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Független könyvvizsgálói jelentés

A CIB Bank Zrt. részvényesének

A konszolidált pénzügyi kimutatások könyvvizsgálatáról készült jelentés

Vélemény

Elvégeztük a CIB Bank Zrt. (továbbiakban „a Bank") és leányvállalatai (továbbiakban együtt „a Csoport") 2020. évi konszolidált pénzügyi kimutatásainak a könyvvizsgálatát, amely konszolidált pénzügyi kimutatások a 2020. december 31-i fordulónapra elkészített konszolidált pénzügyihelyzet-kimutatásból – melyben az eszközök összesen értéke 2.411.382 M Ft –, az ezen időponttal végződő évre vonatkozó konszolidált eredménykimutatásból – melyben az időszak eredménye 7.394 M Ft nyereség –, az ezen időponttal végződő évre vonatkozó konszolidált átfogó jövedelemkimutatásból, konszolidált sajáttőkeváltozás-kimutatásból és konszolidált cash flow-kimutatásból, valamint a jelentős számviteli politikák összefoglalását és egyéb magyarázó információkat tartalmazó kiegészítő megjegyzésekből állnak.

Véleményünk szerint a mellékelt konszolidált pénzügyi kimutatások megbízható és valós képet adnak a Csoport 2020. december 31-én fennálló konszolidált pénzügyi helyzetéről, valamint az ezen időponttal végződő évre vonatkozó konszolidált pénzügyi teljesítményéről és konszolidált cash-flow-iról az Európai Unió által befogadott Nemzetközi Pénzügyi Beszámolási Standardokkal összhangban (továbbiakban: „EU IFRS-ek"), valamint azokat minden lényeges szempontból a Magyarországon hatályos, a számvitelről szóló 2000. évi C. törvénynek (továbbiakban „számviteli törvény") az EU IFRS-ek szerint összevont (konszolidált) éves beszámolót készítő gazdálkodókra vonatkozó előírásaival összhangban készítették el.

Vélemény alapja

Könyvvizsgálatunkat a Magyar Nemzeti Könyvvizsgálati Standardokkal és a könyvvizsgálatra vonatkozó – Magyarországon hatályos – törvényekkel és egyéb jogszabályokkal összhangban hajtottuk végre. Ezen standardok értelmében fennálló felelősségeink bővebb leírását jelentésünk „A könyvvizsgálónak a konszolidált pénzügyi kimutatások könyvvizsgálatáért való felelősségei" szakasza tartalmazza. Függetlenek vagyunk a Csoporttól a konszolidált pénzügyi kimutatások általunk végzett könyvvizsgálata szempontjából a vonatkozó, Magyarországon hatályos jogszabályokban és a Magyar Könyvvizsgálói Kamara „A könyvvizsgálói hivatás magatartási (etikai) szabályairól és a fegyelmi eljárásról szóló szabályzatá"-ban, valamint az ezekben nem rendezett kérdések tekintetében a Könyvvizsgálók Nemzetközi Etikai Standardok Testülete által kiadott „Nemzetközi etikai kódex kamarai tag könyvvizsgálóknak (a nemzetközi függetlenségi standardokkal egybefoglalva)" című kézikönyvében (az IESBA Kódex-ben) foglaltak szerint, és eleget tettünk egyéb etikai felelősségeinknek ezekkel a követelményekkel összhangban. Meggyőződésünk, hogy az általunk megszerzett könyvvizsgálati bizonyíték elegendő és megfelelő ahhoz, hogy megalapozza véleményünket.

Kulcsfontosságú könyvvizsgálati kérdések

A kulcsfontosságú könyvvizsgálati kérdések azok a kérdések, amelyek szakmai megítélésünk szerint a legjelentősebbek voltak a tárgyidőszaki konszolidált pénzügyi kimutatások általunk végzett könyvvizsgálata során. Ezeket a kérdéseket a konszolidált pénzügyi kimutatások egésze általunk végzett könyvvizsgálatának összefüggésében és az arra vonatkozó véleményünk kialakítása során vizsgáltuk, és ezekről a kérdésekről nem bocsátunk ki külön véleményt.

Ügyfeleknek nyújtott hitelek értékvesztése

2020. december 31-én az ügyfeleknek nyújtott hitelek nettó könyv szerinti értéke 1.114.357 millió Ft, a kapcsolódó halmozott értékvesztés miatti veszteség 35.997 millió Ft

Lásd a konszolidált pénzügyi kimutatásokhoz fűzött (24.), és (48.) (a) megjegyzéseket.

A kulcsfontosságú könyvvizsgálati kérdés	Az általunk adott válasz
Az értékvesztési veszteségtartalékok a Csoport legjobb becslését testesítik meg a várható hitelezési veszteségekre az amortizált bekerülési értéken értékelt ügyfeleknek nyújtott hiteleken (együttesen „hitelek”, „kitettségek”) belül a fordulónapon. Az értékvesztési veszteségtartalékok meghatározása szükségessé teszi, hogy a Csoport összetett és szubjektív megítélésekkel éljen az ilyen értékvesztés összegére vonatkozóan. Az egyedileg jelentős nem teljesítő (kitettségenként 75 millió Ft vagy annál magasabb összegű) hitelek utáni értékvesztés miatti veszteségek alapja a Csoport becslése az eredendően bizonytalan, jövőben várható cash flow-k jelenértékére vonatkozóan. A jövőben várható cash flow-k jelenértékét befolyásolja többek között a fedezet értékére alkalmazott diszkontfaktor, a behajtási folyamat időtartama, valamint a felszámolási vagy értékesítési folyamat költsége. A Stage 1-be és Stage 2-be, valamint a 75 millió Ft alatti, Stage 3-ba sorolt kitettségekre alkalmazott csoportos értékvesztés meghatározása olyan kulcsfontosságú paraméterekre támaszkodó modellezési technikákkal történik, mint az ügyfélminősítés, a bedőlési valószínűség és a nemteljesítés esetén várható veszteség. Ezek a modellezési technikák figyelembe vesznek olyan tényezőket is, mint a múltbeli tapasztalatok, az olyan kitettségek azonosítása, amelyeknél a hitelezési kockázat	A területen, adott esetben saját pénzügyikockázat-kezelési, IT- és ingatlanértékelési szakembereink közreműködésével végrehajtott könyvvizsgálati eljárásaink többek között az alábbiakat foglalták magukban: — Megvizsgáltuk a Csoport várható hitelezési kockázattal kapcsolatos módszereit és modelljeit, és értékeltük azoknak a pénzügyi beszámolási standardok releváns követelményeinek való megfelelést. Ennek részeként vizsgáltuk, hogy az ügyfelek szintjén lévő tényezők értékelése alapján megfelelően kifinomult-e a Csoport módszertana. — Vizsgáltuk az értékvesztés számítása, az ügyfélminősítés, a monitoring és a fedezetnyilvántartás feletti kiválasztott kontrollok kialakítását, bevezetését és működési hatékonyságát. Teszteltük továbbá a késedelmes napok számítása, a default és forborne beállítások feletti, kiválasztott IT alapú kontrollokat; — Felmértük a várható hitelezési veszteség becsléséhez használt adatok teljességét és pontosságát, és értékeltük azok relevanciáját és megbízhatóságát; — Felmértük, hogy következetesen történt-e a nemteljesítés fogalmának és a releváns standardok staging kritériumainak alkalmazása. Azt is felmértük, hogy a nemteljesítés alkalmazott fogalma megfelelő-e a standardok követelményei alapján; — Értékeltük, hogy a hitelek staging besorolása és a várható hitelezési veszteségek

jelentősen megnövekedett, jövőre vonatkozó információk és az egyéb megítélések.
 	
Emellett 2020-ban a Covid19-járvány hatásainak enyhítése céljából a kormány több intézkedést hozott, többek között törlesztési moratóriumot vezetett be. Mivel a késedelmes napok száma a moratóriumot igénybe vevő hitelfelvevők esetében nem megfelelő jelzése a hitelezési kockázatban történő változásoknak, a Csoport minőségi tényezőkön alapuló alternatív besorolási jelzéseket alkalmazott. A nemteljesítéskori kitettségek azonosítása a jelenlegi gazdasági környezetben szintén magasabb becslési bizonytalansággal jár.
 	
A fenti tényezők és összetettségek következtében úgy ítéltük meg, hogy az ügyfeleknek nyújtott hitelek értékvesztéséhez annak jelentős kockázata kapcsolódik, hogy a konszolidált pénzügyi kimutatások lényeges hibás állítást tartalmaznak, amely kiemelt figyelmet igényelt könyvvizsgálatunk során, és ezért azt kulcsfontosságú könyvvizsgálati kérdésnek minősítettük.
	meghatározása során a Csoport megfelelően figyelembe vette-e a piac Covid19-járványból fakadó zavarainak hatásait. Az eljárás részeként felmértük a moratóriummal érintett ügyfelekkel kapcsolatos nyomon követési folyamatokat, valamint a hitelezési kockázat jelentős növekedésének méréséhez használt alternatív tényezők megfelelőségét.
	
	Az egyedileg számított értékvesztési veszteségtartalékok esetében, a hitelek egy kockázatalapú mintájára vonatkozóan:
	
	— megvizsgáltuk a hitelfelvevő hitelaktáját, beleértve a hitelfelvevővel folytatott levelezést és a legfrissebb rendelkezésre álló adósságszolgálati és pénzügyi információkat, a hitelkockázat-kezelők által készített értékvesztés-becsléseket, a független fedezetértékeléseket, a kockázati bizottsági jegyzőkönyveket, továbbá mérlegeltük a megromlott hitelképességű hitelekre vonatkozóan becsült gyógyulási időszakot;
	— az alábbiak szerint megvizsgáltuk a Csoport hitelfelvevőtől várható jövőbeli cash flow-k jelenértékére vonatkozó becsléseiben lévő következő kulcsfontosságú feltételezéseket:
	    — a jövőbeli követeléstérülési forgatókönyveket – a kockázati bizottság elemzései és döntései alapján, azáltal, hogy különböző elemeket és feltételezéseket ütköztettünk a kitettség múltbeli alakulásával és az ágazattal, valamint a jelenlegi gazdasági feltételekkel kapcsolatos tapasztalatainkkal;
	    — a fedezeti értékeket – a Csoport által megbízott szakértők által készített eszközértékelések alapján, akiknek a tapasztalatára, kompetenciájára és objektivitására független felmérést készítettünk. Emellett mintavétel alapján elvégeztük a szakértők értékbecslésének független vizsgálatát;
	
	A csoportos értékvesztési veszteségtartalékokra vonatkozóan:
	
	— felmértük a mögöttes modellfelállítást és újból elvégeztük a modelleredmény számítását a Csoport adatai és feltételezései alapján.
	— megszereztük a Csoport várható hitelezési veszteségre vonatkozó felmérése során használt releváns jövőre vonatkozó

	információkat és makrogazdasági előrejelzéseket. Elvégeztük az információk független felmérését az ügyvezetés tagjaival készített megerősítő interjúk és a nyilvánosan elérhető információk megvizsgálása útján; — az adott nemteljesítéseken korábban realizált veszteségek alapján, valamint a körülmények várható változásának tükrözése céljából esetlegesen szükséges módosítások figyelembevételével megvizsgáltuk a Csoport által alkalmazott, nemteljesítés esetén várható veszteségi és bedőlési valószínűségi paramétereket; — felmértük a Csoport várható hitelezési veszteség modellje által le nem fedett kockázatok és bizonytalanságok elszámolása céljából tett esetleges modell utáni módosítások megfelelőségét, beleértve azokat, amelyeket a Covid19-járvány kitörése és a kapcsolódó moratórium eredményezett. Az eljárás részeként a számítások alapjául szolgáló adatokat is teszteltük. A hitelek értékvesztésével kapcsolatos közzétételek esetében: — megvizsgáltuk, hogy a Csoport konszolidált pénzügyi kimutatásaiban lévő, a hitelek értékvesztésével és a hitelezési kockázattal kapcsolatos közzétételek megfelelően ismertetik-e a vonatkozó pénzügyi beszámolási keretelvek által előírt releváns mennyiségi és minőségi információkat.

Egyéb információk

Az egyéb információk a Csoport 2020. évi összevont (konszolidált) üzleti jelentéséből állnak. A vezetés felelős az összevont (konszolidált) üzleti jelentésnek a számviteli törvény, illetve egyéb más jogszabály vonatkozó előírásaival összhangban történő elkészítéséért.
A jelentésünk „Vélemény" szakaszában a konszolidált pénzügyi kimutatásokra adott véleményünk nem vonatkozik az összevont (konszolidált) üzleti jelentésre.

A konszolidált pénzügyi kimutatások általunk végzett könyvvizsgálatával kapcsolatban a mi felelősségünk az összevont (konszolidált) üzleti jelentés átolvasása és ennek során annak mérlegelése, hogy az összevont (konszolidált) üzleti jelentés lényegesen ellentmond-e a konszolidált pénzügyi kimutatásoknak, vagy a könyvvizsgálat során szerzett ismereteinknek, vagy egyébként úgy tűnik-e, hogy az lényeges hibás állítást tartalmaz.

A számviteli törvény alapján a mi felelősségünk továbbá annak a megítélése, hogy az összevont (konszolidált) üzleti jelentés a számviteli törvény, illetve egyéb más jogszabály vonatkozó előírásaival összhangban készült-e és erről, valamint az összevont (konszolidált) üzleti jelentés és a konszolidált pénzügyi kimutatások összhangjáról vélemény nyilvánítása.

Az összevont (konszolidált) üzleti jelentéssel kapcsolatban a számviteli törvény alapján a mi felelősségünk továbbá annak az ellenőrzése is, hogy az összevont (konszolidált) üzleti jelentés a számviteli törvény 95./C. § és a 134. § (5) bekezdésben meghatározott információkat rendelkezésre bocsátja-e.

Véleményünk szerint a Csoport 2020. évi összevont (konszolidált) üzleti jelentése minden lényeges szempontból összhangban van a Csoport 2020. évi konszolidált pénzügyi kimutatásaival és a számviteli törvény vonatkozó előírásaival.

Mivel egyéb más jogszabály a Csoport számára nem ír elő további követelményeket az összevont (konszolidált) üzleti jelentésre, ezért e tekintetben nem mondunk véleményt.

Nyilatkozunk, hogy az összevont (konszolidált) üzleti jelentés rendelkezésre bocsátja a számviteli törvény 95./C. § és a 134.§ (5) bekezdésben meghatározott információkat.

A fentieken túl a Csoportról és annak környezetéről megszerzett ismereteink alapján jelentést kell tennünk arról, hogy a tudomásunkra jutott-e bármely lényeges hibás állítás az összevont (konszolidált) üzleti jelentésben, és ha igen, akkor a szóban forgó hibás állítás milyen jellegű. Ebben a tekintetben nincs jelenteni valónk.

A vezetés és az irányítással megbízott személyek felelősségei a konszolidált pénzügyi kimutatásokért

A vezetés felelős a konszolidált pénzügyi kimutatásoknak az EU IFRS-ekkel összhangban történő elkészítéséért és valós bemutatásáért, továbbá a számviteli törvénynek az EU IFRS-ek szerint összevont (konszolidált) éves beszámolót készítő gazdálkodókra vonatkozó előírásaival összhangban történő elkészítéséért, valamint az olyan belső kontrollért, amelyet a vezetés szükségesnek tart ahhoz, hogy lehetővé váljon az akár csalásból, akár hibából eredő lényeges hibás állítástól mentes konszolidált pénzügyi kimutatások elkészítése.

A konszolidált pénzügyi kimutatások elkészítése során a vezetés felelős a Csoport vállalkozás folytatására való képességének felméréséért, a vállalkozás folytatásával kapcsolatos kérdéseknek az adott helyzetnek megfelelő közzétételéért, valamint – kivéve, ha a vezetésnek szándékában áll megszüntetni a Csoportot vagy beszüntetni az üzletszerű tevékenységet, vagy amikor nem áll előtte ezen kívül más reális lehetőség – a vállalkozás folytatásának elvén alapuló számvitel alkalmazásáért.

Az irányítással megbízott személyek felelősek a Csoport pénzügyi beszámolási folyamatának felügyeletéért.

A könyvvizsgálónak a konszolidált pénzügyi kimutatások könyvvizsgálatáért való felelősségei

Célunk kellő bizonyosságot szerezni arról, hogy a konszolidált pénzügyi kimutatások egésze nem tartalmaz akár csalásból, akár hibából eredő lényeges hibás állítást, valamint a véleményünket tartalmazó könyvvizsgálói jelentést bocsátani ki. A kellő bizonyosság magas fokú bizonyosság, de nem garancia arra, hogy a Magyar Nemzeti Könyvvizsgálati Standardokkal és a könyvvizsgálatra vonatkozó – Magyarországon hatályos – törvényekkel és egyéb jogszabályokkal összhangban elvégzett könyvvizsgálat mindig feltárja a létező lényeges hibás állítást. A hibás állítások eredhetnek csalásból vagy hibából, és lényegesnek minősülnek, ha önmagukban vagy együttesen ésszerű várakozások alapján befolyásolhatják a felhasználók adott konszolidált pénzügyi kimutatások alapján meghozott gazdasági döntéseit.

A Magyar Nemzeti Könyvvizsgálati Standardokkal és a könyvvizsgálatra vonatkozó – Magyarországon hatályos – törvényekkel és egyéb jogszabályokkal összhangban elvégzett könyvvizsgálat részeként szakmai megítélést alkalmazunk és szakmai szkepticizmust tartunk fenn a könyvvizsgálat egésze során. Emellett:

• Azonosítjuk és felbecsüljük a konszolidált pénzügyi kimutatások akár csalásból, akár hibából eredő lényeges hibás állításainak kockázatait, az ezekre a kockázatokra reagáló könyvvizsgálati eljárásokat alakítunk ki és hajtunk végre, valamint a véleményünk megalapozásához elegendő és megfelelő könyvvizsgálati bizonyítékot szerzünk. A csalásból eredő lényeges hibás állítás fel nem tárásának kockázata nagyobb, mint a hibából eredőé, mivel a csalás magában foglalhat összejátszást, hamisítást, szándékos kihagyásokat, téves nyilatkozatokat, vagy a belső kontroll felülírását.

• Megismerjük a könyvvizsgálat szempontjából releváns belső kontrollt annak érdekében, hogy olyan könyvvizsgálati eljárásokat tervezzünk meg, amelyek az adott körülmények között megfelelőek, de nem azért, hogy a Csoport belső kontrolljának hatékonyságára vonatkozóan véleményt nyilvánítsunk.

• Értékeljük a vezetés által alkalmazott számviteli politikák megfelelőségét és a vezetés által készített számviteli becslések és kapcsolódó közzétételek ésszerűségét.

• Következtetést vonunk le arról, helyénvaló-e a vezetés részéről a vállalkozás folytatásának elvén alapuló számvitel alkalmazása, valamint a megszerzett könyvvizsgálati bizonyíték alapján arról, fennáll-e lényeges bizonytalanság olyan eseményekkel vagy feltételekkel kapcsolatban, amelyek jelentős kétséget vethetnek fel a Csoport vállalkozás folytatására való képességével kapcsolatban. Amennyiben azt a következtetést vonjuk le, hogy lényeges bizonytalanság áll fenn, könyvvizsgálói jelentésünkben fel kell hívnunk a figyelmet a konszolidált pénzügyi kimutatásokban lévő kapcsolódó közzétételekre, vagy, amennyiben az ilyen közzétételek nem megfelelőek, minősítenünk kell véleményünket. Következtetéseink a könyvvizsgálói jelentésünk dátumáig megszerzett könyvvizsgálati bizonyítékon alapulnak. Jövőbeli események vagy feltételek azonban okozhatják azt, hogy a Csoport nem tudja a vállalkozást folytatni.

• Értékeljük a konszolidált pénzügyi kimutatások, beleértve a közzétételeket is, átfogó prezentálását, felépítését és tartalmát, valamint azt, hogy a konszolidált pénzügyi kimutatások a valós bemutatást megvalósító módon mutatják-e be a mögöttes ügyleteket és eseményeket.

• A konszolidált pénzügyi kimutatásokra vonatkozó vélemény nyilvánításához elegendő és megfelelő könyvvizsgálati bizonyítékot szerzünk a Csoporton belüli gazdálkodó egységek vagy üzleti tevékenységek pénzügyi információiról. Felelősek vagyunk a csoportaudit irányításáért, felügyeletéért és elvégzéséért. Továbbra is kizárólagos felelősséggel tartozunk a könyvvizsgálói véleményünkért.

Kommunikáljuk az irányítással megbízott személyek felé - egyéb kérdések mellett - a könyvvizsgálat tervezett hatókörét és ütemezését, a könyvvizsgálat jelentős megállapításait, beleértve a belső kontrollnak a könyvvizsgálatunk során általunk azonosított jelentős hiányosságait is.

Nyilatkozunk az irányítással megbízott személyeknek arról, hogy megfelelünk a függetlenségre vonatkozó releváns etikai követelményeknek, és kommunikáljuk feléjük mindazon kapcsolatokat és egyéb kérdéseket, amelyekről ésszerűen feltételezhető, hogy befolyásolják a függetlenségünket, valamint adott esetben a veszélyek kiküszöbölése céljából tett intézkedéseket vagy az alkalmazott biztosítékokat.

Az irányítással megbízott személyek felé kommunikált kérdések közül meghatározzuk azokat a kérdéseket, amelyek a tárgyidőszaki konszolidált pénzügyi kimutatások könyvvizsgálata során a legjelentősebb kérdések, és ennélfogva a kulcsfontosságú könyvvizsgálati kérdések voltak. Könyvvizsgálói jelentésünkben ismertetjük ezeket a kérdéseket, kivéve, ha jogszabály vagy szabályozás kizárja az adott kérdés nyilvános közzétételét, vagy ha - rendkívül ritka körülmények között - azt állapítjuk meg, hogy egy adott kérdést a könyvvizsgálói jelentésben nem lehet kommunikálnunk, mert ésszerű várakozások alapján annak hátrányos következményei súlyosabbak lennének, mint a kommunikáció közérdekű hasznai.

Jelentés egyéb jogi és szabályozói követelményekről

A Csoport 2020. évi konszolidált pénzügyi kimutatásainak könyvvizsgálatára 2020. május 13-án választott meg a Bank részvényese. A könyvvizsgálói megbízásunk időtartama megszakítás nélkül összesen 9 év, a 2012. december 31-ével végződő üzleti évtől 2020. december 31-ével végződő üzleti évig tartó időszakot fedi le.

Megerősítjük, hogy

• könyvvizsgálói véleményünk összhangban van a Csoport Audit bizottsága részére készített 2021. március 18-i keltezésű kiegészítő jelentéssel.

• nem nyújtottunk a Csoport részére tiltott, nem könyvvizsgálati szolgáltatást, amely tiltott, nem könyvvizsgálati szolgáltatások körét az 537/2014 EU rendelet 5.cikk (1) bekezdése, valamint a tagországi derogáció tekintetében a Magyarországon hatályos, a Magyar Könyvvizsgálói Kamaráról, a könyvvizsgálói tevékenységről, valamint a könyvvizsgálói közfelügyeletről szóló 2007. évi LXXV. törvény határozza meg. Továbbá a könyvvizsgálat elvégzése során megőriztük függetlenségünket a Csoporttól.

A jelen független könyvvizsgálói jelentést eredményező könyvvizsgálati megbízásért felelős partner a jelen független könyvvizsgálói jelentés aláírója.

Budapest, 2021. március 18.

KPMG Hungária Kft.

Nyilvántartási szám: 000202

Mitták Zoltán
Igazgató, Kamarai tag könyvvizsgáló
Nyilvántartási szám: 007298

CIB BANK LTD.
and its subsidiaries

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

with the report of the Independent Auditor

Contents

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

(million HUF)

	Note	2020	2019
Interest income		40,432	32,335
of which interest income calculated using effective interest rate method		*41,534*	*34,367*
Interest expense		(7,937)	(5,961)
Net interest income	**7**	**32,495**	**26,374**
Fee and commission income		36,654	36,537
Fee and commission expense		(9,751)	(8,885)
Net fee and commission income	**8**	**26,903**	**27,652**
Income from trading activities	9	6,447	7,346
Fair value adjustments in hedge accounting	10	376	(54)
Profits (losses) from derecognition of financial instruments	11	551	(500)
Net change in value of financial assets mandatorily measured at fair value through profit or loss	12	1,412	(42)
Other operating income	13	973	784
Other operating expense	13	(2,027)	(1,451)
Net operating income		**67,130**	**60,109**
Impairment profits (losses) and provisions for losses	14	(4,469)	5,636
Profits (losses) on changes in contracts relating moratoria	14	(2,418)	-
Operating expenses without bank tax	15	(46,857)	(46,862)
Profit/(loss) before bank tax and income taxes		**13,386**	**18,883**
Bank tax	16	(3,716)	(3,258)
Profit/(loss) before income taxes		**9,670**	**15,625**
Income tax expense	17	(2,276)	(2,235)
Net profit/(loss) for the year		**7,394**	**13,390**
Items that may be reclassified to profit or loss		(1,505)	3,435
Items that may not be reclassified to profit or loss		2,038	926
Other comprehensive income for the year (net of tax)	**19**	**533**	**4,361**
Total comprehensive income for the year		**7,927**	**17,751**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

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

Consolidated statements of financial position
as at 31 December 2020

(million HUF)

	Note	31/12/2020	31/12/2019
Cash and current accounts with central banks	20	64,881	36,863
Financial assets measured at fair value through profit or loss	21	84,527	52,996
a) securities held for trading		*2,262*	*6,895*
b) trading derivatives		*23,704*	*20,153*
c) financial assets mandatorily measured at fair value		*58,561*	*25,948*
Financial assets measured at fair value through other comprehensive income	22	305,553	346,582
Financial assets measured at amortised cost		1,882,572	1,508,581
a) loans to banks	*23*	*695,445*	*440,911*
b) loans to customers	*24*	*1,114,357*	*997,382*
c) debt securities	*25*	*72,770*	*70,288*
Hedging derivatives	26	1,388	873
Fair value changes of the hedged financial assets in portfolio hedge (+/-)		3,583	3,827
Property, land and equipment	28	27,485	23,978
Intangible assets	29	12,178	12,355
Repossessed properties	27	5,666	10,644
Tax assets	17	1,282	1,514
a) current		*702*	*1,214*
b) deferred		*580*	*300*
Non-current assets held for sale		86	90
Other assets	30	22,181	12,291
Total assets		**2,411,382**	**2,010,594**

Budapest, 18 March 2021

Dr. Pál Simák	**Dario Massimo Grassani**
CEO and Chairman of the Board	CFO and Deputy CEO

CIB Bank Ltd.

(million HUF)

	Note	31/12/2020	31/12/2019
Financial liabilities measured at amortised cost		2,093,734	1,711,128
a) deposits from banks	*31*	*354,706*	*279,919*
b) deposits from customers	*32*	*1,728,069*	*1,421,287*
c) subordinated debts	*35*	*10,959*	*9,922*
Trading derivatives	21	17,853	16,181
Hedging derivatives	26	9,168	8,906
Fair value changes of the hedged financial liabilities in portfolio hedge (+/-)		82	-
Tax liabilities	17	1,064	781
a) current		*208*	*43*
b) deferred		*856*	*738*
Other liabilities	33	31,185	26,388
Provisions	34	8,911	7,371
Total liabilities		**2,161,997**	**1,770,755**
Share capital	36	50,000	50,000
Reserves	37	86,791	83,807
Retained earnings		112,594	106,032
Total shareholder's equity		**249,385**	**239,839**
Total liabilities and shareholder's equity		**2,411,382**	**2,010,594**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

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

(million HUF)

	Note	Ordinary shares	Retained earnings	Capital reserve	First time adoption reserve	Revaluation reserve	General reserve	Other reserve	Total
Balance at 31 December 2018		**50,000**	**105,097**	**16,225**	**-1,057**	**4,102**	**4,418**	**53,302**	**232,087**
Other comprehensive income (OCI)	19	-	-	-	-	4,361	-	-	**4,361**
General reserve	37	-	(1,399)	-	-	-	1,399	-	**-**
Dividend paid	18	-	(10,000)	-	-	-	-	-	**(10,000)**
IFRS 9 FTA settlement reclassification		-	(1,057)	-	1,057	-	-	-	**-**
Net profit / (loss) for the period		-	13,390	-	-	-	-	-	**13,390**
Rounding difference		-	1	-	-	-	-	-	**1**
Balance at 31 December 2019		**50,000**	**106,032**	**16,225**	**-**	**8,463**	**5,817**	**53,302**	**239,839**
VISA C reclassification effect	21	-	1,619	-	-	-	-	-	**1,619**
Other comprehensive income (OCI)	19	-	-	-	-	533	-	-	**533**
General reserve	37	-	(1,151)	-	-	-	1,151	-	**-**
Development reserve	37	-	(1,300)	-	-	-	-	1,300	**-**
Net profit / (loss) for the period		-	7,394	-	-	-	-	-	**7,394**
Balance at 31 December 2020		**50,000**	**112,594**	**16,225**	**-**	**8,996**	**6,968**	**54,602**	**249,385**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

Consolidated statements of cash flows
as at 31 December 2020

(million HUF)

	Note	2020	2019
Operating activities			
Net profit/(loss) before income taxes		9,669	15,626
Interest income	7	(40,432)	(32,335)
Interest expense	7	7,937	5,961
Depreciation and amortisation	15	5,645	5,036
Increase / (decrease) in impairment loss on financial instruments	14	6,240	(1,979)
Allocation / (reversal) of provisions	34	2,266	(1,528)
Increase / (decrease) in impairment loss on repossessed assets		(1,619)	(2,129)
Net unrealized (gain) / loss on financial instruments		(2,613)	2,492
Fair value adjustment on PPE	28	(103)	-
Effect of exchange revaluation		7,588	1,609
Decrease / (increase) in loans to banks	23	87,142	(36,204)
Decrease / (increase) in FVPL financial assets	21	3,267	17,695
Decrease / (increase) in loans to customers	24	(114,677)	(134,657)
Decrease / (increase) in other assets	30	(9,675)	1,420
Increase / (decrease) in deposits from banks	31	62,817	24,195
Increase / (decrease) in deposits from customers	32	276,004	50,343
Increase / (decrease) in other liabilities	33	3,746	(9,568)
Interest received		32,258	35,093
Interest paid		(7,858)	(9,131)
Income tax paid		(1,622)	(2,793)
Cash flows used in operating activities		**325,980**	**(70,854)**
Investing activities			
Purchase of financial investments		(78,623)	(163,622)
Proceeds from sale of financial investments		115,634	84,600
Acquisitions to intangible and tangible assets		(4,380)	(5,398)
Proceeds from sale of intangible and tangible assets		224	58
Decrease / (increase) in ROU assets	38	(1,161)	(9,833)
Decrease / (increase) in repossessed assets		(23)	(260)
Proceeds from sale of repossessed assets		6,619	4,722
Change in investment in subsidiaries		47	-
Cash flows used in investing activities		**38,337**	**(89,733)**
Financing activities			
Increase / (decrease) in subordinated debts		-	-
Increase / (decrease) in lease liabilities		(31)	8,874
Dividend paid		-	(10,000)
Cash flows used in investing activities		**(31)**	**(1,126)**
Net increase / (decrease) in cash and cash equivalents		**364,286**	**(161,713)**
Cash and cash equivalents at the beginning of year		252,993	414,706
Cash and cash equivalents at the end of year		**617,279**	**252,993**

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

Cash and cash equivalents

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

(million HUF)

	Note	31/12/2020	31/12/2019
Cash and current accounts with central bank	20	64,881	36,863
Loans to banks	23	552,398	216,130
Cash and cash equivalents at the year end		**617,279**	**252,993**

Budapest, 18 March 2021

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

Notes to the consolidated financial statements

Part A Accounting policies

(1) Corporate information

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

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

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

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

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

The Bank and its subsidiaries ("the Group") engaged KPMG Hungary Ltd. (1134 Budapest, Váci út 31.; Chamber of Hungarian Auditors reg. no.: 000202) to perform the statutory audit of the business year 2020. The individual responsible for the auditing is Zoltán Mitták, member of the Chamber of Auditors (MKVK registration number: 007298). The Group paid HUF 102.8 million plus VAT for audit, the fee includes the statutory audit fees of CIB Bank and its subsidiaries and group reporting to the auditor of the parent and HUF 5.5 million plus VAT for other assurance services to the auditor company in 2020.

The average number of active employees of the Group was 2,172 in 2020 and 2,145 in 2019, respectively.

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

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

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

(2) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union.

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

These consolidated financial statements are prepared for statutory filing purposes.

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

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

(3) Basis of measurement and consolidation

The consolidated financial statements of the Group have been prepared on a historical cost basis except for financial instruments which are measured at fair value, thus financial instruments measured at fair value through other comprehensive income, derivative financial instruments, other financial assets and liabilities held for trading. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges are adjusted to record changes in fair value of hedged items attributable to the risks that are being hedged.

(3) Basis of measurement and consolidation (continued)

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of CIB Bank Ltd. and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using accounting policies consistent with those of the parent.

All inter-company balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are investees controlled by the Bank. According to IFRS 10 the Bank controls an investee if it is exposed to or has the right to, variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control commences until the date when control ceases. The list of consolidated subsidiaries is included in Note (1).

(4) Changes in the business year

COVID-19 pandemic

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

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

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

(5) Significant accounting policies

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

5.1 Foreign currency transactions

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

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

5.2 Financial instruments

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

5.2.1 Date of recognition

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

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

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

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

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

In 2013 the National Bank of Hungary launched its program called Funding for Growth Scheme (FGS). Under the program the National Bank granted refinancing funds for Hungarian credit institution with 0% interest rate mainly in order to finance small- and medium businesses (SMB) by providing loans with discount rate and exchange foreign currency loans to HUF loans. The program had three phases. The maximum interest rate of loans granted was 2.5% which, in case of the first two phases, was lower than the interest rate of similar loans available in the market. The difference between the fair value and gross book value of loans (granted and given as well) was recognised as operating income and expenses. The discount factor used for determining the fair value of loans was swap yield curve that belongs to the currency of the loan, increased by the risk premium of the partner group.

5.2.2. Initial measurement

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

(5) Significant accounting policies (continued)

5.2.3 Measurement categories of financial assets and liabilities

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

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

5.2.4 Business model assessment

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

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

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

5.2.5 The SPPI test

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

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

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

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

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

Assessing benchmark cash flow test the following factors are considered:

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

5.2.6 Fair value

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

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

- Level 1: inputs are the (unadjusted) quoted prices in active markets for identical assets or liabilities.

(5) Significant accounting policies (continued)

- Level 2: inputs are inputs other than quoted prices included within Level 1 that are directly or indirectly observable for the asset or liability to be measured.
- Level 3: inputs are unobservable inputs for the asset or liability.

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

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

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note (42).

5.2.7 Loans to banks

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

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

For Expected Credit Loss (ECL) calculation please refer to Note 5.2.16.

5.2.8 Loans to customers

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

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

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

For ECL calculation please refer to Note 5.2.16.

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

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

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

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

(5) Significant accounting policies (continued)

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the established future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal repayments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

A credit risk allowance for loan impairment is established for significant loans if there is objective evidence that the Group will not be able to collect all amounts due. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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

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

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

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

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

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

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

5.2.9 Derivatives financial instruments and hedge accounting

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

(5) Significant accounting policies (continued)

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

The method of recognising fair value gain or loss depends on whether the derivative is designated as a hedging instrument or not. The Group, in accordance with the Intesa Sanpaolo Group's policies, designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met.

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

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

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

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

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

Notes (21) and (26) provide further details regarding derivative financial instruments and hedge accounting.

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

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

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

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

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

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

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

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

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

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

(5) Significant accounting policies (continued)

5.2.12 Deposits from bank and customers

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

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

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

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

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

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

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

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

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

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

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

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

5.2.15 Derecognition of financial instruments

5.2.15.1 Derecognition due to substantial modification of terms and conditions

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

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

(5) Significant accounting policies (continued)

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

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

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

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

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

5.2.15.2 Derecognition other than for substantial modification

The Group qualifies a financial asset for derecognition where:

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

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

5.2.16 Impairment of financial assets

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

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

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

Loans to customers are classified to the non-performing loan category if the receivable is individually impaired. Evidence of impairment may include that the borrower is experiencing significant financial difficulties (is under liquidation), the probability that they will become insolvent (probability of default is 100%) or there is a material delinquency in interest or principal payments (more than 90 days material past due amount) and where observable data indicates that there is a change in economic conditions that correlate with default (managed by work-out department). For more information on non-performing loans see Note (48) on Risk Management.

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

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

(5) Significant accounting policies (continued)

5.2.16.1 Overview of Expected Credit Loss principles

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

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

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

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

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

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

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

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

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

5.2.16.2. The calculation of ECLs

The mechanism of ECL calculation considers the following key elements:

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

(5) Significant accounting policies (continued)

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

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

A collective component of the total allowance is established for:

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

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

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

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

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

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

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

5.2.16.3 Debt instruments measured at fair value through OCI

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

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

5.2.16.4 Purchased originated credit impaired financial assets (POCI)

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

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

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

5.2.17 Offsetting financial assets and liabilities

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

5.3 Cash and cash equivalents

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

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

(5) Significant accounting policies (continued)

5.4 Securities lending and borrowing

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

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

5.5 Repurchase and reverse repurchase agreements

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

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

5.6 Finance lease receivables (Group as lessor)

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. The net investment in finance leases provided by the Group is included in loans and advances to customers. A receivable is recognised over the leasing period for an amount equalizing the present value of the lease payment using the implicit rate of interest at the inception of the lease and including any residual value that has been guaranteed whether by the lessee, a party related to the lessee, or an independent third party. All income resulting from the receivable is included in interest income in the statement of comprehensive income, except for the residual value accounted as other operating income (expense) when closing the contract.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement.
- a renewal option is exercised, or extension granted, unless the term of the renewal or extension was initially included in the lease term.
- there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- there is substantial change to the asset.

5.7 Intangible assets, property, plant and equipment

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

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

The following depreciation rates and residual values are applied:

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

(5) Significant accounting policies (continued)

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

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

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

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

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

5.8 Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquirer’s identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the ‘value in use’ of the cash-generating units to which the goodwill is allocated.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit or loss.

5.9 Repossessed properties

Repossessed properties are usually repossessed under lease contracts or real estate developments/projects or construction contracts.

The Group keeps all repossessed real estates with the intent to dispose of the asset in the reasonable short period of time. Repossessed assets shall be measured at the lower of cost or fair value less cost to sell (FVLCTS) and shall not be amortised but only subject to the impairment test.

Repossessed properties are derecognised when either they have been disposed or when the repossessed property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Reclassification from/to repossessed properties are only possible when there is a change in use. If a repossessed property is reclassified as a property for own use, the reclassification is carried out at the fair value of the property at the time of reclassification.

5.10 Other assets

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

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

5.11 Non-current assets held for sale

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

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded and met only when the sale is highly probable, and the asset is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

(5) Significant accounting policies (continued)

5.12 Revenue recognition

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

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

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

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

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

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

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

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

Dividend income is recognised when the Group’s right to receive the payment is established.

5.13 Taxation

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

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

Deferred tax

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

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

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

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

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

The carrying amount of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

(5) Significant accounting policies (continued)

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

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

Bank tax

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

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

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

Financial transaction duty

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

Pandemic related special tax

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

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

The rate of the special tax is 0.19 percent.

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

5.14 Fiduciary assets

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

5.15 Financial guarantees

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

Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of

the loss allowance in accordance with IFRS 9 and the amount initially recognised (before 1 January 2018 at the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee). Any change in the liability relating to financial guarantees is recorded in profit or loss.

5.16 Provisions

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

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

For details please refer to Note (34).

5.17 Leases (Group as lessee)

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

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

(5) Significant accounting policies (continued)

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

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

- For the low-value assets the Group does not recognise right-of-use asset. The lease payments are associated with these leases as an expense. The threshold for the low-value assets are EUR 5.000.
- The leases which have a lease term of 12 months or less are classified as short-term leases, and still recognised as expenses.
- It is applicable to use the IFRS 16 standard for intangible assets, however the Group choses not to use IFRS 16 standard for intangible asset leases (e.g. software).

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

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

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

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

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

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

5.18 Net operating income

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

5.19 Employee benefits

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

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

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

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

(5) Significant accounting policies (continued)

5.20 Government grants

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

5.21 Standards issued but not yet effective

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

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

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

IBOR reform

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

(6) Significant accounting estimates and judgements

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

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

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

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

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

6.1 Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. For details please refer to Note (45).

(6) Significant accounting estimates and judgements (continued)

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

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

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

6.3 Impairment on non-financial assets

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

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

6.4 Impairment on financial assets

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

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

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

Collective impairment is calculated with 3 main segments:

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

6.5 Provisions for risk and charges

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

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

The Group is involved in ongoing legal disputes; provision is made based on the best estimate of the expenditure required to settle the obligation. The Group is committed to close branches; provision is made based on the landlord’s agreement for the obligation to be settled.

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

For details please refer to Note (34).

(6) Significant accounting estimates and judgements (continued)

6.6 Impairment on repossessed properties

Repossessed assets shall be measured at the lower of cost and fair value less cost to sell (FVLCTS).

Subsequent to initial recognition repossessed properties are annually tested for impairment and stated at the lower of cost and FVLCTS. The Group regards the market value determined by external valuations as the FVLCTS for its repossessed real estates.

The basis of the impairment calculation is the market value determined by an external valuation dated less than 90 days from the relevant year end date. External valuation should be prepared for all commercial assets, and for residential assets above or equal net book value of HUF 50 million. For residential assets below net book value of HUF 50 million external valuations should be prepared in every 3 years and during the intervening period statistical revaluation could be applied.

6.7 Accounting estimates related to COVID-19 moratoria

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

- Expected credit loss calculations: During the payment moratoria the debtors are exempted from paying the interest and principal instalment, so in case of debtors under moratoria, no payment delay can be established. Late payment is a determining factor for probability of default, so the solvency of debtors is determined by other means. For details please refer to Note (48) point (a) Credit risk.
- Due to the moratoria, the cash-flow of each transaction will change, and for customers who have not indicated the opt out, the Bank has adjusted the cash-flow that the next instalment will be due after June 2021. The debtor however may opt out anytime from the moratoria. In addition, debtors who are opted out, can indicate that they want to remain in moratoria again, which also means a changed cash flow for the loan. Consequently, the determination of the cash flows of each transaction involves a significant estimate due to the moratoria.

Part B Information on the consolidated statement of comprehensive income

(7) Interest income and interest expense

(million HUF)

Interest income	2020	2019
Loans to banks measured at amortised cost	4,288	1,240
Loans to customers measured at amortised cost	30,649	27,027
Debt securities measured at amortised cost	1,480	950
Financial assets measured at fair value through other comprehensive income	4,880	4,957
Negative interest on financial liabilities	237	193
Interest income calculated using effective interest rate method	***41,534***	***34,367***
Securities held for trading	92	410
Financial assets mandatorily measured at fair value	922	201
Hedging derivatives	(2,116)	(2,643)
Other interest income	***(1,102)***	***(2,032)***
Total	**40,432**	**32,335**

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

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

(million HUF)

Interest expenses	2020	2019
Deposits from banks	2,667	1,603
Deposits from customers	4,284	3,787
Lease liabilities	80	93
Negative interest on financial assets	931	871
Hedging derivatives	(25)	(393)
Total	**7,937**	**5,961**

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

(8) Fee and commission income and expense

(million HUF)

Fee and commission income	2020	2019
Account turnover fee income	12,436	12,740
Investment services fee income	6,411	7,209
Card fee income	7,843	7,308
Servicing fee income from loans	2,678	2,936
Cash management fee income	1,099	1,344
Documentary fee income	1,727	1,308
Agent fee income	1,009	881
Other fee income	3,451	2,811
Total	**36,654**	**36,537**

(million HUF)

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

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

(9) Income from trading activities

(million HUF)

	2020	2019
Net profits/(losses) from trading derivatives and trading with foreign currencies	6,258	6,535
Net profits/(losses) from financial assets measured FVOCI [1]	-	-
Net profits/(losses) from securities held for trading	189	811
Fair value adjustments from financial assets measured mandatory at fair value through profit or loss [2]	-	-
Total	**6,447**	**7,346**

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

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

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

(10) Fair value adjustments in hedge accounting

(million HUF)

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

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

(million HUF)

	2020	2019
Losses from sale of debt securities at AC	(2)	-
Profits from sale of debt securities at FVOCI	1,240	371
Losses from sale of debt securities at FVOCI	(687)	(871)
Total	**551**	**(500)**

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

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

(million HUF)

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

(13) Other operating income and expense

(million HUF)

Other operating income	2020	2019
Gain from selling of tangible and intangible assets	6	6
Gain on IFRS16 RoU assets	14	
Dividend and similar income	-	35
Change of inventory	50	24
Gain on non-current asset held for sale	271	13
Fair value adjustment on premises	103	-
Other income	529	706
Total	**973**	**784**

(13) Other operating income and expense (continued)

(million HUF)

Other operating expense	2020	2019
Loss from selling of tangible and intangible assets	-	4
Change of inventory	-	6
Loss on non-current asset held for sale	272	9
Telecommunication expenses related to business activities	459	517
Obligatory fees	588	-
Subsidies/grants paid, fines	26	64
Other expenses	682	851
Total	**2,027**	**1,451**

(14) Impairment losses, provisions and net loan losses including profits (losses) on changes in contracts relating moratoria

(million HUF)

	2020	2019
Individual impairment (expense) / reversal for loan losses	(454)	1,303
Collective impairment (expense) / reversal for loan losses	(4,495)	426
Impairment (expense) / reversal for losses on debt securities	(15)	100
Net (losses) / gains on sale of loans	733	474
Net (losses) / gains on changes in contracts relating moratoria	(2,418)	-
Financial assets measured at amortised cost	**(6,649)**	**2,303**
Financial assets measured at fair value through other comprehensive income	**43**	**31**
Provision (expense) / reversal for financial guarantees	(282)	38
Provision (expense) / reversal for other commitments and contingencies	(999)	300
Net (losses) / gains on repossessed properties	1,619	2,129
Other impairment (expense) / reversal for other receivables	367	(355)
Other provision (expense) / reversal	(986)	1,190
Other impairment losses and provisions	**(281)**	**3,302**
Total	**(6,887)**	**5,636**

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

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

Net (losses) / gains on repossessed properties comprises impairment and result on sales. The result on sales was HUF 966 million during 2020 and HUF 637 million during 2019, respectively.

Impairment, and impairment reversal relating to POCI assets are detailed in Note (24).

(15) Operating expenses without bank tax

(million HUF)

	2020	2019
Personnel expenses	21,418	22,157
of which salaries	*16,471*	*16,335*
of other benefits	*1,639*	*1,753*
of social contributions	*3,308*	*4,069*
Depreciation and amortisation	5,645	5,036
Office and information technology maintenance	8,048	6,762
Financial transaction duty	3,552	4,248
Other taxes and obligatory fees	3,202	3,177
Material expenses	1,372	1,462
Rent and leasing	441	665
Communications	915	862
Advertising	453	696
Legal fees	469	512
Expert fees	161	112
Other expenses	1,181	1,173
Total	**46,857**	**46,862**

Detailed information about lease payments can be found in Note (38).

(16) Bank tax

(million HUF)

	2020	2019
CIB Bank Ltd.	3,572	3,099
CIB Leasing Co. Ltd.	144	159
Total	**3,716**	**3,258**

The change in the basis of bank tax is presented in the 5.13 Taxation section of the significant accounting judgements and estimates.

(17) Income taxes

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

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

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

(million HUF)

Amounts recognised in profit or loss	2020	2019
Current income tax charge	2,298	2,128
of which corporate income tax	*457*	*445*
of which local business tax	*1,600*	*1,464*
of which innovation contribution	*241*	*219*
Deferred income tax	(22)	107
of which origination and reversal of temporary differences	*(22)*	*107*
Total	**2,276**	**2,235**

(17) Income taxes (continued)

Reconciliation of income tax expense to profit before tax	2020 million HUF	2020 %	2019 million HUF	2019 %
Profit before tax	9,671		15,625	
Consolidation amending amount	4,984		1,804	
Theoretical income tax expense at the statutory rate	1,319	9.00	1,569	9.00
Tax base amending items according to the local regulations	(383)	(3.96)	(1,075)	(6.88)
of which use of deferred losses	*(409)*	*(4.23)*	*(402)*	*(2.57)*
of which non-deductible provision	*(150)*	*(1.55)*	*(10)*	*(0.06)*
of which non-deductible expenditure	*176*	*1.82*	*(250)*	*(1.60)*
of which IFRS conversion effect	*-*	*-*	*(413)*	*(2.65)*
Change on not recognised tax asset	(222)	(2.29)	61	0.39
Recognised tax assets	(280)	(2.90)	(3)	(0.02)
Other income type taxes	1,842	19.05	1,683	10.77
Income tax at effective tax rate	**2,276**	**21.81**	**2,235**	**13.29**

(million HUF)

Deferred tax assets and liabilities comprise	2020 Assets	2020 Liabilities	2019 Assets	2019 Liabilities
Carry forward losses	580	-	300	-
Properties	-	586	-	320
Total deferred tax to profit or loss	**580**	**586**	**300**	**320**
Financial assets measured at other comprehensive income	-	270	-	418
Total deferred tax through OCI	**-**	**270**	**-**	**418**
Total	**580**	**856**	**300**	**738**

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

In 2020 the Group used 4,478 million HUF accrued loss, the balance of carry forward unused tax losses was HUF 406,122 million as at 31 December 2020 and HUF 410,549 million as at 31 December 2019. From the remaining amount the Bank set a deferred tax asset of HUF 580 million for 2021 income tax.

(18) Dividend paid

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

(19) Other comprehensive income

(million HUF)

	2020	2019
Net gain/(loss) from changes in fair value on debt securities	(2,347)	8,497
of which credit risk changes	*(43)*	*(31)*
Amortisation of debt securities measured at fair value through OCI	-	(51)
Hedge accounting adjustment on debt securities measured at fair value through OCI	1,246	(3,710)
Reclassification adjustment to profit or loss	(553)	(955)
Deferred tax	149	(346)
Items that may be reclassified to profit or loss	**(1,505)**	**(3,435)**
Net gain/(loss) from changes in fair value on equity instruments	113	926
Reclassification adjustment to equity	(1,619)	-
Deferred tax	(10)	-
Fair value adjustment on premises	3,554	-
Items that may not be reclassified to profit or loss	**2,038**	**926**
Total (net of tax)	**533**	**4,361**

Further information about hedge accounting is presented in Note (26).

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

Part C Information on the consolidated statement of financial position

(20) Cash and current accounts with central bank

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

(million HUF)

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

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

Securities held for trading

(million HUF)

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

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

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

Financial derivatives designated as held for trading: breakdown by product

(million HUF)

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

(million HUF)

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

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

Financial assets mandatorily measured at fair value

(million HUF)

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

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

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

Financial assets mandatorily measured at fair value comprises loans to customers, which do not meet the criteria of SPPI test. Presentation of financial assets mandatorily measured at fair value is included in Note (24).

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

(million HUF)

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

As explained in Note (21), the Bank retrospectively classified VISA C shares as debt securities from the date of acquisition and reclassified them as financial assets at fair value through profit or loss.

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

The FVOCI assets' credit risks are detailed in Note (48).

(23) Loans to banks

(million HUF)

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

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

(23) Loans to banks (continued)

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

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

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

Analysis by sector

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

Sector	31/12/2020 million HUF	31/12/2020 %	31/12/2019 million HUF	31/12/2019 %
Private customers	443,074	36.70	367,560	34.63
Heavy industry	138,635	11.48	152,981	14.41
Other, mostly service industries	125,197	10.37	105,976	9.98
Light industry	60,443	5.01	113,935	10.73
Real estate investments	83,997	6.96	61,429	5.79
Financial activities	78,924	6.54	32,946	3.10
Trading	101,793	8.43	77,682	7.32
Transportation and communication	58,649	4.86	59,208	5.58
Food processing	64,123	5.31	43,364	4.09
Agriculture	48,243	4.00	42,414	4.00
Chemicals and pharmaceuticals	4,123	0.34	4,047	0.38
Total	**1,207,201**	**100.00**	**1,061,542**	**100.00**

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

Analysis by segment and staging

(million HUF)

Gross carrying amount 31/12/2020	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	91,244	-	-	-	-	**91,244**
Corporate	503,711	104,997	27,729	4,208	57	**640,702**
Retail	369,278	29,275	12,413	7,499	56,790	**475,255**
Total	**964,233**	**134,272**	**40,142**	**11,707**	**56,847**	**1,207,201**

(million HUF)

ECL allowance 31/12/2020	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	(604)	-	-	-	-	**(604)**
Corporate	(3,685)	(4,728)	(11,563)	(344)	-	**(20,320)**
Retail	(2,624)	(3,269)	(6,971)	(2,209)	-	**(15,073)**
Total	**(6,913)**	**(7,997)**	**(18,534)**	**(2,553)**	**-**	**(35,997)**

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

(million HUF)

Gross carrying amount 31/12/2019	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	36,388	6,079	-	-	-	**42,467**
Corporate	540,104	54,446	24,066	4,227	205	**623,048**
Retail	323,846	28,397	9,596	8,445	25,743	**396,027**
Total	**900,338**	**88,922**	**33,662**	**12,672**	**25,948**	**1,061,542**

(million HUF)

ECL allowance 31/12/2019	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Central government	(182)	(1,570)	-	-	-	**(1,752)**
Corporate	(3,748)	(2,068)	(13,547)	(703)	-	**(20,066)**
Retail	(1,668)	(2,939)	(8,897)	(2,903)	-	**(16,407)**
Total	**(5,598)**	**(6,577)**	**(22,444)**	**(3,606)**	**-**	**(38,225)**

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

Analysis of gross loan portfolio and expected loan loss by stage

(million HUF)

Gross loan portfolio	01/01/2020	Increase	Decrease	Stage reclassification	Write-down	Sale	Exchange difference	31/12/2020
Stage 1	**900,338**	**345,183**	**(269,759)**	**(39,371)**	**-**	**(18)**	**27,860**	**964,233**
Central government	36,388	54,787	(9,525)	6,702	-	-	2,892	91,244
Other financial corporation	21,779	5,169	(11,498)	(129)	-	-	464	15,785
Non-financial corporation	518,325	43,552	(56,644)	(41,687)	-	-	24,380	487,926
Retail	323,846	241,675	(192,092)	(4,257)	-	(18)	124	369,278
Stage 2	**88,922**	**41,279**	**(29,991)**	**28,738**	**-**	**(100)**	**5,424**	**134,272**
Central government	6,079	2,105	(2,111)	(6,702)	-	-	629	-
Other financial corporation	160	16,566	(4,817)	129	-	-	-	12,038
Non-financial corporation	54,286	8,225	(5,798)	31,461	-	-	4,785	92,959
Retail	28,397	14,383	(17,265)	3,850	-	(100)	10	29,275
Stage 3	**33,662**	**20,856**	**(18,369)**	**10,633**	**(3,397)**	**(4,914)**	**1,671**	**40,142**
Other financial corporation	940	65	(222)	-	(16)	-	94	861
Non-financial corporation	23,126	15,673	(17,420)	10,225	(3,045)	(3,228)	1,537	26,868
Retail	9,596	5,118	(727)	408	(336)	(1,686)	40	12,413
POCI	**12,672**	**2,001**	**(2,725)**	**-**	**(9)**	**(542)**	**310**	**11,707**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	4,227	174	(479)	-	-	(24)	310	4,208
Retail	8,445	1,827	(2,246)	-	(9)	(518)	-	7,499
SPPI failed	**25,948**	**40,793**	**(9,889)**	**-**	**(4)**	**(1)**	**-**	**56,847**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	205	214	(358)	-	(4)	-	-	57
Retail	25,743	40,579	(9,531)	-	-	(1)	-	56,790
Total	**1,061,542**	**450,112**	**(330,733)**	**-**	**(3,410)**	**(5,575)**	**(35,265)**	**1,207,201**

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

(million HUF)

ECL	01/01/2020	Adjust-ment	Write-back	Stage reclassifi-cation	Modifi-cation loss	Decrease in allowance account due to write-offs	Write-off recognis-ed direct-ly through profit or loss	Decrease due to derecog-nition	Exchange difference	Other change	31/12/2020
Stage 1	**(5,598)**	**(7,115)**	**3,337**	**487**	**1,574**	**-**	**-**	**34**	**(215)**	**583**	**(6,913)**
Central government	(182)	(53)	60	-	-	-	-	-	(15)	(414)	(604)
Other financial corporation	(35)	(225)	360	1	16	-	-	-	(1)	(355)	(239)
Non-financial corporation	(3,713)	(4,421)	2,203	336	(25)	-	-	-	(199)	2,373	(3,446)
Retail	(1,668)	(2,416)	714	150	1,583	-	-	34	-	(1,021)	(2,624)
Stage 2	**(6,577)**	**(5,813)**	**3,943**	**(287)**	**370**	**-**	**-**	**102**	**(313)**	**578**	**(7,997)**
Central government	(1,570)	-	1,377	-	-	-	-	-	(190)	383	-
Other financial corporation	(15)	(61)	16	(1)	-	-	-	-	-	-	(61)
Non-financial corporation	(2,053)	(3,549)	1,083	(146)	111	-	-	2	(123)	8	(4,667)
Retail	(2,939)	(2,203)	1,467	(140)	259	-	-	100	-	187	(3,269)
Stage 3	**(22,444)**	**(9,297)**	**5,538**	**(200)**	**127**	**3,393**	**(223)**	**4,321**	**(537)**	**788**	**(18,534)**
Other financial corporation	(194)	(140)	76	-	1	16	-	-	(18)	8	(251)
Non-financial corporation	(13,353)	(7,283)	2,916	(191)	6	3,041	(33)	2,814	(492)	1,263	(11,312)
Retail	(8,897)	(1,874)	2,546	(9)	120	336	(190)	1,507	(27)	(483)	(6,961)
POCI	**(3,606)**	**(360)**	**3,403**	**-**	**65**	**9**	**(5)**	**300**	**(22)**	**(2,337)**	**(2,553)**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	(703)	(101)	2,099	-	30	-	-	24	(22)	(1,671)	(344)
Retail	(2,903)	(259)	1,304	-	35	9	(5)	276	-	(666)	(2,209)
SPPI failed	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	-	-	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-	-	-	-
Total	**(38,225)**	**(22,585)**	**16,221**	**-**	**2,136**	**3,402**	**(228)**	**4,757**	**(1,087)**	**(388)**	**(35,997)**

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

(million HUF)

Gross loan portfolio	01/01/2019	Increase	Decrease	Stage reclassifi-cation	Write-down	Sale	Exchange difference	31/12/2019
Stage 1	**749,851**	**1,745,588**	**(1,596,708)**	**(6,192)**	**(38)**	**(1)**	**7,838**	**900,338**
Central government	5,441	30,190	(101)	265	-	-	593	36,389
Other financial corporation	31,831	82,180	(92,741)	-	-	-	509	21,779
Non-financial corporation	452,440	1,402,204	(1,320,590)	(22,402)	(12)	-	6,685	518,325
Retail	260,139	231,014	(183,276)	15,945	(26)	(1)	51	323,846
Stage 2	**107,292**	**-8,363**	**(12,595)**	**1,277**	**(34)**	**(3)**	**1,348**	**88,922**
Central government	6,578	460	(864)	(265)	-	-	170	6,079
Other financial corporation	763	194	(824)	-	-	-	27	160
Non-financial corporation	50,017	(15,463)	(133)	18,721	(6)	-	1,150	54,286
Retail	49,934	6,446	(10,774)	(17,179)	(28)	(3)	1	28,397
Stage 3	**41,860**	**11,879**	**(20,961)**	**4,915**	**(2,400)**	**(2,165)**	**534**	**33,662**
Other financial corporation	1,463	137	(622)	-	(103)	-	65	940
Non-financial corporation	27,961	7,819	(14,800)	3,681	(1,325)	(658)	448	23,126
Retail	12,436	3,923	(5,539)	1,234	(972)	(1,507)	21	9,596
POCI	**14,466**	**2,098**	**(3,919)**	**-**	**(93)**	**(21)**	**141**	**12,672**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	5,084	61	(1,059)	-	-	-	141	4,227
Retail	9,382	2,037	(2,860)	-	(93)	(21)	-	8,445
SPPI failed	**7,284**	**18,904**	**(240)**	**-**	**-**	**-**	**-**	**25,948**
Other financial corporation	-	-	-	-	-	-	-	-
Non-financial corporation	445	-	(240)	-	-	-	-	205
Retail	6,839	18,904	-	-	-	-	-	25,743
Total	**920,753**	**1,770,106**	**(1,634,423)**	**-**	**(2,565)**	**(2,190)**	**9,861**	**1,061,542**

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

(million HUF)

ECL	01/01/2019	Adjust-ment	Write-back	Stage reclassifi-cation	Modifi-cation loss	Decrease in allowance account due to write-offs	Write-off recognis-ed direct-ly through profit or loss	Decrease due to derecog-nition	Exchange difference	Other change	31/12/2019
Stage 1	**(5,889)**	**(4,094)**	**3,950**	**52**	**-**	**19**	**(32)**	**-**	**(72)**	**468**	**(5,598)**
Central government	(62)	(45)	123	3	-	-	-	-	(6)	(195)	(182)
Other financial corporation	(21)	(26)	318	-	-	-	-	-	(1)	(305)	(35)
Non-financial corporation	(4,266)	(2,695)	2,418	175	-	(7)	(7)	-	(65)	734	(3,713)
Retail	(1,540)	(1,328)	1,091	(126)	-	26	(25)	-	-	234	(1,668)
Stage 2	**(6,474)**	**(4,161)**	**3,834**	**286**	**-**	**34**	**(28)**	**1**	**(71)**	**2**	**(6,577)**
Central government	(1,364)	(268)	100	(3)	-	-	-	-	(34)	(1)	(1,570)
Other financial corporation	(35)	(15)	37	-	-	-	-	-	(2)	-	(15)
Non-financial corporation	(2,034)	(1,707)	1,868	(146)	-	6	(5)	-	(35)	-	(2,053)
Retail	(3,041)	(2,171)	1,829	435	-	28	(23)	1	-	3	(2,939)
Stage 3	**(27,257)**	**(6,983)**	**8,086**	**(338)**	**-**	**2,419**	**(243)**	**2,143**	**(272)**	**1**	**(22,444)**
Other financial corporation	(550)	(88)	354	-	-	103	-	-	(13)	0	(194)
Non-financial corporation	(16,169)	(3,518)	4,676	(28)	-	1,344	(61)	629	(243)	17	(13,353)
Retail	(10,538)	(3,377)	3,056	(310)	-	972	(182)	1,514	(16)	(16)	(8,897)
POCI	**(4,048)**	**(1,211)**	**2,316**	**-**	**-**	**93**	**(51)**	**2**	**(37)**	**(670)**	**(3,606)**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	(1,700)	(69)	1,135	-	-	-	-	-	(37)	(32)	(703)
Retail	(2,348)	(1,142)	1,181	-	-	93	(51)	2	-	(638)	(2,903)
SPPI failed	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial corporation	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporation	-	-	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-	-	-	-
Total	**(43,668)**	**(16,449)**	**18,186**	**-**	**-**	**2,565**	**(354)**	**2,146**	**(452)**	**(199)**	**(38,225)**

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

Stage 1 loans increased in 2020 mainly in the household segment (by HUF 52.588 million), thanks to the high demand for mortgage loans, despite the pandemic. On the other hand, corporate loans declined by HUF 49.611 million, mainly in the Large Corporate segment. The increase of loans to General Government is temporary and was the result of some repo transactions made on the last days of the year.

Stage 2 category increased by HUF 45.350 million, due to increased risk in some sectors as a result of the pandemic and affected mainly the Corporate segment. Although past due balance did not increase thanks to the moratoria, the Bank made necessary reserves for the future, if credit quality may worsen after the moratoria.

Balance of Stage 3 loans increased by HUF 6.480 million, mainly because a large corporate customer operating in the Transportation sector became non-performing.

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

Expected credit losses decreased by HUF 2.231 million in 2020, thanks to NPL sales/write-offs, although the share of Stage 2 portfolio increased (due to higher risk in some sectors as a result of COVID-19), while at the same time the impairment on Stage 3 loans decreased.

The non-discounted values of the POCI assets amounted to HUF 15,114 million at 31 December 2020, and HUF 16,872 million at 31 December 2019.

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

The revaluation gains on loans specified as hedged items is presented in Note (26).

The liquidation value of collateral that the Group holds relating to loans at 31 December 2020 amounts to HUF 1,046,256 million and HUF 943,112 million as at 31 December 2019, respectively.

According to IFRS 9 para 5.4.3 rules, due to the payment moratoria related to COVID-19 pandemic, the Group modified the cash-flow the loans subject to moratoria. According to this, the debtors do not pay interest and principal until the expiration of the moratoria, and then after the expiration of the moratoria, the customer pays the contractual instalment with an extended term. The Group may not charge compound interest for the period of the moratoria. The new cash-flow is discounted by the original interest rate and any realised loss is recorded on a transaction-by-transaction basis within amortised cost. With the application of this rule the Group recorded HUF 2.418 million modification loss connected to moratoria.

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

COVID-19 moratoria related portfolio as of 31 December 2020

(million HUF)

	Number of obligors	Of which: granted	Gross carrying amount					Residual maturity of moratoria					
				Of which: granted				<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months
					Of which:(1)	Of which:(2)	Of which: expired						
EBA-compliant moratoria loans and advances	47,715	47,715	356,448	356,448	356,448	-	-	356,448	-	-	-	-	-
of which: Households				196,242	196,242	-	-	196,242	-	-	-	-	-
_of which: Collateralised by residential immovable property				112,937	112,937	-	-	112,937	-	-	-	-	-
of which: Non-financial corporations				150,801	150,801	-	-	150,801	-	-	-	-	-
_of which: Small and medium-sized enterprises				106,403	106,403	-	-	106,403	-	-	-	-	-
_of which: Collateralised by commercial immovable property				90,178	90,178	-	-	90,178	-	-	-	-	-

(1) Of which: legislative moratoria

(2) Of which: subject to extended legislative moratoria

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

(million HUF)

	Gross carrying amount								
		Performing				Non-performing			
			Of which:(1)	Of which:(2)	Of which: Stage 2		Of which:(1)	Of which:(2)	Of which:(3)
EBA-compliant moratoria loans and advances	356,448	321,771	321,771	2,734	88,876	34,677	34,677	10,451	31,188
of which: Households	196,242	185,788	185,788	2,022	19,232	10,454	10,454	6,369	8,838
_of which: Collateralised by residential immovable property	112,937	104,660	104,660	1,751	12,352	8,277	8,277	5,485	7,052
of which: Non-financial corporations	150,801	127,402	127,402	712	69,644	23,399	23,399	3,258	21,457
_of which: Small and medium-sized enterprises	106,403	90,608	90,608	711	41,789	15,795	15,795	3,258	13,853
_of which: Collateralised by commercial immovable property	90,178	81,075	81,075	111	49,011	9,103	9,103	2,232	7,777

(1) Of which: grace period of capital and interest
(2) Of which: exposures with forbearance measures
(3) Of which: unlikely to pay that are not past-due or past-due <= 90 days

(million HUF)

	Accumulated impairment, accumulated negative changes in fair value due to credit risk								
		Performing				Non-performing			
			Of which:(1)	Of which:(2)	Of which: Stage 2		Of which:(1)	Of which:(2)	Of which:(3)
EBA-compliant moratoria loans and advances	21,843	8,061	8,061	285	5,955	13,782	13,782	4,447	12,573
of which: Households	8,433	3,275	3,275	235	2,306	5,158	5,158	3,419	4,397
_of which: Collateralised by residential immovable property	5,652	1,901	1,901	207	1,410	3,751	3,751	2,804	3,214
of which: Non-financial corporations	12,561	4,173	4,173	50	3,649	8,388	8,388	792	7,940
_of which: Small and medium-sized enterprises	10,146	2,911	2,911	50	2,453	7,235	7,235	792	6,788
_of which: Collateralised by commercial immovable property	5,484	2,657	2,657	6	2,366	2,827	2,827	455	2,654

(1) Of which: grace period of capital and interest
(2) Of which: exposures with forbearance measures
(3) Of which: unlikely to pay that are not past-due or past-due <= 90 days

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

Analysis of leasing sector

The leasing subsidiary of the Bank operates in the domestic leasing market and provide finance lease products to customers. The term of the leasing contracts is usually between 3 months and 10 years.

The following tables indicate the key amounts of this activity for the receivables not past due.

(million HUF)

Future minimum lease payments	31/12/2020	31/12/2019
Within one year	25,755	24,195
One to five years	60,651	51,624
More than five years	9,767	8,573
Total	**96,173**	**84,392**

(million HUF)

The present value of minimum lease payment receivables comprises	31/12/2020	31/12/2019
Within one year	23,838	22,152
One to five years	56,542	48,336
More than five years	8,632	7,658
Total	**89,012**	**78,146**
Unearned finance lease income	7,161	6,246
Accumulated allowance for uncollectible minimum lease payments receivable	(4,123)	(3,406)

(25) Securities at amortized cost

(million HUF)

	31/12/2020	31/12/2019
Bank and corporate bonds – HUF	48,864	46,408
Bank and corporate bonds – other currency	21,424	6,459
Total	**70,288**	**52,867**

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

(26) Hedging derivatives

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

(million HUF)

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

(26) Hedging derivatives (continued)

(million HUF)

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

Accumulated change of fair value of hedged instruments

(million HUF)

	31/12/2020	31/12/2019
Debt securities	2,533	3,744
Loans	3,879	3,831
Financial liabilities	-94	542

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

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

(million HUF)

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

(million HUF)

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

(27) Repossessed properties

(million HUF)

Net book value	31/12/2020	31/12/2019
Opening balance	**10,644**	**10,417**
Additions	23	260
Sale	(6,619)	(4,101)
Reclassification	-	2,560
Net (losses) / gain from impairment charges	1,618	1,508
Closing balance	**5,666**	**10,644**

(million HUF)

	Gross value		Impairment	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Building	2,492	5,702	(639)	(6,162)
Land	6,582	12,369	(2,769)	(1,274)
Total	**9,074**	**18,071**	**(3,408)**	**(7,436)**

The repossessed properties in return for the claim are located in several locations in Hungary. The closing balance included HUF 4,296 million worth of real estate in Budapest as of 31 December 2020 and HUF 7,426 million as of 31 December 2019.

(28) Property, plant and equipment

(million HUF)

	Land, premises	Leasehold improvements	Electronic equipment, office furniture	IT equipment	Motor vehicles	Other	Total
Cost							
Balance at 01/01/2019	**19,984**	**4,381**	**8,696**	**7,800**	**257**	**118**	**41,236**
IFRS 16 – ROU assets disposals	9,423	-	60	103	212	-	**9,798**
Additions	106	129	229	200	-	-	**664**
Disposals	(6,404)	(293)	(245)	(130)	(77)	-	**(7,149)**
Balance at 31/12/2019	**23,109**	**4,217**	**8,740**	**7,973**	**392**	**118**	**44,549**
IFRS 16 – ROU assets disposals	575	-	4	395	169	-	**1,143**
Additions	86	193	430	181	-	-	**890**
Disposals	-89	-190	-206	-107	-47	-	**-639**
Revaluation	2,647	-	-	-	-	-	**2.647**
Balance at 31/12/2020	**26.328**	**4.220**	**8.968**	**8.442**	**514**	**118**	**48,590**
Accumulated depreciation and impairment losses							
Balance at 01/01/2019	**6,585**	**4,122**	**7,848**	**7,433**	**203**	**-**	**26,191**
Depreciation of IFRS 16 – ROU assets disposals	845	-	8	11	41	-	**905**
Depreciation for the year	276	99	184	179	2	-	**740**
Disposals	(6,397)	(314)	(273)	(221)	(61)	-	**(7,266)**
Balance at 31/12/2019	**1,309**	**3,907**	**7,767**	**7,402**	**185**	**-**	**20,570**
Depreciation of IFRS 16 – ROU assets disposals	1,040	-	10	19	59	-	**1,128**
Depreciation for the year	342	55	250	218	-	-	**865**
Disposals	-60	-190	-110	-45	-42	-	**-447**
Revaluation	-1,010	-	-	-	-	-	**-8,010**
Balance at 31/12/2020	**1,621**	**3.772**	**7.917**	**7.594**	**202**	**-**	**21,106**
Net book value							
Balance at 31/12/2019	**21,800**	**310**	**973**	**571**	**207**	**118**	**23,979**
Balance at 31/12/2020	**24,707**	**448**	**1,051**	**848**	**312**	**118**	**27,484**

Leasehold improvements include improvements on leased branches.

Information about right-of-use-assets are presented in Note (38).

The Group revalued its own properties regarding to the revaluation method on 31 December 2020 using independent external Appraiser documentation, resulting HUF 3,553 million gain recorded in other comprehensive income, and HUF 103 million gain recorded in statement of comprehensive income.

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

(29) Intangible assets

(million HUF)

	Software licenses and develop-ment	Other	Total
Cost			
Balance at 01/01/2019	**49,012**	**328**	**49,340**
Acquisition	4,550	103	**4,653**
Disposals	(71)	(22)	**(93)**
Balance at 31/12/2019	**53,491**	**409**	**53,900**
Additions	3,490	-	**3,490**
Disposals	(34)	(138)	**(172)**
Balance at 31/12/2020	**56,947**	**271**	**57,218**
Accumulated depreciation and impairment losses			
Balance at 01/01/2019	**37,901**	**288**	**38,189**
Depreciation for the year	3,237	119	**3,356**
Disposals	22	(22)	**-**
Balance at 31/12/2019	**41,160**	**385**	**41,545**
Depreciation for the year	3,629	5	**3,634**
Disposals	-	(139)	**(139)**
Balance at 31/12/2020	**44,789**	**251**	**45,040**
Net book value			
Balance at 31/12/2019	**12,331**	**24**	**12,355**
Balance at 31/12/2020	**12,158**	**20**	**12,178**

The net book value of internally developed software is HUF 7,160 million as at 31 December 2020, and HUF 6,985 million as at 31 December 2019, respectively.

(30) Other assets

(million HUF)

	31/12/2020	31/12/2019
Accrued assets	2,751	1,901
Non-income tax receivables	4,514	4,412
Items in transit (stock)	648	444
Trade receivables	2,090	457
Inventories	97	104
Other items	12,081	4,973
Total	**22,181**	**12,291**

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

(31) Deposits from banks

(million HUF)

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

(32) Deposits from customers

(million HUF)

	31/12/2020	31/12/2019
Deposits from customers in Hungary	1,681,006	1,390,357
Deposits from customers in other countries	47,063	30,930
Total	**1,728,069**	**1,421,287**
of which related party	*235*	*173*

The revaluation gains on deposits specified as hedged items is presented in Note (26).

(33) Other liabilities

(million HUF)

	31/12/2020	31/12/2019
Lease liabilities	9,760	9,146
Accrued liabilities	6,999	7,219
Suppliers	4,645	2,153
Non-income tax liability	3,268	3,478
Items in transit	573	422
Financial guarantees	500	215
Other items	5,440	3,755
Total	**31,185**	**26,388**

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

Further information about lease liabilities is presented in Note (38).

(million HUF)

Financial guarantees comprise	31/12/2020	31/12/2019
Opening balance	**215**	**253**
Increase during the year	313	72
Decrease during the year	(28)	(110)
Closing balance	**500**	**215**

Concerning financial guarantees see Note (39) on Commitments and contingencies.

(34) Provisions

(million HUF)

	Commit-ments and contingen-cies	Legal disputes	Other	Total
Balance at 01/01/2019	**1,280**	**8,260**	**3,048**	**12,588**
Allocation	682	410	629	**1,721**
Use	-	(2,569)	(247)	**(2,816)**
Reversal	(975)	(2,543)	(604)	**(4,122)**
Balance at 31/12/2019	**987**	**3,558**	**2,826**	**7,371**
Allocation	1,788	903	811	**3,502**
Use	-	(37)	(489)	**(526)**
Reversal	(770)	(6)	(660)	**(1,436)**
Balance at 31/12/2020	**2,005**	**4,418**	**2,488**	**8,911**

Provisions for commitment and contingences were created for future credit obligations (see also Note (39) on Commitments and contingencies). For all booked provisions, the Bank expects out-flows / payments in a period longer than 1 year from reporting date.

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

The discount effect on provisions is not material.

(35) Subordinated debts

(million HUF)

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

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

(36) Share capital

During 2020 there was no change regarding the share capital.

At 31 December 2020 the fully paid share capital consisted of 50,000,000,003 ordinary shares of HUF 1 each.

(37) Reserves

Capital reserve

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

Revaluation reserve

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

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

In 2020, the Group recognised a revaluation reserve of HUF 3,554 million in connection with the revaluation of its own properties.

(37) Reserves (continued)

Other reserve

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

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

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

General reserve

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

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

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

(38) Leases (Group as a lessee)

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

(million HUF)

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

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

(38) Leases (Group as a lessee) (continued)

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

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

Breakdown of the lease liabilities:

(million HUF)

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

Profit or loss items of the lease contracts:

(million HUF)

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

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

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

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

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

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

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

(million HUF)

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

(38) Leases (Group as a lessee) (continued)

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

(million HUF)

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

(39) Commitments and contingencies

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

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

The amount of long-term financial guarantees and commitments with a remaining maturity over one year is HUF 148,585 million as at 31 December 2020 and HUF 101,654 million as at 31 December 2019, respectively.

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

(million HUF)

31/12/2020	Gross amount	Other liability	Provision
Guarantees	79,064	(477)	-
Letters of credit	2,866	(22)	-
Total financial guarantees	**81,930**	**(499)**	**-**
Commitments	403,362	-	(2,005)
Total	**485,292**	**(499)**	**(2,005)**

(million HUF)

31/12/2019	Gross amount	Other liability	Provision
Guarantees	39,207	(209)	-
Letters of credit	4,833	(6)	-
Total financial guarantees	**44,040**	**(215)**	**-**
Commitments	383,400	-	(987)
Total	**427,440**	**(215)**	**(987)**

(39) Commitments and contingencies (continued)

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

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2020	**418,676**	**8,356**	**408**	**427,440**
Increase	1,859,214	117,113	9,682	**1,986,009**
Decrease	(1,815,119)	(114,187)	(9,740)	**(1,939,046)**
Transfers to Stage 1	-	7,775	185	**7,960**
Transfers to Stage 2	(7,775)	-	142	**(7,633)**
Transfers to Stage 3	(185)	(142)	-	**(327)**
Other adjustments	10,528	359	2	**10,889**
Balance at 31/12/2020	**465,339**	**19,274**	**679**	**485,292**

(million HUF)

ECL	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2020	**(836)**	**(95)**	**(271)**	**(1,202)**
Allocation	(943)	(830)	(302)	**(2,075)**
Use	171	35	23	**229**
Reversal	477	52	60	**589**
Transfers to Stage 1	-	(22)	-	**(22)**
Transfers to Stage 2	22	-	(1)	**21**
Transfers to Stage 3	-	1	-	**1**
Exchange difference	(21)	(2)	1	**(22)**
Other adjustment	(21)	-	(2)	**(23)**
Balance at 31/12/2020	**(1,151)**	**(861)**	**(492)**	**(2,504)**

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**439,552**	**3,226**	**500**	**443,278**
Increase	1,484,905	76,995	4,652	**1,566,552**
Decrease	(1,497,362)	(72,243)	(4,920)	**(1.576.525)**
Transfers to Stage 1	-	2,632	1	**2,633**
Transfers to Stage 2	(2,632)	-	177	**(2,455)**
Transfers to Stage 3	(1)	(177)	-	**(178)**
Other adjustments	(5,786)	(77)	(2)	**(5.865)**
Balance at 31/12/2019	**418,676**	**8,356**	**408**	**427,440**

(million HUF)

ECL	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**(1,096)**	**(51)**	**(386)**	**(1,533)**
Allocation	(566)	(88)	(103)	**(757)**
Use	189	23	76	**288**
Reversal	533	137	145	**815**
Transfers to Stage 1	-	(119)	-	**(119)**
Transfers to Stage 2	118	-	(3)	**115**
Transfers to Stage 3	-	4	-	**4**
Exchange difference	(7)	(1)	-	**(8)**
Other adjustment	(7)	-	-	**(7)**
Balance at 31/12/2019	**(836)**	**(95)**	**(271)**	**(1,202)**

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

(million HUF)

31/12/2020	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	47,545	-	-	-	-	-	17,336	**64,881**
Effective interest rates	*0.60*	-	-	-	-	-	-	***0.44***
Securities held for trading	-	3	225	1,269	591	70	104	**2,262**
Effective interest rates	-	*0.27*	*0.43*	*0.57*	*4.21*	*2.12*	-	***1.53***
Securities mandatorily measured at FVPL	-	6,533	7,389	7,726	2,458	986	-	**25,092**
Derivative financial assets	-	-	-	-	-	-	1,714	**1,714**
Financial assets measured at fair value through OCI	-	61,994	34,665	58,359	148,682	-	1,853	**305,553**
Effective interest rates	-	*0.96*	*0.31*	*0.31*	*0.79*	-	-	***0.68***
Loans to banks	20,097	605,054	70,294	-	-	-	-	**695,445**
Effective interest rates	-	*0.45*	*1.78*	-	-	-	-	***0.57***
Loans to customers at AC and FVPL [(1)]	96,546	266,936	203,740	188,290	304,237	115,038	-	**1,174,787**
Effective interest rates	*2.52*	*1.89*	*2.17*	*1.98*	*2.94*	*3.83*	-	***2.47***
Debt securities at amortised cost	-	44,145	-	7,313	7,378	13,934	-	**72,770**
Effective interest rates	-	*0.80*	-	*2.15*	*7.67*	*1.75*	-	***1.82***
Liabilities								
Deposits from banks	2,069	83,390	60,481	45,910	145,275	17,581	-	**354,706**
Effective interest rates	-	*1.18*	*0.46*	*(0.89)*	*0.24*	*0.00*	-	***0.34***
Deposits from customers	1,377,640	69,235	168,739	16,217	91,165	5,073	-	**1,728,069**
Effective interest rates	-	*0.59*	*1.31*	*0.77*	*1.28*	*1.67*	-	***0.23***
Subordinated debts	-	-	-	10,959	-	-	-	**10,959**
Effective interest rates	-	-	-	*0.46*	-	-	-	***0.46***
Derivative financial liabilities	-	5,623	6,815	10,264	2,263	2,056	-	**27,021**
Net repricing gap	**(1,215,521)**	**826,417**	**80,278**	**179,607**	**224,643**	**105,318**	**21,007**	**221,749**

[(1)] *Including portfolio hedge adjustment*

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

(million HUF)

31/12/2019	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	19,121	-	-	-	-	-	17,742	**36,863**
Effective interest rates	*0.90*	-	-	-	-	-	-	***0.47***
Securities held for trading	-	1,686	2,084	2,440	223	79	383	**6,895**
Effective interest rates	-	*0.00*	*0.04*	*(0.57)*	*2.09*	*1.75*	-	***(0.10)***
Derivative financial assets	-	6,991	5,985	5,975	1,700	375	-	**21,026**
Financial assets measured at fair value through OCI	-	60,193	46,162	40,952	190,461	6,169	2,645	**346,582**
Effective interest rates	-	*0.62*	*0.15*	*0.07*	*0.57*	*1.15*	*0.00*	***0.47***
Loans to banks	9,132	404,928	26,851	-	-	-	-	**440,911**
Effective interest rates	-	*0.10*	*0.67*	-	-	-	-	***0.13***
Loans to customers at AC and FVPL [(1)]	58,473	249,831	294,532	151,692	195,423	77,206	-	**1,027,157**
Effective interest rates	*3.17*	*1.51*	*1.71*	*2.54*	*3.67*	*4.37*	-	***2.44***
Debt securities at amortised cost	-	46,583	-	6,622	-	17,083	-	**70,288**
Effective interest rates	-	*0.87*	-	-	-	*4.04*	-	***1.56***
Liabilities								
Deposits from banks	2,322	181,493	24,983	15,791	43,509	11,821	-	**279,919**
Effective interest rates	-	*0.32*	*0.83*	*0.07*	*0.12*	*0.02*	-	***0.30***
Deposits from customers	1,116,453	55,078	165,838	50,403	33,159	356	-	**1,421,287**
Effective interest rates	-	*1.12*	*1.03*	*1.32*	*1.24*	-	-	***0.24***
Subordinated debts	-	-	-	9,922	-	-	-	**9,922**
Effective interest rates	-	-	-	*0.63*	-	-	-	***0.63***
Derivative financial liabilities	-	6,633	8,994	7,310	1,579	571	-	**25,087**
Net repricing gap	**(1,032,049)**	**527,008**	**175,799**	**124,255**	**309,560**	**88,164**	**20,770**	**213,507**

[(1)] Including portfolio hedge adjustment

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

(million HUF)

31/12/2020	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks [(1)]	64,881	-	-	-	-	**64,881**
Securities held for trading	3	132	624	1,306	197	**2,262**
Derivative financial assets	5,087	1,387	693	8,783	9,142	**25,092**
Securities mandatorily measured at FVPL	-	-	-	-	1,714	**1,714**
Financial assets measured at fair value through OCI	-	9,547	83,477	201,410	11,119	**305,553**
Loans to banks [(1)]	572,226	2,388	-	105,838	14,993	**695,445**
Loans to customers at amortised cost and at fair value through profit or loss [(2)]	166,289	65,303	177,312	468,598	297,285	**1,174,787**
Debt securities at amortised cost	-	-	-	51,522	21,248	**72,770**
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	45,329	-	**45,329**
Tax assets	-	-	-	1,282	-	**1,282**
Non-current asset held for sale	-	-	86	-	-	**86**
Other assets	2,751	-	745	18,685	-	**22,181**
Total assets	**811,237**	**78,757**	**262,937**	**902,753**	**355,698**	**2,411,382**
Liabilities						
Deposits from banks	11,446	4,960	48,445	266,057	23,798	**354,706**
Deposits from customers [(2)]	1,428,405	28,180	84,755	181,738	5,073	**1,728,151**
Subordinated debts	-	-	10,959	-	-	**10,959**
Derivative financial liabilities	2,792	1,496	624	12,129	9,980	**27,021**
Tax liabilities	-	-	-	1,064	-	**1,064**
Other liabilities	6,999	-	573	23,613	-	**31,185**
Provisions for risk and charges	-	-	-	8,911	-	**8,911**
Total liabilities	**1,449,642**	**34,636**	**145,356**	**493,512**	**38,851**	**2,161,997**
Net position	**(638,405)**	**44,121**	**117,581**	**409,241**	**316,847**	**249,385**

[(1)] *The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (20).*

[(2)] *Including portfolio hedge adjustment*

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

(million HUF)

31/12/2019	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks [1]	36,863	-	-	-	-	**36,863**
Securities held for trading	1,655	1,729	2,049	976	486	**6,895**
Derivative financial assets	1,520	191	1,252	7,741	10,322	**21,026**
Financial assets measured at fair value through OCI	8,242	21,078	40,952	267,495	8,815	**346,582**
Loans to banks [1]	261,332	78,270	86,316	-	14,993	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss [2]	98,144	94,316	204,553	396,129	234,015	**1,027,157**
Debt securities at amortised cost	-	-	-	46,584	23,704	**70,288**
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	46,977	-	**46,977**
Tax assets	-	-	-	1,514	-	**1,514**
Non-current asset held for sale	-	-	90	-	-	**90**
Other assets	1,901	-	548	9,842	-	**12,291**
Total assets	**409,657**	**195,584**	**335,760**	**777,258**	**292,335**	**2,010,594**
Liabilities						
Deposits from banks	7,616	4,914	18,212	215,127	34,050	**279,919**
Deposits from customers	1,137,573	26,856	58,029	183,579	15,250	**1,421,287**
Subordinated debts	-	-	6	9,916	-	**9,922**
Derivative financial liabilities	1,310	264	1,341	11,036	11,136	**25,087**
Tax liabilities	-	-	-	781	-	**781**
Other liabilities	7,219	-	422	18,747	-	**26,388**
Provisions for risk and charges	-	-	-	7,371	-	**7,371**
Total liabilities	**1,153,718**	**32,034**	**78,010**	**446,557**	**60,436**	**1,770,755**
Net position	**(744,061)**	**163,550**	**257,750**	**330,701**	**231,899**	**239,839**

[1] The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (20).

[2] Including portfolio hedge adjustment

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

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

Carrying amount of the undiscounted financial liabilities is disclosed in the Note (40).

(million HUF)

31/12/2020	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from banks	11,588	5,370	50,243	270,515	23,814	**361,530**
Deposits from customers	1,428,415	28,526	85,979	182,465	5,073	**1,730,458**
Subordinated debts	-	-	11,004	-	-	**11,004**
Derivative financial liabilities	2,792	1,496	624	12,129	9,980	**27,021**
Financial guarantees	1,386	4,403	20,497	55,023	621	**81,930**
Commitments	74,681	12,496	112,509	61,421	142,255	**403,362**
Total undiscounted financial liabilities	**1,518,862**	**52,291**	**280,856**	**581,553**	**181,743**	**2,615,305**

(million HUF)

31/12/2019	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from banks	7,664	5,060	18,850	218,041	34,266	**283,881**
Deposits from customers	1,137,611	27,104	59,859	184,549	15,250	**1,424,373**
Subordinated debts	-	-	64	9,979	-	**10,043**
Derivative financial liabilities	1,310	264	1,341	11,036	11,136	**25,087**
Financial guarantees	1,781	10,361	15,933	15,390	575	**44,040**
Commitments	83,458	36,324	79,435	53,601	130,582	**383,400**
Total undiscounted financial liabilities	**1,231,824**	**79,113**	**175,482**	**492,596**	**191,809**	**2,170,824**

Part D Additional information

(43) Related party transactions

Companies (Intesa Sanpaolo Group)

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

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

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

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

(million HUF)

	31/12/2020			31/12/2019		
	Parent	ISP Group Companies	Total	Parent	ISP Group Companies	Total
Assets						
Due from banks and due from customers	305,961	538	**306,499**	206,135	13,299	**219,434**
Financial investments	232	-	**232**	364	-	**364**
Derivative financial assets	15,659	3	**15,662**	82	17,312	**17,394**
Other assets	390	19	**409**	35	325	**360**
Liabilities						
Due to banks and due to customers	40,457	808	**41,265**	117,371	1,430	**118,801**
Subordinated debts	-	10,959	**10,959**	-	9,922	**9,922**
Derivative financial liabilities	16,142	-	**16,142**	195	17,524	**17,719**
Other liabilities	1,113	3	**1,116**	2	-	**2**
Commitments						
Guarantees	116	-	**116**	70	13	**83**
Loan commitments	59,994	1	**59,995**	59,994	16,526	**76,520**
Interest rate derivatives	1,379,619	-	**1,379,619**	-	993,628	**993,628**
Currency derivatives	95,984	1,805	**97,789**	35,858	2,850	**38,708**
Equity derivatives	9,905	-	**9,905**	-	15,276	**15,276**
Net interest income/(expense)	**(227)**	**(76)**	**(303)**	**442**	**(2,015)**	**(1,573)**
Trading and hedge income/(expenses)	**691**	**1**	**692**	**499**	**1,959**	**2,458**
Other operating income/(expense)	**(249)**	**57**	**(192)**	**(185)**	**57**	**(128)**
Operating expense	**(1,386)**	**(226)**	**(1,612)**	**(1,011)**	**(40)**	**(1,051)**

All transaction with companies in the Intesa Sanpaolo Group are priced on an arm's length basis and are to be settled in cash.

(43) Related party transactions (continued)

Key management personnel

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

(million HUF)

Exposures to / from Boards members	31/12/2020	31/12/2019
Assets		
Loans	49	50
Equity instruments	166	143
Liabilities		
Current accounts and deposits	1,125	926
Commitments		
Loans and overdraft facilities not disbursed	7	6
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	980	927

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

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

(44) Average balances

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

(million HUF)

31/12/2020	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	12,558	0.00
Securities measured at FVPL	5,510	1.86
Financial assets measured at fair value through OCI	348,478	1.29
Loans to banks	547,341	0.67
Loans to customers at AC and FVPL	1,094,454	2.94
Debt securities measured at amortised cost	46,081	1.25
Financial liabilities		
Deposits from banks	342,270	0.74
Deposits from customers	1,485,347	0.28
Lease liabilities	10,554	0.72
Subordinated debts	9,353	0.86

(44) Average balances (continued)

(million HUF)

31/12/2019	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	11,833	0.00
Securities held for trading	22,885	1.78
Financial assets measured at fair value through OCI	401,945	1.23
Loans to banks	437,129	0.21
Loans to customers at AC and FVPL	950,199	2.87
Debt securities measured at amortised cost	46,613	0.78
Financial liabilities		
Deposits from banks	256,271	0.59
Deposits from customers	1,398,760	0.26
Subordinated debts	9,778	0.72
Lease liabilities	8,585	1.09

(45) Fair value of financial assets and liabilities

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

(million HUF)

31/12/2020	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks	152,082	144,659	543,363	543,525
Loans to customers	793,654	794,288	320,703	317,900
Debt securities at amortised cost	72,770	74,197	-	-
Financial liabilities				
Deposits from banks	137,599	141,242	217,107	216,588
Deposits from customers	1,537,587	1,538,336	190,482	189,743
Subordinated debts	10,959	11,057	-	-

(million HUF)

31/12/2019	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks	220,957	218,503	219,954	220,041
Loans to customers	786,876	797,838	210,506	209,474
Debt securities at amortised cost	70,288	70,986	-	-
Financial liabilities				
Deposits from banks	202,791	206,952	77,128	76,315
Deposits from customers	1,317,170	1,316,690	104,117	104,612
Subordinated debts	9,922	10,108	-	-

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

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

For financial assets measured at amortised cost, fair value is the market price or quoted exchange rate at the reporting date.

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

(million HUF)

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

(million HUF)

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

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

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

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

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

(million HUF)

31/12/2020	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	64,881	-	-	**64,881**	**64,881**
Loans to banks	-	-	688,184	**688,184**	**695,445**
Loans to customers at amortised cost	-	-	1,112,188	**1,112,188**	**1,114,357**
Debt securities at amortised cost	18,342	55,854	-	**74,196**	**72,770**
Financial liabilities					
Deposits from banks	-	-	357,830	**357,830**	**354,706**
Deposits from customers	-	-	1,728,079	**1,728,079**	**1,728,069**
Subordinated debts	-	-	11,057	**11,057**	**10,959**

(million HUF)

31/12/2019	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	36,863	-	-	**36,863**	**36,863**
Loans to banks	-	-	438,544	**438,544**	**440,911**
Loans to customers at amortised cost	-	-	1,007,312	**1,007,312**	**997,382**
Debt securities at amortised cost	13,983	57,003	-	**70,986**	**70,288**
Financial liabilities					
Deposits from banks	-	-	283,267	**283,267**	**279,919**
Deposits from customers	-	-	1,421,302	**1,421,302**	**1,421,287**
Subordinated debts	-	-	10,108	**10,108**	**9,922**

(46) Business combinations

There was no business combination in 2020 nor in 2019.

(47) Events after the reporting period

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

Part E Information on risks

(48) Risk management

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

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

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

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

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

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

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

(a) Credit risk

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

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

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

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

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

(48) Risk management (continued)

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

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

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

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

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

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

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

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

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

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

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

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

(48) Risk management (continued)

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

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

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

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

The methodological framework for estimating the risk parameters used to calculate ECL is based on the reference framework for the development of AIRB international models and the other risk metrics used for management purposes. The internal rating systems provide the basis for development of the IFRS 9 models. These internal systems have been adapted to align them with the requirement of the Standard. Indeed, determination of the risk parameters is based on point in time approach able to incorporate all available information, including forward-looking data. The methodology applied to develop the EAD model is based on a fixed time lag of 12 months in order to estimate the share of available margins that will be used in case of default.

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

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

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

(48) Risk management (continued)

(million HUF)

31/12/2020	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	64,900	64,881
Securities held for trading	2,262	2,262
Trading derivatives	23,704	23,704
Securities mandatorily measured at FVPL	1,714	1,714
Financial assets measured at fair value through OCI	305,553	305,553
Loans to banks	695,765	695,445
Loans to customers at amortised cost and at fair value through profit or loss	1,207,201	1,171,204
Debt securities measured at amortised cost	72,945	72,770
Hedging derivatives	1,388	1,388
Other assets	20,069	18,685
Financial guarantees	81,930	81,431
Commitments	403,362	401,357
Total maximum exposure	**2,880,793**	**2,840,394**

(million HUF)

31/12/2019	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	36,863	36,863
Securities held for trading	6,895	6,895
Trading derivatives	20,153	20,153
Financial assets measured at fair value through OCI	346,582	346,582
Loans to banks	441,129	440,911
Loans to customers at amortised cost and at fair value through profit or loss	1,061,542	1,023,330
Debt securities measured at amortised cost	70,439	70,288
Hedging derivatives	873	873
Other assets	11,866	9,842
Financial guarantees	44,040	43,825
Commitments	383,400	382,413
Total maximum exposure	**2,423,782**	**2,381,975**

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

Contingent and future liabilities also include financial guarantee contracts.

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

(million HUF)

	31/12/2020	31/12/2019
Hungary	1,154,666	953,712
Euro Zone countries	21,285	23,173
EU - non-Euro Zone countries	31,025	84,473
Other regions	225	184
Total	**1,207,201**	**1,061,542**

(48) Risk management (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements is provided in Note (24).

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

The main types of collateral obtained are as follows:

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

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

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

(million HUF)

	31/12/2020	31/12/2019
Financial collateral	(84,932)	(31,855)
Guarantees	(141,230)	(90,010)
Total	**(226,162)**	**(121,865)**

The Group assesses the loans with internal rating system, which differentiates the quality of non-overdue loans. The table below shows the credit quality of the loans and advances to customers excluding allowances based on the Group's credit rating system.

(million HUF)

Gross carrying amount 31/12/2020	Stage 1 Collec-tive	Stage 2 Collec-tive	Stage 3 Indi-vidual	Stage 3 Collec-tive	POCI assets	SPPI failed	Total
Performing loans							
A – Excellent	83,712	15,822	-	-	1	290	**99,825**
B – Stable	419,873	22,165	-	-	2,714	31,723	**476,475**
C – Acceptable	328,258	58,699	-	-	2,402	22,393	**411,752**
D – High Risk	75,974	31,370	-	-	248	1,244	**108,836**
Other	56,417	6,216	-	-	898	1,061	**64,592**
Total performing loans	**964,234**	**134,272**	**-**	**-**	**6,263**	**56,711**	**1,161,480**
Non-performing loans							
Corporate loans	-	-	24,533	3,294	1,238	-	**29,065**
Retail loan	-	-	451	11,864	4,205	136	**16,656**
Total non-performing loans	**-**	**-**	**24,984**	**15,158**	**5,443**	**136**	**45,721**

(48) Risk management (continued)

(million HUF)

Gross carrying amount 31/12/2019	Stage 1 Collec-tive	Stage 2 Collec-tive	Stage 3 Indi-vidual	Stage 3 Collec-tive	POCI assets	SPPI failed	Total
Performing loans							
A – Excellent	128,059	1,321	-	-	-	544	**129,924**
B – Stable	361,488	5,517	-	-	2,361	18,287	**387,653**
C – Acceptable	315,640	35,937	-	-	2,524	4,919	**359,020**
D – High Risk	88,021	34,024	-	-	310	800	**123,155**
Other	7,133	6,895	-	-	31	1,399	**15,458**
Total performing loans	**900,341**	**83,694**	**-**	**-**	**5,225**	**25,949**	**1,015,210**
Non-performing loans							
Corporate loans	-	-	19,801	4,356	2,201	-	**26,358**
Retail loan	-	-	677	14,053	5,244	-	**19,974**
Total non-performing loans	**-**	**-**	**20,478**	**18,409**	**7,445**	**-**	**46,332**

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

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

The Group does not recognise any credit risk in relation with held to collect or sell, as the majority of the held to collect or sell portfolio consisted of government bonds.

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

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

(million HUF)

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

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

(million HUF)

31/12/2020	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	10,873	96	160	194	**11,323**
Retail loan	9,628	1,324	596	286	**11,834**
Total	**20,501**	**1,420**	**756**	**480**	**23,157**

(million HUF)

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

(48) Risk management (continued)

Of the total aggregate amount of gross past due but not individually impaired loans and advances to customers, the liquidation value of collateral that the Group held as at 31 December 2020 is HUF 5,780 million and HUF 16,498 million as at 31 December 2019.

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

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

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

(b) Liquidity risk

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

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

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

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

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

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

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

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

The liquidity ratio during the year was as follows:

Liquidity ratio [(1)]	31/12/2020	31/12/2019
31 December	30.9%	27.9%
Daily average during the period	24.8%	25.6%
Highest	32.1%	36.8%
Lowest	19.9%	17.9%

[(1)] The liquidity of the Group depends on the Bank stand-alone liquidity; the above table includes the CIB Bank only liquidity ratios.

The maturity profile of the Group's financial liabilities at the end of the year is presented in Note (42).

The COVID-19 pandemic did not have a negative impact on the Group's liquidity. The loan-to-deposit ratio was very favourable at 67% at the end of the year in the terms of liquidity.

Due to the loan repayment moratoria introduced as a part of government measures, the Group rescheduled capital and interest payments to its customers in 2020 In the amount of approximately HUF 74,100 million.

(48) Risk management (continued)

(c) Market risk - Trading

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

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

The Group uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from previous years. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The factors of the distribution are calculated by using exponentially weighted historical data. The use of VaR has limitation because it is based on historical correlation and volatilities in market prices and assumes that future price movements will follow a statistical distribution.

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

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

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

(million HUF)

VaR 2020 [(1)]	Foreign exchange	Interest rate	Equity	Correlation effect	Total
31 December	11	10	0	(9)	**12**
Daily average during the period	16	60	0	3	**63**
Highest	63	176	10	114	**176**
Lowest	2	3	0	10	**10**

(million HUF)

VaR 2019 [(1)]	Foreign exchange	Interest rate	Equity	Correlation effect	Total
31 December	6	2	0	3	**11**
Daily average during the period	17	33	0	(11)	**39**
Highest	46	85	17	(63)	**85**
Lowest	3	2	0	3	**8**

[(1)] *As the market risk trading book is managed at the Bank level, the tables include the amounts on a Bank level basis.*

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

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

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

(48) Risk management (continued)

(d) Market risk – Non-trading

Interest rate risk– Non-trading

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

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

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

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

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

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

(million HUF)

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

(million HUF)

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

(48) Risk management (continued)

(million HUF)

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

(million HUF)

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

Foreign exchange risk– Non-trading

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

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

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

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

(million HUF)

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

(million HUF)

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

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

(48) Risk management (continued)

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

(currency equivalents in million HUF)

31/12/2020	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	62,942	1,235	95	392	217	**64,881**
Securities held for trading	2,082	66	-	114	-	**2,262**
Securities measured at MFVPL	-	167	-	1,547	-	**1,714**
Securities measured at FVOCI	283,123	-	-	22,430	-	**305,553**
Loans to banks	504,742	173,371	7,112	2,640	7,580	**695,445**
Loans to customers at amortised cost and at fair value through profit or loss	850,944	292,653	11,251	16,355	1	**1,171,204**
Debt securities at amortised cost	48,931	23,839	-	-	-	**72,770**
Total financial assets	**1,752,764**	**491,331**	**18,458**	**43,478**	**7,798**	**2,313,829**
Deposits from banks	259,144	79,764	14,592	1,206	-	**354,706**
Deposits from customers	1,314,190	336,920	4,833	62,232	9,894	**1,728,069**
Subordinated debts	-	10,959	-	-	-	**10,959**
Total financial liabilities	**1,573,334**	**427,643**	**19,425**	**63,438**	**9,894**	**2,093,734**
Net on-statement of financial position	**179,430**	**63,688**	**(967)**	**(19,960)**	**(2,096)**	**220,095**
FX position of derivatives	**(34,065)**	**56,711**	**(1,037)**	**(20,280)**	**(2,175)**	
Off-balance	***385,738***	***93,033***	**-**	***4,017***	**-**	***482,788***
Guaranteed	*67,752*	*10,835*	-	-	-	***78,587***
Letters of credit	-	*2,539*	-	*305*	-	***2,844***
Commitments	*317,986*	*79,659*	-	*3,712*	-	***401,357***

(48) Risk management (continued)

(currency equivalents in million HUF)

31/12/2019	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	35,553	949	50	209	102	**36,863**
Securities held for trading	6,471	364	-	60	-	**6,895**
Financial assets measured at fair value through OCI	323,200	-	-	23,382	-	**346,582**
Loans to banks	307,528	129,706	125	2,660	892	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss	654,709	321,632	11,744	35,196	49	**1,023,330**
Debt securities at amortised cost	48,864	21,424	-	-	-	**70,288**
Total financial assets	**1,376,325**	**474,075**	**11,919**	**61,507**	**1,043**	**1,924,869**
Deposits from banks	131,112	132,986	15,485	336	-	**279,919**
Deposits from customers	1,119,814	248,373	3,758	43,179	6,163	**1,421,287**
Subordinated debts	-	9,922	-	-	-	**9,922**
Total financial liabilities	**1,250,926**	**391,281**	**19,243**	**43,515**	**6,163**	**1,711,128**
Net on-statement of financial position	**125,399**	**82,794**	**(7,324)**	**17,992**	**(5,120)**	**213,741**
FX position of derivatives	**78,950**	**(73,688)**	**7,245**	**(16,870)**	**3,847**	
Off-balance	***311,934***	***107,827***	***3***	***6,474***	***-***	***426,238***
Guaranteed	*25,714*	*13,284*	*-*	*-*	*-*	***38,998***
Letters of credit	*-*	*4,476*	*-*	*351*	*-*	***4,827***
Commitments	*286,220*	*90,067*	*3*	*6,123*	*-*	***382,413***

(e) Operational risk

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

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

(48) Risk management (continued)

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

Strategic and reputational risks are excluded.

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

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

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

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

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

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

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

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

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

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

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

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

Part F Information on capital

(49) Capital and capital management

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

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

Capital adequacy

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

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

The Group continuously focusing on the following risks:

Credit Risk

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

Operational Risk

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

Market Risk

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

Residual Risk

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

Model Risk

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

Concentration Risk

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

(49) Capital and capital management (continued)

Banking book – Interest Rate Risk

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

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

Liquidity Risk

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

Country Risk

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

Settlement Risk

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

Reputational Risk

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

Strategic Risk

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

High Risk Portfolio

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

Applied methodologies

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

Capital management

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

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

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

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

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

(49) Capital and capital management (continued)

(million HUF)

Regulatory capital	31/12/2020	31/12/2019
Share capital	50,000	50,000
Reserves	182,995	176,449
Current year's profit after deduction dividend payment	7,394	6,390
Total shareholder's equity	**240,389**	**232,839**
Deduction item: intangible assets	(5,933)	(12,355)
Deduction item: prudential valuation	(410)	(420)
Deduction item: deferred tax asset	(580)	-
FVOCI instruments	11,649	-
Tier 1 capital	**245,115**	**220,064**
Subordinated capital	1,987	3,785
Tier 2 capital	**1,987**	**3,785**
Total capital	**247,101**	**223,849**
Risk weighted assets for Credit risks	1,071,425	966,081
Risk weighted assets for Market risks	10,276	13,302
Risk weighted assets for Operating risks	111,121	108,830
Credit Valuation Adjustment	1,775	3,490
Risk weighted assets	**1,194,597**	**1,091,703**
Tier 1 capital ratio (%)	**20.52%**	**20.16%**
Total capital ratio (%)	**20.68%**	**20.50%**

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

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

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

Current year's profit for 2019 includes the proposed dividend payment with an amount of HUF 7,000 million. Due to EBA guidance and MNB guidance published retrospectively to the approval and publication of the 2019 financial statements no quota of payable dividend is taken from the 2019 profit. So the final Tier 1 capital ratio was 20.80% and the Total capital ration was 21.15% as of 31 December 2019 restated based on the HUF 7,000 million retention of profit not distributed.

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

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