Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Consolidated Financial Statements

31 December 2020

Table of Contents

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Shareholders of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Report on the audit of the consolidated annual financial statements

Opinion

We have audited the accompanying 2020 consolidated annual financial statements of Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020 - showing a balance sheet total of HUF 698,883 million and a total comprehensive income for the year of HUF 4,071 million -, the related consolidated statement of total comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated annual financial statements, including a summary of significant accounting policies.

In our opinion the consolidated annual financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated annual financial statements prepared in accordance with EU IFRSs.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated annual financial statements" section of our report.

We are independent of the Group in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated annual financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated annual financial statements.

Credit Impairment

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining expected credit losses ("ECL"). The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The portfolios which give	We involved valuation specialists to assist us in performing our audit procedures. Our audit procedures included among others the following procedures. We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans and receivables to customers and controls over ECL calculations including the quality of underlying data and systems. We evaluated the model governance,

rise to the greatest uncertainty are typically those where impairments are calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. These models require the significant judgment of management regarding correct segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlay to reflect on circumstances beyond the modelling capabilities.

In March 2020 the Hungarian Government introduced payment moratorium for debtors in order to relieve the impacts of the COVID-19 pandemic. Due to the payment moratorium the ECL estimation uncertainty increased because of the limited information on the debtors' payment behavior impacting significant changes in credit risk and also the forward-looking elements become more complex to predict because of the unpredictability of the macroeconomic environment. The use of different modelling techniques and assumptions could produce significantly different estimates of ECL.

Due to the significance of receivables from customers (representing 68% of Total Assets as of 31 December 2020) and the related estimation uncertainty, this is considered a key audit matter.

methodologies, inputs and assumptions used (probability of default, loss given default, significant changes in credit risk and forward-looking elements) and how those assumptions address the uncertainties caused by the payment moratorium introduced due to the COVID-19 pandemic.

We also assessed whether the disclosures in the consolidated annual financial statements appropriately reflect the Group's exposure to credit risk and are compliant with the EU IFRSs.

The Group's disclosures about its risk management policies are included in Note 32.1. Credit risk which specifically explains the key assumptions used when determining credit risk and their evaluation are detailed in Note 7.4. Impairment of financial assets, write-offs.

Information Technology (IT) systems

A significant part of the Group's financial reporting process and interest and fee revenue recognition is heavily reliant on IT systems with automated processes and controls over the

We focused our audit on those IT systems and controls that are significant for the Group's financial reporting. As audit procedures over the IT systems and application controls require specific

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capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort was in this area. Furthermore, the complexity of IT systems and nature of application controls requires special expertise to be involved in the audit. We therefore consider this as a key audit matter.

expertise, we involved IT audit specialists in our audit procedures.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights to assess whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

The Group's disclosures about its IT Systems are included in Note 30.6. IT systems.

Other information

Other information consists of the 2020 consolidated business report of the Group. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated annual financial statements does not cover the other information.

In connection with our audit of the consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether 1) the other information is materially inconsistent with the consolidated annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

We are required to confirm also whether the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.
In our opinion, the consolidated business report of the Group for 2020 is consistent, in all material respects with the 2020 consolidated annual financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Group further requirements with regard to its consolidated business report, we do not express opinion in this regard.

We also confirm that the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Group and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the other information, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated annual financial statements in accordance with the EU IFRSs and for the preparation in accordance with the supplementary requirements of the Hungarian Accounting Law relevant for consolidated annual financial statements prepared in accordance with EU IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Auditor's responsibilities for the audit of the consolidated annual financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated annual financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Appointment and Approval of Auditor

We were appointed as statutory auditor by the General Assembly of Shareholders of the Company on 2 May 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for four years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated annual financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

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Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated business report and in the consolidated annual financial statements, no other services were provided by us to the Company and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Nagyváradiné Szépfalvi Zsuzsanna.

Budapest, 22 February 2021

(The original Hungarian version has been signed.)

Nagyváradiné Szépfalvi Zsuzsanna
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No.: 001165

Nagyváradiné Szépfalvi Zsuzsanna
Registered auditor
Chamber membership No.: 005313

Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság

Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union

31 December 2020

Fundamenta

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(HUF million)	Note	31.12.2020	31.12.2019
ASSETS			
Cash and cash equivalents	9.1.	58 156	57 276
Securities	10.1.	140 524	109 412
Receivables from customers	11.1.	476 662	452 165
Other financial receivables	12.	1 160	656
Property, plant and equipment	13.	9 932	10 631
Intangible assets	14.	8 126	7 393
Current tax assets	29.	1 338	613
Deferred tax assets	29.	948	836
Other assets	15.	2 037	1 136
TOTAL ASSETS		**698 883**	**640 118**
EQUITY AND LIABILITIES			
Liabilities to customers	16.	632 325	576 089
Other financial liabilities	17.	9 197	8 112
Provisions	18.	1 183	1 168
Current tax liabilities	29.	4	0
Other liabilities	19.	1 235	1 381
TOTAL LIABILITIES		**643 944**	**586 750**
Share capital	20.	2 001	2 001
Capital reserve	20.	2 100	2 100
Retained earnings	20.	33 615	28 874
Statutory reserves	20.	13 152	12 925
Settlement reserve	20.	6 959	6 959
General reserve	20.	6 193	5 966
Profit for the year	20.	4 071	7 468
TOTAL SHAREHOLDERS' EQUITY		**54 939**	**53 368**
Equity attributable to owners of the parent company		**54 939**	**53 368**
Equity attributable to non-controlling interests		**0**	**0**
TOTAL EQUITY AND LIABILITIES		**698 883**	**640 118**

Budapest, 22 February 2021

Bernadett Tátrai
Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel
Member of the Board

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

(HUF million)	Note	2020	2019
Interest income	21.1.	29 576	29 716
Interest expense	21.2.	-7 270	-6 729
NET INTEREST INCOME	**21.**	**22 306**	**22 987**
Fee and commission income	22.1.	3 195	3 311
Fee and commission expense	22.2.	-1 554	-1 751
NET FEE AND COMMISSION EXPENSE	**22.**	**1 641**	**1 560**
Net trading expense	23.	-473	-193
Net gain arising from derecognition of financial assets and liabilities measured at amortised cost	24.	761	171
Loss from contract amendments due to payment moratorium	36.	-2 386	0
Change in impairment of financial assets and changes in credit provisions	25.	-2 184	-572
Other operating income	26.	280	337
Other operating expenses	27.	-1 784	-1 690
Operating costs	28.	-12 936	-13 534
PROFIT BEFORE TAX		**5 225**	**9 066**
Income taxes	29.	-1 154	-1 598
NET PROFIT		**4 071**	**7 468**
OTHER COMPREHENSIVE INCOME		**0**	**0**
TOTAL COMPREHENSIVE INCOME		**4 071**	**7 468**
Net profit			
Net profit attributable to owners of the Company		4 071	7 468
Net profit attributable to non-controlling interests		0	0
Total comprehensive income			
Total comprehensive income attributable to owners of the Company		4 071	7 468
Total comprehensive income attributable to non-controlling interests		0	0

Budapest, 22 February 2021

Bernadett Tátrai
Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel
Member of the Board

CONSOLIDATED STATEMENT OF CASH FLOWS

(HUF million)	Note	2020	2019
NET PROFIT		**4 071**	**7 468**
Cash flows from operating activities			
Depreciation and amortisation	28.3.	3 048	2 813
Impairment of securities and reversal thereof, net	25.	79	88
Impairment of receivables from customers and reversal thereof, net	25.	2 116	-611
Impairment of other financial receivables and reversal thereof, net	25.	14	-22
Net gain on sale of financial assets (securities)	24.	-743	131
Gain/Loss on sale of property, plant and equipment, intangible assets and other changes		-630	80
Gain/Loss on sale of other assets		0	24
Provisions	18.	15	-535
Income tax expense	29.	1 154	1 598
Total adjustments:		**5 053**	**3 566**
Securities		277	2 428
Receivables from customers		-26 613	-43 671
Other financial receivables		-510	-237
Other assets		-1 748	83
Liabilities to customers		56 237	74 011
Other financial liabilities		1 534	-718
Other liabilities		-576	126
Total changes:		**28 601**	**32 022**
Income taxes paid		-721	-1 673
Net cash from/used in operating activities		**37 004**	**41 383**

Investment cash flow	Note	2020	2019
Acquisition of securities		-88 887	-48 298
Proceeds from sale and expiry of securities		58 163	57 518
Acquisition of property, plant and equipment	13.	-619	-2 066
Proceeds from sale of property, plant and equipment		40	25
Acquisition of intangible assets		-1 872	-1 454
Net cash from/used in investing activities		**-33 175**	**5 725**

Financing cash flow	Note	2020	2019
Repayment of lease liabilites	30.2.	-1 006	-822
Dividends paid	20.	-1 943	-2 500
Net cash from/used in financing activities		**-2 949**	**-3 322**
Net increase/decrease in cash and cash equivalents		**880**	**43 786**
Balance at 31 December of the previous year		57 276	13 490
Cash and cash equivalents at 31 December	**9.**	**58 156**	**57 276**

The Group reports cash flows from operating activities using the indirect method.

In the reporting period the Group paid HUF 6,726 million interest (2019: HUF 6,390 million). Interest received totalled HUF 26,610 million (2019: HUF 32,946 million). In the cash flows the interest portion of the repayment of lease liabilities is HUF 244 million and the capital portion is HUF 762 million.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (NOTES 1, 7.18, 20)

(HUF million)	Share capital	Capital reserve	Retained earnings	Statutory reserves		Revaluation reserve	Profit for the year	Equity attributable to owners of the parent company	Equity attributable to non-controlling interests	Total
				Settlement reserve	General reserve					
Balance at 1 January 2019	**2 001**	**2 100**	**25 094**	**6 959**	**5 266**	**0**	**6 980**	**48 400**	**0**	**48 400**
Net profit	0	0	0	0	0	0	7 468	7 468	0	*7 468*
Total other comprehensive income	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total comprehensive income	0	0	0	0	0	0	7 468	7 468	0	7 468
Dividends for the previous year	0	0	-2 500	0	0	0	0	-2 500	0	-2 500
Transfer of previous year's profit to retained earnings	0	0	6 980	0	0	0	-6 980	0	0	0
Total contributions and distributions	*0*	*0*	*4 480*	*0*	*0*	*0*	*-6 980*	*-2 500*	*0*	*-2 500*
General reserve	0	0	-700	0	700	0	0	0	0	0
Total other changes in equity	*0*	*0*	*-700*	*0*	*700*	*0*	*0*	*0*	*0*	*0*
Balance at 31 December 2019	**2 001**	**2 100**	**28 874**	**6 959**	**5 966**	**0**	**7 468**	**53 368**	**0**	**53 368**
Net profit	*0*	*0*	*0*	*0*	*0*	*0*	*4 071*	*4 071*	*0*	*4 071*
Total other comprehensive income	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total comprehensive income	0	0	0	0	0	0	4 071	4 071	0	4 071
Dividends for the previous year	0	0	-2 500	0	0	0	0	-2 500	0	-2 500
Transfer of previous year's profit to retained earnings	0	0	7 468	0	0	0	-7 468	0	0	0
Total contributions and distributions	*0*	*0*	*4 968*	*0*	*0*	*0*	*-7 468*	*-2 500*	*0*	*-2 500*
General reserve	0	0	-227	0	227	0	0	0	0	0
Total other changes in equity	*0*	*0*	*-227*	*0*	*227*	*0*	*0*	*0*	*0*	*0*
Balance at 31 January 2020	**2 001**	**2 100**	**33 615**	**6 959**	**6 193**	**0**	**4 071**	**54 939**	**0**	**54 939**

Notes to the CONSOLIDATED financial statements

1. General information

Fundamenta-Lakáskassza Zrt. – up to 30 June 2003 Fundamenta Magyar-Német Lakás-takarékpénztár Rt. – (hereinafter referred to as the "Company" or "parent company") was established by deed of foundation dated 5 December 1996. The National Money and Capital Market Supervisory Authority (the legal predecessor to the National Bank of Hungary and previously the Hungarian Financial Supervisory Authority) authorised its establishment in resolution no. 80/1997 dated 20 March 1997, and the start of its operations in resolution 255/1997 dated 15 May 1997.

These consolidated financial statements contain the financial statements of the Company and its subsidiary (collectively: the "Group").

The Group is consolidated by the following entities:

- in the largest unit: DZ BANK AG (DE-60265 Frankfurt am Main, Platz der Republik; https://www.dzbank.com/)
- in the smallest unit: Bausparkasse Schwäbisch Hall AG (DE-74523 Schwäbisch Hall, Crailsheimer Str. 52; https://www.schwaebisch-hall.de/).

The Company also publishes these financial statements on its website (www.fundamenta.hu/eredmenyek) and ensures continuous availability for inspection of the published data at least until data relating to the second succeeding financial year are published.

Ownership structure as at 31 December 2020:

Shareholders	Registered ordinary share			Ownership share (%)
	Nominal value (HUF)	Quantity (no)	Value (THUF)	
Bausparkasse Schwäbisch Hall AG (DE-74523 Schwäbisch Hall, Crailsheimer Str. 52)	10,000	102,551	1,025,510	51.25
Bausparkasse Wüstenrot AG (BWAG) (A-5020 Salzburg, Alpenstrasße 70)	10,000	27,278	272,780	13.63
Wüstenrot & Württembergische AG (DE-70176 Stuttgart, Gutenbergstraße 30)	10,000	22,942	229,420	11.47
Generali Biztosító Zrt. (HU-1066 Budapest, Teréz krt. 42-44.)	10,000	29,770	297,700	14.88
UniCredit Bank Hungary Zrt. (HU-1054 Budapest, Szabadság tér 5-6.)	10,000	14,777	147,770	7.38
Sberbank Magyarország Zrt. (HU-1088 Budapest, Rákóczi út 1-3.)	10,000	2,782	27,820	1.39
TOTAL	**-**	**200,100**	**2,001,000**	**100.00**

The Group's core activity is home savings and loans, including the collection of deposits under contracts, the granting of loans under contracts, and the granting of bridging loans related to such contracts, as well as financial service brokerage connected to collection of deposits (agency activity covering financial service brokerage as a multi-agent, work as a tied agent brokering mortgage loans, and in the case of other products (e.g. home savings contracts) tied-agent activity as well as insurance brokerage as a tied (multi-) agent), as well as capital market tied-agent activity in respect of mediation of government securities contracts and real estate agency.

Fundamenta-Lakáskassza Zrt. was registered in the company register by the Metropolitan Court as the Court of Registration on 24 April 1997 under no. Cg. 01-10-043304.

Fundamenta-Lakáskassza Zrt.:

Tax number:	12217595-4-44
CSO statistical code:	12217595-6419-114-01

Fundamenta-Lakáskassza Zrt. and Fundamenta-Lakáskassza Kft. have conducted their activity since 1 January 2011 as a VAT group, which was authorised by the National Tax and Financial Control Office (currently known as the National Tax and Customs Administration) in a resolution dated 14 December 2010.

As from 1 January 2019 Fundamenta-Lakáskassza Zrt. and Fundamenta-Lakáskassza Kft.elected to operate as a corporate tax group to which Act LXXXI of 1996 on Corporate Tax and Dividend Tax law will allow from 2019. Fundamenta Értéklánc Kft. also joind the group on 1 January 2020. The representative of the group is Fundamenta-Lakáskassza Zrt.

At this time, the ninth digit of the tax number of the two group members changed from 2 to 4.

Group ID number:	17781121-5-44
Group EU VAT number:	HU17781121.

The group is represented by Fundamenta-Lakáskassza Zrt.

Internal Board members are authorised to sign the consolidated financial statements.

Members of the Board of Directors of Fundamenta-Lakáskassza Zrt. in the financial year:

Bernadett Tátrai

Chairwoman of the Board, Chairwoman-CEO

1121 Budapest, Hegyhát út 15.

László Morafcsik

Deputy CEO, Member of the Board

2112 Veresegyház, Kilátó utca 9.

Rainer Kaschel

Member of the Board

1065 Budapest, Lázár utca 8. 5. em 1.

Attila Soós

Member of the Board

2030 Érd, Iparos utca 136.

2. Compliance with IFRSs

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as: IFRSs) as adopted by the European Union (EU).

The Group meets its obligation under Act C of 2000 on Accounting ("Act on Accounting") to prepare consolidated annual financial statements with these consolidated financial statements, in accordance with Section 10 (3) of the Act on Accounting.

The Group is preparing consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) for the first time as of 31 December 2018. The Group has kept its accounting records and satisfied its reporting obligation under the Act on Accounting in accordance with IFRSs since 1 January 2018.

These consolidated financial statements were approved for issue by the Board of Directors on 22 February 2021.

3. Functional and presentation currency

These consolidated financial statements were prepared in Hungarian forints as the presentation currency, which is the Group's functional currency.

Unless otherwise indicated, financial data presented in Hungarian forints in the consolidated financial statements is rounded to HUF million, while figures in other currencies are rounded to one unit of the foreign currency.

4. Judgements and estimates used in the financial statements

In preparing the consolidated financial statements in conformity with the accounting policies, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Future changes in the economic environment, financial strategy, regulatory environment, accounting regulations and other areas may result in changes in estimates, which may have a significant effect on future consolidated financial statements.

When preparing the financial statements, the management made an assessment of the entity's ability to continue as a going concern and established that it has the necessary resources to continue as a going concern in the foreseeable future.

The management is not aware of any material uncertainty that would cast significant doubt on the Group's ability to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

4.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the consolidated financial statements is as follows:

a) Classification of leases under IFRS 16

In accordance with IFRS 16, the Group assesses all contracts where it acts as a lessor and determines whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset (in the case of sub-leases the right-of-use asset).

If all material risks and rewards incidental to ownership of the asset is transferred to the lessee, a lease is considered a financial lease.

All lease transactions not classified as finance lease are operating leases.

If a head lease is a short-term lease to which the Group applies the recognition exemption described in Note 7.12, then it classifies the sub-lease as an operating lease.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

As a lessor, the Group has finance and operating leases.

The accounting policy on leases is presented in Note 7.12, while the quantified disclosures on leases are presented in Note 30.2.

b) IFRS 9 business model and SPPI considerations

Upon the first adoption of IFRS 9, and thereafter upon the recognition of financial assets, the Group assesses whether based on the facts and circumstances that exist at that date it holds the given financial asset in a business model whose objective is to hold assets to collect contractual cash flows, or both to collect contractual cash flows and to sell financial assets.

If the Group determines that the objective of the business model for the given financial asset is to collect contractual cash flows, at the time of initial recognition the Group examines the contractual cash flows of financial assets that are debt instruments, based on which it determines whether the contractual terms of the given financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The classification of financial assets under IFRS 9, and the accounting policies for the business model as well as for SPPI, are laid out in more detail in Note 7.3 b).

c) Treatment of bridging loans, immediate bridging loans and housing loans

For its customers with home savings contracts in the saving phase, the Group may grant a bridging or immediate bridging loan on one occasion during the savings period if the terms set forth in the loan agreement are met (both bridging and immediate bridging loans hereinafter referred to as: "bridging loans"); following the disbursement date the Group may grant a housing loan based on the loan agreement.

When the contractual amount in the home savings contract is disbursed, the bridging loan is paid off from the amounts deposited by the customer and from the housing loan amount granted.

The Group treats the two contracts, the bridging loan and the subsequent housing loan, as two different financial instruments. The bridging loan ends and is derecognised upon the disbursement of the contractual amount, while the granted housing loan is entered into the books as a new loan.

The transaction costs related to the granting of the bridging loan are amortised until the payment of the contractual amount, not until the end of the housing loan phase. During the housing loan phase, the transaction cost associated with the bridging loan phase is not amortised.

The bridging loans bear different interest to the housing loans. The Group applies two different effective interest rates for the bridging loan and for the housing loan created as of the disbursement date, in light of the different interest conditions for the loans and the practice regarding the amortisation of the transaction cost detailed above.

In the case of the housing loan, the commissions payable on the housing loan are accounted for as transaction cost using the effective interest method.

4.2. Assumptions and estimation uncertainties

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the reporting year, is as follows:

Measurement of fair values

The Group's accounting policies and disclosures require the measurement of fair values for financial instruments. In measuring the fair value of an asset or liability the Group uses observable market data where possible; if such is not available they use directly or indirectly observable input parameters to estimate fair values. The details on measuring fair value are presented in Note 7.3 e).

Deferred tax

Recovery of deferred tax assets is dependent on future taxable profits. The availability of future taxable profits is supported by a business plan that is prepared for a period in relation to which the Group is able to prepare a reliable plan. Further details on deferred tax can be found in Notes 7.25 and 29.

Provisions

The recognition and measurement of provisions and contingent liabilities also imply a high degree of estimation uncertainty, particularly with regard to the most important assumptions on the magnitude and probability of an outflow of resources. For more details please refer to Note 18.

Impairment of financial instruments under IFRS 9

When determining the impairment of financial assets under IFRS 9 the management uses estimates to assess whether or not the credit risk of the financial asset has risen significantly following the initial recognition, and also makes estimates when using forward-looking information for measuring expected credit loss. For more details please refer to Note 7.4 a).

Determination of the effective interest rate - customer bonus

From time to time the Group advertises customer campaigns, and for certain groups of customers it gives permanent customer bonuses. The common feature in the customer campaigns is that customers receive the bonus upon disbursement (after 4-10 years of saving). Customers do not receive the customer bonus automatically, it is subject to the terms advertised in the promotion campaign.

The Group prepares an analysis on the probability of a customer becoming entitled to the bonus by reaching the end of the savings period (the terms of the campaign are fulfilled and the contract is not cancelled). The Group takes the amount of the customer bonus into account with the probability determined in this way when recording the initial cash flow of the deposit, and reviews the probability estimate every year. If the backtested probability differs from the probability in the system by more than 5 percentage points, this is treated as an estimate change. The loss of entitlement to the bonus is also treated as an estimate change by the Group.

Accounting for initial fair value difference

The fair value of a financial instrument at initial recognition is normally the transaction price. However, if the Company originates a financial instrument whose fair value differs from the transaction price (it originates a loan with an interest rate different from the market rate, or purchases securities whereby the purchase price differs from the fair value) the Company recognises the instrument at fair value. The Company defers the difference between the fair value and the transaction price as other asset/liability and accounts for it in profit or loss over the term of the instrument on a straight-line basis.

5. Measurement principles

When preparing the financial statements the assets and liabilities were measured at their historical cost.

6. Changes in accounting policies

The Group consistently applied the accounting policies set forth in Note 7 to all periods presented in the financial statements.

The Group applies IFRS 16 for the first time as of 1 January 2019 and chose the modified retrospective approach to transition, meaning that the cumulative effect of the initial application of the standard is recognised as an adjustment to the opening balance of retained earnings at the date of first adoption.

Some additions were made to the rules relating to the impairment of financial assets, considering the effects of the payment moratorium introduced in 2020. The related accounting policy is described in Note 7.3.

In 2020, Government Decree 47/2020 (III.18) and the supplementary regulation in the shape of Government Decree 62/2020 (III.24) introduced a payment moratorium for agreements on disbursed credits and loans in force as of 18 March 2020. This also affected the related home savings product contracts. The moratorium automatically suspended all repayments and interest obligations when the law took effect, but clients have the right to continue meeting their payment obligations in accordance with the original conditions. Further provisions on the moratorium extended it at the end of the year until 30 June 2021. Once the moratorium is over, the terms of contracts will increase while the amounts of payments may not change.

The Group took all the conditions of the payment moratorium into account and applied them when setting its accounting policies. Aside from Note 7.4, the effects are presented in the 36. "Impacts of the coronavirus" chapter and under 30.5 "Subsequent events".

The objective of the amendments of IAS 1 és IAS 8 is to clarify and standardise the definition of materiality. The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The financial statements of the Group have not been affected.

The amendments of IFRS 3 clarify that, when an entity obtains control of a business that is a joint operation, it shall apply the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The financial statements of the Group have not been affected.

As part of renewing the IFRS standards, the Conceptual Framework was also revised. During the revision, a number of chapters were changed and new ones added:

- The principle of prudence to support neutrality was added to the qualitative characteristics of useful financial information.
- A new element is the definition of reporting entity as an entity that is required, or chooses, to prepare financial statements. This does not necessarily match the definition of a legal entity.
- With regard to elements of the financial statements, the definitions of assets and liabilities were clarified. With regard to assets, the terms "as a result of past events" and "present control" remain, but "inflow of future economic benefits" is replaced by "economic resource" which represents a right that has the potential to produce economic benefits. With regard to liabilities, the terms "as a result of past events" and "present obligation" stay the same, but "outflow of future economic benefits" is replaced by "transfer of economic resources". Since these terms are used with the other three notions (equity, return and expense), these notions have been indirectly modified too.
- Recognition criteria are now directly linked with basic qualitative characteristics (relevance, faithful representation), and general rules on derecognising assets and liabilities have been added.
- Measurement bases are categorised into two groups in the new Conceptual Framework: historical cost and current value. Within the latter, a distinction is made between fair value, value in use (for assets) and fulfilment value (for liabilities) and current cost.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The financial statements of the Group have not been affected.

7. Significant accounting policies

7.1. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries, i.e. those entities where the Group holds more than half of the voting rights, or controls the entity's financial and operating policies in any other way, are consolidated.

Whether the Group has control over an other entity is assessed based on the currently exercisable and the convertible potential voting rights as well as the effect thereof.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Decrease in ownership interest in a subsidiary that does not result in the parent losing control of the subsidiary is considered a transactions with owners, therefore no gain or loss may be accounted for on the sale.

Decrease in ownership interest in a subsidiary that results in the parent losing control of the subsidiary results in the remeasurement of the fair value of the interest retained. The difference between the fair value and the carrying amount is the gain or loss on derecognition of the interest and shall be accounted for in profit or loss (other income).

There is no entity within the Group that would not be under its control in spite of holding more than half of the voting rights. There is no significant entity within the Group that is controlled by it while holding less than half of the voting rights.

Transactions eliminated on consolidation

When preparing the consolidated financial statements, the Group measures all of the assets and liabilities of the subsidiary using the same standard measurement procedure as for the parent company.

Intra-group balances and transactions, and any unrealised gains or losses on the transactions are eliminated in preparing the consolidated financial statements.

7.2. Transactions in foreign currency

Transactions in foreign currency are translated into the Group's functional currency using the official exchange rate of the MNB as of the transaction dates.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated using the official MNB exchange rate at the end of the period.

Non-monetary items measured at cost are translated into the functional currency using the exchange rate valid on the date of the transaction.

7.3. General rules on the recognition, classification and measurement of financial instruments

a) Recognition and measurement

The Group recognises financial instruments in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group applies settlement date accounting for regular-way purchases or sales of financial assets.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price, it accounts for that instrument at that date as follows:

- At fair value (plus or minus transaction costs, except for financial instruments measured at fair value through profit or loss) if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. In this case the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.

- At fair value (plus or minus transaction costs, except for financial instruments measured at fair value through profit or loss) adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

b) Classification

On initial recognition the Group classifies the financial assets as measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss.

Financial assets that are debt instruments are measured by the Group at amortised cost, if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (hereinafter referred to as: SPPI).

Financial assets that are debt instruments are measured by the Group at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model applied to manage financial assets

On the date of the first adoption of IFRS 9, the Group assessed based on the facts and circumstances that existed at that date whether it holds the given financial asset in a business model whose objective is to hold assets to collect contractual cash flows, or both to collect contractual cash flows and to sell financial assets.

In the case of its financial assets the Group determined the business model at portfolio level, during which it identified the following portfolios:

- Current accounts and bank deposits
- Securities
- Receivables from customers
- Other receivables from customers: deposit-related fee receivables (e.g. account-opening fees) and other receivables from customers
- Other financial receivables

When assessing the business model applied to manage financial assets the Group takes all relevant evidence into account, including the following:

- how the performance of the business model and the financial assets held within the business model is evaluated and reported to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within the model), and particularly the method for managing these risks;
- the way managers are compensated (for example, whether the compensation depends on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, value and timing of sales from the given portfolio in previous periods (including the reasons for the sales and the conditions valid at the time of sale), the reason for the sales and expectations regarding future sales activity.

When determining the business model the Group does not take into account scenarios that cannot be reasonably expected, so-called "worst-case" or "stress" scenarios. The Group takes into consideration all the relevant information available at the time the business model is assessed, along with the method previously used to realise cash flows.

For the given portfolio the Group defined three business models,

- Business model whose objective is to hold financial assets to collect contractual cash flows;
- Business model whose objective is to hold financial assets to collect contractual cash flows and sell financial assets;
- Other business model.

For all sub-portfolios the objective of the Group's business model is to hold to maturity and collect the contractual cash flows.

Assessment of contractual cash flows

On initial recognition the Group examines the contractual cash flows of financial assets that are debt instruments, based on which it determines whether the contractual terms of the given financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test passed) or not (SPPI test not passed).

When assessing whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding, principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example liquidity risk and administrative costs), as well as profit margin.

The Group analyses the contractual terms of the financial asset to determine whether they give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, i.e. whether they are consistent with the terms of a basic loan agreement. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows, and whether the contractual cash flows that can be collected based on this contractual condition during the life of the financial asset are solely payments of principal and interest on the principal amount outstanding. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage;
- prepayment and extension terms;
- terms that restrict the Group's claim to specified assets of the debtor or to cash flows from specified assets (e.g. non-recourse financial assets); and
- terms that modify the component related to the time value of money – for example, periodical reset of the interest rate of the financial asset.

In order to assess the fulfilment of the SPPI criterion, the Group classifies its debt instruments (cash and cash equivalents, securities, receivables from credit institutions, receivables from customers, other financial receivables) into sub-portfolios based on their characteristics.

Reclassifications

The Group reclassifies its affected financial assets when, and only when, it changes its business model for managing financial assets.

If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

c) Derecognition

Derecognition of financial assets

The Group derecognises financial assets when its rights to the contractual cash flows cease or expire, or if the contractual rights related to the asset (significant risks and rewards of ownership) are transferred.

When derecognising debt instruments measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income must be reclassified as a reclassification adjustment from equity to profit or loss.

In the case of financial assets measured at amortised cost, the gain or loss on the derecognition is the difference between the carrying amount and the consideration received, and it is recognised in profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when the contractual obligations are discharged, cancelled or expire. The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to a third party and the consideration paid (including non-cash assets and assumed liabilities transferred) must be recognised net in profit or loss.

d) Revision of expected cash flows and modifications of financial assets and liabilities

Change in cash flows

In the case of a change in the estimated cash flows of the transaction, the Group changes the carrying amount of the financial asset or liability by re-calculating the net present value of the "new" debt instrument based on the new cash flows and the original effective interest rate. The difference between the net present value determined as described above and the carrying amount before the change in cash flows is recognised in profit or loss as interest income/expense.

Modifications resulting in derecognition

The Group accounts for exchanges between an existing borrower and lender of debt instruments with substantially different terms as an extinguishment of the original financial asset or financial liability and the recognition of a new financial asset or financial liability. Similarly, a substantial modification of the terms of an existing financial asset or financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for by the Group as an extinguishment of the original financial asset or financial liability and the recognition of a new financial asset or financial liability.

In this respect, the terms are substantially different if, based on the new terms, the present value of the cash flows – including paid fees and excluding received fees – discounted using the original effective interest rate differs by at least 10 percent from the discounted present value of the remaining cash flows of the original financial asset or liability.

If the exchange of debt instruments or the modification of terms is accounted for as an extinguishment, the gain or loss on derecognition is recognised as interest income/interest expense. Direct costs and fees connected to the new financial asset or liability are accounted for over the remaining term of the new debt instrument using the effective interest method, as interest income/ interest expense.

Modifications not resulting in derecognition

If the exchange or modification is not accounted for as an extinguishment, the arising costs or fees modify the carrying amount of the liability, and such are amortised over the remaining period of the modified loan.

If the financial asset or liability is not derecognised, the Group has to change the carrying amount of the financial asset or liability by re-calculating the net present value of the "new" financial asset or liability based on the new contractual terms (cash flows) and the original effective interest rate. In this case, the difference between the present value of the "new" financial asset or liability and the carrying amount of the financial asset or liability before the modification of terms shall be recognised in profit or loss as interest income / interest expense.

e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its default risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When determining the fair value of financial instruments, the Group applies market prices in the case of transactions with an active market. For the majority, however, there is no reliable public market information available, so the Group applies different valuation techniques to measure the fair value of financial instruments.

The fair value hierarchy of financial instruments was determined as follows:

- Level 1: based on quoted prices (unadjusted) for identical assets and liabilities on an active market.
- Level 2: based on input information other than those included within Level 1, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices) in connection with the given asset or liability. This category includes instruments valued using: quoted market prices on active markets for similar instruments; quoted market prices for identical or similar instruments on markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable.
- Level 3: inputs for assets and liabilities which are not based on observable market data (unobservable inputs).

The Group recognises transfers between the levels in the fair value hierarchy at the end of the reporting period in which the change took place.

As at the end of the reporting period, the Group does not have any financial assets and liabilities measured at fair value in the statement of financial position. The fair value of instruments not measured at fair value is presented in Note 34.3.

7.4. Impairment of financial assets, write-offs

General rules on impairment of financial assets

The Group recognises loss allowances for expected credit loss in the case of financial assets measured at amortised cost or for loan commitments to which the impairment requirements of IFRS 9 apply.

At the end of each month the Group assesses whether the credit risk on the financial asset has risen significantly since the initial recognition. During the assessment the Group examines the change in the default risk over the expected life of the financial asset.

To carry out this assessment the Group compares the default risk of the financial asset at the end of the month with the default risk at initial recognition, taking into account any reasonable and supportable information, available without undue cost or effort, which points towards significant growth in the credit risk since initial recognition. The Group may assume that the credit risk of a financial asset has not risen significantly since initial recognition if it is found that the credit risk of the financial asset is low as of the reporting date.

If forward-looking, reasonable and supportable information is available without undue cost or effort, the Group may not rely solely on default information when determining whether the credit risk has risen significantly since initial recognition, but it also considers other indications of credit deterioration of the customer.

If the credit risk of a financial asset has not risen significantly from the initial recognition until the reporting date, the Group measures the loss allowance for the given financial asset at an amount equal to 12-month expected credit loss (*Stage 1*).

On each reporting date the Group measures the loss allowance for the financial asset at an amount equal to lifetime expected credit loss, if the credit risk of the financial asset – assessed either individually or collectively – has risen significantly since initial recognition, taking all reasonable and supportable information into account, including forward-looking information (*Stage 2 or Stage 3*).

The rating is the category of risk for individual transactions. The value on the rating scale is the main parameter for defining impairment. This is the basis for classification into individual Stages and for determining the size of significant change. If the current classification of a given transaction is at least 2 ratings higher than the original, the increase in the credit risk is deemed significant by the Group.

The definition of default is included in Note 32.1. If a financial asset is considered to be in default, the Group classifies it into Stage 3. In subsequent periods, if – for a period of 3 months – there is no default in relation to the financial asset that exceeds 90 days, the financial asset is reclassified to Stage 1 or Stage 2 based on the criteria defined in the Default policy.

For financial assets measured at amortised cost, the Group recognises – as an impairment gain or loss in the profit or loss – the amount of expected credit losses (or reversal thereof) which is used to adjust the loss allowance to the amount determined as of the reporting date.

The Group applies the general principles presented above to determine the expected credit loss for the following financial assets:

- Cash and cash equivalents
- Securities
- Receivables from customers (bridging loans; housing loans granted after bridging loans; housing loans granted without preceding bridging loans; bridging loans granted based on preferential list of fees).

Despite the above, the Group always measures the loss allowance for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 which do not contain a significant financing component in line with IFRS 15 at an amount equal to lifetime expected credit loss (or if the Group applies the practical expedient for contracts that are one year or less). Such include during the Group's operation deposit-related fee receivables as well as other financial receivables, for which the Group adopts a simplified approach.

i. Measurement of expected credit loss

Expected credit losses are probability-weighted estimates of the credit losses arising during the expected life of the financial asset (i.e. the present value of all cash shortfall). The estimated expected credit loss always has to reflect the possibility of the credit loss occurring and not occurring, even if the most likely outcome is that there will be no credit loss. The expected credit loss estimate has to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

The credit loss of financial assets is the present value of the difference between the contractual cash flows due to the Group under contract and the cash flows that the Group expects to receive.

The Group measures the expected credit losses of the given financial asset in a way that reflects the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, as well as the time value of money, and reasonable and supportable information available without undue cost or effort on the reporting date regarding past events, current conditions and forecasts of future economic conditions.

When measuring expected credit losses the Group takes into account the risk or probability of a credit loss occurring by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if a credit loss does not occur.

The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the Group is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice. For financial assets that include both a loan and an undrawn commitment component, the Group's ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For these financial assets only, the Group measures expected credit losses over the period that it is exposed to credit risk, and expected credit losses cannot be mitigated by credit-risk management actions, regardless whether or not this period extends beyond the maximum contractual period.

The payment moratorium was taken into account in relation to expected credit loss as follows. Borrowers have the opportunity to step out of the moratorium, i.e. to fulfil their payment obligations in accordance with the original payment schedule, if they ask for this specifically from their lender. Clients who did not take advantage of the moratorium and theoretically not continued making their contracted monthly instalments were automatically returned to the moratorium by the Company, regardless of what the reason for the payment default was (genuine payment issues, forgetfulness, etc.).

Clients that exited the moratorium but found themselves returned there because of some default are therefore classified by the Company in Stage 2 for the duration of the moratorium, since there is an indication for these clients regarding the deterioration of payment discipline, which can be deemed as an increased credit risk, but there is not enough objective evidence for classification in Stage 3.

ii. Low credit-risk financial assets

The credit risk on a financial asset is considered low, if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers financial assets with an external rating of "investment grade" to have a low credit risk. The low credit risk (i.e. whether the conditions for the rating as a financial asset with a low credit risk still apply) is reviewed by the Group as of every reporting date, taking also into account previous experience with the external ratings agency and its ratings, or the experience available through the parent company.

iii. Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired assets (hereinafter referred to as: "POCI assets") are impaired on initial recognition. A financial asset is impaired if the occurrence of one or more event has a detrimental impact on the estimated future cash flows of the financial asset (such as for example significant financial difficulty of the issuer or the borrower).

The Group considers financial assets to be POCI assets if the counterparty has Stage-3 status on initial recognition. When calculating the credit-adjusted effective interest rate for POCI assets that are credit-impaired on initial recognition the Group takes the initial estimated credit loss into account in the estimated cash flows, and on the reporting date only recognises cumulative changes since initial recognition in the lifetime expected credit loss in profit or loss.

Special rules governing the impairment of financial assets

i. Impairment of government securities and mortgage bonds

The investment grade category includes the government securities and mortgage bonds which are rated as investment grade by at least two rating agencies from Moody's, Standard & Poor's and Fitch. If a given security is in the investment grade category, the Group considers it to be a low credit risk, classifies it in Stage 1, and applies a 1-year probability of default (PD) to quantify the impairment.

If the given security does not qualify as having a low credit risk as of the measurement date, a threshold calculation (relative change in lifetime probability of default) is required to determine whether the rating of the security has deteriorated significantly since initial recognition.

ii. Impairment of interbank and central bank deposits, sight deposits

The Group's interbank and central bank deposits as well as sight deposits are essentially short-term financial assets measured at amortised cost.

Impairment is only recorded on interbank and central bank deposits by the Group if they mature more than 4 working days after the given close date.

Given the short term of these financial assets, impairment is always booked with a 1-year PD.

iii. Impairment of bridging loans and housing loans

In the case of bridging loan/housing loan arrangements, when the contractual amount specified in the home savings contract is paid out, the bridging loan is paid off from the deposits collected by the customer and from the housing loan, without a new loan assessment. The Group measures the expected credit loss for the period it is exposed to credit risk. Owing to the relationship between the bridging loan and the housing loan, for the purposes of assessing impairment and measuring credit loss the period for measuring expected credit loss during the bridging period lasts until the end of the housing loan.

The credit risk still exists during the period of the housing loan, which is why the Group calculates the lifetime expected loss not until the end of the disbursement phase but until the end of the housing loan phase, i.e. until the complete elimination of the credit risk.

When calculating impairment, aside from the losses expected in the bridging loan phase, the housing loan anticipated to be drawn and the expected losses as a result are also quantified (taking the term of the housing loan into account if lifetime expected loss needs to be accounted for).

In the housing loan phase, the impairment takes into account the term of the housing loan if lifetime expected loss needs to be accounted for.

iv. Impairment of deposit-related fee receivables

Concluding home savings contracts creates an account-opening fee receivable for the Group from its customers; these receivables are not exactly loan-type claims, but receivables in relation to which, given their economic substance, the Group is not exposed to a credit risk. If the customer does not pay the account-opening fee by the deadline specified in the contract, the contract lapses and therefore no financial instrument is originated (no deposit, and subsequently no loan). In this case the Group does not incur a loss. In addition, the account-opening fee is a transaction fee that is accounted for in profit or loss over the term of the transaction using the effective interest method, that is, it is not recognised as a revenue right upon entering into the transaction. On this basis, the Group treats these receivables as trade receivables that result from transactions within the scope of IFRS 15 and that do not contain a significant financing component.

v. Impairment of other financial receivables

Other financial assets measured at amortised cost include receivables from sales partners as sales agents, other trade receivables, advances paid to employees as well as compensation receivables and other financial receivables.

The Group treats these receivables as trade receivables that result from transactions within the scope of IFRS 15, and that do not contain a significant financing component. These receivables are measured by the Group at an amount equal to lifetime expected credit loss, applying simplified impairment methodology to determine the impairment. To this end, expected credit losses are quantified using a provision matrix, and drawing on past experience in relation to credit losses.

vi. Impairment of loan commitments

In the case of loan commitments and for the purpose of applying the impairment requirements the Group considers the date of initial recognition to be the date when the Group becomes a party to the irrevocable commitment.

In the case of loan commitments, the Group takes into account the changes in the default risk for the loan to which the loan commitment relates.

In the event certain financial assets comprise both a loan component and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

Loan commitments in relation to which a loan has been granted receive the same Stage classification and the same impairment rate is applied for them as in the case of the related loan granted.

If there is no loan granted connected to the given loan commitment, the Group assesses the amount of the expected credit loss for the loan commitment on a group basis.

Presentation of loss allowance for expected credit losses in the statement of financial position

The Group recognises loss allowances for financial assets in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments: as a provision. The Group recognises loss allowances for loan commitments separately, as a provision, if the financial instrument contains both a loan component (i.e. a financial asset) and an undrawn commitment component (i.e. a loan commitment).

Write-offs

If there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, then the Group classifies the financial asset as unrecoverable and reduces the gross carrying amount of the financial asset directly. A write-off is a derecognition event, for which the Group applies the rules detailed in Note 7.3 c).

In the case of receivables subject to legal enforcement and classified as unrecoverable during such proceedings and which have been written off as a result, the Group does not terminate the legal proceedings, given that the receivables concerned still exist irrespective of the write-off; however, it does not initiate any further procedural step or other action to enforce the receivable. If as a result of proceedings started before the write-off any recovery is received after the write-off, it is booked on the recorded receivable thus reducing the exposure written off.

The Group classifies a receivable as unrecoverable if:

- there is no cover for it during enforcement;
- there is no cover for it according to the written statement issued by the liquidator;
- there is no cover for it based on the proposal for the distribution of assets;
- the costs of collection are not in proportion to the amount of the receivable (based on legal opinion, receivables below HUF 100,000 can be classified by the Group as unrecoverable without any procedure);
- the debtor cannot be located and this is "documented";
- it cannot be enforced in a court of law;
- it has expired under the term of limitation in accordance with the relevant legislation.

7.5. Cash and cash equivalents

Cash and cash equivalents include cash in hand, the balances of current accounts, and deposits maturing in three months, which the Group uses to settle current liabilities and which do not have a significant fair value risk.

From 1 January 2018 the Group prepares a separate business model test for cash and cash equivalents, in which current accounts are bank accounts whose sole purpose is to handle monetary transactions. The interest on current accounts is only the interest paid on outstanding principal amounts; the fees payable are reasonable compensation for the administrative costs payable to the financial institution.

The Group measures cash and cash equivalents at amortised cost after their initial recognition; related interest is accounted for using the effective interest method.

7.6. Securities

Securities include government bonds and discounted Treasury bills. There are measured at amortised cost based on the business model test and SPPI test performed.

Upon initial recognition, securities measured at amortised cost are measured by the Group at fair value plus or minus transaction costs that are directly attributable to the acquisition of the security. Subsequent measurement is at amortised cost.

The Group considers the related transaction costs, fees and commissions to be part of the cost, and these are taken into account during the effective interest rate calculation. Consequently, interest and amortisation costs are accounted for using the effective interest method.

7.7. Receivables from customers

Receivables from customers comprise immediate bridging loans and bridging loans (collectively referred to as: bridging loans), housing loans, bridging loans granted based on preferential list of fees, and other customer receivables.

Upon initial recognition, the Group measures receivables from customers at fair value plus or minus transaction costs that are directly attributable to the origination or acquisition of the receivable. Subsequent measurement is at amortised cost based on the business model and SPPI tests conducted.

For receivables from customers measured at amortised cost the Group considers the related transaction costs, fees and commissions to be part of the cost, and these are taken into account during the effective interest rate calculation. Consequently, interest as well as transaction costs, fees and commissions are accounted for using the effective interest method.

7.8. Other financial receivables

Other financial receivables comprise sales agent commission reversals, trade receivables, deposits paid for the office rent and other receivables.
After initial recognition the Group measures these receivables at amortised cost.

7.9. Property, plant and equipment

The Group classifies assets within the scope of IAS 16 Property, Plant and Equipment and assets within the scope of IFRS 16 Leases into the following groups: own plant and office equipment, own other tangible assets, leased plant and office equipment or assets under construction.

a) Initial recognition and measurement

The Group measures property, plant and equipment at cost, less depreciation and impairment. The cost for property, plant and equipment is the invoiced consideration, including customs duties and non-deductible value added tax, all costs and expenses attributable individually to the property, plant and equipment which arose until such were ready for use, including taxes and duties as well as the value of expected disassembly costs discounted to present value.

The cost of right-of-use assets comprises the present value of net lease payments, less the amount of any lease incentives provided to the lessee, plus direct costs of obtaining the lease incurred by the lessee and the discounted present value of expected costs of restoration obligation, less the amount of any government grants to be deducted from the value of the asset.

b) Measurement after recognition

The Group applies the cost model to measure property, plant and equipment after their initial recognition.

c) Subsequent expenditure

In the carrying amount of an item of property, plant and equipment the Group does not recognise the costs of day-to-day operation. These costs are recognised in profit or loss when incurred.

d) Depreciation

The Group records depreciation on property, plant and equipment from the day such are ready for use. The depreciation on property, plant and equipment is recognised on a straight-line basis, taking into account the expected duration of use and the residual value.
The useful lives defined for property, plant and equipment are as follows:

Categories	useful life (years)
Value created on rented property	up to the term of the rent
Right-of-use assets	up to the term of the rent
IT equipment	3-12 years
Telephones and other telecommunication devices	2-7 years
Furniture, equipment, fittings, administration equipment	7 years
Motor vehicles leased out	5 years
Motor vehicles	4-6 years
Works of art	-
Non-bank machinery and equipment	7 years
Other items of property, plant and equipment	7 years

In certain cases amortisation rates and useful lives different from the above may also be applied, if justified by a contract of by other reasons.

Depreciation methods, useful lives and residual values are reassessed annually at each reporting date.

e) Impairment

Details of impairment of property, plant and equipment are included in Note 7.11.

f) Derecognition

The Group derecognises the carrying amount of an item of property, plant and equipment if the asset is disposed, or if no future economic benefits are expected from its use or disposal.

The Group determines the gain or loss arising from the derecognition of an item of property, plant and equipment on a net basis as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is then recognised under other operating income or other operating expense, as appropriate.

7.10. Intangible assets

a) Initial recognition and measurement

Purchased intangible assets

Purchased intangible assets shall be measured at cost less booked amortisation and impairment. For a purchased intangible asset the cost comprises the invoiced consideration, including non-deductible value added tax as well as all costs directly attributable individually to the intangible asset which arose until such was ready for use, including taxes and duties.

Internally generated intangible assets

To assess whether an internally generated intangible asset meets the criteria for recognition, the Group classifies the generation of the asset into:

- a research/assessment phase; and
- a development phase.

The Group recognises research costs as cost when they arise. An intangible asset arising from development or from the development phase of an internal project is recognised and costs can be capitalised if, and only if, the Group can demonstrate that all of the following criteria are satisfied:

- the technical feasibility of completing the intangible asset so that it will be suitable for use or sale;
- the Group's intention to complete the intangible asset, and use it or sell it;
- the Group's ability to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits. Among other things, the Group shall demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the Group's ability to reliably measure the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

If the Group cannot distinguish the research/assessment phase from the development phase of an internal project to create an intangible asset, it shall account for the expenditure on the project as expense in the period when it is incurred.

b) Measurement after recognition

The Group applies the cost model to measure intangible assets after their initial recognition.

c) Subsequent expenditure

Costs are capitalised to the carrying amount of the intangible asset until it is brought to the condition that enables it to be operated in the manner intended by management. This means the costs that arise during the use of the asset do not form part of the carrying amount. Subsequent expenditure shall be recognised in profit or loss when incurred and thus cannot be capitalised; this includes, for example, expenses on training activities or advertising and promotion activities.

d) Amortisation

The Group assesses whether the useful life of a given intangible asset is finite or indefinite. The Group does not have any intangible assets with indefinite useful lives. Intangible assets are recognised based on their useful lives.

The amortisation of intangible assets with a finite useful life is recorded from the first day after the asset becomes ready for use.

The useful lives for intangible assets with finite useful lives are as follows:

- Rights and concessions: as per contract, or 3-12 years;
- Intellectual property, own software: 3-12 years.

In certain cases amortisation rates and useful lives different from the above may also be applied, if justified by a contract of by other reasons.

Useful lives are reviewed once a year. The Group does not record amortisation for intangible assets that are not yet ready for use, but every year it performs an impairment test, whereby it compares the carrying amount of the intangible asset with its recoverable amount, regardless whether or not there is any indication of impairment.

e) Impairment

Details of impairment of intangible assets are included in Note 7.11.

f) Derecognition

Intangible assets shall be derecognised on disposal, or when no future economic benefits are expected from their use or disposal.

The Group determines the gain or loss arising from the derecognition of an intangible asset on a net basis as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is then recognised in profit or loss under other operating income or other operating expense, as appropriate, when the asset is derecognised.

7.11. Impairment of non-financial assets

If there is an indication that the carrying amount of a non-financial asset exceeds its recoverable amount, the Group estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When assessing impairment the Group takes both internal and external information into account.

Irrespective of the amount, the Group always determines the impairment and reversal of impairment of non-financial assets based on individual assessment.

If the carrying amount of the assets is higher than the recoverable amount, then impairment has to be recorded; if it is lower, then the asset's net carrying amount has to be increased by reversing the impairment. Following the reversed impairment the asset's carrying amount may not exceed the original carrying amount less depreciation/amortisation.

The Group recognises impairment under other operating expenses and reversed impairment under other operating income.

7.12. Leases

a) Definition of and identifying a lease

In accordance with IFRS 16 applied, at inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset the Group considers the following:

- the contract includes the use of an identified asset. The identified asset is specified explicitly or implicitly, is physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has actual right to substitute the asset, the asset is not identified;
- throughout the period of use, the Group has the right to obtain substantially all of the economic benefits from use; and
- the Group has the right to direct the use of the asset. The Group has this right if it has the decision-making rights relating to issues that significantly influence decisions about how and for what purpose the asset is used. In rare cases, when decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset, if:
    - the Group has the right to operate the asset; or
    - the Group designed the asset in a way that predetermines the decisions about how and for what purpose the asset is used.

The non-lease components of the contracts are not separated. As a practical expedient, the Group has elected not to separate non-lease components from lease components, and instead account for them as a single lease component. The Group assesses each contract whether it contains a lease component.

b) The Group acting as a lessee

As a lessee, the Group has property, warehouse and motor vehicle lease transactions.

The Group recognises the right-of-use asset and the lease liability at the commencement date.

The right-of-use asset is initially measured at cost, which comprise the amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs and an estimate of costs to be incurred in dismantling and removing the underlying asset and restoring the site, less any lease incentives.

After initial recognition, the Group measures the right-of-use asset applying the cost model.

After the commencement date the Group depreciates the right-of-use asset using the straight-line method, from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment (Note 7.9). Furthermore, if necessary, the Group periodically books impairment on the right-of-use asset and adjusts its amount for any remeasurement of the lease liability.

Initially the Group recognises the lease liability at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, using the Group's incremental borrowing rate.

For contracts concluded in HUF, the Group uses BUBOR or BIRS benchmark interest closest to the term of the transaction to determine the incremental borrowing rate. For contracts concluded in EUR, the yield of the German government bond closest to the term of the transaction is adjusted for the difference (Hungarian CDS – German CDS) of CDS quotes specific to the term describing the country risks. In both cases the premium specific in corporate lending is added to this calculated value in line with the size of the transaction.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease, unless the Group is reasonably certain not to terminate early.

After recognition, the Group measures the lease liability using an implicit interest rate that causes the present value of the future lease payments and the unguaranteed residual value to equal the sum of the fair value of the asset and the related incremental costs. The recognised liability is remeasured if the term of the lease changes, when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee. The Group recognises the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset, or, if the carrying amount of the right-of-use asset is reduced to zero, the adjustment is recognised in profit or loss as other operating income.

The Group presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and lease liabilities in 'Other non-current financial liabilities' and 'Trade and other current liabilities' in its statement of financial position.

After the commencement date, the Group recognises in profit or loss, unless the costs are included in the carrying amount of another asset, the interest on the lease liability in 'Net finance income/expense', and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs in 'Material-type expenses'. The Group recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense in 'Material-type expenses' on a straight-line basis over the lease term.

c) The Group acting as a lessor

The Group sub-leases offices leased by it to sales agents and leases out cars owned by the Group.

When the Group acts as an intermediate lessor, it accounts for head lease and sub-lease contracts separately. The sub-lease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset (in the case of sub-leases the right-of-use asset).

If all material risks and rewards incidental to ownership of the asset is transferred to the lessee, a lease is considered a financial lease. All lease transactions not classified as finance lease are operating leases.

Finance lease

At the commencement date, the Group recognises assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

The Group uses the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sub-lease, if the interest rate implicit in the sub-lease cannot be readily determined, the Group as intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sub-lease) to measure the net investment in the sub-lease.

Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

The Group applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Group applies the requirements relating to derecognition of financial assets (see Note 7.3. c)) and impairment of financial assets (see Note 7.4) to the net investment in the lease, and reviews regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the Group revises the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

Leases in terms of which substantially all the risks and rewards of ownership remain with the Group are classified as operating leases. The leased asset is still recognised in the books of the Group. Lease payments received are recognised in profit or loss on a straight-line basis over the related period as other income.

Operating leases

The Group recognises lease payments received under operating leases on a straight-line basis. The Group recognises costs, including depreciation, incurred in earning the lease income as an expense (in 'Depreciation').

The Group adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the sub-leased asset and recognise those costs as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets.

The Group calculates depreciation based on the method described in Note 7.9. d).

Operating leases are presented in Note 30.2.

7.13. Liabilities to customers

The liabilities to customers item shall include liabilities from financial services to non-banks and non-financial institutions, including the deposits placed by customers as well as government grants received by customers in connection with their deposits.

The Group measures liabilities to customers at amortised cost. The Group takes the related transaction costs, fees and commissions into account in the effective interest rate calculation, consequently, interest as well as transaction costs, fees and commissions are accounted for using the effective interest method.

7.14. Other financial liabilities

Under other financial liabilities the Group recognises trade liabilities and liabilities to sales agents as well as other liabilities. The Group measures these items at amortised cost, and they are accounted for using the effective interest method.

7.15. Provisions

The Group recognises provisions if it has a present obligation or liability (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

The Group measures provisions at the present value of the expenses expected to be required to settle the obligation, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks associated with the obligation. The increase in the value of the provisions over time is recognised as an interest expense.

For more details on the provisions recorded by the Group see Note 18.

7.16. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

The Group classifies, among others, loan commitments into contingent liabilities and commitments.

Contingent liabilities are not recognised in the statement of financial position, but are recorded as off-balance sheet items.

For loan commitments the Group recognises impairment.

7.17. Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets include, for example, guarantees received set forth in a contract, deposits and other collaterals accepted from customers in the framework of lending activities.

Contingent assets are not recognised in the statement of financial position, but are recorded in account class 0, since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

7.18. Capital and reserves

a) Share capital

Share capital is the nominal value of issued equity instruments. All amounts are considered share capital that are subscribed by the shareholders or other owners in accordance with relevant laws.

b) Capital reserve

Any amount paid by the Group to acquire its own shares reduces equity directly (the nominal value reduces share capital, the difference between the paid consideration and the nominal value shall be recognised through the capital reserve), regardless whether the repurchased share is immediately withdrawn or held for resale.

Furthermore, the items recognised in equity that cannot be classified in the other equity components are included here too, for example, cash or non-monetary assets received without consideration from the owner in its capacity as owner.

c) Retained earnings

Retained earnings essentially include the following:

- The reserves derived from the profits or losses of previous periods:
  - profit or loss carried forward from previous years;
  - any movements derived from transfers between retained earnings and other equity components;
- the impacts of the retrospective application of changes in accounting policies, except when transitional provisions of a standard or interpretation require the impacts of retrospective application as adjustments to other components of equity;

- amounts restated retrospectively due to error corrections, except when a standard or interpretation requires the retrospective restatement of another equity component;
- gains and losses that must be recognised directly in retained earnings.

Dividend payments are decided upon by the General Meeting, and must be recognised directly against retained earnings as of the day of the dividend decision.

d) Valuation reserve

The valuation reserve contains the unrealised gains and losses from the fair value measurement of financial instruments, i.e. the changes in the fair value of financial assets at fair value through other comprehensive income.

e) Statutory reserves

Statutory reserves are the reserves required by law, which for the Group can be the following: settlement reserve and general reserve.

Settlement reserve

With a view to protecting those with home savings contracts, the Group recognises a settlement reserve from the yield on the placement of free assets defined by Act CXIII of 1996 on Home Savings and Loan Associations (hereinafter referred to as: Home Savings and Loans Act), and on 31 December of the reporting year supplements the settlement reserve recognised in the previous year. The settlement reserve is outside the scope of IAS 37. In the IFRS financial statements the Group recognises the settlement reserve from retained earnings and it is a dividend threshold.

The base for the settlement reserve recognised in the reporting year shall be calculated as the difference between the reporting-year yield on the placement of free assets (including the fee income received on bridging loans as well as commissions paid and expected to be payable, and the impairment recorded on such loans) and the interest amount on the average portfolio of free assets in the reporting year determined using the rate of collective interest. The settlement reserve may not exceed 10% of the deposit portfolio of the Group as of 31 December of the reporting year.

The Group shall use the settlement reserve to settle the difference between the interest payable pro rata for the reporting year on any loan drawn to cover the granting of housing loans, and the pro rata interest for the reporting year on such loans determined using the rate of collective interest.

The recording and use of the settlement reserve affects the retained earnings and therefore does not influence the given year's profit or loss in any way.

General reserve

In accordance with Section 83 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter referred to as: "Credit Institutions Act"), a general reserve amounting to ten percent of the after-tax profit must be recognised. A general reserve recognised and used in accordance with Hungarian legal regulations directly affects retained earnings in the financial statements, so there is no impact on the given year's profit or loss.

7.19. Interest income and interest expense

The interest income item in the consolidated statement of comprehensive income may only include interest income determined using the effective interest method. The Group currently only has assets measured at amortised cost.

When using the effective interest method the Group applies the effective interest rate to the gross carrying amount of the financial asset, except for the following:

- purchased or originated credit-impaired financial assets, where the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition;
- financial assets that subsequently became credit-impaired financial assets. For these financial assets the Group applies the effective interest rate to the amortised cost of the financial assets in subsequent reporting periods.

In line with the above rule, for loans that are not credit-impaired (i.e. classified in Stage 1 and Stage 2) the Group applies the effective interest rate to the gross carrying amount, while for credit-impaired loans (classified in Stage 3) to the net carrying amount.

Interest income and interest expense comprise the interest income and interest expense along with commission income and commission expense as well as other fees that are part of the effective interest rate calculation for the individual financial assets and financial liabilities.

Interest income and interest expense are recognised in profit or loss using the effective interest method. The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument (or a shorter period if appropriate) to the net carrying amount of the financial asset or financial liability.

The accounting policy applied by the Group for amounts recognised in interest income/interest expenses upon modification of financial assets and liabilities is described in Note 7.3 d).

7.20. Fee and commission income, fee and commission expense

The accounting of income related to the fees for financial services depends on the targets in relation to which the fees were determined, and depends on the accounting basis for the associated financial instruments. Fees that form an integral part of the effective interest rate for a financial instrument are recognised by the Group under interest income or interest expense.

Under fee and commission income and fee and commission expenses the Group recognises the fees and commissions related to loans and deposits along with the commissions on other securities transactions and payment transactions which do not form an integral part of the effective interest rate for the financial instruments.

This fee and commission income is recognised when the Group provides the related service, and the fee and commission expense is recognised when the service is performed.

7.21. Net trading income/expense

The net trading income/expense comprises the exchange differences (gains and losses) derived from changes in the exchange rate.

7.22. Net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost

Net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost includes net profit/loss arising from derecognition of securities classified as measured at amortised cost.

7.23. General principles on revenue recognition based on IFRS 15

The Group account for customer contracts only if all of the following conditions are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to performing their respective obligations;
- the Group can identify each party's rights regarding the goods or services to be transferred;
- the Group can identify the payment terms for the goods or services to be transferred;

- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the Group will be entitled may be less than the price stated in the contract if the consideration is variable because the Group may offer the customer a price concession.

If a contract with a customer meets the criteria above at contract inception, the Group reassesses those criteria only if there is an indication of a significant change in facts and circumstances.

The Group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For each performance obligation identified, the Group determines at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

In any other case, the performance is at a point in time.

When (or as) a performance obligation is satisfied, the Group recognises as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained) that is allocated to that performance obligation.

When determining the transaction price the Group takes contractual terms and conditions and its customary business practice into account; the estimated transaction price is influenced by the nature, timing and amount of consideration promised by the customer. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (such as sales taxes). When determining the transaction price the Group assumes that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

7.24. Employee benefits

Short-term employee benefits are accounted for as current costs in the period when the employee rendered the service in return for the benefits. Short-term employee benefits are employee benefits (other than termination benefits) that shall be settled within twelve months after the end of the period in which the employee renders the related service to the Group. Paid leave (for example summer holiday, etc.) shall be recognised in the period when the employee works. When an employee accumulates unused holiday entitlement, the Group recognises an accrued expense item so that the Group does not account for the cost when the employee takes the holiday, given that the employee does not perform a service for the Group during the holiday period. Bonuses and task-specific bonuses payable to staff, recognised under provisions (if long-term) and under accruals (if short-term), are accounted for by the Group under personnel expenses (other operating costs).

The Group currently does not provide post-employment benefits.

Other long-term employee benefits provided by the Group include bonuses that the Group is not likely to pay in full before twelve months have elapsed from the end of the annual reporting period during which the employees rendered the related services.

7.25. Income tax

The Group considers corporate tax, local business tax and innovation contribution as income taxes.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income and directly in equity, in which case it is recognised in other comprehensive income and in equity.

Current tax is the expected tax payable on the taxable income for the reporting year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

The Group shall offset deferred tax assets and deferred tax liabilities if, and only if:

- it has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

The tax assets and liabilities from and to local governments are determined (net) for all local tax authorities on an aggregate basis by entity.

7.26. Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

The Group has no items that are to be recognised in other comprehensive income and which will not need to be reclassified to profit or loss subsequently.

8. New standards and interpretations not yet adopted

The standards, standard amendments and interpretations presented below were not applied in the financial statements since they are not yet in force for the financial year ended 31 December 2020, and the Group did not elect to early apply them either.

a) IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covers recognition, measurement, presentation and related disclosures. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts*.

IFRS 17 shall be applied in annual reporting periods beginning on or after 1 January 2023, with restated comparative information. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. IFRS 17 is not relevant for the Group.

b) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendment addresses the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that adopts the amendments early must apply them retrospectively. The Group does not expect any effect on its consolidated financial statements.

c) Amendments to IAS 39, IFRS 7, IFRS 16, IFRS 4 and IFRS 9: Interest Rate Benchmark Reform and its second phase

As a result of the interest rate benchmark reform, the hedge accounting requirements of existing standards that regulate financial instruments have changed. In August 2020 the IASB issued Interest Rate Benchmark Reform-Phase 2, relating to accounting treatment.

The amendments to standards regulating financial instruments are effective from 2021. The amendments are not relevant to the operation of the Group. .

Notes to the financial statement items

9. Cash and cash equivalents

Table 9.1. - Cash and cash equivalents

(HUF million)	31.12.2020	31.12.2019
HUF current accounts held at MNB	44	82
Deposit accounts held at MNB and due within 3 months	51 591	45 450
HUF and FX current deposit accounts held at other credit institutions	1 871	1 244
Credit institution deposits with a maturity period less than 3 months	4 650	10 500
Total cash and cash equivalents	**58 156**	**57 276**

10. Securities

Table 10.1. - Securities

(HUF million)	31.12.2020	31.12.2019
Investment securities measured at amortised cost	140 651	109 513
Impairment allowance (-)	-127	-101
Total securities	**140 524**	**109 412**

Securities include Hungarian government bonds, discounted Treasury bills and mortgage bonds.

Table 10.2. - Securities measured at amortised cost - reporting year

(HUF million)	31.12.2020
2021/C MÁK	1 979
2022/A MÁK	13 664
2022/B MÁK	24 512
2022/C MÁK	2 950
2023/A MÁK	13 033
2023/C MÁK	3 560
2024/B MÁK	6 720
2024/C MÁK	18 120
2025/B MÁK	7 695
2025/C MÁK	2 958
2026/D MÁK	1 419
2027/A MÁK	10 482
2028/A MÁK	11 508
2030/A MÁK	909
2031/A MÁK	8 761
2038/A MÁK	3 506
D210224	457
D210421	3 634
D210825	1 392
D211020	199
UCJBF2021/A	3 066
Total debt instruments	**140 524**

Table 10.3. - Securities measured at amortised cost - previous year

(HUF million)	31.12.2019
2020/A MÁK	14 311
2022/A MÁK	13 776
2023/A MÁK	7 402
2024/B MÁK	6 698
2024/C MÁK	18 163
2025/B MÁK	7 805
2026/D MÁK	1 408
2027/A MÁK	10 439
2028/A MÁK	11 719
2031/A MÁK	8 730
2038/A MÁK	7 442
D200226	999
D200429	520
Total debt instruments	**109 412**

11. Receivables from customers

Table 11.1. - Overview of receivables from customers

(HUF million)	31.12.2020	31.12.2019
Receivables from customers measured at amortised cost	483 689	456 879
Impairment allowance (-)	-7 027	-4 714
Total receivables from customers	**476 662**	**452 165**

Table 11.2. - Receivables from customers (by product type)

(HUF million)	31.12.2020			31.12.2019		
	Gross value	Expected credit loss	Carrying amount	Gross value	Expected credit loss	Carrying amount
Retail customers:						
Bridging loans	103 617	-272	103 345	98 754	-250	98 504
Immediate bridging loans	316 649	-6 085	310 564	295 381	-3 978	291 403
Housing loans	52 914	-449	52 465	53 555	-289	53 266
Other receivables from customers	177	0	177	122	0	122
Multi-occupancy buildings, cooperatives:						
Bridging loans	1 628	-6	1 622	1 704	-4	1 700
Immediate bridging loans	6 327	-196	6 131	5 305	-183	5 122
Housing loans	2 376	-19	2 357	2 057	-10	2 047
Other receivables from customers	1	0	1	1	0	1
Total	**483 689**	**-7 027**	**476 662**	**456 879**	**-4 714**	**452 165**

12. Other financial receivables

Table 12.1. - Other financial receivables

(HUF million)	31.12.2020	31.12.2019
Lease receivables	449	231
Trade receivables	76	57
Accrued commission income	303	53
Receivables from sales agents	24	37
Security deposit	294	266
Other	45	42
Impairment allowance (-)	-31	-30
Total other financial receivables	**1 160**	**656**

The increase in the reporting year relates to the new finance lease liability recognised under IFRS 16; this is also the reason for the rise in impairment allowance. Note 30.2. contains more detailed information on leases as a lessor.

13. Property, plant and equipment

Table 13.1. - Changes to property, plant and equipment

(HUF million)	Value created on rented property	Office equipment	Motor vehicles	Assets under construction	Total
Gross value					
Balance at 1 January 2019	*1 268*	*2 918*	*957*	*88*	*5 231*
Installation	1 489	1 037	163	-2 689	0
Acquisitions	0	0	0	2 648	2 648
Disposals	-705	-454	-75	0	-1 234
Other reclassifications	0	0	0	-47	-47
Balance at 31 December 2019	*2 052*	*3 501*	*1 045*	*0*	*6 598*
Balance at 1 January 2020	*2 052*	*3 501*	*1 045*	*0*	*6 598*
Installation	24	485	110	-619	0
Acquisitions	0	0	0	619	619
Disposals	-194	-115	-18	0	-327
Balance at 31 December 2020	*1 882*	*3 871*	*1 137*	*0*	*6 890*
Depreciation and impairment					
Balance at 1 January 2019	*-844*	*-1 747*	*-162*	*0*	*-2 753*
Depreciation for the year	-195	-374	-108	0	-677
Disposals	695	440	43	0	1 178
Balance at 31 December 2019	*-344*	*-1 681*	*-227*	*0*	*-2 252*
Balance at 1 January 2020	*-344*	*-1 681*	*-227*	*0*	*-2 252*
Depreciation for the year	-215	-485	-135	0	-835
Disposals	26	111	51	0	188
Balance at 31 December 2020	*-533*	*-2 055*	*-311*	*0*	*-2 899*
Net value					
Balance at 31 December 2019	*1 708*	*1 820*	*818*	*0*	*4 346*
Balance at 31 December 2020	*1 349*	*1 816*	*826*	*0*	*3 991*

Reporting-year changes in right-of-use assets related to leases are presented separately in Note 30.2.

Contractual commitments of the Group connected to future acquisitions amounted to HUF 310 million as at 31 December 2020 (2019: HUF 27 million).

14. Intangible assets

Table 14.1. - Changes to intangible assets

(HUF million)	Internally developed software	Intellectual property	Rights and concessions	Intangible assets not taken into use	Total
Gross value					
Balance at 1 January 2019	***1 287***	***1 518***	***6 916***	***402***	***10 123***
Installation	625	374	662	-1 403	258
Acquisitions	0	0	0	1 195	1 195
Disposals	-6	0	0	0	-6
Balance at 31 December 2019	***1 906***	***1 892***	***7 578***	***194***	***11 570***
Balance at 1 January 2020	***1 906***	***1 892***	***7 578***	***194***	***11 570***
Installation	487	199	950	-1 572	64
Acquisitions	0	0	0	1 872	1 872
Disposals	-8	0	-1	0	-9
Balance at 31 December 2020	***2 385***	***2 091***	***8 527***	***494***	***13 497***
Amortisation and impairment					
Balance at 1 January 2019	***-327***	***-1 116***	***-1 555***	***0***	***-2 998***
Amortisation for the year	-161	-204	-820	0	-1 185
Disposals	6	0	0	0	6
Balance at 31 December 2019	***-482***	***-1 320***	***-2 375***	***0***	***-4 177***
Balance at 1 January 2020	***-482***	***-1 320***	***-2 375***	***0***	***-4 177***
Amortisation for the year	-221	-162	-818	0	-1 201
Disposals	7	0	0	0	7
Balance at 31 December 2020	***-696***	***-1 482***	***-3 193***	***0***	***-5 371***
Net value					
Balance at 31 December 2019	***1 424***	***572***	***5 203***	***194***	***7 393***
Balance at 31 December 2020	***1 689***	***609***	***5 334***	***494***	***8 126***

In the case of internally developed software, the acquisitions line also includes personnel expenses arising during the development of the software.

The gross value of intangible assets rose as a result of IT development at the Group.

In 2020 research and development expenses booked totalled HUF 36 million (in 2019: HUF 18 million).

Contractual commitments of the Group related to future acquisitions of intangible assets amounted to HUF 341 million as at 31 December 2020 (2019: HUF 0).

15. Other assets

Table 15.1. - Other assets

(HUF million)	31.12.2020	31.12.2019
Inventories	97	107
Accruals and deferrals	503	648
Advances	73	74
Other items similar to tax	1 076	174
Further other assets	288	133
Total other assets	**2 037**	**1 136**

The increase in other items similar to tax resulted primarily from the one-off special tax for financial institutions levied on the banking sector in 2020 in connection with the pandemic, amounting to HUF 956 million. The amount of the tax paid can be deducted in equal instalments during five years starting in 2021 from the special tax for financial institutions payable in the given year.

16. Liabilities to customers

Table 16.1. - Liabilities to customers (product type)

(HUF million)	31.12.2020	31.12.2019
Retail customers:		
Payments by customers and interest thereon	483 552	441 152
Government grant and interest thereon	116 556	105 372
Other liabilities to customers	531	747
Multi-occupancy buildings, cooperatives:		
Payments by customers and interest thereon	25 665	23 164
Government grant and interest thereon	5 994	5 612
Other liabilities to customers	27	42
Total liabilities to customers	**632 325**	**576 089**

The home saver or the beneficiary thereof is entitled to government grant in the given savings year on the amount of monthly savings made, in line with the deposit amount paid in the given savings year; the government grant is given every savings year by the Hungarian State Treasury (MÁK). Under the legislative amendment related to government grant that entered into force on 17 October 2018, home savings contracts concluded after the amendment entered into force shall not entitle the home saver to government grant.

The amount of government grant is transferred by the MÁK, then the Group credits this once a year to the separate home savings account of the home saver within a month of the end of the savings year. The Group treats the credited government grant and related interest separately on the account of the home saver. Credited government grant is recognised under liabilities to customers in the statement of financial position.

For savings years beginning after 1 January 2007, those who do not make regular payments during the savings year may miss out on government grant and interest. (For the amount paid in the third and fourth savings quarter, maximum 25% of the government grant earned based on the entire annual saving may be requested from the Hungarian State Treasury in each quarter.) Entitlement to government grant is lost by home savers if the savings period does not last for four years until the deposit is withdrawn, or the deposit increased with the government grant and interest is not used for appropriate housing purposes within Hungary. If the savings period is shorter than four years when the deposit is withdrawn, the Group deducts all the credited government grant from the separate account of the home saver, together with all the credited deposit interest, and transfers the deducted amount to the Hungarian State Treasury. If the beneficiary, or for lack of such, the home saver does not use part of the amount – underlying the government grant entitlement – for housing purposes, the proportionate sum of the government grant including the deposit interest is deducted by the Group from the home saver's separate account, and the deducted amount is transferred to the central budget; if the home saver or the beneficiary has already withdrawn the amount increased with the government grant, a proportionate sum of the government grant must be repaid.

17. Other financial liabilities

Table 17.1. - Other financial liabilities

(HUF million)	31.12.2020	31.12.2019
Lease liabilities	7 666	7 000
Liabilities from commissions to sales agents	143	375
Trade liabilities	217	65
Deposits	61	40
Dividend payment liability to founders	557	0
Other	553	632
Total other financial liabilities	**9 197**	**8 112**

Information on leases is included in Note 30.2. Dividend payment liability to founders is included in the balance sheet because based on the guidance from the Magyar Nemzeti Bank the dividend approved previously may not be paid until 30 September 2021.

18. Provisions

Table 18.1. - Balance of provisions

(HUF million)	31.12.2020	31.12.2019
Provision for litigations	2	5
Provision for points verified in points campaign	0	10
Provision for retention commissions	337	355
Provision for quality commission bonus	124	117
Provision for other liabilities	578	467
Provision for Autóbank programme	5	10
Provision for the Bonus Bank	60	102
Provision for credit facilities	77	102
Total	**1 183**	**1 168**

The table below presents changes to provisions recognised based on IAS 37:

Table 18.2 - Changes to provisions

(HUF million)	Provision for litigations	Provision for points verified in points campaign	Provision for retention commissions	Provision for quality commission bonus	Provision for other liabilities	Provision for Autóbank programme	Provision for the Bonus Bank	Provision for credit losses	Total
Balance at 1 January 2019	***5***	***29***	***387***	***583***	***418***	***65***	***142***	***75***	**1 704**
Provisions made during the period	5	0	-10	344	273	0	0	652	**1 264**
Provisions used during the period	-5	-19	-22	-810	-221	-55	-40	-625	**-1 797**
Provisions released during the period	0	0	0	0	-3	0	0	0	**-3**
Balance at 31 December 2019	***5***	***10***	***355***	***117***	***467***	***10***	***102***	***102***	**1 168**
Provisions made during the period	2	0	27	45	135	2	0	719	**930**
Provisions used during the period	0	-10	-45	-38	-24	-7	-42	-744	**-910**
Provisions released during the period	-5	0	0	0	0	0	0	0	**-5**
Balance at 31 December 2020	***2***	***0***	***337***	***124***	***578***	***5***	***60***	***77***	**1 183**
Non-current portion	***2***	***0***	***167***	***11***	***321***	***0***	***60***	***0***	**561**
Current portion	***0***	***0***	***170***	***113***	***257***	***5***	***0***	***77***	**622**

18.1. Provisions for pending litigation

When evaluating during litigation whether a past event resulted in a present obligation, the Group takes into account expert opinions (internal or external), judicial practice in similar cases as well as experience from authorities and the profession to estimate the expected loss. The amount of any provision for litigation is determined using the expected payable amount (e.g. compensation), together with the default interest (based on the central bank's key interest rate), and legal costs.

In the event the lawsuit is lost, the Group uses the provision; otherwise it releases the provision. Provisions are used and released at the level of individual cases.

18.2. Provision for points verified in points campaign

In the points campaign advertised among the employees of partners, the employees can earn points on the contracts they broker, which can be redeemed for gifts in a defined manner. A provision is recorded for future liabilities in connection with the points that have not been redeemed as of the reporting date, which contains the total cost expected to be paid based on the contract. The Group does not recognise provisions for the points that employees of the given partner are not likely to redeem. The points campaign was discontinued in 2020.

18.3. Provisions for retention commissions

In the case of commissions payable on loans, a contract commission is calculated when concluding the contract, and a retention commission is calculated in line with legal provisions after the contract. The retention commission is paid in the period after the contract is concluded. The length of the period depends on the term of the contract. The Group recognises a provision for expected retention commission payments existing as of the reporting date.

An expected cash flow is recorded based on the product of the selected, unpaid commissions and the probability of payment based on experience. The amount of the provision is the discounted present value of the recorded cash flow.

18.4. Provision for quality commission bonus

The quality commission bonus relates to the savings contracts brokered by Fundamenta-Lakáskassza Kft. (hereinafter referred to as: the Kft.).

If the ratio of expected to completed payments for a given savings contract is at least 80% over the 12 months from the start of the saving (from receipt of the first monthly savings payment), then the Group pays the commission bonus detailed in the prevailing contract to the Kft. The month containing the savings start date is also included in the period considered, i.e. 13 months are taken into account. If this ratio falls short of 30%, then the contract commission previously paid and the bonus commission are reversed by the Group, and the provision to be recorded is reduced by the expected amount of this reversal of bonus commission.

If the given savings contract is terminated within 12 months of the contract conclusion date, then the contract commission previously paid and – where applicable – the bonus commission are reversed by the Group, and the provision to be recorded is reduced by expected amount of this reversal of bonus commission.

The expected cash flow, the expected savings start dates and payments, and the expected contract cancellations are forecast by the Group based on prior experience.

18.5. Provision for personal banker competition-related trips

The Group recognises provisions for the prize trips of the sales competitions among sales agents on a monthly basis, depending on the expected costs of known trips.

Provisions are recognised based on the average costs of the competition-related trips – on the strength of estimates or contracts concluded with third parties –, the contributions relating to such costs and on all the material costs incurred during the trip.

Since the provisions for competition-related trips are generally used in the year following the reporting year, the Group does not discount them.

18.6. Provision for Autóbank programme

The Autóbank programme is a scheme encouraging sales agents to save and invest. The Group expects sales agents to achieve a monthly sales performance and savings undertaken by the agent, which amount is deposited to an investment account held with an investment firm. In addition to such savings, the Group pays bonus commissions at the end of the term undertaken or prescribed in the programme. The amount accumulated this way must be used by the sales agent to buy a new car in accordance with the terms and conditions.

Since the provisions for the Autóbank programme are typically used up in the year following the reporting year, the Group does not consider the effect of discounting material, and consequently, it does not discount when measuring provisions.

The provisions for the Autóbank programme are accounted for quarterly based on the change compared to the previous period.

18.7. Provision for the Bonus Bank

The Bonus Bank programme is an incentive and loyalty scheme for the PB management and senior Personal Bankers based on indicators. In addition to sales performance, the amount of the bonus payable from the Bonus Bank also depends on the company's indicators. The weighted average of these partial indicators is the value of the Bonus Bank index, which is used to adjust the bonus budget to calculate the commission base.

The commission base is paid in the course of five years in five equal instalments. The Group allocates payment probability to such forecast payments to calculate the basis for the provisioning. For the estimates to be as accurate as possible, the Group uses the returns of 7-year government bonds to discount the amount of such forecast payments.

The provisions for the Bonus Bank programme are recognised annually based on the change compared to the previous period. The Group accrues the commissions retained for the Bonus Bank in the reporting year on a monthly basis until the reporting date of the financial statements.

18.8. Provision for other liabilities

Provisions for other commitments comprises the following main items:

- The Group recognises provisions for the amounts of reporting-year competition prizes and the calculated commissions – if no payment was made in the reporting year – since the exact amount is not yet known.
- Based on the Group's remuneration policy, the payment of task-specific bonuses to a select group of senior managers is distributed over several years. The amounts due for payment in the following year are accrued by the Group, while a provision is recognised for the payments affecting subsequent years. The amounts derived from previous-year results but affecting

subsequent years are not fixed in light of the backtesting of multi-year targets; they are recalculated depending on the yearly reassessment and based on the updated forecasts.

- In connection with the amendment to the Home Savings and Loans Act in October, a significant number of offers and contract amendments were received dated 16 October 2018, which was late compared to the deadline set by Fundamenta-Lakáskassza Zrt. For the offers and amendments which were received after 18 October 2018 but the delay was not attributable to the client, the Company will pay compensation following a management decision, and it has recognised a provision for this.

19. Other liabilities

Table 19.1. - Other liabilities

(HUF million)	31.12.2020	31.12.2019
Accruals and deferrals	305	423
Cancelled government grant	252	202
Other liabilities related to employees	560	693
Payment liabilities to tax authorities	103	63
Further other liabilities	15	0
Total other liabilities	**1 235**	**1 381**

20. Equity

20.1. Share capital

The Group's official, issued, called and fully paid share capital comprises 200,100 (31 December 2019: 200,100) shares, each with a nominal value of HUF 10,000 (31 December 2019: HUF 10,000). Issued shares are completely equal in the event of a liquidation.

20.2. Capital reserve

Capital reserve amounted to HUF 2,100 million as at 31 December 2020 and HUF 2,100 million as at 31 December 2019. Since the capital restructuring carried out during the merger of Lakáskassza-Wüstenrot Rt. and Fundamenta Rt. as of 1 July 2003 the amount of the capital reserve has not changed.

The value of the capital reserve did not change because the capital reserve is not directly distributable, the amount can change only in certain cases (withdrawal form capital reserve accompanied by asset withdrawal and transfer to other components of equity).

20.3. Retained earnings

The Group's retained earnings comprises the accumulated earnings of previous years less dividends paid to owners.

HUF 2,500 million was recognised both in 2020 and in 2019 as an item decreasing retained earnings. In accordance with the guidance from the Magyar Nemzeti Bank, HUF 557 million of the dividend approved in 2020 for 2019 has not yet been paid. Dividend per share was HUF 12,494/share in 2020 (2019: HUF 12,494/share).

After the reporting date the Group's management did not propose to pay dividend.

20.4. Statutory reserves

Settlement reserve

Rules relating to making settlement reserves are described in Note 7.18 e).

No settlement reserve was made in the reporting year.

General reserve

Rules relating to making and using general reserve are described in Note 7.18 e).

In the reporting year the Group made HUF 227 million general reserve from retained earnings (2019: HUF 700 million). The reserve was not used during the year.

21. Net interest income

21.1. Interest income

Table 21.1.1. - Interest income

(HUF million)	2020	2019
Interest income from cash and cash equivalents	177	8
Interest income from securities	4 564	5 283
Interest income from government bonds	*4 507*	*5 281*
Interest income from discounted Treasury bills	*47*	*2*
Interest income from mortgage bonds	*10*	*0*
Interest income from receivables from customers	24 827	24 421
Interest income from immediate bridging loans	*16 928*	*16 307*
Interest income from bridging loans	*5 027*	*5 234*
Interest income from housing loans	*2 872*	*2 880*
Interest income from lease transactions	*8*	*4*
Total interest income	**29 576**	**29 716**

HUF 29,640 million (2019: HUF 29,791 million) of interest income presented in the above table was accounted for using the effective interest method. In addition, the Group recognises the gain or loss from the modification of financial assets not resulting in derecognition as well as from change in the estimate relating to the expected cash flows of the instrument under interest income; this reduced interest income by HUF 64 million (2019: HUF 75 million).

21.2. Interest expense

Table 21.2.1. - Interest expense

(HUF million)	2020	2019
Interest expense on liabilities to customers	-7 024	-6 522
Interest expense paid on amounts paid by customers	*-5 731*	*-5 329*
Interest expense attributable to government grant	*-1 293*	*-1 193*
Negative interest income on financial assets	*-2*	*-5*
Interest expense on leases	*-244*	*-202*
Total interest expense	**-7 270**	**-6 729**

Interest expense rose due to the higher volume of deposits as well as to interest expense accounted for under IFRS 16 in relation to lease liabilities.

22. Net fee and commission income

22.1. Fee and commission income

Table 22.1.1. - Fee and commission income

(HUF million)	2020	2019
Fee and commission income from home savings transactions	2 192	2 306
Fee income from loans	244	347
Fee income from deposits	1 948	1 959
Other fee and commission income	1 003	1 005
Total fee and commission income	**3 195**	**3 311**

Other commission income arises from mediation of government securities and other bank and insurance products.

22.2. Fee and commission expense

Table 22.2.1. - Fee and commission expense

(HUF million)	2020	2019
Commission expense on loans	-100	-74
Commission expense on deposits	-497	-532
Other fee and commission expenses	-483	-596
Commission expense on securities transactions	-13	-11
Commission expense on mediation of government securities	-60	-73
Commission expense on payment transactions	-401	-465
Total fee and commission expense	**-1 554**	**-1 751**

23. Net trading expense

Table 23.1. - Net trading expense

(HUF million)	2020	2019
Foreign exchange differences	-473	-193
Total net trading income/expense	**-473**	**-193**

The significant change in the foreign exchange difference was caused by the weakening forint which relates mainly to lease liabilities under IFRS 16 denominated in FX.

24. Net profit arising from derecognition of financial assets and liabilities measured at amortised cost (AC)

Table 24.1. - Net gain arising from derecognition of financial assets measured at amortised cost

(HUF million)	2020	2019
Net gain arising from derecognition of securities measured at amortised cost	761	171
Government securities	*737*	*151*
Discounted Treasury bills	*24*	*20*
Total net gain arising from derecognition of financial assets and liabilities measured at amortised cost	**761**	**171**

Securities are classified by the Group as measured at amortised cost, and so the net profit/loss arising from their derecognition is recognised in the income statement under net profit/loss arising from derecognition of financial assets and liabilities measured at amortised cost. In 2019 the majority of the capital gain stemmed from being able to lower the PD rate in impairment calculations thanks to Hungary's improving debtor rating. In a smaller part, capital gain derived from pre-maturity sales of securities maturing in the reporting year, which would otherwise have been presented under interest income had they not been sold.

Under government bonds, the profit in the reporting year was driven by government bond sales at a volume below the limit set in the accounting policies. The sales were prompted by the need to reduce the interest rate risk in the banking book. The most effective way of achieving the required risk reduction was by selling securities from the books that had the longest remaining term. Alongside this basic motivation, the realised capital gain is merely a secondary outcome.

25. Change in impairment of financial assets and changes in credit provisions

Table 25.1. - Change in impairment of financial assets and changes in credit provisions

(HUF million)	2020	2019
Impairment of receivables from customers and reversal thereof	-2 116	-611
Impairment of securities and reversal thereof	-79	88
Impairment of other financial receivables and reversal thereof	-14	-22
Changes in provision for loan commitments	25	-27
Total changes in impairment of financial assets and in credit provisions	**-2 184**	**-572**

The increase in impairment on receivables from customers results from the year-end review of the impairment model, which was necessary due to the loan moratorium introduced for the pandemic period. For more details please refer to Note 36.

26. Other operating income

Table 26.1. - Other operating income

(HUF million)	2020	2019
Income accounted for upon free receipts	0	3
Income from damages	22	22
Income from training activities	23	40
Income from fees paid for the use of tablets, cars, offices	66	102
Tax refunds	21	34
Other income from non-home-savings division	0	26
Gain on sale of property, plant and equipment	3	1
Gain on sale of inventories (Fundamenta magazine, Smart money box, other inventories)	49	27
Miscellaneous income	96	82
Total other operating income	**280**	**337**

27. Other operating expenses

Table 27.1. - Other operating expenses

(HUF million)	2020	2019
NDIF annual fee, fee to the Resolution Fund	-521	-550
Special tax for financial institutions (PY special tax for credit institutions)	-1 081	-935
Other expenses due to tax	-26	-25
Free transfers, donations	0	-3
Impairment booked on intangible assets, plant, equipment, vehicles and other assets	0	-35
Loss on sale of property, plant and equipment	-1	-12
Miscellaneous expenses	-155	-130
Total other operating expenses	**-1 784**	**-1 690**

28. Operating costs

Table 28.1. - Personnel expenses

(HUF million)	2020	2019
Wage costs	-4 242	-4 420
Taxes and contributions	-831	-1 029
Other	-287	-140
Total personnel expenses	**-5 360**	**-5 589**

Year-end headcount as at 31 December 2020 was 667 (31 December 2019: 689).

Table 28.2. - Material-type expenses

(HUF million)	2020	2019
Office stationery	-1 193	-1 353
Building maintenance costs	-190	-215
Contributions and fees	-124	-82
Expenses of hired personnel	-7	-64
Advisory services	-449	-411
IT costs	-1 503	-1 377
Rentals	-238	-404
PR/marketing costs	-381	-726
Authorities	-190	-260
Other costs	-253	-240
Total material-type expenses	**-4 528**	**-5 132**

PR and marketing costs decreased due to events not held, services not ordered because of the pandemic.

Table 28.3. - Depreciation/ Amortisation

(HUF million)	2020	2019
Property, plant and equipment	-835	-677
Intangible assets	-1 201	-1 185
Right-of-use assets	-1 012	-951
Total	**-3 048**	**-2 813**

29. Income taxes

The Group considers corporate tax, local business tax and innovation contribution as income taxes. The taxable bases for the individual tax types differ.

In Hungary the standard rate of corporate tax is 9%, which is why the Group assumes this rate of tax when calculating tax. The corporate tax base is defined based on Act LXXXI of 1996 on Corporate and Dividend Tax.

The rate of local business tax is no more than 2%; the individual local governments can make their own decisions on the rate. The base for local business tax is the reporting-year sales revenue, less material costs, the cost of goods sold and the value of services re-invoiced within the Group, and adjusted for other reconciling items. Reporting-year sales revenue contains interest income along with the fee and commission income from home savings transactions. In addition, sales revenue also includes the exchange gain realised on securities as well as the revenue from sales of inventories and services. Other reconciling items include paid and payable fees and commissions accounted for in the financial year that reduced the amount of interest income.

The innovation contribution rate is 0.3% and is calculated using the same base as the local business tax.

29.1. Income tax booked for the current period

Table 29.1.1. - Income tax booked for the current period

(HUF million)	2020	2019
Current income tax		
Income tax on profit for the year	-1 266	-1 986
Total current income tax (expense (+)/ income (-))	**-1 266**	**-1 986**
Deferred tax expense		
Origination and reversal of temporary differences	112	388
Total deferred tax expense (+) / income (-)	**112**	**388**
Total income tax	**-1 154**	**-1 598**

29.2. Income tax recognised in the statutory reserve

The Group recognises deferred tax on the settlement reserve in the statutory reserve; it amounted to HUF 688 million as at 31 December 2020 (31 December 2019: HUF 688 million).

29.3. Reconciliation of effective tax rate

The table below presents quantitative reconciliation of income tax calculated based on accounting profit and the income tax recognised in profit or loss for the year, as well as the applicable tax rate (9% corporate tax, 2% local business tax, 0.3% innovation contribution) and the average effective tax rate.

Table 29.3.1. - Reconciliation of effective tax rate

(HUF million)		2020		2019
	%	Amount	%	Amount
Profit before tax		5 225		9 066
Tax calculated using the Company's domestic tax rate	-9,00%	-470	-9,00%	-816
Local tax and innovation contribution	-10,11%	-528	-11,95%	-1 083
Tax effect of permanent differences	6,23%	326	0,52%	46
Transfer of tax difference due to transition	-3,46%	-181	-4,34%	-393
Tax effect of recognition of previously unrecognised tax losses	-0,32%	-17	-0,62%	-56
Other	-5,41%	-284	7,77%	704
Total income tax	**-22,08%**	**-1 154**	**-17,62%**	**-1 598**

29.4. Movement in deferred tax balances

The Board of Directors of the Group decided that taking advantage of the option provided for by laws the Group shall use any expenses arising because of the tax difference due to transition in 3 equal instalments in the tax base of the tax year of the transition and of the 2 following tax years. In the tax year of the transition and the next tax year the Company could not use its deferred tax credits that relate to the local business tax and innovation contribution. The reason behind is that the mentioned tax and contribution were calculated based on the minimum tax base in 2019, while in 2019 the Company applied for the use of the option to calculate such levies in accordance with Hungarian accounting rules. Thus 2020 is the first year when the tax base is calculated under IFRS, therefore these tax assets shall be used in 2020 and the two following years. These are the main reason for the HUF 112 million fall in the net balance of deferred tax.

Table 29.4.1. - Movement in deferred tax balances

(HUF million)	Net balance at 01.01.2020	Recognised in profit or loss	Recognised in other comprehensive income	Net balance at 31.12.2020		
				Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	-33	-7	0	-40	-40	0
Securities	-1	-2	0	-3	-3	0
Loan transaction cost	78	-402	0	-324	-324	0
Deposit transaction cost	1 753	115	0	1 868	1 868	0
Allowance for expected credit losses	5	-3	0	2	2	0
Settlement reserve	-688	0	0	-688	-688	0
Other provisions	-78	-52	0	-130	-130	0
Other	-200	463	0	263	263	0
Tax assets (+) / Tax liabilities (-)	**836**	**112**	**0**	**948**	**948**	**0**

(HUF million)	Net balance at 01.01.2019	Recognised in profit or loss	Recognised in other comprehensive income	Net balance at 31.12.2019 Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment; intangible assets	-2	-31	0	-33	-33	0
Securities	-5	4	0	-1	-1	0
Loan transaction cost	-4	82	0	78	78	0
Deposit transaction cost	932	821	0	1 753	1 753	0
Allowance for expected credit losses	0	5	0	5	5	0
Settlement provision	-688	0	0	-688	-688	0
Other provisions	180	-258	0	-78	-78	0
Other	35	-235	0	-200	-200	0
Tax assets (+) / Tax liabilities (-)	**448**	**388**	**0**	**836**	**836**	**0**

30. Other disclosures

30.1. Group structure

Fundamenta-Lakáskassza Pénzügyi Közvetítő Korlátolt Felelősségű Társaság.

The parent company is the sole owner (31 December 2019: 100%) of Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft. The carrying amount of the interest as of 31 December 2020 was HUF 459 million (31 December 2019: HUF 459 million), no impairment was recognised.

Equity and reserves of the subsidiary:

Table 30.1.1. - Equity and reserves of Fundamenta-Lakáskassza Kft.

(HUF million)	31.12.2020	31.12.2019
Registered capital	150	150
Capital reserve	306	306
Retained earnings	1 650	2 374
Profit for the year	1 089	-724
Total equity components of the subsidiary	**3 195**	**2 106**

Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Korlátolt Felelősségű Társaság.

The parent company established Fundamenta Értéklánc Ingatlanközvetítő és Szolgáltató Kft. in 2019; it is the sole owner of the subsidiary. The deed of foundation of the subsidiary is dated 18 March 2019. The carrying amount of the interest as of 31 December 2020 was HUF 900 million (31 December 2019: HUF 900 million), no impairment was recognised.

Equity and reserves of the subsidiary:

Table 30.1.2. - Equity and reserves of Fundamenta Értéklánc Kft.

(HUF million)	31.12.2020	31.12.2019
Registered capital	50	50
Capital reserve	850	850
Retained earnings	-79	0
Loss for the year	-187	-79
Total equity components of the subsidiary	**634**	**821**

30.2. Leases

The Group acting as a lessee

As a lessee, the Group has property, warehouse and motor vehicle lease transactions. The property leased by the Group under a lease contract in Budapest is used as its registered office and customer service office. The contracts contain no restrictions, purchase or termination options or escalation clauses. Most leasing contracts include an extension option, the vast majority of which can only be exercised by the Group.

The accounting policy on leases is included in Note 7.12.

Table 30.2.1. - Carrying amount of property, plant and equipment and right-of-use assets

(HUF million)	2020	2019
Property, plant and equipment owned	3 991	4 345
Right-of-use assets, except for investment property	5 941	6 286
Total	**9 932**	**10 631**

Table 30.2.2. - Changes in right-of-use assets

(HUF million)	Property	Vehicles	Total
Balance at 1 January 2019	471	457	928
Additions	6 633	0	6 633
Other decrease	-317	-7	-324
Depreciation charge for the year	-771	-180	-951
Balance at 1 January 2020	***6 016***	***270***	***6 286***
Additions	893	8	901
Other decrease	-232	-2	-234
Depreciation charge for the year	-854	-158	-1 012
Balance at 31 December 2020	***5 823***	***118***	***5 941***

See Table 32.2.3 for the maturity analysis of lease liabilities.

Table 30.2.3. - Fixed and variable lease payments

(HUF million)			31.12.2020
	Fixed cash outflows	Variable cash outflows	Total
Contracts containing fixed lease payments	98	0	98
Contracts containing only variable lease payments	0	908	908
Total	**98**	**908**	**1 006**

(HUF million)			31.12.2019
	Fixed cash outflows	Variable cash outflows	Total
Contracts containing fixed lease payments	126	0	126
Contracts containing only variable lease payments	0	696	696
Total	**126**	**696**	**822**

A 1% growth in the consumer price index would increase the amount of variable lease payments by 1%.

Table 30.2.4. - Disclosures related to the statement of profit or loss and the statement of cash flows

(HUF million)	2020	2019
Interest on lease liabilities	-244	-202
Variable lease payments not included in the measurement of lease liabilities	-230	-195
Income from sub-leasing right-of-use assets	57	91
Expenses relating to short-term leases	0	-197
Total cash outflow for leases	**-1 006**	**-822**

The Group presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and lease liabilities in 'Other non-current financial liabilities' and 'Trade and other current liabilities' in its statement of financial position.

After the commencement date, the Group recognises in profit or loss, unless the costs are included in the carrying amount of another asset, the interest on the lease liability in 'Net finance income/expense', and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs in 'Material-type expenses'. The Group recognises depreciation of the right-of-use asset in profit or loss in 'Depreciation'.

The Group acting as a lessor

The Group leases out cars owned by the Group to sales agents and sub-leases leased offices and motor vehicles, which are classified as operating leases under IFRS 16 and are accounted for as such. Furthermore, it leases out a rented office space to an external third party; this transaction is classified and accounted for as a finance lease. Effective from 1 November 2020, leases to third parties are contracted exclusively through Fundamenta Értéklánc Kft.

Table 30.2.5. - Lease income as lessor

(millió Ft)	2020	2019
Finance lease		
Profit from sales	22	12
Finance income on the net investment in the lease	30	5
Operating lease		
Lease income	64	100

Table 30.2.6. - Lessor operating leases

(HUF million)	31.12.2020	31.12.2019
Less than one year	74	86
One to two years	75	84
Two to three years	82	89
Three to four years	87	93
Four to five years	91	96
Total undiscounted lease payments	**409**	**448**

Table 30.2.7. - Lessor finance leases

(HUF million)	31.12.2020	31.12.2019
Less than one year	63	30
One to two years	63	31
Two to three years	63	30
Three to four years	63	28
Four to five years	63	28
More than five years	192	117
Total undiscounted lease payments receivable	**507**	**264**
Unearned finance income	**58**	**33**
Net investment in the lease	**449**	**231**

Right-of-use assets leased out or sub-leased under operating leases are presented in the statement of financial position in 'Property, plant and equipment' in line with their nature.

30.3. Related party disclosures

Balances of business transactions with related companies

In the financial statements the Group defines related parties as follows:

A person or a close member of that person's family is related to the Group if that person has control or joint control, or has significant influence over the Group, or is a member of the key management personnel of the Group or of a parent of the Group.

An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group;
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- The entity is controlled or jointly controlled by a person identified above;
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Table 30.3.1. - Balances with related parties

(HUF million)	Parent company	Key management personnel of the Company or its parent company	Other related parties
			31.12.2020
Assets			
Receivables from customers	0	0	18
Liabilities			
Liabilities to customers	0	17	24
Provisions	0	228	0
Other liabilities	0	64	0

(HUF million)	Parent company	Key management personnel of the Company or its parent company	Other related parties
			31.12.2019
Assets			
Receivables from customers	0	2	19
Liabilities			
Liabilities to customers	0	21	20
Provisions	0	164	0
Other liabilities	0	38	0

Table 30.3.2. - Related party transactions

(HUF million)			2020
	Parent company	Key management personnel of the Company or its parent company	Other related parties
Comprehensive income			
Interest income	0	0	1
Personnel expenses	0	-392	0
Material-type expenses	-22	-24	0
Dividend			
Dividends paid	1 281	0	0

(HUF million)			2019
	Parent company	Key management personnel of the Company or its parent company	Other related parties
Comprehensive income			
Interest income	0	0	1
Other operating expenses	0	-1	0
Personnel expenses	0	-426	0
Material-type expenses	-12	0	0
Dividend			
Dividends paid	1 281	0	0

Key management personnel are those who – directly or indirectly – have the authorisation and responsibility to plan, direct and control the Group's activity. The members of the Company's and the parent company's Supervisory Board and Board of Directors are considered key management personnel.

Remuneration of key management personnel

The table below presents remuneration of key management personnel:

Table 30.3.3. - Remuneration of key management personnel

(HUF million)	2020	2019
Short-term employee benefits	334	322
Other long-term benefits	82	104
Total	**416**	**426**

Remuneration of key management personnel includes their wages, in-kind benefits and related taxes.

Benefits under IAS 24.17 (b) and (d) are not relevant for the Group.

Table 30.3.4. - Remuneration of the members of the Board of Directors and the Supervisory Board

(HUF million)	2020	2019
Members of the BoD	412	417
Supervisory Board members	5	9
Total	**417**	**426**

30.4. Off-balance sheet items

Legal disputes

Up to the reporting date various claims were reported against the Group and various legal proceedings were in progress which belong to the ordinary course of business based on their nature.

In the Group's opinion, the claims against it and the litigated receivables do not affect materially its financial position, future results of operations or cash flows, although the outcome of claims and litigated receivables cannot be guaranteed. Nonetheless, the amount of provision recognised owing to legal disputes totalled HUF 2 million as of 31 December 2020 and HUF 5 million as of 31 December 2019. (See Note 18.1).

Loan commitment

The primary goal of these instruments is for the Group to make funds available to its customers as required.

The Group makes loan commitments for the undrawn parts of authorisable loan facilities. With regard to the credit risk of loan commitments the Group is potentially exposed to a risk of loss equal to the entire amount of the undrawn commitment. Nonetheless, the probable amount of the loss is lower than the entire amount of the undrawn commitment facility since most loan commitments are subject to customers meeting certain creditworthiness requirements.

Similar credit risk monitoring and lending rules apply for undrawn loan commitments as for lending. According to the Group's management, the market risk connected to undrawn loan commitments is minimal.

Contingent assets

As at 31 December 2020 the Group has HUF 155 million (31 December 2019: HUF 155 million) contingent litigated assets.

30.5. Subsequent events

Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. These can be adjusting events (providing evidence of conditions that existed at the end of the reporting period) and non-adjusting events (events occurring after the end of the reporting period).

When compiling its financial statements the Group took into account all adjusting events after the reporting period.

The MNB published its management circular after the reporting date, based on which it establishes a set system of rules for dealing with transactions under the moratorium for more than 9 months. In line with the EBA guidelines, loan instruments are essentially deemed restructured after 9 months of the moratorium, for which the increased risk parameter should be applied. This circular also defines the conditions for transferring to Stage 2 of transactions affected by the moratorium, as well as the exemptions from this transfer. The methodology applied by the Group is based on identifying hidden Stage 3 portfolios by processing available information with modelling tools. The surplus impairment calculated based on identifying the hidden Stage 3 portfolio was accounted for using the effective interest rate method for the Stage 1 - Stage 2 portfolios applying the management overlay. The recommendation of the January circular that the contracts in question should be transferred to Stage 2 after 9 months would just affect this logic in terms of the rating, but not likely the profit/loss in 2020, since the impairment allowance calculated for the hidden Stage 3 portfolio does not change just because the proportion of Stage 1 and Stage 2 portfolios changes. Consequently, and based on the practical guidance in the management circular, the Group does not carry out this transfer retrospectively for contracts under the moratorium for more than 9 months in December 2020.

Table 30.4.1 - Loan portfolio 31.12.2020

Stage	Actual staging (HUF billion)	Staging based on MNB management circular if it had been applied in 2020 (HUF billion)
Stage 1	437,7	323,2
Stage 2	40,0	154,5
Stage 3	5,8	5,8
Total	**483,5**	**483,5**

Further to the above there were no business events after the reporting date that would influence the true and fair view presented about the Group.

30.6. IT systems

The following IT systems support the Group's financial/accounting/treasury processes:

- Moonsol account management system,
- CODA general ledger application,
- Application supporting Érték sales processes,
- Clavis securities system,
- funIZSR GIRO management,
- SPECTRA electronic banking administration,
- Abacus working hours and payroll system,
- WebBankár CRM system/client master.

The applications include systems developed by the Group itself and others coded by external partners.

The Group relies on both administrative and technical controls to ensure its IT security. Access to the entire IT system is only permitted via a pre-defined access management process.

For the purposes of enhancing availability, the Group operates test systems and only allows programme developments and modifications to go live in an operational setting in a strictly regulated manner and after appropriate testing.

The Group uses a central data backup system to prevent data loss; the archived backups are stored in physically separate and remote data centres, and recovery tests are employed to ensure the integrity of the saved data.

The Group has Business Continuity Planning (BCP) in place for all its business-critical systems and processes, which is regularly tested in coordination with security management.

31. Categories of financial instruments

The Group records its financial instruments in the amortised cost category.

32. Management of financial risk

The Group is exposed to the following main risks derived from financial instruments:

- credit risk
- liquidity risk
- market risk (including currency and interest rate risk).

This Note presents information about the Group's exposure to the above risks, the Group's objectives, policies and processes for measuring and managing risks.

32.1. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. For the Group, it essentially arises in the case of loans and advances to customers and other banks and partners as well as the investment securities held by the Group.

a) Credit risk management

The Group is a specialised credit institution with lending activities, with a conservative lending policy and risk appetite, which manages its risks bearing the principle of prudence in mind. The Group's executive body is committed to controlling its risk exposures to ensure that all of the risks assumed by the Group do not jeopardise the stable operation of the credit institution in either the short or the long run. The Group shapes its risk assumption, risk management and control procedures such that they support its secure operations.

The Group ensures that it elaborates, implements and executes the right standard of risk management procedure by engaging an independent risk management organisation.

The Group's procedure for assuming risks consists of identifying, measuring, managing and strictly monitoring risks. In terms of measurement methods the Group strives to select the best methodology that properly reflects its risk profile, and is the best tool for estimating potential losses from risks. Prior to introducing new products and services and for all material risk types the Group assesses the risks of the product and defines the risk management methods, including the monitoring activity. The risk strategy is consistent with and based on the long-term business plan, and it determines limits for the key risks that define the Group's risk profile.

Credit risks are managed at the Strategic Risk Management Directorate. Strategic Risk Management is responsible for planning and measuring credit risks and risk costs. This task is carried out via the following departments.

- Operative Risk Management ensures the risk management data infrastructure, the central valuation of collateral and regulations. It plans, updates, backtests and develops the debtor rating system, risk costs as well as internal and external risk reports.
- The Work Out department monitors and collects loan receivables that are in arrears. Cash flows from the transactions are generated via individual rescheduling agreements, or, failing all else,

then by claiming collateral.

- The Special Decisions department assesses the loan transactions referred for an individual decision by the debtor rating system based on a submission from Back Office, and may only approve such transactions if this is supported by the submitting party.
- The Product Risk department supports the development of new-risk products, the performance analysis of existing product portfolios as well as lending processes.

Alongside the Strategic Risk Management Directorate, the Compliance Directorate as well as the Security Management Directorate also play key roles in shaping risk awareness and operating risk management processes.

The Risk Board convenes every month and checks the work of risk management areas based on the risk management strategy; it makes decisions on submissions regarding risk management issues as well as on ensuring the personnel and material conditions required to implement the Strategy.

Alongside coordination from the Strategic Risk Management Directorate, the general rules and conditions for undertaking credit risks in line with the corporate strategy are developed in cooperation with the areas affected – Controlling, Legal, Compliance, Market Management, Back Office, Internal Audit.

The Audit and Risk Management Committee operates as part of the Supervisory Board. It makes proposals to the Supervisory Board with due consideration of observations from financial reporting and the audit, risk management, internal audit and compliance. It convenes before the meetings of the Supervisory Board. In terms of its meetings and decision-making processes it follows the rules applicable for the Supervisory Board, and a majority vote is required from the Committee members for each decision.

Underwriting

Credit risk management is carried out by several areas within the organisation. Individual underwriting decisions related to the granting of loans are taken by the Decisions group of the Risk Management department in accordance with the rules set forth in the Underwriting policy. For loan placements in excess of the amount recorded in the Competence Policy, and in the other cases defined in the Censor Committee Policy, risk management adopts its decisions in cooperation with the Censor Committee.

The ongoing management of credit risks at portfolio level is conducted by the Operative Risk Management department, and at operative level by the Work Out department. They are responsible for ongoing monitoring, proposals for modifying the loan assessment system and policies, initiating sanctions against customers in arrears where necessary, cancellation recommendations, management of cancelled contracts and outsourcing it to law offices to claim receivables through legal channels. The Work Out department also handles the examinations of cases suspected of fraud, and makes recommendations on introducing procedures to prevent fraud.

The product risk management function was set up within the Strategic Risk Management Directorate, which provides risk support for the development of new loan products as well as measuring the parameters and associated risks of existing products by applying a risk-return concept.

Limit system

The Group uses a limit system to restrict the assumption of credit risks.

The main principle applied when determining credit risk limits is compliance with the provisions of the Home Savings and Loans Act, furthermore, that the limits must always relate to the quality of the economic/financial situation, creditworthiness and solvency of those subject to the limits.

The Group introduced a limit system for business loans from 2011. The upper – statutory – limit of the system is that 90% of the free assets may be used to grant bridging loans (including the immediate bridging loans that used to be distinguished by law). The Group introduced voluntary limits for immediate bridging loans (AÁK) limits with regard to risky portfolios.

In the segments where the expected risk of placed loans is higher, or unknown, the Group uses limits to restrict the volume that may be placed. The limits are defined in connection with the risks that can still be assumed, while changing them depends on the recovery of the portfolio.

Different policies define the terms and conditions for product limits on housing loans as well as bridging and immediate bridging loans. In the case of housing loans the product limit only changes in the event of a modified tariff or the introduction of a new tariff, while for bridging loans the limit applied is in line with Section 15 (4) of the Home Savings and Loans Act, which is modified when the Home Savings and Loans Act is amended.

Reporting

Operative Risk Management is responsible for constantly monitoring and analysing credit risks.

The head of Strategic Risk Management, or his/her representative, reports on the quality of the portfolio every month at the Risk Board meetings.

One standing item on the agendas of the Supervisory Board meetings is the report on the size, development and quality of the loan portfolio. Determining the basic general principles of the business policy (including guidelines for lending activity) is a task for the General Meeting.

Monthly and quarterly summaries and analyses are prepared on the quality of the loan portfolio. These are prepared by staff at the Risk Management department. The analyses are prepared per type of loan, highlighting certain loan conditions based on the given risk level, and look at the impact of certain parameters on quality. The examined parameters were previously defined on the basis of professional consultations. The results of the analyses are monitored and evaluated on a monthly basis.

In addition to the above, Process Management prepares a monthly Loan Cockpit, which is regularly reviewed and evaluated by the areas of process management, risk management and market management, making recommendations to the Board of Directors regarding the implementation of further actions where applicable.

Monitoring

The Risk Board is responsible for the ongoing supervision of the Group's lending activity; the ongoing supervision of the collection and workout activity; the risk supervision of the loan portfolio, for requesting reports on the operating risks arising at the Group, and for accepting any measures. In addition, the Risk Board ensures an optimal flow of information and communication between the organisational units, detects and discusses the problems arising during the Group's operations; it makes decisions to handle the problems or puts forward proposals.

The Risk Board has no decision-making rights regarding loan transactions.

Main duties of the Risk Board:

- design and approve the risk management strategy based on the risk appetite statement accepted by Board of Directors;
- implement the risk control function;
- risk management monitoring of the loan portfolio;
- monitoring of operational risks;
- monitoring of collection and workout activity;
- definition, implementation and monitoring of risk limits for the loan portfolio in line with the risk strategy;
- collaboration regarding the performance of ICAAP-related tasks, particularly with regard to loan portfolio questions, ensuring the necessary input, reports, recommendations and observations;
- providing information to the Board of Directors on a regular basis on decisions adopted by the Risk Board.

b) Credit quality analysis

The following table provides information on the credit quality of financial assets and loan commitments measured at amortised cost.

The definitions for 12-month expected credit loss, lifetime expected credit loss and credit-impaired financial assets are contained in Note 7.4.

Table 32.1.1. - Classification by credit quality category

(HUF million)	12-month expected credit loss	Lifetime expected credit loss Not credit-impaired	Lifetime expected credit loss Credit-impaired	31.12.2020 Total
Receivables from customers at amortised cost				
Arrears of 0 day	*435 410*	*36 658*	*0*	***472 068***
Arrears for no more than 1 month	*2 506*	*1 142*	*0*	***3 648***
Arrears for no more than 2 month	*0*	*1 156*	*0*	***1 156***
Arrears for no more than 3 months (not default)	*0*	*1 049*	*0*	***1 049***
More than 3 months, not significant	*0*	*10*	*0*	***10***
Arrears for more than 90 days but not more than 3 months, significant	*0*	*0*	*14*	***14***
More than 3 months, significant	*0*	*0*	*900*	***900***
Restructured	*0*	*0*	*2 624*	***2 624***
Objective evidence	*0*	*0*	*214*	***214***
Associated due to Basel	*0*	*0*	*107*	***107***
Cancelled	*0*	*0*	*1 165*	***1 165***
Persistence	*0*	*0*	*309*	***309***
Watch list due to associated contract	*0*	*0*	*425*	***425***
Total gross value	**437 916**	**40 015**	**5 758**	**483 689**
Impairment allowance	*-3 052*	*-516*	*-3 459*	***-7 027***
Total net carrying amount	**434 864**	**39 499**	**2 299**	**476 662**

Cash and cash equivalents at amortised cost				
BB	*0*	*0*	*0*	***0***
BBB	*58 156*	*0*	*0*	***58 156***
Total gross value	**58 156**	**0**	**0**	**58 156**
Impairment allowance	*0*	*0*	*0*	***0***
Total net carrying amount	**58 156**	**0**	**0**	**58 156**
Securities that are debt instruments, at amortised cost				
BBB	*137 585*	*0*	*0*	***137 585***
A2	*3 066*	*0*	*0*	***3 066***
Total gross value	**140 651**	**0**	**0**	**140 651**
Impairment allowance	*-127*	*0*	*0*	***-127***
Total net carrying amount	**140 524**	**0**	**0**	**140 524**
Other financial receivables - lease receivables				
Number of days in default: 0-30	*449*	*0*	*0*	***449***
Number of days in default: 31-90	*0*	*0*	*0*	***0***
Number of days in default: 91-	*0*	*0*	*0*	***0***
Total gross value	**449**	**0**	**0**	**449**
Impairment allowance	*-13*	*0*	*0*	***-13***
Net carrying amount	**436**	**0**	**0**	**436**
Other financial receivables - other				
Number of days in default: 0-30	*0*	*658*	*0*	***658***
Number of days in default: 31-90	*0*	*24*	*0*	***24***
Number of days in default: 91-	*0*	*0*	*60*	***60***
Total gross value	**0**	**682**	**60**	**742**
Impairment allowance	*0*	*-13*	*-5*	***-18***
Net carrying amount	**0**	**669**	**55**	**724**
Loan commitments				
Arrears of 0 day	*7 916*	*0*	*0*	***7 916***
Arrears for no more than 1 month	*57*	*0*	*0*	***57***
Arrears for no more than 2 months	*53*	*0*	*0*	***53***
Arrears for no more than 3 months (not default)	*50*	*0*	*0*	***50***
More than 3 months, not significant	*21*	*0*	*0*	***21***
Arrears for more than 90 days but not more than 3 months, significant	*0*	*0*	*9*	***9***
More than 3 months, significant	*0*	*0*	*4*	***4***
Persistence	*0*	*0*	*3*	***3***
Watch list due to associated contract	*0*	*0*	*25*	***25***
Total loan commitments	**8 097**	**0**	**41**	**8 138**
Impairment allowance (provision)	**-77**	**0**	**0**	**-77**

(HUF million)	12-month expected credit loss	Lifetime expected credit loss Not credit-impaired	Lifetime expected credit loss Credit-impaired	31.12.2019 Total
Receivables from customers at amortised cost				
Arrears of 0 day	421 672	21 243	0	**442 915**
Arrears for no more than 1 month	2 792	610	0	**3 402**
Arrears for no more than 2 months	0	1 078	0	**1 078**
Arrears for no more than 3 months (not default)	0	21	0	**21**
More than 3 months, not significant	0	3	0	**3**
Arrears for more than 90 days but not more than 3 months, significant	0	0	1 105	**1 105**
More than 3 months, significant	0	0	1 255	**1 255**
Restructured	0	0	2 718	**2 718**
Objective evidence	0	0	270	**270**
Cancelled	0	0	1 395	**1 395**
Persistence	0	0	1 576	**1 576**
Watch list due to associated contract	0	0	1 141	**1 141**
Total gross value	**424 464**	**22 955**	**9 460**	**456 879**
Impairment allowance	-752	-139	-3 823	**-4 714**
Total net carrying amount	**423 712**	**22 816**	**5 637**	**452 165**
Cash and cash equivalents at amortised cost				
BB	3 000	0	0	**3 000**
BBB-	54 276	0	0	**54 276**
Total gross value	**57 276**	**0**	**0**	**57 276**
Impairment allowance	0	0	0	**0**
Total net carrying amount	**57 276**	**0**	**0**	**57 276**
Securities that are debt instruments, at amortised cost				
BBB-	109 513	0	0	**109 513**
Total gross value	**109 513**	**0**	**0**	**109 513**
Impairment allowance	-101	0	0	**-101**
Total net carrying amount	**109 412**	**0**	**0**	**109 412**
Other financial receivables - lease receivables				
Number of days in default: 0-30	*231*	*0*	*0*	***231***
Number of days in default: 31-90	*0*	*0*	*0*	***0***
Number of days in default: 91-	*0*	*0*	*0*	***0***
Total gross value	**231**	**0**	**0**	**231**
Impairment allowance	*-9*	*0*	*0*	***-9***
Net carrying amount	**222**	**0**	**0**	**222**
Other financial receivables - other				
Number of days in default: 0-30	*0*	*383*	*0*	***383***
Number of days in default: 31-90	*0*	*9*	*0*	***9***
Number of days in default: 91-	*0*	*63*	*0*	***63***
Total gross value	**0**	**455**	**0**	**455**
Impairment allowance	*0*	*-21*	*0*	***-21***
Net carrying amount	**0**	**434**	**0**	**434**

Loan commitments				
Arrears of 0 day	11 352	0	0	**11 352**
Arrears for no more than 1 month	149	0	0	**149**
Arrears for no more than 2 months	80	0	0	**80**
Arrears for no more than 3 months (not default)	21	0	0	**21**
More than 3 months, not significant	10	0	0	**10**
More than 3 months, significant	0	0	49	**49**
Watch list due to associated contract	0	0	27	**27**
Total loan commitments	**11 612**	**0**	**76**	**11 688**
Impairment allowance (provision)	**-101**	**0**	**-1**	**-102**

Cash and cash equivalents

The Group's cash and cash equivalents as of 31 December 2020 totalled HUF 58,156 million (31 December 2019: HUF 57,276 million). Cash and cash equivalents comprise amounts deposited at central banks and at credit institution partners with at least a rating of between AAA and BB based on the ratings from the three most well-known ratings agencies (Fitch, Moody's, S&P).

c) Collateral and other credit enhancements

In relation to certain credit risk exposures the Group accepts collateral and other credit enhancements. The following table presents the basic collateral accepted in relation to various financial assets.

Table 32.1.2. - Collateral

(HUF million)	Ratio of exposures subject to collateral requirements (%)		Basic type of collateral
	31.12.2019	31.12.2018	
Receivables from customers - Retail customers			
Immediate bridging loans	99,98%	99,98%	property collateral
Bridging loans	98,13%	97,53%	property collateral
Housing loans	86,99%	86,17%	property collateral
Receivables from customers - Multi-occupational buildings			
Immediate bridging loans	0,26%	0,30%	property collateral
Bridging loans	0,00%	0,00%	property collateral
Housing loans	0,10%	0,16%	property collateral

Retail mortgage lending

The following tables group the credit risk exposure of mortgage loans and advances to retail customers based on the loan-to-value (LTV) ratio. The loan-to-value ratio shows the gross value of the loan (for loan commitments, the amount of the commitment) relative to the value of the collateral. The collateral value of mortgage loans associated with residential properties is based on the collateral value valid at the time of the loan disbursement, which is remeasured in accordance with Basel requirements.

Table 32.1.3. - Loan-to-value ratio (LTV) of mortgage loans

(HUF million)	31.12.2020	31.12.2019
Less than 50%	218 145	199 479
51-70%	128 313	119 337
71-90%	101 388	102 333
91-100%	9 468	9 886
Over 100%	26 197	25 720
Loan receivables total gross portfolio	**483 511**	**456 755**

Table 32.1.4. - Loan-to-value ratio (LTV) of credit-impaired loans

(HUF million)	31.12.2020	31.12.2019
Less than 50%	2 661	3 558
51-70%	1 800	3 055
Over 70%	1 297	2 847
Impaired loan receivables total gross portfolio	**5 758**	**9 460**

Table 32.1.5. - Loan-to-value ratio (LTV) of mortgage loan commitments

(HUF million)	31.12.2020	31.12.2019
Less than 50%	3 399	4 774
51-70%	2 067	2 767
71-90%	2 161	3 467
91-100%	179	190
Over 100%	332	490
Total	**8 138**	**11 688**

Other collateral and credit enhancements

In the event the debtor defaults on payment, the purpose of the collateral is for the Group to use it to recover all its receivables from the debtor – costs, transaction and default interest as well as the principal.

Only the following real collateral (and combinations thereof) may be accepted as security for bridging and immediate bridging loans granted by the Group: mortgage right, general mortgage, property insurance securing the collateral property, security deposit, assignment, risk life insurance. Non-real collateral may include the following: surety, lien on income from common charges, lien on income from rents, debt recognition, immediate collection (immediate debt collection).

In line with statutory requirements the Group appraises residential properties every three years, and non-residential properties every year. The prevailing portfolio is revised in stages, at least annually.

As of 31 December 2020 the Group had no financial instruments which had not been impaired on account of collateral.

d) Amounts arising from expected credit loss

Inputs, assumptions and methods used to estimate impairment

See Note 7.4 on accounting policies.

Significant increase in credit risk

To determine whether the risk of default of a financial instrument has risen significantly since initial recognition, the Group takes into account all reasonable and supportable information that is available without undue cost or effort. This includes quantitative and qualitative information and analysis based on the Group's historical experience, creditworthiness examinations and forward-looking information.

The objective of the assessment is for the Group to identify, whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; and
- the remaining lifetime probability of default as at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk rating grades

The Group classifies all exposures into credit risk rating grades based on experience of creditworthiness assessments and based on data predictive of the default risk. The credit risk rating grades are defined based on qualitative and quantitative factors that are indicative of the probability of default.

The Group differentiates between twelve credit risk rating grades.

Performing rating grades:

1. No arrears
2. Arrears for no more than 1 month
3. Arrears for no more than 2 months
4. Arrears for no more than 3 months
5. More than 3 months, not significant

Non-performing rating grades:

6. Arrears for more than 90 days but not more than 3 months, significant
7. More than 3 months, significant
8. Restructured
9. Objective evidence
10. Associated due to Basel
11. Cancelled
12. Persistence
13. Watch list due to associated contract

The *No arrears* grade includes contracts where there are no transactions in default. Arrears with both deposits and loans must be taken into account with regard to arrears.

The grade of *Arrears for no more than 1 month* includes contracts where there is a transaction in default and the number of days in default is greater than zero but no more than 31.

The grade of *Arrears for no more than 2 months* includes contracts where there is a transaction in default and the number of days in default is greater than 31 but no more than 62.

The grade of *Arrears for no more than 3 months* includes contracts where there is a transaction in default and the number of days in default is greater than 62 but no more than 92 (in the case of 91 and 92 days only the non-significant debts are included).

The *More than 3 months, not significant* grade contains the contracts where the number of days in default is greater than 92 but the arrears are not significant.

If the significant defaulted loan obligation for the transaction has persisted for more than 90 days, i.e. the arrears have prevailed for 91 or 92 days and qualify as significant, it falls into the *Arrears for more than 90 days but not more than 3 months, significant* grade.

The contracts classified in the *More than 3 months, significant* grade have arrears for more than 92 days which are significant.

The *Restructured* grade lists the transaction contracts which were subject to distressed restructuring – in the form of a repayment agreement – and are in restructuring phase 1 or 2 at the time of the rating.

The *Objective evidence* grade contains contracts where there is objective evidence triggering a default.

At the "Associated due to Basel" category it is examined whether contracts have an associated contract on borrower lines backed by property accepted under BASEL (including cases where there is not only property accepted by BASEL behind the contract, or the entire exposure is not covered by BASEL property) and it is labelled "Default", or if there is an associated contract on borrower lines that is not a retail loan contract and it is labelled "Default".

The *Cancelled* grade contains contracts that have been cancelled.

The *Persistence* grade includes contracts which had significant debts of 90+ days or objective evidence triggering a default on at least one occasion during the last three ratings, yet which currently have no criteria triggering a default.

The *Watch list due to associated contract* grade includes contracts that fall under Stage 1 or Stage 2 in their own right, but have connections to Stage 3 contracts based on debtor groups.

Upon initial recognition, the Group classifies all exposures into one of the credit risk rating grades based on information available on the debtor. The exposures are constantly reviewed, which can mean that over time an exposure must be classified into a different credit risk rating grade. The reviews generally draw on the following data:

Defining the term structure of probability of default

Credit risk rating grades are the most important inputs for determining the probability of defaults (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by product and customer type as well as by credit risk rating grade.

The Group applies statistical models to analyse the data collected as well as to estimate the lifetime expected PD of the exposures and what change is expected in them as time progresses.

This analysis includes the identification and calibration of the relationship between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of other factors (for example restructuring experience) on default risk. Key macro-economic factors for most exposures: GDP growth, expansion of the retail loan market.

The purpose of estimating the PD parameter is to quantify the probability of default of a given transaction at the Group. The aim of the PD segmentation is to group the portfolio transactions into homogeneous risk groups (from a PD parameter perspective) based on legal type (non-natural persons / natural persons), product type (housing loan / immediate bridging loan / bridging loan), coverage (secured / unsecured) and loan conditions (for immediate bridging loans, 0 or 1 year). The Group determined its

PD curves with the help of survival functions applied to the historical default rates of segments with the same risks (Weibull distributions).

Determining whether credit risk has risen substantially

In accordance with IFRS 9, transactions must be classified into 3 types, so-called "stages".

- Stage 1: The transaction's credit risk has not deteriorated significantly since its initial recognition. Calculation of 12-month expected loss is required.
- Stage 2: The transaction's credit risk has deteriorated significantly since its initial recognition. Calculation of lifetime expected loss is required.
- Stage 3: One or more negative events have occurred that had an adverse impact on the transaction's future expected cash flows ("credit-impaired"). The Group classifies defaulted transactions into Stage 3.

The change in credit risk is examined at transaction level.

The staging logic at the Group is based on the changes in the behavioural scores of the contracts. If a behavioural score deteriorates by 2 notches compared to the rating upon initial recognition, the transaction is transferred to Stage 2.

For stage classifications in the other direction (e.g. migration from Stage 2 to Stage 1) there are no special conditions (e.g. no separate trial period is applied), and so the movement between these stages is symmetrical.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 7.3 d).

When the terms of a financial assets are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contract terms.

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default.

The Group strives to elaborate payment relief options for its customers who want to pay but whose ability to pay has temporarily suffered a setback, bearing in mind the following guidelines:

- reaching an agreement which the debtor can meet in accordance with the terms and conditions in the agreement,
- the terms of the restructuring agreement are developed with the interests of the Creditor in mind too, alongside the ability of the borrowers to pay,
- restoring the debtor's ability to pay in the short term primarily, and if not then in the long term.

Alongside the above guidelines, the Group pays special attention to restoring retail mortgage loans that have fallen into default, based on MNB Recommendation 1/2016 (III.11).

For loan accounts in arrears and loan contracts earmarked for cancellation the Group examines the circumstances surrounding the debtor's ability to pay, and based on its own business policy it weighs up whether it is possible to apply bridging solutions should the debtor default on payment. When making this decision the receivables from the debtor are reviewed both separately and collectively.

The revised terms generally include extending the maturity and changing the timing of interest payments.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/non-performing. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/non-performing or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month expected credit loss.

Definition of default

A customer shall be considered to be in default if at least one of the following events occurs:

- the significant defaulted loan obligation for the transaction has persisted for more than 90 days, or
- the transaction contract has been cancelled,
- the transaction contract is subject to distressed restructuring – in the form of a repayment agreement – and is in restructuring stage 1 or 2 at the time of the rating,
- there is objective evidence triggering a default for the contract,
- persistent default (contracts for which the default criterion was applicable in the last 3 months).

The Group applies the default definition at transaction level.

The amounts in default arising in connection with the loan and the deposit account associated with the loan account (in the case of bridging loans) are recognised as defaulted items on a transaction basis.

In 2019, when examining the default criterion the Group examined the joint fulfilment of the following two conditions:

- the degree of the default can be considered critical if it has prevailed for more than 90 days at the time of the rating,
- the amount of the default can be considered critical if the amount exceeds one of the following three threshold values:

Absolute threshold	Relative threshold
• HUF value equivalent to EUR 100 calculated using MNB exchange rate	• 2% of the total contractual liability of the transaction, or • one monthly repayment instalment

In 2020, when examining the default criterion, the Group changed the conditions, so it examines the joint fulfilment of the following two conditions:

- the degree of the default can be considered critical if it has prevailed for more than 90 days at the time of the rating,
- the amount of the default can be considered critical if the amount exceeds both of the following two threshold values:

Absolute threshold	Relative threshold
• HUF value equivalent to EUR 100 calculated using MNB exchange rate	• 1% of the total contractual liability of the transaction

The time of the default is the due date of the oldest outstanding transaction from those past due by more than 90 days (if the overall default is significant).

If a default is cured, the Group applies a 3-month curing period based on which the transaction is still treated as being in default for a further three months after the default is eliminated. For restructured transactions the Group does not apply the 3-month curing period.

For a transaction in default because of a previous significant late payment in excess of 90 days, it is considered cured if neither the default criterion above nor any other default criterion applies, and the three-month persistence period has lapsed.

For restructured loans the default criterion is monitored by tracking the contracts entering the repayment agreement category. The monitoring of contracts in default on account of restructuring can be split into two parts:

- monitoring of contracts in stage 1: the loans which have a repayment agreement in place at the time of the rating,
- monitoring of contracts in stage 2: the loans currently in their first, 1-year trial period.

Curing is subject to the contracts not being in default during the afore-mentioned stage 2. If this condition is breached, stage 2 commences with a 1-year curing period again after the default has been eliminated. Furthermore, curing is also only possible if, in addition to the default criterion above, no other default criterion applies to the transaction either.

Following a 1-year curing period, the transaction can be declared performing (Stage 3). During the performing stage the transaction must be monitored for another two years (trial period). The "restructured" label can be removed from the transaction after two years if instalments deemed more than non-significant were made during half of the period, and none of the debtor group's transactions were in default at the end of the trial period.

The default events are identified at the end of the month and the default events are reported by Operative Risk Management.

Non-performing contracts for the Group are those in default in their own right as well as contracts classified in Stage 3 because of the related contract.

The inputs used to evaluate whether a financial instrument is non-performing and their importance may change over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an n instrument has increased significantly since its initial recognition and its measurement of expected credit loss.

The Group takes forward-looking information into account by adjusting certain impairment parameters. The Group collected the historical trends of various types of macro-economic indicator for modelling purposes, and arranged them in a standard database. The following variables were collected and examined during the modelling:

- GDP: The Group essentially adopted the MNB's forecasts for 2020, 2021 and 2022 disclosed in its September 2020 circular. At the same time, the 2020 forecast was lowered by 50 basis points since that was the difference between the 2020 GDP forecasts of the MNB for December and September. We did not alter the forecasting horizon for the other segments (as the MNB forecasts did not change);
- Retail loan expansion: in its December 2020 Inflation Report the MNB forecast a range for retail loan expansion in 2020, 2021 and 2022. The Group adopted the two extremes of the forecast range for its own favourable and unfavourable scenarios, while the baseline was determined between them based on an expert decision;
- Employment data: we considered the assumed impact of unemployment; however, for statistical reasons it was excluded from the final model.

The Group identified and documented the key credit risk and credit loss factors for each individual portfolio of financial instruments, and estimated the relationships between macro-economic variables and credit risk and credit losses by using analyses of historical data.

When assessing impairment the following information relating to the future was used:

- Annual volume index of DGP
- Annual change in the retail loan portfolio

Measurement of expected credit loss

Expected credit losses are probability-weighted estimates of the credit losses arising during the expected life of the financial asset (i.e. the present value of all cash shortfall). A cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the Group expects to be paid in full but later than when contractually due.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to the Group under the contract and he cash flows that the Group expects to receive.

Expected credit losses shall be discounted to the reporting date, using the effective interest rate determined at initial recognition or an approximation thereof. The discounting interest rate can be defined at transaction level for each possible date.

The key inputs into the measurement of expected credit loss are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are usually derived from internally developed statistical models and other historical data. These are adjusted to reflect forward-looking information as described above.

The gross exposure at default on a given date is defined according to the repayment schedule. In relation to the calculation of the EAD parameter, please note that the bridging and immediate bridging loans are due to mature at the end of the housing loan phase, thus the EAD parameter also amortises the existing exposure until the end of the housing loan phase. The EAD includes the value of any potential fees as well.

The products of the Group are not credit line products so there are no undrawn lines where the expected ratio of the drawdown would have to be quantified. Consequently, there is no need to model a CCF (Credit Conversion Factor) parameter.

In the case of transactions in default, the value of the EAD equals the gross IFRS exposure.

When measuring expected credit loss on a collective basis, the classification into measurement group is based on the oldest outstanding arrears/portion of arrears.

Applying a policy developed by the parent company, the Group uses external benchmark information to measure the credit loss expected from the securities portfolio. External benchmark information represents a significant input into measurement of expected credit loss in the case of the following portfolios.

Table 32.1.6. - External benchmark information

(HUF million)	Exposure	External benchmark used	
		PD	LGD
Hungarian State , MNB	189 049	0,23%	40,00%

Coronavirus impacts

Fundamenta-Lakáskassza Zrt. contacted its clients at the very beginning of the pandemic, and has been in constant dialogue ever since. Generally speaking, at roughly 70% the Company's ratio of clients who stated they did not wish to participate in the moratorium and instead wanted to continue fulfilling their payment obligations was much higher than the average for the banking sector.

To ensure that the right amount of risk reserve be recorded for the loans of clients in the moratorium, the Company reviewed and modified its impairment model. As a result of the modification, the Stage 3 portfolio hidden because of the moratorium and its impairment effect were modelled based on the macroeconomic forecast proposed by the MNB. This impairment effect was mapped at contract level with a management overlay to the whole Stage 1 and Stage 2 portfolios. The Group prepared for the expected impacts of the COVID situation in 2020 based on this conservative methodology.

Loss allowance

The following table shows reconciliation from the opening to the closing balance of loss allowance by class of financial instrument.

Table 32.1.7. - Movements in loss allowance (Loan receivables)

(HUF million)	31.12.2020				31.12.2019			
	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss - credit-impaired (Stage 3)	Total	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss - credit-impaired (Stage 3)	Total
Impairment of loan receivables								
Balance at 31 December of the previous year	753	139	3 822	**4 714**	812	237	3 570	**4 619**
Transfers	1 243	221	-1 464	**0**	1 524	-470	-1 054	**0**
Increase due to origination	222	0	0	**222**	205	0	0	**205**
Further amounts recognised	2 216	839	1 742	**4 797**	52	826	2 554	**3 432**
Release	-1 291	-666	-487	**-2 444**	-1 804	-432	-515	**-2 751**
Decrease due to derecognition	-96	-28	-329	**-453**	-41	-24	-916	**-981**
Other changes	6	11	174	**191**	5	2	183	**190**
Balance at 31 December	**3 053**	**516**	**3 458**	**7 027**	**753**	**139**	**3 822**	**4 714**

Table 32.1.8. - Movements in impairment (all other financial assets)

(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	31.12.2020 Total
Impairment of securities that are debt instruments				
Balance at 31 December of the previous year	**101**	**0**	**0**	**101**
Increase due to origination and purchase	*80*	*0*	*0*	***80***
Movement due to change in credit risk (net)	*-1*	*0*	*0*	***-1***
Other changes	*0*	*0*	*0*	***0***
Decrease due to derecognition	*-53*	*0*	*0*	***-53***
Balance at 31 December	***127***	***0***	***0***	***127***
Impairment of other financial receivables				
Balance at 31 December of the previous year	**9**	**21**	**0**	**30**
Increase due to origination	*18*	*12*	*0*	***30***
Movement due to change in credit risk (net)	*-5*	*-8*	*0*	***-13***
Other changes	*1*	*0*	*0*	***1***
Decrease due to derecognition	*-9*	*-8*	*0*	***-17***
Transfer between Stages	*0*	*-5*	*5*	***0***
Balance at 31 December	**14**	**12**	**5**	**31**
Impairment of cash and cash equivalents				
Balance at 31 December of the previous year	**0**	**0**	**0**	**0**
Increase due to origination	*0*	*0*	*0*	***0***
Movement due to change in credit risk (net)	*0*	*0*	*0*	***0***
Other changes	*0*	*0*	*0*	***0***
Balance at 31 December	**0**	**0**	**0**	**0**
Provision for credit losses				
Balance at 31 December of the previous year	**101**	**0**	**1**	**102**
Increase due to origination	*717*	*0*	*0*	***717***
Movement due to change in credit risk (net)	*0*	*0*	*1*	***1***
Decrease due to derecognition	*-619*	*-121*	*-3*	***-743***
Transfer between Stages	*-122*	*121*	*1*	***0***
Balance at 31 December	**77**	**0**	**0**	**77**

(HUF million)	12-month expected credit loss (Stage 1)	Lifetime expected credit loss - not credit-impaired (Stage 2)	Lifetime expected credit loss (Stage 3)	31.12.2019 Total
Impairment of securities that are debt instruments				
Balance at 31 December of the previous year	**243**	**0**	**0**	**243**
Impact of adopting IFRS 9	*0*	*0*	*0*	***0***
Increase due to origination and purchase	*18*	*0*	*0*	***18***
Movement due to change in credit risk (net)	*0*	*0*	*0*	***0***
Other changes	*-160*	*0*	*0*	***-160***
Balance at 31 December	**101**	**0**	**0**	**101**
Impairment of other financial receivables				
Balance at 31 December of the previous year	**0**	**18**	**0**	**18**
Impact of adopting IFRS 9	*0*	*0*	*0*	***0***
Increase due to origination	*9*	*8*	*0*	***17***
Movement due to change in credit risk (net)	*0*	*5*	*0*	***5***
Other changes	*0*	*-10*	*0*	***-10***
Balance at 31 December	**9**	**21**	**0**	**30**
Impairment of cash and cash equivalents				
Balance at 31 December of previous year	**0**	**0**	**0**	**0**
Impact of adopting IFRS 9	*0*	*0*	*0*	***0***
Increase due to origination	*0*	*0*	*0*	***0***
Movement due to change in credit risk (net)	*0*	*0*	*0*	***0***
Other changes	*0*	*0*	*0*	***0***
Balance at 31 December	**0**	**0**	**0**	**0**
Provision for credit losses				
Balance at 31 December of the previous year	**73**	**0**	**2**	**75**
Impact of adopting IFRS 9	*0*	*0*	*0*	***0***
Increase due to origination	*649*	*1*	*2*	***652***
Movement due to change in credit risk (net)	*-549*	*-70*	*-3*	***-622***
Decrease due to derecognition	*-3*	*0*	*0*	***-3***
Transfer between Stages	*-69*	*69*	*0*	***0***
Balance at 31 December	**101**	**0**	**1**	**102**

Credit-impaired financial assets

See Note 7.4 on accounting policies.

In the Group's internal credit rating system, credit-impaired loans and advances are classified into Stage 3.

As at 31 December 2020 the Group had HUF 1 million (2019: HUF 0 million) financial assets that were written off during the period and that are still subject to enforcement activity.

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Table 32.1.9. - Modified financial assets

(HUF million)	31.12.2020	31.12.2019
Financial assets modified during the year		
Amortised cost before modification	33 612	3 173
Net modification loss	-370	-10

Table 32.1.10. - Modified financial assets

(HUF million)	31.12.2020		31.12.2019	
	Gross carrying amount	Expected credit loss	Gross carrying amount	Expected credit loss
Loans cured following modification that have again a loss allowance measured at an amount equal to 12-month expected credit loss	125	1	323	1

Restructured loans

In light of economic aspects and the principle of proportionality, the Group applies all methods and means that are generally expected and are supported by the legal environment in order to manage overdue receivables. In the case of the overdue exposures, the primary goal is to help restore the debtors' solvency. An important tool for achieving this goal is to restructure receivables, which can be done prior to rating an exposure as being in default and even in the case of exposures that are already non-performing.

Restructured loans are loans that had to be restructured due to a deterioration in the debtor's financial position, for which the concessions made by the Group ensured contractual terms and conditions for the debtor which are more favourable than those provided at initial recognition, and which the Group would not otherwise have provided. The Group recognises these loans under restructured loans until maturity, early repayment or until write-off.

Due to the customer's financial problems or the deterioration in its solvency, the original contract generating the receivable is modified at the request of the customer or the Group, and the original contractual conditions, in particular but not only the conditions relevant for the payment liability, became more favourable for the customer.

Changes to the original contractual conditions:

- modification regarding lower interest rate and/or instalment payment, forgiving;
- rescheduling, extension of term;
- release of collateral;
- all other contract modifications which have been defined by the Group in the relevant policy.

Cancellation of contracts

If the last warning prior to cancellation was unsuccessful and the debtor (or any other obligor) either did not respond or was not willing to cooperate, the loan contract becomes cancellable.

Possible reasons for cancellation:

- Non-payment;
- Non-verification of housing purpose;
- Enforcement initiated on collateral property;
- Provision of false data during loan assessment (including entitlement to government grant) discovered after the granting of the loan;
- Breach of contract (e.g. mortgage not registered);
- Collateral withdrawal (e.g. large/complete decrease in the value of collateral property).

Past due but not impaired loans and investment securities

Past due but not impaired loans and securities are financial assets for which contractual interest rate or principal payments are late but, based on the Group's deliberations, no impairment has to be accounted for given the size of the available collateral and/or the status of the collection of the amounts provided by the Group.

e) Concentrations of credit risk

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk form receivables from customers, loan commitments and securities is shown below:

Table 32.1.11. - Concentrations of credit risk

(HUF million)	Gross value of loan receivables	
	31.12.2020	31.12.2019
Gross value	**483 511**	**456 755**
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	***10 332***	***9 065***
Mortgaged	19	19
Unsecured loans	10 313	9 046
Retail	***473 179***	***447 690***
Mortgaged	464 306	437 776
Unsecured loans	8 873	9 914
Total	**483 511**	**456 755**
Concentration by geographic location		
Bács-Kiskun	25 241	21 702
Baranya	11 276	11 842
Békés	11 389	11 774
Borsod-Abaúj-Zemplén	26 866	33 951
Budapest	91 256	81 900
Csongrád-Csanád	24 929	22 809
Fejér	27 782	23 413
Győr-Moson-Sopron	28 903	26 692
Hajdú-Bihar	24 412	24 277
Heves	11 558	12 701
Jász-Nagykun-Szolnok	15 856	10 391
Komárom-Esztergom	23 588	18 150
Nógrád	5 095	5 713
Pest	78 802	59 903
Somogy	8 003	15 173
Szabolcs-Szatmár-Bereg	21 278	22 925
Tolna	10 145	11 508
Vas	7 673	5 090
Veszprém	21 014	25 963
Zala	8 445	10 878
Total	**483 511**	**456 755**

(HUF million)	Loan commitments	
	31.12.2020	31.12.2019
Amount committed	8 138	11 688
Concentration by sector		
Multi-occupancy buildings, Housing cooperatives	***675***	***249***
Mortgaged	0	0
Unsecured loans	675	249
Retail	***7 463***	***11 439***
Mortgaged	7 266	11 195
Unsecured loans	197	244
Total	**8 138**	**11 688**

Carrying amount as at 31 December 2020 of securities that are debt instruments totalled HUF 140,524 million (31 December 2019: HUF 109,412 million), broken down by sector as follows.

Table 32.1.12 - Carrying amount of securities that are debt instruments

	31.12.2020	31.12.2019
Carrying amount of securities that are debt instruments	140 524	109 412
Vis-á-vis the public sector	137 458	109 412
Vis-á-vis the financial sector	3 066	0
Total carrying amount of securities that are debt instruments	**140 524**	**109 412**

32.2. Liquidity risk

Liquidity risk is the current or expected risk affecting profitability and the capital situation that an institution will not be able to fulfil its due liabilities without significant losses.

a) Management of liquidity risk

The toolbox and rules for managing liquidity risk are included in the Group's liquidity policy. The internal regulations are based on the following basic pillars:

- The harmony between the business strategy and the liquidity strategy is ensured as the liquidity plan prepared for an appropriate period forms an integral part of the business plans.
- The liquidity management organisation is clearly regulated. In line with the appropriate recommendation of the central bank, the board members of the Group supervise liquidity management processes in a committee (ALCO) as well as through regular reporting and the controls built into business processes.
- The time horizons, inputs and outputs of liquidity planning are regulated.
- We have processes developed to review the fulfilment of liquidity plans and the evaluation of plans/actual data.
- We have a model for forecasting cash flows related to the customer portfolio. We pay attention to measuring/back-testing the model's parameters and regularly review the planning parameters in a way that is embedded in our planning process.
- The organisational units impacting on liquidity and the affected IT systems are identified, the related information flow is regulated.

For liquidity management we have the right indicators, including the regulatory liquidity ratios (LCR-Liquidity Coverage Ratio, NSFR – Net Stable Funding Ratio) and other liquidity risk reports, as well as all the internal ratios which are related to the course of business due to regulatory requirements or any other special reasons (required liquidity level pertaining to remuneration policy, liquidity available within 30 days, liquidity buffers).

The Group has an internal policy for the management of emergency liquidity situations.

According to its valid business strategy, Fundamenta-Lakáskassza Zrt. is a specialised risk-averse credit institution. Ensuring continuous liquidity is an especially important element of the strategy targeting prudent credit institution operations in all aspects. For all this it is crucial that the Company particularly bears in mind the impact on liquidity of strategic decisions related to the core business activity.

In practice, this can be realised if modelling expected changes to liquidity always forms an integral part of the business plans built around the individual strategic ideas. Modelling is performed jointly by Controlling and the Strategic Asset and Liability Management Directorate (SALM) of the Group.

The Group's operative Board members supervise the liquidity management processes, evaluate liquidity risks at both strategic and tactical level (involving the Treasury department into this latter), under normal and stressed circumstances and in light of both financing and market risks, relying on the reports prepared by the responsible professional units (particularly SALM and Controlling). This activity is performed in most detail by the Asset-Liability Committee (hereinafter referred to as: the "ALCO").

Apart from the report prepared for the ALCO meetings, the Board of Directors receives reports with even a greater frequency about the processes affecting liquidity (a weekly report received from Treasury) which supports the responsible control function.

The ALCO is the central organisational unit of annual, medium-term and long-term liquidity management, in addition to SALM Treasury, and receives information on the following regularly:

- Medium-term (for the current year and the following year) cash flow forecast broken down by month, with a plan/actual analysis.
- Liquidity accessible within 30 days. The limit is defined by the ALCO.
- The bond portfolio's duration and modified duration indicator. The limit is defined by the ALCO.
- The bond portfolio's maturity structure (maturity concentration).
- The difference between the bond portfolio's market value and carrying amount. In the case of a liquidity emergency, detailed reporting is necessary to define the liquidity order.

Information on external funding:

- Controlling: A portfolio model is prepared monthly for liquidity planning, and it forecasts every cash movement related to customers on a monthly basis. The parameters relevant for individual customer behaviour can be modified from time to time, and the feedback from the liquidity plan/actual analysis can provide the basis for this.

SALM is the central organisational unit for liquidity management, its tasks cover the following in respect of liquidity management:

- responsible for long-term liquidity management (not at operative level, i.e. not entitled to transact, it engages the Treasury with this, in line with the decisions of the senior decision-making body ALCO (see: point VIII))
- shapes the balance sheet's long-term maturity matching with due consideration of Lakás-takarékpénztár's business model and risk tolerance level, assuming business continuity

- encourages a renewal of funding bearing aspects of profitability in mind
- manages the level and composition of counterbalancing capacity, which essentially means managing the high liquidity assets – most of which are government securities – and relying on the Treasury department for implementation help
- uses the opportunity to raise additional funds, with due consideration of the Magyar Nemzeti Bank's opinion for Lakástakarékpénztár issued on 27 March 2019
- in connection with the above it is responsible for compliance with the other bank-specific indicators (e.g. leverage ratio) and regulatory requirements (e.g. MREL)
- handles the professional oversight of the system for registering money and capital market instruments. This means supervising the system updates and performing tests in the case of developments.

The operative unit for liquidity management is the Treasury department, which has the following responsibilities:

- Prepares liquidity plans for short durations (within 30 days).
- It keeps contact with partner units in all issues affecting short-term liquidity management.
- The partner units capable of generating cash movements have a reporting obligation towards it, while there is a mutual responsibility to collect information in each case when the Group has to count on certain predictable cash movements.
- It supervises the most important accounting systems from a professional perspective. This means supervising the system updates and performing tests in the case of developments.

The Finance and Accounting directorate plays a role in short-term (mainly daily) liquidity management. It specifies the extent of daily payments for which it collects information from the partner units. It authorises payments in the individual cash payment systems and supervises the GIRO system from a payment-transaction perspective. Additionally, it manages the liquidity of the accounts other than the MNB current account, which are kept for specified payments, and participates in preparing the liquidity forecast for 30 days, which is generated on a daily basis.

The Group plans liquidity in a pre-defined order and regularly monitors the changes.

The most important goals of liquidity planning:

- Compliance with legal requirements.
- Analysis of the expected impacts of the business strategy goals (changes to customer portfolios, and consequently the change in liquidity positions), preparation of an action recommendation based on the results received, if necessary.
- Ensuring immediate and general solvency of the Group (tactical and strategic liquidity) under both normal and stressed circumstances.
- Continuous monitoring of financing and market risks.
- Meeting the central bank's mandatory reserve requirement.
- Maximisation of interest income alongside an optimal liquidity level, and the defining of limits so that the related risks are kept under appropriate control.
- Applying the principle of prudence, particularly in respect of market and financing risks.

Liquidity plan

Except for the emergency plans and stress tests, when preparing the liquidity plans the Group essentially focuses on managing the maturity liquidity risk, bearing in mind the requirements of MNB recommendation no. 12/2015 regarding liquidity buffers. During emergency scenarios and stress tests, the manageability of the "drawdown risk" under the given circumstances comes to the forefront. Owing to its operating characteristics, the Group is less exposed to structural liquidity risks.

Time horizons of the liquidity plan:

- Daily liquidity position calculation;
- Liquidity forecast for 30 days, broken down by day;
- Annual liquidity plan broken down by month, which is primarily designed to support the disbursement process;
- Strategic plan/medium-term plan, generally for an 8-year period;
- Emergency plans, stress tests.

Liquidation limits

The ALCO defines liquidity limits (buffer levels) that ensure the Group's liquidity even under extreme circumstances. The basic goal is for liquidity to remain problem-free for at least one month even if funds run out completely (strengthening of mistrust on interbank market, freezing of the bond market, etc.), particularly in respect of the monetary transactions of the first 5-10 working days. Consequently, the ALCO defines indicators that enable the above.

These can include, in particular:

- The minimal level of receivables from credit institutions and the central bank which become due within 10 working days under normal circumstances, but which can be cashed in immediately in a stress situation (portfolio of deposits and central bank bonds, if the latter form part of the current toolbox);
- Hungarian government bonds already in the books for 30 days, maturing within 1 year, or having a remaining term shorter than one year upon initial recognition;
- Minimum stock of securities that can be taken into account as collateral for central bank lending.

For calculating coverage, the Group uses medium-term cash flow forecasts broken down by month (showing the remaining period of the current year and the following year). Treasury prepares the cash flow forecast using the portfolio model data updated by Controlling on a monthly basis; the cash flow changes that can be deduced from the changes in the investment portfolio are built into the forecast.

If the Group identifies a negative balance based on the above calculation, the necessary measures will be discussed at the following ALCO meeting together with the approval of the action plan.

The processes relevant for managing liquidity risk are included in the Liquidity Policy, which is reviewed at least annually by the Group. The Liquidity Policy is approved by the Board of Directors.

The ALCO makes the decision on the required level of liquid assets accessible in the short term (within 30 days); complying with the decision is a task for Treasury, and it has to report on the current status to the management during the ALCO meetings.

Continuous records shall be kept of the daily position.

According to its audit plan, Internal Audit performs detailed reviews on Treasury twice a year. A review of prudent behaviour regarding liquidity management (compliance with requirements, adequacy of processes, compliance with risk levels, etc.) forms part of these examinations.

b) Liquidity risk exposure

The main indicators applied for the management of liquidity risk are not defined at consolidated level. At company level the main indicators include the nominal magnitude of liquidity accessible within 30 days and the liquidity ratio stressed on the side of customer payments, defined as follows:

Liquidity accessible within 30 days:

Table 32.2.1. - Liquidity risk exposure - Liquidity accessible within 30 days

(HUF million)	31.12.2020	31.12.2019
At 1 January	75 168	44 386
At 31 December	198 267	75 168
Average in the period	171 799	47 837
Maximum in the period	198 267	75 168
Minimum in the period	38 684	29 038

Using the data in the liquidity plan broken down by month, the experiential distribution data and the factual information derived from the books, we prepare a liquidity plan every day that is available for 30 days. The sum of the free liquidity available by the end of the 30th day based on the planned course of business and the liquidity buffers must definitely reach the minimum level defined by the ALCO. Current value of the limit: HUF 15 billion.

Liquidity ratio stressed on the side of customer payments

(Principal and interest amount of money market deposits maturing within 30 days + collateral value of securities that can be accepted as collateral + principal and interest amount due within 30 days of securities that are excluded from securities accepted as collateral only because of the short remaining term) / Payments expected within 30 days

Minimum required value: 150%

As of the reporting date and during the period, the indicators applied to manage liquidity risk were as follows:

Table 32.2.2. - Liquidity risk exposure - Stressed liquidity ratio

(%)	31.12.2020	31.12.2019
At 1 January	312,72%	214,35%
At 31 December	858,32%	312,72%
Average in the period	452,83%	277,48%
Maximum in the period	858,32%	336,54%
Minimum in the period	290,62%	214,35%

The core activity of Fundamenta-Lakáskassza Kft. is mediating the financial products of the parent company. Commissions to sales agents are paid only if the parent company has met its commission liability to the subsidiary. This ensures at the subsidiary the coverage for the payment of commissions.

c) Maturity analysis for financial assets and financial liabilities

The following table sets out the remaining contractual cash flows of the Group's financial liabilities and financial assets:

Table 32.2.3. - Maturity analysis

							31.12.2020
		Gross nominal inflow (+)/ outflow (-)					
(HUF million)	Carrying amount	Total	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	More than 5 years
Type of financial liability							
Non-derivative financial liabilities							
Liabilities to customers	632 325	**-663 451**	-9 956	-291 773	-111 742	-198 878	-51 102
Other financial liabilities	9 197	**-10 176**	-578	-660	-1 484	-4 388	-3 066
of which: Lease liabilities	6 863	**-7 991**	-73	-136	-634	-3 640	-3 508
Unrecognised loan commitments	8 138	**-8 138**	-8 138	0	0	0	0
Total	**649 660**	**-681 765**	**-18 672**	**-292 433**	**-113 226**	**-203 266**	**-54 168**
Type of financial asset							
Non-derivative financial assets							
Cash and cash equivalents	58 156	**58 156**	58 156	0	0	0	0
Securities	140 524	**159 832**	0	457	15 460	102 236	41 679
Receivables from customers	476 662	**566 830**	4 294	12 340	52 999	252 226	244 971
Other financial receivables	1 160	**1 250**	408	11	81	265	485
of which: Lease receivables	449	**507**	5	11	47	252	192
Total	**676 502**	**786 068**	**62 858**	**12 808**	**68 540**	**354 727**	**287 135**

(HUF million)	Carrying amount	Gross nominal inflow (+)/ outflow (-)					31.12.2019
		Total	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	More than 5 years
Type of financial liability							
Non-derivative financial liabilities							
Liabilities to customers	576 089	**-576 208**	-9 990	-250 859	-83 721	-209 587	-22 051
Other financial liabilities	8 112	**-8 615**	-697	-136	-634	-3 640	-3 508
of which: Lease liabilities	6 863	**-7 991**	-73	-136	-634	-3 640	-3 508
Unrecognised loan commitments	11 688	**-11 688**	-11 688	0	0	0	0
Total	**595 889**	**-596 511**	**-22 375**	**-250 995**	**-84 355**	**-213 227**	**-25 559**
Type of financial asset							
Non-derivative financial assets							
Cash and cash equivalents	57 276	**57 276**	57 276	0	0	0	0
Securities	109 412	**134 167**	0	1 000	19 583	57 971	55 613
Receivables from customers	452 165	**615 680**	4 966	14 472	52 233	247 793	296 216
Other financial receivables	656	**719**	180	5	25	126	383
of which: Lease receivables	231	**264**	2	5	23	117	117
Total	**619 509**	**807 842**	**62 422**	**15 477**	**71 841**	**305 890**	**352 212**

The values included in the tables above in the case of non-derivative financial liabilities and financial assets are the undiscounted cash flows, which include estimated interest payments, while in the case of off-balance sheet loan facilities, the values were assigned to the earliest possible contractual maturity.

Because of the option of termination by customers, the cash outflow of deposits without a bridging loan is included in the '1-3 months' category.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets (cash and cash equivalents, debt instruments issued by sovereigns) which can be readily sold to meet liquidity requirements.

The following table shows the part of the carrying amount of non-derivative financial assets and liabilities which will be recovered or settled more than 12 months after the reporting date.

Table 32.2.4. - Instruments recovered/settled after more than 12 months

(HUF million)	31.12.2020	31.12.2019
Financial assets		
Securities	129 798	93 581
Receivables from customers	430 151	405 013
Other financial receivables	704	469
Financial liabilities		
Liabilities to customers	427 493	412 789
Other financial liabilities	6 704	0

d) Liquidity reserves

The following table sets out the components of the Group's liquidity reserves.

Table 32.2.5. - Liquidity reserves

(HUF million)	31.12.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Balances at central banks	51 635	51 635	45 532	45 532
Cash and balances at other banks	6 521	6 521	11 744	11 744
Unencumbered debt securities issued by the state	137 458	147 102	109 412	121 832
Other assets eligible for use as collateral with central banks	3 066	3 058	0	0
Total liquidity reserves	**198 680**	**208 316**	**166 688**	**179 108**

e) Assets offered as collateral and available to support future funding

In the reporting period Lakás-takarékpénztár had refinancing transactions. In the transactions it transferred financial assets in a way that the transactions did not meet the derecognition criteria. As at the reporting date there were no open transactions or transferred but not entirely derecognised financial assets.

32.3. Market risk

Market risk is the risk that the change in market prices such as interest rates, equity prices, foreign exchange rates and credit spreads (not related to changes in the obligor's/issuer's credit standing) will affect the Groups profit or loss and the value of the financial instruments included in its financial statements. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Management of market risks

The Group does not have any trading book items.

The Group aims to apply a prudent investment policy. In line with the legal requirements, it primarily invests its assets in government securities and mortgage bonds. These are recognised in the banking book and managed according to the business model recorded in the accounting policiesThe re-pricing interest risk affects the Group to a limited extent since it sells its deposits and loans with an interest rate fixed for the term, so the risk related to changes in the interest rate directly affects the securities investments. The base risk, yield curve risk and option risk do not materialise because of the special regulated nature of the Group and due to its product portfolio.

Foreign currency risk can arise in connection with FX trade liabilities. These liabilities can generally be planned well in advance. The Group's practice is that in the case of a favourable exchange rate, it buys the necessary foreign currency in advance and fixes it until maturity.

Exposure to market risks

The Group's banking book items may be exposed to interest rate risk and foreign currency risk.

The following table presents the carrying amount of the Group's banking book items by interest rate type:

Table 32.3.1. - Exposure to interest rate risk

(HUF million)	31.12.2020			31.12.2019		
	Fixed rate	Floating rate	Non-interest-bearing	Fixed rate	Floating rate	Non-interest-bearing
Cash and cash equivalents	58 156	0	0	57 276	0	0
Receivables from customers	476 662	0	0	452 165	0	0
Securities	140 524	0	0	109 412	0	0
Other financial receivables	436	0	724	222	0	434
Total financial assets	**675 778**	**0**	**724**	**619 075**	**0**	**434**
Liabilities to customers	632 325	0	0	576 089	0	0
Other financial liabilities	7 666	0	1 531	7 762	0	350
Total financial liabilities	**639 991**	**0**	**1 531**	**583 851**	**0**	**350**

It is clear from the table above that the Group's exposure to interest rate risk is not significant.

The following table shows the carrying amount of the Group's banking book items by currency:

Table 32.3.2. - Exposure to currency risk

(HUF million)				31.12.2020				31.12.2019
	EUR	HUF	USD	Total	EUR	HUF	USD	Total
Financial assets subject to foreign currency risk								
Cash and cash equivalents	1 440	56 682	34	**58 156**	261	57 014	*1*	**57 276**
Receivables from customers	0	476 662	0	**476 662**	0	452 165	*0*	**452 165**
Securities	0	140 524	0	**140 524**	0	109 412	*0*	**109 412**
Other financial receivables	747	413	0	**1 160**	469	187	*0*	**656**
Total	***2 187***	***674 281***	***34***	***676 502***	***730***	***618 778***	***1***	***619 509***
Financial liabilities subject to foreign currency risk								
Liabilities to customers	0	632 325	0	**632 325**	0	576 089	*0*	**576 089**
Other financial liabilities	6 236	2 961	0	**9 197**	5 641	2 471	*0*	**8 112**
Total	***6 236***	***635 286***	***0***	***641 522***	***5 641***	***578 560***	***0***	***584 201***
Net exposure to foreign currency risk	**-4 049**	**38 995**	**34**	**34 980**	**-4 911**	**40 218**	**1**	**35 308**

The foreign currency item recognized in other financial liabilities consists mainly liabilities related to leases.

In the period covered by these financial statements the following significant exchange rates prevailed (expressed in HUF):

Table 32.3.3. - Exchange rates

Currency	Average rate		Spot exchange rate at the reporting date	
	2020	2019	31.12.2020	31.12.2019
1 EUR =	351,17	325,35	365,13	330,52
1 USD =	307,93	290,65	297,36	294,74

Table 32.3.4 - Sensitivity analysis (currency risk)

Currency			31.12.2020
	Change (%)	Effect on Shareholder's equity	Effect on profit
EUR	2%	-81	-81

The Group's exposure to foreign currency risk was not significant in FY 2019.

32.4. Operational risk

Operational risk is the risk of a loss that affects the Group's profit or loss and regulatory capital due to inadequate internal processes and systems, external events, the inadequate performance of tasks by individuals, or due to violating or failing to comply with legal regulations, contracts or procedures set forth in internal policies.

The definition includes legal risks, but excludes strategic and/or reputation risks that jeopardise the Group's reputation.

The Group manages operational risks according to the standardised approach. This activity is directed by the Operational Risk Management department.

Primary tools for operational risk management: continuous collection of loss data, analysis of loss events, development of loss event scenarios, analysis of extreme (very unlikely but somewhat realistic) scenarios related to loss events, regular and one-off reporting service.

The system of checking questions also forms part of operational risk management, with the help of which the Group partly establishes the annual operational loss potential and partly monitors the quality of operational risk management within the individual organisational units.

Strategic goals of the operational risk management:

- improving the risk culture and risk sensitivity of the managers and staff,
- identifying the risks of the transaction arrangement processes and taking steps to avert them,
- preparing for minimising a potential loss,
- establishing the amount of damage derived from operations as precisely as possible and predicting this for the future.

The organisational structure of the Group ensures the continuous and regulated cooperation in the long run of all parties participating in managing and controlling operational risks. All of the Group's organisational units, departments and groups have operational risks, thus these can affect all staff and every individual employee can contribute to avoiding operational risks.

All employees of the Group have a duty to contribute (particularly through the quick and thorough reporting of loss events) to the identification, measurement and management of operational risks.

Together with Operative Risk Management, the managers must assign suitably qualified staff members responsible for operational risks (such staff known by the Hungarian abbreviation "MKF") at their individual organisational units. With questions regarding operational risks and Operational Risk Management, the employees of the given organisational unit can contact to the MKF directly. This way the MKF perform the tasks related to local operational risk controlling too.

Senior staff (directors, team managers) are responsible for managing operational risks within their organisational unit based on the provisions generally applicable for the team.

The Operational Risk Management department is the Group's central body for managing and controlling operational risks. Its main tasks and responsibilities are as follows:

- It prepares the reports on operational risks and sends them to the recipients by the given deadlines.
- The Operative Risk Management department acts as the central contact point and professional advisor for the Group's organisational units in issues affecting operational risks.
- If governance limits and restrictions are breached, it initiates measures (in consultation with Internal Audit).
- The Operational Risk Management department commands the necessary initiative, methodological and system competence and is responsible for the controlling of operational risks accordingly.
- In accordance with the central and local division of tasks, Operational Risk Management is responsible for the controlling process of operational risks.
- Risk Controlling is responsible for the aggregate recording, documentation and rating of operational risks.
- Carrying out training tasks related to operational risks.

The Group's Board of Directors defines the basic conditions for the management of operational risks. At the highest level it is the Board of Directors that is responsible for the basic and appropriate management of operational risks affecting the group, it has the following tasks and responsibilities:

- Acceptance of operational risk policies and the methods and procedures proposed for the management and controlling of operational risks.
- If necessary, approval of the measures proposed to counter the obvious operational risks.
- Ensuring the conditions necessary to comply with the policies and review them regularly, including the design of a suitable organisation and the compilation of a cost budget necessary to implement it.

The above tasks and responsibilities are fulfilled by the Board of Directors based on the reports (including any extraordinary reports) on operational risks made available by Operational Risk Management on a regular basis. As part of the regular reports, the Board of Directors receives information on the development and status of the management processes applied for operational risks.

As for the identification, rating and measuring of operational risks, a risk classification is needed that differentiates between the individual operational risks based on various aspects, and also separates them. For this the Group applies the exposure classes defined in the CRR and the Basel directives.

According to the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation

(EU) No 648/2012 (hereinafter referred to as: the "CRR"), credit institutions shall ensure sufficient capital to cover the risks derived from their operation. They can choose from several approaches to calculate the capital to be provided based on the complexity and riskiness of the given institution's operation and other aspects. Such "other" aspects include, for example, whether the requirements have be to met as an institution that is independent from a regulatory point of view or as part of a group of institutions subject to consolidated supervision.

The Group, as a subsidiary of Bausparkasse Schwäbisch Hall AG, which itself is the subsidiary of DZ Bank AG, is subject to consolidated supervision.

Based on a group-level decision of DZ Bank, all group members manage their operational risks according to the standardised approach, therefore from 1 January 2008, the Group shall manage these risks according to the standardised approach.

33. Capital management

The main goal of the Group's capital management is to ensure prudent operations, fully comply with the regulatory capital adequacy requirements in order to pursue the given activity smoothly whilst maximising shareholder value and optimising the funding structure.

The Group's capital management covers the evaluation and management of own funds and capital-type financing available for covering risks, and all material risks to be covered by capital. The Group's capital management is based on the continuous monitoring of the capital situation in the short run, and on the business and strategic planning process in the long run, during which the Group's expected capital position is measured and forecast.

Essentially, the Group ensures an adequate capital level for the planned underwriting and to align with the regulatory requirements by developing and maintaining its profitability. If the Group's planned underwriting activity exceeds the capital coverage provided by own funds and the previously added Tier 2 items, the Group ensures prudent operations via one-off measures.

In its plans, the Group assumes a moderate dividend policy alongside stable profitability, owing to which the significant increase in equity facilitates compliance with the statutory capital requirements as well as with those calculated based on the internal capital calculation.

The Group classes itself as a "small institution" based on the criteria listed in the MNB's guideline:

- As a specialised credit institution, "its activity is not complex and focuses on a well-defined group of products".
- It has a "relatively small market share" in both retail lending and property financing.
- It does not apply any advanced methods as approved by the Supervisory Authority to establish the capital requirement for credit (standard), operational (standardised) or market risk. (Although the Group has kept a trading book since 2009 due to an amendment in legal regulations, according to the unchanged investment policy it holds its securities investments to maturity and does not carry out business transactions.)
- "It primarily provides its services in the territory of Hungary and does not perform any significant cross-border services" (it only provides services in Hungary).

The Group applies the "building block method" to calculate the capital requirement of the individual risk elements, i.e. it defines the required capital based on the experiential and factual data available and the models that set up based on this data, or if necessary based on estimates. Then it calculates the internal capital requirement by aggregating them.

Capital adequacy

The Group fully complied with external capital requirements during both 2020 and 2019.

The regulatory capital of the Group comprises only core capital (TIER 1).

According to Basel III requirements, the Group's regulatory capital breaks down as follows:

Table 33.1 - Capital management table

(HUF million)	31.12.2020	31.12.2019
Tier 1 - Core capital /CET1/		
Share capital	2 001	2 001
Capital reserve	2 100	2 100
Retained earnings	37 686	33 842
of which: foreseeable dividends	0	-2 500
Other reserve	6 193	5 966
Deductions:	-8 126	-7 393
of which: Intangible assets	-8 126	-7 393
Total regulatory capital	**39 854**	**36 516**

34. Fair value measurement

The Group has no financial instruments measured at fair value.

34.1. Fair value models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market prices (unadjusted) for identical assets and liabilities on active markets.
- Level 2: inputs other than quoted prices included within Level 1, that are observable either directly (as prices) or indirectly (derived from prices) for the given asset or liability. This category includes instruments valued using: quoted market prices on active markets for similar instruments; quoted market prices for identical or similar instruments on markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the value of the instrument. This category includes instruments that are valued based on quoted market prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group's objective is to maximise the use of observable (Levels 1 and 2) and minimise the use of unobservable (Level 3) inputs when measuring the fair value of the individual assets and liabilities.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

34.2. Valuation framework

In order to measure fair value reliably, from its financial instruments measured at amortised cost, the Group applies the discounted cash flow method to its receivables from clients, liabilities to banks and its customer deposits. Cash and cash equivalents include items that are immediately accessible, so their fair value equals the carrying amount.

The input information of the measurement techniques applied to measure the fair value of receivables from and liabilities to customers includes the following assumptions:

- the discount rates used for the discounting equal the sum of the risk-free interest rate and risk premium in the given foreign currency, valid for the given period,
- the fair value of sight deposits cannot be lower than their carrying amount.

In the case of asset and liability groups not measured at fair value in the statement of financial position, the Group applies an income approach when measuring fair values, transforming future cash flows into one current value.

Fair value of securities

The fair value of securities is measured based on the closing bid price quoted on the active market, applicable on the reporting date. For lack of this, the Group makes an estimate using directly or indirectly observable input data in order to measure fair values.

The Group uses the following information for fair value measurements:

- Stock exchange price,
- Government securities market quotes published by the ÁKK (Government Debt Management Agency),
- Current market yield premium in excess of the risk-free yield (government security with a similar term),
- Reference yields.

Fair value is measured as follows:

- Discounted Treasury bills: the exchange rate pertaining to the Government Debt Management Agency's (ÁKK) best purchase yield, calculated as of the reporting date.
- Treasury bills with a term shorter than 3 months: the exchange rate pertaining to the best purchase yield of the Treasury bill with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.
- Government bonds: ÁKK's best buying rate as of the reporting date.
- Government bonds with a term shorter than 3 months: the exchange rate pertaining to the purchase yield of the government bond with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.
- Discount MNB bonds: the exchange rate pertaining to the best purchase yield of the Treasury bill with the shortest maturity included in the ÁKK's quotation, calculated as of the reporting date.

In the case of other bond assets not mentioned above it has to be examined whether there is an objective, transparent price source (stock market, OTC quotation operating in a regulated form). If yes, these price sources can be applied when measuring fair value, otherwise the Group applies the discounted cash flow method.

Fair value of bank deposits and interbank lending, trade receivables and other financial assets from non-derivative transactions

Bank deposits and interbank lending, trade receivables and other financial receivables typically have short-term maturity, thus the fair value of these financial assets measured for disclosure purposes equals the carrying amount.

Fair value of receivables from customers

The Group applies the discounted cash flow method when measuring the fair value of customer loans.

The Group uses the following techniques to measure fair value for fixed rate loans granted to customers:

- Bridging loans: For the portfolio of bridging loans, the expected cash flows on the existing contractual portfolio are calculated, which include future cash flows arising in connection with interest payments due in the bridging loan phase and the principal repayment in one amount at the end of the term, assuming that the cash flows will be received by the end of the bridging loan phase as set forth in the contract. The future cash flow arrived at is discounted back using the home savings market interest rate.
- Housing loans: housing loans are repaid on an annuity basis so there are both interest rate payments and principal repayments. For the portfolio of housing loans, the expected cash flows on the existing contractual portfolio are calculated, which include future cash flows arising in connection with interest payments and principal repayments due in the housing loan phase, assuming that the clash flows will be received by the end of the housing loan phase as set forth in the contract. The future cash flow arrived at is discounted back using the home savings market interest rate.

Fair value of liabilities to customers

The Group applies the discounted cash flow method when measuring the fair value of liabilities to customers.

Expected cash flows are determined for the deposit portfolio on a monthly basis, taking customer bonuses payable because of customer campaigns also into account. Future cash flows determined this way include contractual cash flows assuming the following:

- the customer will make payments as set forth in the contract over the term specified in the tariff;
- the Group does not reckon on payments to and from the deposit that deviate from the customer behaviour expected according to the contract;
- the amount of customer bonuses is considered in the determination of the deposit cash flow with a probability that equals the probability based on backtesting of the customer being expected to become entitled to receive customer bonus at the end of the savings period specified in the tariff.

The Group uses home savings market interest rates as the discount factor to calculate discounted cash flows. This discount factor is the weighted average of:

- transaction interest rate of new home savings contracts as per the tariff,
- amount of bonus due under the customer campaign.

Fair value of trade liabilities, other financial liabilities from non-derivative transactions

Trade liabilities and other financial liabilities typically have short-term maturity, thus the fair value of these financial liabilities measured for disclosure purposes equals the carrying amount.

34.3. Financial instruments not measured at fair value

The following table summarises the fair values of financial instruments not measured at fair value according to the level of the fair value hierarchy into which they would have been put based on the inputs underlying the measurement:

Table 34.3.1. - Financial instruments not measured at fair value

					31.12.2020
(HUF million)	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	58 156	0	0	**58 156**	58 156
Securities	150 160	0	0	**150 160**	140 524
Receivables from customers	0	0	502 222	**502 222**	476 662
Other financial receivables	0	1 160	0	**1 160**	1 160
Liabilities					
Liabilities to customers	0	0	638 344	**638 344**	632 325
Other financial liabilities	0	9 197	0	**9 197**	9 197
					31.12.2019
(HUF million)	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and cash equivalents	57 276	0	0	**57 276**	57 276
Securities	121 832	0	0	**121 832**	109 412
Receivables from customers	0	0	478 200	**478 200**	452 165
Other financial receivables	0	656	0	**656**	656
Liabilities					
Liabilities to customers	0	0	585 324	**585 324**	576 089
Other financial liabilities	0	8 112	0	**8 112**	8 112

35. Disclosures required by the provisions of the Act on Accounting

Disclosures relating to mandatory audit

The Group's consolidated financial statements must be audited.

Information on the auditor: Ernst & Young Könyvvizsgáló Kft. (1132 Budapest, Váci út 20.)

Natural person auditor: Mrs. Zsuzsanna Szépfalvi Nagyváradi (Registration no.: 005313)

Fees charged by the audit firm in the reporting year:

- Audit: HUF 30 million + VAT
- Other assurance services: HUF 8 million + VAT
- Other review: HUF 2 million + VAT

The auditor has no loan liabilities to the Group.

Person responsible for bookkeeping services

Person responsible for managing and directing bookkeeping-related tasks:

Gergely Péter Kállay (Registration no.: 202008; field of expertise: business, IFRS).

Registered office of the Group

Registered office of the Group: 1123 Budapest, Alkotás utca 55-61.

Equity correlation table

The following equity correlation table, which complies with the requirements of Section 114/B of the Act on Accounting, shows the reconciliation of equity components as per Section 114/B of the Act on Accounting and the components of equity as per the financial statements (EU IFRSs). The reconciliation comprises the allocation of the components of the EU IFRS consolidated equity to the components of the consolidated equity under the Act on Accounting, as well as the derivation of the differences between the consolidated equities defined in two ways.

Table 35.1. - Equity correlation table

(HUF million)	Components of equity as per the Act on Accounting - 31.12.2020							
	Share capital as per EU IFRSs	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit after tax	Valuation reserve	Allocated reserve	Total
Share capital	2 001	0	0	0	0	0	0	**2 001**
Capital reserve	0	0	2 100	0	0	0	0	**2 100**
Retained earnings	0	0	0	33 615	0	0	0	**33 615**
Settlement reserve	0	0	0	6 959	0	0	0	**6 959**
General reserve	0	0	0	0	0	0	6 193	**6 193**
Reporting-year profit after tax	0	0	0	0	4 071	0	0	**4 071**
Revaluation reserve	0	0	0	0	0	0	0	**0**
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**40 574**	**4 071**	**0**	**6 193**	**54 939**
Equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**40 574**	**4 071**	**0**	**6 193**	**54 939**

(HUF million)	Components of equity as per the Act on Accounting - 31.12.2019							
	Share capital as per EU IFRSs	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit after tax	Valuation reserve	Allocated reserve	Total
Share capital	2 001	0	0	0	0	0	0	**2 001**
Capital reserve	0	0	2 100	0	0	0	0	**2 100**
Retained earnings	0	0	0	28 874	0	0	0	**28 874**
Settlement reserve	0	0	0	6 959	0	0	0	**6 959**
General reserve	0	0	0	0	0	0	5 966	**5 966**
Reporting-year profit after tax	0	0	0	0	7 468	0	0	**7 468**
Revaluation reserve	0	0	0	0	0	0	0	**0**
Equity as per EU IFRSs allocated to components of equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**35 833**	**7 468**	**0**	**5 966**	**53 368**
Equity as per the Act on Accounting	**2 001**	**0**	**2 100**	**35 833**	**7 468**	**0**	**5 966**	**53 368**

The amount of share capital as per EU IFRSs shown for 31 December 2019 and 31 December 2020 in the table above equals the amount of capital registered by the court of registration.

The following table presents free retained earnings available for dividend payment:

Table 35.2. - Calculation of source available for dividend payment

(HUF million)	31.12.2020	31.12.2019
Retained earnings	33 615	28 874
Profit for the year	4 071	7 468
Funds available for dividend payment	**37 686**	**36 342**

36. Impacts of the coronavirus (COVID-19) on the 2020 consolidated financial statements

In 2020 the spread of the coronavirus and the attempts at mitigating the damage it caused defined the Hungarian economy too. The pandemic hit the Hungarian economy in March while it was enjoying stable fundamentals and strong growth; prior to the pandemic, economic growth was balanced and dynamic. Although the first quarter recorded GDP growth of 2.0% yoy, in the second quarter Hungary registered the largest slump in Central and Eastern Europe of 13.5%. The decline was severe mainly in the industries of tourism and hospitality as well as in related sectors, but the financial sector was also hit.

To alleviate the recession the Hungarian Government and the Magyar Nemzeti Bank introduced various measures that impacted on the Company's processes and risk management considerations:

For loan contracts entered into by private individuals and businesses by 18 March 2020 the MNB put in place a payment moratorium (suspending payments of principal and interest), initially until 31 December 2020 and then subsequently until 30 June 2021, across the board. The moratorium is not a forgiving of liabilities, but a deferral; the principal still bears interest over the period of the moratorium, though the interest is not capitalised.

The Magyar Nemzeti Bank rolled out an unlimited pool of secured, fixed-interest loans for 3, 6 and 12 months as well as 3 and 5 years, while by suspending the penalties on under-provisioning it exempted banks from having to record mandatory reserves.

On 7 April 2020 the Monetary Council decided to render the interest rate corridor symmetrical. It left the base rate unchanged at 0.90%, and the O/N deposit rate at -0.05%, while lifting the interest on O/N and 1-week secured loans to 1.85%. The central bank introduced a 1-week deposit instrument with interest initially set at the base rate's 0.90%, though the MNB intimated that within the interest rate corridor it could deviate from this, both upwards and downwards. At its meetings in June and July the Monetary Council lowered the base interest rate to 0.60% in two steps, keeping the central bank's interest on deposit and loan instruments unchanged. In September the central bank raised the 1-week deposit rate to 0.75%, and declared that as long as justified by the inflation risks, the difference between the base rate and the 1-week deposit rate would remain.

To create a stable liquidity position on the government bond market, the Magyar Nemzeti Bank launched a programme to buy government bonds on the secondary market, and to increase the long-term funding of the banking sector it relaunched its programme to buy mortgage bonds.

The pandemic, the recession, the payment moratorium and the related measures exerted a significant impact on profits at the Company.

Principle of going concern

Based on what is outlined below it is clear that the principle of going concern is not at risk based on current knowledge at the Group; it is not severely affected by the negative impacts of the pandemic, and so the annual financial statements were prepared based on the going concern principle.

Liquidity situation

The Group's liquidity position remained stable right throughout the pandemic. The extreme liquidity stress scenarios examined after the payment moratorium was announced also demonstrated that continued solvency was still assured even in the event of a very negative turn of events. Thanks to the fact that more than two-thirds of Lakás-takarékpénztár's clients decided to continue paying their loans, and this payment discipline was sustained in what remained of the year, it is clear that all the moratorium impacts had a neutral effect on liquidity. The collateral value of (repo-able) year-end securities that can be used for central bank loan transactions, together with the portfolio of deposits fixed for no more than 1 week, was almost HUF 200 billion, which is certainly reassuring looking forward to the coming period. During the year, the group of partners available for short-term refinancing was expanded too. There was only one banking partner in place at the start of the year with a short-term loan facility, but by the end of the year the Company reached a GMRA (Global Master Repurchase Agreement) with three banks, thereby stabilising its liquidity management activity. The repo agreements enable the Company to use HUF 5 billion short-term refinancing per partner, while the loan facility mentioned above ensures HUF 3 billion short-term funding with securities collateral. The loan facility expires in May 2021 and the Company does not plan to renew it, as the repo facilities are more than enough to meet its short-term funding needs. As regards term, in accordance with legal regulations in effect, repo transactions with a term of no more than 6 months can be concluded. Should the facilities referred to above be insufficient, the Company has access to the secured loan instruments of Magyar Nemzeti Bank up to the collateral value of its securities portfolio.

In light of the pandemic, the Group initially reported about its liquidity to the Magyar Nemzeti Bank, as the supervisory authority, on a weekly basis, then later fortnightly, in a separate data report.

The Magyar Nemzeti Bank introduced many measures to help financing needs in the banking system. If it deems it necessary, the Group can take advantage of these opportunities.

Loan portfolio

Fundamenta-Lakáskassza Zrt. contacted its clients at the very beginning of the pandemic, and has been in constant dialogue ever since. Generally speaking, at roughly 70% the Company's ratio of clients who stated they did not wish to participate in the moratorium and instead wanted to continue fulfilling their payment obligations was much higher than the average for the banking sector.

To ensure that the right amount of risk reserve be recorded for the loans of clients in the moratorium, the Company reviewed and modified its impairment model. As a result of the modification, the Stage 3 portfolio hidden because of the moratorium and its impairment effect were modelled based on the macroeconomic forecast proposed by the MNB. This impairment effect was mapped at contract level with a management overlay to the whole Stage 1 and Stage 2 portfolios. The Group prepared for the expected impacts of the COVID situation in 2020 based on this conservative methodology.

Capital position

The Group has a very stable capital position. The minimum capital requirement under the capital guidance for pillar 2 (OCR ratio) is 11.54%. By contrast, the entire CET 1 capital ratio is 16.46%, which is almost twice the minimum requirement.

On the strength of the audited figures, the year-end regulatory capital exceeded HUF 39 billion.

Impact on profit or loss

Since the announced moratorium is not deemed a significant contract amendment (not resulting in derecognition) for the loans in question, and the interest income is financially settled at a later date, the Group suffers a "loss" because the net present value of future cash flows decreases given the discounting with the original effective interest rate.

The lump-sum impact on profit or loss was determined and booked for each contract affected, and given their significance they were highlighted on a separate line item in the statement of comprehensive income (Loss from contract amendments due to payment moratorium). The overall impact for 2020 pulled the reporting-year profit down by HUF 2.4 billion.

Deferred taxes

Given the opportunity afforded by law, the Group decided to use the expenses derived from the tax difference due to transition on an equal basis in the fiscal year of the transition (2018) and in the following two fiscal years (2019 and 2020).

According to the budgeted and approved figures, the profit before tax in 2021 is expected to be HUF 7.4 billion, against which the deferred tax can be used in full.

Budapest, 22 February 2021

Bernadett Tátrai
Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel
Member of the Board

Fundamenta-Lakáskassza Lakás-takarékpénztár Zártkörűen Működő Részvénytársaság Consolidated Business Report

31 December 2020

Fundamenta

TABLE OF CONTENTS

1. BUSINESS ENVIRONMENT OF FUNDAMENTA GROUP

1.1. General macroeconomic conditions

Growth

In 2020 the spread of the coronavirus and the attempts at mitigating the damage it caused defined the Hungarian economy too as its performance contracted by around 6.5%. There were widespread differences in the productivity of specific national economy sectors. During the summer months, industry more or less recovered from its plunge in the second quarter, while agriculture experienced a moderate setback during the year. In construction we saw an accelerating downward curve until the end of September, but the prospects of the sector can be considered good owing to the relief announced for the supply side and the support for demand. The greatest and more prolonged decline was suffered by certain branches of the service sector, such as accommodation providers, hospitality, transportation, art and entertainment. Despite the labour market figures looking favourable, household consumption decreased by a few percent, while the dip in investment volumes and foreign trade reached double digits too. The economic forecast for 2021 is rather uncertain, which is also reflected by the 3.5-6.0% growth range set by the Hungarian National Bank.

Labour market

The favourable labour market indicators began to deteriorate and employment started to fall in the spring months. Following the lifting of the restrictions, more and more people returned to the labour market as the temporary industrial shutdowns ended and domestic tourism picked up by the middle of the summer. According to the latest figures, the number of people in employment was near the previous year's level, and unemployment fell from its 4.8% peak to 4.4% by the end of the year. The wage support programmes facilitated the stabilisation of the labour market, and they are likely to stay with us in the first half of 2021 too. Despite the economic deceleration and the lower rate of full-time employment, wage dynamics in 2020 remained strong and the average wage in the national economy rose by nearly 9% over 12 months.

Inflation

In the early months of 2020 the domestic consumer price index rose temporarily above the central bank's tolerance range (3.9-4.7%), primarily because of the increase in raw material and food prices and alongside a weakening forint exchange rate. Thereafter, besides declining fuel prices and a supportive base effect, the greatest impact on prices was exerted by the pandemic, related restrictions, and the lifting of these measures. During the third quarter, the inflation figure was strongly affected by the repricing stemming from the sudden reorganisation in supply and demand associated with the relaunch of the economy; the gradual lifting of restrictions caused demand to explode in some submarkets, and certain products were characterised by temporarily limited availability due to the gradual recovery of production chains. The growth rate for prices dropped to 2.7% by the end of 2020 compared to an average of 3.7% in the third quarter, ending up at an annual average of 3.3%.

Equilibrium

The 2020 budget was approved with a deficit relative to GDP of 1%. However, the pandemic completely revised budgetary processes too. Owing mainly to the economy protection measures in place during 2020 as a whole, the central budgetary sub-system displayed a deficit of HUF 5,548.6 billion, which amounts to roughly 9% of GDP. In 2020 the debt to GDP ratio rose significantly, above 81%, after eight years of decline.

Interest rates, currency rates

In spring the Hungarian National Bank implemented a number of significant measures to mitigate the negative impacts of the pandemic on the economy, to ensure the stability and the necessary liquidity of the financial system, and to lay the foundations for reopening the economy, all of which proved successful. Short-term yields creeped above 1% by the spring from around 0% at the beginning of the year, then proceeded on a downward trajectory again in the second half of the year, ending the year at around 0.3%. Similar movement was visible in terms of interbank interest rates too, the only difference being that the weekly deposit rate was a more significant reference point in this case. From record lows at the beginning of the year, yields temporarily increased by 100-130 base points during the spring at both the 3-5-year and 10-15-year sections of the yield curve, before trickling downwards in the second half of the year. Owing to the Hungarian National Bank's asset purchase programme the 10-year yields settled at around 2.0%, roughly the same as a year ago, while the 15-year yields fell sharply from 2.8% at the end of 2019 to 2.25% by the end of 2020. So the yield curve for the entire year became much flatter due to the fall in long-term yields, as intended by the Hungarian National Bank.

By the middle of March and amidst the intensifying global risk aversion, the forint weakened against the euro from 330 to 370 and depreciated by 10% against the dollar compared to the beginning of the year. Due to monetary policy measures and falling inflation, the exchange rate returned to the 345-350 zone in the summer months. At the end of the year the forint closed at above 360 against the euro, and at 295 against the dollar, which weakened significantly in the second six months as a result of the increase in global risk appetite.

Changes in the home savings and loans market in 2020

Following in the wake of OTP Lakástakarék, from 31 October 2020 Erste Lakástakarék also suspended the sale of its housing savings products and bridging loans.

1.2. Housing policy measures by the government

2020 was marked by the emergence of the coronavirus pandemic and its economic repercussions. The markets contracted at the end of 2020 Q1 following the lockdowns, but then returned to their normal course thereafter.

The swift implementation of the broad moratorium on loan repayments was particularly damaging, and affected our company too, thereby exerting a considerable effect on the achievement of our business objectives.

In 2020, too, the government still paid close attention to its family support policy including providing help specifically for young people and families with children in setting up their homes.

The preferential VAT rate of 5% should be highlighted from the government's measures in 2020, along with the ability to reclaim it and the duty exemption for purchases of new homes. The 50% support in renovation projects for families with children was announced, the subsidised interest loans funding such projects in advance, and the multigenerational family housing support that depends on the number of children (CSOK). The loan market was still dominated by the "Childbirth Incentive Loan", and because of its favourable conditions the share of regular housing loans shrank.

The APR levels for housing loans are still historically low, also as a result of the measures of MNB to support liquidity. Thanks to the ground gained by "Consumer-friendly housing loans", in 2020 loans bearing a fixed rate at least for 5 years accounted for the majority of the new disbursements, ensuring stability and predictability for both the banking system and customers. Fundamenta-Lakáskassza Zrt. and subsidiary (hereinafter referred to as "Fundamenta Group") provides loans with set conditions throughout the loan term.

In 2020 the number of issued building permits for houses decreased relative to 2019, but the number of new homes handed over stayed at the previous year's level. Apart from the direct effects of the coronavirus pandemic, the number of real estate market transactions were also very similar to 2019, so we see that the number of housing construction projects and transactions is around the prior-year figure. There were differences in the development of housing prices: turnover in urban agglomerations and around the country was more intensive, while in Budapest demand and prices stabilised. There are significant differences between regions around the country and the types of municipality.

1.3. Legal environment influencing the activity of home savings and loan associations

In 2020 the Company's business was mostly influenced by governmental measures taken as a result of the pandemic. The extraordinary action by the government affecting the lending and designed to mitigate the economic crisis caused by the coronavirus pandemic generated a lot of work for the Company. Under the payment moratorium introduced by Government Decree 47/2020 (III.18.) and upheld after the state of emergency by Act LVII of 2020, all borrowers were entitled to a deferral of payments on their credit, loan and finance lease contracts concluded before the promulgation of the decree, until 31 December 2020. This payment deferral was only applicable for loan contracts in force as of midnight on 18 March 2020 and where the contracted amount had already been disbursed. Over the period of the moratorium, borrowers did not have to meet their principal, interest or other fee payment obligations from the afore-mentioned contracts. The moratorium was applicable automatically, so borrowers did not have to make any legal statement to participate; however, the decree also made it possible for borrowers to continue making payments under the original contractual terms. Government Decree 57/2020 (III.23) on the measures to be taken in connection with enforcement during the state of emergency was also promulgated as part of the economy protection measures, based on which the enforcement procedures under way on 24 March were suspended until the 15th day after the end of the state of emergency. To mitigate the impacts of the state of emergency on the financial sector the MNB adopted various measures too. These included suspending ICAAP reviews, limiting dividend payments, granting exemption from creating systemic risk capital buffers in the case of commercial real estate project loans, as well as temporary relief in relation to retail mortgage loan disbursements with regard to appraisals and notarisations.

On 28 October 2020 the National Assembly promulgated Act CVII of 2020 on transitional measures to stabilise the situation of certain priority social groups and enterprises in financial difficulties, which granted the opportunity of an extended moratorium for another six months, between 1 January 2021 and 30 June 2021, for social groups and companies in disadvantaged situations. For borrowers not eligible for the extended payment moratorium and who were unable to make payments on time due to their weakened solvency, the Act introduced a ban on terminating loans. The government ultimately extended the 2021 rules on the payment moratorium to all borrowers with the state of emergency decree adopted on 22 December 2020.

Other legislative changes affecting the Company brought on by the state of emergency:

- Government Decree 502/2020 (XI.16) on the different regulations pertaining to partnerships and corporations during the state of emergency
- For consumer loans – not secured by a lien – based on contracts concluded after 19 March 2020, the annual percentage rate could not exceed the base interest rate of the central bank plus 5 percentage points until 31 December 2020.
- Act CXVIII of 2020 on the amendment to various tax laws introduced a special tax on credit institutions related to the pandemic
- Government Decree 145/2020 (IV.22) on measures in the interests of the smooth operation of the financial sector

The laws governing the operation of home savings and loans associations directly did not change.

Other legal changes:
- Act CX of 2020 on the Amendment of Certain Acts on Financial Mediation for the Purpose of Approximation was promulgated on 11 November 2020. This Act modified Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises in various places, and includes amendments to Act CLXII of 2009 on Consumer Loans.

- Amendment to Act CCXXII of 2015 on the General Rules of Electronic Administration and Trust Services.
- Various amendments to Act CXXX of 2016 on the Code of Civil Procedure.
- Government Decree 518/2020 (XI.25) on the home renovation support for families raising children was issued, resulting in an amendment to Government Decree 17/2016 (II.10) on family housing support for buying and extending used homes.

2. STRATEGY AND GOALS OF FUNDAMENTA GROUP

2.1. Strategy of Fundamenta Group (2020-2022)

In the strategy updated in 2019, alongside the goal of establishing a home financing and housing ecosystem, the following four main paths were identified. Our objectives are still valid; the strategic goals were adjusted in light of the COVID-19 pandemic and approved in November 2020 by the General Meeting.

- **Growth**: we see further potential for growth in saving for housing purposes and in lending, so this remains an important goal for us.
- **Customer focus**: we are convinced that we can establish long-term customer relationships by understanding our customers' needs and serving them better, for the implementation of which we set substantial tasks for us.
- **Efficiency**: with interest rates falling and market competition intensifying, service providers who understand their customers' needs and can satisfy them more quickly, simply and less expensively will be successful. Our digitalisation efforts are aimed to achieve these objectives.
- **Risk awareness**: as a major player on the credit market we have to know and understand the risks associated with our operations; appropriate management of them is our joint responsibility.

Our objectives also include further growth in the volume of deposit and loan contracts with a view to securing profitable operations on a sustainable basis; other key priorities include our steadily improving processing and sales efficiency, expanding our range of products through introducing new products, providing a high standard of customer service, retaining existing customers and maintaining excellent quality of the deposit and loan portfolios.

Beside the mediation of government securities performed through its subsidiary and introducing new housing savings accounts, the Company started the development of the "Housing Ecosystem" in 2019, which means our Company is able to support its clients in more and more areas of housing by entering new market segments.

The first step of implementing the strategy was the launch of Fundamenta Solar with a focus on mediating and financing solar panel installations. In 2020 the Company entered the real estate brokerage market through its subsidiary Fundamenta Értéklánc Kft. By launching Fundamenta Property the Group can handle the buying and selling of real estate and their financing by itself.

The coronavirus pandemic – and particularly the loan moratorium – hindered us in achieving certain strategic objectives in 2020, and in implementing fully the ecosystem referred to above, so these shall be some of our main goals in 2021.

One key change in 2020 was the significant rise in importance of working from home, which was facilitated by our swift transition to digital working methods and the marked improvement in our capabilities in this context. This change will certainly influence our operations in the following years.

2.2. Future goals

Fundamenta Group is still committed to supporting its customers in reaching their housing objectives.

Based on the still predictable customer behaviour we are able to map out well years in advance the volume and expected timing of deposit payments and loan disbursements. Giving our customers a high standard of service and retaining their trust remains an important objective for us.

The main challenge in 2021 will be further expanding the range of new deposit and loan products, analysing the behaviour of existing and new customers, and exploring new business opportunities to be able to compile reliable plans for the future.

As part of implementing the housing ecosystem scheme, a main objective for 2021 is to boost and stabilise this business activity.

To ensure sustainable growth in the long run we still have a key strategic goal of fine-tuning, developing and motivating our sales channels.

The Company continuously develops its products, services and customer service to strengthen its customer-centred approach and react to market competition.

The digitalisation affecting operating and customer procedures, which was partly brought forward, forced due to the COVID-19 pandemic, launched projects, new IT applications, the cost centre system introduced earlier and central purchasing offer significant help in meeting the constantly growing client and partner demands and in improving operating efficiency, which is formulated as a strategic objective.

Constant fine-tuning is carried out to raise risk awareness: the goal is to preserve the outstanding quality of Fundamenta Group's housing loan portfolio and keep operational risks low.

Fundamenta Group banks on having a significant customer portfolio and stable financial results in the coming years. This is based on the sales performance of our sales channels, our improving operational efficiency, the high commitment of our staff, the stable and favourable conditions of our products and the further growth expected in customer demand for products saving for the future.

3. SALES ACTIVITY

Sales performances in 2020 were greatly impacted by the general restrictions due to the coronavirus pandemic. The Company endeavoured to compensate for the effects of the adverse macroeconomic environment with product and process development as well as by restructuring sales incentives.

The Company's sales organisation working with Fundamenta-Lakáskassza Kft. as a tied agency continued to operate effectively, thanks to which more than 98% of the new contracts were concluded by the Personal Banker network. The ratio of contracts concluded online and by the Outgoing Call Centre amounted to 1%.

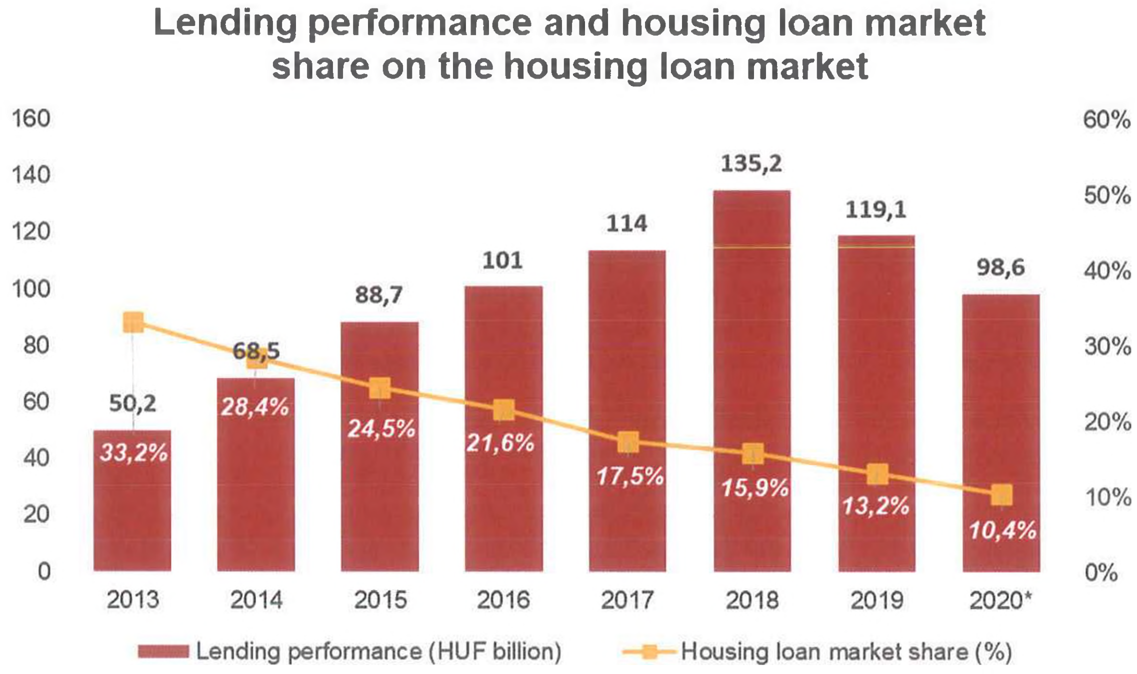
In the Partner Sales division the best performing partners were brokers, Takarék Group, UniCredit Bank and Generali Insurance, but the performance of these partners did not reach significant volumes either.

In 2020 customers opted for contractual amounts that were 37% higher than in 2019. The main reason for this increase was that our new products without government grant offered much higher contractual amounts, up to HUF 50 million, compared to previous contracts. In 2020 among the new contracts the ratio of the shortest options, the 4.5-7-year products, accounted for 35%; at the same time, more than 48% of customers chose products with a term of at least 10 years, often to provide for their children.

The majority of sales included the sale of "Growth" (Gyarapodó), Children's and Home Planning Home Savings Accounts introduced in 2019. With the Children's Home Savings Account, the contracting party can promote the future housing dreams of the minor beneficiary including an annual bonus of 30%. In December 2020 we reduced the deposit interest of newly concluded "Growth" (Gyarapodó) and Children's Home Savings Accounts from 0.5% to 0.1%.

Similarly to 2019, 2020 was a strong year for the housing loan market. By the end of the respective year the Hungarian housing loan market had expanded to approximately HUF 930 billion, which is reminiscent of the lending boom prior to the crisis. The lending intensity of banks also rose, which was triggered not only by the brisker demand but also by the low interest rates. The elements of the Family Protection Action Plan ("CSOK", "Childbirth Incentive Loan") still played a key role in the growth by increasing the demand for houses.

Fundamenta Group was a factor in this amount with new loan placements amounting to almost HUF 99 billion. On the housing loan market this resulted in a market share of around 10%. The household lending performance is supplemented with around HUF 2.3 billion in loans to multi-occupational buildings and housing cooperatives.



**The 2020 market share figure contains data up to November*

In terms of purpose of use the sequence has not changed: the most common use of the funds is to purchase a home. Compared to 2019 the ratio of construction and renovation as well as loan replacement rose slightly among all the different uses.

Real estate brokerage

2020 was our first complete financial year following the launch on 1 October 2019. Brokerage activities were initially focused within the boundaries of Budapest, then the service was expanded to Pest county on 14 April 2020.

In the first half of the year we established and activated some IT developments which were postponed from the market launch, and these helped new services (e.g. advertisement monitoring, newsletters) become available for our clients.

Due to the impact of the coronavirus pandemic, the real estate market shrank significantly in the second quarter of 2020, and although transaction numbers bounced back, the mood for property purchases dropped and the lead time for sales increased considerably. These developments hit the entire industry hard, but are perhaps even more detrimental for a business just started compared to more established competitors. Nonetheless, the pandemic forced us to introduce new services, accelerating their introductions and making them more popular (e.g. video identification of clients, video tours of properties).

The shrunk market threatened the livelihood of contracted agents too, so many of them looked for other jobs. However, the reduced staff were able to handle the diminished consumer demand.

Despite the difficulties, we managed to execute our first successful transactions by the third quarter of 2020, and although our performance fell short of our plans, we still trust that the business will grow.

Intermediation of solar panel installations

Értéklánc Kft.'s other start-up activity is the intermediation of solar panel system installations.

The solar panel sector was not left unscathed by the pandemic either, but no significant drop was tangible here, it is still a growth market.

Értéklánc Kft. brokered several hundred addresses to its contracted partners, as a result of which more than 50 successful installations were carried out.

The 2020 plans were not fulfilled for the solar panel line either, which is why we expect further expansion in 2021.

4. FINANCIAL INFORMATION

4.1. Deposit and loan portfolio

The customer deposit portfolio together with the government grant and accrued interest (excluding transaction costs and fees) totalled HUF 631.7 billion on the reporting date. Compared to the 2019 year-end portfolio this represents growth of 10% or HUF 56 billion.

The increase in deposits was fairly even throughout the year, customer savings made in 2020 fell 13% compared to the previous year, mainly due to the deferment of deposit payments of bridging loans affected by the moratorium.

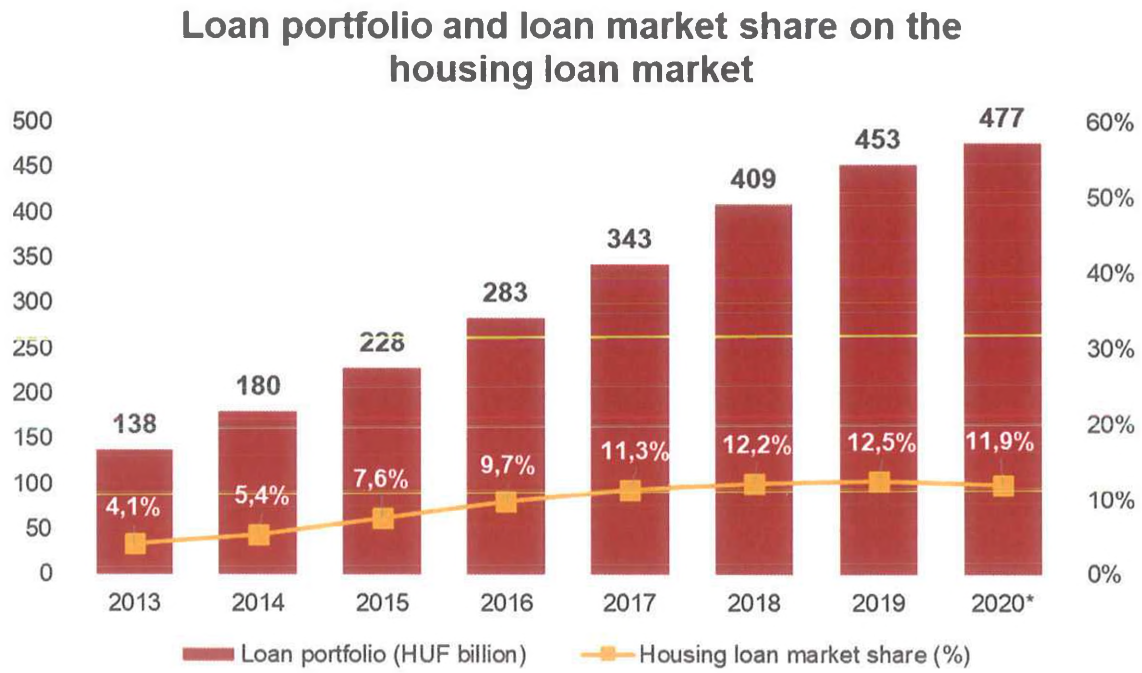
The vast majority of the deposits (95%) are still household deposits. Multi-occupational buildings and housing cooperatives account for 5%, roughly the same as the previous year.

Although the number of partial and full early repayments rose, not surprising given the low interest rates, the loan portfolio still expanded considerably, up from the previous year's HUF 453 billion to HUF 477 billion, which represents more than 5% increase.

Description	2016	2017	2018	2019	2020
Outstanding principal (HUF million)	282,613	343,084	408,806	453,062	476,630
Number of loan contracts	103,652	112,652	121,751	125,124	120,398

The period-end loan portfolio rising to HUF 477 billion includes normal housing loans (roughly 12%), and bridging loans (88%), which is essentially a minimal change in composition compared to the previous periods. The normal housing loan portfolio is still dominated by lower-interest (3.9%) contracts. The interest conditions of the bridging loans are determined using our pricing model and adapting flexibly to market changes.

In terms of the entire housing loan portfolio, the market share of Fundamenta Group slightly decreased in 2020 compared to previous years, and at the end of 2020 the credit institution held almost 12% of the entire Hungarian housing loan portfolio.



The 2020 market share figure contains data up to November

The quality of the portfolio remains excellent, and the vast majority of the transactions in the portfolio, 96%, are secured with mortgages.

4.2. Investment activity

Our interest-bearing portfolio under assets rose in 2020 from HUF 618.6 billion to HUF 672.0 billion. Our loan portfolio grew by about HUF 23.6 billion, which corresponds to a year-on-year increase of approximately 5.2%.

The joint portfolio of bank deposits and interest-bearing securities increased during the reporting year from HUF 165.5 billion to HUF 195.2 billion. This shows that, in contrast to our previous loan-dominated growth, the increase in our balance sheet total became more balanced, as expected based on our model calculations. Within this portfolio the stock of interest-bearing securities rose by around HUF 31.1 billion, while the bank deposit portfolio fell slightly, by HUF 1.4 billion. The vast majority, almost 95% of the bank deposit portfolio consisted of deposits placed with the central bank, and we placed 5% with resident credit institutions. There are two significant factors behind the overall significant growth in the deposit and securities portfolio. On the one hand, in line with our plans our deposit portfolio grew significantly in the reporting year, on the other hand, partly in connection with the pandemic, new lending was below the planned figure.

The duration of fixed-rate monetary and capital market portfolios dropped from 3.7 to 2.9 within one year. The reason for the change is that we strove to meet the regulatory requirements by lowering the interest risk in our banking book, while the free liquidity in our books because of the lower lending volume outlined above was placed in short-term assets.

Neither during the reporting year nor at the end of the year did we have a forward bond position.

Our investment strategy focuses not only on strict liquidity management, but also, again, on long-term balanced profitability; we try to ensure this by consistent asset/liability management. Tools for our activity are as follows:

- Long-term (8-year) strategic plan;
- Monthly liquidity plan derived from the strategic plan;
- Medium-term (1-2 year) liquidity plan, with analyses of planned/actual figures;
- Macroeconomic analyses updated monthly;
- Regular credit market analyses;
- Portfolio model updated monthly, monitoring of special parameters regarding customer portfolios (e.g. borrowing ratio, willingness to save, etc.).

These tools help us make responsible decisions supporting our long-term objectives, highlight the risks affecting our activity and manage them appropriately. The ALCO is the main body managing assets and liabilities.

4.3. Financial position and profitability

The total assets of the Fundamenta Group on the reporting date amounted to HUF 698,883 million, which represents growth of around 9.2% compared to the previous year. Most of this growth stems from the 9.8% increase in liabilities to customers.

The Group's share capital totals HUF 2,001 million, which is supplemented with a capital reserve of HUF 2,100 million and retained earnings of HUF 33,628 million. Provisions in the reporting year totalled HUF 1,239 million (0.18 percent of total assets). The largest item under provisions (HUF 704 million) is the provision recorded for retention commission expenses. In line with the IFRS standard, the settlement reserve (HUF 6,959 million net) is recognised as an equity component. Its amount did not change in 2020.

Due to one-off effects, the Company closed 2020 with a profit before tax of HUF 5,225 million and profit after tax of HUF 4,071 million, both considerably down on 2019. The Company does not plan to pay dividend from its 2020 profit.

The profit before tax fell short of the planned figure. Below we present the main reasons for the deviations from the planned figures.

- Return on investments

The gross investment portfolio this year grew more dynamically than planned, by HUF 76.2 billion. In contrast, the profit from non-customer-related receivables (securities, bank deposits) fell short of the planned level. This is owing primarily to the low-yield environment.

- Net commission income/expense

Given that the home savings sales performance exceeded the planned figures, commission expenses were higher than in the previous year, and than planned. In the case of loans, disbursement was below the planned level, thus commission expenses also were down on both planned and prior-year figures. Furthermore, the majority of the items accounted for as commissions were accounted for using the effective interest method under interest income/interest expense over the term, in accordance with IFRS provisions.

- Fee income

The Company collected account-management fee income in 2020 amounting to HUF 1,251 million. The account-opening fees recorded for the new contracts sold and the increased contracts were accounted for using the effective interest method under interest expense over the term of the contract, and so did not influence the 2020 profit directly.

- Costs

Personnel expenses increased by 8.8% compared to the previous year and did not reach the planned level. Thanks to measures, administrative costs were also below the prior-year and the planned level. In contrast, depreciation and amortisation exceeded both the prior-year and planned figures, but all in all the aggregate level of costs did not reach the planned or even last year's level.

- Impairment allowance for loans

In 2020 impairment on loans was significantly influenced by the moratorium introduced to mitigate the adverse effects of the coronavirus. Due to the resulting one-off items impairment exceeded the planned figure considerably.

- Other expenses

The lump-sum loss accounted for owing to the changed cash flows of loans subject to the moratorium was booked as other expense and decreased reporting-year profit by HUF 2.4 billion as an exceptional item.

5. RISK MANAGEMENT

Through its majority owner Bausparkasse Schwäbisch Hall AG, the Fundamenta Group is part of the DZ Banking Group, so from a risk management perspective it also observes regulatory and supervisory requirements from Germany, via its parent company, in addition to complying with Hungarian regulations.

The Fundamenta Group is still a specialised credit institution with a conservative lending policy and risk appetite.

The credit institution's Board of Directors is committed to controlling its risk exposures to ensure that all of the risks assumed by the Company do not jeopardise the stable operation of the credit institution in either the short or the long run. The Fundamenta Group shapes its risk assumption, risk management and control procedures such that they support the secure operations of the credit institution. The Company ensures that it elaborates, implements and executes the right standard of risk management procedures by engaging an independent risk management organisation.

The Fundamenta Group measures and classifies its portfolio based on IFRS 9; the annual development of the methodology ensures the conditions for prudent operations in the long term.

The risk management body manages the following risks on a regular basis:

Credit risk

The Fundamenta Group is a specialised credit institution, which considers housing loans extended to private individuals, multi-occupational buildings and housing cooperatives in connection with home savings deposits to be credit-risk products. One of the Strategic Risk Management Directorate's key tasks is supporting the Company's long-term profit generation capacity; accordingly, the measures are adopted in line with the risk underwriting strategy.

Interest rate risk in the banking book (IRRBB)

Regular calculations are carried out to review the impact on the changes of net interest income and economic capital exerted by interest trend scenarios compiled in accordance with the MNB's methodology handbooks published in December 2019 and July 2020. Our investment policy along with our lending activity ensured interest income evolved as planned – the Company's long-term operation is ensured.

Operational risk

Operational risks are primarily managed by perfecting internal policies and procedures, giving the colleagues involved proper training, and further developing the integrated control mechanisms. Feedback, i.e. checking the efficiency of the action taken to eliminate risks, is extremely important with regard to operational risk management.

In 2020 operational risk loss was below the planned figure.

Liquidity risk

Based on the principle of prudence, uncertain income is included in the plans at the latest date, while uncertain expenses are included at the earliest date based on customer behaviour. The Company employs an annual revolving liquidity plan. Following the legislative amendments affecting the 2018 home savings system, close attention is paid to analysing liquidity planning as well as stress scenarios.

Collective risk

Following the amendment to the Home Savings and Loan Association Act, managing collective risk is a crucial part of the basic principles applied during strategic planning. Based on the scenario analyses, stable operations and a stable capital position are ensured for the coming period even in a stress scenario. Regular analyses are prepared alongside the continuous monitoring of market circumstances.

6. EMPLOYMENT AND TRAINING POLICY

The headcount at Fundamenta Group was 582 by the end of the financial year, of which 45 were employed part-time.

The employment policy of Fundamenta Group was primarily defined in 2020 by adjustments to the pandemic, alongside business priorities and implementing the corporate strategy. During our operations we prioritised the health of our staff and customers, expanding remote working options across the business and maintaining business continuity.

The organisation of training changed with the rollout of home office work. Development programmes for groups and requiring personal attendance were discontinued. Our specialist training and the training developing digital skills were switched to eLearning and continued as online courses.

The performance management system applied in order to support efficiency, a focus on performance as well as prudent operations enables to assess necessary competencies as well besides business results.

When selecting, integrating, training and encouraging our staff – even under the changed operating conditions – the Company pays close attention to ensuring that the existing or targeted professional skills support the committed implementation of the four strategic pillars – customer experience, risk awareness, growth and efficiency.

Besides all this, the Company concentrates on maintaining and improving the satisfaction and welfare of its colleagues. The introduction of flexible working opportunities provided by teleworking received positive feedback from employees. In the framework of fringe benefits we place strong emphasis on a healthy lifestyle.

Fundamenta Group, as a specialised credit institution within the scope of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act), is obliged to have a remuneration policy defined in an internal policy that is commensurate with its financial and auxiliary financial service activity, as well as with the nature, size, complexity and risks of its business model.

The fundamental goal of the Remuneration Policy is to create an incentive scheme for staff that favours the achievement of long-term goals over short-term interests; one that reflects the Company's ability and willingness to underwrite risks, that does not encourage excessive risk-taking, but motivates the organisation to work successfully in the long run, and provides an opportunity to make subsequent corrections based on risks. The Remuneration Policy is consistent with the institution's risk profile and it has to facilitate effective risk management. It also has to reflect the actual performance of workers and their individual added value to the Company's performance.

In terms of basic remuneration, Fundamenta Group offers fair and competitive salaries that reflect the qualifications and professional experience of the staff, the complexity of the job and the level of responsibility. The Company reviews remuneration practices once a year.

Fundamenta Group's variable salary system (bonuses and commissions) acts as an incentive, enabling us to recognise the outstanding performance of staff.

Compared to previous years – and because of the pandemic – we saw a consolidation on the labour market, lower staff fluctuation, and recruitment became easier. At the same time, retaining talented employees remains a key target for us along with attracting IT personnel, which is still difficult. To ensure a flow of new employees, intensive relationships were established with several higher education institutions, and our trainee programme has provided many colleagues with the chance to enter the working world.

We believe that an employee focus is just as important as a customer focus. During the first three months new colleagues undergo intense training on the Company's products, the market and the workings of its organisation. Learning about related areas, primarily sales, is important. Project work is part of the corporate culture, which offers many staff members a chance to make progress in their career, regardless of their place in the organisational hierarchy.

The biggest challenge for training in 2020 was adjusting to the pandemic with regard to training for Personal Banker network sales representatives.

Some 289 different training courses were launched in 2020 for our sales reps, of which 58 were held by authorities, 164 were product training courses and 67 were for skills development. This year again the number of participants exceeded 3,000 people.

Reinforcing the modular training structure put in place in 2019, the sales network staff had many new development opportunities to choose from in 2020 in the fields of mentoring, management and sales techniques.

A large management development programme was launched in January for 130 people, which was aimed at improving the skills and competencies of network managers.

With the appearance in March of decrees and internal policies connected to measures against the coronavirus, the entire training platform had to go online, including the official training supervised by the Hungarian National Bank. Examinations supervised by authorities were suspended during the state of emergency, so the process for bringing in new staff had to be restructured, and in the transitional period the training ensured the new sales representatives could continue their studies even in the absence of official exams.

One of the main objectives in 2020 was developing and strengthening the lending knowledge of Personal Banker network sales representatives. Coaching development was introduced as a new service in August, where the main goal was to manage the individual impediments managers can have to their work, and improve management skills.

7. ENVIRONMENTAL CONSCIOUSNESS

In its operations the Fundamenta Group pays special attention to its sustainability goals and principles, and compliance with related measures is a key goal.

The Company's primary focus when choosing the new office building was being able to work in an environmentally-conscious manner. To reduce our energy use, energy-saving LED light sources were installed everywhere, motion sensor lights are used in many rooms of the building, and at the end of a working day any lights left on are turned off. Selective waste collection is ensured at the Client Point and in the headquarters, and with the installation of drinking water machines colleagues are encouraged to avoid using plastic bottles.

8. CORPORATE SOCIAL RESPONSIBILITY

Alongside its important role in corporate social responsibility, the goal of the Fundamenta "Care" Foundation established in January 2013 is to help and support the Company's staff, contractors, pensioners, former employees and their close relatives in social, education, training, health, prevention of illness, rehabilitation, sport and cultural areas. Another of the Foundation's objectives is to identify and use assets and funding to achieve these objectives.

Through the Foundation our employees can link up with our CSR activities, support those in need via voluntary programmes, and participate in collecting donations and organising charity campaigns. With our voluntary programmes we support communities that are unable to repair or renovate the facilities serving as the basis of their existence. Thus in recent years our volunteers have transformed nurseries, social care homes, nursing homes and homes for people living with disabilities into cleaner, more comfortable and safer facilities. Through our "mini" volunteer programmes launched in 2018 we help disadvantaged families renovate their homes. The restrictions brought on by the pandemic in 2020 meant that we were unfortunately unable to hold many of our volunteer programmes requiring people to attend in person, but we still managed to support more than 1000 children with our help.

Fundamenta Group believes improving the financial literacy and financial know-how of the next generation is crucially important, which is why we decided to support the "Be the Financial Junior Class!" student competition in 2020. Almost 800 teams registered for the competition, who tested themselves in front of the professional jury over 3 rounds.

9. PLACES OF BUSINESS

Since 1 April 2019 the registered office of the Fundamenta Group has been Alkotás utca 55-61. Apart from Fundamenta Group this modern, environmentally conscious office building also accommodates the subsidiaries. In addition, the Company has two permanent establishments in Budapest and ten branch offices around the country:

List of permanent establishments:

- 1108 Budapest, Kozma utca 2.
- 1037 Budapest, Lajos utca 80.

List of branch offices:

- 2040 Budaörs, Gyár utca 2.
- 3526 Miskolc, Arany János tér 1. D. lház. 3. emelet
- 4400 Nyíregyháza, Dózsa György utca 27. 2. emelet
- 6000 Kecskemét, Kisfaludy utca 8. 1. em. 107.
- 8000 Székesfehérvár, Mátyás király körút 5. 2. emelet
- 9024 Győr, Kálvária utca 1-3. IV. em.
- 4025 Debrecen, Erzsébet utca 48-50. fszt.
- 7621 Pécs, Rákóczi út 62-64. 1. em.
- 6720 Szeged, Kelemen László utca 11. fszt.
- 5000 Szolnok, Nagy Imre körút 8. A. ép.

10. SUBSEQUENT EVENTS

There was no significant event subsequent to the reporting date up to the approval of the financial statements.

11. NON-FINANCIAL INFORMATION

11.1. Business model of the Fundamenta Group

Fundamenta Group is a home savings association, a specialised credit institution. Its activity is governed by the specific relevant rules of Act CXIII of 1996 on Home Savings and Loan Associations as well as related government decrees, and generally speaking the requirements laid down for credit institutions.

Core business activities:

- collection of housing deposits (mainly deposits from customers eligible for government grant);
- disbursement of loans for housing purposes (bridging and housing loans);
- investment on the capital market of the deposits not used for lending.

Our business cycle presumes permanent, long-term customer relations: after up to 16 years of deposit payments, the contractual relationship can be 29 years with a repayment period of up to 13 years depending on the product. This sets the Company apart on the market from the institutions offering shorter financial relationships.

Fundamenta Group is a significant player in the field of collection of housing deposits and lending for housing purposes:

- on the market for home savings deposit contracts it accounts for around 50% of the portfolio of contracts,
- in overall retail lending for housing purposes it commands a roughly 10-12% share in new loan disbursements, and
- it holds around 12-13% of retail lending for housing purposes.

Fundamenta Group is not a member of a Hungarian financial group, so we follow an independent home savings and loan model, in which we examine every market cooperation and opportunity to reach our goals.

The owners of Fundamenta Group are professional investors: German and Austrian home savings and loan associations along with Hungarian banks and insurance companies. Our owners know and understand the long-term workings of the home savings and loan model, their main goal is to ensure sustainable, stable operations and a high-level of customer service.

Fundamenta Group enjoys high brand recognition and customer satisfaction. Building a housing ecosystem, our goal is to offer competitive products and a high service quality in all market segments for housing and saving for the future that are available for home savings and loan associations.

In 2020 Fundamenta Group carried out no research and development.

Operating model of Fundamenta Értéklánc Kft.:

Fundamenta Értéklánc Kft. was registered at the Court of Registration on 3 April 2019.
Based on its operating model, Értéklánc Kft. carries out the coordination tasks necessary to operate the products it mediates with the minimum required headcount, so the number of employees at the end of 2020 was 4. The majority of the general administration tasks for Értéklánc Kft. are carried out by the Zrt.
When offering and selling products, Értéklánc Kft. relies on the channels of Fundamenta-Lakáskassza Kft., another subsidiary of the Zrt., in particular, but not limited to, the financial intermediaries of the Fundamenta Personal Banker network. The Értéklánc Kft. engages authorised subcontractors to provide real estate brokerage services with a total active headcount of 16 at the end of 2020.

For 2021 we are still primarily planning to secure growth in the two launched products, and we are targeting new areas (nationwide expansion for real estate brokerage) and sales channels (for solar panel brokerage).

In the second full financial year it will be particularly critical to reach a business size that can be sustained cost-effectively.
We did not introduce any new products in 2020, but in the coming year we plan to develop one or more products to a level facilitating a sales launch in 2022.
We anticipate a volatile market environment in 2021 too, we deem the real estate market unpredictable primarily because of the impact of the coronavirus pandemic. Nevertheless, we expect positive outcomes in the solar panel line thanks to government grants.

11.2. Description of policies relating to environmental matters, social and employment aspects, respect for human rights as well as anti-corruption and bribery information for Fundamenta Group and the results achieved

Environmental protection

The Fundamenta Group is committed to corporate social governance with an eye on the environment. It was in the spirit of this commitment that the Fundamenta Group Board of Directors adopted the corporate guidelines on environmental awareness and sustainable development in 2019. The purpose of the sustainability concept is to develop an operating framework that focuses not just on economic and financial objectives but also on protecting the environment, conserving environmental resources and using them sparingly, as well as on climate change mitigation. The Fundamenta Group takes part in all new initiatives launched by authorities in Hungary relating to credit institutions, including the "Green Program" of the Hungarian National Bank.

Rapid technological development has a major impact on the banking sector too because the spread of digitalisation creates new customer demands but also makes it possible to develop new and innovative operating processes for banks. One of the key elements of the corporate strategy announced by the Fundamenta Group is the development of digital processes; aside from digitalising internal operating processes this includes switching customer relations to quick digital platforms that are easy to access.

Fundamenta Group is committed to reducing paper use, so it set the long-term strategic goal of extending digitalisation both in customer service and in internal processes. When concluding contracts we now only record our clients' personal identification documents digitally instead of photocopying them. Through our Videobanking system introduced in 2019, there is an ever-growing range of administrative tasks available in electronic or paper-free forms for our clients.

With our loan options offered for the installation of solar panel systems we support our clients' endeavours in covering the energy costs of their home through sustainable and environmentally-friendly solutions.

Respecting human rights

Fundamenta Group has also adopted its Human rights policy, in which it states that respect for human rights is fundamental to sustaining Fundamenta Group and the communities in which we operate. Fundamenta Group is committed to ensuring people are treated with dignity and respect.

Fundamenta Group's Human rights policy observes the basic principles of international human rights elaborated in the Universal Declaration of Human Rights. Fundamenta Group is committed to ensuring and maintaining equal opportunity. We accept no discrimination of any kind, with regard to race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status set forth by relevant laws.

With our customer service offices and our website we enabled our customers living with disabilities to reach our services more comfortably than before.

In our relationships with employees we broadened the opportunities for individual development, the regular information forums, and the regular feedback via the performance appraisal system.

Combating corruption and bribery

Fundamenta-Lakáskassza Zrt., Fundamenta-Lakáskassza Kft. and Fundamenta Értéklánc Kft. are fully committed to respecting the provisions of Hungarian and international laws to prevent corruption and bribery, observing a principle of ZERO TOLERANCE for all illegal conduct, and to this end take strict and efficient action.

Our policy comprises the following elements:

- Regulating contact with officials, complete ban on facilitating payments;
- Rules on outsourced activity;
- Provisions, rules and prohibitions on gifts and hospitality;
- Rules on donations, sponsoring and charity roles;
- Compliance-based due diligence for contracted partners, suppliers, experts and intermediaries;
- Code of Ethics and Conduct for staff;
- Code of Ethics and Conduct for those working in the network;
- Channel for reporting abuse, protection of whistle-blowers;
- Mandatory training for all staff;
- Regular reviews of policy, internal procedures and Code of Conduct.

During our activities we work in line with the relevant requirements of the owners and with due consideration of the anti-corruption policy.

11.3. Risks associated with the business relations, products and services of Fundamenta Group, management methods, with particular regard to the issues listed in point 11.2

The Company is a credit institution specialised in lending with a conservative lending policy and risk appetite, which manages its risks bearing the principle of prudence in mind. The Company's executive bodies are committed to controlling its risk exposures to ensure that all of the risks assumed by Fundamenta Group do not jeopardise the stable operation of the credit institution in either the short or the long run. It shapes its risk assumption, risk management and control procedures in such a way that they support its secure operations.

The risk strategy is consistent with and based on the long-term business plan, and it determines limits for the key risks that define the Company's risk profile.

To this end, Fundamenta Group monitors, assesses and regularly reviews its risks, and if necessary, manages them. The monitored risks thus include credit risk, operational risk, market risk, lending stress risk, interest rate risk in the banking book, collective risk, liquidity risk, country and foreign exchange risk, settlement risk, strategy risks (including, beside collective risk, business model risk and the risk of deviating from business plans), business management risk, concentration risk and reputational risk, as well as audit and management risk.

All of the issues in point 11.2 are related to operational risks.

Identifying operational risks early and carrying out a detailed analysis help protect the Company against events impairing its good reputation, improve the quality of services, boost the external perception and rating of the Company, increase the risk awareness of staff, and most importantly, make it possible to avoid major future losses derived from operational risks.

Operational risks are primarily managed by perfecting internal policies and procedures, giving the colleagues involved proper training, and further developing the integrated control mechanisms. Feedback, i.e. checking the efficiency of the action taken to eliminate risks, is extremely important with regard to operational risk management.

The Strategic Risk Management Directorate is responsible for systemising and supervising all of the material operational risks. In this process, the goal is not to avoid risks but to manage them proactively, i.e. a controlled and deliberate approach to opportunities and risks.

In the spirit of risk awareness, and alongside the Strategic Risk Management Directorate, the Compliance Directorate and the Security Management Directorate take part in identifying, managing and regulating the risks mentioned in point 2.

Being a retail credit institution, the primary reputational risk factors for Fundamenta Group are managing customer relations, the reliability of intermediaries and the information they provide, as well as the quality of these relationships.

Customer complaints are managed based on years of practice and regulations, in compliance with applicable laws and supervisory authority expectations, with full consideration of consumer protection provisions. We apply Recommendation 14/2012 (XII.13) of the Supervisory authority for work-out companies on required consumer protection principles. We changed our processes where necessary, and these were incorporated into the relevant policies too.

11.4. Non-financial performance indicators material for business activities

- Contracts managed as of 31 December 2020: 785,000 deposit and loan contracts, with a contractual amount of almost HUF 3,695 billion.
- Savings quality (actual savings/expected savings, based on 2020 average): 80.0%.

Total customer savings payments in 2020: HUF 128 billion.

Budapest, 22 February 2021

Bernadett Tátrai
Chairwoman of the Board,
Chief Executive Officer

Rainer Kaschel
Member of the Board