking into account the structure, accounting procedures and controls of the Group, as well as the industry that the Group is active in.

We identified two subsidiaries whose financial statements we included in the audit, as based on their size they are significant for the Group, or due to their relative riskiness, we regarded their inclusion to be warranted.

Key audit matters

Key audit matters are matters that were, in our professional judgement, the most significant during the audit that we conducted on the consolidated annual financial statements for the reporting period. We examined these matters in connection with our audit relating to the entirety of the consolidated annual financial statements and when forming our opinion on them, and we have not issued a separate opinion on these matters.

Key audit matters	*Procedures conducted in the course of the audit in relation to the key audit matters*
Impairment recognised on customer loans measured at amortised cost The net value of customer loans measured at amortised cost was HUF 170,668 M as at 31 December 2020, or 30% of the balance sheet total. The value of impairment recognised in the balance sheet is HUF 200 M. The management has disclosed the related judgements, balances and estimates in section 3.6.3 of the part of the Notes to the Financial Statements that relates to the accounting policy. The determination of impairment is based on the use of subjective assumptions and requires a high degree of estimation by management in the calculation of both individual and group impairment, especially in view of the current uncertain economic environment resulting from the COVID-19 epidemic. The first step in calculating impairment is to determine whether credit risk has increased significantly, and the information taken into account determines whether a credit loss expected over 12 months or over the entire lifetime of the product should be recognised. In the case of an individual impairment calculation, the greatest uncertainty is the estimation of future expected cash flows and the probability weighting of the estimation scenarios, where the expected cash flows include both operating returns and returns from any enforcement of collaterals.	We understood and evaluated the entire lending process from disbursement to monitoring and impairment calculation, identified the main control points, and tested their operational effectiveness, including the process of management approval. We performed a risk-based credit examination (using sampling), in the course of which we examined – based on the loan proposals and review documents, as well as the financial and non-financial information relating to the customer – the ratings assigned to the customers by the Bank, as well as the impairment recognised on the transactions. In the case of individually impaired loans, we examined, on a sample basis, the assumptions and estimates used in the calculation, the reasonableness of the weighting of the scenarios, as well as the accuracy of the calculations. In the case of group impairment, we examined, with the involvement of our specialist experts, the applied impairment calculation methodology and its compliance with the standard, reviewed the completed validation reports, and recalculated selected parameters and the impairment on a sample basis. In addition, we examined the basic data (including the data used to model the parameters and calculate the impairment), examined the criteria that had been used to determine whether the credit risk had increased significantly and the application of these criteria, and analysed the changes in impairment.

To calculate group impairment, the Bank uses impairment models that quantify, as the most important parameters for estimating recoverable amounts, the probability of default, the predicted exposure value at the time of default and the expected loss in the event of default, as per the provisions of IFRS 9, while also taking into account forecasts regarding future economic conditions.

Further difficulty is caused by the fact that in order to mitigate the economic consequences of COVID-19, the Hungarian state introduced various payment-easing programmes, including a repayment moratorium available to most borrowers, and used by them. These programmes make it difficult to display the potential deterioration of the loan portfolio against time, and result in artificially low observed default rates.

To address the above, the management revised the classification into impairment categories, taking into account sectoral and individual effects, on the basis of which it made adjustments in the course of calculating impairment.

We have paid particular attention to this, as its balance is significant and it requires subjective assumptions and judgements from the management when it is determined, especially due to the high level of uncertainty involved in assessing the economic impact of the COVID-19 pandemic.

We have reviewed point 3.6.3 and sections 10, 19 and 38 of the Notes to assess whether the disclosures are in accordance with the requirements.

Other information: the consolidated business report

The other information consists of the Group's 2020 consolidated business report. The management is responsible for preparing the consolidated business report in accordance with Act C of 2000 on Accounting (the "Accounting Act") and other relevant legal requirements. Our opinion on the consolidated annual financial statements in the "Opinion" section of our independent auditor's report does not relate to the consolidated business report.

Regarding our audit of the consolidated annual financial statements, our responsibility is to read through the consolidated business report and to decide whether the consolidated business report is materially inconsistent with the consolidated annual financial statements or the information we obtained during the audit, or whether it otherwise appears to contain any material misstatements. If our work concludes that the consolidated business report contains a material misstatement, then we are obliged to report on the nature of such misstatement.

According to the Accounting Act, in reading through the consolidated business report, it is also our responsibility to judge whether the consolidated business report complies with the Accounting Act or the relevant provisions of any other statute, if any, and to express our opinion on this, as well as on the consistency between the consolidated business report and the consolidated annual financial statements.

In our opinion, the Group's 2020 consolidated business report is, in all material respects, consistent with the Group's 2020 consolidated annual financial statements, and the consolidated business report is in accordance with the relevant provisions of the Accounting Act. As no other legal statute imposes further requirements on the Group concerning the consolidated business report, we do not express an opinion on it in this regard.

We have not become aware of any other material inconsistency or material misstatement in the consolidated business report, and thus we have nothing to report in this regard.

As the conditions specified in points (a) and (b) of paragraph (5) of Section 134 were not met for the Group as of the balance sheet date of the business year concerned, we have no declaration to make in this regard.

Responsibility of the management and of those charged with governance for the consolidated annual financial statements

The management is responsible for preparing the consolidated annual financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with the requirement of true and fair presentation and the additional requirements of the Accounting Act concerning the consolidated annual financial statements compiled according to the IFRS as adopted by the EU, and for any internal controls that the management deems necessary to ensure the preparation of the consolidated annual financial statements free from material misstatement whether due to fraud or error.

In preparing the consolidated annual financial statements, the management is responsible for assessing the ability of the Group to continue the business as a going concern and for disclosing information regarding the continuation of the business as a going concern in accordance with the given situation, and the management is also responsible for applying the accounting principle of a going concern in the consolidated annual financial statements, unless the management intends to dissolve the Company or otherwise cease trading, or it is faced with no realistic choice besides the latter.

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

Responsibility of the auditor for the audit of the consolidated annual financial statements

During the audit, our goal is to obtain reasonable assurance that the annual financial statements do not contain any material misstatement whether due to fraud or error, and on the basis of this, to issue an independent auditor's report that contains our opinion. Reasonable assurance is a high level of assurance, but not a guarantee, that an audit carried out in accordance with Hungarian National Audit Standards will always identify otherwise existing material misstatements. Misstatements may arise from fraud or error and are deemed material if they can reasonably be expected to influence, individually or collectively, the economic decisions that users make on the basis of the consolidated financial statements.

During the entire audit conducted in accordance with Hungarian National Audit Standards, we apply professional judgement and maintain a degree of professional scepticism. In addition:

- We identify and measure the risks of the material misstatements in the consolidated annual financial statements whether due to fraud or error, develop and execute the audit procedures suitable for addressing these risks, and obtain sufficient and appropriate audit evidence to substantiate our opinion. Not identifying a material misstatement arising from fraud has a higher risk than not identifying those stemming from error, because fraud could include collusion, falsification, intentional omissions, false statements, or the overriding of internal controls.
- We familiarise ourselves with the internal controls relevant for the audit in order to plan audit procedures that are appropriate in the given circumstances, but not in order to express an opinion regarding the effectiveness of the Group's internal controls.
- We evaluate the adequacy of the accounting policy applied by the management as well as the reasonableness of the accounting estimates prepared by the management and the related disclosures.
- We draw conclusions about whether it is appropriate for the management to apply the accounting principle of a going concern in the consolidated annual financial statements and, based on the audit

whether material uncertainty exists in connection with events or conditions that ant doubt regarding the ability of the Group to continue as a going concern. If usion that material uncertainty exists, then our independent auditor's report must draw attention to the related disclosures in the consolidated annual financial statements or, if the disclosures are not appropriate in this regard, we are required to qualify our opinion. Our conclusions are based on audit evidence obtained up to the date of our independent auditor's report. Future events or conditions could, however, make the Group unable to continue as a going concern.

- We evaluate the comprehensive presentation, structure and content of the consolidated annual financial statements, including the disclosures made in the Notes, and we also evaluate whether the underlying transactions and events are presented in a true and fair manner in the consolidated annual financial statements.
- To express an opinion concerning the consolidated annual financial statements, we obtain sufficient and appropriate audit evidence concerning the financial data of the economic entities or business activities within the Group. We are responsible for directing, supervising and carrying out the audit of the Group. We continue to bear sole responsibility for our audit opinion.

We notify the persons charged with governance – among other matters – of the intended scope and timing of the audit, and about the significant findings of the audit, including significant deficiencies in the internal control applied by the Group and identified by us during our audit, if there were any.

We inform those charged with governance of the fact that we meet the relevant ethical requirements concerning independence, and we disclose all the contacts and other matters that could be reasonably presumed to affect our independence, as well as the steps and the safeguards taken to eliminate the threats, as the case may be.

Among the matters communicated to those charged with governance, we identify the matters that are the most significant matters during the audit of the consolidated financial statements of the reporting period and that, as such, were key audit matters. We address these matters in our auditor's report, unless the law or a regulation precludes the public disclosure of the matter or, in extremely rare circumstances, we determine that a particular matter cannot be communicated in the auditor's report because there is a reasonable likelihood that the adverse consequences of doing so would outweigh the public benefits of the disclosure.

Report on other legal and regulatory requirements

The Group first elected us as its auditor on 10 April 2018. Our election was approved by a shareholder resolution, resulting in a continuous 3-year engagement.

The partner responsible for the engagement that resulted in this independent auditor's report is Éva Barsi.

Budapest, 6 May 2021

Éva Bar (signature)
Member of the Chamber of Auditors
[Ide írhat] Chamber membership no.: 002945
PricewaterhouseCoopers Könyvvizsgáló Kft.
1055 Budapest, Bajcsy-Zsilinszky út 78.
Registration number: 001464

GRÁNIT BANK
PRIVATE LIMITED COMPANY

CONSOLIDATED BUSINESS REPORT

31 DECEMBER 2020

BUDAPEST, 6 May 2021

CONSOLIDATED REPORT OF THE BOARD OF DIRECTORS

ON BUSINESS OPERATIONS IN 2020

1 Introduction to the GRÁNIT Bank Group

1.1 A brief history

In the last decade, the Bank Group has consistently achieved dynamic growth, and in doing so it has proved that an innovative business model that focuses on digital solutions can be as successful in Hungary as elsewhere.

The GRÁNIT Banking Group closed its most successful business year to date in 2020

The Bank started trading under the name GRÁNIT Bank in May 2010, when it was still effectively an empty, "greenfield" bank operating with total assets of barely over HUF 7 billion. After ten and a half years of operation, as of the end of December 2020, the GRÁNIT Bank Group had achieved a balance sheet total exceeding HUF 570 billion and a pre-tax profit of HUF 2 billion, continuously growing the number of its retail and corporate customers, and its deposit and loan volumes.
As a result of this dynamic growth, GRÁNIT Bank has now become a mid-sized bank, and the business model it has implemented has brought it widespread professional recognition. The Bank participates in a wide range of economic development and retail programmes (MNB NHP, NKP bond programme, MFB Points, Eximbank refinancing schemes, CSOK, etc.), has been a BUBOR market maker since 2018, actively participates in programmes for developing financial literacy, is a committed promoter of environmentally conscious banking, and in addition, supports the development of local culture and sports.
GRÁNIT Bank established GB Solutions Zrt. (GBS) at the end of 2018, which is a wholly owned fintech company of the Bank. The task of GBS is to elaborate and implement IT developments and innovative business solutions in co-operation with the Bank, as well as for third-party customers.

The Bank is an attractive investment opportunity for investors, as is reflected by the fact that its circle of owners is constantly expanding. The Bank is entirely owned by domestic private and institutional investors.

1.2 The Bank's ownership structure

Since 2010, the Bank's ownership circle has gradually expanded to include bankers, business persons and a retail chain, and the Hungarian State became a minority owner in 2013.

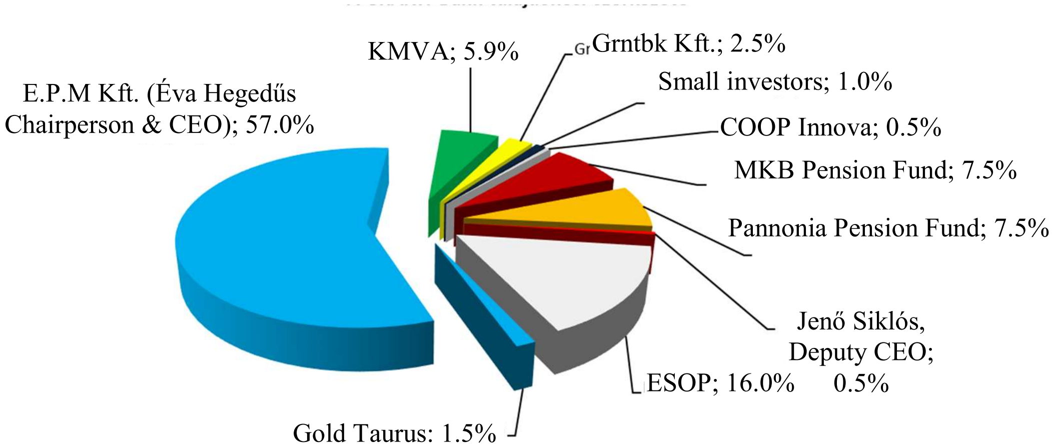
A decision regarding a HUF 4.29 billion capital increase was made at GRÁNIT Bank during the third quarter of 2020. The new capital was invested in GRÁNIT Bank by the Carpathian Basin Enterprise Development Venture Capital Fund managed by Széchenyi Funds and a private investor on a pari passu basis, in line with the EU's market economy investor principle. With the investment, the new owners acquired a minority stake in GRÁNIT Bank. The agreement on the capital increase was signed by the parties and approved by the Bank's General Meeting, and the MNB issued the authorisation, and thus at the end of November 2020 the Bank's equity and regulatory capital increased by HUF 4.29 billion.

At the end of 2020, GRÁNIT Bank closed the employee stock ownership plan (ESOP) launched in 2017, with the shares being purchased by an existing shareholder in December 2020.

The Bank has launched the second employee stock ownership plan, the main goal of which is to better motivate employees to increase shareholder value. The ESOP entity acquired a 16.0% stake in the Bank.

The current ownership structure of the Bank as at 31 December 2020 is shown in the figure below.

GRÁNIT Bank's ownership structure



The Bank's management has remained unchanged since the beginning

1.3 The Bank's Management

The management team tasked with the Bank's day-to-day management and operation has remained unchanged since the Bank's inception. The table below shows the composition of the Board of Directors and the Supervisory Board as at the end of December 2020.

Board of Directors	Supervisory Board
Éva Hegedüs (Chairperson & CEO) Jenő Siklós (Deputy CEO) Zoltán Nagy (Deputy CEO) László Hankiss (Deputy CEO) Gergely Domonkos Horváth	Sándor Nyúl (Chairperson) János Vokony Gyuláné Lajtos

2 Macroeconomy

In 2020, Hungary's rapid economic growth slowed due to epidemic situation

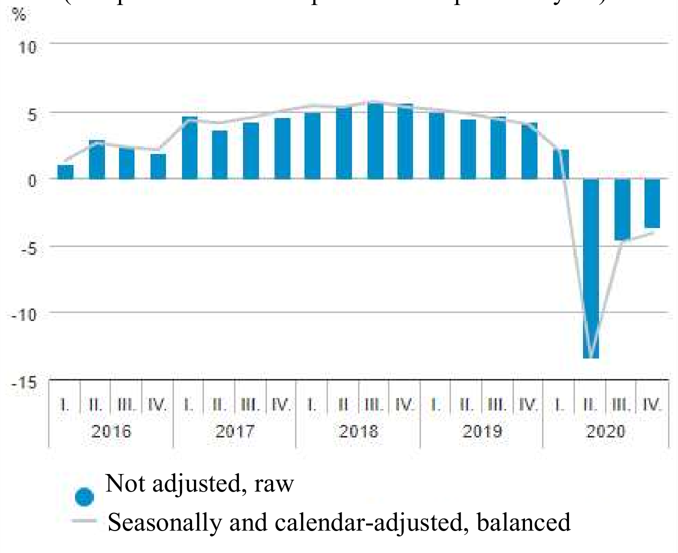
Between 2015 and 2019, Hungary's economy grew at an average annual rate of 4.1%, faster than the Czech and Slovak economies and above the Eurozone average. The rate of economic growth achieved in this period was double that of the previous five years. The emergence of the coronavirus epidemic significantly restrained economic activities, due to measures taken in the interest of health protection and disease prevention. COVID-19 had a huge impact on global economic trends in 2020, including on Hungary, and this pushed GDP into negative territory this year. As a result of the pandemic, Hungary's GDP is expected to have declined in 2020, according to KSH (statistical office) data. In Q1-Q4, Hungary's GDP decreased by 5.0% over the same period of the previous year. In Q4, the performance of the

economy improved by 1.4% compared to the previous quarter. The main contributors to growth in the last quarter were industry and the information and communication sector.
As a result of the continued reduction in the economy's external vulnerability since 2012, the economic slowdown in 2020 was able to be managed effectively. Hungary's equilibrium indicators are favourable; Hungary's current credit ratings by the main rating agencies are as follows: Moody's: Baa3 (outlook: positive), S&P: BBB (stable), Fitch: BBB (stable). In the third quarter of 2020, Hungary's four-quarter external financing capacity according to the real economy approach increased to 2.4% of GDP, while the current account balance recorded its largest quarterly surplus in the past three years. The growth has strengthened Hungary's favourable external position in the region, while external financing needs continue to be significant in a number of countries. Following a temporary decline in the second quarter, the period most affected by the epidemic, the economy's external balance indicators improved significantly in the third quarter, with foreign currency reserves continuing to significantly exceed (by more than HUF 10 billion) the level expected and regarded as safe by investors. The significant and sustained reduction in the external vulnerability of the Hungarian economy increases Hungary's ability to absorb external shocks.

2.1 Gross domestic product (GDP)

The volume of the Hungarian economy's gross domestic product fell by 5.0% in 2020. According to calendar-adjusted data, the economy's performance fell by 5.1% compared to the previous year. On the production side, the added value of agriculture fell by 6.7%, that of industry by 4.8%, that of construction by 9.4% and that of services by 4.8%. Services contributed 2.7 percentage points to the decline in GDP, industry 1.0, construction 0.5 and agriculture 0.2. On the consumption side, the actual consumption of households fell by 2.6%, while community consumption rose by 2.0%, which together resulted in a 2.0% fall in the final consumption volume. Gross accumulation fell by 4.4%, of which gross fixed assets accumulation decreased by 7.3%. The volume of exports fell by 6.7%, and that of imports by 3.9%. On the consumption side, final consumption contributed 1.3 percentage points, gross accumulation 1.2 percentage points, while the total trade balance added 2.4 percentage points to the economic downturn.

Figure 1 Changes in GDP volume
(compared to the same period of the previous year)



Source: KSH

In 2020, the surplus on the balance of foreign trade in goods amounted to EUR 5.8 billion, EUR 1.5 billion more than a year earlier. In January-December 2020, exports fell by 1.3% and imports by 1.0% compared to a year earlier.
The price level of foreign trade in goods measured in forint rose by 2.6% for imports and by 4.7% for exports. The exchange ratio improved by 2.0%.

The development in the trends in foreign trade was also influenced by the change in the forint exchange rate. The forint depreciated by 7.9% against the euro and by 5.9% against the dollar compared to a year earlier. The devaluation has also had an impact on producer and consumer prices through the consumption of imports, with consumer prices increasing by 3.3% on average in 2020.
In 2020, the average number of people in employment for the year as a whole was 4 million 460 thousand. Of those employed, 4 million 376 thousand were aged 15-64, with the employment rate for this age group falling by 0.4 percentage points to 69.7%.

2.2 Changes in the interest environment

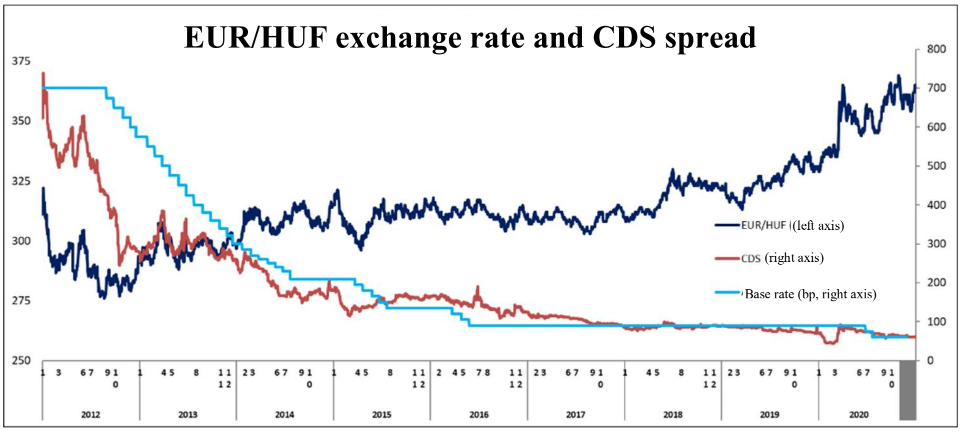
In 2020, the National Bank of Hungary (MNB) lowered the base rate from 0.90% to 0.60% in two steps.
The MNB's monetary policy toolset was significantly expanded and modified in 2020. Firstly, the budgets for the FGS Go! and the Bond Funding for Growth Scheme were substantially increased by the central bank, and secondly, the conditions for the use of the Preferential Deposit and the Preferential Deposit Plus were continuously adjusted in line with changes in the related components of the toolset. Through these deposit products, the MNB effectively sterilises the surplus quantities of money generated by the various growth-stimulating programmes. The MNB continues to actively use the EUR/HUF FX Swap tender that provides 1, 3, 6 and 12 months of forint liquidity, in addition to which the 1-week deposit product and the EUR liquidity swap tender have also been introduced. As a new element, the range of central bank secured loans has been extended to include 3 and 5-year terms. With these,

it effectively regulates the amount of liquidity in the banking system, and provides sufficient incentives for the banking system to buy government securities. The MNB has expanded its asset purchase programme, and in addition to BGS bonds and mortgage bonds, it now also purchases long-term government bonds and government-guaranteed bank bonds (MFB/EXIM) on a weekly basis, both in primary issues and in secondary market transactions.
Meanwhile, in the interest rate environment, the level of BUBOR interest rates, which underlie the pricing of retail and corporate loans, has consolidated after a small spike in the second quarter, with the 3-month BUBOR averaging 0.72% starting from June 2020 compared to the level of 0.13% in January. The Fed cut the key interest rate band twice in 2020, and it is currently moving in the 0.00-0.25% range.

In order to offset the economic impact of the coronavirus, central banks moved towards monetary easing in early 2020, thus reversing the trend of rising interest rates in developed countries, and more economic stimulus measures are expected in 2020. The Federal Reserve (Fed) again reduced its key rate to close to 0% in two extraordinary meetings, and also took significant liquidity-providing measures and relaunched its asset purchase (quantitative easing) programme. The European Central Bank (ECB) left its key rates unchanged, while also announcing significant easing and liquidity-providing measures.
In Hungary, the MNB announced a broad range of instruments in March-April 2020 in order to offset the negative economic impact of the coronavirus. In this context, it provides significant additional resources for businesses to deal with the situation on a temporary basis and for medium-term developments. The announced measures will create conditions for the banking system that will stimulate lending on the one hand while stabilising the economy on the other. At the same time, the measures help to achieve and maintain price stability, as well as to move the yield curve downwards and reduce exchange rate volatility. The announced measures seek to address the situation in a complex, multi-faceted way, hopefully giving sufficient impetus to economic operators to recover quickly. In relation to this, further monetary and fiscal measures designed to stimulate economic growth are also conceivable. Interbank interest rates may, however, be higher than earlier, due to the appreciation of liquidity.

Hungary is in the investment category with all three major international credit rating agencies. These ratings confirm the assessment of the country by investors.

The EUR/HUF exchange rate in 2020 ranged between 329 and 365, closing the year at a EUR/HUF exchange rate of 365. Based on market forecasts, the exchange rate is expected to move between 350 and 360 in 2021. The bankruptcy risk indicator hovered around the 60 mark in 2020 and may well remain at around 60.



2.3 Credit institutions sector

According to the preliminary data for Q1-Q4 2020, the Hungarian credit institutions sector achieved a pre-tax profit of HUF 453 billion on a consolidated basis, which is 42.3% of the 2019 result, while the net profit in 2020 almost halved to HUF 390 billion. Before impairment and provisioning, however, there was an increase of 1.5% on a non-consolidated basis and 13.7% on a consolidated basis.
The non-consolidated balance sheet total of credit institutions at the end of 2020 is 22.9% higher than a year earlier. The loan portfolio of credit institutions grew by 16.3%, including loans to domestic non-financial businesses by 12.8% and loans to households by 15.3%. The repayment moratorium also played a role in the increase in loans to domestic non-financial businesses and households, as there was less amortisation recorded on the existing loan portfolio due to the non-repayment of part of the loans.
Based on the consolidated data of credit institutions, the share of non-performing loans continued its downward trend, decreasing from 4.1% in 2019 to 3.6%. The ratio of loans overdue for more than 90 days in the household sector decreased from 5.3% in the previous year to 4.4%, and in the case of non-financial corporations, it increased from 2.0% to 2.1% by the end of 2020 compared to the same period of the previous year.

To stimulate lending to small and medium-sized enterprises and to promote economic growth, on 1 June 2013 the MNB launched the Funding for Growth Scheme (FGS in English, or NHP in Hungarian), which, with its two phases combined, led to a resurgence in growth in SME lending volumes. The FGS had a beneficial effect on investment activity, employment and economic growth overall. In early 2016, the third phase of the FGS was launched as part of a growth support programme to help banks to switch to market-based lending; at the end of 2018, the MNB announced a new FGS Fix programme to maintain the growth rate of lending to the SME sector, and in 2019 it also announced the Bond Funding for Growth Scheme for companies. On 20 April 2020, the MNB launched the FGS Go! scheme, as part of the FGS, to provide micro, small and medium-sized enterprises with a fast and reliable solution for financing their latest investments and their operations, in order to mitigate the negative economic impact of the coronavirus and avoid disruptions in the credit market.
An important contributing factor to the growth in household loan volumes was the borrowing linked to the "babaváró" support scheme for expectant mothers launched

in July 2019, a product that has served as a catalyst for growth in retail lending in general in 2020, while the measures launched under the Family Protection Action Plan will also provide support for an upswing in demand for loans.

2.4 Outlook

While in 2020 the fight against the coronavirus epidemic was the key determinant in economic and capital market processes, in 2021 this is expected to be the post-coronavirus rebound. In the first quarter, the remaining restrictive measures designed to protect against the virus will have a negative impact on GDP growth, but from the second quarter onwards, economies may gradually reopen, thanks to ever-increasing number of vaccinations.
As a result of the pandemic, the previous trend towards economic recovery faltered, with Hungary's GDP falling by 5.0% in Q1-4 2020 according to KSH data, compared to the same period of the previous year. In Q4, the performance of the economy improved by 1.4% compared to the previous quarter. According to forecasts, the economy is likely to return to growth in 2021; although the National Bank now anticipates GDP growth in the range of 3.5%-6.0%, the uncertainty in the prognosis is significantly higher than in normal circumstances. Any prolongation of the epidemic may change the development of GDP both globally and in Hungary. Looking ahead, the expansion of export activity will play a significant role in growth in Hungary, which will continue to be supported by expanding domestic demand, with the expansion in consumption being driven by dynamic real-wage growth, high net financial wealth accumulation, and a pick-up in retail and corporate lending, although external economic forces will continue to have a significant impact on the country's economic growth.
The corporate loan portfolio grew by 9.4 percent year-on-year in 2020, while the SME segment grew at a 13 percent annual rate, according to preliminary data. "Babaváró" loans played a major role in the internationally outstanding 14.5 percent expansion in total retail loan volumes, as the product accounted for 30 percent of annual loans and already accounts for 13 percent of the household loan portfolio. Positive expectations are indicated by the fact that institutions expect credit demand to pick up in the first half of 2021 for both housing loans and personal loans, as well as for corporate loans. The considerable growth in lending, high even by international standards, clearly reflects the impact of government and central bank programmes, and this is expected to continue into 2021.
In their forecasts for global economic growth for 2021, the IMF projected 3.9 percent and the OECD 2.6 percent, although this is hugely contingent on the effectiveness of the fight against the coronavirus. According to the forecasts, the global economy is likely to expand rapidly in 2021, meaning that the overall performance of the world's economy could reach pre-pandemic levels by the end of 2021 or early 2022. Economic stimulus programmes will contribute strongly to economic growth, as budgetary policy is expected to remain looser than average in all major regions. The resumption of economic growth is expected to be uneven and will depend on the successful and rapid administration of vaccines and on whether the current loose fiscal, monetary and financial conditions will continue to prevail in major economies around the world. Overall, yields are expected to rise further in 2021 as a result of the anticipated improvement in global economic growth.
The international alignment of economic recovery and green infrastructure investments is expected to further strengthen, which may prove a major turning

point in the fight against climate change. Rising debt levels are, however, a serious risk in the longer term.

3 GRÁNIT Bank Group's business strategy

The Bank's digital strategy is unchanged: delivering quality financial services to corporate and retail customers through innovative electronic channels

GRÁNIT Bank, a domestically owned bank that is committed to improving the competitiveness of the Hungarian economy, aims to serve household customers and small and medium-sized enterprises as a strategic partner, and to provide innovative and integrated financial services as a result of which finances can be managed simply, conveniently and quickly, as well as flexibly in terms of time and space.

A key element of GRÁNIT Bank's strategy is to provide corporate and retail customers with clearly understandable, yet high-quality and value-added financial services through customised solutions in the context of a cost-effective operating model. GRÁNIT Bank wishes to leverage all the technological advances of the modern age to provide a fast and convenient customer service, while at the same time considering the environmental and sustainability ramifications of its business, and for this reason it ascribes a key role to the provision of services through electronic channels.

GRÁNIT Bank is a partner in the pre-financing and co-financing of state and EU subsidies, and has an interest in the long-term operation of the projects thus implemented. In this regard the Bank relies, in strategic terms too, on relationships with large corporations that, with the Bank's active involvement, can help stimulate the small and medium-sized enterprise sector.

Other key areas of the Bank's strategy include the provision of retail payment services, the sale of diversified account packages and bank cards based on varied customer requirements, the provision of investment services, and the sale of home loans, home improvement loans, "babaváró" loans and overdrafts to its customers. The Bank also builds on the owners and employees of its corporate clients using financial services, who can conduct their personal banking at GRÁNIT Bank on favourable terms.

The basis of the Bank's strategy is to develop its services for retail and corporate customers in line with the latest developments in electronic banking, and at the same time to optimise its internal processes for this purpose. The changes in the available means of using banking services, in parallel with the spread of the internet and mobile devices (laptops, smart phones, tablets), has generally resulted in the vast majority of transactions already being conducted electronically, while a considerable proportion of sales are no longer generated by the traditional branch networks, and sales of financial services – including the opening of first accounts – over the internet are also growing.

The Bank Group's digital business model uses resources efficiently

GRÁNIT Bank's business model assures lower costs than the average for the banking sector (in terms of operating costs/total assets, GRÁNIT Bank's 0.8% figure is already significantly better than the 1.7% average for the banking sector), and this allows the Bank to provide customers with sustainably competitive terms while still achieving a high rate of return and profitability.

and at the same time promotes the development of sustainable economic structures

This strategy is in line with the changes in customer habits, as numerous international and domestic research studies show that the proportion of people who bank online, and more specifically, on their mobile phones, is growing.

The Bank achieved profitable operation significantly sooner than the international benchmark, in its fourth full business year, and has consistently posted a profit ever since, and 2020 was its seventh profitable year.

The Bank has achieved an average growth of 51% over the past ten and a half years, proving that customers satisfied by high-quality, innovative financial services offered at favourable terms can be acquired even in a highly competitive environment.

Innovation is the driving force behind GRÁNIT Bank's growth and the cornerstone of its strategy, with which the Bank aims to simplify and facilitate for its customers what are traditionally considered complex financial transactions. The GRÁNIT Bank regards the continuous expansion of its range of convenience services provided to customers as a basic business objective. In 2020, the Bank again introduced a number of innovations, such as the launching and acceptance of payment requests through the Instant Payment System and the introduction of MNB standard QR code-based payments. The account opening process has been revolutionised by artificial intelligence, which enabled GRÁNIT Bank to be the first in Hungary to introduce the selfie-based account opening function, which means that a full-fledged retail bank account can be opened from home, without the help of an administrator, in just a few minutes. Another development is the GRÁNIT Digital Card Service, which provides new customers with a plastic-free digital bank card suitable for purchases, as early as on the next day after account opening; GRÁNIT Bank was also the first among Hungarian banks to introduce this service. In 2020, there were also developments in the field of lending: the FGS Go! business loan is the first in Hungary to be available at GRÁNIT Bank with instant online pre-screening and fast online application. In the field of lending, the Bank has launched a unique digital smart calculator for household customers. With the Kiszámítható Mortgage Calculator, customers can calculate precisely, in just 5 minutes and with just a few swipes or clicks, what size mortgage (home loan) they can apply for, and what the repayments will be.

The digital business model protects the environment and contributes to healthier living conditions

GRÁNIT Bank has always been at the forefront of online banking. It was already possible to open an account online simply and quickly, but on 20 July 2017, immediately after it had fulfilled the required legal conditions, GRÁNIT Bank became the first in the country to launch an online account-opening function linked to video-based authentication, with its state-of-the-art GRÁNIT Bank VideóBank service. Thanks to this development, the Bank's prospective customers are able to open a fully usable retail bank account from anywhere in the country without having to show up in person. For the first time in Hungary, with this innovative service a bank account can be opened on a smartphone, laptop or desktop computer without having to visit a branch. An account can be opened in as little as 15 minutes, during which time the customer receives his or her contract and can already transfer money to the account he or she has opened. Experience shows that a full 70% of the Bank's retail customers open their account in VideóBank or via another online channel.

Customers can manage their day-to-day financial matters via NetBank, using a computer or an application optimised for smartphones, and monitor their card transactions via text message. GRÁNIT Bank uses electronic signatures, so all bank certificates and documents are available to customers via the NetBank. If our customers have questions, they can use the live-voice call centre or VideóBank, which provides the personal banking experience mentioned earlier. The VideóBank service, introduced in 2012, has created a unique opportunity on the Hungarian market for customers to deal with a member of the Bank's staff in person, receive official banking documents and perform various banking transactions without travelling or standing in line.

In 2014, the Bank introduced the innovative GRÁNIT eBank service, which has been continuously developed since then for the convenience of customers. The award-winning mobile application not only makes day-to-day financial transactions faster and easier, but also more cost-effective and environmentally friendly, and helps the Bank to reduce costs for its customers. The application includes a number of innovative, security and convenience features. The new feature in 2015 was that customers would receive free iSMS messages after their transactions, instead of the previous SMS format.

Launched in 2016 as the first service of its kind to be introduced in Europe, GRÁNIT Pay is a new-generation mobile banking wallet, which is able to digitise a bank card in a few seconds, after which the NFC compatible Android phone can be used to pay at touch-pay enabled POS terminals.

Innovative digital solutions for customers to manage their finances

In the summer of 2018, for the first time in the Hungarian banking market, the GRÁNIT Bank's mobile banking application (GRÁNIT eBank) was extended to include a cost-analysing financial management function (My Finance), a function that until then had not been integrated into any mobile banking application. The module of eBank shows the expenditures and revenues, which are represented by the app's self-learning algorithm on charts, in a monthly breakdown, categorised by type.
Customers were able to block and unlock their card through the app before, as well as to set limits on card transactions (separately for purchases via a physical POS terminal, for ATM cash withdrawals and for online purchases), and in 2018 it became possible to launch payments and open term deposits through the app.
With these services, customers can effectively hold their personal bank branch in their hands via their smartphones, reflecting the Bank's slogan "My mobile is my branch". The application can be downloaded from the App store, the Android marketplace or the Google Play webshop. This solution is becoming more and more popular among customers, as the smartphone is effectively the new bank branch that can be accessed at the touch of a button without having to travel or queue, and through which customised solutions needed to achieve private or business goals are immediately accessible.

New additions in 2019 include, as part of the drive to expand digital functionality, the option of opening a securities account and purchasing government securities through VideóBank, which is also available via the internet banking system. Besides this, the Bank introduced a function enabling retail customers to apply for a "babaváró" loan online, and added ApplePay to its own GránitPay function.

All of these innovative solutions and services, tailored to suit customer needs, are a part of the "Bank of the Future Today" concept being implemented by GRÁNIT Bank.

4 The Bank Group applies a sustainable business model and conducts an increasingly wide range of CSR activities

The GRÁNIT Bank makes sustainable, cost-effective banking available to a wide range of consumers through new, high-tech digital solutions that are free for customers. The VideóBank, NetBank and eBank applications come as free basic functions with the account packages, and the chat function that is available in VideóBank helps people with disabilities to manage their finances. 100% digital, paperless bank-account and securities-account opening, purchase of government securities and requesting a "babaváró" loan enables a significant reduction in environmental impact.

In 2020, the Bank Group focused on supporting disadvantaged families and children affected by the pandemic, partly through the Bank's donations and partly through personal donations from Bank employees and partners. In addition to this, it also gave priority to financial education, while maintaining its support for culture and sporting activities as in previous years.
In cooperation with the Hungarian Ecumenical Aid Organisation, it donated HUF 4.78 million to support the people living in the Transition Home for Families between 16 March and 31 August 2020. With this support, the Aid Organisation was able to provide healthy and varied meals for around 200 people living in 5 transition homes.

In cooperation with the aid organisation, the employees of the Bank Group contributed to the Christmas gifts of a children's home in Kaposvár within the framework of 'Angyalprogram 2020' ('Angel Programme 2020'). The several hundred thousand forints collected from the employees' donations was used to buy toys and long-life food as part of the Ecumenical Aid Organisation's 'Szeretet éhség' ('Hunger for Love') programme.

To support financial education, the managers of the Bank Group participate each year as volunteers in its "Pénz7" (MoneyWeek) programmes for school financial education, as well as in regular university lectures to introduce young people to the latest banking trends and technologies.

The employees of the GRÁNIT Bank Group participated in the JÓTETT ('Good Deed') Bank programme of the Hungarian Banking Association by donating blood.

The Bank has been a major supporter of kayaking and canoeing for many years, including in both the competitive and recreational sports arena. The Chairperson

& CEO of the Bank, as the social chairperson of the Hungarian Water Polo Association, helps ensure the success of the sport.

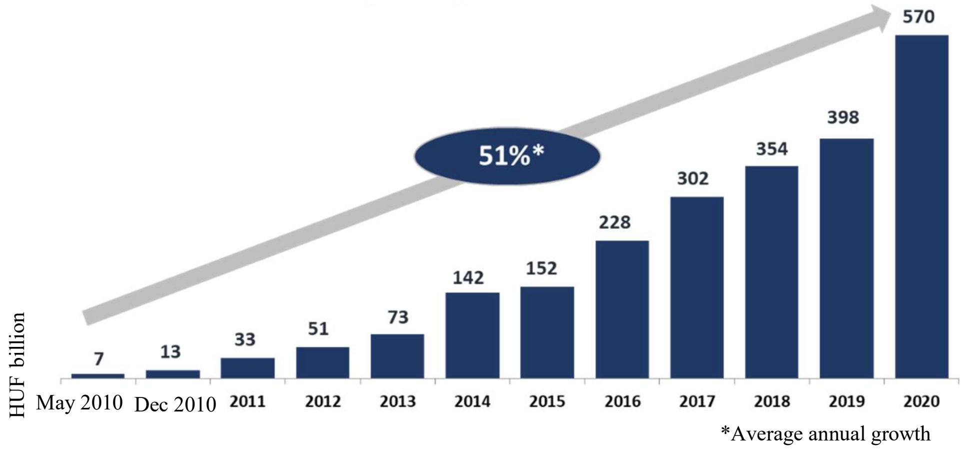
GRÁNIT Bank is continuously expanding its range of fully digitally accessible financial services, thereby offering a wide range of products that are considered "green" in international practice. As the financial institution with the smallest ecological footprint in Hungary, GRÁNIT Bank deservedly won the title of Sustainable Bank of the Year in 2020 in the relevant Mastercard competition category.

5 Report on business operations in 2020

In 2020, the Bank continued its bank-building process in line with the long-term strategy adopted by the General Meeting. As a result of the growth in business activity, the Bank Group's balance sheet total exceeded HUF 570 billion by the end of 2020, a 43% increase compared to the previous year.

GRÁNIT Bank broke into profit in 2014, its fourth full business year, as a result of the capital investments it had made until then and the building of an excellent portfolio. In 2020, the Bank Group achieved a pre-tax profit of HUF 1,978 million, which was 44% higher than the previous year's profit.

Balance sheet total 2010-2020



The GRÁNIT Bank Group closed its tenth full business year with outstanding results

Total deposits at the Bank Group increased by 16% compared to the previous year, exceeding HUF 347 billion. Customer savings held at the Bank (deposits and government securities) exceeded HUF 400 billion, which was 16% higher than at the end of the previous year.

The Bank Group's total exposure (credit, bonds, guarantees) exceeded HUF 247 billion, 25% up from the end of the preceding year. Within the corporate loan portfolio, the share of loans of the SME sector was 55% as at the end of 2020. The quality of the portfolio remains excellent: the ratio of performing loans is 99.97%, principally as a result of the Bank's continuous conservative lending policy.

The Bank's customer base continued to grow dynamically in 2020, as a result of the continued premium level of customer service, continuous innovation, online services that were fully available throughout the pandemic as well, and its effective marketing communication activities. The satisfaction of customers and growing awareness of the Bank have helped to drive the dynamic growth in the number of customers. The key role of digital platforms in raising awareness of the Bank is extremely important in terms of strategy, and this is also reflected in our marketing presence: although last year the Bank was featured on TV, radio and in print media, customer feedback surveys show that nearly three quarters of retail customers first encountered the Bank online and then became customers through online transactions. More than 70% of customers opened their account with GRÁNIT Bank in 2020 in a completely digital way.

70% of retail customers initiated the opening of their account online

It is important to highlight that satisfied customers are also helping to grow the customer base, since one third of new customers say they chose the Bank as a result of a recommendation from an existing GRÁNIT Bank customer.

In 2020, GRÁNIT Bank was among the winners in five categories of Mastercard's Bank of the Year 2020 competition, the most prestigious competition for banks in Hungary. The independent jury awarded GRÁNIT Bank the title of Premium Banking Service of the Year and Sustainable Bank of the Year, and GRÁNIT Bank was also named the Most Innovative Bank of the Year, sharing the title with OTP Bank. It also won 2nd place in both the Socially Responsible Bank of the Year and Digital Banking Service of the Year categories. In justifying the awards, it was highlighted that the Bank differentiates itself from its competitors through continuous innovation and premium solutions that provide an outstanding customer experience.

In 2020, the Bank's performance was acknowledged through five awards

The Bank has achieved outstanding performance in facilitating the MNB's FGS Go! programme launched in 2020, by placing the highest number of loans under the MNB's scheme in the 2 months following its launch, for which it was the first to receive the FGS Go! Excellence Award from the National Bank of Hungary.

In the autumn of 2020, the Bank launched a powerful, integrated campaign to present its innovative solutions and tailored services to customers, with the help of swimmer László Cseh and television personality Luca Stohl, creating the "Because it's convenient" communication platform. The image-promoting TV advertisement was complemented by product-specific radio spots and banners, and the emphasis on online communication, of course, remained strong.

5.1 The Bank Group's key financial indicators

At the end of December 2020, the Bank Group's balance sheet total had reached HUF 570.4 billion, which is 43% higher than the balance sheet total at the end of 2019.

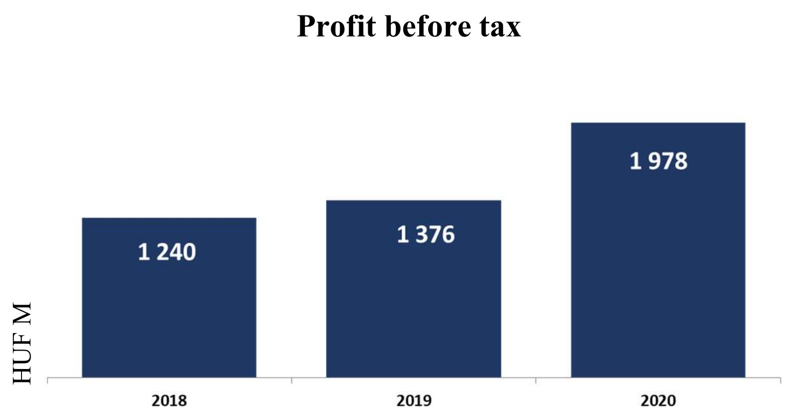
The Bank Group's equity as at 31 December 2020 was HUF 20.7 billion, which is 42% higher than at the end of the previous year.

Balance Sheet, Profit (HUF million)	Change

Mérleg, Eredmény (millió HUF)	2019	2020	Változás
Balance sheet total	398 037	570 429	143%
Loans and advances to customers	167 048	192 815	115%
Customer deposits	298 813	347 102	116%
Equity	14 539	20 652	142%
Regulatory capital	17 426	24 419	140%
Profit before tax	1 376	1 978	144%
Profit after tax	1 118	1 617	145%

The balance sheet total of the Bank Group exceeded HUF 570 billion

The Bank Group achieved a pre-tax profit of HUF 1,978 million and an after-tax profit of HUF 1,617 million in 2020, which is 44% higher than the previous year's pre-tax profit of HUF 1,376 million and after-tax profit of HUF 1,118 million.



In its seventh profitable business year, the Bank Group achieved a pre-tax profit of HUF 1,978 million

International experience shows that 6-8 years are usually required following launch to reach the profit-generating phase, and so it can be regarded as an exceptional achievement that GRÁNIT Bank was already operating profitably by its fourth full year of business. This exceptional result was due to the excellent quality of its portfolio and of its cost-effective digital business model.

Indicators	2019	2020	Change
EPS (earnings per share)	132	144	109%
CIR (cost/income ratio)	73,8%	68,4%	93%
ROAA (return on average assets)	0,3%	0,4%	130%
ROAE (return on average equity)	8,1%	10,3%	128%
Non-performing loan ratio	0,0%	0,0%	0%

The Bank also ensured the fulfilment of the capital adequacy ratios specified in the legal conditions during 2020, with its Total Capital Adequacy Ratio being 13.3% as of 31 December 2020.

The financial indicators of the Bank Group again developed favourably in 2020

Capital adequacy	2019	2020
Total capital adequacy ratio	12,4%	13,3%

The number of employees of the Bank Group increased by 16 to 155 in 2020, in line with the significant growth in business activity, with a 25% increase in the asset portfolio and a 16% increase in deposits.

Staff numbers (persons)	2019	2020	Change
Number of persons on the payroll	139	155	112%

5.2 Liabilities

The Bank Group was able to continuously provide favourable offers to its customers even in the low interest-rate environment, and so the deposit portfolio increased by 16% by the end of 2020 compared to the end of 2019, thus exceeding HUF 347 billion. The average annual growth in deposits was 49% between the time of the Bank's foundation and the end of the reporting period. Customer savings held at the Bank (deposits and retail government securities) exceeded HUF 401 billion, which was 16% higher than at the end of the previous year.

The Bank Group has significant refinancing on the liabilities side as a result of the intermediation of refinanced facilities.

The loan-to-deposit ratio was 50%, making GRÁNIT Bank one of the most liquid banks in Hungary

Overall, the Bank remains Hungary's most liquid bank, with a loan-to-deposit ratio of around 50%, and loans are financed in a diversified funding structure.

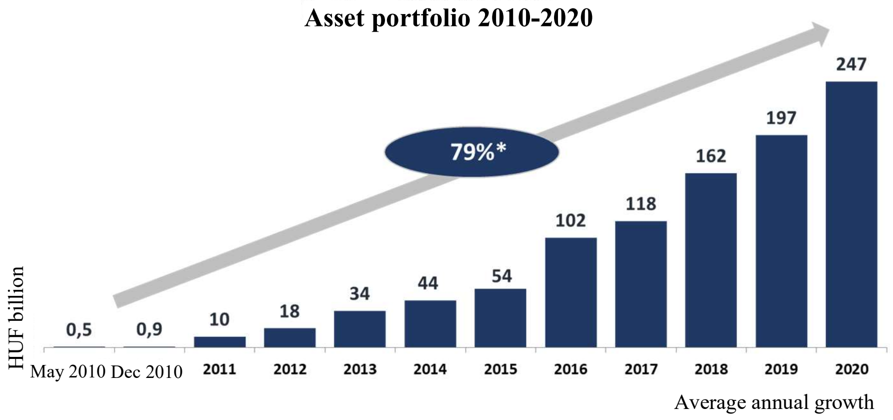
5.3 Receivables

On the asset side, in 2020 the Bank continued to hold substantial liquid assets – central-bank and interbank deposits, government securities – in line with its prudent and conservative business policy. The share of debt securities in the balance sheet at the end of 2020 is 28%.

5.4 Lending

The Bank Group's receivables from customers (loans and corporate bonds) exceeded HUF 247 billion at the end of 2020, which was 25% higher than the previous year-end figure. The annual average growth in the portfolio from the Bank's foundation to the end of the reporting period was 79%.

The Bank Group's loan portfolio is growing steadily every year, while the quality of the portfolio is constantly excellent



The quality of the portfolio is excellent, and the Bank Group's asset portfolio is 99.97% problem-free. In 2020, the Bank Group recognised impairment of HUF 109 million in accordance with IFRS 9, which is the result of the expected-loss-based impairment methodology that forms the basis of the IFRS standard. The outstanding portfolio quality is due to the Bank's highly regulated and conservative risk-taking policies and practices.

The Bank is an active participant in the MNB's Funding for Growth Scheme (FGS) and Bond Funding for Growth Scheme (BGS), besides which the Bank offers a full range of lending products, from plain vanilla loans to complex financing facilities, in accordance with their needs.

5.5 Treasury

During the year, Treasury grew its business activity further while ensuring stable liquidity management remained a priority.

On the assets side, in parallel with the increase in loans, part of the asset-side activity of the balance sheet was managed by Treasury using money and capital market instruments. As part of this, the profit generated during the management of the securities portfolio contributed favourably to the Bank Group's annual result.

During the year, the number of clients who entered into spot and forward foreign exchange (hedging) transactions at individual prices with the Bank's Treasury department grew further.

The Treasury also successfully used the MNB's changing set of tools in the management of the Bank Group's liquidity, exchange rate risk and interest rate risk, thus contributing significantly to the Bank Group's positive net earnings figure.

5.6 Risk management

The management of the Bank Group considers risk management to be key in terms of protecting depositors, operating profitably over the long term and thus increasing shareholder value. In its risk management standards, the Bank Group

has taken a very conservative approach since its inception. One of the most important elements of the risk management policy is that there is virtually no purely collateral-based lending; all customers must primarily fund their loan repayments from cashflow, although in all cases the Bank Group tries to minimise credit risk by requesting additional collateral.
The primary objective of risk management is to protect the financial strength and reputation of the Bank Group, to contribute to the use of capital for competitive business activities, and thereby to increase shareholder value.

Prudent risk management is one of the key pillars of the Bank's business philosophy

In its risk management system the Bank Group identifies, measures and analyses the various types of risk exposure of the Bank Group. During the process of risk management, the Bank Group processes the information, analyses the portfolio, formulates risk-taking rules, maintains a limit system, and operates the daily processes involved in risk management.
In the multi-stage business decision-making process for loan transactions, a thorough assessment is made of the macroeconomic environment, the customer's activity and the specified objective of the loan. In the course of this, the Bank Group pays special attention to providing financial instruments for the objectives of companies that, through their stable and efficient operation, create value for themselves and the economy as a whole.

Credit risk is the risk that the Bank Group will incur a loss due to the failure of the debtor, customer or partner to fulfil its contractual obligations to the bank. Before assuming credit risk, the Bank Group rates the creditworthiness of its customers and partners and classifies them into debtor and counterparty rating categories. Risks can only be undertaken with respect to customers of a suitable rating. The Bank Group regularly monitors the creditworthiness of customers and partners.

The Bank Group applies strict regulations regarding the range of eligible collaterals, the method used for their valuation and to collateral ratios. It uses a wide range of collateral to reduce risk, in particular loan guarantees, cash collateral, securities collateral, payment guarantees, mortgages, and pledges established on receivables and/or movable assets.

The Bank Group uses benchmark-based pricing or offers fixed interest-period schemes. As part of this process, in the case of self-funded loans the Bank applies regularly repriced, margin-based interest rates tied to a market reference rate and adjusted to the currency of the loan, in a manner that is transparent for the customer. For refinanced products, the Bank also minimises its interest rate risk. In the case of fixed interest rate schemes, the interest rate risk is covered by the Bank.
Market Risk Management works with the business departments to oversee the entire portfolio in terms of the matching of the repricing periods of liabilities and assets.

Ensuring liquidity is an essential element of the Bank Group's activity. The Bank Group ensures its liquidity by matching the maturities of its receivables and liabilities, and at the same time, while maintaining solvency at all times, it performs limit-restricted maturity transformations to help ensure the Bank's profitability.

The Bank Group aims to keep foreign exchange risk low, in line with both strategic and short-term business objectives. Depending on market conditions, open foreign exchange positions arising in the course of business are, wherever possible, hedged immediately.

The assessment of asset and liability matching is performed separately for each currency, to ensure the maintenance of matching by currency.

The Bank Group's trading book typically contains transactions aimed at the management of liquidity, the servicing of partner banks and customers and the conclusion of hedging transactions, primarily with spot FX and securities transactions and currency forwards.

Owing to its conservative product policy, at present the Bank does not deal in high-leverage options or volatile commodity and precious metal trades.

In the course of the risk management of liquid-market transactions, as a part of the limit system the partner bank and customer limits, margin requirements, decision-making levels and limits, and market variable-based exposure rates, are all regulated.

The objective of operational risk management is to support efforts to keep operating costs low, and to promote efficient organisational operation. The Bank primarily manages operational risks, concentrating on prevention, through the establishment of suitable internal regulations and procedures, the appropriate training of employees participating in the work processes, and the provision of built-in control mechanisms.

Measurement of the levels of risk takes place through the continuous gathering of data on events that occur, and regular self-assessments based on forward-looking estimates made at the level of the individual departments. These surveys outline the patterns in the distribution of the events, thereby helping to identify the areas where intervention is necessary. The process is supported by a network of operational risk officers appointed in each department of the organisation.

5.7 Income statement

The Bank Group closed 2020 with an after-tax profit of HUF 1,617 million.

The after-tax profit of the Bank Group was HUF 1,617 million, 45% higher than the previous year's profit

The net operating profit of HUF 8,449 million was 29%, or HUF 1,877 million, higher than in 2019, with the difference down to the net income generated by the growing business portfolio and the active use of banking services among customers. Within this, net interest income increased by 61%.

The increase in operating expenses was due to the growth in business activity, the implementation of digital innovations and to more intensive marketing activity, as well as to the increasing depreciation recorded on capital investments.

The net business profit of the Bank Group increased by 30%

Income statement (HUF million)	2019	2020	Change
NET BUSINESS PROFIT	**6 572**	**8 449**	**129%**
Net interest income	3 104	4 987	161%
Net fee and commission income	1 747	1 730	99%
Other profit	-367	-597	163%
Risk costs	23	-98	-426%
NET OPERATING PROFIT	**6 229**	**7 754**	**124%**
Other costs	-4 853	-5 776	119%
PROFIT BEFORE TAX	**1 376**	**1 978**	**144%**
Income taxes	-258	-361	140%
PROFIT AFTER TAX	**1 118**	**1 617**	**145%**

5.8 Significant events after the balance sheet date

No material events have occurred since the closure of the balance sheet.

6 Overview of the Bank Group's business plan for 2021

The results of the last ten and a half years have confirmed that the implementation of the conservative portfolio building and digital banking strategy launched by the Bank Group in 2010 has been successful, and that the business model has been well received by customers. Accordingly, in the 2021 business year the Bank Group will continue its business operations in accordance with the approved 10-year strategic plan. The most important objective is to increase shareholder value through sustainable, balanced business and profit growth over the long term. Along with the digital strategy already launched, the Bank Group will continue to strengthen its market role, and increase its market share and its recognition.

The Bank Group continues to expect significant business expansion in 2021, similar to the performance of the previous period. This growth will be accompanied by a further increase in cost efficiency. The plan is to build a conservative loan portfolio by providing the appropriate stable resources and taking advantage of the available guarantee facilities. The Bank Group plans to grow significantly above the market average, both in terms of customer loans and customer deposits. In addition to lending, the increase in customer numbers will also be driven by the growing awareness of the Bank among the public and through the constant development and launch of innovative new services. In 2020 the Bank won a non-refundable grant within the framework of the "Support for Market-Driven R&D and Innovation Projects (2019-1.1.1-MARKET RDI)" tender, with its development concept for "A Progressive Payment Solution Focusing on Bulk Invoice Issuers", the implementation of which is continuing into 2021.
In 2021, in addition to portfolio building, the Bank Group plans to implement developments that require more resources than before, in order to expand its

business opportunities.
The Bank Group’s operations and results in 2021 will, whatever the case, be affected by the measures introduced due to the pandemic referred to above and by the uncertainties of economic growth. Bank Group has implemented an entirely digital model, meaning that the servicing of customers runs smoothly even in emergencies, and more than 80% of banking procedures can be performed from home, and thus in the current situation the digital business model is more valuable than ever. The Bank Group is continuously monitoring changes in its customers’ financial situation and, in accordance with government and MNB measures, is working hard to serve the changing needs of customers and play an active role in countering the negative economic effects of the epidemic and in restarting the economy.

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Board of Directors of GRÁNIT Bank Zrt.

GRÁNIT BANK PRIVATE LIMITED COMPANY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
AS ADOPTED BY THE EUROPEAN UNION

31 DECEMBER 2020

WITH AN INDEPENDENT AUDITOR'S REPORT

Contents

CONSOLIDATED INCOME STATEMENT

Data in HUF millions

Item	Ann.	2020	2019
Interest income based on the effective interest method		7,814	5,483
Other interest income		1,247	700
Interest income		**9,061**	**6,183**
Interest expense based on the effective interest method		2,756	2,022
Other interest expense		1,318	1,057
Interest expense		**4,074**	**3,079**
Net interest income	**4**	**4,987**	**3,104**
Fee and commission income		2,214	2,044
Fee and commission expense		484	297
Net fee and commission income	**5**	**1,730**	**1,747**
Net profit from financial instruments measured at fair value through profit or loss	6	947	1,383
Net profit from financial instruments not classified as measured at fair value through profit or loss	7	37	0
Profit from FX transactions		748	337
Dividend income	8	0	1
NET BUSINESS PROFIT		**8,449**	**6,572**
Other operating income	9	93	95
- of which: Net profit from the derecognition of non-financial assets		0	1
Other expenses	9	598	462
- of which: Net loss from the derecognition of non-financial assets		6	0
(Impairment on non-financial assets)		0	0
Credit loss and profit	10	109	-22
- of which: Impairment or reversal of impairment (-) on financial assets		109	-22
Provisioning or (-) release of provisions		-11	-1
Profit/loss (-) on changes, net		-92	0
NET OPERATING PROFIT		**7,754**	**6,229**
Personnel expenses	11	1,848	1,679
Other general administrative costs	12	3,457	2,871
Depreciation		471	303
PROFIT BEFORE TAX		**1,978**	**1,376**
Income taxes	13	361	258
PROFIT AFTER TAX		**1,617**	**1,118**
Share of parent company's owners in profit after tax		**1,617**	**1,110**
Share of non-controlling owners in profit after tax		**0**	**8**

The Board of Directors approved the consolidated financial statements on 06.05.2021.

Éva Hegedűs — Chairperson & CEO

Jenő Siklós — Deputy CEO

CONSOLIDATED OTHER COMPREHENSIVE INCOME STATEMENT

Data in HUF millions

Other comprehensive income statement	**Ann.**	**2020**	**2019**
Profit after tax		**1,617**	**1,118**
Profit/loss from change in fair value		105	91
Deferred-tax effect of change in fair value		-3	-10
Change in impairment on debt securities measured at fair value through other comprehensive income		2	0
Items to be reclassified to profit or loss subsequently:		**104**	**81**
TOTAL OTHER COMPREHENSIVE INCOME		**104**	**81**
TOTAL COMPREHENSIVE INCOME		**1,721**	**1,199**
Share of parent company's owners in comprehensive income		**1,721**	**1,191**
Share of non-controlling owners in comprehensive income		**0**	**8**

The Board of Directors approved the consolidated financial statements on 06.05.2021.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

CONSOLIDATED BALANCE SHEET

Data in HUF millions

Item	Ann.	31.12.2020	31.12.2019
Assets			
Liquid assets and equivalent	14	21,288	8,846
Receivables from the MNB	15	185,900	96,525
Interbank placements	15	30	35,972
Securities	16.1 9	164,313	84,952
- of which:			
Held-for-trading securities		81	36,630
securities measured obligatorily at fair value through profit or loss, not held for trading		774	49
Securities designated as measured at fair value through profit or loss		36,150	35,222
Securities measured at fair value through other comprehensive income		31,626	8,779
Securities measured at amortised cost		95,682	4,272
Derivative financial assets	17	1,778	1,751
- of which:			
Held-for-trading derivative financial assets		1,682	1,642
Derivative financial assets held, from an economic point of view, for hedging purposes		96	108
Loans and advances to customers	18.1 9	192,815	167,048
- of which:			
Customer loans held for trading		3,334	5,060
Customer receivables measured obligatorily at fair value through profit or loss, not for trading		4,295	1,606
Customer loans designated as measured at fair value through profit or loss		14,518	17,540
Customer loans measured at amortised cost		170,668	142,842
Other assets	25	2,005	1,335
Intangible assets	26	1,378	796
Tangible assets	27	874	668
Deferred tax receivables	28	48	144
TOTAL ASSETS		**570,429**	**398,037**

CONSOLIDATED BALANCE SHEET (continued)

Liabilities **Item**	**Ann.**	**31.12.2020**	**31.12.2019**
Liabilities to credit institutions	20	17,023	48,072
- of which:			
Financial liabilities designated as measured at fair value through profit or loss		48	72
Financial liabilities measured at amortised cost		16,975	48,000
Liabilities to customers	21	347,102	298,813
Derivative financial liabilities	17	828	1,115
- of which:			
Held-for-trading derivative financial liabilities		373	374
Derivative financial liabilities held, from an economic point of view, for hedging purposes		455	741
Issued bonds	22	5,252	5,252
Income tax payment liability		81	26
Deferred tax liability	28	0	0
Provisions	29	14	25
Other liabilities	30	2,020	1,845
TOTAL LIABILITIES		**549,778**	**383,498**
Equity			
Subscribed capital		11,247	8,494
Capital reserve		6,037	4,477
Treasury stock		0	-1,344
Profit reserve		2,665	1,065
Reserve for share-based payment transactions settled in equity instruments		70	139
Other reserves		561	397
Cumulative other comprehensive income (OCI)		71	-33
Non-controlling interests	38	0	1,344
TOTAL EQUITY		20,651	14,539
Liabilities and equity		**570,429**	**398,037**

The Board of Directors approved the consolidated financial statements on 06.05.2021.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

CHANGE IN CONSOLIDATED EQUITY

Data in HUF millions

	Subscribed capital	Capital reserve	Treasury stock	Cumulative other comprehensive income	Profit reserve	Other reserves	Reserve for share-based payment transactions settled in equity instruments	Share of non-controlling owners	Total
Balance at end of period – 01.01.2020	8,494	4,477	-1,344	-33	1,065	397	139	1,344	14,539
Other transfer					148		-139	0	9
Profit after tax	0	0		0	1,617	0	0	0	1,617
Other comprehensive income	0	0		104	0	0	0	0	104
Total comprehensive income	0	0		104	1,617	0	0	0	1,721
Transactions with owners	953	450		0	0	0	0	0	1,403
Employee Stock Ownership Plan	1,799	1,110	1,344	0	0	0	70	-1,344	2,979
Transfer of general reserve	0	0		0	-165	165	0	0	0
Balance at end of period – 31.12.2020	**11,247**	**6,037**	**0**	**71**	**2,665**	**561**	**70**	**0**	**20,651**

	Subscrit ed capital	Capital reserve	Treasury stock	Cumulativ e other comprehei sive income	Profit reserve	Other reserves	Reserve for share-based payment transactions settled in equity instruments	Share of non· controlling owners	Total
Balance at start of period – 01.01.2019	8,494	4,477	-1,344	-101	51	280	92	1,344	13,293
Other transfer			0	-13	13		0	0	0
Profit after tax	0	0	0	0	1,118	0	0	0	1,118
Other comprehensive income	0	0	0	81	0	0	0	0	81
Total comprehensive income	0	0	0	68	1,131	0	0	0	1,199
Transactions with owners	0	0	0	0	0	0	0	0	0
Employee Stock Ownership Plan	0	0	0	0	0	0	47	0	47
Transfer of general reserve	0	0		0	-117	117	0	0	0
Balance at end of period – 31.12.2019	**8,494**	**4,477**	**-1,344**	**-33**	**1,065**	**397**	**139**	**1,344**	**14,539**

The Board of Directors approved the consolidated financial statements on 06.05.2021.

Éva Hegedűs: Jenő Siklós
Chairperson & CEO Deputy CEO

CONSOLIDATED CASH FLOW STATEMENT

Data in HUF millions

	Ann.	2020	2019
Profit before tax		**1,978**	**1,376**
Modifying items			
Interest income	4	-9,061	-6,183
Interest expense	4	4,073	3,079
Impairment of tangible assets, and intangible assets		-471	-303
Net realised profit on the sale of tangible assets		-6	1
Impairment on debt securities, loans and other assets not measured through profit or loss		-212	22
Change in provisions		11	1
Non-realised profit from financial instruments measured at fair value through profit or loss	6	-837	580
Deferred tax	29	-93	-63
Change in ESOP benefit plan reserve	35	70	46
Change in the revaluation difference of financial instruments measured at fair value through other comprehensive income		104	79
Cash flow from pre-tax operating income before change in operating assets and liabilities		**-4,445**	**-1,365**
Change in held-for-trading debt securities	17	35,855	-20,820
Change in debt securities designated as measured at fair value through profit or loss	17	-126	10,291
Change in receivables from the MNB and other credit institutions	16	-53,277	-9,148
	19		-
Change in loans and advances to customers		-24,429	24,402
Change in other assets	26	579	191
			-
Change in operating assets		**-41,399**	**43,888**
Change in liabilities to the MNB and credit institutions	21	118,055	38,769
Change in liabilities to customers	22	48,270	3,675
Change in other liabilities	31	289	1,070
Change in operating liabilities		**166,614**	**43,514**
Change in derivative transactions	18	-282	-316
Interest received		7,340	4 823
Interest paid		-4,274	-3,149
Income tax paid		-267	-195
Net cash flow from operating activities		**127,73[illegible]**	**789**

CONSOLIDATED CASH FLOW STATEMENT (continued)

Data in HUF millions

	Ann.	2020	2019
Purchase of debt securities measured at fair value through other comprehensive income	17	-42,791	-21,143
Income from the sale or maturity of debt securities measured at fair value through other comprehensive income	17	20,131	21,761
Purchase of debt securities held at amortised cost	17	-91,397	0
Income from the sale or principal repayment of debt securities held at amortised cost	17	290	861
Purchase of tangible assets	29	-547	-705
Sale of tangible assets	29	-6	6
Acquisition of intangible assets	28	-838	-278
Income from the sale of intangible assets		0	4
Dividend received		0	1
Net cash flow from investment activities		**15,158**	**507**
Net cash flow from financing activities			
Issue of shares	33	2,752	0
Non-share capital contribution by shareholders	33	1,560	0
Net cash flow from financing activities		**4,312**	**0**
Currency revaluation difference of liquid assets		0	0
Net increase/decrease in liquid assets		**12,442**	**-69**
Liquid assets at the beginning of the year	15	8,846	8,915
Liquid assets at the end of the year	15	21,288	8,846

Liquid assets components		**2020**	**2019**
Cash	15	368	569
Account receivables from central banks	15	6,574	2,342
Other demand deposits	15	14,346	5,935
Total		**21,288**	**8,846**

DETAILS OF CONSOLIDATED CASH FLOW FROM FINANCING ACTIVITIES

	Subscribed capital	Capital reserve	Issued bond	Supplementary payment
Liabilities related to financing activities 01.01.2019	**8,494**	**4,477**	**5,250**	**0**
Capital raise	0	0	0	0
Bond issue	0	0	0	0
Repayment of supplementary payment	0	0	0	0
Liabilities related to financing activities 31.12.2019	**8,494**	**4,477**	**5,250**	**0**
Capital raise	2,752	1,560	0	0
Bond issue	0	0	0	0
Repayment of supplementary payment	0	0	0	0
Liabilities related to financing activities 12.31.2020	**11,247**	**6,037**	**5,250**	**0**

The Board of Directors approved the consolidated financial statements on 06.05.2021.

Éva Hegedűs
Chairperson & CEO

Jenő Siklós
Deputy CEO

1. GENERAL INFORMATION

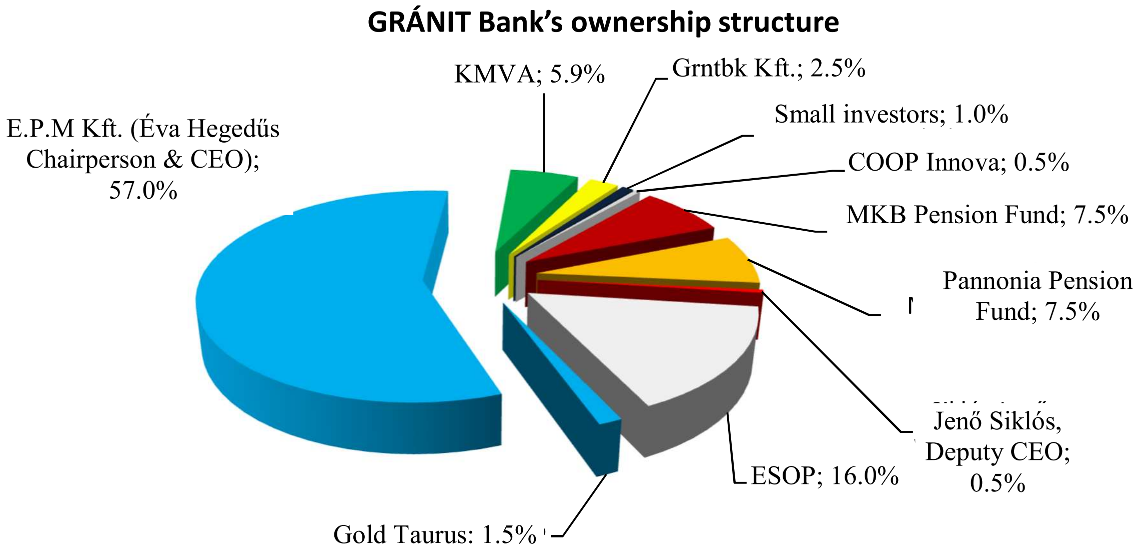
Date of establishment

GRÁNIT BANK ("Bank") is a commercial bank operating as a private limited company incorporated in Hungary, established on 25 September 1985 under the name Általános Vállalkozási Bank Rt.
Following several changes of ownership, as the legal successor of the previous banks, the Bank has, since 20 May 2010, been trading under the name GRÁNIT Bank Zrt.
The company's registered office: 1095 Budapest, Lechner Ödön fasor 8.
Company court registration number: 01-10-041028
Website: www.granitbank.hu

Range of activities

The Bank is entitled to offer financial and supplementary financial services as listed in Section 3 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises.
The National Bank of Hungary issued a foreign-exchange authority licence to the Bank on 20 July 1994, in which it authorised the Bank to provide financial services in foreign currency.
Since 17 April 2000, based on resolution 41031-4/1999 of the Hungarian Financial Supervisory Authority (MNB), the Bank has been engaged in universal banking activities.

Ownership structure



*ESOP – GRÁNIT Bank ESOP Entity

Shareholders with majority influence in the Bank Group

E.P.M. Kft. Registered office: 1034 Budapest, Testvérhegyi út 56-58 direct ownership (Ultimate controlling party: Éva Hegedűs, Chairperson & CEO), voting rate: 73.98%
Gold Taurus Investment Vagyonkezelő Kft. Registered office: 1066 Budapest, Ó utca 6. 4. em. 2.(Ultimate controlling party: Éva Hegedűs, Chairperson & CEO), voting rate: 4.24%
E.P.M. Kft. total direct and indirect (Ultimate controlling party: Éva Hegedűs, Chairperson & CEO), **voting rate: 78.22%**

Companies included in the consolidated financial statements as subsidiaries

GRÁNIT Bank ESOP Entity
GB Solutions Zrt.

Persons authorised to sign the consolidated annual financial statements of the Bank Group

Éva Hegedüs (Chairperson & CEO)
1037 Budapest, Testvérhegyi út 56-58.

Jenő Siklós (Deputy CEO)

2481 Velence, Muskotály u. 1.

Members of the Bank's Board of Directors and Supervisory Board

Board of Directors	**Supervisory Board**
Éva Hegedüs (Chairperson & CEO)	Sándor Nyúl (Chairperson)
Jenő Siklós (Deputy CEO)	János Vokony
Zoltán Nagy (Deputy CEO)	Gyuláné Lajtos
László Hankiss (Deputy CEO)	
Gergely Domonkos Horváth	

2. SIGNIFICANT AND UNUSUAL EVENTS THAT OCCURRED DURING THE YEAR

Economic measures related to the coronavirus (COVID-19)

On 11 March 2020, the Government of Hungary ("government") declared a state of emergency in relation to the coronavirus and, still in March, issued a decree to mitigate the economic impact of the epidemic. As a result, the following measures were taken:

- the government ordered a moratorium on repayments for corporate and retail customers and set an APR ceiling for new personal loans disbursed during the emergency,
- the MNB recommended that the approval and payment of dividends by banks be postponed until the end of September,
- the MNB decided to ease capital adequacy requirements,
- the MNB introduced liquidity expansion measures affecting large-corporate loans.

In April and early May, the MNB announced further economy-boosting measures, such as:

- the further easing of capital adequacy requirements,
- liquidity expansion measures (MNB one-week deposit tender, "FGS Go!" as a new pillar of the Funding for Growth Scheme, modification of the existing Bond Funding for Growth Scheme)
- interest rate policy decisions.

In April, in the context of a fundamental restructuring of the budget, the government set up the Epidemic Control Fund, to which the financial sector will have to contribute HUF 55 billion in the form of a special tax on banks. The amount of the special tax paid by banks may be deducted in equal instalments from the normal bank tax over the next 5 years.

On 18 June 2020, the law on the lifting of the state of emergency in Hungary entered into force. On 27 July 2020, the MNB set minimum requirements for the calculation of impairment levels, at the same time also making its prudential requirements regarding impairment more flexible, by amending its executive circular on macroeconomic information and credit risk standards under IFRS 9. Credit-institution market participants will be able to enforce the amendments from 27 July until the end of next year at the latest, to mitigate the impact of the emergency situation related to the coronavirus. One change is that, in the case of instances of restructuring that go beyond the repayment moratorium – for a transitional period until the end of next year at the latest – banks may refrain from assessing the restructuring as an indication of a significant increase in credit risk, if the institution makes its decision on the grounds that both the debtor's financial difficulties and the restructuring intended to address them are temporary.

On 19 December 2020, the Government announced that the moratorium on loan repayments for families and businesses will be extended unchanged for six months, until 1 July. The moratorium will take effect automatically, and only those who still wish to make repayments will need to contact their bank.

3. ACCOUNTING POLICY

Name of person responsible for compiling the IFRS statements: Jenő Siklós (registration number: 133130),

3.1. Basis for preparing the statements

The Bank's financial statements were prepared on a cost value basis, except for the following essential elements:

Items	Basis for measurement
Financial instruments measured at fair value through profit or loss	Fair value
Financial assets measured at fair value through other comprehensive income	Fair value

The Bank keeps its accounting records and compiles its ledger in accordance with the provisions of commercial banking and financial legislation in force in Hungary. The Bank's books are kept in Hungarian forint ("HUF"). Unless otherwise stated, balances are shown in million forints ("million HUF").

Declaration of conformity

As from 1 January 2018, the Bank uses IFRSs for statutory purposes instead of the Hungarian accounting standards (the date of transition is therefore 1 January 2017).
This financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS) and all rules thereunder as applicable and adopted by the EU.
Besides this financial statement, the Bank prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and all rules thereunder as applicable and adopted by the EU.
The Bank's stand-alone and consolidated statements are approved and published on the same day.

3.2. Estimates

In some cases, the management needs to make significant estimates or assumptions when preparing the financial statements under IFRS. These significant estimates and assumptions affect the value of assets and liabilities, and of income and expense, shown in the financial statements, as well as the presentation of contingent assets and liabilities presented in the Notes to the accounts. Actual results may differ from estimated data.

Estimates and related assumptions are based on past experience and other factors considered relevant. Accounting estimates and the underlying assumptions are reviewed by the Bank on an annual basis. Changes to accounting estimates are recognised by the Bank during the period of the respective change.

The Bank discloses the nature and amount of changes in accounting estimates that have an impact on the current period or are expected to have an impact on future periods, except for the effect on future periods in cases when making an advance estimate is impossible. If the amount of an impact on future periods is not disclosed because an estimate cannot be made, the Bank must disclose this fact.

Future changes in the economic environment, financial strategy, regulatory environment, accounting regulations, and other areas may result in changes in estimates that may have a significant impact on future financial statements.

The most important estimates and assumptions that have an impact on the Bank's report:

- Classification of financial assets: assessment of the exclusive principal and interest requirement pertaining to the characteristics of the business model and the contractual cash flows (see Section 2.7.1 for details)
- Impairment on financial assets (see Sections 2.7.3 and 38.6.1 for details)

- Determination of the fair value of financial instruments in cases where the fair value of a financial instrument is determined by the Bank on the basis of significant unobservable inputs (see Note 24 for more details).
- Determination of the fair value of derivative transactions in cases where the fair value of a financial instrument is determined by the Bank on the basis of significant non-market inputs (see Note 6 for more details).
- Determination of deferred tax receivables: assessment with respect to the attainment of future taxable profit (see Section 2.6.15 for details).
- Provisioning: estimation of the likelihood or extent of liabilities arising from a past event (see Section 2.6.11 for details).
- The economic loss recognised as a result of the moratorium on payments due to Covid-19 (see paragraph 2.5.11 for details).

3.3. Currency translation

The functional currency of the Bank is Hungarian forint (HUF). **The Bank presents its financial statements in Hungarian forints rounded to the nearest million.**

The Bank records its foreign currency held on account and in cash, as well as its receivables and liabilities in foreign currencies, at the time of acquisition or generation, in the respective currency, and also records them in forint at the MNB's prevailing mid foreign exchange rate.

The Bank revalues its foreign currency held on account and in cash, as well as its receivables and liabilities denominated in foreign currencies, once a month, at the MNB's prevailing mid foreign exchange rate.

The Bank recognises the profit from revaluation in its end-of-month and end-of-year financial statements in the Profit or loss from FX transactions line, except for the foreign currency exchange rate difference related to financial instruments measured at fair value through profit or loss, which is recorded in the Profit or loss from changes in fair value of financial instruments line.

Realised exchange rate differences arise when the transactions are settled, if the rates at acquisition and settlement differ. The resulting exchange rate gain or loss is usually recognised in profit after tax. Exceptions are investments in proprietary equity instruments for which, at the time of initial recognition, the Bank has made an irrevocable decision to measure them at fair value through other comprehensive income (FVOCI), in the case of which the exchange rate difference is recognised in other comprehensive income.

In the case of financial assets measured at fair value through other comprehensive income (FVOCI), the Bank recognises the exchange rate difference against their amortised cost through profit or loss, in the Profit from FX transactions line, and other changes in book value are recognised through other comprehensive income.

3.4. Subsequent events

Events occurring after the end of the reporting period that provide additional information on circumstances existing at the end of the Bank's reporting period (Modifying items) are presented in the financial statements. Events after the reporting period that do not affect the data of the financial statements are presented in the Notes to the accounts if they are material.

If the Bank determines the dividend payable to its owners after the balance sheet date; this dividend is not presented as a liability at the balance sheet date. Such dividend is disclosed by the Bank in the Notes to the accounts if it has been determined after the balance sheet date but before the financial statements are approved for publication.

3.5. Income Statement

3.5.1. Interests
Effective interest rate

The Bank determines interest income and interest expense using the effective interest method and recognises them in profit or loss. The effective interest rate is the rate at which the estimated future cash flows over the term of the financial asset or financial liability can be discounted:

- in the case of financial assets, to the gross book value,
- in the case of financial liabilities, to the amortised cost.

When the Bank determines the effective interest rate for (non-impaired) financial instruments, it estimates future cash flows by taking into account all contractual conditions of the financial instrument (prepayment, prolongation of term, callback, or similar options), <u>but disregarding any expected credit losses.</u>

In the case of purchased or originated credit-impaired financial assets (i.e. financial assets that are already impaired at the time of initial recognition) the Bank determines the interest income by applying the *credit-adjusted effective interest rate* method. The credit-adjusted effective interest rate is the rate by which the estimated future cash payments or cash incomes over the life of the financial asset may be discounted precisely down to the amortised cost of the purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, the Bank estimates the expected cash flows taking into account all contractual terms applicable to the financial asset <u>and the expected credit loss</u>.

The effective or credit-adjusted effective interest rate includes all fees and items paid or received by the contractual parties that are an integral part of the effective interest rate, as well as transaction costs and any other premium or discount. Transaction costs are ancillary costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Determining interest income and interest expense

The Bank determines interest income or interest expense based on the gross book value in the case of (non-impaired) financial assets and amortised cost in the case of financial liabilities, using the effective interest rate.

For financial assets that became impaired after initial recognition, the Bank applies the effective interest rate to the amortised cost in the subsequent reporting periods, using the principle of gross settlement. Therefore in this case the effective interest rate is determined separately for the gross value and separately for the impaired amount and is also separately recorded in the balance sheet for the gross value and the impairment of the financial asset. If, during a subsequent period, as a result of a significant improvement in credit risk, the financial asset no longer qualifies as an impaired financial asset, the Bank determines the interest income by applying the effective interest rate to the gross book value. In the case of purchased or generated financial assets that were impaired at initial recognition, the Bank applies the credit-adjusted effective interest rate to the amortised cost from the initial recognition of the financial asset to determine the interest income.

Recognition of interest income and interest expense

In the statement of income, interest income and interest expense related to the following financial instruments are presented under *Interest income* and *Interest expense*:

- interest on financial assets and financial liabilities measured at amortised cost, that is determined using the effective interest method;
- interest on interest-bearing financial instruments measured at fair value through profit or loss, that is determined using the effective interest method;
- interest on debt securities measured at fair value through other comprehensive income, that is determined using the effective interest method;

- other income similar to interest not determined using the effective interest method (typically, interest income on derivative financial instruments)

3.5.2. Fees and commissions

Fees and commissions that are part of the effective interest rate are recognised in the income statement under *Interest income* or *Interest expense*. All other fee and commission income is recognised in the income statement under *Fee and commission income*.

Recognised fees that are not an integral part of the effective interest rate of a financial instrument include:

- fees charged for credit services;
- commitment fees for the origination of a loan for which the loan commitment is not measured at fair value through profit or loss and it is unlikely that a special loan agreement will be concluded;
- credit syndication fees received by the Bank that arise where the Bank intermediates a loan and keeps nothing from the loan package for itself (or keeps a part of the package at the same effective interest rate and at similar risk as other participants).

Fees and commission expenses not included in the effective interest rate are usually service fees that are recognised by the Bank as an expense when it receives the service.

3.5.3. Net profit from financial instruments measured at fair value through profit or loss

In this line, the Bank recognises its net profit from held-for-trading financial instruments, financial instruments measured obligatorily at fair value through profit or loss, not for trading, as well as from financial securities designated as measured at fair value through profit or loss, except for the profit from the interest on those instruments, which is shown under the Interest income / (interest expense) line.

3.5.4. Net profit from financial instruments not classified as measured at fair value through profit or loss

In this line the Bank recognises the net profit realised on the sale of securities measured at amortised cost and at fair value through other comprehensive income.

Impairment losses and other profits realised on customer loans measured at amortised cost are recognised under Credit loss and profit. It is also here that impairment recorded on securities held at amortised cost and on debt securities measured at fair value through other comprehensive income is recognised.

3.5.5. Net profit from hedge accounting

The Bank does not currently use hedge accounting in its statements.

3.5.6. Profit from FX transactions

Under Profit from FX transactions are recognised the realised exchange rate gains on financial instruments held in non-functional currencies as well as the unrealised gains on exchange rate changes in respect of financial assets and liabilities not measured at fair value through profit or loss.

3.5.7. Dividend income

The Bank only recognises dividends in profit or loss when its right to the dividends has been established, it is likely that the economic benefits associated with the dividend will be realised as income and the amount of the dividend can be measured reliably.

3.5.8. Other operating income

Under other income the Bank recognises

- the net result from the sale of non-financial assets, if it is net income
- other income related to non-financial assets and liabilities

3.5.9. Other expenses

Under other expenses the Bank recognises

- the net result from the sale of non-financial assets, if it is a net loss
- Non-income tax expenses, except for taxes on personnel expenses, which are recognised under personnel expenses.
- Recognised impairment on non-financial assets
- other expenses related to non-financial assets and liabilities

3.5.10. Credit loss and profit

Under this line the Bank recognises the following items:

- Impairment on financial assets (see the description of impairment in Section 2.6.3)
- Net profit from the sale of loans and advances to customers
- Income and expenses related to other lending activities (write-downs, recoveries from write-downs, items related to recovery, etc.)

3.5.11. Profit/loss (-) on changes

The Bank shows on this line the impact of the economic loss recognised as a result of the payment moratorium introduced due to Covid-19, in accordance with IFRS 9, section 5.4.3. If the Bank renegotiates or modifies the contractual cash flows of a financial asset, and such renegotiation or modification does not result in derecognition of the financial asset in accordance with IFRS 9, then the Bank recalculates the gross book value of the financial asset, and recognises a gain or loss due to modification in the income statements. The gross book value of the financial asset is recalculated by the Bank as the present value of the renegotiated or modified contractual cash flows, where the discount rate is the original effective interest rate of the financial asset (in the case of purchased or originated credit impaired financial assets, this is the loan-adjusted effective interest rate). In the Bank's understanding, the cash flows adjusted due to the moratorium do not result in the derecognition of the loans concerned, and therefore the Bank recognises the economic loss resulting from the moratorium in the 'gain or loss due to modification' line.

3.5.12. Personnel expenses

Under Personnel expenses are recognised

- wage costs, which are the gross earnings (wages) due to employees
- other payments to personnel, including all payments related to the calendar year that the Bank recognises or pays to a private individual in accordance with other regulations under a heading other than wage costs, excluding considerations paid for contractor activities.
- wage contributions, namely pension insurance and health insurance contributions, health contributions, employers' contributions, vocational training contributions, and all other taxes and contributions that are based on payments related to personnel or the number of employees.

3.5.13. Other general administrative costs

Under Other administrative costs the Bank recognises material expenses (the value of the use of purchased materials, fuel costs and impairment on inventories) and other administrative costs (telecommunication and postal charges, IT operating costs, rents paid, costs of services used, costs of other services), as well as transaction tax and special bank tax. Since 2010, credit and financial institutions in Hungary have been subject to a special bank tax. The bank tax and its reversal must be recognised as an expense in the year to which it legally applies. As the bank tax is based on non-net revenue values, it does not qualify for income tax under IFRS and must therefore be presented as an operating expense in the report. In 2020, in addition to the bank tax already applied, an extraordinary special epidemiological tax liability has also been incurred. Pursuant to the relevant provision, the extraordinary special tax paid in 2020 is deductible from the ordinary bank tax liability for the next 5 years, so this item had no impact on the result for 2020, and is recognised as a receivable in the balance sheet under other assets.

3.5.14. Depreciation

On intangible assets and tangible assets, the Bank recognised depreciation up to the gross cost of the intangible assets and tangible assets. The Bank depreciates tangible assets below an individual purchase or production value of HUF 100,000 immediately, at the time of the purchase. Depreciation recognised in the financial year is shown as a separate cost item in the income statement as part of the net operating profit.

3.5.15. State subsidies

State subsidies are state contributions in which resources are transferred to the Bank and which are provided by the State against past or future fulfilment of specific conditions related to the Bank's operational activities.

The Bank recognises state subsidies when it becomes probable that the subsidy will be realised and the conditions related to the disbursement of the subsidy are met. When the subsidy is used to offset a cost, the Bank recognises the subsidy in profit or loss in the period in which the cost to be offset arises.

The Bank recognises state subsidies related to asset purchases as deferred income and releases and recognises this deferred income in the profit or loss, in equal annual amounts, over the useful life of the related asset.

Interest subsidy on loans with state interest subsidy are not considered to be state subsidies under IAS 20, since in these cases the beneficiary of the interest subsidy is the customer, and the Bank plays only an intermediary role.

In the case of non-market transactions concluded with the MNB, the Bank decides individually whether the special conditions of the given transaction constitute a state subsidy.

3.5.16. Income taxes

Recognised profits or losses from actual and deferred corporate tax are recognised under Income taxes.

Actual and deferred tax is recognised as income or expense and is included in the after-tax profit or loss for the period, except when the tax is incurred in the settlement of transactions or events – in the same or another period – that the Bank recognises through other comprehensive income or directly in equity.

Actual tax

Actual tax on profits includes corporate income tax, local tax and innovation contribution. The corporate tax is paid to the national tax authorities competent with respect to the Bank's place of business. The basis for tax payment is the pre-tax profit calculated from the tax-paying company's accounting profit adjusted by items reducing and increasing the tax base. The local tax and the innovation contribution are paid to the relevant local authority, and the tax is based on the Bank's annual net turnover determined by law.

Actual taxes relating to the current period and prior periods that are still not settled are recognised as liabilities by the Bank. If the amount already paid for the current period and prior periods exceeds the amounts due for these periods, the excess is recognised as an asset.

Actual tax liabilities (tax receivables) for the current period and prior periods are valued at the amount that is expected to be paid to the tax authority (or expected to be recovered from the tax authority), using tax rates (and tax laws) that were in force or substantially in force by the date on which the statement of financial position is based.

Deferred tax

The corporate income tax is determined by the Bank in accordance with the regulations of the Hungarian tax laws. Deferred taxes are calculated using the balance sheet liability method:

- temporary differences are determined in the difference between the value of assets and liabilities shown in the accounting report and the amounts recognised for corporate tax purposes; and
- deferred tax is calculated on the basis of the temporary difference.

Under the liability method, deferred tax is recognised at the balance sheet date for the temporary differences between the tax base of assets and liabilities and their carrying amount recognised for reporting purposes. The method of accounting for deferred taxes on a balance sheet basis is based on the exploration of cumulative differences. Accordingly, the Bank prepares its tax and accounting balance sheet and examines the difference between the two from the point of view of deferred tax.

The key to calculating deferred taxes is to offset the tax effect of temporary income and tax differences. Accordingly, the deferred tax is calculated for the differences between tax law and IFRS statements.

The amount of the deferred tax is calculated by the Bank using tax rates stipulated by the relevant tax law, as known at the balance sheet date, which are expected to be effective at the time when the deferred tax receivable will be collected or the deferred tax liability settled.

Any deferred tax receivables are recognised to the extent that it is probable that future taxable profits (or reversible deferred tax liabilities) will be available against which the deferred tax receivable can be offset.

The Bank examines the value of the deferred tax receivable at each balance sheet date and reduces it to the extent that it is unlikely that sufficient taxable profit will be generated for it to be enforced partially or fully. The Bank reverses any such reduction to the extent that it becomes probable that sufficient taxable profit will be available.

The Bank offsets its deferred tax receivables and deferred tax liabilities against each other when and only if:

- it has a legally enforceable right to offset its actual tax receivables against its actual tax liabilities; and
- the deferred tax receivables and deferred tax liabilities are related to income taxes imposed by the same tax authority.

3.6. Balance sheet items

3.6.1. Financial instruments

The Bank recognises financial instruments in accordance with IFRS 9.

Financial assets include liquid assets, government securities, receivables from credit institutions, loans and advances to customers, debt securities, shares, participations, and derivative transactions. Financial assets are recognised by the Bank in the following balance sheet lines:

(a) Liquid assets and equivalent
(b) Receivables from the MNB
(c) Interbank placements
(d) Securities
(e) Derivative financial assets
(f) Loans and advances to customers
(g) Other assets (buyers)

Financial liabilities arise from claims for the repayment of money or other financial assets. They mostly include liabilities to credit institutions, liabilities to customers, suppliers, and derivative financial liabilities. Financial liabilities are recognised by the Bank in the following balance sheet lines:

(a) Liabilities to the MNB
(b) Liabilities to credit institutions
(c) Liabilities to customers
(d) Derivative financial liabilities
(e) Other liabilities (trade creditors)

Recognition and initial measurement

The Bank recognises loans and receivables, deposits, and debt securities when they arise. All other instruments are recognised on the day the Bank commits to purchase or sell the asset.
With the exception of trade receivables, the Bank recognises all financial assets not measured at fair value at their fair value adjusted by the transaction costs that are directly related to their issue or purchase.

Financial assets measured at fair value are recognised at fair value, and the transaction costs directly related to their issue and purchase are recognised through profit or loss.

With the exception of financial liabilities measured at fair value through profit or loss, the Bank recognises financial liabilities at fair value adjusted by transaction costs. In the case of financial liabilities measured at fair value through profit or loss, the value at initial recognition is the fair value; directly related transaction costs are recognised through profit or loss.

Transaction costs include fees and commissions paid to agents, advisers, brokers, and traders, as well as fees charged by regulators and stock exchanges, and taxes and fees related to the transfer. Transaction costs exclude premiums and discounts arising from lending, financing costs, internal administrative or holding costs.

Trade receivables, if they do not contain a material financing component, are recognised by the Bank at transaction price.

Trading-day and settlement-day accounting

All financial assets purchased or sold “in a standard way” are recognised on the settlement date, i.e. when the asset is transferred to the counterparty. Standard purchases or sales include transactions where the asset is to be transferred within a period specified by regulations or market practices.

First-day profit or loss

The best approximation of the initial fair value of financial instruments is the transaction price.
Gains or losses can arise at initial recognition only if there is a difference between the fair value and the transaction price, as supported by measurement techniques based on other observable market transactions of the same instrument or some observable market data. In the case of other financial instruments where fair value is based on measurement techniques using Level 3 parameters, the initial difference is recognised as (other) assets or (other) liabilities and subsequently a steady-rate amortisation is applied to it until the maturity of the instrument.

Classification
Classification of financial assets

The Bank classifies its financial assets in the following categories:

a) financial assets measured at fair value through profit or loss;
b) financial assets measured at amortised cost;

c) debt instruments measured at fair value through other comprehensive income; and
d) investments in equity instruments measured at fair value through other comprehensive income.

The Bank measures the financial asset at amortised cost if both of the following conditions are met:

- the financial asset belongs to a group in which the business model is the collection of contractual cash flows; and
- the contractual cash flows of the financial asset only include principal and interest on the outstanding principal.

The amortised cost of financial assets or financial liabilities is the value of the financial asset or financial liability as determined at initial recognition less principal repayments, increased or decreased by the accumulated amortisation of the difference between this original value and the value at maturity using the effective interest rate method, and, in the case of financial assets, decreased by accumulated impairment.

The gross book value of financial assets is the amortised cost of the asset before impairment.

The Bank measures the financial asset as a financial asset measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset belongs to a group in which the business model is the collection of contractual cash flows and sale; and
- the contractual cash flows of the financial asset only include principal and interest on the outstanding principal.

Investments in equity instruments are measured by the Bank at fair value, unless the Bank, at the time of initial recognition, makes an irrevocable decision to choose the "measured at fair value through other comprehensive income" category for the financial asset in question.

All other financial assets are categorised by the Bank in the measured at fair value through profit or loss category.

At initial recognition, the Bank has the option to classify a financial instrument measured at amortised cost or measured at fair value through other comprehensive income as irrevocably classified in the measured at fair value through profit or loss category if this eliminates or significantly reduces an accounting inconsistency.

The decision-making person or body determines the classification of financial instruments at the time of purchase.

Classification of financial liabilities

The Bank classifies its financial liabilities in the following categories:

- financial liabilities measured at fair value through profit or loss,
- financial liabilities measured at amortised cost

Non-trading financial liabilities are measured by the Bank at fair value at initial recognition, less directly attributable transaction costs; any subsequent measurement is at amortised cost using the effective interest method, unless the Bank at initial recognition designated the financial liability as measured at fair value through profit or loss.
If the Bank designated a financial liability as measured at fair value through profit or loss at initial recognition, in any subsequent measurements
- the changes in fair value, if related to the Bank's own credit risk, are recognised through other comprehensive income,
- all other fair value changes are recognised through profit or loss.

During the initial recognition of a financial liability designated as measured at fair value through profit or loss, the Bank examines whether the recognition of fair value changes related to its own credit risk in other comprehensive income triggers (or increases) any accounting inconsistencies. If the measurement against other comprehensive income causes or deepens accounting imbalances, the Bank fully records the change in fair value through profit or loss.

The Bank uses the contractual conditions of the issued instrument as a basis for classifying the instrument as a financial liability or equity.

Specification of business model

The Bank specifies the purpose of its business model relating to its portfolio of assets. To do this, it takes the following information into consideration:

- principles and objectives attached to the portfolio and the practical applications of these principles. The management's portfolio-related strategy may focus on collecting contractual interest income, maintaining a given interest rate level, adjusting the maturity of financial assets to the maturity of the financial liabilities that finance them, or realising cash flows through the sale of the asset;
- how the portfolio's performance is evaluated and reported to management;
- the risks affecting the performance of the business model (and the financial assets included in it), and the manner in which these risks are managed;
- the method of remuneration of the Bank's managers: whether it depends on the development of the fair value of the managed assets or the collection of contractual cash flows; and
- the frequency, extent and timing of sales of previous periods, the reason for sales, the expectations for future sales. When evaluating information about past sales, it takes into account the reasons for sales, the conditions prevailing at the time of the sales, and compares them with current conditions. The Bank does not evaluate the information on sales in an isolated manner but collectively, i.e. it looks at how the objective formulated by the Bank is achieved and how the cash flows related to the financial instrument are realised.

Based on the above, the Bank classifies its financial assets according to three business models:

- "Collection of contractual cash flows" includes the financial assets for which the key business objective is the collection of contractual cash flows;
- "Collection of contractual cash flows and sale" includes the financial assets for which the business objective is partly achieved by collecting the contractual cash flows of the financial assets and partly by selling the financial assets; and
- "Other" includes the financial assets that do not belong to the groups under the other two business models.

The financial assets held by the Bank for trading purposes, or the performance of which is measured at fair value, are measured at fair value through profit or loss, as in the case of these the objective is neither the collection of contractual cash flows nor the collection of contractual cash flows and the sale of the assets.

Measurement of the characteristics of contractual cash flows

Classification in a measurement group also depends on the characteristics of the cash flows associated with the financial asset. For financial assets that the Bank intends to measure at amortised cost or at fair value through other comprehensive income, the Bank must consider whether they in terms of the cash flows of the financial asset meet the solely principal and interest (SPPI) requirement under IFRS 9. The principal is the fair value of the financial asset at initial recognition. Interest primarily expresses the consideration for the time value of the outstanding amount of principal and the credit risk in a given period, but it also includes other basic credit risks and costs, as well as a profit margin.

If the SPPI requirement is met, the Bank examines, in the denominated currency of the financial asset, whether the cash flows arising from the contract are consistent with the basic loan agreements.

To assess whether the contractual cash flows only include principal and interest payments, the Bank examines the contractual terms of the financial instrument. The examination also includes the assessment of whether the financial asset contains any contractual conditions that result in a change in the amount or timing of contractual cash flows that makes the financial asset no longer meet the SPPI requirement. To assess this, the Bank takes into account:

- future events, the occurrence of which affects the amount and timing of contractual cash flows;
- leverage characteristics;
- conditions for prepayment and term extension;
- conditions that put a limit on the Bank's claims related the given asset's cash flows (e.g. non-recourse asset agreements); and
- the existence of a modified element related to the time value of money.

Contractual cash flows do not solely include principal and interest, if in the contractual cash flows there are risks or volatility exposures not associated with a basic loan agreement. Thus a financial instrument fails to meet SPPI requirements if the contractual cash flows include exposure to changes in share prices or commodity prices, or if they include leverage.

If the element related to the time value of money is imperfect – for example, the frequency of the repeated establishment of the interest rate does not correspond to the interest rate period, or if the interest rate of the financial instrument is adjusted to the average of short- and long-term interest rates on a regular basis –, the Bank must assess the change individually to establish whether the contractual cash flows solely include principal and interest. Depending on the given situation, this is determined by a qualitative assessment of the time value element and, if necessary, by a quantitative assessment. If the Bank arrives to the conclusion that the undiscounted cash flows arising from the contract are significantly different from the undiscounted reference cash flows, the financial asset must not be measured at amortised cost or at fair value through other comprehensive income.

In the case of state-regulated interest rates, the financial asset meets the SPPI requirement if the regulated interest rate represents a consideration that basically is in harmony with the passing of time and does not represent a risk or volatility exposure regarding the cash flows that are inconsistent with a basic loan agreement.

The Bank has such loans to customers (NHP) in respect of which the interest rate has an upper cap. When examining the contractual cash flows of these financial assets, the Bank has determined that they include only principal and interest, and therefore their subsequent valuation is measured at amortised cost.

Reclassification of financial instruments

After initial recognition, the Bank will not reclassify its financial instruments in another measurement category with the exception of the rare cases when the business model underlying the financial assets has changed. In such cases, the Bank performs reclassification on the first day of the next reporting period and explains the reason and effect of the classification in the Notes to the financial statements.

Derecognition

Derecognition of financial instruments

The Bank derecognises a financial asset if
- the contractual right to the cash flows from the financial asset expires; or
- the contractual rights are transferred in a manner by which substantially all risks and rewards associated with the financial asset are transferred; or
- the Bank does not transfer and neither does it retain substantially all risks and gains associated with the financial asset, but does not retain control over the financial asset.

When a financial asset is derecognised, the difference between the book value of the asset (or the book value associated with the derecognised part of the asset) and the consideration received for the derecognised asset (or part of the asset) (including any new asset received, less any liability assumed) is recognised in profit or loss.

The cumulative other comprehensive income recognised for a derecognised asset (or part of an asset) must be reclassified to profit or loss upon derecognition, except for investments in equity instruments measured at fair value through other comprehensive income: in their case, the cumulative other comprehensive income is transferred directly to Profit reserve upon derecognition, without affecting profit or loss.

Any remaining or generated interest related to the derecognised asset is recognised by the Bank as an independent asset.

If the Bank transfers a financial asset in such a way that it retains substantially all risks and gains associated with the transferred asset (part of an asset), the Bank must not derecognise the financial asset from its balance sheet. On this basis, the Bank will not derecognise from its books any securities lent or financial assets sold with a repurchase agreement for which it has retained substantially all risks and gains.

Should the Bank transfer an asset without either transferring or retaining substantially all risks and gains associated with the financial asset, but retaining the control of the asset, the Bank will continue to recognise the financial asset to the extent of its continuing interest in the asset transferred. The extent of continuing interest is the extent to which the Bank is exposed to the risks of changes in the value of the asset transferred.

If the Bank derecognises a financial asset and retains the right to manage the financial asset for a fee, it will recognise a management instrument or a management liability in relation to the management contract in question. If the stipulated fee is not expected to cover the management duties to be performed, the Bank will recognise a management obligation with respect to the commitment. If the stipulated fee is expected to exceed the value of the management activities, the Bank will recognise a management asset with respect to the management right.

Derecognition of financial instruments

The Bank derecognises a financial liability when it is terminated, i.e. when the commitments specified in the given contract have been fulfilled, they have been cancelled, or they have expired.

Change in the conditions of financial assets and financial liabilities

Change in the conditions of financial assets

If the conditions of a financial asset are changed, the Bank will examine whether the cash flows related to the modified financial asset are significantly different. If the cash flows are significantly different, the contractual cash flows associated with the original financial asset are considered to have expired: the original financial asset must be derecognised and the new financial asset must be recognised at fair value.
If the cash flows of a modified financial asset measured at amortised cost do not show any significant differences, the Bank will not derecognise the financial asset. In such cases, the Bank recalculates, adjusts the gross book value of the financial asset and recognises the resulting difference in profit or loss. If the change is made on account of the debtor's financial difficulties, the profit effect of the change must be recognised together with the impairment loss. In all other cases, the effect on the profit or loss must be recognised as interest income. The Bank shows the impact of the economic loss recognised as a result of the payment moratorium introduced due to Covid-19 – in view of its specific nature – in a separate "Gain or loss due to modification" line, in its income statements.

Change in the conditions of financial liabilities

The Bank will derecognise a financial liability if the underlying contractual terms have changed and the cash flows of the changed liability show significant differences. In this case, the new liability is recognised by the Bank at fair value in accordance with the modified contractual terms, the old liability is derecognised and the difference is recognised in profit or loss.

Netting of financial assets and financial liabilities

Financial assets and financial liabilities are offset by the Bank against one another and the resulting net amount is recognised in the balance sheet when and only if the Bank has a legally enforceable right to offset the amounts and it intends to realise the asset and meet the liability by netting or concurrently.

Repo and reverse repo agreements

Assets that the Bank sells under an agreement for the subsequent repurchase of the asset (repo agreement) are not derecognised; their measurement is subject to accounting standards pertaining to financial assets. The repurchase obligation is recognised as a liability held at amortised cost in the statement of financial position at the amount of the proceeds from the sale. The difference between the sale price and the repurchase price must be treated as interest expense and recognised pro rata over the term of the transaction in profit or loss.
Assets that the Bank purchases under an agreement for the subsequent resale of the asset (reverse repo) are not included in the balance sheet because the Bank has no control of these assets. Receivables arising from such agreements can appear in the balance sheet in an amount identical to the purchase value under Loans and advances to customers. The difference between the purchase price and the future selling price must be treated as interest income and recognised pro rata over the term of the transaction in profit or loss.

3.6.2. Determining fair value

Fair value is the price that the Bank would receive upon the sale of an asset, or that it would pay upon transferring a liability, on the primary market, or in the absence of this, on an optimal market, under a standard transaction between market participants at the time of the measurement. The fair value of a liability reflects the effect of the risk of default. Besides measurement at the time of initial recognition, the Bank performs the measurement of fair value on a daily basis.

IFRS 13 "Fair value measurement" creates a fair value hierarchy in order to increase the consistency and comparability of measurements at fair value and related disclosures. The hierarchy categorises the inputs of measurement methods used to determine fair value into the following three levels:

- Level 1 inputs: Quoted (unadjusted) prices on active markets of identical assets or liabilities to which the Bank has access at the time of the measurement;
- Level 2 inputs: Inputs included in Level 1 other than quoted prices, that are directly or indirectly observable concerning the asset or liability; and
- Level 3 inputs: Non-observable inputs of the assets or liabilities.

If available, the Bank determines the fair value of the instrument based on the price quoted on an active market. A market is considered active if transactions relating to the asset or liability are carried out with sufficient frequency and quantity to enable the market to provide ongoing pricing information.

If no quoted prices from an active market are available, the Bank uses measurement techniques that are appropriate under the given circumstances and for which sufficient data are available to determine fair value. The use of relevant observable inputs must be maximised and the use of non-observable inputs must be minimised during the process. Measurement techniques are regularly reviewed by the Bank and each measurement technique is based on the latest market data. Measurement techniques are based on available market data, so their use must entail certain estimates and assumptions (correlations, volatilities, etc.). Changes in assumptions may affect the fair value of financial instruments presented.

The fair value of a financial asset at initial recognition is usually the transaction price. If the Bank determines that the transaction price differs from the fair value at initial recognition, it will do the following:

- if the financial asset has an active market or the fair value is based on a measurement technique that only uses data from observable markets, the Bank immediately recognises the difference between the fair value at initial recognition and the transaction price in profit or loss.
- in all other cases, the Bank defers or accrues the difference between the fair value at initial recognition and the transaction price. The accrued or deferred difference is recognised in profit or loss so as to be consistent with the change in the value of the financial asset.

In the case of NHP loans (both receivables and payables) the Bank accrues or defers the difference between the transaction price and the fair value at initial recognition, and recognises it in profit or loss over the term of the loan in accordance with the change in the value of the loan.

Transfers between various levels of the fair value hierarchy are recognised at the end of the reporting period in which the change occurred and the movements between hierarchy levels are presented in the Notes to the accounts.

The methodology used for the measurement of fair value, and the inputs and assumptions used for the calculations, are detailed in Note 23.

3.6.3. Impairment

Due to expected credit losses, the Bank recognises impairment in respect of the following financial instruments not measured at fair value through profit or loss:
(a) debt instruments,
(b) issued financial guarantees, and
(c) issued loan commitments.

The Bank recognises no impairment on investments in equity, as these are recognised at fair value in the balance sheet.

The Bank calculates the impairment for the remaining term, except for the following financial instruments, for which impairment is calculated for 12 months:

- debt securities with low credit risk at the reporting date,
- other financial instruments the credit risk of which has not deteriorated significantly compared to that at initial recognition.

The Bank considers debt securities to be low-risk if their credit rating qualifies as "investment grade".

Impairment calculated for a 12-month period for expected credit losses is the part of the expected losses for the entire term that results from default events that may occur within 12 months of the reporting date.

For purchased or originated credit-impaired (POCI) financial assets the Bank recognises as a loss at the reporting date only the cumulative changes that have occurred since initial recognition in the lifetime expected credit losses.

Determining the expected credit loss

Expected credit losses are the probability-weighted estimates of credit losses incurred over the expected life of the financial asset.

Expected loss on modified financial assets

If the conditions of a financial asset are renegotiated or changed, or an existing financial instrument is replaced with another because of the debtor's financial difficulties, it must be examined whether the financial instrument is to be derecognised. As a result, the Bank determines the expected credit loss for the existing financial asset as follows:

- if the expected change in the financial asset does not result in the derecognition of the existing financial asset, the Bank will take the expected cash flows associated with the changed financial asset into consideration when determining the lost cash flows related to the original financial asset.
- if the expected change in the financial asset results in the derecognition of the financial asset, the Bank will consider the expected fair value of the new financial asset to be the last cash flow related to the existing financial asset at the date of derecognition. This value will be used to determine the cash flow losses associated with the existing financial asset by discounting the value at derecognition at the original effective interest rate of the financial asset to the value at the reporting date.

Impaired financial assets

At each reporting date, the Bank assesses whether its financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income are impaired. A financial asset is considered impaired if one or more events have occurred that had an adverse effect on the expected future cash flows associated with the financial asset.

If the conditions of a loan are renegotiated due to the deterioration of the debtor's position, the loan must be considered impaired, unless it can be shown that the risk of collecting the contractual cash flows is significantly reduced and there are no other indicators for impairment.

Methodology for establishing impairment

The Bank has developed a detailed methodology for the establishment of impairment, which is included in the effective RISK-007/2011 Transaction rating, measurement, and impairment and provisioning rules. See Note 37.6 for a summary of the methodology.

Recognising impairment in the balance sheet

Impairment recognised on expected credit losses is reported by the Bank as follows:

(i.) in the case of financial assets measured at amortised cost, as an amount decreasing gross book value;

(ii.) in the case of financial guarantee contracts and loan commitments, as a provision;

(iii.) if a financial instrument contains both drawn and undrawn components, and the Bank is unable to separate the expected credit loss calculated for the undrawn component from that related to the drawn component, the Bank determines the impairment on the two components in aggregate. The aggregate impairment will decrease the gross book value of the drawn component. If the impairment loss so determined exceeds the gross book value of the drawn component, the difference is recognised by the Bank as a provision.

(iv.) in the case of financial assets measured at fair value through other comprehensive income, the recognised impairment is not shown in the balance sheet as in the case of these the balance sheet value is the fair value. Recognised impairment modifies cumulative other comprehensive income (the Fair value reserve).

3.6.4. Derecognition of financial assets

Loans and debt securities are derecognised (in full or in part) by the Bank if the Bank cannot reasonably expect the return of the financial asset. In the event that the Bank establishes that the debtor's assets or sources of income do not provide sufficient cash flow to pay the cash flows associated with the financial asset, the Bank derecognises the financial asset. Despite the derecognition, the financial assets may still be subject to the Bank's enforcement of its rights in respect of the amounts due.

3.6.5. Designation as measured at fair value through profit or loss

At initial recognition, the Bank classifies some financial assets as measured at fair value through profit or loss, as this designation eliminates or significantly reduces an accounting inconsistency that would otherwise arise.

The Bank designates certain financial liabilities as measured at fair value through profit or loss if any of the following conditions is met:

- the liabilities are managed, measured and reported internally on the basis of their fair value; or
- this designation eliminates or significantly reduces an accounting inconsistency that would otherwise arise.

3.6.6. Hedging transactions

The Bank does not currently use hedge accounting in its statements.

3.6.7. Tangible assets

Recognition and measurement

Tangible assets are recognised by the Bank at cost less accumulated depreciation and impairment.

Purchased software that forms an integral part of a computer-controlled mechanical device are treated by the Bank under tangible assets.

If the useful life of a significant part of an item classified under tangible assets is different, the Bank will treat them as a separate item (as a significant component). If the useful life and depreciation method of a significant component is the same as the useful life and depreciation method used for another significant part of the same asset, the Bank treats those parts as a group for when determining depreciation.

Any property, plant or equipment item is only recognised by the Bank as an asset if and only if:
- it is probable that the future economic benefits attributable to the asset will be realised; and
- its cost can be measured reliably.

The book value of tangible assets items is reviewed by the Bank at established, regular intervals to determine whether the property or equipment item is impaired. To determine whether an item of property, plant or equipment is impaired, the Bank uses the IAS 36 Impairment of assets standard. Impairment and reversal thus determined are recognised in the income statement.

Derecognition

The Bank determines the gain or loss from the derecognition of any item of property or equipment as the difference between the net proceeds from the disposal, if any, and the book value of the asset, and recognises the result under *Other operating income/Other expense* in the Income Statement.

Cost

The items of tangible assets that meet the conditions for recognition as an asset are recognised at cost.

The cost of tangible assets is the sum of the cash or cash equivalents paid for the acquisition of the given asset, or the fair value of any other consideration given for the acquisition of the asset at the time of the acquisition or creation, or, where applicable, the value assigned to the asset at initial recognition in accordance with the specific requirements of other IFRSs.

The Bank measures all costs related to tangible assets at the time the cost is incurred. These costs include the cost of acquiring or producing the asset, as well as any subsequent costs incurred that are associated with supplementing, replacing some part of, or servicing the asset.

The cost of items of tangible assets includes:

- the item's purchase price, including import duties and non-recoverable sales taxes, less any trade and quantity discounts; and
- the costs that can be attributed directly to the fact that the asset was transferred to the place and put in the condition necessary to be able to function properly in accordance with the management's intentions.

Costs subsequently incurred are only recognised in the book value of the asset or recognised in the books as a separate asset when it is probable that the item in question will provide future economic benefits to the Bank and the cost of the item can be measured reliably. Additional costs related to existing assets that prolong the useful life of the asset or extend the asset's scope of use are activated by the Bank. All other repair and maintenance costs are recognised by the Bank as an expense in the income statement at the time they are incurred.

The cost of tangible assets obtained through a finance lease is recognised by the Bank at the fair value of the leased asset or, if this is lower, at an amount equivalent to the present value of the minimum lease payments. Initial direct costs increase the cost of the asset.

Depreciation

Depreciation of tangible assets is recognised by the Bank using the straight-line method and is shown in profit or loss.
The depreciable amount of tangible assets is determined by deducting the residual value of the asset.

Assets obtained through a finance lease are depreciated over the shorter period of the asset's lease term or useful life, unless the Bank has reasonable assurance that it will acquire ownership of the asset by the end of the lease term; in this case the expected term of use will be the useful life of the asset. Pursuant to the requirements of IFRS 16 effective from 01.01.2019, the lease rights included in the assets are depreciated by the Bank over the period for which it has a valid lease agreement. See Note 27 for more information.

Depreciation of an asset begins when it becomes available for use, that is, when the asset is transferred to the place and put in the condition necessary to be able to function properly in accordance with the management's intentions.

The end of an asset's depreciation is the earlier of:
- the date on which the asset is classed as held for sale under IFRS 5 (or on which it is classified as belonging to a "bad Bank" classed as held for sale);
- the date of the derecognition of the asset.

The useful life of the most important items in the Tangible assets category:

● Property, buildings:	6.0%
● Information technology devices:	33.3% (5% residual value)
● Machines, administrative and telecommunication devices:	33.3% (5% residual value)
● Vehicles	20.0% (50% residual value)
● Furniture, equipment	10.0% (5% residual value)

The depreciation methods, useful lives and residual values are reviewed at each reporting date and, if necessary, adjusted.

3.6.8. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical form. The Bank recognises an intangible asset in its balance sheet if it meets the requirements of identifiability, control over the resource, the existence of future economic benefits, as well as reliable measurement. If an intangible asset does not meet the recognition requirements, the Bank recognises the cost of its acquisition or production as an expense when it is incurred (except for acquisition in a business combination, as this forms part of the goodwill recognised at the date of the acquisition).

Software

Intangible assets consist mainly of software. Computer software often contains both tangible and intangible elements. The Bank determines whether the asset is to be treated in accordance with IAS 16 Property, plant and equipment or IAS 38 Intangible assets by looking at which component of the given asset is more significant. When the software is not an integral part of a particular hardware, the software is treated as an intangible asset by the Bank.

The Bank measures purchased software at cost less accumulated depreciation and impairment.

The cost of the purchased software is the cash or cash equivalent paid for the acquisition, at the time of the acquisition of the given asset, or the fair value of any other consideration given.

The cost of an intangible asset acquired individually includes:

- the item's purchase price, including import duties and non-recoverable sales taxes, less any discounts (trade discounts and quantity discounts); and
- costs directly attributable to the preparation of the device for its intended use.

The subsequent costs associated with the software are activated by the Bank only if they increase the future economic benefits associated with the software. All other subsequent costs are recognised as an expense at the time they are incurred.

The useful life of all software owned by the Bank is fixed. The Bank depreciates software on a straight-line basis over its expected useful life and recognises depreciation in profit or loss.

The Bank does not calculate a residual value for core software and applies a depreciation rate of 10% for these assets. In the case of non-core software, the estimated residual value is 5% and the depreciation rate is 16.67%.

The depreciation methods and useful lives are reviewed by the Bank at each reporting date and, if necessary, adjusted.

Self-funded investments

The Bank recognises various projects as self-funded investments.

In accordance with the general rule relating to intangible assets, the Bank recognises self-funded investments in its balance sheet only if they meet the requirements of identifiability, control over the resource, the existence of future economic benefits, as well as reliable measurement.
For internally produced intangible assets, as required by IAS 38, processes need to be separated into a research and a development phase. Expenditures related to research must be recognised immediately through profit or loss.
Self-funded investments must meet the following additional conditions in order to be activated as intangible assets:

a) they must be technically feasible,
b) an intention to implement must be present,
c) the technical, financial and other conditions necessary for the implementation must be available,
d) an ability to utilise the investment must be present,
e) the investment must demonstrably generate future benefits.

The costs incurred can be activated as an asset only if the conditions (a) to (e) exist concurrently and if they can be reliably measured.

In terms of the eligibility of the costs incurred, IAS 38 requires that only the costs directly incurred for the development can be recognised, such as:

- materials, services directly used by the Bank for the development,
- personnel expenses that were needed for the production.

The Bank's accounts of self-funded investments do not include expenditures related to the research phase, as the settlements for each project begin/began when the given project reaches/reached the development phase.

Of the various costs settled in relation to self-funded investments, IAS 38 only accepts the costs that were incurred directly.

For self-funded investments, the Bank applies a 10% depreciation rate.

3.6.9. Leases

In January 2016, the IASB issued the IFRS 16 (Leases) standard, which will be effective from 1 January 2019. In accordance with IFRS 16, the lessee recognises a "right of use" receivable and a lease liability in its records. The "right of use" receivable is to be recorded in the manner of other non-financial assets, and depreciation must also be recognised on it. The lease liability is to be recorded in the books as the present value of the lease payments to be made during the lease term, discounted based on the internal rate of return of the transaction. As a result of the introduction of the new standard, the Bank writes off the right of use receivables (and lease liabilities) recognised in its balance sheet over 3-5 years. Further details are provided in Note 27, tangible assets.

The Bank does not act as a lessor, so the requirements of the new standard pertaining to the lessor side are not relevant.

3.6.10. Other assets

Inventories

Inventories include bank cards not yet issued, recognised at their cost or net realisable value, whichever is lower, as required under IAS 2.

- **The cost of inventories** includes all acquisition costs and conversion costs related to the inventories, and all other costs incurred by the Bank in bringing the inventories to their current location and condition.
- **The net realisable value of inventories** is the net amount expected to be realised by the Bank from the sale of inventories in the ordinary course of business.

When determining the cost value of inventories, the Bank uses the FIFO (first in, first out) method.

The Bank determines the net realisable value of inventories once a year using an estimation during year-end closing. The cost of inventories is not recovered if the inventories are damaged, if they become totally or partially obsolete, or if their selling price is reduced. The cost of inventories is also not recovered if the estimated costs of completion or the estimated costs related to their sale have increased. In these cases, the Bank writes the inventories off to their net realisable value.

- When selling inventories, their book value must be recognised as a material expense that forms part of the net operating expenses in the period in which the related income is recognised.
- The amount of any write-down of inventories to their net realisable value and the total loss of inventories must be recognised as a material expense that forms part of the net operating expenses in the period in which the write-off or loss occurs.
- Any amount arising from an increase in the net realisable value – the reversal of any earlier write-down – of inventories is to be recognised as a reduction in the amount of material expenses forming part of the net operating expenses in the period in which the reversal occurs.

3.6.11. Impairment of non-financial assets

At each reporting date, the Bank reviews the book value of its non-financial assets (excluding properties held for investment and deferred tax receivables) to determine whether there is any indication of impairment. Where impairment is indicated, the Bank estimates the recoverable value of the asset. Where there are intangible assets activated in relation to self-funded investments, the Bank reviews their book value annually, regardless of whether there is any indication of impairment.

The recoverable value of an asset or cash-generating unit is the fair value less costs of disposal or the value-in-use of the asset, whichever is higher. The value-in-use is the present value of the expected future cash flows from an asset or cash-generating unit. The present value is determined by the Bank using a pre-tax discount rate that reflects the market’s current rating for the time value of money and the specific risks associated with the asset or cash-generating unit.

The Bank recognises impairment if, and only if, the recoverable value of an asset or cash-generating unit is less than its book value; in such cases, the book value of the asset or cash-generating unit is reduced to its recoverable value.

The Bank’s corporate assets are assets that do not generate any cash income on their own but contribute to the future cash flows of several cash-generating units. The corporate assets are assigned to cash-generating units on a reasonable and consistent basis by the Bank. In the impairment test, the book value of the cash-generating unit, including the part of the book value of the corporate asset allocated to the given cash-generating unit, must be compared to the recoverable value.

When recognising impairment, the Bank first reduces the book value of the goodwill allocated to the cash-generating unit (group of units), then it proportionately allocates the remaining impairment loss to the other assets belonging to the unit (group of units) on the basis of the book value of each asset of the unit (group of units).

3.6.12. Provisions

A provision is recognised by the Bank if there is an existing obligation resulting from a past event, and it is probable that the fulfilment of the obligation will entail an outflow of resources representing economic benefits to third parties, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the existing obligation at the balance sheet date, taking into account the risks and uncertainties inherent in the given obligation.

If the effect of the time value of money is significant, the present value of the expenses expected to settle the obligation is recognised by the Bank as the amount of the provision. The periodic breakdown of the discount is recognised as financing cost.

The Bank creates a provision for reorganisation if it has a detailed formal plan for the reorganisation and has either started the reorganisation or has announced it to those concerned, thereby giving rise to a legitimate expectation in those concerned that it will implement the reorganisation. The reorganisation provision includes only expenditures directly related to the reorganisation that the reorganisation necessarily entails and that are not related to the Bank's continuing operations.

If the Bank has an onerous contract, it creates a provision in the present value of the loss. The Bank considers the lower of the expected costs of termination of the onerous contract and the net cost of performing the onerous contract as the expected loss on the onerous contract. Prior to determining the provision, the Bank recognises impairment for the assets related to the contract, if justified.

The Bank sets aside provisions for taxes and duties if doing so is in compliance with the rules related to the levying of taxes and duties. If the fulfilment of a minimum threshold is required to do this, the provision is recognised when the required threshold is reached.

The Bank also recognises the established expected credit loss on financial guarantees and loan commitments among provisions.

3.6.13. Financial guarantees and loan commitments

A financial guarantee agreement is a contract that requires the issuer to make specific payments to indemnify the owner for a loss resulting from the fact that a specific debtor has failed to pay at the due date in accordance with the original or modified terms of a debt instrument.

Loan commitments provide credit in an obligatory manner at a future date subject to predetermined conditions.

At initial recognition, the Bank measures the issued financial guarantees and the loan commitments that it has provided below market rates at fair value, and then this initial fair value is amortised over the term of the financial guarantee or loan commitment. In the subsequent measurement, the value of financial guarantees and loan commitments is the higher of the amounts of amortised cost and expected credit loss.
All other loan commitments are recognised by the Bank at the amount of the calculated credit loss.

3.6.14. Employee benefits

Defined contribution plans

Defined contribution plans are post-employment benefit schemes where the Bank pays a pre-determined contribution to a separate organisation (fund) without any legal or assumed obligation to pay additional contributions in case the fund's assets are not sufficient to pay all employee benefits related to the employees' employment during the current or prior period.

The Bank makes payments to the following defined contribution plans:

- pension,
- other welfare funds.

The Bank recognises the liabilities of a defined contribution plan as an expense when the related service (work) is performed. The expense is recognised by the Bank in profit or loss, under personnel expenses. Prepaid contributions are recognised by the Bank as an asset in the value of the cash refunds or future decreases in payment it expects.

Defined benefit plans

Any post-employment benefit schemes that do not qualify as a defined contribution plan are treated as a defined benefit plan by the Bank.
Currently, the Bank does not operate any such defined benefit plans.

Other long-term employee benefits

Other long-term employee benefits include items that do not become due within 12 months after the reporting date. They may include:

- long-service leave or sabbatical leave,
- jubilee or other long-service benefits,
- long-term disability benefits,
- profit-sharing, bonuses and deferred compensation.

The net liability from other long-term employee benefits reflects the amount to which the employees are entitled for their service rendered in the current or previous periods. These benefits are discounted by the Bank to their present value. The effect of their revaluation is recognised in profit or loss in the period in which it arises.

Termination benefits

The Bank recognises termination benefits as a personnel expense at the earlier of the following two dates:

- when the Bank is no longer able to withdraw its offer regarding this benefit, or
- when the Bank recognises the reorganisation costs.

If the benefit is not paid in full within 12 months after the reporting date, the Bank will discount these items.

Short-term employee benefits

Short-term employee benefits include:

- wages, salaries and social security contributions;
- paid short-term absences, if the absence is payable within twelve months of the end of the related employment service period;
- profit-sharing and bonuses, if payable within twelve months of the end of the related employment service period; and
- non-monetary benefits for current employees.

Short-term employee benefits are recognised by the Bank as personnel expenses when the related employee service is performed. The Bank will recognise a liability in the amount of the expected payment if the Bank has a legal or assumed obligation to pay the amount as a result of the employee's past service, and the obligation can be estimated reliably.

Share-based benefits

The Bank provides its employees with share-based benefits through the ESOP entity. The benefit is paid by the Bank's shareholders, but it is the Bank that receives the services as a consideration for the benefit, therefore the benefit is recognised by the Bank as a share-based payment transaction settled in equity instruments in accordance with IFRS2.43B(b). The expense or the related increase in equity is recognised in the period in which the employees render the service. When applying to transactions with employees, the Bank must determine the fair value of the services received on the basis of the fair value of the equity instruments granted, as the fair value of the services received typically cannot be determined reliably. The fair value of these equity instruments is to be determined at the date they are granted.

3.6.15. Subscribed capital and reserves

The Bank divides its equity in the balance sheet as follows:

(i.) Subscribed capital
(ii.) Capital reserve

(iii.) Profit reserve
(iv.) Other reserves
(v.) Cumulative other comprehensive income

Cumulative other comprehensive income reflects the cumulative fair value changes and impairment losses of financial assets measured at fair value through other comprehensive income (FVOCI).

3.6.16. Consolidation
3.6.16.1. Consolidation of subsidiaries

Subsidiaries, i.e. companies in which the Bank Group holds more than 50% of the voting rights or whose financial and operating policies are controlled by it in any other way, are consolidated.

Subsidiaries are consolidated from the date on which their control is obtained by the Bank Group (or when the subsidiary is established) and are excluded from consolidation upon the termination of such control. This date may also occur in the course of the year, that is, the exact date of obtainment (or establishment) must be taken into account.

The consolidated financial statements include the profit or loss of the subsidiary's operations from the date on which the acquisition (or establishment) took place, that is, after the control over the acquired subsidiary is actually transferred to the buyer, in which case the profit and loss statement of the subsidiary is to be split between the two periods.

Companies within the Bank Group are required to apply the single accounting policy when preparing their financial statements. If any companies do not apply a single accounting policy, this fact must be indicated in the consolidated financial statements, and the differences must be disclosed. Where there are material differences and their impact on the consolidated financial statements is significant, the differences caused by the different accounting policies in each balance sheet and profit or loss line must be explained. The Bank does not apply any significant differences in its consolidated financial statements from the accounting policies of the Bank Group companies.

3.6.16.2. Capital consolidation

During capital consolidation the book value of the parent company's investment in each subsidiary and the parent company's share in the equity of each subsidiary is eliminated.

The acquisition of a subsidiary is recognised in accordance with the accounting policy for acquisitions. The cost of acquisition includes the fair value, calculated at the date of the acquisition, of the assets transferred, newly issued treasury shares and assumed liabilities. The excess value over the fair value of the subsidiary's net assets and contingent liabilities is recognised as goodwill. The cost of acquisition is the fair value, calculated at the date of the acquisition, of the assets paid, shares issued or liabilities assumed by the acquiring party. The part of the cost of acquisition that exceeds the share in the net assets of the acquired company measured at fair value is recognised as goodwill.

The Bank does not have any subsidiaries acquired through acquisition, its subsidiaries have been established by the Bank itself, so the question of goodwill is not relevant in the consolidated financial statements.

Loss of control: a reduction in ownership interest in a subsidiary that results in a loss of control necessitates a reassessment of the fair value of the remaining interest. If a subsidiary is removed from the consolidation circle, the amount of the remaining interest in the subsidiary must be measured at fair value. The difference between the fair value and the book value is the gain or loss on the derecognition of the interest that is to be recognised through profit or loss. Accordingly, the parent company may only realise any gain or loss on subsequent capital acquisitions of a subsidiary during disposal. The parent company is required to remove a subsidiary from the consolidation when it ceases to have control over it.

3.6.16.3. Debt consolidation of subsidiaries

Transactions and balances, and unrealised profits and losses on the transactions between members of the Bank Group are eliminated.

The receivables, liabilities, accruals, deferrals and provisions existing between the companies involved in the consolidation must be eliminated.

Assets and liabilities of the same title, if their amount is equal, must be derecognised from the preliminary balance sheet against one another.
If their amount is not the same, then of the amount of the difference

- an amount equal to the difference from the previous year must be recognised as a change in equity (profit reserve),
- the amount of the difference between the differences of the current year and the previous year must be recognised in the consolidated income statement as an item adjusting the profit or loss.

Based on the principle of materiality and economy, it is not necessary to carry out the consolidation of the debt with respect to items that do not materially affect the assessment of the Bank's true equity and financial position.

3.6.16.4. Profit and loss consolidation of subsidiaries

Assets acquired from entities belonging to the Bank Group must be recognised in the consolidated balance sheet at the value at which they could have been recognised in the annual balance sheet if the companies legally constituted a single company together.

In order to achieve the above, their interim profit or loss content must be eliminated from the balance sheet value of these assets. If the interim profit or loss eliminated in the current year and the previous year is not the same, then

- the amount of interim profit or loss eliminated in the previous year must be recognised as a change in the Bank's equity (profit reserve),
- and the change in volume (the difference between the eliminated interim profit or loss of the current year and the previous year) must also be recognised in the consolidated income statement as a change in profit or loss.

It is not necessary to consolidate any interim profit or loss that does not significantly affect the assessment of the Bank Group's situation.

3.6.16.5. Income and expense consolidation of subsidiaries

Besides eliminating debts and interim profits or losses generated (from intercompany transactions) within the Bank Group, costs, expenditures and revenues generated within the Bank Group must be consolidated. The purpose of consolidation is to compile an income statement that does not include any accumulation.
During the compilation of the consolidated income statement the following must be eliminated:

- the amount of revenues resulting from the delivery of goods, rendering and use of services between undertakings included in the consolidation, as well as the amount of the related expenditure and direct costs,
- items arising from other business relationships between such companies that are recognised under other income, financial income or extraordinary income or expense in the stand-alone income statement.

3.6.16.6. Deferred tax difference resulting from consolidation

As a final step in the consolidation process, the amount of the deferred tax difference resulting from the consolidation must be determined. In the course of this, the amount of pre-tax profits or losses in the individual accounts are to be compared to the amount of pre-tax profit or loss adjusted as a result of the consolidation (i.e. Bank Group level pre-tax profit or loss).

Of this difference, corporate income tax must be calculated for the amount expected to be balanced out during subsequent years. If the amount of the corporate income tax calculated on the basis of the consolidated income statement is lower than the sum of the amounts of corporate income tax from the individual financial statements, the difference must be recognised as deferred tax receivable arising from consolidation and as a reduction in corporate tax expense.

In the opposite case, the amount of corporate income tax expense must be increased, while simultaneously recognising it as an increase in deferred tax liabilities arising from consolidation. In the consolidated income statement the deferred tax difference arising from consolidation is to be added to the amount of the total deferred tax arising from the stand-alone financial statements.

3.6.17. Standards and interpretations that became effective during the present reporting period

As of 1 January 2020, a number of new standards entered into effect without any material impact on the Bank's financial statements.

- *Amendments to IFRS 3 Business Combinations: definition of business activity (issued on 22 October 2018)*
- *Amendments to IFRS 9, IAS 39 and IFRS 17: benchmark interest rate reform (issued on 26 September 2019)*
- *Amendments to IAS 1 and IAS 8: determining materiality (issued on 31 October 2018)*
- *Amendments to references to the Conceptual Framework for IFRSs: (issued on 18 March 2018)*

The following standard amendments became effective on 1 June 2020 but had no material impact on the Bank's books:

- *Amendment to IFRS 16 Leases, due to lease contracts related to Covid-19*

3.6.18. Future changes in accounting policy

New and amended but not yet effective standards and interpretations issued by the IASB and adopted by the EU

Amendments to IFRS 4 Insurance Contracts – Deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021)

The amendments address concerns that the date of introduction of the new IFRS 9 – Financial Instruments is earlier than that of the new standard on Insurance Contracts. These concerns include the temporary volatility of the reported results.

The amendments introduce two approaches: an overlay approach and a deferral approach (temporary exemption from the application of IFRS 9). The amended standard includes the following:

- it allows all companies issuing insurance contracts to recognise the volatility of a designated financial asset that may arise from the application of IFRS 9 in other comprehensive income rather than in profit or loss, before the new IFRS 17 Insurance Contracts standard is issued; and
- companies predominantly engaged in insurance-related activities must be granted an optional temporary exemption from applying IFRS 9 until 2021. Entities that defer the application of IFRS 9 will continue to apply the previous IAS 39 – Financial Instruments: Recognition and Measurement.

The amendments to IFRS 4 supplement the existing options in the standard that can already be used to manage temporary volatility.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Benchmark Interest Rate Reform – Phase II (issued on 27 August 2020 and all effective for annual periods beginning on or after 1 January 2021)

The amendments address issues that may affect the financial statements as a result of the benchmark interest rate reform, including the effects of changes in contractual cash flows or hedge accounting resulting from the replacement of an existing interest rate benchmark by an alternative benchmark interest rate. The amendments provide practical exemptions from some of the requirements under IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the following cases:

- changes in the basis for determining contractual cash flows for financial assets, financial liabilities and lease obligations; and
- hedge accounting.

As the number of LIBOR-based transactions in the Bank is negligible, this has no significant impact on the books.

Standards and interpretations not referred to above are not expected to have a material impact on the Bank's financial statements.

Standards and interpretations issued by the IASB but not adopted by the EU

i. *IFRS 17 "Insurance Contracts" (effective for reporting periods beginning on or after 1 January 2023),*
ii. *Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for reporting periods beginning on or after 1 January 2022)*
iii. *Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the 2018-2020 Annual Review (effective from 1 January 2022 and subsequent periods)*
iv. *IAS 1 Presentation of Financial Statements and IFRS Exercise 2: Presentation of accounting policies (effective from 1 January 2023 and subsequent periods)*
v. *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimate (effective from 1 January 2023 and subsequent periods)*

The implementation of the above amendments, new standards and interpretations would not significantly affect the Bank's annual financial statements in the period of first application.

4. NET INTEREST AND SIMILAR INCOME

Data in HUF millions

	2020	2019
Interest income based on the effective interest method		
Interest income on financial assets held for trading	80	36
Interest income on financial assets measured obligatorily at fair value through profit or loss, not for trading	8	2
Interest income on financial assets designated as measured at fair value through profit or loss	1,338	1,282
Interest income on financial assets measured at fair value through other comprehensive income	303	310
Interest income on financial assets measured at amortised cost	6,085	3,852
Derivative transactions / Hedge accounting, interest rate risk	0	0
Other assets	0	0
Interest income on financial liabilities	0	0
Total interest income based on the effective interest rate method	**7,813**	**5,483**
Other interest income	0	
Interest income on financial assets held for trading	1,240	684
Other	7	16
Total other interest income	**1,247**	**700**
Total interest and similar income	**9,061**	**6,183**
Interest expense based on the effective interest method		
Interest expense on financial liabilities held for trading	0	0
Interest expense on financial liabilities designated as measured at fair value through profit or loss	0	1
Interest expense on financial liabilities measured at amortised cost	2,756	2,021
Total interest expense based on the effective interest rate method	**2,756**	**2,022**
Other interest expense		
Interest expense on financial liabilities held for trading	1,318	1,057
Total other interest expense	**1,318**	**1,057**
Interest expenses	**4,074**	**3,079**
Total net interest and similar income	**4,987**	**3,104**

5. NET FEE AND COMMISSION INCOME

Data in HUF millions

	2020	2019
Investment services	132	240
Custody services	31	37
Loan and guarantee fees	209	112
Cash flow and account management	1,328	1,181
Bank card services	372	329
Other	142	146
Total fee and commission income	**2,214**	**2,045**
Investment services	0	0
Custody services	21	17
Loan and guarantee fees	243	132
Brokerage commission	10	1
Cash flow and account management	39	33
Bank card services	132	111
Other	39	4
Total fee and commission expense	**484**	**298**
Net fee and commission income	**1,730**	**1,747**

Lump sum fees related to the generation of loans are part of the interest calculated with the effective interest method, so they are recognised under interest and similar income and expense over the life of the loan or receivable.

6. PROFIT OR LOSS FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Data in HUF millions

	2020	2019
Profit or (-) loss from financial assets and liabilities held for trading, net	-249	548
– profit from securities held for trading	27	-157
– net profit from derivatives held for trading	-276	304
– profit or loss from loans held for trading	0	401
Net profit or loss (-) from financial assets measured obligatorily at fair value through profit or loss, not for trading	550	240
Net profit or loss (-) from financial assets designated as measured at fair value through profit or loss	645	595
Net profit or loss (-) from financial liabilities designated as measured at fair value through profit or loss	0	0
Total net profit from financial instruments measured at fair value through profit or loss	**946**	**1,383**

Financial assets

The gain on held-for-trading loans includes a realised gain on the sale of receivables purchased in 2019 in the amount of HUF 83 million (in 2019: HUF 202 million). The total gain on sales was HUF 530 million, which, however, arises from the initial fair value difference of the total purchased portfolio, and thus it was only recognised in the 2019 profit/loss in the amount corresponding to the proportion of part-portfolios derecognised (sold) by the date of preparation of the report. In 2020, the proportionate realised gain on the sale of a new sub-portfolio was recognised in the amount of HUF 83 million. The result from the subsequent valuation of the portfolio still on the books is a loss of HUF 83 million in 2020 (gain of HUF 198 million in 2019), which means that the total net result on trading loans this year is zero (gain of HUF 401 million in 2019).

The net profit/loss from financial assets measured obligatorily at fair value through profit or loss, not for trading, include the profit impact of changes in the fair value of loans that failed the SPPI test. The net earnings figure was largely the result of the follow-up fair value measurement of "babaváró" loans. Additional information related to the valuation is provided in Note 23. Fair valuation of financial instruments. The interest income from these instruments is recognised in the interest income line.

The profit/loss from financial assets designated as measured at fair value through profit or loss include changes in the fair value of fixed-rate customer loans and securities to which IRSs treated as hedges from an economic point of view are related. The FVTPL designation is intended to reduce the otherwise existing accounting mismatch. Additional information related to the valuation is provided in Note 23. Fair valuation of financial instruments. The Bank recognises the interest income of the designated assets in its interest income.

Financial liabilities

The profit/loss from financial liabilities designated as measured at fair value through profit or loss include the profit impact of changes in the fair value of MFB liabilities related to MFB refinanced loans that failed the SPPI test. The Bank designated the MFB refinancing liabilities of loans that failed the SPPI test as instruments measured at fair value through profit or loss in order to eliminate an otherwise existing accounting mismatch. The Bank recognises the interest expense of the designated liabilities as interest expense.

Derivatives

In 2019, the net profit or loss of trading derivative transactions included the fair value of HIRS transactions (interest rate swaps tied to lending activities, introduced by the MNB) in the amount of HUF 175 million. This type of result is not recognised this year, given that there were no more open HIRS transactions this year.

7. PROFIT OR LOSS FROM FINANCIAL INSTRUMENTS NOT CLASSIFIED AS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Data in HUF millions

	2020	2019
Impairment of securities measured at amortised cost	-9	0
Impairment of securities measured at fair value through other comprehensive income	-2	0
Realised profit on sale of securities measured at amortised cost	0	0
Profit realised from the sale of securities measured at fair value through other comprehensive income	48	0
Total net profit from financial instruments not classified as measured at fair value through profit or loss	**37**	**0**

Profit or loss from loans not classified as measured at fair value through profit or loss is recognised by the Bank in the Credit loss and profit line. The Credit loss and profit line also includes the profit or loss from the impairment of securities.

8. DIVIDEND INCOME

In 2020, the Bank received HUF 244 thousand in dividend income from its investment in VISA Inc., while in 2019 the Bank received HUF 798 thousand in dividend income from its investments in VISA Inc. and MKB Pannónia Fund Management.

9. OTHER INCOME AND EXPENSE

Data in HUF millions

	2020	2019
Net profit or loss (-) from the derecognition of non-financial assets	0	1
Other operating income	93	94
Total other operating income	**93**	**95**

	2020	2019
Taxes	40	35
Authority fees	147	108
Resolution Fund	318	229
Claim Settlement Fund	37	52
Other operating expense	50	38
Net profit or loss (-) from the derecognition of non-financial assets	6	0
Total other expense	**598**	**462**

10. CREDIT LOSS AND PROFIT

Data in HUF millions

Item	2020	2019
Individual impairment on loans (net)	54	-14
Collective impairment on loans (net)	55	-8
Total credit impairment	**109**	**-22**
Collective impairment of securities held at amortised cost	9	0
Securities measured at fair value through other comprehensive income	2	0
Collective impairment of securities	**11**	**0**
Other (write-offs, recovery from write-offs, impairment of other assets, etc.)	-1	-1
Total credit loss and profit	**121**	**-23**
Provisioning or (-) release of provisions	**-4**	**-1**

For further information on changes in profit or loss from impairment and provisioning, see Note 37.6.

11. PROFIT/LOSS (-) ON CHANGES

Moratorium I

In March 2020, the Hungarian government declared a state of emergency due to the Covid-19 outbreak and ordered a number of health protection measures to slow down the spread of the virus. On 18 March 2020, it published its first economic package, of which the most important measure affecting the banking sector was the introduction of a moratorium on repayments for all private individuals and businesses, including both principal and interest payments. The moratorium applies to transactions concluded by 18 March 2020 at the latest. The moratorium expired on 31 December 2020. Any interest unpaid as a result of the 2020 repayment moratorium was not be capitalised, and will only be paid at a later date.

The Bank defined the economic loss due to the moratorium (which is mainly due to the fact that the interest due in 2020 for the customers concerned will be paid later) as the difference in the net present value of the unpaid interest amount resulting from the rescheduling of the interest to a later date, discounting the interest cash flows at the effective interest rate of the transactions. Individual agreements with customers were also taken into account in the estimate. As a result of the estimate, the Bank recognised a loss of HUF 56 million.

Moratorium II

On 19 December 2020, the Government announced that the moratorium on loan repayments for families and businesses will be extended unchanged for six months, until 1 July. The moratorium will take effect automatically, and only those who still wish to make repayments will need to contact their bank.

In view of the fact that, based on the information available to the Bank at the time of preparation of the report, the number of customers participating in Moratorium II was approximately the same as the number of customers participating in Moratorium I, the Bank determined the economic loss due to Moratorium II by pro-rating the loss recognised due to Moratorium I (2/3 of the estimated loss for 9 months in 2020 being recognised for the first half of 2021). Accordingly, the loss recognised due to Moratorium II is HUF 37 million).

12. PERSONNEL EXPENSES

Data in HUF millions

Average number of personnel	**2020**	**2019**
Intellectual workers	140	133
Physical workers	0	0
Management	5	5
Average number of employees in total	**145**	**138**

	2020	**2019**
Wage costs	1,420	1,271
Other expenditure related to personnel	147	136
Social contribution	249	242
Vocational training contribution	23	19
Rehabilitation contribution	9	11
Total gross personal expenses	**1,848**	**1,679**

13. GENERAL ADMINISTRATIVE COSTS

Data in HUF millions

	2020	**2019**
Material costs	46	45
Bank card service	419	327
IT costs	563	468
Property rentals	15	18
Advertising, commercials	268	231
Membership fees	7	7
Education, further training	3	5
Information line rental	57	41
Expert fees	668	452
Insurance	6	7
Other rentals	2	0
Other non-material services	67	49
Transaction fee	442	386
Special bank tax	663	589
Other operating costs	231	246
Other general administrative costs	**3,457**	**2,871**

Bank tax

The Bank paid HUF 663 million in bank tax in 2020 (HUF 589 million in 2019). The tax base was HUF 353,544 million for 2020 and HUF 306,781 million for 2019. The effective tax rate was 0.2% in 2020 (0.2% in 2019).
In the case of credit institutions, the tax base in 2020 is the balance sheet total according to IFRS as at 31 December 2018 (in 2019, it was the IFRS balance sheet total as at 31 December 2017). In 2020 (and in 2019) the applicable tax rate was 0.15% for the part of the tax base below HUF 50,000 million and 0.20% for the part above HUF 50,000 million.

The tax base of the bank tax imposed on the Bank in 2021 is the IFRS balance sheet total as at 31 December 2019, the tax base was HUF 398,168 and the amount of the tax is expected to be HUF 757 million. The Bank's 2021 obligation arises on 1 January 2021.

14. INCOME TAX

The components of income tax for 2020 and 2019 are as follows:

Data in HUF millions

	2020	2019
Corporate tax	89	60
Local taxes	179	134
Deferred tax	93	64
Total	**361**	**258**

Corporate tax expense
In 2020 the corporate income tax was 9% on annual profits (also 9% in 2019).
Due to their non-sales nature, local taxes are part of the income tax in the income statement. The local tax includes business tax and innovation tax.
In Hungary there is no agreement on the determination of taxes that would be final from a legal point of view. Within six years of the tax year, the tax authority may review the accounting records at any time and may adjust the tax imposed. Consequently, in the case of a tax authority audit, a tax adjustment may also occur at the Bank. The tax authority reviewed and closed the corporate tax returns of the Bank until 2010, and it also reviewed and closed the Bank's 2015, 2017 and 2018 tax returns. The management is unaware of the existence of any significant tax liability arrears that could arise in years not yet audited by the tax authority.

The effective tax rate applied to the Bank's profit differs from the statutory requirement on account of the following items:

Data in HUF millions

	2020	2019
Profit before tax	**1,978**	**1,376**
Corporate tax rate (%)	**9%**	**9%**
Calculated corporate tax	178	124
Tax implications		
Calculated corporate tax	178	124
Local taxes	179	134
Other	4	-
Income taxes	**361**	**258**
Effective tax rate (%)	18.25%	18.75%

15. LIQUID ASSETS AND EQUIVALENT

Data in HUF millions

	31.12.2020	31.12.2019
Cash	368	389
Account receivables from central banks	6,574	2,342
Other demand deposits	14,346	6,115
Liquid assets and equivalent	**21,288**	**8,846**

16. RECEIVABLES FROM THE MNB AND INTERBANK PLACEMENTS

Data in HUF millions

	31.12.2020	31.12.2019
Receivables from the MNB	185,900	96,525
Interbank placements	30	35,972
Total interbank receivables	**185,930**	**132,497**

17. SECURITIES

Data in HUF millions

	31.12.2020	31.12.2019
Credit institution shares	0	677
Other shares	0	19
Equity instruments	**0**	**696**
Discount treasury bills	80	35,911
Government securities	1	23
Corporate/bank bonds	0	0
Mortgage bonds	0	0
Total debt securities	**81**	**35,934**
Financial assets held for trading	**81**	**36,630**
Credit institution shares	728	0
Other shares	16	0
Corporate/bank bonds	30	49
Financial assets measured at fair value through profit or loss	**774**	**49**
Government securities	12,346	19,655
Corporate/bank bonds	20,313	10,645
Mortgage bonds	3,491	4,922
Total debt securities	**36,150**	**35,222**
Financial assets designated as measured at fair value through profit or loss	**36,150**	**35,222**
Equity instruments	**116**	**116**
Government securities	20,342	7,141
Corporate/bank bonds	0	0
Mortgage bonds	11,168	1,522
Total debt securities	**31,510**	**8,663**
Financial assets measured at fair value through other comprehensive income	**31,626**	**8,779**

Government securities	87,612	4,272
EXIM bonds	8,070	
Financial assets measured at amortised cost	95,682	4,272
Total	**164,313**	**84,952**

Securities designated as measured at fair value through profit or loss are fixed-interest-rate securities whose interest rate risk is, from an economic point of view, hedged by the Bank with IRSs.
The FVTPL designation is intended to reduce an otherwise existing accounting mismatch. In addition to government securities and bank bonds, the portfolio as at 31 December 2020 includes premium corporate bonds purchased within the framework of the Bond Funding for Growth Scheme (BGS) launched by the MNB in 2019, in an amount of 18,067 (in 2019: HUF 9,648 million).

In the case of shares measured at fair value through other comprehensive income, not held for trading, the management has made an irrevocable decision at initial recognition to recognise the change in the fair value of these instruments in other comprehensive income instead of profit or loss. The decision primarily aims to represent the business objective that these shares are not held by the Bank for trading purposes, but rather in an ancillary manner, relating to banking activities.

This category includes the following shares on 31.12.2020:

- CO-OP HITEL Zrt. (6.71%)
- Garantiqa Hitelgarancia Zrt. (0.1276%)
- MKB-Pannónia Alapkezelő Zrt. (2%)

The fair value of the listed shares cannot be reliably established, as there is no active market for these shares. In the opinion of the Management, the book value of investments held at cost approximately equals their fair value.

On 31.12.2020 an impairment loss of HUF 7 million was recognised for securities measured at fair value through other comprehensive income (for details, see: Note 20).

18. DERIVATIVE FINANCIAL INSTRUMENTS

Data in HUF millions

31.12.2020	Nominal value, assets	Nominal value, liabilities	Positive fair value (assets)	Negative fair value (liabilities)
MIRS	23,539	23,539	968	350
IRS	30,826	30,742	480	0
Other	15,661	15,455	234	23
Total derivatives held for trading	**70,026**	**69,736**	**1,682**	**373**
IRSs covering the interest rate risk of securities	16,883	16,883	8	186
IRSs covering the interest rate risk of BGS corporate bonds	17,260	17,260	51	193
IRSs covering the interest rate risk of loans	11,199	11,199	38	75
Total derivative transactions for fair value hedging from an economic point of view	**45,341**	**45,341**	**96**	**454**
Total derivative financial instruments	**115,367**	**115,077**	**1,778**	**827**

Data in HUF millions

31.12.2019	Nominal value, assets	Nominal value, liabilities	Positive fair value (assets)	Negative fair value (liabilities)
MIRS	23,539	23,539	1,080	373
IRS	30,826	30,826	560	0
Other	236	258	2	1
Total derivatives held for trading	**54,601**	**54,623**	**1,642**	**374**
IRSs covering the interest rate risk of securities	23,623	23,623	6	555
IRSs covering the interest rate risk of BGS corporate bonds	9,660	9,660	87	0
IRSs covering the interest rate risk of loans	17,844	17,844	15	186
Total derivative transactions for fair value hedging from an economic point of view	**51,127**	**51,127**	**108**	**741**
Total derivative financial instruments	**105,728**	**105,750**	**1,751**	**1,115**

Derivatives for trading

MIRS transactions have been introduced by the MNB, for monetary policy purposes – they are unconditional interest rate swaps with a general scope. Accordingly, the Bank recognised the difference between the fair value of the initial contract price and the market price of MIRS transactions as first-day profit or loss in 2018 (First-day profit or loss).

Derivatives held, from an economic point of view, for hedging purposes

Derivatives held, from an economic point of view, for hedging purposes are entered into by the Bank to cover the interest rate risk of fixed-interest customer loans and securities (government securities, bank bonds and corporate bonds purchased under the Bond Funding for Growth Scheme). The Bank does not apply hedge accounting to these transactions, but has designated the underlying transactions as measured at fair value through profit or loss to reduce an otherwise existing accounting mismatch.

19. LOANS AND ADVANCES TO CUSTOMERS

Data in HUF millions

	31.12.2020	**31.12.2019**
Held-for-trading loans	3,334	5,060
Customer receivables measured obligatorily at fair value through profit or loss	4,295	1,606
Customer receivables designated as measured at fair value through profit or loss	14,518	17,540
Exposure of customer receivables measured at amortised cost	170,960	142,932
Impairment (-)	-292	-90
Net exposure of customer receivables held at amortised cost	170,668	142,842
Total customer receivables	**192,815**	**167,048**

Among held-for-trading customer receivables, the Bank recognises purchased receivables that were purchased in 2019 at a discounted price for sale. The total portfolio purchased at a discounted price was HUF 6,540 million, of which a HUF 1,446 million portfolio was sold in 2019, and an additional HUF 1,017 million portfolio was sold by the Bank to an independent market party in 2020, before the completion of the 2019 annual statements. In 2020, one more portfolio was sold in December for HUF 174 million.

Customer receivables measured obligatorily at fair value through profit or loss are customer loans that, based on their business model, would be measured at amortised cost, but as shown by the SPPI test their cash flows do not consist exclusively of principal and interest payment components, so even after their initial recognition they continue to be recognised by the Bank at fair value, and changes in their fair value are recognised through profit or loss. Loans that have failed the SPPI test can be categorised as follows:

- Loans with family housing allowance "CSOK" subsidies for which the subsidy also includes a non-market-based component
- MFB refinanced loans in the case of which the loans are denominated in EUR but repayments are made in HUF, and therefore the transactions also entail a currency risk
- "Babaváró" loans, for which the interest rate scheme also includes a non-market-based component (a scheme launched in 2019; the Bank did not yet have any such transaction on its books in the previous years)

Customer receivables designated as measured at fair value through profit or loss are fixed-interest-rate loans whose interest rate risk is hedged by the Bank with IRSs. The FVTPL designation is intended to reduce an otherwise existing accounting mismatch (the Bank does not apply hedge accounting to these transactions).

The portfolio of loans held at amortised cost includes HUF 11,254 million of transactions financed in the framework of the MNB's Funding for Growth Scheme (NHP Program I and II), the initial fair value of which differs from the transaction price, and the difference is deferred by the Bank over the life of the transactions. As a result of the amortisation of the related effective interest rate, the settlement has no overall impact on profit. The deferred initial difference is HUF 5,614 million and the amount not yet amortised is HUF 1,046 million. For subsequent NHP schemes, the Bank did not identify any initial fair value difference.

20. IMPAIRMENT OF FINANCIAL INSTRUMENTS, PROVISIONS (BALANCE SHEET)

Data in HUF millions

31.12.2020	Gross exposure		Impairment/provisions		Net exposure	
	Receivables	Guarantees/Undrawn lines	Impairment	Provision	Receivables	Guarantees/Undrawn lines
Customer loans measured at amortised cost						
Retail segment	17,568	449	5	1	17,563	448
Corporate segment	95,510	20,454	78	11	95,432	20,443
Other financial corporate segment	9,382	1,597	1	0	9,381	1,597
Project loans	40,407	3,844	108	2	40,299	3,842
Local municipalities	1,409	0	0	0	1,409	0
Non-profit segment	681	160	1	0	680	160
Bank segment	0	0	0	0	0	0
State segment	4,568	11,261	6	0	4,562	11,261
Total customer loans measured at amortised cost	**169,525**	**37,765**	**199**	**14**	**169,326**	**37,751**
Securities measured at amortised cost						
State segment	88,990	4,000	9	0	88,981	4,000
Total securities measured at amortised cost	**88,990**	**4,000**	**9**	**0**	**88,981**	**4,000**
Securities measured at fair value through other comprehensive income						
Bank segment	11,117	0	0	0	11,117	0
State segment	20,342	0	2	0	20,340	0
Total securities measured at fair value through other comprehensive income	**31,459**	**0**	**2**	**0**	**31,457**	**0**
Interbank placements						
Interbank placements	20,985	0	0	0	20,985	0
Total interbank placements	**20,985**	**0**	**0**	**0**	**20,985**	**0**

Data in HUF millions

31.12.2019	Gross exposure	Impairment/provisions	Net exposure

	Receivables	Guarantees/Undrawn lines	Impairment	Provision	Receivables	Guarantees/Undrawn lines
Customer loans measured at amortised cost						
Retail segment	16,047	146	3	0	16,044	146
Corporate segment	65,553	15,165	19	16	65,534	15,149
Other financial corporate segment	11,898	1,022	1	0	11,897	1,022
Project loans	41,026	4,793	66	1	40,960	4,792
Local municipalities	1,823	0	0	0	1,823	0
Non-profit segment	858	190	1	0	857	190
Bank segment	0	0	0	0	0	0
State segment	4,353	9,967	0	0	4,353	9,967
Total customer loans measured at amortised cost	**141,558**	**31,283**	**90**	**17**	**141,468**	**31,266**
Securities measured at amortised cost						
State segment	4,272	0	0	0	4,272	0
Total securities measured at amortised cost	**4,272**	**0**	**0**	**0**	**4,272**	**0**
Securities measured at fair value through other comprehensive income						
Bank segment	1,522	0	0	0	1,522	0
State segment	7,141	0	1	0	7,140	0
Total securities measured at fair value through other comprehensive income	**8,663**	**0**	**1**	**0**	**8,662**	**0**
Interbank placements						
Interbank placements	35,972	0	0	0	35,972	0
Total interbank placements	**35,972**	**0**	**0**	**0**	**35,972**	**0**

The securities measured at fair value through other comprehensive income lines do not include shares classified in this category as they are not subject to impairment.

21. LIABILITIES TO THE MNB AND CREDIT INSTITUTIONS

Data in HUF millions

	31.12.2020	31.12.2019
Funding for Growth Scheme (NHP)	65,566	28,350
MNB refinancing loan	111,892	0
Liabilities to the MNB	**177,458**	**28,350**

EXIM	2,798	2,188
FHB	2,279	2,251
MFB	48	32,628
interbank deposits	11,898	11,005
Liabilities to credit institutions	**17,023**	**48,072**
– of this, measured at amortised cost	16,975	48,000
– of this, designated as measured at fair value through profit or loss	48	72

The FGS line in the portfolio of liabilities to the MNB includes HUF 14,767 million of refinancing received in the framework of the MNB's Funding for Growth Scheme (FGS I, II), the initial fair value of which differs from the transaction price, and the difference is deferred by the Bank over the life of the transactions. As a result of the amortisation of the related effective interest rate, the settlement has no overall impact on profit. The deferred initial difference is HUF 5,614 million and the amount not yet amortised is HUF 1,046 million. For subsequent NHP schemes, the Bank did not identify any initial fair value difference. The liability shown under the FGS line includes HUF 40 billion of loans taken out under the FGS Go! scheme.

The FGS line under Liabilities to the MNB also includes so-called synthetic EUR transactions in an amount of HUF 2,515 million, created with the consolidation of HUF funds drawn under the Funding for Growth Scheme and related CCIRS transactions (foreign exchange rate swaps) concluded with the MNB.

The liability shown in the refinancing loan to the MNB line includes funds raised under the MNB's fixed-interest secured loan tender with a maturity of 5 years.

Liabilities to MFB as at 31 December 2019 include a repurchase obligation of HUF 32,553 million due to repo transactions opened at the end of the year. The repo transactions expired on 2 January 2020. As at 31 December 2020 the Bank had no repo transactions.

Financial liabilities designated as measured at fair value through profit or loss include the MFB refinancing of loans that failed the SPPI test. The Bank designated the MFB refinancing liabilities of loans that failed the SPPI test as instruments measured at fair value through profit or loss in order to eliminate an otherwise existing accounting mismatch.

Refinancing loans

The Bank entered into several refinancing credit line agreements with various financial institutions (FHB – Jelzálogbank, MFB – Fejlesztési Bank; EXIM Bank) to finance part of its activities. The definition of eligible beneficiaries, and the monitoring of the final borrowers and the repayment process are governed by a number of contractual provisions. All credit risks related to the final borrower are borne by the Bank in all cases, and the Bank is also responsible to ensure compliance with all obligations.

In 2013 the National Bank of Hungary (MNB) launched a new programme under the name Funding for Growth Scheme. The aim of the programme is to offer refinancing to small and medium-sised enterprises (SMEs) through the Hungarian banking system. For a temporary period and up to a specified amount, the MNB provides credit institutions participating in the programme with funds at a lower interest rate than the market rate. The credit institutions use these funds to extend loans with similarly favourable conditions to SMEs for specific purposes. The maximum term of the refinancing loans is 10 years at the start and is consistent with the maturity of the loan granted to the customer. In order to mitigate the negative economic impact of the coronavirus epidemic and to avoid credit market disruptions, the MNB launched the FGS Go! scheme on 20 April 2020 with a HUF 1,500 billion budget, which was increased by HUF 1,000 billion to HUF 2,500 billion through the Monetary Council's decision of 17 November 2020. Under this scheme, the central bank provides refinancing loans to credit institutions at 0% interest for a maximum maturity of 20 years, which they will, on the one hand, lend further to the SME sector in the form of loans or financial leases at a capped annual cost, and, on the other hand, use for refinancing financial enterprises for the same purpose. Refinancing loans are recognised in the balance sheet as financial liabilities held at amortised cost.

The National Bank of Hungary (MNB) introduced a fixed-interest secured loan transaction from 25 March 2020 until withdrawal, the purpose of the monetary tool being to ensure liquidity at longer maturities. The interest rate on the loan is the fixed interest rate published in the tender notice, while interest payments are due quarterly. Possible maturities of the loans are 3 months, 6 months, 12 months, 3 years and 5 years; the Bank took out loans with a maturity of 5 years.

The management of the Bank thinks it is in full compliance with the covenants related to the loans taken out as at 31 December 2020 (and at 31 December 2019).

22. LIABILITIES TO CUSTOMERS

Data in HUF millions

	31.12.2020	31.12.2019
Demand deposits	220,484	151,984
within 3 months	95,676	107,039
Over 3 months, within 1 year	18,742	18,292
between 1 year and 5 years	4,864	10,830
between 5 years and 10 years	7,305	10,633
between 10 years and 15 years	30	35
more than 15 years	0	0
Total liabilities to customers	**347,102**	**298,813**

The Bank recognises its liabilities to customers at amortised cost, and has no liability to customers that it has designated as measured at fair value through profit or loss.

23. ISSUED BONDS

In October 2017 the Bank issued long-term bonds totalling HUF 5,250 million, which also served as subordinated loan capital and was being used for the expansion of the Bank's business activity. The bond matures on 24.10.2027 with a fixed interest rate of 3.45%.

With a value date of 29 March 2019, the Bank issued a perpetual bond named GRÁNIT 2019/A in the amount of HUF 5,150 million (ISIN code: HU0000358866). The GRÁNIT 2019/A bond could be paid for by offering GRÁNIT 2027/A bonds ("T2 Bonds") issued by the Bank on 24 October 2017. Subscribers of the 2019/A bond used this option, with the exception of a HUF 100 million bond holder. The terms of the GRÁNIT 2019/A bond comply with Article 52 of the CRR and may therefore be considered instruments constituting additional Tier 1 capital ("AT1 Bonds").

The Bank recognises its issued bonds as a liability measured at amortised cost in its balance sheet.

Data in HUF millions

	31.12.2020	31.12.2019
Par value of issued bonds	5,250	5,250
Accrued interest	2	2
Issued bonds	**5,252**	**5,252**

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Data in HUF millions

31.12.2020	Fair value				
	Level 1 input	**Level 2 input**	**Level 3 input**	**Total fair value**	**Book value**
Assets					
Liquid assets and equivalent	21,288			21,288	21,288
Receivables from the MNB		185,900		185,900	185,900
Interbank placements		30		30	30
Securities	143,200	4,532	18,214	165,946	164,313
- of which:					
Held-for-trading securities	*81*	*0*		81	*81*
Securities measured obligatorily at fair value through profit or loss, not held for trading	*744*	*0*	*30*	774	*774*
Securities designated as measured at fair value through profit or loss	*17,515*	*568*	*18,067*	36,150	*36,150*
Securities measured at fair value through other comprehensive income	*31,412*	*98*	*116*	31,626	*31,626*
Securities measured at amortised cost	*93,448*	*3,866*	*0*	97,313	*95,682*
Derivative financial assets		1,778		1,778	1,778
Loans and advances to customers			194,607	194,607	192,815
- of which:					
Held-for-trading customer receivables			3,334	3,334	3,334
Customer receivables measured obligatorily at fair value through profit or loss, not for trading			*4,295*	4,295	*4,295*
Customer loans designated as measured at fair value through profit or loss			*14,518*	14,518	*14,518*
Customer loans measured at amortised cost			*172,460*	172,460	*170,668*
Investments in subsidiaries, joint ventures and associates			3,010	3,010	3,010
Liabilities					
Liabilities to the MNB		178,640		178,640	177,458
Liabilities to credit institutions		16,916		16,916	17,023
- of which:					
Financial liabilities designated as measured at fair value through profit or loss		*48*		48	*48*
Financial liabilities measured at amortised cost		*16,868*		16,868	*16,975*
Liabilities to customers			347,243	347,243	347,328
Derivative financial liabilities		828		828	828
Issued bonds		8,190		8,190	5,252

Data in HUF millions

31.12.2019	Fair value				
	Level 1 input	Level 2 input	Level 3 input	Total fair value	Book value
Assets					
Liquid assets and equivalent	8,846			8,846	8,846
Receivables from the MNB		96,525		96,525	96,525
Interbank placements		35,972		35,972	35,972
Securities	34,327	50,504	128	84,959	84,952
- of which:					
Held-for-trading securities	*719*	*35,911*		*36,630*	*36,630*
Securities designated as measured at fair value through profit or loss	*24,908*	*10,314*		*35,222*	*35,222*
Securities measured at fair value through other comprehensive income	*8,700*		*127*	*8,828*	*8,828*
Securities measured at amortised cost		*4,279*		*4,279*	*4,272*
Derivative financial assets		1,751		1,751	1,751
Loans and advances to customers			167,540	167,540	165,705
- of which:					
Held-for-trading customer receivables			*5,060*	*5,060*	*5,060*
Customer receivables measured obligatorily at fair value through profit or loss, not for trading			*1,606*	*1,606*	*1,606*
Customer loans designated as measured at fair value through profit or loss			*17,540*	*17,540*	*17,540*
Customer loans measured at amortised cost			*143,334*	*143,334*	*141,499*
Investments in subsidiaries, joint ventures and associates			1,443	1,443	1,443
Liabilities					
Liabilities to the MNB		60,903		60,903	60,903
Liabilities to credit institutions		17,873		17,873	15,519
- of which:					
Financial liabilities designated as measured at fair value through profit or loss		*72*		*72*	*72*
Financial liabilities measured at amortised cost		*17,801*		*17,801*	*15,447*
Liabilities to customers			298,855	298,855	298,940
Derivative financial liabilities		1,115		1,115	1,115
Issued bonds		6,775		6,775	5,252

Fair value of financial instruments

Financial instruments measured at fair value

The subsequent measurement and recognition of instruments held for trading (including derivative transactions), financial instruments measured at fair value through profit or loss obligatorily or because so designated, as well as instruments measured at fair value through other comprehensive income (OCI), is performed at fair value, as detailed below.

Liquid market products
In the case of liquid market products, the Bank determines the fair value either by applying the market price directly or by applying the relevant market yield curve directly.

In the case of liquid market products, it is not necessary to adjust the applied market price or market yield curve by additional cost elements, as these are actively included in the price and yield curves by the operation of the market.

Typically these include spot and futures products that are standard transactions concluded with government and banking partners and where at least monthly quotes or yield curve quotes are available.

In the case of measurement based on liquid market prices or market yield curves, the Bank classifies the inputs used as level 1 or level 2 inputs under the fair value hierarchy established by IFRS 13.

Non-liquid market products
In the case of non-liquid market products, the Bank discounts the cash-flow elements of the transaction with the discount rate resulting from the sum of the relevant value of the risk-free yield curve and the cost elements assigned to the transaction.

Applicable scope of additional cost elements:

1. risk premium,
2. liquidity premium,
3. operating costs,
4. capital costs.

1. The risk premium is an excess yield component resulting from credit risk, which risk-averse market participants are likely to expect, being a compensation for the uncertainty inherent in the cash flows of an asset or liability that is the result of the default risk of the counterparty. It can also be designated as "risk adjustment".

   The risk premium is derived by the Bank from the expected credit loss determined on the basis of the Bank's credit risk management model applied to the given customer's given transaction, and therefore the risk premium is determined by converting the expected credit loss estimate into a premium.

   If available, the Bank may use the premium observed on the liquid market, at bond auctions, or on loans offered through tenders (e.g. bond yield premiums) to determine the risk premium. If internal or external parameters are also available, the Bank prefers to use external parameters.

   In the case of transactions where the customer makes a deposit, it is not necessary to take the risk premium into account in proportion to the covered market value (excluding any premiums). If the Bank has entered into a mutual netting and daily margin placement agreement (ISDA, CSA, GMRA) with the counterparty of a transaction, there is no need to apply a risk premium.

2. The liquidity premium is the premium that represents the surcharge of the resource acquired by the Bank for each maturity period. The premium is determined on a market basis based on the MNB's interest rate statistics.

3. In determining operating costs, the Bank compares the amount of its operating costs allocated to the given product type to the value of the exposure.

4. Capital costs are determined by the Bank using the Capital Assets Pricing Model (CAPM), calculated on the basis of the risk-free yield and the value of the risk premium expected for the given investment. Long-term government bond yields (typically that of ten-year government bonds) are used as risk-free yields.

   Capital costs are calculated individually for the given transaction and are determined in proportion to the loan portfolio. The calculation process is as follows:

- determining the risk-weighted asset value of a given transaction: the risk weight (RWA) assigned to the exposure value calculated by deducting eligible collateral from the exposure, multiplied by
- the capital adequacy requirement (CAR) expected by the Regulator, multiplied by
- the capital costs determined using the CAPM model, as detailed above.

During the measurements, the Bank prioritises pricing methods, preferring the application of liquid market prices in the first place, and the direct application of liquid market yields in the second place. The pricing of all derivatives and the pricing of most securities are made by the Bank using these methods. Exceptions among the various securities are the corporate bonds purchased under the Bond Funding for Growth Scheme, in respect of which the Management believes that, in the absence of an active market (and because these securities have not yet been listed on the stock market), their fair value is best represented by their cost price.

During 2019, the method for calculating the operating cost premium was revised in view of the fact that the composition of credit transactions measured at fair value during subsequent measurement had changed. While in previous years the Bank had calculated fair value only for transactions designated as measured at fair value through profit or loss (excluding 2 "CSOK" loans and one MFB refinanced loan), in 2019 significant new portfolios were included in this valuation category, such as the "babaváró" loans (HUF 1,457 million) or the purchased portfolio (HUF 5,060 million). Compared to the previously applied method – according to which the Bank determined the premium as a proportion of total operating expenses to the balance sheet total – in 2019 it introduced a differentiated calculation, by comparing the amount of operating expenses allocated to a given product type against the exposure value, thus ensuring that only the costs incurred for the given product are taken into account and a more accurate fair value calculation is made possible.
The impact of the new methodology on loans designated as measured at fair value is as follows:

- Fair value under the old methodology as at 31.12.2019: HUF 17,197 million
- Fair value under the new methodology as at 31.12.2019: HUF 17,535 million

In 2020 there was no change in the method of calculating the premium.

Instruments measured at fair value using level 3 inputs

The Bank uses level 3 inputs for the following financial instruments that are subsequently measured at fair value:

- Customer receivables measured obligatorily at fair value through profit or loss, not for trading
- Customer loans designated as measured at fair value through profit or loss
- Held-for-trading customer receivables
- Securities measured at fair value through other comprehensive income
- Corporate bonds purchased under the Bond Funding for Growth Scheme (BGS)

Loans that are required to be measured at fair value through profit or loss (because they failed the SPPI test, i.e. the future cash flows of the given loan do not only include principal and interest components), and loans designated as measured at fair value through profit or loss are measured by the Bank using the discounted cash flow method, applying the premium components described above.

The balance of held-for-trading loans includes purchased receivables as at 31.12.2020, which the Bank purchased at a discounted price for the purpose of sale, and thus their subsequent measurement falls under FVTPL, i.e. the fair value through profit or loss category. The fair value of these loans is also determined by the Bank based on the discounted cash flow model, applying the premiums detailed above. In making the estimate, the Bank takes into account the fact that it has entered into an agreement with an independent party to whom it may sell the receivables at an option price equal to the purchase price, while the buyer also receives the return on capital above the purchase price, pursuant to the terms of the agreement. Accordingly, the DCF model calculates future capital cash flows only until the purchase price is recovered.

Loans obligatorily measured at fair value through profit or loss as at 31.12.2020 include "babaváró" loans in the amount of HUF 4,025 million that were subsequently measured at FVTPL due to their failure to pass the SPPI test. The Bank also estimates the fair value of "babaváró" loans using the discounted cash flow model, estimating the expected cash flows at the transaction level. The Bank assumes that the expected cash flow for "babaváró" loans is most affected by the following factors:

- the woman's age at the time of applying for the loan
- the number of children already born to the family when applying for the loan
- whether an application for suspension has been submitted at the time of the valuation

Based on these factors, the Bank classified customers into groups, assessed the expected behaviour of the groups through a representative sample as well, and determined the expected cash flows for the transactions at an individual level, which it then discounted using a market swap yield curve, adjusted by the premiums detailed above.

The Bank quantified in the fair value sensitivity analysis of "babaváró" loans that a shift of +100 bp in the market swap yield curve used for discounting would reduce the fair value amount by HUF 157 million. This impact is expected to be mitigated by a shift in the yield curve of the Government Debt Management Agency (ÁKK) through interest cash flows.

The Bank's non-trading shares are ancillary investments that do not have an active market and in the case of which the Bank's management believes that their book value, which is based on their cost, approximately equals their fair value.

No market price can be observed for the fair valuation of the bonds purchased under the BGS scheme (although the bonds have been listed on the stock exchange, no liquid market has been established), so they are valued using the discounted cash flow (DCF) method – similarly to loans valued at fair value – also taking into account the premiums detailed above.

The effect of premiums as non-observable components on fair values is as follows:

Data in HUF millions

		31.12.2020	
Customer loans	**Fair value with premium**	**Fair value without premium**	**Effect of premium component**
For trading	3,334	3,423	-89
Obligatorily measured at fair value	4,295	4,399	-104
Designated as measured at fair value	14,518	14,941	-423
BGS bonds	18,067	19,691	-1,624

		31.12.2019	
Customer loans	**Fair value with premium**	**Fair value without premium**	**Effect of premium component**
For trading	5,060	5,152	-92
Obligatorily measured at fair value	135	141	-6
Designated as measured at fair value	17,535	18,095	-560

The balance of securities measured obligatorily at fair value through profit or loss includes – in addition to shares listed on the stock exchange – the Bank's investment in VISA Inc. which, due to its specific characteristics, is classified as a bond. For VISA Inc., the Bank uses an unobservable component in fair valuation: It includes a multiplier of 0.9 in the calculation as a liquidity premium.

Among financial instruments measured at fair value under the subsequent measurement, there was no transfer between the levels of the measurement hierarchy either in 2020 or in 2019.

For the results of fair value measurement, see Note 6 "Profit or loss from financial instruments measured at fair value through profit or loss".

Financial instruments not measured at fair value

In the following we present the methods and assumptions used to quantify the fair value of financial instruments that are not held at fair value through profit or loss in the financial statements and their subsequent measurement is based on their amortised cost. The fair value of these instruments is determined only for presentation in the Notes to the accounts.

Securities held at amortised cost
The Bank's portfolio currently includes bank and government bonds, the fair value of which is determined by the Bank directly applying the market yield curve.

Customer loans and interbank transactions held at amortised cost, liabilities held at amortised cost

In the case of liquid assets and liabilities or those with a short remaining term (less than 1 year), the Bank assumes that their book value, based on their amortised cost, approximately equals their fair value. This assumption also applies to demand assets and liabilities, savings assets and liabilities without a specific maturity, and floating-rate assets and liabilities.
The estimated fair value of fixed-rate liabilities held at amortised cost with a residual maturity of over 1 year (including refinancing liabilities) is determined using the discounted cash flow calculation method on the basis of the market yield curve corresponding to the remaining maturity. In the case of customer deposits, the Bank discounts future cash flows at market rates determined on the basis of MNB statistics by major segment (retail/corporate; HUF/EUR; savings of less/more than 2 years).
The fair value of fixed-rate assets held at amortised cost with a residual maturity of over 1 year is determined using the discounted cash flow calculation method on the basis of the estimated market yield curve of the asset, corresponding to the remaining maturity, applying the premium components described above.

The Bank believes that the book value, less impairment, is the best approach to the fair value of defaulted transactions classified in basket 3, during the calculation of which an individual cash flow stress method is used to determine the value of the transaction and therefore no non-realised profit or loss is recognised for these transactions in these Notes.

25. OTHER INFORMATION RELATING TO FINANCIAL INSTRUMENTS

Assets used as collateral for liabilities and contingent liabilities

Data in HUF millions

	31.12.2020	**31.12.2019**
Assets that are used as collateral for the following liabilities:		
MNB Funding for Growth Scheme	50,373	30,060
Derivatives	1,440	1,670
FHB refinancing loans	2,279	2,251
Total assets used as collateral	**54,092**	**33,981**

The assets used as collateral for the MNB Funding for Growth Scheme are partly government securities held by the company, recognised in the balance sheet in the Securities line (HUF 4,577 million on 31.12.2019, HUF 4,266 on 31.12.2020), and the remaining part consists of collateral behind loans disbursed under the programme (property and other collaterals).

Assets used as collateral for derivative transactions consist of interest rate swap collateral accounts, which are recognised in the balance sheet in the Receivables from MNB line.

Behind the refinancing loan portfolio provided by FHB, the collaterals consist of loans granted to customers, recognised in the balance sheet under loans and advances to customers measured at amortised cost.

Transferred financial assets

At 31 December 2020, the Bank had no transferred assets.
As at 31 December 2019, the Bank had 3 open repo transactions, of which its repurchase obligations to MFB amounted to HUF 32,553 million in total. The Bank recognised the liability at amortised cost in the balance sheet line 'Liabilities to credit institutions' (see Note 20). The Bank recognised securities transferred to repo in the "Securities" line of the balance sheet (see Note 15).

Offsetting of financial assets and liabilities

The following tables show the financial assets and liabilities that are subject to an enforceable, primary netting agreement as at 31 December 2020:

Data in HUF millions

	Volumes stated in the balance sheet		
31.12.2020	Gross value of financial assets	Gross value of financial liabilities to be offset	Net value of financial assets
Derivatives	1,778		1,778
Total financial assets subject to offsetting or primary netting agreements	**1,778**		**1,778**

Volumes stated in the balance sheet

	Gross value of financial liabilities	Gross value of financial assets to be offset	Net value of financial liabilities
Derivatives	828		828
Total financial liabilities subject to offsetting or primary netting agreements	**828**		**828**

31.12.2019	Volumes stated in the balance sheet		
	Gross value of financial assets	Gross value of financial liabilities to be offset	Net value of financial assets
Derivatives	1,751		1,751
Total financial assets subject to offsetting or primary netting agreements	**1,751**		**1,751**

	Volumes stated in the balance sheet		
	Gross value of financial liabilities	Gross value of financial assets to be offset	Net value of financial liabilities
Derivatives	1,115		1,115
Total financial liabilities subject to offsetting or primary netting agreements	**1,115**		**1,115**

The derivatives are subject to the following netting agreements: ISDA (International Swaps and Derivatives Association) agreements, CSAs (Credit Support Annexes) and GMRAs (Global Master Repurchase Agreements). The Bank has no open repurchase or reverse repurchase (repo) transactions on the reporting dates.

The Bank has no primary netting agreements, the financial assets and liabilities under which are not offset against each other in the balance sheet.

Financial asset reclassifications due to a business model during the year

In 2020, the Bank reclassified its FHB and Opus shares from trading securities to securities measured obligatorily at fair value through profit or loss, in line with the change in the business purpose as defined by the Treasury, whereby the shares were transferred from the trading book to the banking book. The reclassification has no impact on the valuation of the securities, given that under both classifications the subsequent measurement is the measurement at fair value through profit or loss. In 2019, the Bank did not reclassify any financial assets in its asset portfolio due to a business model.

Information on credit, market and liquidity risk management

Information on the management of credit, market and liquidity risks of the Bank is provided in Note 37 on Risk management.

26. OTHER ASSETS

Data in HUF millions

	31.12.2020	31.12.2019
Receivables from founders	0	0
Banking operation stocks	10	10
Advances	49	99
Central budget subsidies	202	50
Buyers	30	226
Deferred operating costs	88	33
Bank card activity settlements	578	561
Account management settlements	224	94
Special epidemiological tax	577	0
Other receivables	247	262
Other assets	**2,005**	**1,335**

Of the other assets, items recognised in the Buyers line are classified as financial instruments, which were mainly received in January 2021.
In order to mitigate the economic damage caused by COVID-19, the Government decided to introduce a special epidemiological tax under the Economy Protection Action Plan (Govt. Decree 108/2020 (IV.14.)). The credit institution may choose to reduce its liability for the special bank tax in the following years by the amount paid as the special epidemiological tax, and the Bank will therefore record this as a receivable in its books.

27. INTANGIBLE ASSETS

Change in intangible assets (2020)

Data in HUF millions

	Cost (gross value)			
Change in the gross value of intangible assets (2020)	Opening	Increase	Decrease	Closing
Concessions, licences and similar rights	13	1	0	14
Intellectual property	1,366	755	7	2,114
Gross value of intangible assets	**1,379**	**756**	**7**	**2,128**

	Accumulated depreciation			
Accumulated depreciation of intangible assets (2020)	Opening	Increase	Decrease	Closing
Concessions, licences and similar rights	9	1	0	10
Intellectual property	574	164	0	739
Accumulated depreciation of intangible assets	**584**	**166**	**0**	**749**

Net value of intangible assets (2020)	31.12.2020
Concessions, licences and similar rights	4
Intellectual property	1,374
Net value of intangible assets	**1,378**

Change in intangible assets (2019)

Data in HUF millions

	Cost (gross value)			
Change in the gross value of intangible assets (2019)	Opening	Increase	Decrease	Closing
Concessions, licences and similar rights	13	0	0	13
Intellectual property	1,092	278	4	1,366
Gross value of intangible assets	**1,105**	**278**	**4**	**1,379**

	Accumulated depreciation			
Accumulated depreciation of intangible assets	Opening	Increase	Decrease	Closing
Concessions, licences and similar rights	8	1	0	9
Intellectual property	456	119	0	574
Accumulated depreciation of intangible assets	**463**	**120**	**0**	**584**

Net value of intangible assets	**31.12.2019**
Concessions, licences and similar rights	4
Intellectual property	792
Net value of intangible assets	**796**

28. TANGIBLE ASSETS

Change in tangible assets (2020)

Data in HUF millions

	Cost (gross value)			
Change in the gross value of tangible assets (2020)	Opening	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	547	173	34	686
Equipment, machinery and vehicles	587	381	207	761
Gross value of tangible assets	**1,134**	**553**	**241**	**1,447**

	Accumulated depreciation			
Accumulated depreciation of tangible assets (2020)	Opening	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	142	146	8	279
Equipment, machinery and vehicles	324	161	191	294
Accumulated depreciation of tangible assets	**466**	**307**	**200**	**573**

Net value of tangible assets (2020)	31.12.2020
Property and related concessions, licences and similar rights	407
Equipment, machinery and vehicles	467
Net value of tangible assets	**874**

Change in tangible assets (2019)

Data in HUF millions

	Cost (gross value)			
Change in the gross value of tangible assets (2019)	Opening	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	39	508	0	547
Equipment, machinery and vehicles	397	196	6	587
Gross value of tangible assets	**436**	**704**	**6**	**1,134**

	Accumulated depreciation			
Accumulated depreciation of tangible assets (2019)	Opening	Increase	Decrease	Closing
Property and related concessions, licences and similar rights	16	126	0	142
Equipment, machinery and vehicles	268	57	1	324
Accumulated depreciation of tangible assets	**284**	**183**	**1**	**466**

Net value of tangible assets (2019)	31.12.2019
Property and related concessions, licences and similar rights	406
Equipment, machinery and vehicles	263
Net value of tangible assets	**668**

On 31.12.2020, 'Property and related concessions, licences and similar rights' include property lease rights in the amount of HUF 225 million (on 31.12.2019: HUF 253 million), which the Bank recognised as an asset in its balance sheet in accordance with the requirements of IFRS 16 effective from 1 January 2019. The lease right embodies the lease rights of the Bank's head office, branches and parking spaces, which the Bank will write off over 3-5 years, in accordance with its lease agreement in force.

Recognised rights of use apply to the following types of devices:

Presentation of changes in rights of use 2020

	Cost (gross value)			
	Opening	Increase	Decrease	Closing
Real estate	358	125	26	457
Parking spaces	15			15
Gross value of rights to use assets	**373**	**125**	**26**	**472**

	Accumulated depreciation			
	Opening	Increase	Decrease	Closing
Real estate	115	129	7	237
Parking spaces	5	5		10
Gross value of rights to use assets	**120**	**134**	**7**	**247**

	31.12.2020
Real estate	220
Parking spaces	5
Net value of rights to use assets	**225**

Presentation of changes in rights of use 2019

	Cost (gross value)			
	Opening	Increase	Decrease	Closing
Real estate	332	26		358
Parking spaces	15			15
Gross value of rights to use assets	**347**	**26**	**0**	**373**

	Accumulated depreciation			
	Opening	Increase	Decrease	Closing
Real estate	0	115		115
Parking spaces	0	5		5
Gross value of rights to use assets	**0**	**120**	**0**	**120**

	31.12.2019
Real estate	243
Parking spaces	10
Net value of rights to use assets	**253**

29. DEFERRED TAX RECEIVABLES AND TAX LIABILITIES

Deferred tax and its changes recognised in the balance sheet:

31 December 2020

Data in HUF millions

	Asset	Liability	Profit	Equity
Fair value difference of securities – instruments measured through comprehensive income	**-2**	**0**	**0**	**-3**
Tax adjustment items				
Intangible assets and tangible assets	**5**	**0**	**13**	**0**

Impairment	**1**	**0**	**1**	**0**
Credit provision	**1**	**0**	**-1**	**0**
Total tax adjustment items	**6**	**0**	**12**	**0**
Accrued losses	44	0	-105	0
Total deferred tax	**48**	**0**	**-92**	**-3**

31 December 2019

Data in HUF millions

	Asset	Liability	Profit	Equity
Fair value difference of securities – instruments measured through comprehensive income	**1**	**0**	**0**	**-10**
Tax adjustment items				
Intangible assets and tangible assets	-8	0	-12	0
Impairment	0	0	0	0
Credit provision	2	0	0	0
Total tax adjustment items	**-5**	**0**	**-13**	**0**
Accrued losses	149	0	-51	0
Total deferred tax	**144**	**0**	**-64**	**-10**

The Bank recognises the profit effect of deferred tax in the Income taxes line.
As the total amount of accrued losses was generated before 1 January 2015, it can be used indefinitely.

30. PROVISIONS

The development of provisions related to lending activities is detailed in Note 18, together with the development of impairment. In addition to the provisions related to lending activities, the Bank's books do not include any other provisions (as at 31 December 2019 other provisions were HUF 7 million in relation to legal issues).

31. OTHER LIABILITIES

Data in HUF millions

	31.12.2020	31.12.2019
Suppliers	148	43
Leasing liabilities	231	242
Liabilities to central budget	319	262
Account management settlements	384	407
Accrual of operating costs	321	247
Accrual of bonuses	372	316
Accrued income	245	328
Total other liabilities	**2,020**	**1,845**

Of the other liabilities, items recognised in the Suppliers line are classified as financial instruments, which have been settled by the date of approval of the statements.

32. SUBSCRIBED CAPITAL

	31.12.2020	31.12.2019
Issued ordinary shares in circulation, no.	11,246,773	8,493,955
The nominal value of issued ordinary shares in circulation is HUF 1,000.	11,246,773	8,493,955

Shareholders of the Bank:

Shareholders of the Bank:	**31.12.2020**	**31.12.2019**
E.P.M Kft. (Éva Hegedűs Chairperson & CEO)	57.03%	61.20%
ESOP	16.00%	14.32%
MKB Pension Fund	7.53%	9.98%
Pannonia Pension Fund	7.51%	9.95%
KMVA	5.93%	0.00%
GRNTBNK Kft	2.55%	0.00%
Gold Taurus	0.73%	1.95%
Coop Innova	0.49%	0.64%
Jenő Siklós, Deputy CEO	0.48%	0.63%
Small investors	1.01%	1.34%
Total	**100.00%**	**100.00%**

In 2010, the year when the Bank's operations were started, the Bank had two shareholders, companies owned by Sándor Demján and Éva Hegedüs. Later the Bank's ownership structure gradually expanded to include private investors and in 2013 the Hungarian State became a minority owner. The state acquired a stake in the Bank strictly on a market investment basis, with the management rights retained by the private investors.
In 2017 the Bank's subscribed capital was raised; Pannónia Pension Fund and MKB Pension Fund subscribed for a total of HUF 385 million while the GRÁNIT Bank ESOP entity subscribed for HUF 1,216 million of newly issued ordinary shares.
The Hungarian State announced an open, two-round tender on 20 July 2017, for the sale of its shareholding in the Bank. The winning bidder in the tender was E.P.M. Kft., and the official announcement to such effect was made on 22 December 2017. The ultimate controlling owner of the Bank is the owner of EPM Kft., CEO Éva Hegedűs.
Established in 2017, the ESOP Entity enables employees specified in the ESOP Remuneration Policy, subject to the conditions set forth therein, to acquire, conditionally, ordinary shares issued by the Bank, with the intention that by acquiring a direct stake in the Bank they will be motivated to contribute, in their capacity as owners, to the effective and profitable risk management of the Bank, to the successful implementation of the Bank's strategy, and to increasing shareholder value.
In 2020, a total of HUF 4.29 billion of new capital (HUF 953 million in subscribed capital and HUF 3,337 million in capital reserves) was invested in the Bank by the Carpathian Basin Enterprise Development Venture Capital Fund managed by Széchenyi Funds and a private investor (GRNTBANK Kft). Additional capital was raised through the ESOP entity for a total amount of HUF 2,910 million (1,799 in subscribed capital and 1,110 in capital reserve).

33. CONTINGENT RECEIVABLES AND LIABILITIES

In its ordinary course of business, the Bank concludes business transactions with financial instruments related to loans that carry off-balance-sheet risk. This includes credit lines, financial guarantees, and letters of credit. These instruments contain credit risk elements that exceed the amounts recognised in the balance sheet.
The credit risk of off-balance-sheet financial instruments means the possibility of loss arising from the non-contractual performance of any other party to the financial instrument. With respect to contingent liabilities, the Bank follows the same lending policy as in the case of financial instruments in the balance sheet, from approval procedures to risk management limits to monitoring processes.

Credit lines are contractual agreements for the provision of credit, usually with a fixed or otherwise specified maturity, and with payment obligations. The potential credit loss is less than the amount of undrawn funds, since in the case of most credit lines provision of the credit depends on the customer's compliance with the terms to be fulfilled. As many credit lines are expected to expire without the credit being actually drawn down, the amount of the commitments does not necessarily reflect future cash needs.
Issued financial guarantees are contingent liabilities by which the Bank guarantees the performance of one of the Bank's customers to a third party. The credit risk inherent in the issuance of a guarantee is essentially the same as in the case of lending to other customers. When determining the probability of loss resulting from the guarantee, the Bank applies the same principles as for the establishment of the provision to be generated for potential loss of other credit lines.
Letters of Credit are financing transactions between the Bank and a customer, where the customer is usually the buyer/importer whereas the beneficiary is typically the seller/exporter of goods. The credit risk is limited, as the delivered goods serve as collateral for the transaction.
The Bank generates provisions for the credit risk of its contingent liabilities related to its lending activities as detailed in Note 20 to the financial statements.

The Bank's contingent receivables and contingent liabilities related to lending are as follows:

Data in HUF millions

	2020	2019
Contingent liabilities	**45,474**	**33,195**
Guarantees:	6,541	2,047
Revolving loan:	21,204	13,754
Approved credit lines	17,713	17,378
Other	16	16
Future liabilities	**30,513**	**9,408**
From SWAP transactions	12,589	236
From interest from swap transactions	6,293	6,704
NDF sales transactions (without capital movement)	0	0
From delivery forward sales transactions (with capital movement)	8,643	257
Transactions with settlement within two days	2,988	2,211
Irrevocable promissory notes	0	0
Contingent receivables	**278,343**	**235,984**
- Guarantees and received sureties	12,120	7,855
Real estate received as collateral	120,735	113,899
Guarantees received from the Hungarian state	49,005	19,819
Other guarantees	92,627	90,728
Received credit lines	3,856	3,683
Future receivables	**27,565**	**9,438**
From SWAP transactions	9,079	236
From interest from swap transactions	6,397	6,730
NDF sales transactions (without capital movement)	0	0
From delivery forward sales transactions (with capital movement)	8,932	259
Transactions with settlement within two days	3,157	2,213

34. TRANSACTIONS WITH RELATED PARTIES

The concept of related party includes the entities that are directly or indirectly under the control of the Bank Group, have an influence over the Bank Group, are controlled by the same entity as the Bank Group, as well as associates and the management of the Bank Group.

Parent company: E.P.M. Kft. 57%
At the end of the years 2020 and 2019 the Bank had no receivables or liabilities to its parent company.

Management in key position

The management of the Bank Group includes the members of the Bank's Board of Directors and Supervisory Board, the CEO and the Deputy CEOs.

Data in HUF millions

	Credit		Deposit	
	2020	**2019**	**2020**	**2019**
Supervisory Board	0	0	24	3
Board of Directors – Management	131	135	42	36
Total	**131**	**135**	**66**	**39**

Credit and deposit transactions with the management were concluded with market conditions.

Compensation paid to the management for the financial year

2020

Item	Number of persons receiving compensation	Wages and other short-term benefits	Multi-year incentive benefits	Share-based benefits
Board of Directors – Management	5	223	32	48
Supervisory Board	3	16	0	0
Total	**8**	**239**	**32**	**48**

2019

Item	Number of persons receiving compensation	Wages and other short-term benefits	Multi-year incentive benefits	Share-based benefits
Board of Directors – Management	5	201	32	31
Supervisory Board	3	7	0	0
Total	**8**	**208**	**32**	**31**

35. DEFINED BENEFIT PLANS

The Bank manages its Remuneration Policy by defining remuneration principles ensuring a safe and prudent operation that is in line with the Bank's business strategy, goals, values, and the long-term interests of the organisation, as well as an effective and efficient risk management, and in harmony with all of these ensures the increase of shareholder value.

The Remuneration Policy applies to all employees of the Bank, with a particular focus on senior executives and employees with risk-taking and control functions as defined in the Internal Rules and employees in the same remuneration category as the above, whose activities have a material impact on the risk taking of the Bank.
The Bank's System of Remuneration consists of the following:

- Basic wage,
- Fringe benefits,
- Annual bonus,
- Target bonus (project bonus),
- Rewards,
- Participation in ESOP Entity.

Annual bonus, reward

Data in HUF millions

	2020	2019
Liability at the beginning of the period	**316**	**340**
Payment	-201	-202
Training	257	178
Liability at the end of the period	**372**	**316**

Employee Stock Ownership Plan (ESOP)

ESOP I

On 14 March 2017 the Bank's Board of Directors decided to establish the GRÁNIT Bank Employee Stock Ownership Plan (ESOP) Entity, of which the Bank remains the sole owner. The ESOP Entity used all of the founder's equity of HUF 1,343 million, placed at its disposal by the Bank (1,216,343 shares at a price of 110.43%), for the subscription of ordinary shares issued by the Bank.

The purpose of the ESOP Remuneration Policy is to transfer ordinary shares issued by the Bank to the employees and executive officers of the Bank, subject to conditions, with the intention that by acquiring a direct stake in the Bank they will be motivated to contribute, in their capacity as owners, to the effective and profitable risk management of the Bank as prescribed in the Act on Credit Institutions and Financial Enterprises, and to increasing shareholder value.

The duration of the ESOP I plan was 3 years; the fulfilment conditions were set out in the ESOP Articles of Association and the Remuneration Policy. The benefit is paid by the Bank's shareholders, but it is the Bank that receives the services as a consideration for the benefit, therefore the benefit is recognised by the Bank as a share-based payment transaction settled in equity instruments in accordance with IFRS2.43B(b). The expense or the related increase in equity was recognised in the period in which the employees rendered the service, i.e. over the 3 years of the plan, in a linear manner. The Bank must determine the fair value of the services received on the basis of the fair value of the equity instruments granted, as the fair value of the services received typically cannot be determined reliably. The Bank determined the fair value using a methodology based on scenario analysis, estimating the value of the likely share price increase resulting from the service provided by the employees participating in the plan. The fair value at the time of the provision was HUF 138.5 million, and correspondingly the increase in equity and cost per year was HUF 46.2 million. The ESOP I plan was closed in 2020, and accordingly, the total amount (HUF 138.5 million) was transferred, within equity, from the 'Reserve for share-based payment transactions settled in equity instruments' line to the 'Profit reserve' line. The interest income of the Banking Group includes interest income of HUF 19 million recognised on loans to members, which cannot be paid as a benefit due to legal restrictions. The Group's profit reserve also includes an amount of HUF 43 million that cannot be paid to members due to legal restrictions, which will remain with the Group after the closure of the ESOP I plan and settlement with members.

ESOP II

The Bank's Board of Directors adopted a decision on the ESOP II plan on 15.12.2020. The ESOP Entity used all of the founder's equity of HUF 2,910 million placed at its disposal by the Bank (1,799,484 shares at a price of 161.7%) for the subscription of ordinary shares issued by the Bank.

The structure of ESOP II is identical to that of ESOP I, with a similar 3-year duration, and the fulfilment conditions are set out in the ESOP Articles of Association and the Remuneration Policy. The benefit is paid by the Bank's shareholders, but it is the Bank that receives the services as a consideration for the benefit, therefore the benefit is recognised by the Bank as a share-based payment transaction settled in equity instruments in accordance with IFRS2.43B(b). The expense or the related increase in equity is recognised in the period in which the employees rendered the service, i.e. over the 3 years of the plan, in a linear manner. The Bank must determine the fair value of the services received on the basis of the fair value of the equity instruments granted, as the fair value of the services received typically cannot be determined reliably. Similar to the previous plan, the Bank determined the fair value using a methodology based on scenario analysis, estimating the value of the likely share price increase resulting from the service provided by the employees participating in the plan. The fair value at the time of the provision was HUF 210 million, and correspondingly the increase in equity and cost per year was HUF 70 million.

36. COMPENSATION OF THE AUDITOR

Data in HUF millions

	2020	**2019**
Fees for statutory audit services	37	25
Fees for non-audit services provided by a statutory auditor	2	23
Fees for services provided by other audit firms	30	13
Total fees paid to audit firms	**69**	**61**

As required by the Accounting Act, the Bank is a company subject to an audit. In 2020 (and in 2019) PricewaterhouseCoopers Könyvvizsgáló Kft. provided statutory audit services to the Bank and its subsidiaries.
Non-auditing services provided by a registered auditor include other fees related to accounting-related consultancy (2019), and the performance of statutory investigations in connection with the transfer of mortgage loans (2019, 2020).
The fees for services provided by other auditing firms include legal services and tax advisory fees.

37. EVENTS AFTER THE BALANCE SHEET DATE

On 21.01.2021, the MNB updated and published its executive circular "On the use of macroeconomic information and indicators of significant credit risk in the application of IFRS 9", in which it clarified and defined the expectations for the application of IFRS 9. Among other things, the amendment highlights the expectations for the classification of transactions of customers using the moratorium in the IFRS 9 basket and for the classification in the restructured category.

The MNB does not consider it justified that, in view of the moratorium repayment rescheduling alone, the institutions concerned should automatically consider their exposures to be restructured, provided that the exposure had been subject to the moratorium for less than 9 months of the combined period of Moratorium 1 and Moratorium 2 up to 30 June 2021.

However, this preferential treatment option may not be applied to exposures that became subject to a moratorium after 31 March 2021.

Where an exposure subject to Moratorium 2 has been affected by the moratorium for more than 9 months of the combined period of Moratorium 1 and Moratorium 2 up to 30 June 2021, it is reasonable to presume that the obligor is experiencing or is likely to experience financial difficulties in meeting its financial obligations. However, this presumption and the recognition of the exposure as a restructured exposure may be disregarded on an individual basis, if the institution can demonstrate in a verifiable manner that the obligor is not experiencing, and is not expected to experience, financial difficulties in meeting its financial obligations.

38. RISK MANAGEMENT

The Bank Group's risk management policies are identical to the Bank's custom risk management policies as the companies included in the consolidation, due to the low number of their transactions and their effect on the consolidated statements – do not necessitate the use of additional risk management policies that are different from custom one. However, the numerical data presented in these Notes have been prepared on a consolidated basis.

38.1. Risk Management Committees

The **Asset-Liability Committee** ("ALCO") is a standing committee set up by the Board of Directors. It has, within specified limits, decision-making rights concerning the management of the Bank's assets and liabilities and related risk management and capital adequacy issues. The detailed rules of operation of the committee are defined in a separate regulation. The Committee held 14 meetings in 2020.

The **Credit Committee** ("CC") is a standing Committee set up by the Board of Directors. It has decision-making rights concerning Gránit Bank's risk-taking, as well as issues related to risk-taking and its monitoring. The detailed rules of operation of the committee are defined in a separate regulation. In 2020, the Committee met 5 times and several written votes were held due to the pandemic.

The **Problem Claims Committee** ("PCC") is a standing committee set up by the Board of Directors. It has decision-making rights to recover Gránit Bank's overdue receivables, to conduct activities concerned with other breaches of contract or other facts, and to monitor, manage and recover the Bank's claims and commitments related to problematic claims and partners. The detailed rules of operation of the committee are defined in a separate regulation. The PCC did not hold a meeting in 2020; in one case there was a written vote.

38.2. Risk strategy, processes, scope

The Bank manages its risks prudently, conservatively, and makes sure that its customers should not become indebted to an extent over their capacity of repayment, which must not be exceeded even during a potential economic turbulence.

The Bank's portfolio of assets is of impeccable quality thanks to the Bank's exceptionally well-regulated and conservative risk-taking policy.

Since 2010 the Bank has used the standard method for calculating the credit and market risk capital requirement in Pillar I, while it uses the basic indicator method for calculating the capital requirement for operational risk.

The Bank develops its portfolio in compliance with conservative risk management and prudent business policy to ensure the best possible quality of it. As part of its risk management strategy and policy, the Bank uses the following tools:

- The ultimate goal of all of the Bank's business activities is to make a profit of sufficient magnitude in the long term.
- The Bank's strategy for defining asset-side growth targets is to build what in risk terms is a high-quality portfolio, regarding the quality of the portfolio as the primary objective rather than quantity-based growth.
- The business and risk management functions are jointly responsible for the quality of the Bank's asset portfolio.
- An independent risk management function has been established, separate from the business area within the organisation, and directly reporting to the Bank's Chairperson and CEO as an organisational unit.
- Those responsible for Compliance and Anti-Money Laundering (hereinafter: AML) perform their activities, in terms of organisation, separately from operating and risk taking processes.
- The prudent and conservative risk management policies are regularly reviewed by the Bank, so they were also reviewed in 2019. It is part of the Bank's risk-taking policy that it must be implemented in a dynamically changing business environment.

- The Bank continuously monitors the operation of the established risk management systems and, if possible, subsequently measures the results and improves and ameliorates them on the basis of the experience gained.
- The Bank's management body with control powers approves, regularly reviews, and evaluates strategies and rules for segregation of responsibilities within the organisation, prevention of conflicts of interest, the taking, measurement, management, monitoring and evaluation of risks, including risks resulting from the macro-economic environment and changes in the current economic cycle.
- A part of the risk management strategy is the development of effective risk management processes.
- The risk management process is part of the Bank's comprehensive management system, the aspects of which play a role in strategic and annual planning.
- In any case, risk taking can only take place within the approved limit, in accordance with the guidelines of the Credit Policy.
- The Bank assumes only risks that can be measured and managed and that do not exceed its risk-bearing capacity. The risks are taken into account in the course of business decisions.
- The Bank focuses its risk-taking on business activities in which it possesses the necessary expertise and technical conditions for the assessment, measurement and monitoring of the risks entailed.
- The Bank's risk management policy includes the principle of safe operation, the principle of the avoidance of conflicts of interest, the principle of managing material risks, the cost-benefit principle, and the principle of avoiding prohibited activities.
- The Bank uses multi-level decision making in its lending decisions.
- Bank risks are determined on the basis of the ICAAP and the relevant EU Regulation.
- The Bank continuously monitors exposures and compliance with the limits at the level of the Credit Committee, the Asset-Liability Committee, the Board of Directors and the Supervisory Board as well. Risk management policy also involves a balance between the risk and return of positions and the continuously monitoring of it.
- The prior approval of the Asset-Liability Committee is required before the submission of the more important risk management rules/regulations detailed in the ELC Rules of Procedure to other bodies.
- The Bank also applies the four-eye principle when implementing risk-taking decisions to ensure compliance and fully conformity with the relevant policies.
- In order to reduce risks and capital requirements, the Bank only assumes any risks, depending on the creditworthiness of the customer and the risk structure of the transaction, if collateral or security of adequate quality (e.g. received guarantee, security deposit, government security collateral, surety, mortgage, etc.) is available.

38.3. Organisational units and functions that ensure the identification, measurement and monitoring of risks

The Bank has developed and operates its internal lines of defence, as well as each element that forms part of them, in accordance with the relevant legal requirements and the specificities, scope, complexity and risks of the service activities conducted by the Bank.
Accordingly, the Bank has developed and operates internal lines of defence that promote:

- the reliable and efficient operation of the Bank in accordance with laws and internal regulations,
- the protection of the Bank's assets, as well as the economic interests and social goals of its customers and owners,
- through these, the Bank's smooth and efficient operation and the preservation of trust towards the Bank.

The most important task of the Bank's internal lines of defence is to contribute preventively and proactively to the achievement of the above objectives by identifying and addressing potential problems and deficiencies that may arise during their operation at the earliest stage possible, as soon as they arise or possibly even before that, ensuring the speed and efficiency of a solution.
The Bank's internal lines of defence include the responsible internal management and internal control functions. The Bank ensures the implementation of responsible internal management by establishing and operating the organisational structure, organisation and system of bodies defined in its Organisational and Operational Rules, and by exercising management and control functions. The tools of the internal control functions are risk management functions, the compliance function and the internal audit system. The Bank's separate policies govern these tools, which are independent of each other and the functions they control.

The Asset-Liability Committee (ALC) regularly reviews the operation of internal lines of defence as well as the individual sub-systems that form part of them, and prepares a report of its findings regularly for the Board of Directors and the Supervisory Board.
Separate policies and rules of procedure govern the operation and interrelationship of all the Bank's decision-making bodies and organs (Board of Directors, Supervisory Board, Management Committee, Credit Committee, ALC, Problem Claims Committee), as well as Internal Audit and Compliance.
Overall, the lines of defence work effectively. Meetings of the Management Committee and the Asset-Liability Committee are held at least once a month, whereas the Credit Committee, the Board of Directors and the Supervisory Board meet at least quarterly. Any deficiencies that may arise are addressed by immediate measures.
Those responsible for Compliance and AML also perform their activities separately from operating and risk taking processes.

Risk Management function:
Risk Management is independent of the activities it supervises and controls, as well as from the Compliance function and Internal Audit.
The organisational framework of the process by which risk appetite can be established, the extent of the risks undertaken can be monitored and continuously maintained, has been set out within the risk strategy. The Bank does not limit risk management activities to the risk management area only, as being a company with a risk-conscious approach, the management of the Bank's risks is also the responsibility of its governing body, its management and employees alike.
As regards the Bank's growth, risk management areas have been separated, and a Risk Management Directorate and a Risk Management Methodology Directorate operate within the risk management function. The Board of Directors is headed by a Managing Director, whose immediate operational superior is the Chairperson & CEO of the Bank. He/she has an obligation of accountability and regular reporting to the Chief Risk Officer (CRO) during the performance of the risk control function, which is separate from the operational risk management areas. All subordinate employees of the Board of Directors have an obligation to report to the managing director of the Board of Directors.

The Risk Management Directorate is divided into the following departments:

- Corporate Credit Risk Management Department
- Retail Credit Risk Management Department

The Risk Management Methodology Directorate is divided into the following department(s):

- Market and Operational Risk Management

The independent control of the system and operation of risk management is primarily provided by the Asset-Liability Committee and its members, the competence of which is defined in detail in the relevant Rules of Procedure. Central risk control is implemented at the level of the Deputy CEO responsible for Finance and Operations.

Risk assumption activities are conducted by the Bank on the basis of a system of detailed written rules, and rules are reviewed by the Bank on an annual basis.

38.4. Mitigating and covering risks

The main principles of the policies pertaining to risk mitigation and credit risk coverage, the strategies and processes for risk mitigation and the control of the effectiveness of credit risk coverage tools, as well as the key aspects of the measurement of collateral, are set out in the Bank's Collateral measurement policy.
Principles:
The policy defines the proportion of collateral that the Bank assigns to various collateral types.
Methodology used to determine collateral value (depending on the type of collateral):

- Collaterals specified by law and 100% recognised: e.g. security deposits, state surety/guarantee.
- Collateral/liquidation value established by appraisers approved by the Bank. The policy sets out for the appraisers the system of requirements used for different types of collateral, as well as the minimum discount rate that can be applied.
- By discounting the value recorded in the guarantor's books, if the value cannot be established on the basis of the previous 2 methodologies.

- In the case of a surety/guarantee assumed by a third party for the claims of a debtor of the Bank, a value determined by using a discount rate adjusted to the third party's debtor rating.
- In the case of securities, a value determined by using discount rates taking into account the volatility of the exchange rate in accordance with the methodology set out in the policy.

The determination of the collateral value of a collateral is done in accordance with the methodology set out in the policy; in case appraisers approved by the Bank are employed, the collateral value determined by them is validated under the control of the risk manager.
The Bank reviews the collateral value of all collaterals with a frequency that is in accordance with prevailing legislation and internal regulations and, in the case of negative information, reviews it immediately after such information has arisen. The Bank verifies the existence of each collateral at least annually, and at least every six months in the case of certain collaterals.
The Bank also accepts collateral that does not meet the requirements for reducing the capital requirement (e.g. surety guarantees, specific pledges on an asset, warrants, etc.); however, only collateral that meets the requirements of Regulation 575/2013/EU is taken into account to reduce the capital requirement for credit risk.

38.5. Risk types relevant for the Bank, covered in Pillar I

a) Credit risk. In particular:
   - Risk of default concerning the loans granted by the Bank,
   - Partner risk,
   - Transfer risk,
   - Settlement risk.

   The Bank calculates its capital requirement allocated for credit risk using a standard approach, and used the same method for the calculation in the past year as well.

b) Market risk
   - Trading book price rate risk.
   - Trading book interest rate risk.
   - Currency risk of the entire portfolio.

   The monitoring of the market risk of the trading book by the use of appropriate IT systems, and the Bank fully complies with the legal requirements in the field of risk management.

c) Operational risk that includes all related risk sub-types defined by law (human, system, legal, external, etc.).
   The Bank uses the basic indicator method for calculating the capital requirement for operational risk.

38.6. Principles and strategy for the ICAAP capital adequacy assessment process

Risk appetite, desired risk structure:

Risk appetite is the amount of risk an organisation is willing to take and can tolerate.

Aspects of the determination of risk appetite:

- what type and what degree of risk the Bank intends to take and the what return can be expected from it;
- whether the Bank has any comparative advantage in an area;
- what the capital requirement for actual risks is in the Bank,
- taking stock of all risks the Bank assumes, including the risks inherent in off-balance-sheet activities;
- risk assumption regularly reviewed and adjusted by the Bank on the basis of environmental, business, and risk information and analyses.

It is the responsibility of the governing body and the management of the Bank to define risk appetite and risk tolerance levels for the Bank's business and risk strategy.

The Bank builds up its loan portfolio in line with the asset-liability strategy, whereby it is a basic requirement that the borrower should repay the loan from its regular cash flow (cash-flow-based lending), of course still with the involvement of a maximum level of collateral to secure the loan. Non-preferred product: e.g. retail loans in foreign currencies.

Designating target variables and indicators:
It is a principle of the Bank's risk management policy is that the risk cost of the loan portfolio should not exceed 3.5% of the balance sheet total.

The Bank pursues a business policy that ensures that the Bank's capital adequacy ratio at all times exceeds the minimum capital requirements set out in Article 92 of Regulation (EU) No 575/2013 and complies with the provisions of the Credit Institutions Act on capital buffers (Hpt. Sections 86-96).

The Bank's Board of Directors, based on the medium-term strategy, adopts a detailed annual financial plan. In the framework of this, the Bank takes market information into account and conservatively assesses the proportion of default and risk costs of loans by corporate division and product class.
The composition and quality of the portfolio is monitored monthly by the Asset-Liability Committee. A quarterly report on the development of the results and the quality of the portfolio is made to the Board of Directors and the Supervisory Board. The Board of Directors and the Supervisory Board discuss and approve the reports and take the appropriate measures as necessary.

The Bank limits its risk appetite by setting limits. Compliance with this is monitored and regularly measured by the Bank in accordance with the limits established and defined in the internal regulations, employing the Management Information System developed by the Strategy and Analysis Directorate in accordance with internal regulations. This will ensure (even under stress conditions) that the set limits, risk indicators, etc. should be consistent with the Bank's risk appetite and risk tolerance.

Based on a risk map the Bank identified the risk factors relevant to it. The Bank needs to know its risk structure in detail, i.e. needs to know the proportion, concentration and significance of each type of risk in the portfolio. For this reason these are continuously monitored by Risk Management together with the strategic area. The Bank currently considers credit risk to be its most important type of risk.

Responsibilities and duties are set out in detail in the Bank's internal policies.

II. Risk types covered in Pillar

- Credit concentration risk
- Country risk
- Interest rate risk in the banking book
- Foreign currency risk
- Liquidity risk
- Settlement risk
- Operational, reputational and strategic Risk

The risk management concept and order of each risk type are set out in separate policies.

38.7. Credit risk

The Bank pays special attention to the fact that customers should be able to repay the loan from their regular income, but at the same time in order to protect deposit owners, it applies a wide range of collaterals as an adequate protection against credit risk. The high quality of the portfolio is the joint result of a thorough risk management analysis work conducted prior to decision making, the decision-making mechanism (pre-screening, risk analysis, decision by, depending on the amount, of the Lending Committee or of the Board of Directors), the application of a wide range of collaterals, and strict credit monitoring.

a. *The Bank determines the credit risk (limit) of customers/customer groups on the basis of strict procedures, by individual decisions in the following structure:*

Types of risk assumption limits

- Credit limit: for all loans and credit substitute products
- Guarantee limit: for guarantees in a narrower sense, letters of credit, bill broker transactions, and similar transactions in which the Bank commits to fulfil an obligation of the debtor,
- Substitution limit (pre-settlement): for foreign exchange transactions, derivatives, forward rate agreements, repo transactions, securities-based loans, etc.
- Settlement limit: the risk arising from the execution and clearing of trading products,

- Issuer limit: includes debtor and issuer risks shown in the trading or investment book.

The sum of the above limits is the gross aggregate limit.

In all cases, the prerequisite for entering into risk assumption transactions is prior approval by the body having decision-making power in accordance with the effective regulations, and by the retail business and risk management manager in the case of standard retail overdrafts.

Limit monitoring is based on the daily closing balance. There is a separate internal policy for dealing with limit overruns, which includes the obligation of immediate reporting.

b. *The threshold of the maximum credit risk that can be assumed concerning each customer/customer group is determined by the approved limits, which take into account the Bank's current high-risk assumption limit.*

c. *Causal (industry) concentration means the risk of concurrent default attributable to the same common cause or causes.*

The role of industry limits is to control the magnitude of the risks assumed by the Bank and to mitigate the Bank's risk-taking in sectors that pose a higher risk.

The Bank defines limits for the corporate portfolio concerning each industry of the national economy.

The Bank also applies product limits to retail mortgage loans and overdrafts, as well as to the refinancing of Lombard credit and the NFA's "land for farmers" programme.

d) *The country limit* limits the amount of all risks that can be assumed *regarding a particular country*, i.e. the given government itself, any party entering into an agreement with the Bank or risk-bearing party incorporated in the given country, the citizens of the foreign state and any other economic entity that belongs under the jurisdiction of that foreign state for any other reason.

Country risk also includes the cases where the recovery of a receivable or receivables from a particular customer depends on income from a foreign country. If several criteria are at play, the transaction is to be charged against the limit of the country with the lower rating.

38.7.1. Customer and transaction rating, determination of expected credit loss

I. Schedule of ratings

I.1 Quarterly rating:

The Bank performs the rating of transactions for its exposures subject to IFRS 9 at least once per calendar quarter, for the last day of the quarter. The aim of the quarterly transaction rating is to classify the exposures in accordance with the MNB's requirements and the requirements of IFRS 9, and to recognise or reverse the impairment and the provision for the transaction rating in accordance with the relevant segment methodology.

I.2. Extraordinary rating:

In the intervals between quarterly ratings, an extraordinary rating must be performed for individual exposures in the case when during the processing of the information received by any of the Bank's organisational units, a level of risk is detected with a receivable or off-balance sheet liability that necessitates the recognition of a loss significantly higher than the impairment or provision recorded in the books, and/or the exposure must be reclassified into the non-performing and/or restructured category.

II. Measurement of the expected credit loss

When measuring expected credit losses, the Bank does not necessarily identify all possible scenarios, but takes into account the risk or likelihood of a credit loss occurring by calculating with both the likelihood of the occurrence and of the non-occurrence of the credit loss, even if the likelihood of the occurrence of the credit loss is very low. In practice this means that the Bank:

- For financial assets whose repayment if based on a schedule, if individually assessed in the context of a unique scenario analysis for estimating expected credit losses, in addition to the original scenario included in the agreement, it examines two more scenarios, assigning likelihoods to their occurrence and then employing the DCF method to calculate the amount of the required impairment.

- For financial assets were the expected credit loss is estimated on the basis of collective principles – on the basis of the PD*LGD*EAD formula – rather than by outlining individual cash flow scenarios, it incorporates the probability of the various scenarios into its model during the determination of the PD value and thus calculates the amount of the required impairment.

III. Exposure portfolios for transaction rating

In order to estimate the impairment or provisioning as accurately as possible, the Bank identified the following exposure portfolios from its current portfolio. Each portfolio adequately aggregates transactions that have characteristics similar to each other, so each portfolio is internally sufficiently homogeneous while being sufficiently different from each other so that the rating indicators that form the basis for impairment and provisioning, and their relative weight, can be calibrated separately for each portfolio in order to reach a more accurate estimate.

(a) Retail customers
  - private individuals
  - primary producers
  - sole traders

(b) Non-retail customers
  - Companies (non-financial corporations)
  - Project companies (special lending exposures)
  - Other financial corporations (e.g. leasing companies, factoring companies)
  - Other non-profit companies
  - Local municipalities
  - Credit institutions (financial institutions)
  - Government/State

(c) Other receivables (fee claims)

(d) Off-balance-sheet liabilities

IV. Transaction rating categories under IFRS 9 (with a different term: baskets)

As a first step in determining the expected credit loss of its financial instruments, the Bank classifies its financial instruments into one of three transaction rating categories (valuation baskets).

(a) Basket 1 – Well-performing financial instruments

Basically, this basket includes the financial instruments that the Bank considers to be performing well, as their credit risk is typically low or has not significantly increased compared to the initial recognition.

(b) Basket 2 – Underperforming financial instruments

This basket includes financial instruments whose credit risk has increased significantly since the initial recognition, but which have not yet reached non-performing status.

The following are considered to be a significant increase in credit risk:

- Arrears of more than 30 days (the assumption may be refuted and the period and fact of the moratorium ordered by the authority must also be taken into account)
- A deterioration of 4 categories compared to the initial recognition on the master scale, in the case of segments evaluated using the master scale
- The deterioration 3 categories in customer rating compared to the initial recognition in the case of financial institutions and the government and municipal segments
- Restructuring of a risk assumption agreement
- "Problematic" classification as described in the policy for problematic transactions (to be considered carefully)

- In the case of retail mortgage loans, a significant increase of over 95% of the loan-to-value ratio compared to at that the time of the disbursement
- In the case of speculative property financing project loans, indicators specified in recommendation 12/2018. (II.27.) of the MNB
- Special circumstances indicating the need for a lifetime assessment

(c) Basket 3 – Non-performing (defaulted) financial instruments

This basket includes only the financial instruments that are non-performing (defaulted), classified in the 17th, i.e. last, category ("default") of the Bank's 17-grade credit loss master scale, and those that have been overdue for more than 90 days and the part affected by the delay is significant, as well as those classified by the Bank as non-performing according to other criteria specified in the relevant policy.
The real difference between the classification into the three classification categories (baskets) under IFRS 9 is not the individual or collective methodology used for measuring the expected credit loss, or the absolute value of the loss, but rather the relative magnitude of the change in the credit risk, and the fact that

- the expected credit loss is calculated by the Bank on the basis of the 12-month default risk in Basket 1, whereas in Baskets 2 and 3 the Bank bases its calculation on the lifetime default risk (except for bullet/balloon type transactions where the Bank determines the rate of the expected loss on the basis of the lifetime default risk in basket 1 as well, given that in the case of such transactions the default pattern is concentrated over the period beyond the next 12 months), and
- The Bank calculates the interest income on the basis of the gross amortised cost (excluding impairment) in the case of transactions in Basket 1 and Basket 2, and on the net amortised cost (including impairment) in the case of transactions in Basket 3.

V. Overview of the measurement methods used by the Bank

The Bank measures and recognises impairment/provisions in accordance with the rules of IFRS 9 as follows.

V.1. Simplified collective measurement method

The Bank applies the collective measurement method in the case of other receivables (receivables from financial and investment services, typically fees).
Other receivables are receivables from financial and investment services, typically without collateral, which the Bank classifies into the transaction rating baskets set out in the MNB Decree using a simplified rating based on the number of days in delay.
Under the simplified collective measurement method, the Bank determines the amount of impairment on the basis of a predetermined fixed percentage applied to the exposure outstanding on the date of the measurement.

V.2. Individual measurement method

- includes *the PD * LGD * EAD method that shows collective characteristics but is based on individual data, and*
- the *discounted cash flow method based on individual cash flow estimates* ("DCF method").

The Bank applies the individual DCF method to its exposures exceeding HUF 500 million (subject to certain exceptions set out in the relevant policy), based on expert analysis; while impairment/provision is primarily calculated for exposures below HUF 500 million on the basis of the method with collective characteristics, taking into consideration PD, LGD and other correction factors estimated on a statistical basis in Basket 1 and Basket 2, while the Bank uses the DCF model in Basket 3.

V.2.1. Individual measurement model with collective characteristics

As a general rule, the Bank calculates impairment loss on the basis of indicators developed for the estimation of Expected Loss ("EL"), i.e. Probability of Default (PD), Exposure at Default ("EAD") and

Loss Given Default ("LGD"). The method used to determine exposure at default depends on whether the item is on-balance-sheet or off-balance-sheet.

(a) In the case of an on-balance-sheet item, "EAD", i.e. the exposure at default means, for the purpose of simplification, the book exposure of that item at the reporting date.
(b) For off-balance-sheet items, "EAD" must first be determined using a credit conversion factor ("CCF"), which is the probability of an exposure ("E") being included in the balance sheet or not.

The Bank establishes the credit conversion factor (equivalent) pursuant to Regulation (EU) No. 575/2013 of the European Parliament (CRD IV), according to a standard method.

Based on the above, the Bank, as a general rule, establishes the expected credit loss using the following formula:

$$EL = PD \times LGD \times EAD \times CCF$$

The calculations are made in accordance with the requirements of IFRS9 using the point in time estimation method, applied in the macroeconomic correction component of PD.

V.2.2. Individual impairment establishment method based on the cash-flow stress model

In addition to the impairment model used as a general rule, the Bank may also use a purely individual measurement model that determines the expected credit loss of a given individually measured transaction using the discounted cash flows ("DCF") method based on CF scenarios developed by an expert.

To establish the basis of the individual impairment established using the DCF method, the credit risk manager of the given loan, in addition to the original contractual cash-flow scenario, based on their best knowledge of the customer and the given transaction develops at least two more potential cash-flow scenarios, where at least one of these is expected to be based on the assumption that the transaction becomes non-performing. The credit risk manager assigns probabilities to the two or more cash flow stress scenarios.

VI. Combined transaction rating (credit risk master scale)

The Bank, combining
(a) its own regularly monitored and updated customer rating categories based on historical data, and
(b) its scoring system for the behaviour of a particular customer concerning a specific transaction ("behavioural scoring"), which also includes forward-looking information,

has created a 17-grade master scale in order to measure credit risk changes for the following segments:

- Retail segment
- Corporate segment
- Other financial corporate segment
- Project loans segment
- Non-profit segment

The 17-grade master scale shows the increase in credit risk from category 1, the lowest credit risk, up to 17, the highest credit risk category characterised by non-performance.
This master scale evaluates the Bank's transactions in a particular portfolio based on a complex set of criteria that not only take into account past data of the particular customer and transaction, but also consider several pieces of forward-looking information based on the customer's transaction behaviour. Based on the master scale, the Bank also adjusts the PD calculated for each transaction by incorporating macroeconomic indicators. Such a complex credit risk monitoring system enables the Bank to detect an increase in credit risk before the particular transaction becomes overdue. As a result, a transaction with a significantly increased credit risk is classified into a transaction rating category

(impairment/provisioning basket) where the impairment/provision calculation is based on a lifetime estimate of the expected credit loss.
The Bank has developed various behavioural point systems for its customer portfolios with significantly different characteristics. These behavioural point systems examine different characteristic behavioural elements concerning transactions under a particular customer portfolio, thereby allowing the transactions belonging to each customer portfolio to be classified to the appropriate level of the single master scale on the basis of the Bank's customer rating/debtor rating and their most typical behavioural patterns during the combined transaction rating process.
The Bank relies on the available ratings of external rating agencies to determine the probability of default concerning the government, municipal and banking segments.

VII. Macroeconomic adjustment of the PD calibration

In order to ensure that the probability of default (PD) is forward-looking, the Bank monitors only external macroeconomic indicators and adjusts the PD values determined for each transaction by the effect of these, in view of the fact that these external macroeconomic indicators are in each case continuously publicly available to users, probably in the long term as well. Also in line with the MNB's circular of 27 July 2020, the Bank uses the macroeconomic forecasts published in the MNB's Inflation Report. The differentially defined macroeconomic indicators include:

- Gross Domestic Product (GDP) volume indices – seasonally and calendar-adjusted and balanced data (previous quarter = 100.0%),
- Customer price index,
- Employment rate.
- Unemployment rate.

VIII. LGD calibration

The value of loss given default (LGD) is the difference between the book value of the exposure at the time of default and the amount of collateral that the Bank is expected to be able to use. The Bank determines the value of the collateral that is expected to be available on the basis of a general discount predetermined for each type of collateral, based on the market value of the collateral. The Bank determined the general discount to be used with the market value by collateral type by using external expert estimates.

IX. Restructured loans

The Bank has detailed regulations that set forth the rules of restructuring as follows:

1. The Bank treats all loans, acquired receivables or any other receivables arising from transactions classified as money lending or from other financial services, if containing a discount and granted to the debtor, obligor (hereinafter collectively referred to as the obligor or the customer) at the request of the obligor or the Bank, as restructured receivables. In addition, restructured receivables include commitments related to lending that may become receivables at the customer's discretion (collectively: receivables) if the discount was granted to an obligor that has or is expected to have financial difficulties in meeting its financial obligations.

2. The Bank recognises receivables as restructured receivables that include a discount and where the original agreement that gave rise to the receivable has been amended to avoid non-payment because the debtor is or, in the absence of the discount, would be unable to meet its repayment obligation under the original contractual terms.

(3) In the absence of information to the contrary, it may be assumed that the debtor has no financial difficulties if the debtor has not had a payment delay of more than 30 days in respect of any of its liabilities to the Bank within 90 days prior to the conclusion or the amendment of the contract.

X. Spreadsheet data relating to credit risk

Customer portfolio by industry

The following table shows the net portfolio of customer loans broken down by industry on 31 December 2020 and 2019.

Data in HUF millions

Sector	**31.12.2020**	**31.12.2019**
Agriculture, forestry, fishing	7,039	3,008
Mining, mining services	401	42
Manufacturing	32,519	16,376
Electricity, gas, steam supply, air conditioning	6,549	4,751
Water supply, waste water collection and treatment, waste management, decontamination	0	534
Construction	10,989	3,522
Trade, vehicle repair	21,487	9,787
Transportation, warehousing	29	2,348
Accommodation and food service activities	5,527	1,754
Information and communication	646	2,308
Financial and insurance activities	22,540	34,632
Real estate	31,649	43,497
Professional and scientific activities, administrative and service support activities	3,533	2,708
Other activities	14,874	2,307
Household/Retail	23,821	19,588
Unknown industry	11,991	12,837
Public administration and defence, compulsory social security	672	721
Training	916	102
Human health services and social work activities	1,355	1,525
Arts, entertainment and recreation	728	1,369
Other services	2,630	1,989
Total	**199,895**	**165,705**

Breakdown of customer portfolio by rating

The following table shows the breakdown of customer loans by internal rating categories (master scale rating).

Data in HUF millions

		31.12.2020		**31.12.2019**	
	Internal rating	**Undrawn lines**	**Provision**	**Undrawn lines**	**Provision**
Retail segment	1-4	0	0	0	0
	5-8	445	1	73	0
	9-12	4	0	72	0
	13-16	0	0	0	0
		449	**1**	**145**	**0**
Corporate segment	1-4	1,846	0	0	0

	5-8	16,462	11	11,547	5
	9-12	2,145	0	3,619	11
	13-16	0	0	0	0
		20,454	**11**	**15,166**	**16**
Other financial corporate segment	1-4	1,597	0	1,015	0
	5-8	0	0	7	0
	9-12	0	0	0	0
	13-16	0	0	0	0
		1,597	**0**	**1,022**	**0**
Project loans	1-4	138	0	0	0
	5-8	3,706	2	4,793	1
	9-12	0	0	0	0
	13-16	0	0	0	0
		3,844	**2**	**4,793**	**1**
Non-profit segment	1-4	0	0	0	0
	5-8	160	0	190	0
	9-12	0	0	0	0
	13-16	0	0	0	0
		160	**0**	**190**	**0**
		26,504	**14**	**21,316**	**17**

Customer portfolio coverage

The following table shows the market value of collateral related to the segments of the loan portfolio as of 31.12.2020 and 31.12.2019.

Data in HUF millions

	31.12.2020			**31.12.2019**		
	Net exposure	**Collateral**	**Not covered**	**Net exposure**	**Collateral**	**Not covered**
Retail segment	17,563	29,417	0	16,044	26,564	0
Corporate segment	95,432	236,156	0	65,535	158,955	0
Other financial corporate segment	9,380	9,167	214	11,897	12,465	0
Project loans	40,298	108,374	0	40,960	107,036	0
Local municipalities	1,408	0	1,408	1,823	0	1,823
Non-profit segment	681	1,175	0	857	1,391	0
Bank segment	0	0	0	0	0	0
State segment	4,562	386	4,177	4,352	0	4,352
Total	**169,326**	**384,674**	**5,799**	**141,468**	**306,411**	**7,770**

Exposures and their collaterals classified in basket 3

Data in HUF millions

	Gross exposure	**Collateral**
31.12.2020	685	4,544
31.12.2019	175	1,050

Collaterals by segment by type of collateral

Data in HUF millions

Collateral type	31.12.2020	31.12.2019
Retail segment		
Guarantee	2,141	8
Property	10,196	10,674
Suretyship	704	2
Deposit / Cash / Hungarian government securities / Other security deposit	2,762	15,665
Other	7,782	639
Retail segment total	**23,585**	**26,988**
Corporate segment		
Guarantee	5,971	3,566
Property	50,324	38,529
Suretyship	4,662	16,762
Deposit / Cash / Hungarian government securities / Other security deposit	14,255	31,501
Other	30,826	68,509
Corporate segment total	**106,038**	**158,867**
Other financial corporate segment		
Guarantee	8	4,649
Property	3,741	79
Suretyship	162	423
Deposit / Cash / Hungarian government securities / Other security deposit	28	4,553
Other	1,074	2,761
Other financial corporate segment total	**5,013**	**12,465**
Project loans		
Guarantee	2,647	5,118
Property	35,288	72,690
Suretyship	4,984	5,274
Deposit / Cash / Hungarian government securities / Other security deposit	4,901	10,161
Other	29,587	13,908
Project loans total	**77,407**	**107,151**
Non-profit segment		
Guarantee	0	0
Property	292	670
Suretyship	0	192
Deposit / Cash / Hungarian government securities / Other security deposit	0	10
Other	747	519
Non-profit segment total	**1,039**	**1,391**
Grand total	**213,082**	**306,862**

Movements between IFRS 9 baskets

Data in HUF millions

2020

Basket classification at the	Basket 1	Basket 2	Basket 3	Derecognised during the period	Total

beginning/end of year					
Impairment					
31.12.2019	**30**	**0**	**64**	**-4**	**90**
Created during the period	91	0	0	0	
Basket 1	0	0	0	-4	
Basket 2	-1	2	0	0	
Basket 3	0	0	22	0	
31.12.2020	**120**	**2**	**86**	**-8**	**200**
Provision					
31.12.2019	**18**	**3**	**0**	**-3**	**18**
Created during the period	11	0	0	0	
Basket 1	-12	0	0	0	
Basket 2	-3	0	0	0	
Basket 3	0	0	0	0	
31.12.2020	**14**	**3**	**0**	**-3**	**14**

2019

Basket classification at the beginning/end of year	Basket 1	Basket 2	Basket 3	Derecognised during the period	Total
Impairment					
31.12.2018	**49**	**0**	**64**	**0**	**113**
Created during the period	11	0	0	0	
Basket 1	-30	0	0	-4	
Basket 2	0	0	0	0	
Basket 3	0	0	0	0	
31.12.2019	**30**	**0**	**64**	**-4**	**90**
Provision					
31.12.2018	**18**	**0**	**0**	**0**	**18**
Created during the period	12	3	0	0	
Basket 1	-12	0	0	-3	
Basket 2	0	0	0	0	
Basket 3	0	0	0	0	
31.12.2019	**18**	**3**	**0**	**-3**	**18**

Restructured transactions

As at 31.12.2020, the Bank has three restructured retail loans; the amount of the exposure is not significant. (As at 31.12.2019, the Bank had five restructured retail transactions on its books; the amount of the exposure is not significant).

Impairment movement board

Data in HUF millions

	Impairment					Gross exposure				
Basket 1	**Opening – 01.01.2020**	**Created**	**Credit risk change**	**Derecognition**	**Closing – 31.12.2020**	**Opening – 01.01.2020**	**Created**	**Credit risk change**	**Derecognition**	**Closing – 31.12.2020**
Customer loans measured at amortised cost										
Retail segment	0	-1	0	0	-1	15,851	3,811	-88	-2,227	17,346
Corporate segment	19	63	4	-7	79	67,172	56,487	-1,741	-27,549	94,369
Other financial corporate segment	1	1	0	0	1	11,899	4,467	-1,639	-5,345	9,382
Project loans	5	17	0	-1	21	40,930	13,979	-1,165	-18,784	34,959
Local municipalities	1	0	0	0	1	1,822	0	-413	0	1,409
Non-profit segment	0	1	0	0	0	858	276	-96	-356	681
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	3	0	3	2,421	5,674	-443	-3,133	4,519
Total customer loans measured at amortised cost	**26**	**81**	**6**	**-8**	**104**	**140,953**	**84,694**	**-5,586**	**-57,395**	**162,665**
Securities measured at amortised cost										
State segment	-1	9	0	0	8	4,270	85,103	-383	0	88,990
Total securities measured at amortised cost	**-1**	**9**	**0**	**0**	**8**	**4,270**	**85,103**	**-383**	**0**	**88,990**
Securities measured at fair value through other comprehensive income										
Bank segment	0	0	0	0	0	1,522	9,576	19	0	11,117
State segment	1	1	0	0	2	7,142	14,308	5	-1,114	20,342
Total securities measured at fair value through other comprehensive income	**1**	**1**	**0**	**0**	**3**	**8,664**	**23,884**	**25**	**-1,114**	**31,460**
Interbank placements										
Interbank placements	0	0	0	0	0	35,972	0	0	-5,972	30,000
Total interbank placements	**0**	**0**	**0**	**0**	**0**	**35,972**	**0**	**0**	**-5,972**	**30,000**
Basket 1 total	**25**	**91**	**6**	**-8**	**115**	**189,859**	**193,681**	**-5,945**	**-64,481**	**313,115**

Basket 2	Impairment					Gross exposure				
	Opening – 01.01.2020	Created	Credit risk change	Derecognition	Closing – 31.12.2020	Opening – 01.01.2020	Created	Credit risk change	Derecognition	Closing – 31.12.2020
Customer loans measured at amortised cost										
Retail segment	0	1	2	0	3	195	0	-1	-16	179
Corporate segment	0	1	0	0	1	315	751	-74	0	992
Other financial corporate segment	0	0	0	0	0	0	0	0	0	0
Project loans	0	0	4	0	4	0	5,178	167	0	5,345
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	0	0	0	0	0
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total customer loans measured at amortised cost	**0**	**2**	**7**	**0**	**9**	**510**	**5,930**	**93**	**-16**	**6,516**
Securities measured at amortised cost										
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at amortised cost	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Securities measured at fair value through other comprehensive income										
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Interbank placements										
Interbank placements	0	0	0	0	0	0	0	0	0	0
Total interbank placements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Basket 2 total	**0**	**2**	**7**	**0**	**9**	**510**	**5,930**	**93**	**-16**	**6,516**

Basket 3	Impairment					Gross exposure				
	Opening – 01.01.2020	Created	Credit risk change	Derecognition	Closing – 31.12.2020	Opening – 01.01.2020	Created	Credit risk change	Derecognition	Closing – 31.12.2020
Customer loans measured at amortised cost										
Retail segment	1	0	0	0	1	1	0	0	0	1
Corporate segment	0	0	0	0	0	0	0	0	0	0
Other financial corporate segment	0	0	0	0	0	0	0	0	0	0
Project loans	63	0	22	0	85	95	0	7	0	102
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	0	0	0	0	0
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total customer loans measured at amortised cost	**64**	**0**	**22**	**0**	**86**	**96**	**0**	**7**	**0**	**103**
Securities measured at amortised cost										
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at amortised cost	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Securities measured at fair value through other comprehensive income										
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total securities measured at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Interbank placements										
Interbank placements	0	0	0	0	0	0	0	0	0	0
Total interbank placements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Basket 3 total	**64**	**0**	**22**	**0**	**86**	**96**	**0**	**7**	**0**	**103**
Total	**90**	**93**	**35**	**-9**	**210**	**190,465**	**199,611**	**-5,845**	**-64,497**	**319,734**
	Provision					**Undrawn line**				

Basket 1	Opening – 01.01.2020	Created	Credit risk change	Derecognition	Closing – 31.12.2020	Opening – 01.01.2020	Created	Credit risk change	Derecognition	Closing – 31.12.2020
Customer loans measured at amortised cost										
Retail segment	0	1	0	0	1	141	437	-37	-94	447
Corporate segment	14	9	-1	-13	9	14,614	18,669	-4,296	-8,794	20,193
Other financial corporate segment	0	0	0	0	0	1,023	1,545	-649	-572	1,347
Project loans	1	1	0	0	1	4,792	2,649	-1,108	-3,092	3,241
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	190	160	0	-190	160
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	9,967	9,400	59	-8,165	11,261
Total customer loans measured at amortised cost	**15**	**11**	**-1**	**-14**	**12**	**30,727**	**32,860**	**-6,032**	**-20,907**	**36,649**
Basket 1 total	**15**	**11**	**-1**	**-14**	**12**	**30,727**	**32,860**	**-6,032**	**-20,907**	**36,649**

Basket 2	Provision – Opening – 01.01.2020	Provision – Created	Provision – Credit risk change	Provision – Derecognition	Provision – Closing – 31.12.2020	Undrawn line – Opening – 01.01.2020	Undrawn line – Created	Undrawn line – Credit risk change	Undrawn line – Derecognition	Undrawn line – Closing – 31.12.2020
Customer loans measured at amortised cost										
Retail segment	0	0	0	0	0	6	0	-1	-6	0
Corporate segment	3	0	0	0	3	549	153	-14	-486	203
Other financial corporate segment	0	0	0	0	0	0	0	0	0	0
Project loans	0	0	0	0	0	0	603	0	0	603
Local municipalities	0	0	0	0	0	0	0	0	0	0
Non-profit segment	0	0	0	0	0	0	0	0	0	0
Bank segment	0	0	0	0	0	0	0	0	0	0
State segment	0	0	0	0	0	0	0	0	0	0
Total customer loans measured at amortised cost	**3**	**0**	**0**	**0**	**3**	**555**	**757**	**-14**	**-491**	**806**
Basket 2 total	**3**	**0**	**0**	**0**	**3**	**555**	**757**	**-14**	**-491**	**806**
Total	**18**	**12**	**-1**	**-14**	**14**	**31,282**	**33,617**	**-6,046**	**-21,398**	**37,455**

38.8. Market risk

The Bank controls its market price risks, and thus, in particular, its foreign exchange, interest rate and security exposures, through an appropriate internal and external targeted limit system. At present, the Treasury's own-account trading is largely related to liquidity management and the fulfilment and coverage of customer needs.
Partner and customer limits are set for the Treasury's partners, which are recorded in the Treasury's front office system (Inforex). The Bank mitigates its risks concerning major institutional partners through netting and margin (ISDA, CSA, GMRA) agreements.
Any market risks resulting from trading book exposures have been limited in scope, and the thresholds have been respected – trading was mostly done in government securities and discount treasury bills. The Bank also had stock-exchange listed equity positions, which were not in the trading book as at the end of the year, since they are to be held and not sold. The Bank does not trade in non-linear interest rate derivatives or commodities.

Interest rate risk

The Bank considers the management of interest rate risk in the banking book (IRRBB) to be of high importance, and, via Interbank Transactions (IRS, CCIRS), replaces its major fixed-rate assets with variable-rate assets that are adjusted to the liabilities. The trading book interest rate risk is described in the Market Risks section of the Trading Book.
Interest rate risk typically arises from the fact that the repricing period and maturity of asset and liability items are different.
Under Pillar 2, the Bank determines the capital requirement for the interest rate risk of the Bank Book by interest rate sensitivity stress calculations based on the time remaining until repricing, taking into account the individual cash flow elements (assets, liabilities) of all transactions as well as their gap values and indicators by maturity band, which examine the expected change in the Bank's economic value of equity ("EVE") and in annual expected net interest income ("NII") as a function of changes in yield levels. During the modelling process, in the case of loans, the Bank takes into account the results of the impairment model, applies a conservative model to delays in the repricing of instant-access deposits, and typically models the options for legal and embedded negative interest rates. During its stress tests, the Bank also examines stress tests of its own design, in addition to the supervisory requirements (the "standard" tests). The most important stress cases are as follows.

Main stress scenarios:

Number	Scenario	Type	Method
1	Parallel_UP	standard	Parallel yield upshift
2	Parallel_DOWN	standard	Parallel yield downshift
3	Steepening	standard	short-term yields fall, long-term yields rise
4	Flattening	standard	short-term yields rise, long-term yields fall
5	Short_UP	standard	short-term yields rise
6	Short_DOWN	standard	short-term yields fall
7	Long_UP	Gránit Bank requirement	long-term yields rise
8	Long_DOWN	Gránit Bank requirement	long-term yields fall
9	Sensitivity_UP	Gránit Bank requirement	Parallel yield upshift
10	Sensitivity_DOWN	Gránit Bank requirement	Parallel yield downshift
11	Parallel_UP_Dinamic	Gránit Bank requirement	Parallel yield upshift, taking into account the effects of portfolio changes
12	Parallel_DOWN_Dinamic	Gránit Bank requirement	Parallel yield downshift, taking into account the effects of portfolio changes
15	Paralell_UP_OLD_STANDARD	For the Supervisory Limit	200 parallel upshift
16	Paralell_DOWN_OLD_STANDARD	For the Supervisory Limit	200 parallel upshift

Stress measures by currency:

CCY	Type	Base scenario	Shift in base points	CCY	Type	Base scenario	Shift in base points
HUF	standard	Parallel +/-	250	CHF	standard	Parallel +/-	100
HUF	standard	Short +/-	350	CHF	standard	Short +/-	150
HUF		Long +/-	160	CHF		Long +/-	100
EUR	standard	Parallel +/-	200	GBP	standard	Parallel +/-	250
EUR	standard	Short +/-	250	GBP	standard	Short +/-	300
USD	standard	Short +/-	300	JPY	standard	Short +/-	100
USD		Long +/-	150	JPY		Long +/-	100
All	"old standard"	Parallel +/-	200				

The Bank quantifies the interest rate risk, checks compliance with the limit and presents it to the Assets and Liabilities Committee on a monthly basis.
Given its activities, the Bank's reference interest rate risks are not significant.

Highlighted stress test results at the end of 2020:

			Results by currency (in HUF)				
Reference no.	Scenario	Type	Total Stress amount	HUF	EUR	USD	Other
EVE - 1	Parallel_UP	standard	-1,306,914,039	-1,363,132,019	56,001,451	404,704	-188,175
EVE - 2	Parallel_DOWN	standard	3,220,192,558	3,224,771,617	-4,425,891	-232,026	78,858
EVE - 3	Steepening	standard	66,564,982	38,295,911	28,422,250	-232,026	78,847
EVE - 4	Flattening	standard	-241,829,575	-233,286,638	-8,817,311	465,338	-190,964
EVE - 5	Short_UP	standard	-738,939,724	-742,838,666	3,550,641	586,379	-238,077
EVE - 6	Short_DOWN	standard	416,963,613	419,703,892	-2,587,111	-232,026	78,858
EVE - 7	Long_UP	Gránit Bank requirement	-500,607,424	-526,779,434	26,163,170	8,997	-157
EVE - 8	Long_DOWN	Gránit Bank requirement	645,882,780	651,001,442	-5,109,809	-9,009	157
EVE - 9	Sensitivity_UP	Gránit Bank requirement	-509,343,946	-538,011,503	28,540,411	203,474	-76,329
EVE - 10	Sensitivity_DOWN	Gránit Bank requirement	715,984,752	720,539,476	-4,425,891	-205,766	76,933
EVE - 11	Parallel_UP_Dinamic	Gránit Bank requirement	-1,306,914,039	-1,363,132,019	56,001,451	404,704	-188,175
EVE - 12	Parallel_DOWN_Dinamic	Gránit Bank requirement	3,248,412,789	3,252,600,186	-4,036,091	-230,164	78,858
EVE - 15	Paralell_UP_OLD_STANDARD	For the Supervisory Limit	-1,040,897,317	-1,097,151,570	56,001,451	404,704	-151,902
EVE - 16	Paralell_DOWN_OLD_STANDARD	For the Supervisory Limit	2,152,575,781	2,157,154,840	-4,425,891	-232,026	78,858
NII - 1	Parallel_UP	standard	1,869,641,390	2,045,068,847	-179,373,479	-30,620,471	34,566,493
NII - 2	Parallel_DOWN	standard	-685,679,897	-686,618,138	0	1,284,301	-346,061
NII - 3	Steepening	standard	-685,679,897	-686,618,138	0	1,284,301	-346,061
NII - 4	Flattening	standard	2,061,115,037	2,239,615,996	-176,992,145	-36,598,050	35,089,236
NII - 5	Short_UP	standard	2,577,661,327	2,815,752,265	-236,185,999	-45,797,511	43,892,572
NII - 6	Short_DOWN	standard	-685,679,897	-686,618,138	0	1,284,301	-346,061
NII - 7	Long_UP	Gránit Bank requirement	19,291,045	21,643,027	-2,313,854	-66,597	28,469
NII - 8	Long_DOWN	Gránit Bank requirement	-40,332,120	-40,370,248	0	66,597	-28,469
NII - 9	Sensitivity_UP	Gránit Bank requirement	755,449,374	818,027,539	-61,168,951	-15,310,235	13,901,022

NII - 10	Sensitivity_DOWN	Gránit Bank requirement	-685,679,897	-686,618,138	0	1,284,301	-346,061
NII - 11	Parallel_UP_Dinamic	Gránit Bank requirement	1,869,641,390	2,045,068,847	-179,373,479	-30,620,471	34,566,493
NII - 12	Parallel_DOWN_Dinamic	Gránit Bank requirement	-685,679,897	-686,618,138	0	1,284,301	-346,061
NII - 15	Paralell_UP_OLD_STANDARD	For the Supervisory Limit	1,453,901,691	1,636,055,078	-179,373,479	-30,620,471	27,840,563
NII - 16	Paralell_DOWN_OLD_STANDARD	For the Supervisory Limit	-685,679,897	-686,618,138	0	1,284,301	-346,061

Main Interest Rate Sensitivity Indicators according to the methodology used at the end of 2019 and before

Reference no.	Scenario	Type	Results by currency (in HUF) Total	HUF	EUR	USD
EVE - 1	Parallel_UP	standard	-1,067,765,511	-1,033,397,919	-34,482,851	115,259
EVE - 2	Parallel_DOWN	standard	786,453,112	776,815,085	9,756,697	-118,670
EVE - 3	Steepening	standard	-82,156,211	-86,775,543	4,711,998	-92,665
EVE - 4	Flattening	standard	-142,193,833	-126,710,052	-15,599,898	116,117
EVE - 5	Short_UP	standard	-539,546,092	-514,808,207	-24,889,883	151,997
EVE - 6	Short_DOWN	standard	415,807,472	404,338,351	11,639,497	-170,376
EVE - 9	Sensitivity_UP	Gránit Bank requirement	-448,675,377	-431,229,852	-17,503,571	58,046
EVE - 10	Sensitivity_DOWN	Gránit Bank requirement	484,966,810	475,269,011	9,756,697	-58,898
EVE - 15	Paralell_UP_OLD_STANDARD	For the Supervisory Limit	-873,546,629	-839,179,037	-34,482,851	115,259
EVE - 16	Paralell_DOWN_OLD_STANDARD	For the Supervisory Limit	948,710,342	912,222,327	36,606,686	-118,670
NII - 1	Parallel_UP	standard	-324,974,161	-352,583,677	31,829,964	-4,220,448
NII - 2	Parallel_DOWN	standard	475,944,577	480,792,619	-9,068,490	4,220,448
NII - 3	Steepening	standard	475,815,406	480,792,619	-9,068,490	4,091,277
NII - 4	Flattening	standard	-392,701,690	-417,144,433	29,483,621	-5,040,878
NII - 5	Short_UP	standard	-483,107,056	-514,329,249	37,531,356	-6,309,163
NII - 6	Short_DOWN	standard	476,785,128	480,792,619	-9,068,490	5,060,999
NII - 9	Sensitivity_UP	Gránit Bank requirement	-127,228,713	-141,033,471	15,914,982	-2,110,224
NII - 10	Sensitivity_DOWN	Gránit Bank requirement	450,229,178	457,187,444	-9,068,490	2,110,224

Currency risk

The Bank does not have any significant open foreign exchange positions, and the Treasury continuously monitors the risk coverage needs.

The additional Pillar 2 capital requirement of foreign exchange positions is quantified using the methodology of the standardised VaR calculator required by the Regulator, also taking into account the Regulator's relevant recommendations. The capital requirement for foreign exchange risk is, in line with the net positions, not significant. VaR is by definition the estimated amount of money that can be lost on a given portfolio due to market risk over a specified period and at a given confidence level. This measurement takes into account the market risk associated with the current portfolio. The Bank also quantifies stressed VaR values, the essence of the calculation being that a correlation matrix reflecting high volatilities caused by a former market crisis period is used.
The total currency risk capital requirement is determined by the higher of the VaR and SvaR measures. Pillar 2 parametric VaR calculation results at a confidence level of 99% and with a 10-day retention period are as follows:

Value at Risk calculations for the Bank's total foreign exchange risk

Confidence level: 99%
Portfolio retention period: 1 day

	Maximum calculated loss with 99% certainty (in million HUF)	
VaR values	**2020**	**2019**
Average daily value	1.43	1.04
Lowest value	0.45	0.20
Highest value	3.73	2.96
At the end of the year	1.27	1.07
SvaR values	**2020**	**2019**
Average daily value	3.42	3.74
Lowest value	0.86	0.60
Highest value	10.31	9.56
At the end of the year	3.58	4.66
Total capital requirement (Pillar II)	12.61	33.53

In addition, the Bank operates its own VaR model using a dedicated system (Varitron), whose results are used alongside the analytical targets for limit monitoring purposes regarding foreign exchange risks, using parametric VaR calculation results at a confidence level of 99% with a 10-day retention period.

Trading Book Market Risks

With respect to the interest rate risk of the Trading Book and the exchange rate risk of the shares in it, during 2020 the Bank introduced the value at risk calculation, which is a parametric VaR and SVaR calculation with a 99% confidence level and a 10-day retention period, in line with the methodology mentioned in relation to currency risk. These risks are moderate and, due to their mid-year introduction, the previous year's data and annual statistics are not available. Results of the calculations:

Value at Risk calculations for the interest rate risk of the Trading Book

Confidence level: 99%
Portfolio retention period: 10 day

	Maximum calculated loss with 99% certainty (in million HUF)
VaR values	**2020**
At the end of the year	1.48
SvaR values	**2020**
At the end of the year	16.76

Total capital requirement (Pillar II)	43.62

Value at Risk calculations for the equity risk of the Trading Book

Confidence level:	99%
Portfolio retention period:	10 day

	Maximum calculated loss with 99% certainty (in million HUF)
VaR values	**2020**
At the end of the year	0.00
SvaR values	**2020**
At the end of the year	0.00
Total capital requirement (Pillar II)	0.00

There was no equity position in the Trading Book at the end of 2020.
The Bank does not trade in commodities or non-linear interest rate derivatives.

Organisational structure

The Bank's market risk management area is located within Market and Operational Risk Management, which reports to the Risk Management Methodology Directorate under the CRO. This department is responsible for all market risk analysis tasks, individual analyses and regular monitoring, also including the monitoring of market risk limits (daily, weekly, monthly, etc.). This department also conducts the rating of partners and the maintenance of related regulations. The activity is supervised by the Asset-Liability Committee, through which, and through regular monthly monitoring and limit approvals, the management is also involved in the processes.

38.9. Liquidity risk

The operative management of liquidity risks is the responsibility of the Treasury Directorate, while regulatory and monitoring tasks are carried out jointly with Market and Operational Risk Management.

In compliance with the regulations pertaining to prudent operation, the Bank is required to manage its own resources and the resources entrusted to it by other parties in a way that ensures the maintenance of both its prompt liquidity and long-term solvency. The Bank's liquidity management procedure applies to and is based on "normal" market conditions. Separate instructions regulate the requirements to be met in the case of a liquidity emergency. In addition, the procedure is based on and is in compliance with the current monetary policy and legislation; any changes affecting liquidity must immediately be discussed and the appropriate changes, if necessary, must be approved by the Asset-Liability Committee or, where appropriate, the Board of Directors.

The Bank manages its liquidity risks primarily through the establishment of appropriate processes and control mechanisms and the creation of an adequate level of liquidity reserves.

Principles to be applied in the liquidity management process:

- The Bank draws up a liquidity plan for assets, liabilities and relevant off-balance-sheet items. Continuous monitoring and updating of this plan is an essential part of the Bank's liquidity management and the management of assets and liabilities. Liquidity planning is supervised by the Asset-Liability Committee.

- A short-term (30-day, with particular attention to the first two weeks) cash flow plan is made
- concerning the Bank, broken down by day and currency at least for the first week.
- A rolling type financing plan is made concerning the Bank, broken down by month, for the next three-month period. The plan must be prepared for one expected situation and, depending on the uncertainty of the estimate, for one or more stress scenarios, in line with the MNB's recommendation on the measurement, management and control of liquidity risks.
- The liquidity forecast – in its normal and stressed versions – is prepared by the Treasury's Liquidity Management area and is submitted for approval to the Bank's Asset-Liability Committee.
- In order to monitor maturity compliance, long-term maturity coverage calculations are also required.
- Regarding customer deposits, the Bank regularly monitors and analyses the composition and maturity structure of deposits and the development of the key deposits. During the analysis, particular attention must be paid to the development of deposit concentrations
- When preparing the regular weekly liquidity status report – which Treasury compiles from customer-level data and distributes to the Bank's Managers on a weekly basis – the deposit situation is examined in a weekly/monthly/3-monthly maturity breakdown. In respect of the above periods, the changes in the volume of fixed deposits above HUF 100 million are assessed, while the volume of deposits subject to renewal risk is identified separately. Treasury examines individually the renewal of large maturing deposits that are particularly important in terms of liquidity (deposits of at least 10% of the regulatory capital), and conducts regular business-line reconciliation in these cases.

Maturity transformation is a major source of income for the Bank, however, only risks of an acceptable degree must be assumed for the sake of profitability. A strategic question is the degree of liquidity risk (maturity transformation) tolerated by the Bank's management. With regard to the maturity structure of liabilities and assets, to be established by the Bank, the Bank must strive to extend the maturity structure of the funds to be raised and to determine the maturity of loans on the basis of the structure of available/attainable funds.

Liquidity table of financial assets and liabilities –- 31.12.2020 (outstanding, non-discounted capital and interest cash flows)

Financial assets	**Remaining maturity**						
	0-7 days	**8-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**over 365 days**	**Total**
Liquid assets	374	0	0	0	0	0	**374**
Securities	98,675	16	58,550	3,866	108	2	**161,217**
Loans and advances to customers	2,106	678	6,541	12,587	29,814	159,759	**211,486**
Receivables from the MNB and other credit institutions	206,932	0	0	0	0	0	**206,932**
Other assets	956	0	0	0	0	0	**956**
Derivative financial assets	15,130	3,723	5,323	569	17,861	69,078	**111,684**
Contingent receivables	1,748	0	0	0	0	0	**1,748**
of which: Guarantees, letters of credit received	1,138	0	0	0	0	0	**1,138**
Received credit lines	610	0	0	0	0	0	**610**
Total	**325,921**	**4,417**	**70,414**	**17,022**	**47,784**	**228,838**	**694,397**

Financial liabilities	**Remaining maturity**						
	0-7 days	**8-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**over 365 days**	**Total**
Liabilities to customers	219,292	17,454	24,195	12,970	3,365	15,894	**293,171**
Liabilities to the MNB and other credit institutions	26,113	19,373	20,377	3,015	4,453	182,940	**256,271**
Issued securities	0	1	52	52	105	8,103	**8,313**
Derivative financial instruments	14,917	3,715	5,174	495	18,210	69,059	**111,569**
Contingent liabilities	42,095	0	0	0	0	0	**42,095**
of which: Guarantees, letters of credit granted	7,967	0	0	0	0	0	**7,967**
Granted credit lines	34,127	0	0	0	0	0	**34,127**
Total	**302,417**	**40,542**	**49,798**	**16,532**	**26,133**	**275,996**	**711,418**

Liquidity table of financial assets and liabilities –- 31.12.2019 (outstanding, non-discounted capital and interest cash flows)

Financial assets	**Remaining maturity**						
	0-7 days	**8-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**over 365 days**	**Total**
Liquid assets	311	0	0	0	0	0	**311**
Securities	38,827	0	46,177	2	0	104	**85,110**
Loans and advances to customers	3,715	1,589	5,773	16,906	28,038	126,378	**182,399**
Receivables from the MNB and other credit institutions	139,605	0	0	0	0	0	**139,605**
Other assets	-4	0	0	0	0	270	**266**
Derivative financial assets	2,213	115	599	8,855	7,162	73,794	**92,738**
Contingent receivables	6,203	0	0	0	0	0	**6,203**
of which: Guarantees, letters of credit received	1,017	0	0	0	0	0	**1,017**
Received credit lines	5,186	0	0	0	0	0	**5,186**
Total	**190,870**	**1,704**	**52,549**	**25,763**	**35,200**	**200,546**	**506,632**

Financial liabilities	**Remaining maturity**						
	0-7 days	**8-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**over 365 days**	**Total**
Liabilities to customers	183,902	15,596	38,909	7,883	6,814	22,704	**275,808**
Liabilities to the MNB and other credit institutions	53,783	6,123	5,209	2,744	3,785	31,951	**103,595**
Issued securities	0	0	0	0	0	7,195	**7,195**
Derivative financial instruments	2,211	133	552	9,058	7,719	75,931	**95,604**
Contingent liabilities	31,935	0	0	0	0	0	**31,935**
of which: Guarantees, letters of credit granted	2,816	0	0	0	0	0	**2,816**
Granted credit lines	29,118	0	0	0	0	0	**29,118**
Total	**271,831**	**21,852**	**44,670**	**19,685**	**18,318**	**137,781**	**514,137**

38.10. Management of partner risk

During the management of partner risk, credit and trading limits are adapted to the partner risk management system as follows:
In terms of market risks, the rules for establishing partner limits and the limit management method have been approved by the Bank's Board of Directors, and continuous monitoring is performed in the Treasury's front office system (Inforex). Market risk management monitors compliance with the limits based on information from the system.
It is a general rule that the Bank only assumes any obligation that entails risk-taking if an approved limit exists. For any bank/partner and customer with whom the Treasury wishes to conclude a business transaction that entails risk-taking, a limit approved by a body with the appropriate decision-making powers must first be set, or the credit risk must be excluded.
Derivative transactions are typically concluded with partners in the framework of ISDA, CSA, and GMRA agreements.
In the process of setting limits and analysing and monitoring partners, the following factors must be taken into account, also meeting the relevant stipulations of the Partner risk assessment policy, the Customer and partner rating policy and the Partner limit management policy:

- Collateral that can be recognised in terms of capital reduction, such as government/surety guarantees, financial collateral, property collateral. The degree of coverage required for the partners depends on the partner rating and the magnitude of the partner as detailed in the Collateral measurement policy.
  In the case of an institutional partner, the Bank typically does not open a partner limit based on collateral different from financial or other strong guarantees.
- In order to manage wrong-way risk exposures, partner groups and group limits are set up for partners between whom a credit risk dependency exists.

For each Treasury transaction the Bank determines the risk weight and percentage charge for the given transaction in the manner and to the extent specified in the Partner limit management policy, charging them to the limits set for the partner institution (typically lending pre-settlement, settlement, issuer limit types, etc.).
In order to identify and manage risks, partner rating as a function involves, on the one hand, an examination that is performed before the assumption of the exposure, as well as continuous risk monitoring.
Limit monitoring and customer risk measurement as a minimum requirement for monitoring is complemented by close cooperation in the mandatory quarterly receivables rating process and actions related to collateral in accordance with the Transaction Rating and Collateral Measurement Regulations.
Partner ratings must be reviewed at least once a year, or whenever an event arises that requires a review of the rating. The measurement of partner risk must take into account related market, liquidity, legal and operational risks. During the monitoring process, the Bank also monitors the transparency of the partner/group.
If any of the analysts or managers of the Bank becomes aware of significant warning signs (e.g.: the Partner's external rating deteriorates, its economic situation worsens significantly, the launch of bankruptcy or winding-up proceedings is published, there are long-term payment delays, etc.), the rating must be updated immediately after the information has become known. In justified cases, an extraordinary rating may serve as a basis for measures to promote the Bank's security.
In the case of negative news from the market, the manager of Treasury or the Risk Management may temporarily suspend the partner limit applicable to the Bank's given partner.
The Asset-Liability Committee has the decision-making power to close a partner limit or to terminate the existing transactions.
The Bank essentially limits the unexpected risk of financial deposits arising from ISDA contracts, even as may arise due to the downgrading of the Bank, by taking minimal trading and typically hedging, i.e. overall moderate net derivative, positions in its activities, while maintaining significant liquid assets. In addition, when regulating the minimum level of liquidity reserves, the Bank takes into account the preparation for stress situations and the results of stress tests that are run regularly.
When concluding ISDA agreements, the Bank properly enforces the principle of symmetric obligations between the parties and the observance of market standards.
With regard to partner risk, for the transactions listed in Annex II to Regulation (EU) No 575/2013, the Bank determines the exposure value on the basis of the market pricing method.

38.11. Operational risk

The objective of operational risk management is to support efforts to keep operating costs low, and to promote efficient organisational operation.
The Bank primarily manages operational risks by focusing on prevention and with the continuous monitoring and appropriate elaboration of internal processes, regulations and procedures, event collection and forward-looking self-assessment, the appropriate training of employees participating in the working processes, and the ongoing development and implementation of built-in control mechanisms.
Numerical measurement of the levels of risk takes place through the continuous gathering of data on events that occur, and regular self-assessments based on forward-looking estimates made at individual department level. These surveys outline the patterns in the distribution of the events and the risk factors, thereby helping to identify the areas where intervention is necessary. The process is supported by a network of operational risk officers appointed in each department of the organisation.
All operational risks are to be reported to the operational risk manager, and a relevant report must be submitted to the Asset-Liability Committee on a quarterly basis and at least annually to the Board of Directors. The Bank prepares an annual self-assessment concerning its operational risks, which is also reported to the Asset-Liability Committee and the Board of Directors.
Based on the collection of loss events, it can be stated that the conservative capital requirement arrived at using the robust basic indicator approach under Pillar I (HUF 881.2 million) was sufficient to cover operational risks in 2020. By 2020, the Bank completed its self-assessment of operational risks and, according to the results of the audit, no further capital formation is required.

38.12. Risk of excessive leverage

The Bank monitors the risks resulting from excessive leverage through monthly monitoring. The Bank calculates leverage on the basis of the relevant Regulation (EU) 575/2013 and reports it to the Asset-Liability Committee.
The Asset-Liability Committee is entitled to order specific measures in case the value of the indicator falls below the alert level or below the limit value.

38.13. High-risk portfolios

The Bank sets limits for "High-risk portfolios" (balloon, bullet, portfolios built with the cooperation of an independent intermediary, etc.) as defined by the MNB, and accordingly the Bank develops a diversified portfolio paying special attention to risk assessment prior to credit decisions and follow-up management of loans. The Asset-Liability Committee receives monthly information on portfolio developments and limit utilisation.

38.14. Risks considered as not relevant and their justification

Risk of securitisation:

The Bank does not plan to act as a risk transferor, risk taker or sponsor concerning securitisation transactions.
Modelling risk:
The Bank uses control processes to handle modelling risks, which include regular validation and measurement and repeated measurement, where applicable. Modelling risk arises primarily from VaR models related to impairment and provisioning, and market risk.

39. CAPITAL AND CAPITAL ADEQUACY

The following tables show equity in two structures, as required by Section 114/B of Act C of 2000 in order to facilitate the comparability of equity components presented in these IFRS statements with those presented in previous years' HAS statements.

Data in HUF millions

Based on IFRS financial statements

	31.12.2020	31.12.2019
Subscribed capital	11,247	8,494
Capital reserve	6,037	4,477
Profit reserve	2,665	1,065
Reserve for share-based payment transactions settled in equity instruments	70	139
Other reserves	561	397
Cumulative other comprehensive income (OCI)	71	-33
Total equity	**20,651**	**14,539**

Based on the Hungarian Accounting Act (Act C of 2000, Section 114/B)

	31.12.2020	31.12.2019
Share capital under IFRS	11,247	8,494
Capital reserve	6,107	4,616
General reserve	561	397
Valuation reserve	71	-33
Profit reserve	1,261	-46
Profit after tax	1,405	1,111
Total equity	**20,651**	**14,539**

Information about regulatory capital

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR) require that the Bank have a certain level of regulatory capital. The Bank reports its capital adequacy position to the National Bank of Hungary (MNB) on a quarterly basis, and forecasts are regularly made regarding the expected capital adequacy developments.

Data in HUF millions

	31.12.2020	31.12.2019
Common equity Tier 1 capital (CET1)	19,169	12,176
Additional Tier 1 capital (CET1)	5,150	5,150
Total Tier 1 capital	**24,319**	**17,326**
Subordinated loan capital	100	100
Total Tier 2 capital	**100**	**100**
REGULATORY CAPITAL	**24,419**	**17,426**

During the years 2020 and 2019, as well as on 31.12.2020 and 31.12.2019, the Bank met the capital adequacy requirements of the MNB. The Bank pays no dividends from this year’s profit.

On 06.05.2021, the Board of Directors approved the financial statements.

Éva Hegedűs	Jenő Siklós
Chairperson & CEO	Deputy CEO

1. AGENDA

1.1 Report of the Supervisory Board on the annual financial statements for 2020 and the proposal for the use of after-tax profit;

Report of the Supervisory Board on the annual financial statements for 2020 and the proposal for the use of after-tax profit;

During the course of 2020, the Supervisory Board conducted its activities and fulfilled its duties in accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and Act V of 2013 on the Civil Code and in compliance with the provisions set out in its own Rules of Procedure.

In 2020, the Supervisory Board continued to enforce its controlling function in an effort to protect the interests of GRÁNIT Bank Zrt. (hereinafter: Company or Bank) and the owners.

In this context, it requested reports from the management, listened to verbal reports and passed resolutions during its meetings held in 2020 on the basis of its approved work plan. The Chairperson of the Supervisory Board and the members of the Supervisory Board were present at all meetings of the Bank's Board of Directors.

As the Bank's Board of Directors submitted all BoD proposals – documents of BoD meetings and votes held outside the meeting – to the Supervisory Board in 2020 as well, the Supervisory Board was kept fully and continuously informed of the Board of Directors' activities and decisions.

The Supervisory Board monitored the management of the Company, including the following:

In 2020, the Supervisory Board continuously monitored the reports of the management and the Board of Directors on the implementation of the financial plan and the business plan. The Supervisory Board also discussed and approved the quarterly business and financial reports.

The Supervisory Board continuously monitored the implementation of the Bank's Strategy and noted its successful execution.

The Supervisory Board continuously monitored compliance with the requirements set out in the Act on Credit Institutions and Financial Enterprises.

In 2020, the Supervisory Board continued to request regular reports from the Bank's management as to the activities of Compliance and the activities related to the prevention and combating of money laundering and terrorist financing.

The Supervisory Board also exercised its professional management role through the audits conducted by the internal audit unit under its professional management, in accordance with the provisions of the Credit Institutions Act.

The Supervisory Board reviewed and approved Internal Audit's annual audit plan drawn up on the basis of risk analysis, as well as its 3-year medium-term audit plan.

The Supervisory Board discussed the reports prepared by Internal Audit and monitored the implementation of the necessary measures. Based on the findings of the inspections, it adopted recommendations and proposals, and stipulated additional reporting obligations.

The Supervisory Board discussed and adopted the report on the audit of the MNB's data reporting and checked – based partly on the internal auditor's report – if the tasks set out in the resolution had been completed on time.

The Supervisory Board discussed and approved the revision of the Bank's Remuneration Policy.

The Supervisory Board approved the conditions for the performance measurement and evaluation of the Bank's management for 2020.

The Supervisory Board discussed and approved – and proposed to the General Meeting for approval – the fulfilment of the conditions set out in the Remuneration Policy for the Bank's ESOP entity for the years 2017-2019. The Supervisory Board found that the ESOP Entity had fulfilled the conditions relating to the 2017-2019 business years. The establishment of the ESOP Entity has achieved its goal, significantly contributing to the over-achievement of the Bank's Strategic Plan.

The Supervisory Board discussed and approved – and proposed to the General Meeting for approval – the Remuneration Policy for the Bank's ESOP Entity for the years 2020-2022, and the conditions set out therein.

The Supervisory Board approved the settlement of the remuneration withheld for 2020 within the management's 2018 performance-based remuneration and the settlement of the remuneration withheld for 2020 within the 2020 performance-based remuneration, as it determined that in 2020 there was no negative information or event that might otherwise have prevented payment.

In 2020, the Supervisory Board approved its own report on the 2020 annual financial statements and the proposal for the use of the after-tax profit.

In 2020, the Supervisory Board approved, and proposed to the General Meeting for acceptance, the amendment of the contract with the Company's auditor and its remuneration.

Prior to the 2020 annual Ordinary General Meeting, the Supervisory Board examined, in compliance with its statutory obligations, all relevant business policy reports on the agenda of the 2020 Ordinary General Meeting, as well as all proposals concerning matters falling within the exclusive competence of the company's supreme body.

The Supervisory Board is satisfied that the Bank has complied with its statutory obligations to disclose its material information, its remuneration statement and the information stipulated to be disclosed.

Prior to the 2021 annual ordinary General Meeting, the **Supervisory Board** examined, in compliance with its statutory obligations, all relevant business policy reports on the agenda of the General Meeting, as well as all proposals concerning matters falling within the exclusive competence of the company's supreme body.

The Supervisory Board examined the audited **annual financial statements** and the **consolidated annual financial statements** and took note of **the information provided by the auditor**. Prior to the General Meeting, the Supervisory Board reviewed and approved the proposals submitted to the General Meeting.

At the 2021 ordinary General Meeting, the Supervisory Board will – based on the prior consultation with the Board of Directors – **propose the election of the auditor**, given that the auditor's contract has ended with the auditing of the 2020 report.

The Supervisory Board has drawn up an **evaluation of the activities of the executive officers in the 2020 business year** for the 2021 ordinary General Meeting and a proposal to grant discharge from liability.

Based on the documentation provided to the Supervisory Board in connection with the 2020 business year, the Supervisory Board has concluded that GRÁNIT Bank Zrt. has compiled its annual (**standalone**) financial statements in accordance with the provisions of Act C of 2000 on Accounting and in compliance with the requirements of International Financial Reporting Standards (IFRS) on the presentation of financial statements as also adopted by the European Union.

The Bank recognised impairment and set aside provisions in accordance with International Financial Reporting Standards (IFRS standards) as also adopted by the European Union and with the Bank's own Accounting Policy, and based on the valuation provisions under International Financial Reporting Standards (IFRS), as discussed and agreed with the auditor.

Based on the documentation provided to it in relation to the **consolidated** annual financial statements of GRÁNIT Bank Zrt., the Supervisory Board has concluded that the consolidated annual financial statements have been prepared in accordance with Act C of 2000 on Accounting and in compliance with International Financial Reporting Standards as also adopted by the European Union.

The Supervisory Board considers that during the annual activities of GRÁNIT Bank Zrt. lawfulness and the owners' interests have been observed, and the profit and loss indicators are in line with management's preliminary expectations.

The Supervisory Board has accepted the reports (**standalone and consolidated**) of the Board of Directors on the Company's business activities, net worth position, business policy and management for 2020 (Business Report) and proposes them to the General Meeting for approval.

The Bank's Supervisory Board, in accordance with and taking into account the auditor's report, has accepted the following items in the following amounts as stated in the Company's annual (**standalone**) financial statements for 2020 (Balance Sheet, Income Statement, Notes):

balance sheet total:	573,536	million forint
profit after tax:	1,648	million forint
shareholders' equity:	23,594	million forint
net profit:	1,752	million forint

and now proposes these for acceptance and approval by the General Meeting.

The Supervisory Board agrees with the proposal of the Board of Directors, and proposes to the General Meeting that no dividend be paid on the after-tax profit for 2020, and that the profit be transferred to the profit reserve.

The Bank's Supervisory Board, in accordance with and taking into account the auditor's report, has accepted the following items in the following amounts, as stated in the Company's annual consolidated financial statements for credit institutions for 2018 (Balance Sheet, Income Statement, Notes to the Financial Statements):

balance sheet total:	570,429	million forint
profit after tax:	1,617	million forint

shareholders' equity:	20,651	million forint
net profit:	1,191	million forint

and now proposes these for acceptance and approval by the General Meeting.

GRÁNIT Bank Zrt.
Supervisory Board

1. AGENDA

1.2 The auditor's report on the results of the audit of the 2020 annual financial statements.

1. AGENDA

1.3 Acceptance of the resolution proposals regarding the submissions under sections 1.1 to 1.6 for the year 2020

i. Acceptance of the report of the Board of Directors
ii. Acceptance of the annual (standalone) Financial Statements according to IFRS
iii. Acceptance of the (consolidated) Financial Statements according to IFRS
iv. Acceptance of the reports of the Supervisory Board
v. Acceptance of the Auditor's reports
vi. Decision on the use of the Company's profit in the reporting year

Resolution Proposals for the General Meeting

1. The General Meeting has discussed and approved the Board of Directors' Business Report on the Company's business activities (net worth position, business policy and management) for 2020.

2. The General Meeting approves and accepts the Company's (standalone) financial statements for the 2020 business year, prepared in accordance with the provisions of Act C of 2000 on Accounting and in compliance with the requirements of International Financial Reporting Standards (IFRS) as also adopted by the European Union.

3. The General Meeting approves the report of the Company's auditor regarding the Company's 2020 (individual) financial statements prepared in compliance with the requirements of the International Financial Reporting Standards (IFRS) adopted by the European Union.

4. The General Meeting accepts, in accordance with and taking into account the auditor's report, the Company's 2020 (standalone) financial statements compiled in accordance with the requirements of International Financial Reporting Standards (IFRS) on the presentation of financial statements, with the following amounts:

balance sheet total:	573.53	million forint
profit after tax:	1,648	million forint
shareholders' equity:	23,594	million forint
net profit:	1,752	million forint

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5. The General Meeting decides on the use of the profit as follows:
   a. The Company will not pay dividends on its shares for the year 2020.
   b. The profit for 2020 shall be transferred to the Company's profit reserve (retained earnings).

6. The General Meeting discussed and approved the Board of Directors' consolidated Business Report on the Company's business activities (its net worth position, business policy and management) for 2020.

7. The General Meeting approves and accepts the Company's consolidated financial statements for the 2020 business year, prepared in accordance with the provisions of Act C of 2000 on Accounting and in compliance with the requirements of International Financial Reporting Standards (IFRS) as also adopted by the European Union.

8. The General Meeting approves the report of the Company's auditor regarding the Company's 2020 consolidated financial statements compiled in compliance with the requirements of International Financial Reporting Standards (IFRS) as also adopted by the European Union.

[Ide írhat]

9. The General Meeting accepts, in accordance with and taking into account the auditor's report, the Company's 2020 consolidated financial statements compiled in compliance with the requirements of International Financial Reporting Standards (IFRS) on the presentation of financial statements, with the following amounts:

balance sheet total:	570,429	million forint
profit after tax:	1,617	million forint
shareholders' equity:	20,651	million forint
net profit:	1,191	million forint

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2. AGENDA

2. Evaluation of the activities of the executive officers in the past business year; decision on granting discharge from liability

   Presented by: Sándor Nyúl, Chairperson of the SB

Evaluation of the activities of the executive officers in the past business year; decision on granting discharge from liability

Pursuant to Section 3:117 (1) of Act V of 2013 on the Civil Code ("Civil Code"), the General Meeting may, upon the request of the executive officer, simultaneously with the acceptance of the financial statements, grant *discharge from liability* as a confirmation of compliance of his or her management activities during the previous business year.

In view of the above, GRÁNIT Bank Zrt.'s Board of Directors requests the General Meeting to grant *discharge from liability*.

GRÁNIT Bank Zrt.'s Supervisory Board has, as part of this proposal, prepared for the General Meeting an evaluation of the activities of the members of the Board of Directors in the reporting year in connection with the annual financial statements as per the Accounting Act, and proposes the granting of *discharge from liability*.

In the course of 2020, GRÁNIT Bank Zrt.'s Supervisory Board, in fulfilling its duties as stipulated by the relevant legislation and the Articles of Association, monitored the activities of the management and was informed about the current net worth position and business policy of the Bank and the Bank Group.

On the basis of the documents made available and the submissions presented to it, and after being represented in person at the meetings of the Board of Directors, the Supervisory Board makes the following observations:

During the year 2020, GRÁNIT Bank Zrt.'s Board of Directors monitored and discussed the matters falling within its competence – the mandatory matters required by law, as well as the matters stipulated in the Articles of Association or set out in its own Rules of Procedure – and held regular meetings to make the necessary decisions and also passed out-of-meeting decisions, and then checked the implementation of these.

The Company's Board of Directors has continuously monitored

- the contents of the management's reports,
- the development of the Bank's profit and loss on the basis of quarterly interim reports and statements,
- compliance with the provisions of the Credit Institutions Act,
- quarterly changes in the quality of the portfolio,
- new commitments in excess of 10% but not exceeding 25% of the Bank's regulatory capital,
- reports on the liquidity status of the Bank, 3 months in advance,
- risk and controlling reports on compliance with legal and internal thresholds and on changes in capital adequacy,
- the Bank's compliance activities and measures taken to prevent money laundering and terrorist financing
- current issues related to the Bank's operations and activities,
- compliance with government measures taken in response to and in connection with the evolving epidemiological situation.

The Bank's Board of Directors has passed resolutions at its regular meetings as well as outside of meetings regarding the following:

- the revision of statutory limits,
- setting and amending customer limits, and partner limits,

- the approval of the regulations that substantially determine the Bank's operations and that are assigned to its competence by the Credit Institutions Act, including inter alia the Organisational and Operational Regulations, the Risk Assumption and Partner Rating Regulations, its disclosure policy under the CRR and the Credit Institutions Act, the Remuneration Policy, the Customer and Transaction Rating Regulations and the Collateral Valuation Regulations
- the Bank's Medium-Term Strategy
- the use of internal loans
- the tasks assigned to the Board of Directors by the Bank's General Meeting

The Supervisory Board is of the opinion that the Board of Directors of the Company has fulfilled its duties as required by the relevant legislation and the Bank's Articles of Association during 2020, and has performed its duties while endeavouring to preserve shareholder value and the Company's interests.

At the 2020 ordinary General Meeting, the Board of Directors reported on the Bank's business activities and results achieved in 2019 in accordance and in compliance with the provisions of the Act on Credit Institutions and Financial Enterprises and the Act on Accounting.

The Board of Directors has prepared and submitted to the ordinary General Meeting of 2021 the Company's business report for the year 2020 (on its net worth position, business policy and management), as well as the (standalone) financial statements compiled in accordance with the provisions of Act C of 2000 on Accounting and in compliance with the requirements of International Financial Reporting Standards (IFRS) as also adopted by the European Union.

The Company's Supervisory Board considers it of very notable significance that the Bank has achieved a profit for the tenth full business year, exceeding national and international standards, with profit levels increasing every year, and that it again exceeded the previous year's profit in 2020. The Bank's portfolio continues to be excellent, with over 99% of its loans rated in the top category (problem-free). The Bank continued to successfully implement its business strategy last year, overperforming on the financial indicators set out in the strategic plan.

The activities of GRÁNIT Bank are regulated to a significant degree by the legal provisions, which means that not only certain of its activities but also its operation as a whole is regulated in detail and is continuously supervised by the authorities.

The Supervisory Board is also satisfied that, in accordance with the expectations set out in Section 122 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and the relevant Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, the Board of Directors has fulfilled its obligations with regard to the public disclosure of information, including providing information on its corporate governance system and remuneration policy.

Each internal control function (risk management, compliance activity, internal audit system) meets the strict statutory requirements. The Bank has demonstrated the effectiveness of its internal control functions both to the internal corporate governance apparatus and to the external regulatory authorities.

The Bank has ensured that its risk management activities are deliberate, comprehensive and suitably controlled.

The Supervisory Board of GRÁNIT Bank is of the opinion that the Board of Directors has performed its work in the interest of preserving and increasing the value of the Company's shares, keeping the primacy of the Bank's interests in mind.

In view of the above, the Supervisory Board requests that, during the Bank's annual Ordinary General Meeting, the General Meeting evaluate the activities of the executive officers in the 2020 business year and, based on such evaluation, grant a *discharge from liability* to the executive officers as confirmation of the adequacy of their management activities in 2020.

The Supervisory Board has concluded that, in the course of its operation, the Company complies with the applicable statutory and supervisory provisions.

The facts and figures serving as the basis for the *discharge from liability* are set out in the following documents:

i. 2020 Business Report,
ii. 2020 interim management reports,
iii. 2020 financial statements and the related auditor's report,
iv. report of the Supervisory Board.

GENERAL MEETING RESOLUTION PROPOSAL:

The General Meeting certifies, on the basis of the evaluation of the activities of the executive officers in the 2020 business year, that the executive officers have performed their duties during the business year keeping the primacy of the Company's interests in mind.

General Meeting Resolution [●] /2021. (05.14.):

The General Meeting has evaluated the activities of the executive officers in the 2020 business year, and confirms that, of the executive officers, **Éva Hegedüs, Chairperson & CEO,** has performed his duties during the business year with the primacy of the Company's interests in mind, and therefore grants him a discharge from liability as confirmation of the adequacy of his management activities in the 2020 business year.

General Meeting Resolution [●] /2021. (05.14.):

The General Meeting has evaluated the activities of the executive officers in the 2020 business year, and confirms that, of the executive officers, **Jenő Siklós, Deputy CEO,** has performed his duties during the business year with the primacy of the Company's interests in mind, and therefore grants him a discharge from liability as confirmation of the adequacy of his management activities in the 2020 business year.

General Meeting Resolution [●] /2021. (05.14.):

The General Meeting has evaluated the activities of the executive officers in the 2020 business year, and confirms that, of the executive officers, **László Hankiss, Deputy CEO,** has performed his duties during the business year with the primacy of the Company's interests in mind, and therefore grants him a discharge from liability as confirmation of the adequacy of his management activities in the 2020 business year.

General Meeting Resolution [●] /2021. (05.14.):

The General Meeting has evaluated the activities of the executive officers in the 2020 business year, and confirms that, of the executive officers, **Zoltán Nagy, Deputy CEO,** has performed his duties during the business year with the primacy of the Company's interests in mind, and therefore grants him a discharge from liability as confirmation of the adequacy of his management activities in the 2020 business year.

General Meeting Resolution [●] /2021. (05.14.):

The General Meeting has evaluated the activities of the executive officers in the 2020 business year, and confirms that, of the executive officers, **Mr. Gergely Domonkos Horváth,** has performed his duties during the business year with the primacy of the Company's interests in mind, and therefore grants him a discharge from liability as confirmation of the adequacy of his management activities in the 2020 business year.

3. AGENDA items 3 and 4

3. Re-election of members of the Board of Directors (verbal proposal)
4. Re-election of members of the Supervisory Board (verbal proposal)

Presented by: Éva Hegedüs Chairperson & CEO

5. AGENDA

5. Election of the auditor

Presented by: Sándor Nyúl, Chairperson of the SB

The Bank's 2018 Ordinary General Meeting elected **PricewaterhouseCoopers Könyvvizsgáló és Tanácsadó Kft**. (hereinafter: PwC) as the Company's auditor for a term of 3 years.

The audit activity to be performed under the mandate included the following:

(a) the audit and report regarding the consolidated and standalone annual financial statements of Granit Bank Zrt. in accordance with IFRS, including the requisite mid-year audit as well,

(b) a separate audit report to be prepared for the National Bank of Hungary,

(c) the report on disclosure to the public

As of 1 January 2018, the Bank is required to compile its financial statements in accordance with the provisions of Act C of 2000 on Accounting and in compliance with the requirements of International Financial Reporting Standards (IFRS) as also adopted by the European Union.

Over the past three years, PwC has not only been involved in auditing the individual and consolidated Annual Financial Statements prepared in accordance with International Financial Reporting Standards, but has also successfully assisted in the preparation of standalone and consolidated financial statements and audited the interim balance sheet and year-end statements. Despite the growth in the Bank's balance sheet total, the increase in business activity and the expanding range of its various financial products and services, the preparation of Financial Statements of appropriate quality has been ensured in every business year.

Pursuant to Regulation (EU) No 537/2014 of the European Parliament and of the Council (hereinafter: Regulation) on specific requirements regarding the statutory audit of public-interest entities, the mandatory rotation is currently not – in view of the fact that PwC has been carrying out audit activities for it for 3 years now – currently applicable to the Bank.

In view of all of the above, the Bank's Management and Board of Directors recommended to the Supervisory Board that it request an offer from **PricewaterhouseCoopers Könyvvizsgáló és Tanácsadó Kft.** for the auditing of the Bank for a further period of 3 years.

PwC accepted the request and submitted to the Bank its offer for the audit and the annex to the audit contract.

The Bank's management and Board of Directors propose that the contract for audit services be accepted, including the recommended remuneration.

Proposed audit fee: HUF 42,500,000 + VAT per year for the 2021, 2022 and 2023 business years.

The Supervisory Board agrees with the proposal.

General Meeting Resolution Proposal:

The General Meeting approves the proposal of the Supervisory Board for the election of the auditor, the determination of its remuneration and the conclusion of the audit contract.

The General Meeting elects

(a) **PricewaterhouseCoopers Könyvvizsgáló és Tanácsadó Kft.** as the Company's auditor for the 2021-2023 business years,
(b) and the audit fee for the 2020, 2022 and 2023 business years is HUF **42,500,000 + VAT per year.**
(c) expiry date of the mandate and the contract: 31 May 2024, or the date of the Annual General Meeting accepting the audit report for the 2023 business year, whichever is the earlier
(d) the General Meeting authorises the management of the Company to sign the audit contract.

6. AGENDA

6 Amendment of the articles of association (changes due to agenda items 3, 4 and 5)

GRÁNIT BANK
A DIGITÁLIS BANK

ARTICLES OF ASSOCIATION

GRÁNIT BANK PRIVATE LIMITED COMPANY

I.

Name, registered office and email address of the Company

1.

(1) Name of the Company: GRÁNIT BANK PRIVATE LIMITED COMPANY

(2) Abbreviated name of the Company: GRÁNIT Bank Zrt.

2.

(1) Registered office of the Company: 1095 Budapest, IX., Lechner Ödön fasor 8.

3.

(1) Email address of the Company: info@granitbank.hu.

II.

Shareholders of the Company:

Company name:	E.P.M. Tanácsadó Korlátolt Felelősségű Társaság
Company reg. no.:	01-09-887898
Registered Office:	1034 Budapest, Testvérhegyi út 56-58.
Name:	Jenő Siklós
Name at birth:	Jenő Siklós
Mother's name at birth:	Mária Kelemen
Address:	1182 Budapest, Sallai Imre utca 40.
Place and date of birth:	Miskolc, 3 July 1956
Name:	dr. Levente Kovács
Name at birth:	Levente Kovács
Mother's name at birth:	Hajnalka Kovács
Address:	1124 Budapest, Tamási Áron utca 9.
Place and date of birth:	Sellye, 14 November 1966
Name:	Péter Kostevc
Name at birth:	Péter Kostevc
Mother's name at birth:	Anna Piroska Hornyák
Address:	1121 Budapest, Kalóz utca 13.
Place and date of birth:	Sopron, 29 June 1967
Company name:	COOP-INNOVA Tanácsadó Korlátolt Felelősségű Társaság
Company reg. no.:	16-09-011091
Registered Office:	5100 Jászberény, Ady Endre utca 22.
Name:	Béla Horváth
Name at birth:	Béla Horváth
Mother's name at birth:	Valéria Kozár

Address:	2093 Budajenő, Csalogány utca 17.
Place and date of birth:	Budapest, 24 September 1954

Company name:	Pannonia Pension Fund
Trade registry number:	01-04-0000052
Registered Office:	1072 Budapest, Nyár utca 12.

Company name:	MKB Pension Fund
Trade registry number:	0025
Registered Office:	1056 Budapest, Váci u. 38.

Company name:	Gold Taurus Investment Vagyonkezelő Tanácsadó Korlátolt Felelősségű Társaság
Trade registry number:	01-09-283670;
Registered Office:	1066 Budapest, Ó utca 6. 4. em. 2.

Company name:	GRÁNIT Bank ESOP Entity
Trade registry number:	01-05-0000134
Registered Office:	1095 Budapest, Lechner Ödön fasor 8.

Name:	Carpathian Basin Enterprise Development Venture Capital Fund
Registered Office:	1072 Budapest, Rákóczi út 42.
Registration number:	6122-51
Fund manager:	Széchenyi Tőkealap-kezelő Zártkörűen Működő Részvénytársaság
Fund manager's registered office:	1072 Budapest, Rákóczi út 42.
Fund manager's trade registry number:	01-10-046411

Company name:	GRNTBNK 2020 BEFEKTETŐ KORLÁTOLT FELELŐSSÉGŰ TÁRSASÁG
Trade registry number:	01-09-373952
Registered Office:	1125 Budapest, Béla király út 29/A.

The shareholders of the Company are aware that, on 15 October 2020, the Company, E.P.M. Tanácsadó Korlátolt Felelősségű Társaság, Éva Hegedűs (as the sole member of E.P.M. Tanácsadó Korlátolt Felelősségű Társaság), the Carpathian Basin Enterprise Development Venture Capital Fund and GRNTBNK 2020 Befektető Korlátolt Felelősségű Társaság entered into an investment and syndicate agreement ("ISA") to regulate the capital increase and the expected related returns and investor position of the Carpathian Basin Enterprise Development Venture Capital Fund in the Company, which was deposited with the Board of Directors of the Company, and the contents of which were made available for inspection by the parties who signed the ISA to the Company's shareholders at the Company's Board of Directors.

III.

Range of activities of the Company

1.

(1) The Company is a credit institution, of the type: bank. The range of activities of the Company according to resolutions 992/1997/F, 4551/97, 44/1998, 41.031 - 4/1999 and 111/41.031-8/2002 of the Hungarian Financial Supervisory Authority shall consist exclusively of the following activities:

1) financial service activities:

a) the collection of cash deposits and the acceptance from the public of other repayable liquid assets in excess of its own capital,
b) provision of credit and cash loans,
c) financial leasing,
d) provision of payment services,
e) issuance of cash substitute payment instruments and the provision of services related thereto (in accordance with the MNB licence to perform such activity),
f) provision of payment and bank guarantees, as well as the assumption of other bankers' obligations,
g) commercial activities in foreign currency, foreign exchange (other than currency exchange services), bills of exchange and cheques on its own account or as a commission agent,
h) intermediation of financial services (agency activity),
i) escrow services, safe services,
j) credit reference services.

2) auxiliary financial service activity:

a) currency exchange activity (in accordance with the MNB licence for such activity).

3) investment service activities:

a) commission-based activity,
b) trading activity,
c) undertaking subscription guarantees (underwriting),
d) arrangement of securities offerings and providing the related services.

4) auxiliary investment service activities:

a) safekeeping of securities and maintenance of the related records,
b) securities custody,
c) provision of investment loans to investors,
d) consultancy to companies in matters regarding capital structure and business strategy, and services in respect of corporate mergers and acquisitions,
e) arranging acquisitions in joint-stock companies by way of public offerings and the services related thereto,
f) investment advisory services,
g) customer account management,
h) securities account management.

5) financial service, auxiliary financial service, investment service and other activities not classified as auxiliary investment service activity:

a) liquidity and risk management activity,
b) member recruitment activities under the conditions set out in Section 11/A of Act XCVI of 1993 on Voluntary Mutual Insurance Funds (hereinafter: VMIF Act)

Classification of the Company's activities according to the Standard Industrial Classification of Economic Activities (TEÁOR 2008):
64.19 Other monetary intermediation - main activity,
64.91 Financial leasing,
64.99 Other financial intermediation not elsewhere classified,
66.12 Stock and commodity exchange agency activity,
6619 Other activities auxiliary to financial services
66.22 Insurance agency and insurance brokerage activity
70.22 Business and other management consultancy.

IV.

Duration and form of operation of the Company

(1) The Company is established for an indefinite period.

(2) Form of operation of the Company: privately held company limited by shares

V.

Share capital and share structure of the Company
1.

The share capital of the Company is HUF 11,246,773,000, i.e. eleven billion two hundred and forty-six million seven hundred and seventy-three thousand forints, which consists entirely of cash contributions.

2.

(1) The Company's share capital:

(a) 10,115,571, i.e. ten million one hundred and fifteen thousand five hundred and seventy-one registered ordinary shares with a nominal value of HUF 1,000, i.e. one thousand forints each;

(b) 1, i.e. one Series "A" registered preference share entitling holders to appoint executive officers, with a nominal value of HUF 1,000, i.e. one thousand forints;

(c) 1, i.e. one Series "B" registered preference share entitling holders to appoint supervisory board members, with a nominal value of HUF 1,000, i.e. one thousand forints;

(d) 11, i.e. eleven Series "C" registered preference shares granting a right of pre-emption, with a nominal value of HUF 1,000, i.e. one thousand forints each;

(a) 1,131,188, i.e. one million one hundred and thirty-one thousand one hundred and eighty-eight, Series "D" registered preference shares giving preferential voting rights, with a nominal value of HUF 1,000, i.e. one thousand forints each; and

(f) 1, i.e. one Series "E" registered share with a veto right, with a nominal value of HUF 1,000, i.e. one thousand forints.

Data regarding the shares issued by the Company:

	Share type	Number of shares	Nominal value	Issue value	Date of the General Meeting deciding on the issuance
(a)	Ordinary shares	5,761,411	HUF 1,000	HUF 2,910 (05.04.2016)	05 April 2016
	Ordinary shares	1. 216,343	HUF 1,000	HUF 1,104.3	14 March 2017
	Ordinary shares	385,000	HUF 1,000	HUF 2,910	31 March 2017
	Ordinary shares	953,333	HUF 1,000	HUF 4,500	22 October 2020
	Ordinary shares	1,799,484	HUF 1,000	HUF 1,617	15 December 2020
(b)	Series “A” preference share	1	HUF 1,000	HUF 1,000	16 May 2013
(c)	Series “B” preference share	1	HUF 1,000	HUF 1,000	16 May 2013
(d)	Series “C” preference share	11	HUF 1,000	HUF 1,000	5 April 2016 (date of last issue)
(e)	Series “D” preference shares	1,131,188	HUF 1,000	HUF 1,000	16 May 2013 (date of conversion)
(f)	Series “E” preference share	1	HUF 1,000	HUF 4,500	22 October 2020

(2) Rights related to the shares

(a) Ordinary shares

Ordinary shares grant the shareholders the rights specified in the Civil Code. For the purposes of these articles of association, the Civil Code shall mean (a) Act V of 2013 on the Hungarian Civil Code and (b) any other statutory instrument as may replace Act V of 2013 on the Hungarian Civil Code.

(b) Series “A” preference share

Based on the Series “A” preference share entitling holders to appoint executive officers, the holder of this share is entitled to appoint one third of the members of the Board of Directors, who shall become members of the Board of Directors upon such appointment by the holder of the share. If the number of elected members of the Board of Directors is 4 (four) or 5 (five), the holder of a Series “A” preference share that entitles its holder to appoint executive officers is authorised, on the basis of such share, to appoint 2 (two) members of the Board of Directors. The holder of the Series “A” preference share entitling holders to appoint executive officers is also entitled to recall any member(s) of the Board of Directors appointed by him/her. The preference shareholder shall inform the Board of Directors in writing of the identity of the BoD member(s) appointed by him/her, or of the recall of the latter, and the Board of Directors shall, upon receipt of such information, notify the other shareholders of the Company of the decision of the preference shareholder and shall submit the related reports to the court of registration and the relevant authorities within the deadline prescribed by law. If the membership of the member(s) of the Board of Directors appointed by the holder of the Series “A” preference share is terminated for reasons other than recall, the holder of the Series “A” preference share may appoint a new member (new members) to the Board of Directors instead. The General Meeting may recall the member(s) of the Board of Directors appointed by the holder of the Series “A” preference share based on Section 3:233 (3) of the Civil Code if such person has been convicted by a final judgment for a criminal offence as defined in the Credit Institutions Act, or if a court has determined in a final judgment that such person has caused damage to the Company, even if the preference shareholder authorised to appoint does not do this. In such a case, the preference shareholder may appoint a new member (new members) to the Board of Directors.

Unless the holder of the Series "A" preference share sells his/her entire shareholding in the Company to just one buyer, the Series "A" preference share may not be transferred to any other party. Apart from the foregoing, none of the rights conferred by a Series "A" preference share may be transferred or assigned to another party, and a Series "A" preference share may not be pledged as collateral or encumbered; in the event of any attempted transfer, assignment or encumbrance made in breach of this provision of the articles of association, no person seeking to acquire a Series "A" preference share or any rights attaching thereto may be entered in the share register of the Company as the beneficiary of any rights related to the Series "A" preference share, and furthermore, the holder of the Series "A" preference share shall be liable to pay compensation for any loss or damage caused to the Company by his/her breach of this provision of the articles of association.

If the shareholding of the holder of the Series "A" preference share in the share capital of the Company falls below 25%, the shareholder shall only be authorised to appoint or recall 1 (one) member of the Board of Directors on the basis of the Series "A" preference share. If the shareholding of the holder of the Series "A" preference share in the share capital of the Company falls below 15%, the preferential rights attached to the Series "A" preference share shall immediately cease and may no longer be exercised. If such a condition occurs, the General Meeting may recall the member(s) of the Board of Directors appointed by the preference shareholder. At the first General Meeting following the occurrence of the above condition, the Company must take measures to convert the Series "A" share into an ordinary share of the same nominal value.

(c) Series "B" preference share

Based on the Series "B" preference share entitling holders to appoint Supervisory Board members, the holder of this share is entitled to appoint one third of the members of the Supervisory Board, who shall become members of the Supervisory Board upon such appointment by the holder of the share. The holder of a Series "B" preference share entitling holders to appoint Supervisory Board members is also entitled to recall any member(s) of the Supervisory Board appointed by him/her. The preference shareholder shall inform the Board of Directors in writing of the identity of the BoD member(s) appointed by him/her, or of the recall of the latter, and the Board of Directors shall, upon receipt of such information, notify the other shareholders of the Company of the decision of the preference shareholder and shall submit the related reports to the court of registration and the relevant authorities within the deadline prescribed by law. If the membership of the member(s) of the Supervisory Board appointed by the holder of the Series "B" preference share is terminated for reasons other than recall, the holder of the Series "B" preference share may appoint a new member (new members) to the Supervisory Board. The General Meeting may recall the member(s) of the Supervisory Board appointed by the holder of the Series "B" preference share based on Section 3:233 (3) applicable through Section 3:233 (5) of the Civil Code, if such person has been convicted by a final judgment for a criminal offence as defined in the Credit Institutions Act, or if a court has determined in a final judgment that such person has caused damage to the Company, even if the preference shareholder authorised to appoint does not do this. In such a case, the preference shareholder may appoint a new member (new members) to the Supervisory Board.

Unless the holder of the Series "B" preference share sells his/her entire shareholding in the Company to just one buyer, the Series "B" preference share may not be transferred to any other party. Apart from the foregoing, none of the rights conferred by a Series "B" preference share may be transferred or assigned to another party, and a Series "B" preference share may not be pledged as collateral or encumbered; in the event of any attempted transfer, assignment or encumbrance made in breach of this provision of the articles of association, no person seeking to acquire a Series "B" preference share or any rights attaching thereto may be entered in the share register of the Company as the beneficiary of any rights related to the Series "B" preference share, and furthermore, the holder of the Series "B" preference share shall be liable to pay compensation for any loss or damage caused to the Company by his/her breach of this provision of the articles of association.

If the shareholding of the holder of the Series "B" preference share in the share capital of the Company falls below 15%, the preferential rights attached to the Series "B" preference share shall immediately cease and may no longer be exercised. If such a condition occurs, the General Meeting may recall the member(s) of the Supervisory Board appointed by the preference shareholder. At the first General Meeting following the occurrence of the above condition, the Company must take measures to convert the Series "B" share into an ordinary share of the same nominal value.

(d) Series "C" preference shares

Based on the Series "C" preference shares assuring a right of pre-emption, the holders of these shares shall have a right of pre-emption in the event of transfer of the shares issued by the Company. The right of pre-emption may be exercised in accordance with subsection V.4(2) of these articles of association.

(e) Series "D" preference shares

Based on the Series "D" preference shares assuring preference in respect of voting rights, the holders of such shares shall be entitled to ten times the voting rights usually associated with the nominal share value of the share.

Pursuant to the Civil Code, the right assuring preference in respect of voting rights assure preference to the shareholder in the following decisions falling within the exclusive competence of the General Meeting:

(i) decisions necessary in connection with, and only to the extent necessary for, the listing of the Company's ordinary shares on the stock exchange in accordance with the annual business plan of the Company approved by the Board of Directors, in connection with amendments to these articles of association (including expressly amendments to the rights attached to certain classes of shares, and in relation to the conversion of preference shares into ordinary shares) or to a change in the Company’s form of operation,

(ii) all decisions relating to the amendment of these articles of association, which are necessary for the issuing of dividend preference shares to be distributed in the course of the capital increases by share premium referred to in Section XIII. (5) of these articles of association,

(iii) election, recall and determining the remuneration of (a) the members, chair and vice-chair of the Board of Directors and of (b) the members and chair of the Supervisory Board with respect to the persons appointed on the basis of the Series “A” and Series “B” preference shares entitling holders to appoint executive officers and members of the Supervisory Board, with due regard to the provisions of the Civil Code and of these articles of association, (c) decision on the prior consent required for decisions relating to the employment of the CEO as the person in charge of the Company’s work organisation and who performs the operative management of the Company (including, in particular, the establishment and termination of the employment of the chief executive officer),

(iv) any decision to increase the share capital or to authorise the Board of Directors to increase the share capital, unless the Civil Code or these articles of association provide otherwise.

The Series “D” preference shares assuring preference in respect of voting rights shall, in all other respects, confer rights equal to ordinary shares, including, but not limited to, voting rights and rights to dividends.

(f) Series “E” preference share

Based on the Series “E” preference share assuring a veto right, a proposed resolution of the General Meeting shall, in respect of the following matters, be deemed to have been rejected, regardless of the rules on majority voting that otherwise apply, if the holder of the Series “E” preference share assuring a veto right votes “no” in response to any motion related to such matters (for the purposes of this provision, an express or implied abstention shall not constitute a “no” vote):

(i) amendment of Section VI.1(3) of these articles of association;

(ii) amendment of rights attached to ordinary shares and to the Series “E” preference share assuring a veto right, or of the nominal value of such shares, if, as set out in Section 3:102(3) of the Civil Code, such amendment would adversely affect the rights or the situation of the holder of the Series “E” preference share assuring a veto right;

(iii) decision on the transformation or dissolution of the Company without a legal successor;

(iv) reduction of the share capital;

(v) a decision on the Dilutive Capital Increase as defined in Section III, subsection 4.1 of the ISA, in the case mentioned in Section III, subsection 4.8 of the ISA, unless the Carpathian Basin Enterprise Development Venture Capital Fund notifies E.P.M. Tanácsadó Korlátolt Felelősségű Társaság of the exercise of the purchase right under Section III, point 4.2 of the ISA within the time limit and in the manner provided for in Section III, point 4.5 of the ISA;

(vi) acceptance and amendment of the stock-exchange listing strategy.

The holder of the Series "E" preference share assuring a veto right is not entitled to transfer the share, either directly or indirectly (including by voting agreement), unless

1. the transfer takes place on the basis of Section III, point 6.2(c) of the ISA;

2. E.P.M. Tanácsadó Korlátolt Felelősségű Társaság fails to perform under the sale and purchase contract concluded on the basis of the exercising by the Carpathian Basin Enterprise Development Venture Capital Fund of its purchase option under Section III, point 4.2;

3. or the Carpathian Basin Enterprise Development Venture Capital Fund transfers all of its shares in the Company to another investment fund managed by its fund manager.

For the purposes of the above paragraphs 2 and 3 of this Section V. 2 (2) (f), the transfer of the Series "E" preference share assuring a veto right shall be subject to Section III, point 6.2(c) of the ISA, as appropriate.

The Company's Board of Directors shall inform the shareholders of the Company in the invitation to the General Meeting if a veto right may be exercised on the basis of the Series "E" preference share in relation to an item on the agenda of the meeting.

A resolution of the General Meeting that detrimentally alters the rights attached to a series of shares may be adopted only if it is approved also separately by at least 70% of the shareholders of the series of shares concerned. The consent may be given in a written statement made by the shareholders concerned prior to the vote on the proposed resolution at the General Meeting, or may be put to a separate vote among the shareholders concerned prior to the vote on the proposed resolution at the General Meeting. In the case referred to in paragraph (i) of Section V.2(2)(e) (listing of the Company's ordinary shares on the stock exchange) and in the case referred to in paragraph (ii) of Section V.2(2)(e) (issuing of dividend preference shares during a capital increase by share premium for loss financing purposes), the separate consent of the holders of the share series concerned need not be obtained for the purpose of implementing an adverse change in the rights attached to the series of shares.

3.

(1) All shares of the Company must be produced in dematerialised form.

(2) The Board of Directors of the Company must keep a share register in the form of a computerised record of the shares. The (chief) legal counsel of the Company may enter data in the share register, subject to the prior decision of the Board of Directors. The shareholder may inspect the share register and may request a copy (extract) of the share register relevant to him/her from the Board of Directors, and this request must be fulfilled within 5 days. Third parties may view the contents of the share register. The extract from the share register shall be issued by the Company's (chief) legal counsel. The share register kept in the form of a computerised record must comply with the statutory provisions applicable to credit institutions and the requirements of the Civil Code. If permitted by the applicable statutory regulations, the Company's Board of Directors may commission a third party to maintain the share register, in accordance with the applicable statutory regulations.

(3) The transfer of a share shall be effective in respect of the Company only if the shareholder has been entered in the share register.

4.

(1) The shares of the Company may only be transferred by way of sale.

(2) The holders of Series "C" preference shares assuring a right of pre-emption shall have a right of pre-emption in respect of all of the shares issued by the Company. In order to provide an opportunity for exercising the right of pre-emption, all shareholders of the Company must first notify the Board of Directors in writing of their intention to transfer their shares issued by the Company, as well as all the conditions of the purchase offer received, prior to the conclusion of the share transfer agreement. When negotiating the sale of their shares, the shareholders of the Company must inform the prospective buyer(s) of the existence of the right of pre-emption, and may only accept or present to the Series "C" shareholders an offer according to which the deadline for payment of the purchase price for the shares to be transferred is not shorter than the deadline for payment of the purchase price for the shareholders exercising their right of pre-emption, as indicated below in this paragraph. When conducting the negotiations with the prospective buyer, the shareholders wishing to sell their shares must ensure that the final buyer has at least 60, i.e. sixty, days available after the Final Date specified below, to pay the purchase price for the shares under the sale and purchase agreement concluded for the sale of their shares. The Board of Directors shall, immediately after the receipt of the notice, notify the holders of the Series "C" preference shares in writing, by sending them the conditions of the purchase offer received, in their full extent, to the residential address or the registered office address

of the holders of the Series "C" preference shares as specified in the Company's share register; the notice must also specify the date until which the right of pre-emption may be exercised (hereinafter: Final Date). The right of pre-emption may only be exercised with respect to the entire number of shares intended to be transferred; however, if more than one shareholder with a pre-emption right exercise their pre-emption right, they shall be entitled to acquire the number of shares to be transferred in proportion to their holdings in the share capital of the Company as at the Final Date. The declaration relating to the exercising of the pre-emption right must be submitted in writing to the Board of Directors within 15, i.e. fifteen, days of the date of the communication of the intention to transfer and the conditions of the purchase offer received (the declaration relating to the exercising of the pre-emption right must be received by the Board of Directors by the Final Date). If the holder of the pre-emption right does not make a declaration within 15, i.e. fifteen, days of the date of the communication of the intention to transfer and the conditions of the purchase offer received, then it shall be assumed that he/she does not wish to exercise his/her pre-emption right.

If the holder of the pre-emption right has exercised his/her pre-emption right by means of a declaration submitted to the Board of Directors, the sale and purchase agreement shall be concluded between him/her and the shareholder intending to transfer. Immediately after the Final Date, the Board of Directors shall inform the shareholder intending to transfer his/her shares and the holders of Series "C" preference shares in writing of the legal sale and purchase relationship(s) established as a result of the exercising or non-exercising of the pre-emption rights, specifying, inter alia, the parties concerned and the precise number of shares to be transferred.

The pre-emption rights related to Series "C" preference shares may not be exercised if a shareholder sells his/her shares to a business belonging to the same company group. For the purposes of this section, the term "company group" shall have the meaning as defined in Act LVII of 1996 on the Prohibition on Unfair Market Practices and on the Restriction of Competition (Section 15 (2)).

(3) A transfer of shares requires the consent of the Company, and such consent falls within the scope of competence of the Board of Directors, which shall take a decision on the matter by way of simple majority. The consent may be withheld only for important reasons, including the following: (i) if the shares are intended to be acquired by a competitor of the Company, (ii) if the shares are intended to be acquired by a person that does not meet the conditions for acquiring a qualifying interest under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: "Credit Institutions Act"), regardless of whether the extent of the shareholding intended to be acquired by them reaches the level of a "qualified influence" as defined in the law. In order to obtain consent, the shareholder intending to transfer his/her shares must notify the Board of Directors in writing of the intention to transfer and of the details of the person intending to acquire the shares. The Board of Directors must make a decision on whether or not to grant consent and inform the shareholder accordingly, within 30 days of receipt of the notification. If the Board of Directors does not make a statement within this period, the consent shall be deemed to have been given. If E.P.M. Tanácsadó Korlátolt Felelősségű Társaság does not fulfil the sale and purchase agreement concluded as a result of the exercising by the Carpathian Basin Enterprise

Development Venture Capital Fund of its purchase option under Section III, point 6.2(b) of the ISA, and if the measures taken against E.P.M. Tanácsadó Korlátolt Felelősségű Társaság to enforce its fulfilment of such sale and purchase agreement also prove unsuccessful, then the Company's consent will no longer be required for the subsequent transfer of shares of the Carpathian Basin Enterprise Development Venture Capital Fund.

5.

The shareholders confirm that 100%, i.e. one hundred percent, of the shares of the Company are owned by shareholders, as follows:

(1) E.P.M. Tanácsadó Korlátolt Felelősségű Társaság has

(a) 5,365,721 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 5,365,721,000,

(b) 1 dematerialised Series "A" preference share entitling holders to appoint executive officers, with a nominal value of HUF 1,000,

(c) 1 dematerialised Series "B" preference share entitling holders to appoint Supervisory Board members, with a nominal value of HUF 1,000,

(d) 3 dematerialised Series "C" preference shares assuring a right of pre-emption, with a nominal value of HUF 1,000 each, and

(e) 1,048,559 dematerialised Series "D" preference shares assuring preference in respect of voting rights, with a nominal value of HUF 1,000 each, totalling HUF 1,048,559,000.

(2) Jenő Siklós has

(a) 53,933 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 53,933,000, and

(b) 1 dematerialised Series "C" preference share assuring a right of pre-emption, with a nominal value of HUF 1,000.

(3) Dr. Levente Kovács has

(a) 6,244 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 6,244,000, and

(b) 1 dematerialised Series "C" preference share assuring a right of pre-emption, with a nominal value of HUF 1,000 each.

(4) Péter Kostevc has

(a) 56,195 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 56,195,000, and

(b) 1 dematerialised Series "C" preference share assuring a right of pre-emption, with a nominal value of HUF 1,000.

(5) COOP-INNOVA Tanácsadó Korlátolt FelelősségűTársaság has

(a) 54,635 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 54,635,000, and

(b) 1 dematerialised Series "C" preference share assuring a right of pre-emption, with a nominal value of HUF 1,000.

(6) Béla Horváth has

(a) 13,567 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 13,567,000, and

(b) 1 dematerialised Series "C" preference share assuring a right of pre-emption, with a nominal value of HUF 1,000.

(7) The Pannónia Pension Fund has

(a) 1,121,262 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 1,121,262,000,

(b) 1 dematerialised Series "C" preference share assuring a right of pre-emption, with a nominal value of HUF 1,000 each.

(8) The MKB Pension Fund has

(a) 847,285 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 847,285,000,

(b) 1 dematerialised Series "C" preference share assuring a right of pre-emption, with a nominal value of HUF 1,000 each.

(9) Gold Taurus Investment Vagyonkezelő Tanácsadó Korlátolt Felelősségű Társaság has

(a) 82,628 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 82,628,000, and

(b) 1 dematerialised Series "C" preference share granting right of pre-emption, with a nominal value of HUF 1,000, and

(c) 82,629 dematerialised Series "D" preference shares assuring preference in respect of voting rights, with a nominal value of HUF 1,000 each, totalling HUF 82,629,000.

(10) The GRÁNIT Bank Employee Stock Ownership Plan Entity has:

(a) 1,836,940 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 1,836,940,000,

(11) Carpathian Basin Enterprise Development Venture Capital Fund has:

(a) 666,666, i.e. six hundred sixty-six thousand six hundred sixty-six dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 666,666,000, and

(b) 1 dematerialised Series "E" preference share assuring a veto right, with a nominal value of HUF 1,000.

(12) GRNTBNK 2020 Befektető Korlátolt Felelősségű Társaság has:

(a) 10,405 dematerialised ordinary shares with a nominal value of HUF 1,000 each, totalling HUF 10,405,000.

VI.

General Meeting

1.

(1) The supreme body of the Company is the General Meeting, composed of all shareholders. The General Meeting has exclusive competence over all matters that are referred to the exclusive competence of the General Meeting by the Civil Code or these articles of association.

(2) The exclusive competence of the General Meeting defined in paragraph (1) covers the following:

a) the establishment and amendment of the articles of association (unless the Civil Code provides otherwise),

b) decision to change the operating form of the Company,

c) decision on the transformation and dissolution of the Company without legal successor,

d) election, recall and determining the remuneration of (i) the members, chair and vice-chair of the Board of Directors and of (ii) the members and chair of the Supervisory Board with respect to the persons appointed on the basis of the Series "A" and Series "B" preference shares entitling holders to appoint executive officers and members of the Supervisory Board, with due regard to the provisions of the Civil Code and of these articles of association, (iii) decision on the prior consent required for decisions relating to the employment of the CEO as the person in charge of the Company's work organisation and who performs the operative management of the Company (including, in particular, the establishment and termination of the employment of the chief executive officer), (iv) election, recall and determination of the remuneration of the Auditor based on the proposal of the Supervisory Board,

e) acceptance of the financial statements under the Accounting Act, including the decision on the use of the after-tax profit,

f) decision on payment of dividend advances (unless the Civil Code or these articles of association provide otherwise),

g) amendment of the rights attached to certain share series or the conversion of certain types or classes of shares,

h) decision on issuing convertible bonds or bonds with subscription rights (unless the Civil Code or these articles of association provide otherwise),

i) a decision (unless the Civil Code or these articles of association provide otherwise) to increase the share capital or to authorise the Board of Directors to increase the share capital,

j) decision (unless the Civil Code or these articles of association provide otherwise) to reduce the share capital,

k) decision on the evaluation of the performance of the executive officers in the previous business year, and on the discharge from liability that may be granted to them,

l) decision on the strategy of the Company, the amendment of its accepted strategy and the acceptance and amendment of the medium-term business plan,

m) decision on the acceptance and amendment of the rules of procedure of the Supervisory Board,

n) decision on the amendment of those sections (V.3.a) and V.3.g)) of the rules of procedure of the Board of Directors that apply to the exercising of employer's rights over the Deputy CEOs supervising the controlling and compliance areas, their rights and the areas they supervise, with the proviso that from the date that the share of the Hungarian State in the share capital of the Company falls below 15%, the decision under this section shall be transferred from the competence of the General Meeting to the competence of the Board of Directors,

o) decision on all matters referred by the Civil Code or these articles of association to the exclusive competence of the General Meeting.

(3) In the matters listed in section VI.1 (2) a), b), c), g) and j), the proposal for a decision shall be adopted by a majority of at least three quarters, while in the matters listed in paragraph n), by a majority of 85% + 1 vote, subject also, however, to the provisions of section V. 2 (2) (f) of these articles of association.

(4) In the matters listed in section VI.1 (2) m), the General Meeting shall decide by simple majority, except for the proposal for a resolution to amend those sections of the Supervisory Board's rules of procedure that apply to the rights of a member appointed by a Series "B" preference shareholder (sections IV.5, IV.11, V.5 of the Supervisory Board's rules of procedure). In this latter case, the General Meeting shall decide by a majority of at least 85% + 1 of the votes cast.

(5) When adopting a resolution of the General Meeting, Section 3:19 (2) e) and f) of the Civil Code, which states that "no vote shall be cast by those who have a relationship based on majority control with an organisation having a vested interest in the resolution, or who are personally interested in the resolution", shall not apply.

2.

(1) The convening of the General Meeting shall be governed by the provisions of the Civil Code.

A shareholders may exercise his/her voting rights at the General Meeting in respect of those shares conferring voting rights in respect of which he/she has been entered in the share register of the Company, up to the time of commencement of the General Meeting.

The method of exercising voting rights (show of hands, use of ballot papers, etc.) shall be proposed by the Board of Directors and decided by the General Meeting under the agenda item following the election of the officers responsible for conducting the General Meeting.

The General Meeting may decide to suspend the General Meeting.

(2) The annual ordinary General Meeting of the Company, which decides on the acceptance of the annual financial statements, shall be held subject to the deadlines set by the statutory provisions applicable to credit institutions, but no later than 31 May of each calendar year. The General Meeting deciding on the acceptance of the annual financial statements shall decide on the use of the after-tax profit, discuss the evaluation of the work of the executive officers in the previous business year, and decide on the discharge from liability that may be granted to the executive officers.

(3) The Board of Directors shall convene a General Meeting without delay if it becomes aware, based on the notification under section V.4 (4), that a shareholder of the Company does not meet the statutory criteria for a transparent organisation, and at such General Meeting the shareholders shall decide on the revision of these articles of association and on the rearrangement of the ownership structure of the Company so as to meet the criteria for a transparent organisation.

VII.

The Board of Directors

1.

(1) The executive body of the Company is the Board of Directors, consisting of the chair, the vice-chair and other members of the Board of Directors. The work organisation of the Company is headed by the chief executive officer who performs the operative management of the Company and is also the chair of the Board of Directors, and whose duties and competence are determined by the Board of Directors.

(2) The Board of Directors is composed of 4-9, i.e. four to nine, members; one third of its members (or, if the number of elected members of the Board of Directors is 4 (four) or 5 (five), then 2 (two) members of the Board of Directors) shall be appointed and recalled by the holder of the Series "A" preference share as per these articles of association, while the other members are elected and recalled by the General Meeting. The members of the Board of Directors must be elected for a fixed term and shall be eligible for re-election at the end of their term in office. If the number of members of the Board of Directors falls below 4, i.e. four, then (i) if the membership of the member appointed by the holder of the Series "A" preference share has ceased, the preference shareholder, or (ii) if the membership of the member elected by the General Meeting has ceased, the General Meeting, shall immediately arrange for the appointment or election of a new member.

(3) Only persons against whom there are no grounds for exclusion under the statutory regulations and who fulfil the relevant legal requirements may be elected or appointed

members of the Board of Directors. A member of the Board of Directors shall notify the Board of Directors without delay if any grounds for exclusion are identified.

(4) **The Board of Directors shall have exclusive competence in the following areas:**

a) acceptance of the Company's organisational and operational regulations,
b) acceptance and submission to the General Meeting of the Company's financial statements under the Accounting Act, and making proposals for the use of the after-tax profit,
c) decision on the increase of the share capital based on the authorisation granted in the articles of association,
d) with the prior approval of the Supervisory Board, a decision on the payment of dividends in place of the General Meeting,
e) exercising of the employer's rights with respect to the employment of the Company's chief executive officer and Deputy CEO as well as the chair of the Company's Board of Directors, subject to the provisions of Article VI.1 (2) d) of the articles of association,
f) maintenance of the Company's business books in compliance with the rules,
g) appointing of the Company's employees authorised to sign for the Company,
h) acceptance of the annual business plan of the Company,
i) approving new customer limits above the amount set in the procedural rules of the Board of Directors,
j) reporting on the management and on the Company's net worth position and business policy at least once a year to the General Meeting and every three months to the Supervisory Board,
k) maintaining the Company's share register (unless the Civil Code or the articles of association provide otherwise),
l) approving decisions relating to the establishment, operation and dissolution of the ESOP entity, and on the related costs and expenses, within the limits set out in the Company's Remuneration Policy,
m) making proposals regarding the latest Remuneration Policy system,
n) being responsible for implementing the Remuneration Policy as approved and reviewed by the Supervisory Board,
o) performing other tasks as defined by law or by the authorisation granted by the statutory provisions or by resolutions of the General Meeting,
p) taking all decisions that do not fall within the exclusive competence of the General Meeting, and that are not referred to the competence of another corporate body by the Company's organisational and operational regulations or the Board of Directors' rules of procedure.

(5) The Board of Directors is authorised to accept the interim balance sheet – in connection with the exercising of rights related to redeemable shares, the acquisition of treasury shares, the payment of dividend advances and increases in share capital that are charged to assets in excess of the share capital – subject to the consent of the Supervisory Board.

2.

(1) Meetings of the Board of Directors are convened by the chair, as frequently as

necessary.

(2) If the chair of the Board of Directors is unavailable, his/her competence is exercised by the vice-chair of the Board of Directors.

3.

(1) The Board of Directors has a quorum if at least a simple majority of the members of the Board of Directors is present. Its decisions are made by a majority of votes – in accordance with the Board of Directors' rules of procedure – and in the event of a tie, the vote of the chair of the Board of Directors shall decide the matter.

(2) The Board of Directors may make resolutions by phone, fax or other similar means. A resolution is valid only if at least a simple majority of the members of the Board of Directors record it – in accordance with the Board of Directors' rules of procedure – in a private document of full probative force and send it to the registered office of the Company within 8, i.e. eight, days.

4.

Minutes shall be kept of the meetings of the Board of Directors. The minutes shall be signed by the chair and the vice-chair of the Board of Directors or by the chair and two additional members of the Board of Directors present. The minutes shall be sent to all members of the Board of Directors and the chair of the Supervisory Board within 15, i.e. fifteen, days after the meeting, regardless of whether or not they were present at the meeting.

5.

The detailed rules of operation of the Board of Directors and the division of responsibilities and competences among its members are set out in the rules of procedure of the Board of Directors.

6.

Members of the Board of Directors[1]:

(1) Name: Éva Hegedüs (chair of the Board of Directors)
Mother's maiden name: Éva Árvai
Address: 1037 Budapest, Testvérhegyi út 56-58.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

(2) Name: Jenő Siklós
Mother's maiden name: Mária Kelemen
Address: 2481 Velence Muskotály u.1.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

(3) Name: Zoltán Nagy
Mother's maiden name: Magdolna Szabó

[1] [Depending on the date of issue of the MNB's authorisation: General Meeting resolution no. [*] on the appointment of the members of the Board of Directors shall enter into force on the date on which the National Bank of Hungary authorises the election of the officers named in the resolution. If the authorisation is given on or before 17 May 2021, the effective date of the resolution shall be 17 May 2021].

Address: 1082 Budapest, Corvin sétány 1/A. 5. / 4.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

(4) Name: Gergely Domonkos Horváth
Mother's maiden name: Magdolna Somfay
Address: 1028 Budapest, Mátra utca 1-3.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

(5) Name: Balázs László Hankiss
Mother's maiden name: Dr. Enikő Mária Jeney
Address: 1025 Budapest, Ali u. 13. I/4.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

7.

(1) In accordance with the provisions of the Credit Institutions Act, the internal BoD members of the Company are as follows:

- Éva Hegedüs (mother's maiden name: Éva Árvai; address: 1037 Budapest, Testvérhegyi út 56-*58*.).
- Jenő Siklós (mother's maiden name: Mária Kelemen; address: 2481 Velence Muskotály u.1., the Company's Deputy CEO.
- Zoltán Nagy (mother's maiden name: Magdolna Szabó; address: 1082 Budapest, Corvin sétány 1/A. 5. / 4., Deputy CEO of the company.
- László Balázs Hankiss (mother's maiden name: Dr. Mária Enikő Jeney; address: 1025 Budapest, Ali u. 13. I/4.), Deputy CEO of the company.

VIII.

Representation and signing on behalf of the Company

(1) The Company is represented by the members of the Board of Directors vis-à-vis third parties and before courts and other authorities.

(2) The Company may also be represented before the courts and other authorities by the chief legal counsel, a legal counsel or a legal officer, or by a lawyer appointed by the Board of Directors.

(3) Two members of the Board of Directors or two directors are entitled to sign jointly on behalf of the company – including giving instruction in respect of a payment account – and to make commitments on behalf of the Company in connection with financial service activities.

(4) The joint signing authority of two members of the Board of Directors or two directors may be transferred as joint signing authority in accordance with the procedure set out in the Company's internal rules of procedure approved by the Board of Directors.

(5) The persons authorised to represent the Company shall sign the Company's documents on behalf of the Company by signing their own names under the Company's name, in accordance with their authenticated company signature declaration.

(6) The Board of Directors shall exercise employer's rights with respect to the CEO and the Deputy CEOs of the Company, subject to the provisions of Article VI.1 (2) d) of the articles of association.

(7) Employer's rights with respect to the employees of the Company (other than the Company's CEO and Deputy CEOs) shall be exercised by the CEO as the person in charge of the Company's work organisation and who performs the operative management of the Company. Written legal declarations or contracts made in connection with decisions taken in the course of exercising employer's rights must be signed in accordance with the rules on company representation. Any director and the head of the Company's Human Resources Department are authorised to communicate the decisions of the person exercising employer's rights and to jointly sign the legal declarations and contracts based on these decisions.

IX.

Supervisory Board

1.

(1) The Supervisory Board shall consist of 3-6, i.e. three to six, members, one third of whom shall be appointed and recalled by the holder of the Series "B" preference share in accordance with the provisions of these articles of association, while the other members shall be appointed and recalled by the General Meeting. The members of the Supervisory Board shall be elected for a fixed term and shall be eligible for re-election at the end of their term in office. If the number of members of the Supervisory Board falls below 3, i.e. three, then (i) if the membership of the member appointed by the holder of the Series "B" preference share has ceased, the preference shareholder, or (ii) if the membership of the member elected by the General Meeting has ceased, the General Meeting, shall immediately arrange for the appointment or election of a new member.

If the number of members of the Supervisory Board is 4 or 5, the rule on the appointment of one third of the members of the Supervisory Board shall be applied so that the holder of the Series "B" preference share shall be entitled to appoint 2 members.

(2) The Company's operation is supervised by the Supervisory Board.

The Board of Directors and the Supervisory Board are responsible for ensuring that the Company performs its licensed activities in accordance with the provisions of the Credit Institutions Act and other separate laws, and that its operation complies with the relevant provisions. The members of the Supervisory Board shall always act with due care and professionalism – in accordance with the strict professional requirements of their position – taking into account the interests of the Company, its shareholders and its customers, and in accordance with the statutory regulations.

The members shall – in accordance with the rules of the Civil Code pertaining to jointly caused damage – have unlimited, joint and several liability for any damage resulting from a breach of their supervisory obligations. If the damage was caused by a board resolution, the member who did not take part in the decision-making or who voted against it shall be exempt from liability.

(3) With the exception of employee representation, employees of the Company may not become members of the Supervisory Board.

2.

(1) The Supervisory Board shall act as a corporate body. The Supervisory Board shall have a quorum if two thirds of its members, but at least three members, are present, and shall pass resolutions by a simple majority of votes. In the event of a tie, the vote of the chair of the Supervisory Board shall decide the matter.

(2) The members of the Supervisory Board are obliged to proceed in person, and may not be represented.

(3) If the Supervisory Board requests information from the members of the Board of Directors or from management employees, such information shall be provided – in writing, if so requested – by the deadline specified by the Supervisory Board, but by no later than the next Supervisory Board meeting.

3.

(1) The duties of the Supervisory Board are primarily to:

a) monitor the management of the Company for the General Meeting,
b) ensure that the Company has a comprehensive and effective control system in place, and once a year to evaluate the operation of the Bank's internal lines of defence,
c) examine the main business policy reports as well as any proposals falling within the exclusive competence of the General Meeting,
d) make proposals regarding the person and remuneration of the Auditor to be elected,
e) oversee the Company's internal audit function,
f) audit the Company's annual and interim financial reports,
g) prepare an annual report for the General Meeting,
h) prepare recommendations and proposals on the basis of the findings of the audits conducted by internal audit,
i) accept and regularly review the principles of the remuneration policy,
j) perform the duties of the audit committee for as long as the company operates as a private limited company,
k) perform other duties as stipulated by law.

4.

(1) Meetings of the Supervisory Board are convened by the chair, as frequently as necessary. The Supervisory Board shall meet at least every 3, i.e. three, months.

(2) The duties and powers of the chair of the Supervisory Board shall, in the case of his/her absence, be exercised by the Supervisory Board member appointed for this purpose.

5.

The detailed rules of operation of the Supervisory Board shall be set out in the rules of procedure established by the Supervisory Board and approved by the General Meeting.

6.

Members of the Supervisory Board[2]:

(1) Name: Sándor Nyúl - chair of the Supervisory Board
Mother's maiden name: Julianna Bohács
Address: 1125 Budapest, György Aladár utca 45.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

(2) Name: Gyuláné Lajtos
Mother's maiden name: Erzsébet Becze
Address: 1182 Budapest, Déva utca 18/A.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

(3) Name: János Vokony
Mother's maiden name: Róza Kovács
Address: 9228 Halászi Rákóczi út 03.

The mandate is for a fixed term of 3 (three) years, until 14 May 2024.

X.

The Auditor

1.

(1) The Company must hire an Auditor to verify the veracity and legal compliance of its financial statements under the Accounting Act. The Auditor shall determine whether the financial statements provide a true and fair view of the Company's net worth and financial position and the results of its operations. The Auditor may not provide any service to the Company that would jeopardise the objective and independent performance of this duty of public interest. In the course of its work, the Auditor may not establish professional cooperation with the management of the Company which would jeopardise the impartial performance of its audit duties. The Auditor is obliged to safeguard any trade secrets related to the Company's affairs.

(2) The Auditor shall be elected for a fixed term by the General Meeting on the proposal of the Supervisory Board, with the proviso that the term of the Auditor's office may not be shorter than the period between the date of the General Meeting resolution electing it and the date of the General Meeting resolution accepting the financial statements under the Accounting Act for the business year to be audited by it. The Auditor may be re-elected, but the Auditor employed or commissioned by the auditing firm may not perform auditing duties for the Company for more than five years.

(3) Within 90, i.e. ninety, days after the election (appointment) of the Auditor, the management of the Company shall conclude a mandate agreement with the Auditor in accordance with the general rules of civil law. This shall constitute acceptance of

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the Auditor's mandate. If this deadline passes without result, the Auditor's mandate shall become null and void, and the General Meeting must elect another Auditor. The basis for the recall of the Auditor may not be the findings set out in the independent auditor's report or a refusal to provide a certifying clause (auditor's opinion) in relation to the Company's financial statements as per the Accounting Act.

(4) If the Auditor is a business entity, it must identify the member, executive officer or employee who is personally responsible for the audit. Such person may only be appointed subject to the approval of the General Meeting.

2.

The rights and duties of the Auditor are primarily the following:

a) it may inspect the books of the Company,
b) it may request information from the executive officers, members of the Supervisory Board and employees of the Company,
c) it may examine the Company's bank accounts, cash, securities portfolio and contracts,
d) it may participate in meetings of the Board of Directors and the Supervisory Board in a consultative capacity,
e) it must request a resolution of the General Meeting in the cases provided for by law,
f) it must notify the Company Court and the National Bank of Hungary in the cases specified in the law,
g) verify the veracity and legal compliance of the Company's financial statements under the Accounting Act,
h) perform any other duties stipulated by law.

3.

The Company's Auditor is:

Company name:	PricewaterhouseCoopers Könyvvizsgáló
Kft. Company reg. no.:	Cg.01-09-063022,
Chamber registration number:	001464,
Financial institution classification number:	T-001464/94,
Registered Office:	1055. Budapest, Bajcsy-Zsilinszky út 78

The natural person personally responsible for conducting the audit:

Name:	Éva Barsi
Chamber membership number:	002945,
Financial institution classification number:	E002945 (2014),
Mother's maiden name:	Ilona Jónás
Address:	1163 Budapest, Tiszakömlő u. 45.,

Duration of the mandate: Three years, from the business year commencing 1 January 2021 and ending on 31 May 2024, or the date of acceptance of the 2023 annual Financial Statements by the General Meeting.

XI.

Increasing and decreasing of the share capital

(1) The share capital may be increased based on a resolution passed by the General Meeting and – under the conditions set out in the Civil Code and these articles of association, through a resolution of the General Meeting – by the Board of Directors.

In view of the fact that the Company has issued shares of different share types and share classes, a precondition for the validity of the resolution of the General Meeting to increase the share capital is that the holders of the share type or share class directly affected by the capital increase should consent to the share capital increase separately too (for the avoidance of doubt, the decision to increase the share capital of the Company by issuing ordinary shares must be accepted by a majority of votes, as stipulated in these articles of association, and therefore in this case no separate consent is required). The consent may be given either through a written decision passed on the basis of a draft General Meeting resolution on a capital increase, without holding a meeting prior to the General Meeting, or in such manner that, during the General Meeting, the holders of the share type or share class affected by the capital increase vote separately on this issue prior to the General Meeting's decision on the share capital increase.

(2) Subscription of new shares to be placed on the market in the course of a share capital increase is also possible in such manner that the General Meeting specifies in the General Meeting's resolution on the share capital increase the persons or shareholders entitled to subscribe the new shares.

(3) The General Meeting may authorise the Board of Directors to increase the share capital by a resolution of the General Meeting. The share capital may also be increased in such manner that the Board of Directors specifies in its resolution the persons or shareholders entitled to subscribe the new shares. The authorisation of the Board of Directors to increase the share capital shall be for a maximum period of 5, i.e. five, years, and shall specify the maximum amount by which the Board of Directors may increase the share capital. In relation to the share capital increase, the Board of Directors shall be entitled and also obliged to take decisions that otherwise fall within the competence of the General Meeting, and to amend these articles of association accordingly.

(4) In the event of an increase in the Company's share capital by the issue of new shares against a cash contribution, the shareholders of the Company and, in a ranking subordinate to them, the holders of convertible bonds or bonds with subscription rights, shall have a preferential rights to receive the shares (for the avoidance of doubt, this rule shall not apply to the issuance of employee shares). The preferential right may only be exercised in respect of the total amount of new shares to be placed on the market. All shareholders of the Company are entitled to exercise the preferential right in one ranking, and in proportion to their shareholding. The holders of convertible bonds or bonds with subscription rights shall be entitled to exercise their preferential rights in equal ranking, following the shareholders. If several preferential shareholders exercise their preferential rights, they shall be entitled to acquire the number of shares to be placed on the market in proportion to their holdings in the share capital of the Company at the time that the resolution on the capital increase is issued. The Board of Directors is obliged to inform the shareholders of the Company, within 8, i.e. eight, days of the date of issue of the General Meeting's or the Board of Directors' resolution on the share capital increase, of the possibility and method of exercising the preferential right, including the nominal value and the issue price of the available shares, as well as the first and last dates of the period available for exercising the right, which must be at least 30 days. The preferential rights under this section

shall also apply mutatis mutandis in the event that the Company issues convertible bonds or bonds with subscription rights.

(5) If the Company decides to increase its share capital by issuing new shares to the public, the General Meeting must decide in advance on a change in the operating form of the Company.

(6) The decision to reduce the share capital falls within the General Meeting's exclusive competence, unless the Civil Code provides otherwise.

XII.

Conflict of interest and confidentiality rules

(1) The Company's executive officers, employees and their close relatives may, in their own name or for their own benefit, enter into transactions within the scope of the Company's activities with the Company or with other business entities, and in compliance with the Company's internal regulations and the relevant statutory provisions.

(2) With the exception of the acquisition of shares in a public limited company and the acquisition of shares in an affiliated company of the Shareholder, a executive officer may not acquire a partnership interest in another entity engaged in the same activities as the Company.

(3) The members and the chair of the Board of Directors and the Supervisory Board may be elected as directors of other business entities pursuing the same activities as the Company, if this is permitted by the statutes of the business entity concerned.

(4) The Company's executive officers and employees shall keep information concerning the affairs of the Company as business secrets and information concerning the affairs of the Company's customers as banking or securities secrets without time limitation.

(5) In order for the contract between the Company and the Shareholder to be valid, the contract must be set out in writing.

(6) A member of the Board of Directors may not participate in the preparation of decisions, decision-making or the conclusion of contracts in respect of which the rules of procedure of the Board of Directors establishes – based on the applicable legislation, in particular the Credit Institutions Act – the conflict of interest of a member of the Board of Directors.

XIII.

The Company's business year, annual financial statements, payments to shareholders

(1) The business year of the Company shall last from 1 January to 31 December of each year.

(2) A balance sheet of the Company's assets shall be prepared at the end of each business year. The Company's business books must be closed, and the Board of Directors shall submit to the General Meeting the financial statements under the

Accounting Act and a proposal for the use of the after-tax profit.

(3) If the General Meeting decides to pay dividend, the dividend payable to the shareholders may also be paid as non-monetary benefit in kind.

(4) The General Meeting may decide on the payment of dividend advances, subject to the applicable legal provisions.

(5) If losses arising in the course of the Company's operations require the Company's capital position to be adjusted in order to ensure that the Company's capital position complies with the applicable legal requirements, the additional capital necessary to restore the capital position shall be provided to the Company by the shareholders in the form of a capital increase by way of a capital increase by share premium. If, in the course of a capital increase by share premium, dividend preference shares are issued, these shall entitle the holder of such dividend preference shares to a dividend preference only to the extent that the issue price of the dividend preference shares exceeds the nominal value of such preference shares. If the aggregate amount of all dividends paid to the dividend preference shareholder under such dividend preference share equals the difference between the nominal value of the dividend preference share and its issue price, such dividend preference shareholders shall henceforth be entitled to dividends according to the rules applicable to ordinary shares and shall be converted into ordinary shares at the next General Meeting.

(6) If payments are made from the Company's equity to a shareholder or shareholders of the Company with regard to their membership status, the Board of Directors shall declare in writing that such payment does not jeopardise the solvency of the Company or the interests of its creditors, and that it complies with the rules applicable to credit institutions.

XIV.

The Company’s announcements

Unless otherwise provided by law, the Company publishes its announcements in the Official Companies Gazette.

XV.

Miscellaneous and final provisions

1.

In matters not covered by these articles of association, the provisions of the Civil Code, the Accounting Act, the Credit Institutions Act and the Capital Market Act shall apply.

2.

If, as a result of a change in the mandatory legal provisions applicable to business entities, the Company is required by law to amend these articles of association and to adapt them to the amended mandatory legal provisions, the shareholders of the Company shall cooperate in good faith to ensure that such amendments are implemented in such manner that the substantive economic contents thereof are in full compliance with, and as close as possible to, the shareholders' agreement as reflected in the articles of association in force prior to the amendment.

Closure:

I have compiled these consolidated Articles of Association of Gránit Bank Private Limited Company (company registration number: 01-10-041028, registered office: 1095 Budapest, Lechner Ödön fasor 8.) due to the amendment of the provisions (sections [*]) of the Articles of Association, printed in bold and italics, as approved by the General Meeting of Shareholders' Resolutions [*] dated 14 May 2021. Pursuant to Section 51(3) of Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings, I hereby certify that the consolidated text of the Articles of Association corresponds to the content of the Articles of Association as amended.

Budapest, 14 May 2021

E n d o r s e d at Budapest, 14 May 2021 by:

Dr. Attila Kovács
chamber legal counsel
GRÁNIT Bank Zrt.
1095 Budapest, IX., Lechner Ödön fasor 8.
Chamber identification number: 36074494